

# The Political Economy of the Philippines Under Marcos

## Property Rights in the Philippines from 1965-1986

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### Introduction and Questions

In almost all studies of Asian economic growth, the Philippines is cited as the great exception to Southeast Asian growth “miracles.” Despite sharing similar macroeconomic fundamentals with neighboring countries, the Philippines has been left out of rapid growth occurring in the region since the 1960s. In many overviews of development in the region, this lack of a sustained economic takeoff in the Philippines is often broadly attributed to political factors, especially the dictatorship of Ferdinand Marcos and the corruption surrounding his regime.

To better understand the nature of power Marcos held, how it changed during his regime, and the implications for economic development during this time, I propose to examine the Philippines under Marcos using theoretical frameworks created to explain the commitment problem. The commitment problem is essentially the problem of how sovereigns or governments can make credible commitments to assure the sanctity of its citizens’ property rights. Secure property rights are a precondition for productive investment, which in turn is usually a necessary condition for economic growth. Therefore, the nature of how the commitment problem is solved, or whether it is solved at all, is important to a basic understanding of how types of government foster or hinder economic development.

Examining the Philippines under Marcos using this framework of the commitment problem leads to the following questions. What was the nature of the commitment problem under Marcos?

More specifically, what model or models best explain how Marcos dealt with the commitment problem? How did this change over time? A systematic analysis of property rights commitments under Marcos has not been undertaken prior to this attempt. This paper therefore contributes to existing literature on the history, economic history, and political economy of the Philippines, and adds a case study to scholarship examining property rights commitments.

I hypothesize the following. First, from 1966 until 1972, between the time Marcos was elected and the declaration of martial law, the commitment problem in the Philippines was resolved through the Vertical Political Integration (VPI) model, articulated by Haber, Maurer, and Rozzo.<sup>1</sup> Second, over the course of this period, Marcos progressively consolidated his power until he was able to break through restraints imposed on him under VPI. US financial support enabled him to do so in the manner of the framework articulated by Bates.<sup>2</sup> Third, after declaring martial law in 1972, Marcos acted as a stationary bandit, as articulated by Mancur Olsen.<sup>3</sup>

To test these hypotheses and answer the questions posed initially, I will first briefly introduce the experience of the Philippines under Marcos. Following this, I will outline the three theoretical and conceptual frameworks, along with the criteria to test whether we can identify them from the empirical evidence. Next, I will apply these frameworks to the experience of the Philippines, assessing whether the theoretical frameworks can be used to explain the empirical evidence and thereby testing my hypotheses.

<sup>1</sup> Stephen Haber, Noel Maurer and Armando Rozzo, *The Politics of Property Rights: Political Instability, Credible Commitments, and Economic Growth in Mexico: 1876-1929*. (Cambridge: Cambridge University Press, forthcoming).

<sup>2</sup> Robert Bates, *Prosperity and Violence: the Political Economy of Development* (New York: W. W. Norton, 2001).

<sup>3</sup> Mancur Olsen, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (New York, NY: Basic Books, 2000).

Finally I will conclude that nature of the commitment problem in the Philippines during the Marcos era can be modeled fairly accurately with these frameworks.

### **The Philippines Under Marcos – a Brief History**

In 1965, Marcos won the presidential election, running as the nominee of the Nacionalista party in a bi-party electoral system. A few months earlier, he had been president of the opposing Liberal Party.<sup>4</sup> Once in power, he used political appointments and rent transfers to an unprecedented degree to consolidate bureaucratic, military, and elite political support, and was able to weaken the judiciary through reappointment timing. Marcos vastly expanded the bureaucracy, much of which became functionally redundant, to create a large group of bureaucrats dependent on him for patronage and their livelihood. He expanded both the scale and role of the military, allowing it to engage in a broad range of economic activities, personally benefiting leaders and officers loyal to Marcos. He also granted monopolies to local elite whom he appointed as local political leaders, making them reliant on him for their wealth and lifestyle. During his first term, it was time for six out of nine Supreme Court justice positions to be reappointed. It has been argued that that Marcos had delayed running for president to align the timing of his presidency with the reappointments, and he appointed justices loyal to himself. The judicial system thereafter consistently ruled in favor of Marcos decrees and against opposition.<sup>5</sup>

