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The combination of trade protection, investment incentives, and domestic growth propelled by investment and construction took its toll on Philippine industry. Output shifted toward more capital-intensive, lower productivity industries, limiting the growth that the Philippines got out of its investment and foreign borrowing. But these industries were also dependent on the continued momentum of borrowing and investment and proved extremely vulnerable to the recession of the early 1980s. The sharp declines in many of these industries worsened the recession in the early 1980s, and many of these firms ended up in the hands of the government, either through rescue operations or the assumption of guaranteed external loan obligations.

4 Government Interventions and Rent Seeking

In the popular imagination the legacy of the Marcos administration was the accumulation of vast wealth by Ferdinand Marcos, his family members, and various individuals, or "cronies," who were closely associated with him. Corruption and the accumulation of wealth through government did not originate with Marcos, nor was it unusual in the Philippines as opposed to other countries in or outside the region. But the scale on which corruption and the generation of rents took place in the Philippines under Marcos was at a qualitatively different level. What observers in the Philippines referred to as crony capitalism, and what less charitable observers outside the country referred to as "government by kleptocracy," was of such a scale as to have macroeconomic consequences, and plays its own important role in the slide of the Philippines into crisis.

The use of government power to generate and distribute wealth, what economists have termed "government rent seeking" had three critical consequences. First, quasi-governmental control and monopolization of the two principal commodity export crops, sugar and coconuts, was responsible for much of the sluggish growth of traditional and total exports. Second, the particularistic way in which the government issued regulations and granted access to credit to favored firms and the way in which crony business empires were built weakened and demoralized the private, nonassociated business sector and encouraged capital flight. Finally, when the crony empires dissolved in the 1980s, the government was left with a huge burden of failed assets, called loan guarantees, and unmet domestic payment obligations, creating a fiscal problem of major dimensions. We start our story with two of the most insidious interventions, those in sugar and coconuts.

4.1 Government Interventions in Sugar and Coconuts

The exports of the Philippines have historically been dominated by coconut and sugar products, although logs and lumber were very important during the 1960s. Coconuts and sugar accounted for about three-fifths of total exports during the 1950s and about one-half during the 1960s. Their export share dropped, however, to one-third by the late 1970s and to about one-fifth by the early 1980s. This drop was partly a consequence of the sharp rise of nontraditional manufactured exports during the period, but also reflected sluggish growth in output and weak international prices for the two crops. Both industries had grown rapidly in the ten years before martial law, and there were optimistic projections and investment commitments in both sectors. But the world market turned out to be far less favorable than foreseen, forcing severe problems in each industry. In addition, the organization and trading arrangements changed decisively during martial law, in ways that weakened both sectors and impeded adjustment.

4.1.1 Sugar

Before the 1970s, the sugar industry benefitted enormously from its access to the protected U.S. market, which offered prices substantially higher than the world market. The absence of export taxation in the Philippines meant that much of the U.S. sugar price premium was captured by Philippine producers. Government involvement in the industry was limited to the allocation of the quota for export to the United States, although the Philippine government forced sugar producers to satisfy a domestic sales requirement in order to export, and this kept domestic prices below the U.S. level.

Because of the privileged access to the U.S. market, the small number of sugar producers, and the highly skewed distribution of sugar land ownership, several sugar planters and millers became enormously rich. Using their wealth, they also diversified into other areas of the Philippine economy. Their economic prominence translated into political influence and, for a few of them, tremendous political clout during the pre–martial law days. They formed part of what Marcos called the Philippine oligarchy, who he attacked shortly after the martial law declaration and tried to replace with his own cronies. The conflict within the ruling elite provided the sociopolitical subtext to the government interventions in the economy in general and in the sugar industry in particular during the 1970s.

Two events in the early 1960s greatly benefitted the Philippine sugar industry. The first was the devaluation and import decontrol that took place between 1960 and 1962, which shifted price incentives in favor of the export sector. The second was the suspension of Cuba's quota for sugar exports to the U.S. market after Castro nationalized the industry in 1960, and its assignment to other producing countries.[1]

Philippine land area planted to sugar increased by 80 percent between 1960 and 1972. The Philippine government also supported the expansion of sugar milling capacity through financial support from the Philippine National Bank. The number of operating sugar mills rose by 40 percent between 1967 and 1974.

The 1970s began a period of upheaval for the industry. During the commodities boom of the early 1970s the world price of sugar rose sharply from under 7 cents to over 30 cents a pound in 1974. As important for the Philippines was that the world market price rose above the controlled price in the U.S. market. During that year, the U.S. Congress failed to renew the Sugar Act of 1948 and the U.S. quota system came to an end.

The termination of the U.S. sugar import quota forced the Philippine sugar industry to operate within a far more volatile world market. The price of sugar declined dramatically in 1975 and 1976, rose sharply in 1980, and then declined precipitously during the early 1980s. Beyond the volatility in prices, developments in the world sugar market during the latter 1970s and early 1980s tended to depress the secular trend in world sugar prices. These included the decline in per capita sugar consumption in a number of developed countries, the significant inroads into the sweetener market, particularly for industrial purposes, of sugar substitutes such as high fructose corn syrup, the substantial productivity improvements in sugar beet production, and European Economic Community price support policy which turned the EC into a net sugar exporter.[2]

In order to capture some of the windfall from the 1970 devaluation, the Philippine government imposed export taxes on commodity exports, with the highest rates on sugar, copra, and log exports. In 1974 the government imposed premium taxes on sugar and other commodity exports to capture some of the international commodity price rise. Government control of sugar trading started that year when, after the increase in world sugar prices and the growing scarcity of sugar in the domestic market, the government ordered PNB, the major financier of the sugar industry through crop loans to planters and investment loans to millers, to purchase the sugar crop. The bank's subsidiary, the Philippine Exchange Company (PHILEX), was given responsibility for all sugar exporting.

The rationale behind the takeover of sugar trading was to stabilize domestic sugar prices and prevent private hoarding. It drew on the historical bias in the Philippines against middlemen (who tended to be Chinese Filipinos) in the agriculture sector and the popular feeling that profits from agriculture had often gone to the "monopolistic" traders and not to the farmers. In taking over sugar trading the government declared its "single agency" concept, wherein a single trading agency would replace "a system of excessive dependence on individual selling efforts, coursed traditionally through brokers or middlemen [in order to have] better control of supply and more efficient marketing (Marcos 1979, 114–15).

