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Oxfam

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Foreword

It is commonly assumed that the international debt crisis is so complex that it should be left to economists to solve. Perhaps, however, we have relied for too long on 'experts' to address the problem. The debt crisis has not abated: indeed, it is getting worse. Agencies like Oxfam, working alongside the poor in countries like the Philippines, daily witness the human suffering caused by the enormous debts owed by their governments to financial institutions in the 'developed' world.

Poverty at national level soon permeates down to the level of the poorest and most vulnerable. The burden of the debt contracted by the government of the Philippines is borne by the poor, who pay for it in terms of reduced incomes, and the under-funding of the health and education services on which they depend. In stark terms, the debt leads to deprivation and marginalisation, wasted lives and even death.

Some observers may question why a charitable agency like Oxfam involves itself in the debate on the international debt crisis. Charities, it might be argued, should concentrate on development projects and on the direct relief of suffering. Of course, such work is Oxfam's primary mandate – a mandate which is fulfilled in the Philippines by our continuing support for such projects as training programmes in fishing communities, literacy work and credit funds for women in shanty towns, income-generation schemes with tribal people, and reconstruction work in disaster-stricken areas.

But if 'regular' development and relief work serves to maintain the myth of a net flow of resources from the relatively rich North to the relatively poor South, we feel we have an obligation to point out the error of such an assumption. The fact is that, in terms of the flow of resources, the South is actually supporting the North. The issue of debt is central to this inverted (or perverted) 'development'. To cite just one example: for the past two years, Oxfam UK/Ireland has devoted an average of about £300,000 a year, donated by the British and Irish public, to development and relief efforts in the Philippines. By the standards of non-governmental organisations, this is a considerable amount – but really only a drop in the ocean, when compared with funds allocated by the Philippine government to debt payment. During 1990 the average payment of interest (not actual repayment!) on the country's debts amounted to about £3 million *a day*. The daily interest payment on the debt incurred for the controversial Bataan Nuclear Power Plant, mothballed since President Aquino came to power, amounts to almost £200,000 a day.

Not all debt payment goes overseas; it is true that nowadays much of the burden of Philippine debt is due to domestic borrowing. Still, much of the domestic debt was and is being incurred to enable the Philippine government to buy foreign exchange to pay for its international borrowing: a roundabout way of paying for the same thing. It is also true that debt is not by any means the sole cause of all the problems afflicting poor people in the Philippines; nevertheless, the burden of the national debt aggravates the whole range of difficulties which they have to cope with daily.

In reflecting on its experience of working with poor communities, Oxfam has come to appreciate the crucial significance of the debt problem. We support the research work of the Freedom From Debt Coalition, a broad-based Filipino network of church groups, academic and professional bodies, and community organisations, which studies the social and environmental impact of debt, to try to find solutions to the crisis which will ease poverty and suffering in the Philippines.

The perverse flow of resources from South to North is one factor impelling concern by agencies such as Oxfam. But an equally powerful factor is the increased pressure on them to deliver services that the Philippine government can no longer provide. (The administration of President Aquino is allocating about 40 per cent of its budget to debt service – a higher proportion than the British government allocates to spending on defence, social security, welfare, and housing combined.) But charities should never assume the role of governments. Non-governmental organisations can never even contemplate being able to compensate for what national ministries can no longer provide: such things as affordable medical care, fair salaries for teachers, and investment in basic infrastructure.

The Philippine government has so far opted to repay the nation's debt 'as a matter of honour', and at all costs. The stories in this book give some idea of what those costs are in human terms – and what grassroots organisations in the Philippines are trying to do to reduce them.