In the 1969 presidential election, Marcos used massive amounts of the government budget to secure votes through patronage, buying votes, and organized violence and fraud.<sup>6</sup> The constitution limited his presidency to two terms,

and in 1972, a year before the end of his second term, Marcos declared martial law. He cited the need for authoritarian rule to foster economic growth and prevent communist insurgencies, and was widely supported both domestically and internationally.<sup>7</sup>

Under martial law, Marcos suspended then revamped the constitution, silenced the media, and used violence and oppression against political opposition. He nationalized and monopolized increasing portions of industry and further increased spending on patronage. Throughout this time, the US and international organizations such as the World Bank and IMF generously supported the Marcos regime with aid and loans. Marcos was able to exchange solid commitment to the Philippine-US alliance with significant US aid, due to US Cold War interests of having military bases strategically located in the Philippines. It is often argued that a great proportion Marcos' patronage was funded by US aid.<sup>8</sup> The World Bank and IMF regarded Marcos as emulating tactics of Lee Kwan Yew's successful authoritarian regime in Singapore, making the Philippines a "special focus" area to target funding.<sup>9</sup>

### **Theories**

#### *Vertical Political Integration – Haber*

Vertical Political Integration (VPI), articulated by Haber et al., is one possible solution to the commitment problem. In VPI, the government selectively enforces property rights of a segment of asset holders. The line between government and private asset holders becomes blurred, and a third party enforces that the government will not encroach on asset holder property rights. This arrangement provides incentive for asset holders to engage in productive investment, since they are confident their

<sup>4</sup> Albert F. Celozza, *Ferdinand Marcos and the Philippines: The Political Economy of Authoritarianism* (Connecticut: Praeger Publishers, 1997), 23.

<sup>5</sup> Celozza, 28.

<sup>6</sup> David J. Steinberg, *The Philippines: A Singular and a Plural Place* (San Francisco: Westview Press, 1994), 120.

<sup>7</sup> Steinberg, 121.

<sup>8</sup> Jane Hutchison, "Pressure on Policy in the Philippines," *The Political Economy of South-East Asia: an Introduction* (Melbourne: Oxford University Press, 1997), 81.

<sup>9</sup> James K. Boyce, *The Philippines: The political Economy of Growth and Impoverishment in the Marcos Era*, (London: Macmillan Press, 1993), 255.

<sup>10</sup> Bates, 75-83.

property rights are secure, allowing the government to benefit from tax revenue and other rent.

To determine the existence of VPI, we can start by searching for characteristics Haber et al. predict that a state embodying VPI will exhibit. These include a rent-seeking coalition, economic inefficiency, negative distribution of income, political authoritarianism, and inefficiency in providing public services. If these characteristics can be identified, we can then search for necessary conditions of effective VPI. First, we must observe the selective enforcement of property rights by the government. Second, we must observe a blurred line between asset holders and government, in which asset holders are given a hand in policy-making. Third, we must identify a third party with the ability to police and enforce arrangements between government and asset holders.

In identifying a viable and effective third party, we must observe the following factors. First, there must be incentive compatibility between the government, asset holders, and third party. Second, the third party must have the ability to police arrangements between government and asset holders. Third, the third party must present a credible violent threat to the government both to enforce arrangements and to ensure that the government will not dispose the third party. Fourth, asset holders must be able to recruit a new third party, or the government and third party must have strong incentives to check each other's power.

#### *International Context - Bates*

In the argument articulated by Bates, states founded in the post-World War II era were secure from military conflict with other states, and could exploit Cold War interests of developed nations to secure funding from abroad. This freed them from the necessity of creating credible property rights commitments for the purpose of fostering economic development to procure the resources for survival.