The decision enabled PNB to capture large rents from the export price surge of 1974, since the prices paid to farmers were substantially below prices realized from sugar sales. At this point PHILEX overreached itself. Expecting a continued rise in world sugar prices, the agency held back its sales from the world market, accumulating inventories in the Philippines. When world prices dropped, PHILEX was forced to sell the already deteriorating stocks of sugar at a substantial loss in 1977. And, in order to maintain the domestic purchase price, PHILEX was forced to borrow heavily.

In 1977 control over sugar trading was transferred from PNB to the recently created Philippine Sugar Commission (Philsucom) headed by Roberto Benedicto, a fraternity brother of Marcos' from his law school days.[3] The trading arm of Philsucom, the National Sugar Trading Corporation (NASUTRA), was given sole authority to trade sugar domestically and internationally, as well as to set purchase prices for milled and unmilled sugar. Under Philsucom's direction, the Republic Planters Bank, controlled by Benedicto, became the principal private financial institution for the sugar industry.

Although the government takeover of sugar trading had ostensibly been undertaken to limit monopoly rents in the industry, it in fact substituted its own monopoly for the one that had allegedly existed before. The net effect of the government's direct interventions in the sugar industry during the 1970s and early 1980s was that the price that sugar producers received declined as a share of the world market price. Before 1974 the domestic sugar producers received a price for sugar roughly 60 percent higher than the world market price, due to premium enjoyed under the U.S. sugar import program. Although domestic sales, accounting for about 35 percent of Philippine production, were below the U.S. price, they still were higher than the world market price.

After 1974 there was a dramatic shift toward effective taxation of the sugar industry. Retail prices of sugar were highly visible and politically sensitive, and the Philippine government sought to keep them below world market levels. During the 1974–82 period, domestic prices for sugar averaged only 69 percent of world market prices (Nelson and Agcaoili 1983, 23). In addition, prices paid by NASUTRA were in most years well below realized prices on the agency's international sales. A University of the Philippines workshop study estimated that the difference amounted to P. 5.4 billion between 1974 and 1984, or 17 percent of the revenue that NASUTRA realized.[4] If we use the International Sugar Agreement price as the relevant border price for the Philippines, there was a net income transfer to the sugar farmers averaging 38 percent of the value of output during 1960–71; during 1972–82 there was a net income loss to sugar farmers averaging 30 percent (table 4.1).

NASUTRA and its parent agency, Philsucom, expanded the government's reach in the sugar industry by acquiring and operating the leading enterprises

Table 4.1 Nominal Rate of Protection and Transfers: Sugar

	Nominal Rate of Protection (%)		Transfers[a] (P. million)		Ratio of Transfer to Value of Output (%)	
Year	ISA	XUP	ISA	XUP	ISA	XUP
1960–64[b]	57	-9	44.9	-60.2	18.0	-10.8
1965–69[b]	170	-17	475.9	-132.1	61.5	-18.2
1970	49	-24	458.0	-437.2	32.4	-30.9
1971	35	-20	411.4	-411.4	25.6	-25.6
1972	-8	-18	-195.6	-434.6	-9.7	-21.5
1973	-27	-24	-909.4	-761.9	-38.1	-32.0
1974	-63	-52	-6,576.7	-4,185.2	-161.1	-106.3
1975	-36	-55	-3,146.1	-6,685.4	-56.9	-120.8
1976	-5	-21	-255.8	-1,278.9	-5.3	-26.3
1977	10	-19	303.3	-808.9	8.7	-23.2
1978	18	7	497.0	3.0	4.8	6.3
1979	22	37	773.7	48.9	18.1	26.9
1980	-54	-23	-5,801.9	-1,498.0	-117.9	-30.4
1981	-18	-37	-1,266.6	-3,217.5	-22.3	-58.5
1982	73	-7	2,789.3	-532.5	42.2	-8.1

Source: Intal and Power (1987).

[a]Transfers are equal to the difference between the actual price received by the producer and the border price, multiplied by the volume of output.

[b]Annual averages.

ISA = border price based on the International Sugar Agreement daily price.
XUP = export unit value.

in transport, bulk storage, and handling of sugar and sugarcane, and by establishing new sugar refineries and operating sugar centrals (Intal and Power 1987, 47–48).

The construction of sugar mills was a source of corruption and wealth generation. Before the declaration of martial law, a Senate Blue Ribbon Committee challenged the Marcos government on the construction of sugar mills by Japanese firms that had no previous experience in mill construction, and the fact that the cost of these mills substantially exceeded the cost of construction of mills of equivalent capacity in other countries (Canlas et al. 1984, 88). Despite the crisis due to mounting sugar inventories in 1975 and 1976 and problems already existing from excess milling capacity, the Philippine government allowed the establishment of new sugar centrals by politically favored individuals, including the country's sugar administrator, Roberto Benedicto. The profits in these sugar mills usually occurred during their construction through overpricing of the project accompanied by kickbacks (Wideman 1976, 54–55). The investments in turn were financed by loans or guarantees from PNB.

During the period after 1974, productivity in the domestic sugar industry stagnated. Output growth during the 1960s and 1970s was through extensive means—expansion in sugar hectarage and the establishment of sugar mills.

As sugar growing was extended to less suitable land, the growth in output was accompanied by a decline in sugar yield per hectare. It was only with the reduction in sugar hectarage during the late 1970s and early 1980s that there was some improvement in farm productivity; nonetheless, farm productivity and processing efficiency during the late 1970s and early 1980s remained below that of the early 1960s.

After four years of low levels, world sugar prices jumped sharply in 1980, leading to a dramatic recovery in the Philippine sugar industry. At the height of the price cycle, NASUTRA signed contracts to deliver 565,000 tons of sugar per year (about half of Philippine exports) between 1981 and 1984, at a price of 23.5 cents per pound. This proved to be a particularly fortunate move, as world prices plummeted in the 1980s, dropping to just over 5 cents per pound in 1984. In 1981, the United States reinstated its sugar import quota, giving the Philippines a quota of 342,000 tons for the 1982 crop year.

