

Sixto Roxas1
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Sixto K. Roxas
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Roxas Residence, Mariposa Village, Quezon City

Interviewer: Professor Teresa Encarnacion Tadem, PhD

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TADEM: As I said in our concept paper on [Philippine) technocracy]... You were one of the people who had a particular vision. You had an opportunity to work in government and based on that experience, I'm interested to know more about your background, your career in government, and your work concerning issues about the environment and of course agrarian reform.

ROXAS: In Ateneo [de Manila University], I got into the Rerum Novarum-Quadragesimo Anno, the social programs of the Catholic Church. I was very much in the forefront; we started the Social Order Club in my junior year. I started it with Father Walter Hogan..., an Irish-American Jesuit. He was called the "labor priest," because the enemy [then] was the communist movement here and labor was very much in the hands of the communists. The Congress of Labor Organization was the dominant union federation and they were strong with the tobacco workers and the cigar company workers. Then, the waterfront was in the hands of the racketeers of Chick Parsons and his son. They had their so-called company union which was involved in labor contracting. The situation was that you had three thousand workers but only three hundred jobs were available a day. It was like the New York waterfront where you had what people call the "shave up." The union chairman determined who would work on any particular day and he would take a portion of the worker's pay. The union leaders became very wealthy and went around in cars with bodyguards. That was the racket then. Our crusade was really to start a legitimate labor movement. That was how I got involved in the social movement. I was preparing to be a medical doctor, taking an AB pre-med course. Then I got involved. So after graduation, I formed the Federation of Free Workers with Fr. [Walter] Hogan and **Johnny (first name) Tan**. We established our credibility with the union movement, because they considered the church as the biggest exploiter of labor here. So they were sort of laughing at us saying, "*Kapag Obispo na ang kausap ninyo, uulong na kayo.*" [When you're already talking to the bishop you will retreat from your position.] Our first strike was against the Philippine Trust Bank which was owned by the Archbishop of Manila. It was very interesting because the sons and daughters of Ateneo alumni [like Vice President Edgar Soriano of the Philippine Airlines] all [supported us]. That was our next big strike, the Philippine Airlines. The sons of Sison and Romualdez are Ateneo alumni [and] they were on the picket line with us. It created quite an

uproar with the alumni. They all complained that Fr. Hogan was corrupting the youth. The problem was that every time we called a strike, for every one hundred people that you had on the picket line, there were maybe a thousand people outside who were trying to get that job. I realized that the main problem was not so much the wage workers but the privileged class. Those who were without work were the underprivileged and I had to understand their problems. [That's why] I shifted to economics from medicine.

TADEM: So biology was your course?

ROXAS: My background was in biology, natural science... my father was a natural scientist. He was one of the first pensionados [who studied] in Massachusetts Institute of Technology and University of Wisconsin. He called it Boston Tech and that was MIT then.

TADEM: So the government sent your father [to] MIT?

ROXAS: He was [a] pensionado. He was among the first graduates of the College of Agriculture in UP (University of the Philippines). When he came back, he headed [the] Chemistry Department at UP, then he became a candidate for the deanship, the first Filipino dean they were going to get. It was between him and Bienvenido Gonzalez.

TADEM: Why didn't you end up in UP?

ROXAS: My family has a strong Jesuit background. They were all Ateneans — my father [and] my uncle Dr. Baldomero Roxas who was a contemporary of Jose Rizal. When we were in Ateneo [de Manila University], that was the period of the apologetic era of the Catholic Church. The Church was defending itself against communism and materialist philosophy. I remember that UP then was the enemy — Dr. [Ricardo] Pascual, Pepe [Jose] Encarnacion.

TADEM: Although there was this Delaney group [that] was part of that— Dr. Pascual, Dean Encarnacion.

ROXAS: I used to have long arguments on philosophy with Pepe [Jose Encarnacion Jr.]. But do you know each other?

TADEM: No, my father's name is Ben Encarnacion. [Pepe was our] family friend.

ROXAS: Your father is from Mindoro?

TADEM: Yes, Mindoro. He was close to Totoy [Jose] Dans.