Bates argues that states developing before the post-war modern era faced military threats to national survival. This necessitated sufficient funding for military protection, and credible

property rights were required to secure such funding. Limited governments were developed as a means to make property rights commitments credible. However, under the international system during the Cold War, local territorial transgressions by developing states threatened to spark full-fledged violent conflict between the US and Soviet Union. Developing states could therefore easily secure funding from either side by taking sides or merely promising to abstain from aggression. With easy funding options, governments of nations developing in the postwar modern era did not need to tie their hands in the form of a limited government.<sup>10</sup>

To assess the applicability of Bates' argument, first we will determine whether Cold War interests of developed nations removed military threats. Second we must assess whether the developing country had easy access to funding through taking sides with major Cold War powers. Third, we will determine whether availability of external funding allowed the government to rely less on credible domestic property rights commitments for survival.

#### *Stationary Bandit - Olsen*

The stationary bandit, conceptualized by Olsen, is a sovereign with a monopoly on domestic violence who maximizes his own self-interest by making a commitment to respect property rights. The long-term self interest of a stationary bandit is to maximize rent. To do so, the bandit recognizes that by fostering sustained economic development, he can maximize rent by taxing at the revenue-maximizing level. To foster economic development, the bandit must guarantee security of property rights to foster investment. The only constraint acting on the sovereign bandit is his own long-term self-interest.

However, this constraint is extremely weak, and Olsen points out that, as a practical matter, stationary bandits may not have long time horizons. Therefore, stationary bandit behavior can easily become predatory, in which the bandit extracts more rent from the economy than a long-term tax revenue-maximizing strategy would warrant.

<sup>11</sup> Celozza, 89.

To identify a stationary bandit, we must first examine if he has a monopoly on domestic means of violence. Second, we must try to identify behavior indicating that the sovereign is attempting to set tax rates at revenue-maximizing levels. Third, we will attempt to determine whether the time horizon of the sovereign seemed long enough to sustain a long-term tax revenue-maximizing strategy.

### Applying Theories to the Marcos Regime

We will now test our hypotheses by applying each theory to the experience of the Philippines under Marcos.

#### *VPI in the Philippines*

First, let us determine whether the Philippines under Marcos exhibited the expected characteristics resulting from VPI governance. A rent-seeking coalition can be found in Marcos cronies, who were dependent on him for patronage in the form of lucrative monopolies and large perks associated with political positions. Economic inefficiency was rampant, as many sectors were protected behind tariffs and monopolies were granted to Marcos cronies, with the assurance of government bailouts if unprofitable.<sup>11</sup> Inequality in the distribution of income, already high vis-à-vis most of the world,<sup>12</sup> rose markedly during the Marcos era, as over fifty percent of the population slipped under the poverty line.<sup>13</sup> Political authoritarianism was achieved before martial law mainly through the mechanism of patron-client relationships, in which Marcos redistributed rent in various ways to implement his political will. Provision of public services were inadequate under Marcos, as insufficient investment in infrastructure continually plagued the country.<sup>14</sup> Thus, we observe that the Philippines during the Marcos era exhibits all the characteristics expected as outcomes of VPI governance.

This leads us to examine the power structure before Marcos declared martial law to assess whether the necessary conditions existed for effective VPI governance during this period. First, we do observe the selective enforcement of property rights under Marcos. Marcos protected the property rights of his cronies and US interests. To his cronies, Marcos granted monopolies and distributed rent, and to US citizens and business interests, he went to great lengths to assure the sanctity of their property rights of US citizens and business interests. He worked hard to overturn a number of supreme court decisions threatening the rights of foreign companies to engage in retail business and foreigners to own land.<sup>15</sup> However, Marcos did not hesitate to violate the property rights of enemies or those who did not cooperate with him through forced nationalization of enterprises<sup>16</sup> and outright seizure of property.<sup>17</sup>