Production costs in the Philippines have been estimated to be 14–15 cents per pound, well above the world market price in the 1980s. The combination of the long-term contracts signed by NASUTRA and U.S. quota sales at about 18 cents per pound sustained the industry in the early years of the decade. But the U.S. import quota shrank significantly in succeeding crop years, and the long-term contracts NASUTRA had signed expired in 1984. The next year was a particularly disastrous one. World sugar prices fell further, and Philippine production fell by 16 percent. NASUTRA was unable to maintain the domestic producer support price for sugar and failed to pay many producers for the 1985 crop year. This in turn led to a collapse in the sugar industry support system and widespread malnutrition in some sugar producing areas such as Negros Occidental. In 1986 the Philippine sugar crop fell precipitously to a level of 35 percent below that of 1984. The Philippines was forced to import sugar in order to meet its (now much smaller) U.S. import quota.

The troubles of the Philippine sugar industry reflect in part the adjustment problems of an increasingly less efficient producer, which no longer had privileged access to a large and protected export market. However, the nature of the government interventions and the manner of their implementation aggravated the structural adjustment problems of the Philippine sugar industry. The failure of the Philippine government in its interventions in the sugar industry during the 1970s was due fundamentally to its focus on the control of the sugar trade and on industry expansion, rather than on industry rationalization and an increase in farm productivity, processing efficiency, and crop or product diversification. The bullish government assumption about the long-term trends in the world sugar market proved to be far too optimistic. What aggravated the adjustment problem in the Philippine sugar industry was that the two government interventions provided opportunities for rent seeking and political control. The PHILEX price speculation fiasco, export taxation, and the relative inefficiency of the marketing operations of

the government sugar trading agency exacted a heavy burden on the sugar producers.

4.1.2 Coconuts

Government intervention in coconut pricing and marketing has been significant only since the 1970s. Nonetheless, the interventions have been more controversial than those in the sugar industry for several reasons. First, the interventions affected a much larger proportion of Filipino farmers than the interventions in sugar. Despite the historical prominence of sugar in Philippine public policy, sugar farms account for only about 1 percent of the total number of farms and about 4 percent of the total farm area. In contrast, coconut farms account for nearly one-fifth of all farms and nearly one-quarter of farm area. Second, the interventions created a parastatal but legally private bureaucracy that disposed of large funds and was outside the purview of government auditing regulations. Finally, although designed to make long-term investments and assist in restructuring and crop replanting in the industry, the funds collected were used to effect the vertical integration of the coconut industry, to establish monopoly control, and ultimately to enrich the Philippine defense minister and a crony of the Marcos government.

Government intervention in the coconut industry came initially out of pressure from the Coconut Producers Federation (COCOFED), the largest organization of planters. COCOFED pressed for and got the Philippine Congress to pass Republic Act 6260 in 1971 creating the Coconut Investment Fund and the Coconut Investment Company to administer it. The aims of the Coconut Investment Fund were to establish regional banks in partnership with the farmers and the central bank, to mobilize bank loans for long-term investment in coconut marketing and processing, and to encourage manpower development (ILMS 1981). In the vertical integration program pushed by COCOFED, the farmers would gain control of the trading and processing subsectors of the coconut industry. The Coconut Investment Company was to be funded from a small levy on the first sale of copra, and a part of the levy was to go to the support of the federation as the primary representative of the industry.

The proposals of COCOFED were essentially reactions to the apparent neglect of the sector by the government and antipathy toward the middlemen who controlled processing and marketing. Before the 1970s, the government barely acknowledged the coconut industry and did not try to promote coconut exports, nor were there programs of research or agricultural extension in the industry. In addition, a substantial share of copra financing and trading and coconut oil manufacturing was controlled by Chinese Filipinos and foreigners. The later interventions in the industry were able to draw on sentiment against these two groups; the use of the coconut levy during the 1970s to establish a bank, buy coconut mills, and establish

coconut marketing centers were efforts at "de-alienization" of the coconut trading and processing sectors (Intal and Power 1987).

The next initiative came from the martial law government in 1973. Early in the year the government had established the Philippine Coconut Authority to implement policy in the industry. A small crop in the Philippines and for other coconut producers led to a shortage of copra and high world prices. The sharp rise in the world price of coconut oil led to domestic scarcity of coconut oil, resulting in acute shortages of cooking oil, laundry soap, margarine, and other coconut-based consumer products. In response, the government imposed price controls on domestic coconut-based products and created the Coconut Consumer Stabilization Fund (CCSF), which the Coconut Authority used to compensate product manufacturers who were caught between spiralling input costs and the price ceilings imposed by the Price Control Council. The CCSF was funded through a levy of 150 pesos per metric ton, or roughly 12 percent of world prices. Although the stabilization fund was supposed to be a temporary measure, its aims and those of the Coconut Investment Fund were merged in 1974 by a presidential decree that allowed the stabilization fund to set aside part of its revenues to fund investment, extension, and research and development in the industry. Later in 1974 a second presidential decree created the Coconut Industry Development Fund, to be funded out of the accumulated levies of the stabilization fund as well as the levy on copra sales, now raised to 200 pesos per metric ton. One of the first acts of the development fund was to finance the establishment and operation of a new hybrid coconut seednut farm, which grew a higher-yielding Malaysian/Ivory Coast variety, and was owned by Eduardo Cojuangco. The seednut farm was to be the basis of a long-term replanting program for the industry.

In December 1974 the Philippine Coconut Authority's governing board was reorganized and was now made up of the chairman and president of PNB and five members from COCOFED. In 1975 the Authority approved the use of funds collected from levies on coconut sales to purchase a bank, to be owned by the farmers, that would provide finance to the coconut industry. The Coconut Authority bought the major interest in the ailing First United Bank, which was renamed the United Coconut Planters Bank (UCPB). The bank's president was Eduardo Cojuangco, who also had a 7 percent ownership share, and its board chairman was Juan Ponce Enrile, Marcos' defense minister. The accumulated funds of the stabilization fund and half the collections from the investment fund were deposited in UCPB without interest, spurring rapid growth of the bank.

A presidential decree announced in 1978 allowed the COCOFED and UCPB to use the funds from the coconut levies to make investments in coconut milling and to purchase existing mills on behalf of the coconut farmers. After several mills had been acquired, UCPB organized the United Coconut Oil Mills (UNICOM) in 1979, which became the vehicle for

downstream investment from the coconut levy funds. The bargaining position of UCPB and UNICOM in negotiations for the purchase of existing mills was strengthened by a presidential decree which limited price subsidy restitution payments to mills "owned by the farmers" (Hawes 1987, 72–73). The effort to purchase oil mills also gained from the severe financial losses experienced by many millers in 1979, when a fall in copra production pushed the capacity utilization rate of oil mills below 50 percent. By 1980 UNICOM owned thirteen coconut oil mills representing 80 percent of the country's coconut oil milling capacity, and managed two more, bringing its total to over 90 percent (Ocampo 1980, 45).