ROXAS: Totoy Dans was my classmate in Ateneo grade school. He was our valedictorian. I was the salutatorian and the rebel. I used to call strikes in Ateneo.

TADEM: Was Totoy Dans valedictorian? He was a classmate of my dad in the UP College of Engineering.

TADEM: So was it okay for your family when you shifted to economics?

ROXAS: My mother didn't like economics because she wanted a doctor in our family. My uncle, who was also named Sixto Roxas, got his degree in medicine, by the way, from the Malolos government. He became the head of the provincial hospital in Batangas.

TADEM: So at that time you didn't have family [members] in government?

ROXAS: Well, Papa was the first Filipino director of the Goodwill Plant Industry. Then... he became undersecretary of Agriculture with Rafael Alunan. Alunan was the political secretary and [my father] was the technical undersecretary. So he was very much a technical person.

That was when I decided that the most serious problem of the country was the development problem, rather than the income distribution problem. So I shifted. I needed to understand it because I had very little economics background, with only one economics [subject] in my undergraduate [course]. I went to the United States because I didn't have enough undergraduate units in economics. I went to Fordham University, another Jesuit school to get my units.

TADEM: Undergraduate in Fordham?

ROXAS: No, at first I was just going to take enough units so I could do my graduate work in Harvard. But then I met the woman who was to become my wife. I met Bing [Teresa] Escoda in the university. She had just finished at Barnard College and she was doing her master's degree in English in Columbia University. So I met her and we collaborated on a play for Rizal Day in 1952. All this is really ancient history.

TADEM: We will bring you to your past. <laughs>... And then?

ROXAS: We fell in love and she had finished her courses. She was coming back in 1953 and so we had a crisis showdown. She was coming back [and] she didn't believe in a long-distance relationship.

TADEM: Long-distance relationship?

ROXAS: So it was a choice. If you want to go through with the relationship, we had to come back together or break up. I was going to Cambridge and she said, "Well, that's it, you have to make up your mind." <laughs>I was going to get my doctorate. So our compromise was that I would finish my master's at Fordham, get my degree, and then I would come back. I stayed in Fordham for another eight or nine months and we got married in June 1953. In Fordham, they gave me a lecturer's job. I was ahead of my class by only three chapters of Samuelson's textbook. <laughs>A lot of Korean veterans were coming back to school. So I had older students in freshman economics. They were Gis. But I would like to tell the story of how Bing convinced me that it was useless to take a doctorate. <laughs> She said, "You don't have to go to school to know your subject." She was an English major so she told me the story of George Lyman Kittredge, an outstanding Shakespeare scholar who wrote what was then the definitive work on Shakespeare. She said that Kittredge never took a doctorate and when people asked him why he never got a doctorate, he would say, "Who would examine me?" So that appealed to my ego.

TADEM: That's a good argument. But was there work waiting for your wife back here? When was she...?

ROXAS: She was coming back, because she wanted to settle here and as you know her parents were killed by the Japanese.

TADEM: Ah, the Escodas.

ROXAS: Both her parents were killed by the Japanese. So she was in the US on a scholarship. She felt she should come back because she had foster parents, the Griffith family, with whom she was very close. She wanted to make her life here. So we got married in June [1953] and we had our first child. So with a baby, we came back in 1954.

TADEM: So with your parents, was it okay that you got married already?

ROXAS: I did my work on the development processes, economic change, development, and growth. I was torn between sociology and economics. I taught sociology for a couple of semesters here before I left. I had never taken it but I thought I could get into it. You know, there's a Latin saying *Qui docet, discit*—who teaches also learns. So that was my approach. If you want to learn a subject, you offer to teach it. So when I picked my thesis, I looked at ... development economics. It was very neoclassical then and the identification of growth and development and the whole dynamics in the economic period were really based on the growth theory of [Roy] Harrod and [Evsey] Domar. There were early attempts in understanding the development process like the book *Jewel Economy* based on an Indonesian study. And there was [Walt Witman] Rostow who attempted to apply the Keynesian propensities to development—the propensity to innovate and so forth. So the academic scene was looking at development economics in terms of neoclassical theory, Keynesian general theory, macroeconomics, [and] Marshallian statics. So a lot of the literature dealt with how to make it a dynamic system. But when I did my work, we were talking about three processes: the process of change where the traditional culture, traditional institutions, lifestyles, [and] paradigms were really being broken

