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Booty Capitalism: The Politics of Banking in the Philippines by Paul D. Hutchcroft

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Book Reviews



Booty Capitalism: The Politics of Banking in the Philippines. By Paul D. Hutchcroft. Quezon City: Ateneo de Manila University Press and Ithaca, New York: Cornell University Press, 1998. xiv + 278 pages.

Booty Capitalism: The Politics of Banking in the Philippines is a rather detailed, exhaustive, mind-bending, sometimes opinionated but on the whole, thoroughly stimulating and engrossing book. Paul Hutchcroft, the author, is one of the more inventive and original of the new generation of analysts and commentators on Philippine political economy. Building on his previously extensive writings on politics and economic development in general, and banking in particular, this book is a massive achievement.

At the outset, Hutchcroft focused on the banking sector. In economic development theory, the financial system has played a rather crucial role because it is the institution through which the essential element in long-term economic growth, namely savings, is channelled into investible funds, the lifeblood of the economy. The importance of savings as the fuel of economic expansion has always been central in economic analysis even before Adam Smith. This was precisely why the earliest economists of Britain and France, when these countries were still in social circumstances similar to those of developing countries today, identified business people and entrepreneurs as the class crucial to economic development. Although aware of the manifest greed of many of them, Smith still conceded that they were indispensable because they were engaged in the pivotal activity of saving and investment. The centrality of saving and investment remains to this day in both theory and policy.

Thus the necessity of focusing on the banking system: if savings is the fuel, then the banking system is the engine. And at the outset, Hutchcroft points out certain indicators in which the Philippine banking system has performed poorly in this century: a low rate of savings, the lowest in fact in the ASEAN; a rather inefficient allocation of credit, often due to political interference; high degree of instability, witness the recurrent financial crises

that strike nearly every decade; yet the substantial profits that the system has generated consistently; and the insolvency of the Central Bank (CB) of the Philippines by 1992, when it had to be reorganized into the present *Bangko Sentral ng Pilipinas* (BSP). When one juxtaposes the unassailable fact that the Philippines has severely lagged behind the neighboring economies in the last three decades, clearly the banking system needs close examination.

Hutchcroft does this extensively by using the concept of booty capitalism as a theoretical framework. Extending the analysis of Weber, he identifies four different types of capitalism depending on, first, the relative strength of the state with respect to private business and on, second, the nature of the state as either rational-legal—in the Weberian sense—or patrimonial. The rational-legal state is one that practices calculability, that is, predictable and methodical, such that processes are reduced to the level of routine. In practice, this translates to an impersonal bureaucracy that is led by strict adherence to rules and laws. On the other hand, the patrimonial state is more personalistic. When one then includes the nature of the state, Hutchcroft argues convincingly that the statist versus laissez-faire capitalism framework is severely limited in analysis and in policy prescription, because these two traditional polar opposites presume the existence of a rational-legal state. The differentiating element then is that in a statist case, the state is stronger in relation to private business and in a laissez-faire set-up, it is the other way around.

Neither case clearly illuminates the situation in many societies. But when one includes the nature of the state, specifically a patrimonial one, then two further models emerge. Bureaucrat capitalism is the case where the state is patrimonial and stronger relative to private business. This, Hutchcroft argues, is the situation in China, Indonesia and Thailand. And where the state is patrimonial and weaker in relation to private business, then it is booty capitalism, the situation in the Philippines and Zaire.

The use of Weberian analysis is brilliant since Weber focuses on institutions. As Hutchcroft points out, Weber presents a more detailed theory and analysis of the evolution of capitalism rather than an examination of its operations when already mature, as in Marx. Indeed, for purposes of policy formulation, the analysis of institutions is often critical as it shall determine the feasibility and workability of any policy proposal. Indeed, this has often been one huge inadequacy of the masses of policy analyses based largely on economics. The policy papers that have been produced by respected institutions such as the Philippine Institute for Development Studies (PIDS) and the Center for Research and Communication (CRC), among others, have always been excellent but for the main test of policy, namely, actual implementation. An acute understanding of institutions would then be necessary to bridge the policy proposals with the proposals for implementation.

