



## Economic nationalism: a healing salve for Philippine economic woes

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**Abstract:** Faced with an economic crisis in 1949, the Philippine government instituted a system of controls, which ushered in the industrialization of the economy in the 1950s. In exchange for a stabilization loan from the International Monetary Fund (IMF), President Diosdado Macapagal adopted the decontrol programme, which undermined the efforts to industrialize and plunged the nation into a crisis. Agitated by the crisis that engulfed the nation in 1968, the Congress passed House Joint Resolution No. 2, which was known as the *Magna Carta of Social Justice and Economic Freedom*. The law embodied nationalist policies geared towards economic development, but it had been shelved when President Ferdinand Marcos declared martial law on September 21, 1972. Realizing that the nationalist provisions of this legislation have a particular cogency for the present time, the writer deems it necessary to carry out this study. Appropriating the concept of economic nationalism as put forward by the staunch nationalists Claro M. Recto and Alejandro Lichauco, this paper contends that economic nationalism, which signifies that the Filipino people exercise the power of economic decision-making and control over the national economy, is crucial to the attainment of economic development. Drawing upon the *Magna Carta*, the writer explores how economic nationalism can be an alternative solution to the economic problems wrought by the continuing foreign intervention and the challenges of the ASEAN economic integration. After providing a historical context of the economic conditions in the country before 1969, the writer endeavours to explain briefly how the *Magna Carta* was framed and to address the questions of economic independence, nationalist industrialization, economic planning, and economic democracy as enshrined in the charter and their relevance to the present day. The writer employs the historical method, that is, the descriptive-analytical method, in the analysis of the data.

**Key Words:** *Magna Carta of Social Justice and Economic Freedom*; economic crisis; decontrol; economic nationalism; industrialization

### 1. INTRODUCTION

Struggling to rise from the ruins of the Pacific War, the Philippines, a fledgling republic, was confronted with an economic crisis in 1949, the

economic assistance provided by the United States government notwithstanding. Faced with such a quandary, the Philippine political leadership, with the acquiescence of the President of the United



States, had decided to impose a system of foreign exchange and import controls, which gave impetus to the industrialization of the economy in the 1950s. The Philippine economy deteriorated in the subsequent decade. In 1962, President Diosdado Macapagal, an advocate of free enterprise who obtained a stabilization loan of \$300 million from the IMF, yielded to the pressure from Washington to abandon economic protectionism and to institute the decontrol programme, which served the interest of the foreign investors to the detriment of the local industrialists. The programme, which involved the dismantling of the foreign exchange and import controls, stifled the industrial development of the country as the government was powerless to curtail the massive importation of goods and the heavy repatriation of foreign capital and profits. In 1968, two years after President Ferdinand Marcos ascended to power, the country was gripped by another economic maelstrom, which was instigated by the decontrol programme. Stirred by the crisis, the Congress, at the urgent prompting of Speaker Jose B. Laurel, Jr., was convened in a "special session" to enact House Joint Resolution No. 2 in 1969, generally called as the *Magna Carta of Social Justice and Economic Freedom*, which was signed into a law by then President Ferdinand Marcos in August 1969. Resonating with nationalistic overtones, the *Magna Carta* eschewed and denounced free trade and embodied the principles of economic independence, economic planning, nationalist industrialization and economic democracy. The *Magna Carta* was scrapped when President Marcos declared martial on September 21, 1972.

Taking into account the continuing foreign stranglehold of the Philippine economy, the onslaught of globalization and the ASEAN economic integration, the writer deems it imperative to re-examine the *Magna Carta*.

Drawing upon the *Magna Carta*, this writer aims at explaining how economic nationalism can serve as an alternative solution to the economic malaise triggered by the United States neocolonial

maneuvers and the challenges posed by the ASEAN economic integration. The study is divided into three sections. In the first section, the writer explains how the policies dictated by the United States had forestalled the industrialization of the Philippine economy and impeded its development. In the second section, the writer proceeds to recount how the *Magna Carta* was framed and to discuss the principles of economic independence, nationalist industrialization, economic planning, and economic democracy as embodied in the charter. In the third section, the writer attempts to establish the relevance of these principles to the present time, exhorting the present political dispensation to exploit them if only to address the country's economic woes.