Second, we do observe a blurred line between asset holders and government. Marcos' friends and allies and were actively involved in formulating and enacting economic policies. Economic policy-making has been described as a small circle of political and business allies and technocrats "gathered around a powerful chief executive."<sup>18</sup>

This leads us to the question of was there, and if so, who, acted as third party enforcer. I hypothesize that the segment of Filipino elite which was not directly tied to Marcos as "cronies" (referred to hereon as non-Marcos elite) initially played the role of third party enforcer. Before testing this hypothesis, let us establish the basis for this hypothesis. Historical accounts of the Philippines invariably trace the Philippine power structure throughout history as elite domination. Originally in the form of collaboration with the Spanish, then American colonial rulers, a small elite class is most often argued to have continued domination of politics and the economy largely

<sup>12</sup> Boyce, 39.

<sup>13</sup> Rob Vos and Josef T. Yap. *The Philippine Economy: East Asia's Stray Cat?* (New York: St. Martin's Press, 1996), 24.

<sup>14</sup> Vos and Yap, 23.

<sup>15</sup> Celozo, 110-114.

<sup>16</sup> Steinberg, 136.

<sup>17</sup> Boyce, 8.

<sup>18</sup> Boyce, 330.

<sup>19</sup> Hutchison, 79-80.

through a colonial legacy of economic and political dominance combined with failure of land reforms.<sup>19</sup> With this historical backdrop, the two political parties never had distinct platforms, and it has been argued that alternating power merely indicated that a certain elite group would benefit from patronage and selective redistribution, while the other group waited until it became their turn to come to power and receive the same benefits.<sup>20</sup> Thus, although it is beyond the scope of this paper to establish that the Philippines embodied a VPI system before Marcos, this is the basis for hypothesizing that the third party enforcer at the time Marcos came to power was the non-Marcos elite.

We must now test the hypothesis that non-Marcos elite was the third-party enforcer. First, the third party was able to police arrangements between the government and asset holders. The third party, by being Filipino elite themselves, were able to monitor Marcos' behavior towards Marcos elite. Had Marcos started to infringe on property rights of elite in general, non-Marcos elite would have felt effects as well. If Marcos only encroached on property rights of Marcos elite, information networks simply being part of the power structure is likely to have provided non-Marcos elite with information.

Second, we can determine incentive compatibility between the three parties: Marcos, Marcos cronies, and non-Marcos elite. The third party was essential for government because Marcos needed extensive elite support, regardless of whether they were his direct cronies or not, to initially attain and retain power. Due to the patron-client nature of Philippine politics, Marcos had to channel rent to elite, since he needed local elite to support him to receive sufficient popular votes for his initial election in 1965 as well as in 1969.<sup>21</sup> Asset holders aligned third party interests with their own. Marcos cronies were interested in keeping Marcos in power, since they received disproportionate flows of patronage and rent.<sup>22</sup> Non-Marcos cronies were also interested in

keeping Marcos in power as long as his policies benefited the elite as a whole, since they were also dependent on policies retaining disproportionate wealth allocations to the elite.

Third, the third party threat was credible. Non-Marcos elite did have the potential power to form a coalition to defeat Marcos in the 1969 election. Therefore, Marcos still depended upon them for reelection in 1969, making the threat from non-Marcos elite credible.

Fourth, although it does not seem possible for asset holders to recruit a new third party, the government and third party did have strong incentives to check each other's power. Since the third party is non-Marcos elite, it does not seem possible that Marcos cronies could recruit a new third party. If Marcos decided to collude with the non-Marcos elite, there would be little that former Marcos cronies could do. However, collusion would have been unlikely, given the family and kinship networks determining the composition of Marcos cronies. Furthermore, incentives were strong for the government and third party not to let one another become too powerful. Since Marcos depended on non-Marcos elite support for reelection, he had strong incentives to keep them dependent on his patronage and redistribution to keep them from forming too powerful an opposition. At the same time, it was also in the interest of non-Marcos elite to prevent Marcos from becoming too powerful, lest he selectively violate their property rights.