Paul Valentin
Oxfam UK/Ireland Representative, Manila

July 1991

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1

Introduction

Margie Amblon is now childless. Her two small children died of measles and its attendant complications, one after the other. In her poor community, like many other urban communities in the Philippines, there is no health centre. ... Carolina Agustin, a domestic helper in Kuwait, came home to the Philippines in September 1989 with her two feet in plaster. The reason: she jumped from a window when her employer tried to rape her. Another domestic worker, Emelieta Edrosolan, returned to the Philippines in April, exhibiting black welts on her thighs from beatings by her employer.[1] ... Lupo Masaclao used to be a fisherman living off the bounty of Laguna Lake. Now that the lake is dying and being diverted to uses other than fishing, he has turned into a shoemaker, together with most fisherfolk in his community. ... Up north, in the Cordilleras, the indigenous peoples of Itogon have mounted human barricades to stop open-pit mining operations that would tear up the mountains and destroy the sources of their livelihood. ... In the centre of Manila, the laundrywomen of Tondo eke out a precarious existence from a monthly income of P300 (£6.25), even while trying to learn how to read and write.

Margie Amblon's children could have been saved if there were a health centre in their community. But servicing the nation's foreign debt, which at one point took up almost half the national budget, prevents the government from providing such facilities. Carolina Agustin might perhaps not have ventured to work abroad for an abusive employer had the debt problem not driven the government to encourage the export of labour at whatever cost. Lupo Masaclao and the indigenous peoples of Itogon would perhaps not be threatened by pollution and the destruction of mountains and forests had the environment not been sacrificed for the sake of debt-connected and dollar-oriented 'development'. The laundrywomen of Tondo would not be in such desperate straits had they not been afflicted by widespread unemployment, rampant inflation, housing problems, and lack of basic social services, all of which are directly linked to the debt crisis.

All these people are victims of a raging debt crisis which takes most of its toll on the poor and the vulnerable. They are paying the price of a debt policy which puts creditors first and people last. The government of the Philippines has adopted a debt-fuelled model of development that is based on earning cash by exploiting its human and natural resources, some of them irreplaceable.

The Philippines is a country rich in resources. So why are at least half of its 62 million people poor?[2] The answer lies partly in the wealth that is taken from the country in the form of debt service. When the foreign debt was at its peak of $28 billion in 1988, the debt burden of each Filipino man, woman, and child was estimated at P10,000 (£208.33). Even the unborn are already indebted. But this burden is not equitably shared, because in the final analysis, the poor pay more in terms of higher prices and increased taxes for basic goods and services. Their wages stagnate or barely rise in the midst of rapid inflation, as the peso devalues and erodes their purchasing power. They have less access to social services, because the government is too short of cash to provide proper services. Yet they are earning dollars for their country, either by being obliged to work in export production, or by remitting money from better-paying jobs abroad.

Because they are the most affected by the debt crisis, the poor and vulnerable are driven to respond to it in a new and effective way. People's initiatives, exemplified by the Freedom From Debt Coalition and other action-oriented organisations dealing directly or indirectly with the debt issue, have devised novel and alternative approaches that could prove viable and sustainable in the long run.

The people of the Philippines cannot wait. Their country needs immediate debt relief. The extensive devastation wrought by the earthquake of July 1990 (which killed 1,600 people, injured 3,200, made over 100,000 homeless, and damaged property worth £305 million), and the eruption of the volcano Mount Pinatubo in June 1991 (which caused even more damage) makes a solution to the problem of the debt crisis an urgent necessity.

2

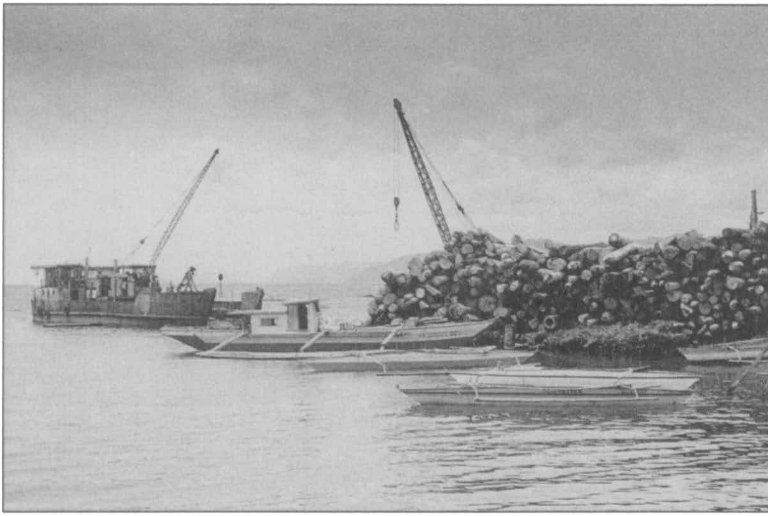
The origins of the problem

The Philippines is aspiring to be a Newly Industrialising Country (NIC) like Taiwan, South Korea, Malaysia, and Thailand who are her neighbours in East Asia. The reality is that this is just a severely indebted country, ranking sixth (after Brazil, Mexico, Argentina, Venezuela, and Thailand) in the World Bank Debt Tables for 1989-1990.[1]