The taxation of coconut production and the control that UNICOM exerted over coconut milling created tremendous opportunities for siphoning off income from the industry. Despite the number of agencies involved, actual control of the industry was vested in very few people. One of the directors of COCOFED, Eduardo Cojuangco, was also head of the Philippine Coconut Authority, president of UCPB and UNICOM, as well as owner of the hybrid seednut farm. The collections under the Coconut Consumers Stabilization Fund and the Coconut Industry Development Fund were never subject to audit. One study done by the Philippine planning ministry, NEDA, put the total levy collections at P. 10 billion (about $1 billion at 1982 exchange rates), of which only P. 2.1 billion was spent to reimburse coconut products producers (NEDA 1985, IV-48). A life insurance scheme and a variety of scholarship and other assistance funds were set up for coconut farmers and their families, but actual disbursements under these programs were very small. The bulk of the funds went to Cojuangco's hybrid seednut farm, making him the richest crony in the Philippines.

In addition to the taxes that were levied on coconut producers, the control that UNICOM established over coconut oil milling and the restrictions that the Philippine government placed on direct export of copra created a monopsony buyer of copra within the Philippines, further depressing the returns that coconut farmers got from their crop. UNICOM appears to have paid between 9 and 15 percent below the price it would have paid under competitive conditions for copra supplies (Clarete and Roumasset 1983, 34). The power that UNICOM exercised over the industry was demonstrated in 1981 when the coconut levy was suspended at the insistence of Finance Minister Cesar Virata. UNICOM refused to buy copra or sell coconut oil and within five days Marcos restored the levy.[5]

As a result of the levies and the control over processing facilities, the effective taxation of coconut producers increased dramatically during martial law. The combined effects of the levy and purchase arrangements on the incomes of coconut farmers have been estimated by Intal and Power (1987) and are shown in table 4.2. The domestic copra producer price as a percent of the border price decreased during the 1960s and fell precipitously after 1979. Transfers from (forgone income of) coconut farmers averaged 5

Table 4.2 **Nominal Protection Rate and Transfers: Coconuts**

Year	Nominal Rate of Protection (%)	Transfers[a] (P. million)	Share of Transfers to Total Value of Output (%)
1960–64[b]	1.8	−1.5	1.1
1965–69[b]	−4.2	−37.4	−4.6
1970	−20	−315.7	−24.3
1971	−11	−164.6	−12.7
1972	−16	−185.9	−19.2
1973	9	185.4	7.9
1974	−18	−914.5	−21.7
1975	−33	−911.8	−49.4
1976	−5	−125.1	−5.1
1977	−24	−1,264.5	−32.1
1978	−14	−913.7	−15.8
1979	0	−33.8	−0.3
1980	−40	−3,217.5	−67.7
1981	−34	−2,208.5	−50.4
1982	−35	−2,083.0	−54.6

Source: Intal and Power (1987).

[a]Transfers are equal to the difference between the actual price received by the producer and the border price, adjusted to the farm level, multiplied by the volume of output.

[b]Annual averages.

percent during 1961–71, 19 percent during 1972–78, and 43 percent during 1979–82.

As in the case of sugar, the coconut industry was hampered by low productivity growth and the absence of additional lands to open up for cultivation. Yields per hectare declined during the 1960s and rose only modestly during the 1970s, despite higher world prices for coconut products.[6] At the same time that the rate of effective taxation increased in the 1980s, average yields dropped significantly, and by 1984–85 total production of coconuts was 32 percent below its 1978–80 average.[7] Philippine coconut yields have been hampered by the growing senility of the stock of bearing trees, a problem that the replanting program was supposed to address.[8] In more general terms, the world market for coconut oil, the major product, weakened as a result of competition from soybean oil and palm oil.[9] In this second instance, the Philippine government increased its taxation of a sector whose external terms of trade had deteriorated.

4.2 Crony Capitalism and Rent Seeking

The use of government power to distribute wealth went well beyond the traditional agricultural sector. The 1970s saw the virtual institutionalization of cronyism and rent seeking in the Philippines. While the associates of Marcos and the extent of their business operations were reasonably well

known, evidence that has come to light since the overthrow of the Marcos government reveals how extensive the interests of the first family and their relatives were in the operations of crony firms, and the extent to which they also gained from the associates they fostered.

Underpinning cronyism and rent seeking during the 1970s were the centralization of economic decision making and the distortion of policies to suit particular firms or individuals. Under martial law, Marcos had almost unlimited discretionary power. Legislation could be accomplished through presidential decree; in many instances this was nothing more than a scribbled acquiesence and signature on a request that had been sent to the president. In some cases decrees were not made public until well after their issuance.[10] Access to Marcos became the ultimate determinant of policy; often policies that had been established by the ministries, with Marcos' concurrence, were overruled by a later presidential decree.[11]

The dramatis personae of Philippine cronyism during the 1970s have become internationally known, particularly since the fall of Marcos from power in 1986. Apart from Ferdinand and Imelda Marcos themselves (who, as recent revelations show, extensively used cronies as agents), the most well known include Roberto Benedicto (Marcos' sugar czar), Benjamin and Alfredo Romualdez (Mrs. Marcos' brothers), Herminio Disini, Rodolfo Cuenca, Ricardo Silverio, Antonio Floirendo, and Eduardo Cojuangco. A few others, such as Jose Campos, acted as agents for the Marcos family.

The use of government power to marshal and distribute wealth worked in several ways. The first might be termed standard graft—the allocation of government contracts and access to credit from public financial institutions to favored individuals in return for some interest or kickback from the operations. While this was certainly not unusual to the Marcos administration, the growth of the economy during the 1970s and the rapid expansion of the public sector increased the possibilities from this source. Thus for example, the Construction and Development Corporation of the Philippines (CDCP), run by Rodolfo Cuenca, received most of the public works and large construction projects of the martial law government. Roberto Benedicto's firm, Integral Factors Corporation, became the exclusive agent of the Government Service Insurance System (GSIS) and had a virtual monopoly as the insurance broker for government properties. Jose Campos was granted the exclusive contract to provide all medical supplies to the Ministry of Health.