The study is anchored on the concept of economic nationalism as posited by Alejandro Lichauco and Claro Recto. Deviating from the conventional meaning of nationalism as "love of country," Lichauco (1988), a nationalist economist, conceived nationalism as "more than a power" for it is also a "philosophy of power concerned with strategies, methods and processes of building, developing and nourishing the power of a state as an organic entity" (p. 3). In elucidating this view, he maintained that the state ought to assert itself and wield power, saying "a state must consciously cultivate and amass power for itself if it is to survive and prosper as a social organism, and if it is to respond effectively to the needs and requirements of the individuals who constitute it, and for whom it exists" (Lichauco, 1988, p. 3). He further argued that independence and power are "intertwined" in the sense that "independence is necessary to power, and power is necessary to independence" (Lichauco, 1988, p. 5). Speaking of economic nationalism, Lichauco (1973) signifies that the state exercises the power to "manage" their "own business," . . . to "have their own steel mills, their own manufacturing industries. . ." (p. 115). He added that nationalists advocate heavy industrialization for they believe that it is "the only way by which a people can create their own means of production, from which real wealth and economic



power came, and without which they must forever depend on others for their very survival" (Lichauco, 1973, pp. 116-117).

Speaking of economic nationalism, Recto, a staunch nationalist, echoed the views of Lichauco. For Recto, "nationalism in the economic field is the control of the resources of a country by its own people to insure its utilization primarily for their own interest and enjoyment" (Constantino, 1965, p. 33). He maintained that nationalism and industrialization are interconnected: "Nationalism cannot be realized and brought to full flowering without a thorough-going industrialization of our economy by the Filipinos themselves" (Constantino, 1969, p. 273).

In the context of this study, the writer argues that the *Magna Carta*, which embodied the nationalist ideals and aspirations of the Filipino people, can be harnessed to address their economic problems.

The writer employs the historical method, that is, the descriptive-analytical method, which involves an evaluation of the sources, analysis and synthesis of the data into a coherent historical narrative.

## 2. THE AMERICAN IMPERIALIST EXPLOITATION OF THE PHILIPPINE ECONOMY

After the Pacific War, the Philippine government addressed itself to the task of rehabilitating the country. Appearing benevolent, the United States government extended war damage compensation and economic assistance to the fledgling Philippine Republic on the condition that the Philippine government should accept the stipulations of the Bell Trade Relations Act namely, the continuation of the free trade between the two countries and the grant of equal rights to the American citizens in the "exploitation of natural resources and the operation of public utilities." In the absence of the regulation of the foreign exchange reserves and the imported goods entering the country, the dollar reserves of the country had been drained because they had been used to pay for the unrestricted importation of goods, and the investors

were allowed to bring out their capital and profits in unlimited quantities. Under the free trade arrangement, the efforts to industrialize had been stymied. These circumstances conspired to trigger an economic crisis in 1949. (Lichauco, 1982)

Confronted by such a crisis, the Philippine government had established a system of controls on the foreign exchange and imports. Taking cognizance of the threat posed by the insurgency and the communists, the President of the United States assented to the imposition of controls. Through the foreign exchange control system, the dollars were strictly regulated by the Central Bank. The control on the imports allowed the government to prevent the entry of non-essential goods. The system of controls worked to the advantage of the Philippines as it induced industrialization in the 1950s, propelling the Filipino capitalists to set up "import-substituting industries," or "industries which produced goods that replaced, or substituted for, imports" (Lichauco, 1988, pp. 140-149).