Thus, non-Marcos elite fulfill the conditions for a third-party enforcer, both confirming the existence of a third party enforcer and testing positive our hypothesis that the third party enforcer was the non-Marcos elite.

We conclude that Haber's framework of VPI fits the Philippines well between 1965 and 1969. However, after Marcos was reelected, the third party's position was progressively eroded, and almost eliminated, after Marcos declared martial law. After Marcos' reelection, as it was his last

<sup>20</sup> Eva-Lotta E. Hedman and John T. Sidel, *Philippine Politics and Society in the Twentieth Century: Colonial Legacies, Post-Colonial Trajectories* (London: Routledge, 2000), 18; Celozza, 20-21.

<sup>21</sup> In actual practice this meant that he relied on local elite to mobilize their networks of vote-buying, ballot-box fixing, the threat of violence, and organized turnouts of voters who had already deceased (Steinberg, 120).

<sup>22</sup> It may also be mentioned here that Marcos cronies were generally not the most affluent, established elite to begin with. They were a second tier elite class that joined the higher elite.

term as presidency, the opposition not longer had the credible threat of defeating him in elections. Moreover, by this time Marcos had successfully all but eliminated the threat of opposition forces forcibly removing him from power and he had greatly consolidated his power over the bureaucracy, military, and local politicians through patronage and distributing rents. Thus, by the time Marcos declared martial law, the third party was no longer essential for government nor posed a credible threat. After 1969, and especially after 1971, the system of VPI no longer functioned in the Philippines.

### **Bates applied to the Philippines**

Let us now test our second hypothesis that Marcos consolidated his power and eroded the credible threat of the third party due to factors argued by Bates. First, we must determine whether Cold War interests of developed nations removed military threats to the Philippines. During the time Marcos was in power, the Philippines served as the main strategic base for US forward deployment in Southeast Asia. During the Vietnam War, Clarke Air Force Base and Subic Bay Naval Base.<sup>23</sup> Even after the Vietnam War, the US considered the Philippines to be one of the prime strategic locations in fighting the Cold War in Asia, particularly Southeast Asia.<sup>24</sup> With heavily vested US military interests in the country, along with a reciprocal military alliance with the US,<sup>25</sup> it is safe to conclude that the Philippines had little to worry about in terms of territorial aggression by its neighbors.<sup>26</sup>

Second, Marcos did take sides and was able to obtain easy access to funding. Throughout his time in power, Marcos consistently made solid commitments that the Philippines would remain a

US ally. In return, the US considered the Philippines their most important ally in Southeast Asia, granting large amounts of aid.<sup>27</sup> While Marcos was a senator before his presidency, he had taken a position against sending Philippine troops to Vietnam. However, once in power, he “vigorously campaigned for the approval of the Philippine Congress to send [Philippine troops] to Vietnam.”<sup>28</sup> This switch in positions was explicitly to gain US financial aid for the economy and to vastly expand the military.<sup>29</sup> Furthermore, Marcos courted US business interests by overturning several Philippine Supreme Court rules that threatened to ban US enterprises from engaging in retail or own land.

In addition, international organizations such as the World Bank and IMF also contributed developmental assistance to the Philippines, although direct influence of Cold War interests is difficult to establish. In 1971, the Consultative Group for the Philippines, chaired by the World Bank, was developed to mobilize official financial flows and developmental assistance. The World Bank designated the Philippines as a “country of concentration,” granting more than average lending for a country its size.<sup>30</sup> It has been argued that financial aid by international institutions reflects cold war interests of developed nations because they dominate the agenda of such institutions,<sup>31</sup> but this has not been fully substantiated.

