Nationalism and the strong state in the 1935 Philippine constitution

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Abstract

A strong executive branch and nationality-requirements on specific areas of the economy are two ideas contained in provisions of the Philippine Constitution of 1935 that have been carried over into the country’s subsequent charters. Using the record of debates during the convention, this article traces the inspiration for these provisions to prevailing intellectual and historical trends. In particular, the rise of socialist and fascist states in Europe and Latin America, as well as the post-Depression New Deal in the US was apprehended by the delegates as clear signs that the tide was turning against the laissez-faire ideology of liberal-capitalism. At the same time the strong-state idea was congenial to the delegates’ concern to reserve to the government areas of patrimony that Filipino capital of the time was incapable of exploiting on their own.

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1. Introduction

The convention that drafted the 1935 constitution of the Philippines was well aware that the document they completed contained what its president, Claro M. Recto, would call certain “innovations”. Two of these are examined in this paper, namely, its nationalist provisions, particularly those pertaining to the economy, and the strong executive branch. Both would play decisive roles in the country’s later history. The strong executive would be the basis for the declaration of martial rule, while the economic provisions would be later viewed as hindrances to a closer integration of the country with the world economy, spawning periodic attempts to change them (the latter themselves precipitating their own political crises). This paper explicates the contemporary intellectual and social context that made these provisions appear sensible at the time and points out how historical and economic circumstances have overtaken them since.

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2. Nationality requirements and patrimony

The political reality that the delegates to the constitutional convention needed to confront was the nature of the independence to be obtained from the U.S. They needed to tread carefully between their obligations to the unfinished nationalist agenda carried over from the "four wars", on the one hand, and the realisation on the other, that this particular independence could be secured only with the consent of and in consonance with the interests of the occupying power.

Economic nationalism at the time of the convention was largely expressed in a single type of measure, though applied in different contexts, i.e. nationality requirements. Such a policy was, of course, the complete opposite of the "national treatment" that is the current ideal under WTO rules. Proposals were made for nationality requirements to be applied in several areas of the economy, including labour, retail trade, land ownership, public utilities, and natural resources, particularly mines. In the end, nationality requirements on land ownership, public utilities, and natural resources were included, while those on labour, retail trade, and cabotage were rejected.

2.1 Retail trade nationalisation

Although it was finally rejected, the proposal introduced by the committee on commerce proposing to limit the retail trade to Filipinos and U.S. citizens is worth discussing for two reasons: first, its proponent, Salvador Araneta, was the most vocal advocate of nationalism throughout the convention’s duration; second, retail-trade nationalisation was ultimately realised through legislation in 1957, only to be reversed finally with the retail-trade liberalisation law of 1999. The discussions surrounding the issue were significant in laying down the theoretical basis for nationality requirements and they help elucidate the nationalist argument generally. Retail trade and labour were areas where the most vocal nationalism could be expressed most freely and purely, since these were not areas of interest to Americans and were occupied by the less controversial Chinese and Japanese. Nationality requirements in retail trade were clearly directed against ethnic Chinese and Japanese which, the committee on commerce contended, controlled 50 percent and 25 percent of retail trade, respectively, while Filipinos were in control of only 20 percent. (The entire committee report is reproduced in Aruego [1938:907-915].)

The recommendations of the committee on commerce justifying nationality requirements fall under three basic arguments. The first was unfair competition owing to the fact that "[t]he standard of living of some of the foreign competitors is very much lower than that of the Filipino." At bottom, this was a form of the "pauper-labour" argument, or what would now be called "social-dumping", except that it applied to services and not goods, and to activities within a country rather than across borders. With good reason, current trade theory regards the
APPENDIX

Ordered probit model

In the ordered probit model, we considered a \( t \times 1 \) latent vector \( Z^* \) which is linearly dependent on the \( t \times k \) explanatory vector \( X \), consisting of the current and lagged changes in crude price:

\[
Z^* = X\beta + \varepsilon,
\]

where \( \varepsilon \) is a random disturbance. The decision of the oil players to decrease, maintain or increase retail prices \( (j = 1, 2, \text{ or } 3) \), the observed \( Z \), was based on \( Z^* \) according to the rule

\[
Z = \begin{cases} 
1 & \text{if } Z^* \leq \gamma_1 \\
2 & \text{if } \gamma_1 \leq Z^* \leq \gamma_2 \\
3 & \text{if } \gamma_2 \leq Z^*.
\end{cases}
\]

(2)

Denoting the cumulative normal distribution by \( \Phi(*) \), we obtained the probabilities of the outcomes as follows:

\[
\text{Prob } (Z = j \mid X, \beta, \gamma) = \begin{cases} 
\Phi(\gamma_j - X\beta) & \text{for } j = 1 \\
\Phi(\gamma_2 - X\beta) - \Phi(\gamma_1 - X\beta) & \text{for } j = 2 \\
1 - \Phi(\gamma_2 - X\beta) & \text{for } j = 3.
\end{cases}
\]

(3)

The \( k \times 1 \) parameter vector \( \beta \) indicates the direction of the change in the probability of falling into the endpoint rankings as \( X \) changes; the \( \text{Prob}(Z=1) \) moves opposite the sign of an estimated \( \beta_k \) while the \( \text{Prob}(Z=3) \) changes in the same direction as the sign of an estimated \( \beta_k \). The magnitude of the \( \beta_k \) estimates shows the relative importance of the corresponding first difference in crude cost to the decision of the oil players to change gasoline prices.