Being a severely indebted country means being in a state of perpetual financial haemorrhage. For the Philippines, debt service for 1990 totalled $4.719 billion, more than a billion dollars higher than the $3.670 billion recorded in 1989. Because more money has gone out of the country as interest and principal payments than has come in as 'new money', negative net resource outflows or transfers have been building up. In the years 1988-1990 these totalled a minus of $6.893 billion.[2]

Such a debilitating outflow robs the people of resources that could go into economic recovery and development, basic utilities and social services, and structural reforms to empower the poor and spur sustainable development. What is worse, the people pay for the outflow in terms of new taxes exacted by the government to earn more revenues for debt service. They work harder and longer, but earn less real income, due to devaluation and inflation that stem from policies demanded by the nation's creditors. The people shoulder much of the debt-service burden through the dollars they remit from overseas employment, into which they have been forced by debt-connected structural unemployment and underemployment. The continuing export of Filipinos to help pay the debt, despite the loneliness, uncertainty and humiliation they often suffer, is perhaps the worst effect of the debt crisis.

Future generations will suffer from the environmental degradation accelerated by the debt problem. Only one-fifth of Philippine forests is left, due partly to massive exportation and smuggling of logs and other forest products for the sake of generating desperately-needed foreign exchange.[3] Whole mountains are being torn up, and formerly productive rivers and lakes are being destroyed by export-oriented gold and copper mines and other industries. Only one quarter of Philippine coral reefs is in good condition, and fisheries production has dropped by half as a result of the use of cyanide, dynamite and other destructive forms of fishing.[4]



Chris Daniel/Oxfam

Logs from the tropical rainforest of Quezon Province being loaded on board ship at Real. Illegal logging is a major problem.

Debt-connected poverty has driven fisherfolk to resort to such desperate methods, even as the landless rural poor try to eke out a living by encroaching farther and farther into forest lands. If current trends continue, Philippine forests will completely disappear within this decade, which will mean ever more disastrous floods, droughts, and landslides.

This indeed is a 'fate worse than debt'. It is not a result of recent developments, but of a long historical process which is worth recalling.

Where did it all start?

The Philippines was a direct colony of Spain, and then of the United States of America, for about four hundred years. In 1946, the Americans granted the country what is best described as 'flag independence', because in many ways, and especially in economic terms, that independence was hollow.

The post-liberation period saw a Philippine economy ravaged by World War II. Rehabilitation assistance from the United States became an overriding consideration for Filipino leaders. In exchange for such aid, they allowed 'parity rights' for American businesses, which meant the latter could operate public utilities and exploit the country's natural resources. Free-trade policies were also adopted, leading to the flooding of the domestic market by North American goods, and an acute balance-of-payments crisis by the late 1940s.

To ward off bankruptcy and prevent the growth of a communist-led rebellion, the government imposed import and exchange controls, with the approval of US President Truman. Twelve years of such controls made possible the rise of Filipino businesses, especially light industries to produce goods that would take the place of previously imported commodities. The entrepreneurs who set up these businesses were the force behind the 'Filipino First' policy adopted in 1958, which gave preferential treatment to Filipinos in the economic development of the country.