The generation of rent through kickbacks on overpriced projects and contracts was not uncommon before the 1970s, but the magnitude increased substantially during the 1970s. The best known and most controversial case was the Bataan nuclear power plant project. Marcos chose the more expensive Westinghouse proposal brokered by Herminio Disini which gave Disini, and allegedly the Marcos family, substantial commissions, as well as the additional subcontracts in the construction of the plant that Disini also

received. A recent report detailed the process of siphoning off Japanese aid "in the form of commissions or rebates from the purchase of equipment as well as technical and advisory fees for the implementation of development projects funded by yen credits from Japan's OECF."[12] The same report indicates that the actual prioritization of development projects funded with Japanese aid depended in part on the willingness of the Japanese companies implementing the projects to either pad costs or reduce profit margins, with the difference being remitted to the agents of the top Philippine government officials. Rent seeking through the overpricing of contracts is illustrated by the commission fee of 7.5 percent of the cost of shipment—instead of the standard 2.5 percent broker's fee—charged against the Philippine National Oil Company (PNOC) on its oil importations, with the proceeds from the difference allegedly going to the foreign bank accounts of the top PNOC official (Veloso 1986). Similarly, the typical procedure in sugar mill investments was that the foreign supplier would price the investment package to include an allowance for kickbacks to the Filipino proponents and/or government officials. These investments in turn were financed primarily by loans granted or guaranteed by PNB (Wideman 1976). Wideman quotes a senior Japanese government official that Japanese businessmen in the Philippines spent on average 12 percent of contract prices on kickbacks (1976, 55).

Historically, access to credit at below market rates was one of the spoils of government office in the Philippines. This continued under martial law, but the extent of foreign borrowing that took place and the expansion in size of government financial institutions and financial institutions associated with the government, greatly increased the resources available through this source. The two major government financial institutions, PNB and DBP, were heavily tapped by the cronies. "Behest loans," loans granted at the request of the government or its agencies, dominated the loan portfolios of the two banks. In principle, behest loans were supposed to reflect the government's priority areas where investors were given implicit interest rate subsidy given the lower interest rate charged by PNB and DBP relative to the prevailing market rate. Apart from the Marinduque Mining Corporation which was the largest borrower, the major borrowers from PNB were Benedicto, Silverio, and Cuenca (Quiambao 1986). The loan portfolio of DBP is less concentrated than PNB's; nonetheless, apart from mining and cement firms, firms of cronies like Cuena, Disini, Benedicto, and Dewey Dee and relatives like the Martels figured prominently among the major borrowers (Tengco 1983).

The result was that profits in many of the investment projects undertaken during the Marcos years were made at the investment and construction stage and not from the profitable operation of the facilities constructed. Public loans, or publicly guaranteed loans, removed the financial discipline in initiating and operating investment projects. This encouraged shoddy

construction, as in the case of the nuclear power plant, and in some cases the substitution of used equipment when new had been paid for. It also removed much of the market discipline, and led to overinvestment and excess capacity in such assets as hotels, sugar mills, and cement plants.

But cronyism in the Philippines went well beyond the simple graft described above. Much of the generation and distribution of rents was done through the creation of monopoly positions or through differential and particularistic application of the law and regulation. The martial law period saw extensive interventions of this type. The monopoly positions created in the sugar and coconut industries were two of the most important, however, there were many other instances of government-mandated monopolies which generated rents for cronies or relatives. One of the most lucrative was the gambling monopoly, especially the profitable casinos and jai alai stadium, granted to Benjamin Romualdez. Rodolfo Cuenca's Galleon Shipping Corporation was the only Philippine flag carrier permitted to operate container ships from America's West Coast to the Philippines. A monopoly on meat importation from Australia and New Zealand was given to a private group which worked along with the Bureau of Animal Industries. The coconut-chemical plant set up by Cojuangco was given the sole right to import alkyl benzene, an input in making detergents, as well as the exclusive right to import products that would compete with the plant's output. In another example of a firm being given exclusive rights to import the competing product, Peroxide Philippines was the only firm allowed to import peroxide (Sicat 1986, 29, 31; Canlas et al. 1984, 74). In some instances these monopolies were exercised directly by government agencies—the National Grains Authority, later renamed the National Food Authority, was given exclusive rights in wheat importation and domestic flour distribution (Sicat 1986, 23–25). Even Imelda Marcos' Cultural Center of the Philippines earned substantial income as the country's sole distributor of pornographic movies.

In other instances, exemptions from taxes or duties or other differential application of the law created competitive advantages that conferred substantial benefits and, in some cases, monopolies, to the receiving firm. For example, Disini's flagship firm became the largest and dominant seller of cigarette filters in the country when the government set a tariff rate of 100 percent on the raw material imports of competing foreign-owned firms, while Disini's firm faced a tariff rate of only 10 percent (Sacerdoti 1983, 50). One of the reasons for the emergence of Ricardo Silverio's firm, the Delta Motors Corporation, the sole assembler and distributor of Toyota automobiles in the Philippines, as the industry leader was that competing car assembly firms were allowed to offset through their exports of manufactured components only 15 percent of the local-content requirement for cars assembled and sold in the country, while Silverio's firm was exempted from the rule (McDougald 1987, 211). Roberto Benedicto's firm, Nivico, was

allowed tax free importation of unassembled black and white TV sets, ostensibly for distribution to the rural population; however, Nivico's television sets were readily available in Manila. Antonio Floirendo's fast rise to fortune occurred when his firm, TADECO, was able to secure the use of large tracts of land that were ideal for bananas from the Davao Penal Colony. As part of the plantation development agreement with the penal colony, Floirendo's firm hired live-out prisoners who were paid much less than the prevailing wage rate (David, Barker, and Palacpac 1984).

During the martial law years the distinction between public policy and private action for economic gain was often blurred. The case of the Bataan Shipyard and Engineering Company (BASECO) serves as an illustration.[13] BASECO, a private corporation, was an offshoot of the president's directive to privatize the ship repair and building industry as part of the national policy of relying on private enterprise as a catalyst for development. BASECO acquired, although never paid for, the assets of a government firm, the National Shipyard and Steel Corporation. A presidential decree required the government's Maritime Industry Authority to draw up a shipbuilding program which, a confidential memorandum to the president from his brother-in-law stated, "would then be a source of ship orders for BASECO" (Espinosa 1986, 6). And BASECO did land millions of pesos worth of contracts with the Bureau of Public Works and the Philippine Navy. Marcos took a special interest in the corporation; he transferred the title for Engineering Island from the National Development Corporation to BASECO and ordered the Bureau of Public Works to improve the facilities at Engineering Island and Mariveles. He also intervened in BASECO's application for loans. The investigation by the Presidential Commission on Good Government (PCGG), established by Corazon Aquino in 1986, explains Marcos' active interventions: the firm was probably owned by him, and the published owners were largely front men.