down by influences. Then, you had the process of development which was the evolution of a whole new pattern, very Weberian. So there was a different process of development where you had the capitalist institutions and the economic man was emerging. And then there was growth—physical productivity, capital formation, and so forth. So that was my thesis: economic change, development, and growth as three separate independent processes. My proposition was that growth economics was really applicable only to physical growth. The processes of change and development were not really economic processes alone; they were much more sociological, psychological, cultural, institutional transformations, and so forth. And I decided that I would write my thesis as a lifetime research agenda. And so I came back with about thirty boxes of books. I remember two books that really helped me in economics. In the beginning, I couldn't understand a word, —it was a whole new vocabulary of economics that I did not understand. So I said, to hell with these lectures. I went to the library, borrowed a whole pile of books and I went to our dormitory in the Bronx. So I stopped going to class and I would just read. The two books that put everything in place for me were Adolf Löwe's *Economics and Sociology* and Joseph Schumpeter's *Theory of Economic Development*. And later, it was *History of Economic Analysis*. But I like Schumpeter particularly because we grew up in the scholastic philosophy, medieval Aristotelian and so forth. And he was very much into that. So that was how I got into economics. When I came back, I asked my father for introductions because the economics center of economics then was the Economic Research Department of the Central Bank, originally under Leo [Leonides] Virata and then under Horacio Lava. Horacio Lava—a friend of my father—was the head of the Economic Research Department. My father wrote an introduction. I went to see Horacio [Lava] at the Central Bank around September 1954. I told him that I had just come back from the States and I had this research agenda and what I was interested in. I asked him if I could have permission to work on their files. He told me, "Well, I'm rather interested in your research agenda, could you...?" So I gave him a copy of my thesis. After reading it, he said, "Well, the best way for you to get into this is to join and work with us." I did not have civil service eligibility, so I was given a temporary appointment as an assistant economist at the Central Bank. Most members of the Central Bank staff were accounting majors rather than economics majors. Their primary work was doing all those tables for the United Nations standards: the money supply, the national income accounts, etc. So they were not into model building but they were doing accounting then. My first assignment was with [President Ramon] Magsaysay who was

floating a billion peso development bond. The Central Bank, under its charter, had to give an opinion; the Monetary Board had to give an opinion on the effects of the bond on inflation and the balance of payments. So, that was my first assignment. When I looked at it, it was so crude, a multiplier model. The combination here [were] the quantity theory of money... and then the income expenditure, Keynesian flows. So there were two approaches, the money supply approach with turnover velocity and the credit multiplier. And the second was the Keynesian economic income expenditure. So we opted for the income expenditure flows using the marginal propensity to consume and the multiplier effect. There were no people with a mathematics background for model building in the research department until they found Gabriel Itchon who had just finished engineering and was working with IBM (International Business Machines Corporation).

TADEM: Gabby Itchon became NPC (National Power Corporation) head. Was he in Engineering?

ROXAS: So I had Itchon reassigned to me and we did that first model. When Leo [Leonides] Virata, who was already member of the Monetary Board, saw it he told Horacio [Lava], "You have a new man in the research department." So I got to meet Leo and we became practically lifetime friends. I was at his deathbed.

TADEM: Was he related to Cesar Virata?

ROXAS: He was Cesar Virata's uncle. Those were the early days of the Philippine Economic Association (PEA) with Armand Fabella who had just come back from Harvard, and the one who did the savings in the Philippines, not Hart...

TADEM: German?

ROXAS: No. So that was our group. [Benito Jr.] Legarda was still finishing his doctorate on economic history at Harvard. I think he was the only person with a formal economics degree in the Central Bank when I was there.

TADEM: What about Armand Fabella?