The foreign business community went on a counter-offensive. Pressures from foreign interests eventually succeeded in 1961 with the onset of the Macapagal administration, which immediately dropped the 'Filipino First' slogan, abolished import and foreign-exchange controls, and devalued the peso *vis à vis* the US dollar. Decontrol led to unlimited repatriation of profits by foreign corporations. Unrestricted imports resulted in an increasingly unfavourable balance of trade,[5] and subjected Filipino-manufactured goods to overwhelming competition. The depletion of foreign-exchange reserves led the Philippines into the 'debt trap', the cycle of permanent dependence on global financial institutions, principally the International Monetary Fund (IMF). Since the beginning of the Macapagal administration, the Philippines has had to adopt the prescriptions of the IMF on matters regarding economic policies and programmes in exchange for 'stabilisation loans'.[6]

IMF-imposed devaluation in the early 1960s had the most crippling effects on Filipino businesses, which had to pay almost double for every dollar's worth of capital goods they had to import. On the other hand, it was most advantageous to foreign investors, whose dollars could buy almost twice as much as they used to. Under these circumstances, it was very easy for North American corporations to take over struggling Filipino industries.

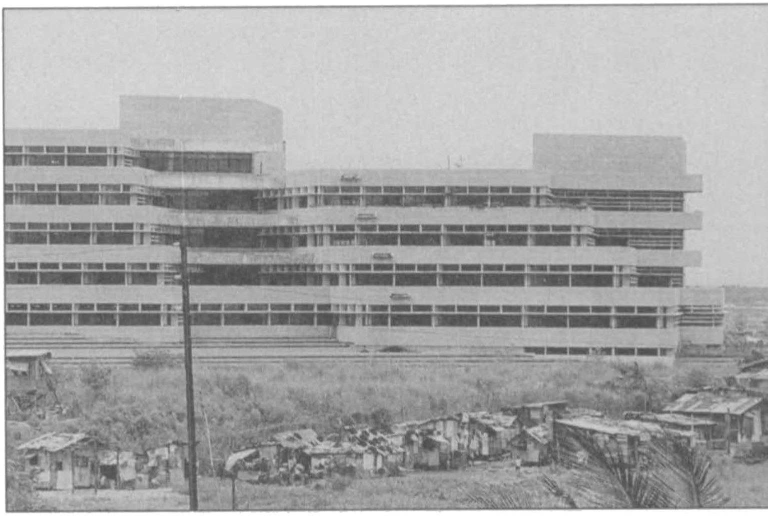
Policies favourable to foreign interests continued during the administration of President Ferdinand Marcos. In 1967, the Investment Incentives Act allowed even business enterprises not possessing the required proportion of Philippine ownership and control to operate in preferred, non-pioneer areas of investment under certain conditions. After the 1969 elections, characterised by massive electoral overspending which pushed the country to the verge of bankruptcy, the Philippine peso was again devalued against the US dollar, as a result of IMF pressure. The Philippine government had to bow to the pressure or accept an end to the aid and credit which it desperately needed. Devaluation was again a boon to foreign investors and exporters. The losers were the Filipino manufacturers, who had to bear higher costs of imports and repayments of foreign borrowings, as well as tighter credit restrictions. Many Filipino industries folded up or were taken over by foreign-owned competitors. The inflation resulting from devaluation also greatly reduced the real income of the Filipino working people.[7]

Foreign domination of the Philippine economy was considerably strengthened during the martial-law years (1972-1986). The country was placed even more firmly in the debt trap, with its foreign obligations estimated at $25-$30 billion. In securing those loans, it had to accede to the demands of its creditors, principally the World Bank and the IMF, together with 483 foreign commercial banks. Such demands involved the virtual surrender of the country's economic sovereignty. Transnational corporations (TNCs) increased their production of relatively inexpensive – and therefore competitive – products for the world market, using low-cost Filipino labour and raw materials.

The 53 per cent devaluation of the peso in 1983, which even the government-influenced media admitted to be an IMF imposition, ruined many Filipino businesses (now an 'endangered species'). It benefited only foreign firms whose dollars could facilitate their takeover of floundering enterprises, and dollar-earning export industries tied to the global market controlled by TNCs. The mass of Filipino consumers, already reeling from the soaring inflation triggered by the double devaluation, had to bear increased water and electricity rates and higher taxes and charges for government services, which again were World Bank-IMF recommendations.