The use of government power to effect the transfer of assets from private titleholders to members of the Marcos "inner circle" at minimal or no cost was also a characteristic of crony capitalism. This included the forced sales of assets that were justified as ways to weaken the country's oligarchs, but were as much matters of personal vengeance. This is best exemplified by the case of the Lopez family, whose controlling interests in the Manila Electric Company and newspaper publishing facilities were taken over by Benjamin Romualdez, and whose radio and television facilities were turned over to Roberto Benedicto.[14] Another prominent businessman who stood up to Marcos, Fernando Jacinto, had his business in steel smelting and processing (which had substantial government exposure) effectively nationalized and managed by military officers (Mijares 1976, 192). Various methods were used to effect asset transfer including: (1) the automatic foreclosure of mortgages on properties used as collateral in obtaining loans from government financing institutions; (2) the granting of equity shares to

Marcos or his cronies by businesses in undertakings requiring presidential approval; and (3) the setting aside of public lands for the ownership and business use of favored individuals (193–95).

The business empires of the most prominent cronies were built through acquisitions of existing firms. In many cases, these sales were less than voluntary and occurred at below market prices, since Marcos, and cronies acting with his support, could bring substantial pressure to bear. In the case of a utility company, it might be the assurance that no rate increases would be forthcoming for the existing owners; in others, the firms would be threatened with labor troubles or closure for health and sanitary reasons. And in some cases, the recognition that government policy was skewed in favor of certain firms in the industry would cause existing firms to sell out, hoping to salvage some of the value of their assets by selling early.

The rise of the cronies took place in a very short time, a period of just four to six years. With access to credit and the backing of the government, their business organizations expanded extremely rapidly in nearly all sectors of the economy. Cronies controlled wholly or owned a substantial share of businesses in such areas as agricultural export (sugar and coconut milling and trading, bananas), banking and finance, broadcasting and print media, construction, communications, car and truck manufacturing and distribution, gambling, mining, logging, electricity generation and distribution, pharmaceuticals, transportation, tobacco and beverages, real estate, machinery distribution, shipping and ship repair, and oil and coal exploration. Among the major cronies and relatives, Eduardo Cojuangco controlled or had substantial shares in around seventy firms, and Roberto Benedicto in some fifty firms. Benjamin Romualdez controlled or had substantial shares in around fifty firms, and Herminio Disini in fifty-one firms.[15]

None of these practices outlined above were unique to the Philippines. Government corruption and favoritism, kickbacks from investment projects, grants of exclusive privilege, and pressure on asset holders to sell out to firms close to the current government, have all been features at various times of other countries. These practices were more extensive and more remunerative in the Philippines than elsewhere. But there still remains the question of why these practices seemed to have had such a debilitating effect on the Philippine economy, given their existence in other, more successful, economies. In fact, maintenance of below market interest rates, the allocation of bank credit to favored firms, and the encouragement of business concentration have been features in some of the most successful economies in the region. Arguably, crony capitalism was little different from the growth of *zaibatsu* in interwar Japan and the growth of the *chaebol* in postwar Korea. In those two countries economic concentration and government intervention on behalf of favored firms appear to have been powerful engines of growth, if not of economic equality. This was in fact the way in which the crony system was justified in the Philippines on the few occasions when the Marcos government was challenged on the issue of favoritism. The cronies,

the government explained, were an energetic and entrepreneurial group that would do for the Philippines what similar industrialists had done in Korea and Japan.[16]

There were numerous differences between the Philippine experience with industrial concentration and that of Japan and Korea, but what was most fundamental was the inability to maintain and foster market competition. In both Japan and Korea there was a substantial degree of overlap in the industrial base of the large industrial groupings, so that in most markets there were several firms, each from a different industrial group. It was true that credit, foreign exchange, allowable investment, and other opportunities were channeled to firms in the large groups, but the amounts were primarily determined on a performance basis. Those firms that were the most successful exporters or who had the largest share of a particular market were rewarded with the largest allocation. While there was an ethos of fostering national firms, there were limits on the amount of discretion that bureaucrats could exercise and rarely, if ever, were individual firms or groups given a particular benefit at the expense of the others. Exporting was a priority in both Japan and Korea, each maintained relatively open trading systems, and there was little that the government could do explicitly to assure the financial success of a firm in the export market.

In the Philippines, in contrast, there was a far greater degree of governmental discretion, as well as extensive application of the law and regulation in particularistic form. Almost anything could be arranged by presidential decree, and the president in many cases had a direct financial interest in the success of particular ventures. Unlike in Korea and Japan, there was little or no industrial overlap among crony enterprises; individual monopoly positions were created and awarded to single firms. Thus, there was little competition in individual industries.[17]

Finally, the Philippine trading system was less open than that of Japan or Korea, and the country was less successful in channeling entrepreneurship into the export sector. Philippine cronies tended to focus their energies in nontraded goods sectors and the more protected industries. Among nontraded goods industries, the cronies had prominent shares in power, communications, construction, finance, transportation, and distribution services. They also had large shares in heavily protected industries such as automobile assembly and chemicals. The cronies were involved in export industries, but primarily in rent-gathering resource activities such as logging, mining rights, and control of sugar and coconut trading and processing.

Because the nontradable sector tends to grow only in response to growth in national income, crony enterprise growth took place through the acquisition of existing firms rather than the establishment of new ones, and since the domestic market was protected from competition, income was almost assured from the exercise of monopoly positions.[18] Thus the emphasis of the crony entrepreneurs was on the appropriation of rents rather than the generation of profits. Growth and efficient operation of firms was a

less attractive way to wealth than was extraction of surplus from the existing economy.

By the end of the 1970s the scale of government favoritism and cronyism in the Philippines was such as to constitute a serious drag on the domestic economy. In some cases, such as sugar and coconuts, the taxes on producers were so great that they debilitated the underlying industry. In industry the effect was the demoralization of the private, nonassociated business sector. Since the cronies built their business empires extensively by acquiring firms in a range of industries, there was a reluctance on the part of domestic businessmen to become too large or too profitable and thus draw the attention of someone close to the Marcos government. The term used in the Philippines to describe the reaction of cronies to profitable firms was "saliva capitalism."[19] There was also a reluctance to enter new lines of business, since a firm could not be sure whether its competitor firms in the new activity were connected with the government or not.