Third, external funding did allow Marcos to rely less on credible domestic property rights commitments. It has been widely argued that the magnitude of rent Marcos transferred as patronage to consolidate his position would not have been attainable without US financial support of his regime. Based on strong correlations between foreign capital inflows and capital flight, along with anecdotal evidence, it has been argued that

<sup>23</sup> Steinberg, 119.

<sup>24</sup> Steinberg, 123; Celozza, 110.

<sup>25</sup> The Philippine American Security Alliance.

<sup>26</sup> Furthermore, empirically, the only significant threats to Philippine territory, after its independence, came after the Cold War was over and the US pulled out of the country altogether. I refer to the conflict over the Spratly Islands in the South China Sea, which are claimed by several Southeast Asian nations as well as China.

<sup>27</sup> Celozza, 101.

<sup>28</sup> Celozza, 78.

<sup>29</sup> Celozza, 101.

<sup>30</sup> Boyce, 255.

<sup>31</sup> Saneh Chamarik and Susantha Goonatilake ed. *Technological Independence – The Asian Experience* (Tokyo: United Nations University Press, 1994) <<http://www.unu.edu/unupress/unupbooks/uu04te/uu04te00.htm>>.

a large amount of foreign capital was channeled directly as rent to Marcos elite.<sup>32</sup> Therefore, Marcos was much less dependent on domestic economic growth to provide him with rent to redistribute,<sup>33</sup> and could selectively violate domestic property rights by forming monopolies and nationalizing industries.

Furthermore, Marcos was able to put himself in a position where the declaration of martial law, implying the loss of any remaining restraints on his commitment to property rights, was welcomed by his external sources of funding. When Marcos declared martial law, he was widely supported by the US government and business community as well as international institutions. President Nixon, interested in maintaining its military bases, and US businesses, interested in Marcos' assurances of property rights protection, welcomed Marcos' authoritarian power as stabilizing US interests.<sup>34</sup> International organizations such as the World Bank and IMF "looked forward to funding another of the series of Pacific Basin economic miracles."<sup>35</sup> Therefore, external funding greatly aided Marcos in attaining a position which enabled him to encroach on the property rights of non-Marcos elite. Thus, Bates' argument can be applied to the Philippines to help us understand how Marcos was able to move away from the VPI system to consolidate his power and remove credible threats by the third party.

### **Applying the Stationary Bandit Concept**

After consolidating power and declaring martial law, Marcos extracted more rent from the economy than would be expected from a stationary bandit. Olsen's framework explains this as Marcos having a relatively short time horizon.

First, Marcos had a monopoly on domestic means of violence. Almost immediately after becoming elected, he consolidated his power over

the military. He appointed himself as secretary of national defense,<sup>36</sup> installing trusted supporters and friends in high positions.<sup>37</sup> He expanded the economic opportunities of the military, distributing rent to his officers and cronies. At the same time, aided by US financial support, he increased the size of the military, populating new divisions with supporters who owed their livelihood to him.<sup>38</sup> Marcos also expanded the role of the military, replacing much of the police force functions.<sup>39</sup> Marcos thus created a large, powerful military structure, with individuals within the structure largely dependent on him for their livelihoods and lifestyles – in short, a monopoly on domestic means of violence.

Second, Marcos extracted more rent from the economy than we would expect from a long-term tax-revenue maximizing strategy. His methodology was to grant monopolies and receive rent, to nationalize enterprises to assure his cronies maintained profits despite failing businesses, and to make himself the center of almost all important business transactions, receiving cuts at each step. Monopolies reduce tax revenue in the long-run by creating inefficiencies in the form of deadweight economic losses. Marcos created monopolies in most major industries, creating massive economic inefficiency. Further adding to the inefficiency, Marcos nationalized many enterprises, increasing the number of government-owned corporations from thirty-two to over three hundred by the time he was overthrown.<sup>40</sup> In some cases he directly appropriated the excess profits as rent, and in other cases he used public money to bail out failed enterprises run by his cronies to assure them personal profitability. Against his opponents or non-cooperative elite, he also forcibly nationalized many enterprises to personally ruin them and receive short-term profits.<sup>41</sup> Finally, he channeled

<sup>32</sup> Boyce, 305, 321-321, 329.