The Philippine debt crisis became a full-blown one during the Marcos regime. In 1965, the beginning of the Marcos administration, the country's debt burden was a mere $599 million. By 1970, this had risen to $2.3 billion; by 1975 to $4.9 billion; by 1983 (the beginning of the end for the Marcos dictatorship as waves of protest followed the assassination of Benigno Aquino, Jr., the most prominent opposition leader), to $24.1 billion; and by February 1986 (when the Marcos regime collapsed and the administration of Corazon Aquino took over), to $26.3 billion.[8]

Two factors contributed to this increasing debt burden. One was the over-eagerness of the big North American, Japanese and European banks to lend billions of petrodollars to developing countries, including the Philippines, in the 1970s. The other was the borrowing spree which Marcos' allies engaged in, to finance business empires which piled up debts which were later passed on to the government to assume. These two factors aggravated the long-standing problem of balance of payment



John Clark/Oxfam

In the foreground: shanty houses; in the background: a grandiose legacy of the Marcos regime, poorly constructed and already crumbling.

deficits caused by trade deficits and profit remittances, which had to be financed by more and more foreign borrowings. It is noteworthy that during the entire post-war period, the Philippines enjoyed a trade surplus only three times (1963, 1966, and 1973).[9]

The profligacy of the Marcos family was legendary. Luxurious buildings and 'white elephants' abound to this day as testimonials to the First Lady's truly impressive 'edifice complex'. All this, plus the vast array of shoes, clothes, art works, and other worldly possessions now on display at Malacanang Palace, must have cost millions of dollars and brought pressure to bear on the foreign-exchange reserves.

The administration of President Cory Aquino, instead of making a clean break with the Marcos past, promised to pay the Marcos debts 'if only for honour'. Her administration also adopted the same economic policies so closely identified with IMF-World Bank prescriptions.

Who gains from the debt?

We can find the answers to this question by looking at who borrows, who lends, and where the borrowed money goes.

Using 1989 figures, we find that more than 80 per cent of the $28 billion debt was owed by the public sector, meaning the Central Bank, and government-owned or controlled corporations such as the Philippine

National Bank, the Development Bank of the Philippines, the National Power Corporation, etc. This means that ultimately, most of the debt will be paid by government from the national budget. Taxpayers will have to shell out more money, and people will have to forego much-needed social services. The other 20 per cent of the national debt was accounted for by the private sector, meaning the large banks, manufacturers and traders, many of which are global or transnational corporations.

More than half of the debt was owed to commercial banks, which means that the country was hostage to fluctuating interest rates in the international financial market. Because a one per cent increase in interest rates results in a $130 million rise in interest payments, an additional $260 million had to be released in 1988 because of the two per cent increase in interest rates. Almost one quarter of the debt was owed to the governments of countries like the United States and Japan, while almost one fifth was owed to multilateral institutions such as the World Bank, the International Monetary Fund, and the Asian Development Bank.[10]

The creditors benefit from the debt by profiting from interest payments. They make sure that old debts are paid through new debts, so nobody loses money through debtor default. (From 1972-1983, an average of 53.5 per cent of new borrowings went on repayments.[11]) In fact, there seems to be a shift from direct investments to interest payments as the main source of extracting surplus from the developing countries.

In exchange for new loans, multilateral financial institutions such as the IMF and World Bank, and various consultative groups of creditor banks and countries, are also able to influence governments to implement policies favourable to them. These policies can be collectively described as 'structural adjustment', which according to the World Bank includes:

> ... a range of measures intended to reduce internal and external deficits, increase efficiency in the economy, and reduce government expenditure. Typically, they would include (1) changing the exchange rate to reflect more closely the true value of the currency ... (2) reducing government payrolls; (3) selling to private interests or dismantling government-owned enterprises; (4) raising agricultural prices closer to world market levels ... and (5) reducing subsidies both on consumption items, including food, and to producers.[12]

In the Philippine experience, creditor-imposed policies also include the liberalising of controls on imports, new taxes, higher public utility rates, wage freezes, credit squeezes, and efforts to increase foreign-exchange earnings, in particular through the expansion of exports. As summarised by one source, the principle of the conditions imposed by the International Monetary Fund is that 'the debtor country must tighten its belt so it would spend less and earn foreign exchange'.[13]

All this favours foreign creditors in particular and foreign business in general in a number of ways. Deregulation and import liberalisation leave the market wide open for penetration and inundation by foreign products. Imported apples, for example, are now on sale in most shopping areas. They are cheaper than local mangoes, which have become scarce. Privatisation drives government out of the scene, leaving the field to global concerns which are in the best position to take over even the most lucrative public corporations. Devaluation and wage freezes make Filipino labour even cheaper than before, and render transnational exports even more competitive in the global market.