Businessmen, when they could, acted to protect their firms from the acquisitive impulse of the Marcos government and its cronies. Firms sought foreign joint venture partners on the assumption that the government would be less likely to move against the assets of a foreign firm. But even foreign-owned firms faced pressure to sell out to the cronies. Procter and Gamble, Lever Brothers, and Cargill were forced to sell their coconut mills to UNICOM. Foreign companies responded when they could by participating in U.S. or multilateral financial programs. Union Oil Company came under heavy pressure to sell its operations, but dissuaded the government by its participation in U.S. Overseas Private Investment Corporation (OPIC) insurance and its threats to force the United States to undertake a public investigation. Other companies used participation with the World Bank's International Finance Company to discourage a takeover.[20]

The other way in which firms responded was by moving their assets beyond the reach of the government through capital flight. The issue of capital flight is dealt with below in chapter 6. As we argue in that chapter, the real increase in capital flight came well before the assassination of Benigno Aquino, starting as early as 1980.

As a result, less investment was undertaken by firms that were motivated by efficiency and profit, and more of domestic investment and activity shifted toward the government and those who could count on benefitting from government action. The failure of the economy to respond to the sharp increases in government investment expenditure during the early 1980s, in contrast to the response of the private sector after the first oil shock, was one indication of the weakening that had taken place.

4.3 The Fiscal Burden of Crony Capitalism

The rapid growth of the crony business empires was based on access to credit. Marcos associates borrowed from government financial institutions

and, in some cases, directly from foreign lenders. But in addition, several of the cronies, Disini and Cuenca in particular, borrowed short-term funds from the domestic commercial paper market. In going to the domestic market, these individuals could draw on the strength of their names and on the widespread perception that they were close to the Marcos government. Since they were expanding rapidly, their operations were highly leveraged, leaving them vulnerable to a downturn in domestic business conditions or to financial shocks. Both occurred in 1981.

Despite the attempts of the Marcos government to counteract the world recession, the rate of output growth slid in 1981. In addition, the sudden departure of Dewey Dee, a Chinese businessman who had borrowed heavily in the commercial paper market, led to a domestic financial crisis and the collapse of the short-term money market upon which many firms were dependent. During the Dewey Dee crisis, described in more detail in the next chapter, the central bank extended emergency funding to the financial institutions that had been caught in the liquidity crisis. Faced with the bankruptcy of numerous large firms, the Philippine government established an industrial rescue fund for corporations that had been affected. The industrial rescue fund was originally set at P. 1.5 billion, but the limit was later raised to P. 5 billion as the extent of the corporate distress became evident.

As a result, the government corporate equity position increased dramatically beginning with this episode. The Philippine government, either directly or through public financial institutions, converted loans into equity and assumed the foreign obligations of the rescued firms, most of which carried public guarantees. Not all the firms rescued were those that belonged to Marcos cronies; the largest industrial failure of this period was the Marinduque Mining Corporation, which had built a nickel refinery with substantial government participation and which was hit by higher energy prices and the downturn in world metals markets. But many of the firms that were bailed out were those of the most prominent and aggressive cronies.

One of the largest firms was CDCP, owned by Rodolfo Cuenca. In two letters of instruction in February 1981, President Marcos ordered PNB, GSIS, and two other state financial institutions to take over the company. Debts totaling P. 3.9 billion ($490 million) were converted into equity, and the government injected an additional P. 1.1 billion in new funds, giving the government a total interest of P. 5.1 billion in the firm.[21] Management of CDCP was transferred to the National Development Corporation (NDC), but Cuenca was allowed to maintain a minority share.[22] Ricardo Silverio's Delta Motors Corporation was also forced under in the domestic recession and financial crisis. Debts to PNB of P. 1 billion were turned into equity, and an additional P. 150 million was provided, giving PNB a 70 percent share in the company.

The extensive corporate empire of Herminio Disini fell apart as a result of the crisis. His Atrium Capital Corporation was the financial institution most

heavily affected by the crisis and received substantial support from the central bank. Disini's business operations were highly leveraged: his principal firm, Philippine Tobacco Filters, had a 10:1 debt/equity ratio. Of the 51 companies in the Herdis Group in 1981, 7 were ultimately retained by Disini, 18 were taken over by government agencies (17 by the NDC), and the remainder were sold, reorganized, or wound up (Ibon 1983b, 7–8). Total government exposure to the Herdis Group was estimated at P. 4.6 billion.[23] Disini left the Philippines shortly thereafter and retired in Austria.

The recession and financial crisis affected the cronies involved in the industrial sector. The cronies whose business interests were primarily in the agricultural sector—Eduardo Cojuangco, Roberto Benedicto, and Antonio Fiorendo—survived with most of their holdings intact. Both Cojuangco and Benedicto were cushioned by their control of trading in their industries and, in addition, had greater access to bank credit—Cojuangco from the UCPB, which received the coconut levy proceeds, and Benedicto from PNB, the traditional source of credit for the sugar industry, and his own Traders Royal Bank, where the casino earnings were deposited.

Government financial institutions that extended credit to domestic corporations ended up with ownership positions in a variety of domestic firms. PNB and its subsidiary, the National Investment and Development Corporation, had large stakes in CDCP, Delta Motors, Pilipinas Bank, and full ownership of a passenger bus company. DBP had equity holdings of over one billion pesos in Marinduque Mining, several textile manufacturers, and Philippine Blooming Mills, and had major equity stakes in banks, hotels, pulp and paper mills, and cement plants.[24] Total equity holdings of DBP jumped from 11.6 percent of its assets in 1980 to 18.0 percent in 1982, and totaled P. 7.9 billion (about $930 million).[25] The social insurance fund for public workers, the GSIS, gained controlling shares in two banks. But it was NDC, headed by the minister of trade and industry, that became the major holder/manager of distressed firms, with a list of eight-two firms at the end of 1982, spanning basic metals, textiles, pulp and paper, fertilizer, banking, chemicals, and mining (Montelibano 1983).