<sup>33</sup> It may even be argued that, judging by the massive external debt accrued during the Marcos era, Marcos would not have been able to consolidate his power to the degree he managed to without heavy external funding.

<sup>34</sup> Celozo, 115; Steinberg, 123.

<sup>35</sup> Boyce, 329.

<sup>36</sup> Celozo, 77.

<sup>37</sup> Steinberg, 130.

<sup>38</sup> Celozo, 77-79

<sup>39</sup> Celozo, 77

<sup>40</sup> Steinberg, 168.

<sup>41</sup> Celozo, 89.

all major economic activity through himself, leading to the commonly cited wheel-and-spokes analogy, in which all business needed to first pass through Marcos. In every case, he extracted rent exchanging economic inefficiency for short term personal profit.<sup>42</sup> This behavior by Marcos suggests he was extracting rent from the economy at a much higher level than if he were maximizing his long-term tax revenues.

The high level of rent extracted by Marcos can be explained by the argument that his time horizon was relatively short. Prior to getting thrown out of power in 1986, Marcos had been seriously ill, and had battled for his life.<sup>43</sup> However, he had not set any succession mechanism into place. It may be assumed that he planned to pass power onto his family and children, but such plans were never made public. Some argue that he was incapable of fathoming himself as fallible or of contemplating beyond his own rule.<sup>44</sup> In any case, if Marcos' time horizon was limited to a reasonable expectation of his own lifespan, and did not extend to include a dynasty of rulers – his grandchildren and descendants – then, his rent extraction beyond tax revenue-maximizing levels is to be expected. Thus, Olsen's framework of a stationary bandit can be used to explain Marcos' intense rent-seeking behavior and his often-cited plundering of the economy.

### Conclusion

Thus, the initial hypotheses posed test positive for the different periods of Marcos' reign. We are now in a position to understand how shifts in the nature of the commitment problem of the Philippines under Marcos led to the shift in his power from elected president to dictator. Between 1966 and 1972, the commitment problem was partially resolved through Vertical Political Integration, with non-Marcos elite enforcing Marcos' commitment to property rights. However, during this time, Marcos was able to take

advantage of the international environment to secure funding by making solid commitments to the US, allowing him to distribute patronage and enlarge the government to consolidate his power. As his power became consolidated to the point that the third party no longer posed a credible threat, VPI no longer resolved the commitment problem, and Marcos declared martial law in 1972 to become a stationary bandit. With only long-term self interest constraining him, Marcos did not have a long enough time horizon to cause him to tax society at revenue-maximizing levels. Instead, he transferred massive amounts of rent from the economy to himself and his cronies, liberally violating the property rights of non-Marcos elite as well the general populace.

Although economic growth during the Marcos era was largely influenced by external factors such as global commodity prices and the international debt crisis in the 1980s, both VPI and any form of banditry will cause productive investment levels to be much lower than under limited government. Therefore, if it can be determined that neighboring countries had more effective solutions to the commitment problem, even if not to the level of limited government, we can understand growth rates in the Philippines to be fundamentally constrained.

This study has provided a basis for further inquiry into the nature of the commitment problem in the Philippines before and after Marcos. It has been suggested here that VPI existed before Marcos came to power, and no systematic study has been performed on the nature of the commitment problem after Marcos. I hope that this study serves as a beginning to understand not only shifts in the nature of commitment and its implications for growth in the Philippines, but also as a beginning in the process of applying literature on commitment to important empirical cases as a means to understanding power shifts and economic growth.

<sup>42</sup> Steinberg, 132.

<sup>43</sup> Steinberg, 140.

<sup>44</sup> Steinberg, 117.