It is at this point where Hutchcroft's work is illuminating. Starting from the beginning of the American colonization, when modern banking systems

and regulations were first expanded, the book presents detail upon excruciating detail as to how the Philippine banking system actually performed. Rather than a business enterprise that specialized in financial management, deposit and credit activities, the banking system has traditionally been an instrument of the established oligarchy to maintain their dominance in society and politics. From a secure base in landownership and agricultural exports, the oligarchy expanded their business interests to manufacturing, mining, logging, and banking, all with the view of maintaining power. The bank was thus the means by which these family conglomerates could obtain funds and credit quite cheaply. And the wide diversification of their business interests ensured that their economic viability will be secure. This was the main bulwark of their power.

As such it was quite easy for the oligarchy to use governmental power and resources to buttress their position. Quoting extensively the established economic histories of the Philippines, such as the classic works of Golay, Baldwin, Valdepeñas, Bautista and Power, Hutchcroft confirms that much of Philippine economic policy was far from being methodically designed and implemented. The exchange control of the 1950s and the decontrol coupled with tariff protection later that decade, the floating rate of the late 1960s—these were often not products of a conscious design to promote import-substitution industrialization and agricultural exports.

There may have been technical inputs to many of these policies but they were implemented with a wide degree of favoritism and arbitrariness that the common theme was precisely that of oligarchs maneuvering to maintain their positions of power and authority from one presidential regime to another. The Marcos era was distinctive in that a new and highly centralized oligarchy was able to plunder the resources of the state and the society to a massive degree because the very centralization and the duration of the regime made the plunder efficient. But the logic of booty capitalism was the same and may simply have reached its most scandalous degree in the Marcos era. Indeed booty capitalism survived in the post-Marcos economy and polity.

Hutchcroft does make a convincing case for state-building as essential in the long-term process of economic development. He points out some encouraging developments, mainly the removal of the US bases and the increased degree of globalization. These have forced segments of the Philippine elite to seriously appraise the nature of policies and processes in the Philippine economy. Moreover, the initial success of liberalization efforts of the Ramos government in telecommunications, shipping and airlines has convinced many oligarchs of the benefits, both private and national, of increased competition.

But the persistence of oligarchic forces in the banking sector and elsewhere is still sobering. Indeed the book presents a detailed examination of the sheer impotence of the bureaucracy in counteracting particularistic interests of the banks, even when these are clearly detrimental to the public.

The sheer mass of detail make the reading often exasperating, even despairing. It convinces one of the sheer necessity of building the state and its apparatus as essential in the process of long-term development.

However, these are the two main failures of the book. First, it does not present some detailed proposals on how this can be undertaken. It lacks a detailed model of a working rational-legal bureaucracy to appraise rigorously the actions and policies of the CB and the present BSP. This appraisal can then yield workable proposals on how to strengthen the bureaucracy of the BSP. This would have been an excellent extension of the work done by Filomeno Sta. Ana and colleagues in *The State and the Market: Essays on a Socially Oriented Philippine Economy* where various policy directions have been proposed. It may well be not the aim of Hutchcroft, but it is certainly disappointing that after a thorough analysis of the banking system, a set of policy proposals—both ideal and workable—to redirect the banking system toward more developmental avenues is absent.

The other failure may well be an unfortunate case of timing. The book was clearly completed before the current economic crisis. This can be ascertained by the footnote on page 225 that quotes IMF Managing Director Michel Camdessus rather presciently that the next international economic crisis "could well begin with a banking crisis." The banking system in the various East Asian economies has been pinpointed as the spur that caused a severe economic dislocation throughout the region. There seems to be a consensus that the Philippine banking system has been more resilient than the others. One would like to see how Hutchcroft's approach would deal with this issue. The possibilities are quite tantalizing. Were the bureaucrats in the other East Asian countries also at fault? Are there basic commonalities between bureaucrat capitalists and booty capitalists? Which capitalism would survive and recover faster or more steadily?

Nonetheless, this book is certainly a welcome contribution to political economy and economic history in the Philippines. One hopes it can generate more controversy, if only to focus more discussion and action on feasible state-building in the country today.

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Saving the Earth: The Philippine Experience. Edited by Eric Gamalinda and Sheila Coronel. Manila: Philippine Center for Investigative Journalism, 1993. 3rd edition. 203 pages.

It has been predicted that the next millenium will be the age of high technology. Although the computer revolution started in the middle of this century, it shows no signs of abating. Within the span of only a few decades,