The financial extension of the government to the firms owned by presidential cronies and others exacted a heavy fiscal toll. Exactly how much additional government expenditure took place as a result of the financial crisis and string of corporate failures is difficult to determine. Adding up extensions of funds to the most publicized firms gives a figure of at least P. 3.8 billion, roughly 1.3 percent of GNP and 11 percent of government revenues. Another way to approach this question is to look at the increase in national government equity contributions to the institutions involved in the rescue operations. These are shown in table 4.3. Using the 1980 figure as a base gives an additional equity contribution totaling P. 3.1 billion in 1981 and 1982, which does not count the contributions of other agencies of government, notably GSIS.

Table 4.3 **National Government Equity Contributions (in millions of pesos, cash basis)**

	1980	1981	1982	1983
Central bank	38	583	325	25
Development Bank of the Philippines	85	300	607	0
Philippine National Bank	72	210	160	150
National Development Corporation	618	1,873	893	406
Total	813	2,766	1,985	581
Percent of budget	2.1	5.8	3.8	1.1

Source: Philippines, Government Corporate Monitoring Committee, unpublished data.

The rescue operations were strongly criticized within the private sector not closely associated with the Marcos government as rewarding inefficiency, bailing out cronies of Marcos' family, and unfairly encroaching upon the province of private firms.[26] The government defended its actions by saying that the firms rescued represented the largest employers in the country and to have let them fail would have meant tremendous economic cost. Although the losses to the Marcos cronies were not as harsh as could have been applied, they did lose control over the bulk of their companies, were forced to sell others, and in some cases were barred from reentering the industry. The episode does appear to have been a victory for the technocrats over the cronies in the industrial sector, but at considerable economic cost. The most visible cost was the huge increase in government outlays required for the rescue operations. But much of the effect was housed in the deteriorating portfolios of state-owned financial institutions, examined in detail in the next chapter. By the mid-1980s, the almost complete disintegration of the portfolios of state-owned financial institutions would become the most serious fiscal problem of the Philippine government.

4.4 Cronyism in Philippine Politics and the Economy

The impact of government corruption, rent seeking, and favoritism is more easily described than quantified. It is not sufficient nor is it accurate to say that the slide of the Philippines into debt crisis was simply the result of wholesale plunder by Marcos and his associates that drove the economy into the ground. But neither is it sufficient to describe corruption in the Philippines as a marginal effect of economic activity, analogous to a turnover tax on economic activity. The intervention, monopolization, and acquisition of the martial law government and Marcos cronies changed the nature of the economy in the Philippines, weakened the efficiency and profit motivation of its actors, and postponed or made more difficult economic adjustments to an increasing adverse international environment.

The strongest and most visible effect was on the two most important export crops, sugar and coconuts. But in a wide variety of industries

cronyism discouraged activity by other businessmen and investors, and encouraged capital flight. The operations of the cronies, particularly their growth through acquisition, accentuated the tendency in the Philippines for high financial leveraging and dependence on short-term borrowing, both of which increased the vulnerability of the economy to domestic, as well as international, financial crises. And when the implicit government guarantee that Marcos cronies enjoyed was called in the early 1980s, the excessive risk and bad management that the cronies had undertaken was socialized and became an enormous fiscal burden.

While the economic importance of crony capitalism was considerable, it cannot be understood simply as a matter of economics and wealth accumulation. Government intervention, monopolization, and cronyism was also fundamentally a way of establishing and maintaining the political power of the martial law regime. Marcos and martial law represented a direct challenge to the traditional elite that had dominated Philippine politics in this century, and the neutralization of that elite was a crucial challenge for the regime. The seizure of the assets of the Lopez and Jacinto families and the initial activity in land reform were as much measures to threaten potential opponents, as they were economic and distribution policies. The nationalization of sugar trading and its transfer to a trusted crony were important in establishing control over an industry that had traditionally been the source of wealth and influence in the Philippines.

In the same vein, interventions in major sectors of the economy, either directly by the state, or through actions which favored associates of the government, created powerful incentives for cooperation with the martial law regime, as well as powerful means to threaten those who did not. Furthermore, wealth and patronage had always been a key to Philippine politics, and the early generation of rents was seen by Marcos in those terms. In later years, perhaps, wealth would become more of an end in itself. In addition, once created, the cronies had their own autonomy and influence and in some ways may have controlled their creator.

This political transformation in the Philippines was as much at the center of martial law policy as was the rapid development of the economy. This required a more powerful and centralized government in the Philippines, and this was facilitated by the willingness of foreign donors, multilateral institutions, and commercial lenders to assist a government that had pledged to undertake economic reform and increased developmental investment. It was also facilitated by the preference of all three for publicly guaranteed obligations, which further channeled resources through the state. The debate within development economics of the merits of employing domestic savings or foreign resources for investment has largely ignored the institutional aspects of this choice, but this made an important difference in the Philippines.

Financial resources were key to the martial law regime and to Philippine cronyism. The financial vulnerability of the cronies also brought about their downfall, as domestic financial crisis led to corporate failure and then to government rescue at great cost. Financial markets and issues are the next subject to which we turn.

5 The Philippine Financial System and the Debt Crisis

Financial markets played a central role in the events leading up to the Philippine debt crisis of 1983 and the difficulties of the adjustment period that followed. A crisis in the domestic commercial paper market touched off the first round of corporate and financial institution failures, which led to fiscal rescue operations by the Philippine government. By 1984 losses within the government-owned financial institutions became a tremendous drain on fiscal resources, complicating both the achievement of external balance and the fostering of recovery in the country. This chapter examines the financial system in more detail, considering both its contribution to increasing foreign indebtedness in the Philippines and its contributions to Philippine macroeconomic difficulties in the 1980s.

5.1 Financial Institutions and Markets

The following provides a brief tour of the financial system in the Philippines. The aim here is not to be exhaustive, but to provide an introduction to the important players in the debt story.[1]

5.1.1 Capital Market

As is the case in other LDCs, the capital or securities market is not well developed in the Philippines and has provided an almost insignificant share of total funds raised for private investment. There were 184 companies listed on the Manila and Makati stock exchanges in 1983, and the total capitalized value of listed shares amounted to $800 million, or roughly 2 percent of Philippine GDP.[2] Corporate bond issues, while not unknown, have been insignificant. The size of the primary corporate security market can also be judged from the low number of public offerings, averaging roughly thirty per year (World Bank and IMF 1980, 23).

There has been a much larger volume of public securities issued, but there have been only limited private holdings and almost no secondary trading.