The Philippine economy declined during the incumbency of President Diosdado Macapagal. Advocating free trade, President Macapagal capitulated to the dictate of the United States to abandon economic protectionism and institute decontrol program in exchange for a stabilization loan of \$300 million from the IMF. With the dismantling of foreign exchange control, the government was rendered powerless to prevent the massive exodus of foreign capital and repatriation of profits, which drained the dollar reserves. Having removed the control on the importation of goods, the country was inundated with imported goods, undermining the growth of the Philippine manufacturing industries. As the purchasing power of the peso declined, the prices of imported industrial materials increased, thereby thwarting heavy industrialization. (Lichauco, 1982)

These circumstances precipitated another economic crisis in 1965. Three years later, the country was engulfed by a deep-seated economic crisis as President Marcos continued the decontrol program, which he found "inseparable from the philosophy of free enterprise." It may be recalled that he affirmed that belief in his 1966 State of the Nation address: "Let this message go forth to businessmen: our faith in free enterprise demands that we accept the consequences of this bold adventure. . . ." (Lichauco, 1988, p. 182)



### 3. *THE MAGNA CARTA OF SOCIAL JUSTICE AND ECONOMIC FREEDOM*

Apprehensive about the escalating economic crisis entrenched in the 1962 decontrol program, then Speaker Jose B. Laurel, Jr. deemed it necessary that Congress ought to adopt “an organized approach to the nation’s proliferating problems” and resolved to “provide the nation with the blueprint of basic policies that would respond to the real and objective needs of the nation.” He initiated the employment of a “full time economic staff” for the House of Representatives, who constituted the Congressional Economic Planning Office. The Office was tasked with the formulation of a “blueprint of socio-economic policies along nationalist and egalitarian lines.” Laurel secured the backing of “influential House members” for such a noble endeavor. Public hearings were conducted to ensure the participation of “as many groups as possible in the private sector,” the objective being to arrive a “national consensus and not only a consensus in Congress.” The “blueprint” was concluded after nearly eight months of “continuous hearings and spade work” (Lichauco, 1982, pp. 42-43).

At the bidding of Laurel the Congress was convoked in a “special session” in 1969 to ratify House Joint Resolution No. 2, also known as the *Magna Carta of Social Justice and Economic Freedom*. President Marcos signed the Joint Resolution into a law on August 4, 1969. However, it was shelved when Marcos allowed a floating rate of the peso and declared martial law, which dealt a death blow to the industrialization program. (Lichauco, 1981).

As embodied in the *Magna Carta*, the nation upheld the primacy of the ideal of economic independence. While the *Magna Carta* recognized the role of the foreign investment in the “economic development of the nation,” it “shall not, however, be allowed to dominate the economy or any of its strategic areas.” The Joint Resolution restricted the borrowing of foreign firms and demanded Filipino control over “financial and credit institutions” and “strategic industries” (Laurel, 1969, pp. 52-54).

The *Magna Carta* mandated the Chief Executive to institute a program of heavy industrialization, which referred to the “basic and integrated industries essential to change the

structure of our economy,” and “substantially minimize our dependence on imports of raw materials, semi-processed goods and machinery and equipment” if only to “resolve the perennial problem of mass unemployment and marginal income that hound the lives of our people.” It went on to state that industrialization “should be undertaken as a joint responsibility of the government and private sector.” The Joint Resolution directed the government to provide incentives and “liberal financing assistance” to the Filipino “capitalists” if they were to “invest in desirable industries” (Laurel, 1969, pp. 7-8; 41-42).

The *Magna Carta* stressed the importance of economic planning. Accordingly, it specified that the pursuit of “our national objectives” necessitated a “planned, comprehensive, integrated and resolute approach by the Government and the people together.” It proposed a “national economic development authority with powers to plan and coordinate the nation’s economic activities” (Laurel, 1969, pp. 44-45).

In view of the unequal distribution of wealth, the *Magna Carta* called upon the State to “vigorously pursue a program of increased labor productivity, together with measures to assure a fair share of economic rewards to labor.” It enjoined the State enjoined to extend “liberal financing” to “small and medium-scale enterprises and cooperatives.” It mandated the State to “foster profit sharing between capital and labor in private enterprises.” It underscored the obligation of the State to provide assistance to “destitute families deserving of such assistance” (Laurel, 1969, pp. 9-11).

### 4. *THE RELEVANCE OF THE MAGNA CARTA TO THE PRESENT*

On the question of economic independence, the relevance of the *Magna Carta* can be fully appreciated if one considers that the country has been transformed into a neo-colony of the United States following the grant of independence on July 4, 1946. The former colonial master has intervened in the economic affairs of the Philippines, prescribing economic programs and policies detrimental to the economic interest of the Filipino people. (Lichauco, 2005). It would do well if the Executive could assert



the sovereignty of the country when dealing with the American-dominated World Bank and the IMF.