No wonder foreign investors are having a heyday, at the expense of the Filipino people. The Freedom From Debt Coalition cites Central Bank data which show that from 1970-1987, more dollars were pumped out of the country in the form of profit remittances, royalties, fees, etc. than the dollars that came in as investments. In-flow totalled $2.557 billion, versus an out-flow of $3.734, resulting in a net out-flow of $1.177 billion.[14]

The Filipino elite also benefited from the debt. During the Marcos regime, there were claims that negotiators and their staff benefited from payments to make 'feasibility studies' (often with the advice of expensive foreign consultants) and to go on expensive trips abroad.

The bureaucracies and officialdom of corporate borrowers also benefited, accused by one observer in 1984 of building 'five-star staff houses, rest houses, and sports complexes all over the country; [they] acquire helicopters and charter private planes; and raise salaries to astronomical levels ...'.[15]

'Lobbyists', 'high-level fixers', and businessmen-supporters of the political elite (commonly known in the Philippines as 'cronies') benefited as they 'negotiated' with lending institutions and 'liaised' with suppliers and contractors in return for a share of the total loan. The most notorious case involving bribery was that of the Bataan nuclear power plant, where evidence compiled by a member institution of the Freedom From Debt Coalition suggests that a Marcos 'crony' (Herminio Disini) received a five per cent commission from the US corporation Westinghouse in exchange for clinching the deal. Estimates of this commission range from $55 million to $80 million.[16]

Private corporations owned by 'cronies' also benefited as they incurred loans they did not deserve, and later passed on the loans for government to assume. During the Marcos period, such 'crony corporations' had loan exposures in the hundreds of millions of dollars.[17]

It is also quite likely that corrupt Filipino officials, like their counterparts elsewhere in the Third World, siphoned out money to foreign banks, which re-lent the money to the country, only to be siphoned out again by the local elite.

The price of honour

Central Bank figures show that for 1989, the debt-service burden reached $3.116 billion, $2.217 billion for interest and $899 million for principal.[18] The World Bank estimated that total debt service for the years 1989 and 1990 would reach $7.3 billion.[19]

The Aquino administration, as mentioned earlier, has pledged to honour all the debts accumulated by the country. It has chosen a conciliatory, non-confrontational stance towards foreign creditors, preferring to renegotiate for better terms of repayment and also for more borrowings to repay old loans. It offers attractive options like debt-for-equity swaps, by which foreigners buying debt papers in dollars can convert them into pesos and buy into Filipino corporations at a huge discount.

Debt service as a percentage of the national budget rose from 24.5 per cent in 1986, the year the Aquino administration took over, to 44 per cent in 1989. Ironically, the government still follows a decree left over from the Marcos era, stipulating that national funds be automatically provided for debt service without having to be approved by the legislature. In so doing, the Aquino administration violates the 1987 Constitution that it brought into being, which specifies that Congress is the only entity which can make appropriations.

Debt negotiations have always been the responsibility of the Central Bank and the Department of Finance. The terms of such negotiations have always been shrouded in secrecy; the people who would be most affected by the outcome have always been excluded from influencing the negotiating strategy.

Invariably, the government position is circumscribed by the conditionalities imposed by creditors, principally the IMF, within the framework of 'adjustment'. Together with the stick, there is always a carrot: in the

Philippine case, the promise of 'new money' and more 'aid' in the form of such initiatives as the Philippine Aid Plan (which is described later in this chapter).