The lag length \( k - 1 \)

\(^{21}\) was identified using the Akaike Information Criterion (AIC), which selects the value of \( k \) that minimizes

\[
\text{AIC}(k) = \frac{-2 \max \ln L(\psi_k)}{n} + \frac{2k}{n}
\]

(4)

where \( k \) is the number of parameters, \( n \) the number of observations, and \( L(\psi_k) \) the likelihood function.

\(^{21}\) This is because we indexed the contemporaneous weekly change in crude prices with \( k=0 \).
Partial adjustment model

The partial adjustment model (PAM) involved the estimation of

$$\Delta R_P = \tau \left( R_P^* - R_P_{t-1} \right) + \mu_t, \quad (5)$$

where $R_P^*$ denotes the predicted retail price from the prior estimation of the long-run equilibrium relationship between gasoline and crude prices:

$$R_P^* = \alpha_0 + \alpha_1 \text{CRUDE}_t + \sum_{w=1}^{51} \eta_w \text{WEEK}_{w,t} + \varepsilon_t, \quad (6)$$

where \text{WEEK} is a dummy variable for the week of the year. The parameter $\alpha_1$ represents the long-run passthrough rate, while $\alpha_0$ is included to capture other input costs and the firms' average margin. In (5), $\tau$ measures the rate of adjustment towards the long-run retail price.

We checked on the asymmetry of responses by estimating

$$\Delta R_P = \tau^+ \left( R_P^* - R_P_{t-1} \right) + \tau^- \left( R_P^* - R_P_{t-1} \right) + \mu_t, \quad (7)$$

in which observations were segregated into positive and negative deviations from the equilibrium relationship estimated in (6) before entering the equation. Accordingly,

$$\left( R_P^* - R_P_{t-1} \right)^+ = \max \left\{ 0, \left( R_P^* - R_P_{t-1} \right) \right\} \quad (8)$$

and

$$\left( R_P^* - R_P_{t-1} \right)^- = \min \left\{ 0, \left( R_P^* - R_P_{t-1} \right) \right\} \quad (9)$$

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22 In this case, the long-run spans just a little over three years.

23 A 53rd week dummy was used for 2000.

24 Prior studies indicate that this parameter should be nearly equal to one since the production process is capable of converting one barrel of crude oil into close to one barrel of gasoline, with provision for refinery fuels used and losses due to inefficiencies.
Vector error correction model

In the vector error correction model (VECM), we estimated the cointegrating regression

$$\Delta R_P = \sum_{i=0}^{k} (\delta_i^+ \Delta CRUDE_{t-i}^+ + \delta_i^- \Delta CRUDE_{t-i}^-) + \sum_{i=1}^{k} \left( \lambda_i^+ \Delta RP_{t-i}^+ + \lambda_i^- \Delta RP_{t-i}^- \right) + \theta \left( R_P_{t-1} - R_P_{t-1}^* \right) + \mu_t,$$

where \( k \) was the lag length determined from the ordered probit model. The parameter \( \delta_i \) captures the current change in retail prices given the change in crude cost \( i \) periods earlier. Crude cost movements were separated into positive and negative changes, using the same procedure as in (8) and (9), to differentiate gasoline price responses between the two.

The effects of previous adjustments in retail prices were added for a richer specification that allows intertemporal response interactions, together with an error-correction term that is the one-period lagged difference between the retail price and its predicted counterpart from (6) to account for the reversion towards the long-run equilibrium.

The estimated VECM is then used to determine the adjustment path of retail prices to crude cost changes through time. The contemporaneous response of retail gasoline prices to a one-time change in crude oil price was taken from \( \delta^0 \) while the cumulative response \( D_k^0 \) after \( k>0 \) periods was computed as follows:

$$D_k^0 = D_{k-1}^0 + \delta_k^0 + \theta(D_{k-1}^0 - \alpha_1) + \sum_{i=1}^{k} \left[ \lambda_i^+ \max \left\{ 0, (D_{k-i}^0 - D_{k-i-1}^0) \right\} + \lambda_i^- \min \left\{ 0, (D_{k-i}^0 - D_{k-i-1}^0) \right\} \right],$$

where \( \alpha \) is accordingly replaced by either \( + \) or \( - \) representing the adjustment of interest. This cumulative adjustment function sums up the effects of previous adjustments (that in turn were based on the same initial change in crude cost), the impact this period of the contemporaneous change in crude cost, the tendency to move towards the long-run equilibrium relation, and previous changes in the resulting retail prices.

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\(^{25}\) This is slightly modified form of what Borenstein, Cameron, and Gilbert [1997] used.
References