Time and again, the Philippine government has been attracting foreign investors, believing that they could help propel the country's growth. The stark reality is that "the Philippine economy has not developed despite rising foreign investments" (Africa, 2014) under the Aquino administration. It behooves the President and the Congress to take heed of the provision of the Magna Carta on foreign investments and to carefully study the devastating effects of the foreign investments on the Philippine economy.

The *Magna Carta* proves to be important in the context of the failure of the present political dispensation to implement a heavy industrialization programme, which runs counter to the interest of the Western powers. If the political leadership could pursue vigorously the policy of industrializing the country, it could create the means of production such as the "machines, engines and tools" which could "produce the limitless, unceasing number of goods" (Lichauco, 1981, p. 4). In so doing, it could minimize the dependence on imported raw materials. The President can follow the lead of such countries as China, Japan, South Korea, India Malaysia, Thailand, Singapore, and Indonesia, which have succeeded in transforming themselves into industrialized economies. (Lichauco, 2005)

The *Magna Carta* stipulated not only heavy industrialization but also nationalist industrialization. The political leadership should learn from history that foreign stranglehold of the economy had not brought about genuine economic development. It is high time that the Congress and the Executive join forces in formulating laws that ensure Filipino control and direction of the economy.

The *Magna Carta* called for economic planning. At the present time, it is incumbent upon the state to industrialize the Philippine economy on a "planned basis," which entails coordination of all the programs and policies into a coherent development program and efficient allocation and utilization of resources, and should take an active

part in the process of industrialization by providing the industries all kinds of inducements and protection from foreign competition. The State should realize that if the country were to industrialize, it should jointly work with Filipino capitalists and grant them the incentives and financial assistance.

The Joint Resolution committed the State to economic democracy. In consideration of the socio-economic disparities, the Congress and President are urged to design programs that would break the monopolies, Filipinize certain industries, establish credit facilities to small and medium-scale enterprises and hasten the implementation of the agrarian reform program.

In consideration of the ASEAN integration, the Philippines should endeavor to strike an equilibrium between national interest and regional cooperation. As the ASEAN economic community envisages a "single market" (ASEAN Economic Community Blueprint, 2008), the Philippine government should see to it that the interest of the Filipino people is not threatened when liberalizing a particular sector. The government should identify and promote the competitive advantage of the country to bolster its competitiveness within the economic community. In anticipation of the competition from other member states, the government should support the local industries and businesses, particularly the small and medium-scale enterprises, in terms of capital and appropriate physical and technological infrastructure with a view to cushion of the impact of the integration.

## 5. CONCLUSION

Confronted with the economic crisis in 1949, the Philippine government adopted the system of controls upon the approval of the United States government. The industrialization process which gained momentum in the 1950s was aborted when President Macapagal adopted the decontrol program. Responding to the economic crisis precipitated by the decontrol program during the Macapagal and Marcos administration, the Congress passed in 1969 the



*Magna Carta of Social Justice and Economic Freedom*. Concurring with the Joint Resolution, President Marcos signed it into a law, but it was set aside when he spearheaded an anti-industrialization program.

The *Magna Carta* took on nationalistic overtones. Upholding economic sovereignty, the Joint Resolution was geared towards protecting the economic interest of the country and the Filipino people and the national patrimony. Pursuant to the law, the State was mandated to carry out an industrialization program, prioritizing the development of heavy industries and placing them under Filipino ownership and control. The State was obligated to engage in economic planning. Further, the State was directed to democratize the socio-economic structure.

The principles enshrined in the *Magna Carta* continue to be relevant to the present, considering that the problems that gripped the nation in the 1960s still linger. It behooves the Chief Executive and Congress to formulate a development strategy grounded on those nationalistic principles. It is high time for the political leadership to advance the national interest when negotiating with a foreign power or the member states of the ASEAN economic community. After all, economic nationalism could serve as an alternative solution to the problems posed by foreign intervention and the ASEAN economic integration.

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