The 'Letter of Intent'

The 'Letter of Intent' (LoI), which contains a Memorandum of Economic Policy from the Philippines to the IMF, was formulated by a small group of officials with guidance from IMF officials. Issued in March 1989, it prescribes economic targets for 1989-1992, on the basis of which the government secured a new $1.3 billion loan, $1.1 billion of which will be used to repay old loans. As one source exclaimed, 'We borrow again in order to pay back what we borrowed before!'[20]

As expected, the LoI prescribed the usual adjustment formula, which consists principally of austerity measures so that the government can pay back its debt. These measures include :

- increasing taxes;
- transferring the debt of private corporations to the national government (which means that ordinary citizens will ultimately pay for it in terms of higher taxes or foregone services);
- the removal of government subsidy for and control over the price of rice;
- increasing charges exacted by public utility corporations;
- limiting government expenditure on its own employees.

These measures are fundamentally opposed to the interests and welfare of the poor, as we shall see in the next chapter.

Solita Collas-Monsod, former Economic Planning Secretary who left the government after she had unsuccessfully opposed IMF conditionalities, shed light in subsequent papers and interviews on why the government rushed into such an onerous commitment. She claimed that during her time, 'The IMF framework was unacceptable to the Philippine authorities.'[21] Its growth targets were too low, and would result in 'decreases in what were considered vital infrastructure and current expenditures'. Negotiations with the IMF were suspended but were later revived, only to culminate in the LoI.

According to Solita Monsod, the proponents of the LoI justified its hasty issue by citing Philippine arrears which might lead to the suspension of loan disbursements. They also emphasised the need to make progress towards the realisation of the Philippine Aid Plan.

The Philippine Aid Plan

The Philippine Aid Plan (PAP) is supposed to be a mechanism by which developed countries, particularly the United States and Japan, can provide economic assistance to the Philippines. Its history is linked to the negotiations on the US military bases in the country, as the Washington administration, with its huge budgetary and trade deficits, tries to share the burden of retaining these bases with others in lieu of direct compensation or rental.[22]

The PAP is based on a comprehensive country programme which contains virtually the policies and prescriptions of the World Bank and the IMF. This programme, entitled 'The Philippine Agenda for Sustained Growth and Development', served as the basis for discussion during the pledging session for the PAP which took place in Tokyo in July 1989; this session supposedly resulted in a total of $3.5 billion in grants and loans for 1989. However, Solita Monsod, former Secretary for Economic Planning, says that new pledges amount only to $251.3 million for 1989, and $986 million for 1989-1992.[23] In brief, the PAP could never be the solution to the debt problem of the Philippines.

3

What the debt means to the poor

When we talk about the poor, we are talking about at least half of the Filipino population of 62 million people. According to official data, the incidence of poverty in the population in 1988 was 49.5 per cent. This figure is based on a poverty threshold of P2,709 (£56.43), defined as the 'minimum amount of monthly income that a family of six members need to meet its nutritional requirements and other basic needs'.[1]

Government data, however, contrast sharply with unofficial sources. Many economists in the same period counted 70 per cent of the population as living in absolute poverty, meaning that they 'cannot buy for their families recommended nutrient requirements, cannot permit two changes of garments, cannot permit Grade 6 schooling for the children, cannot cover minimal costs of medical care and cannot pay for fuel and rent'.[2]

It is enough to say at this point that too many of the people are poor. Among them are farmers (upland and lowland), agricultural workers, fisherfolk, and the low-paid and marginalised sectors in the urban areas who are collectively known as the 'urban poor'. In general, there have always been more poor people in the rural areas than in the urban areas. In general, too, there are more women and female-headed households among the poor, because of their low status in society, and the commonly low remuneration for women's work.

One reason why there are so many poor Filipinos is that the rich monopolise so much of the wealth and income. The 1988 World Development Report shows that the Philippines 'has one of the most inequitable distributions of income in Asia compared to India, Indonesia, Sri Lanka, and Bangladesh'. The basis for such a conclusion is that 'The percentage share of Philippine household income for the bottom 20 per cent was pegged at 5.2 per cent in 1985', while 'the highest 10 per cent of households in the Philippines accounted for a hefty 36.4 per cent share'.[3] Figures for 1988 were about the same.

The UNICEF study on the Philippines (included in the book *Adjustment with a Human Face*) says that 'low-income families are characterized by (a) lack of productive assets or control over such assets; (b) limited use of modern technology in their production activities; (c) limited

Belinda Coote/Oxfam

Urban poverty: Barrio Simento, Davao City.

access to basic economic and social services; and (d) limited human capital'.[4]

This same study revealed some of the causes and the dynamics of poverty. Referring to the 'lack of resource base and asset control', it noted primarily the highly distorted distribution of land: fifty-two per cent of low-income families did not own the land they were cultivating, and 35 per cent cultivated farms smaller than a hectare.

Most low-income families use traditional subsistence methods of agriculture, partly because modern technology is too expensive for them. Thus 'only one-fifth have irrigated land, a little more than one-third use pesticides and fertilizers, less than a quarter use high-yielding varieties, and less than a third practise interplanting or double cropping'.

'Limited human capital', according to the UNICEF study, is manifested in lower levels of literacy and education among low-income families. The study cites the 1983 Integrated Survey of Households which shows that of those over 15 years of age among low-income families, '10 per cent did not go to school, 37 per cent had some elementary schooling, 26 per cent completed elementary schooling, and 13 per cent had attended high school'.[5] If it takes at least seven years of schooling to ensure functional literacy, then about three-quarters of the poor who did not complete the six-year elementary schooling may not really be able to read and write.

In more direct terms, how then does the debt affect the poor? First, because of the huge amount that government has to allocate for debt servicing, very little is left to provide for the needs of the poor. Working on the 1989 budget figures (43.9 per cent for debt service versus 38.7 per cent for economic and social services), one source claims 'each family loses P10,000 (about £208) worth of government services simply because of the foreign debt'.[6]

The poor use government schools and government hospitals, if they can, because they cannot afford to pay fees for private educational and medical services. In 1989, the Department of Education, Culture and Sports received only P24.675 billion (£514 million), and the Department of Health only P7.024 billion (£146 million) compared to P97.712 billion (£2.03 billion) spent on debt service.[7]

The problem, however, does not end here. Out of the allocated sums for social services, the amount that is actually spent on the poor (conservatively estimated at 50 per cent of the population), after subtracting the salaries of government personnel, as well as maintenance and other operating expenses, is only P880 per capita or P5,280 (£110) per family.[8]

This figure should be compared with what the government takes from the poor in the form of taxes (P8,000 per family),[9] much of which is exacted by government in response to debt-related financial difficulties. The system of taxation is regressive, which means that indirect taxes on goods and services (of which the poor consume more) account for a greater percentage of total taxes than taxes on income and property. The poor pay taxes every time they take a bus ride, every time they use gas to cook a meal, and every time they see a movie.

These taxes are in compliance with the provisions of the 1989 Letter of Intent (LoI), which endorses the government's economic policies in response to conditions imposed by the IMF. The LoI seeks to raise revenue collection by P25.9 billion, not only through new taxes but also by increasing charges for services provided by government corporations, which means higher electricity, water and port rates, which the poor also pay for.

L Freeby/Oxfam

Family shoe-repair stall in Manila.

The poor are affected by IMF-imposed policies in other ways, too. The removal of government subsidy on and control over the price of rice has already resulted in a steep price rise. Filipino families who rely on rice to provide the bulk of their meagre diet now face the prospect of increasing hunger. The rapid devaluation of the peso against the US dollar means a drastic rise in the prices of imports, primarily oil, industrial raw materials, and equipment. This drives up the cost of transportation and basic goods.

With devaluation and the resultant inflation, the purchasing power of the poor is fast decreasing. Whatever increase in pay or income they manage to win through concerted effort is seldom sufficient even to regain what they have lost. Workers who are unorganised, unheard, and invisible, many of them women and children, have to make do with stagnant earnings while prices escalate.

Out of desperation, many Filipinos, conservatively estimated at one and a half million, now work overseas, where they can earn dollar incomes many times the maximum they could get were they to remain at home. With the estimated $2.5 billion they remit annually, they are, in a very real sense, the ones paying for the country's debt.