ROXAS: Armand Fabella was never at the Research Department of the Central Bank. Armand's first job was with Jose Rizal [College]. There was a Central Bank Survey Commission formed with Dean [Vicente] Sinco as the head. By this time, I had become the director of economic research in the Philippine National Bank (PNB). That's another story. [President Ramon] Magsaysay fired Horacio Lava because the American Treasury attaché Mike Ross in the Central Bank complained that the Central Bank was too nationalistic. When Lava was fired, I thought "To heck with it. I'm not gonna work for an institution like this." Arsenio Hizon had taken over as the president of the Philippine National Bank. Tommy (Tomas) Aguirre was in the research department of the Central Bank and he was being recruited by Hizon to PNB. Tommy was not interested in economic research. He was more interested in the loan operations of PNB. Our understanding was that he would come in first as the director of Department of Economics Research and Statistics in PNB and I would be his assistant. Then he would move to become the vice-president for loans, and I would take over. So that was what happened. When the Central Bank Survey Commission started, Vicente Fabella, Armand's father, was a member of the Commission and Sinco was the head of the Commission. We were to review the whole Central Bank operations. What was very controversial then was [Miguel] Cuaderno's refusal to devalue [the peso] and instead maintain the old rate. All the world prices had gone up 300 percent but the Philippines still maintained its peso exchange rate of 50 cents to the dollar.

TADEM: What were his reasons for that__ for not wanting to devalue [the peso]?

ROXAS: There were two reasons: ... one was that, he [Miguel Cuaderno] felt that it would benefit Philippine industrialization if we maintain the over-valued currency because importers would get cheap dollars for the imported raw materials and so forth. The second was he didn't feel that there was any elasticity in exports. He said it would not benefit the country and that the sugar bloc would just get a windfall. He was very angry with the sugar people... I felt that he was wrong. I felt that in terms of Philippine industrialization, you could not do protection through tariff because Customs would not administer a proper tariff, so it would just breed

corruption. Devaluation was like an across-the-board increase in tariff rates. If you wanted protection, by distinguishing between raw materials and the finished goods, it would provide an incentive for substituting local content for imported components. I was very much a decontrol advocate, a devaluation advocate, which suited the sugar bloc at that time.

TADEM: No relationship?

ROXAS: I had no relationship with the sugar bloc but I had to work very closely with them. The PNB (Philippine National Bank) was the sugar industry's financier from way back.

That was my early experience with the government. The only two research economic research departments in government were the Central Bank and PNB. And we would become the technical staff of the commissions. There was the Wage Survey Commission, which was preparing the minimum wage law and I was its chief technical person. Then, the Central Bank Survey Commission, and I was also the chief technical person. Vicente Fabella recommended that Armand Fabella work with me at the Commission. But the debate then was this question of decontrol and devaluation. This was 1955, and I was doing a lot of writing. I had a daily column in *Economic Chronicle*. My position was exchange controls meant that instead of the market making the decision, you had administrative decision-making; one with respect to the usage of the foreign exchange, and if there was the classification of materials, what kind of imports... the second was the allocation of foreign exchange among individual users. So there were these two decisions. By concentrating both decisions at an administrative body, you were inviting corruption, because with the highly over-valued currency, there was an automatic premium in the foreign exchange allotment. Automatically, the more foreign exchange that you use, the more profitable it would cost because you subsidize rent. Rent was not in fashion yet but it was clearly the Marshallian definition of rent, and it was not yet as current as it is now, in the discourse. [Miguel] Cuaderno and I became very good friends with a great deal of mutual respect. Then [President Ramon] Magsaysay died and [President Carlos] Garcia took over, and there was a struggle. First, it was a struggle for Magsaysay's mind and politics. And he opted in favor of the Cuaderno side. Then, when Garcia took over, we were already advocating multiple exchange rates. I wrote a paper for Congress on this. I was saying, "Well, alright, if you are worried that

there might be market failures on the allocation of exchange among product categories, then retain control of product categories. But with respect to the distribution among users, put this on auction.” So the market would determine who would distribute. Then you take that administrative allocation power, not only the question of what, you keep the what, but also who the... In a multiple rate system, you have a basic rate for essentials and you have a multiple rate that is dictated by the bids on the non-essentials in particular. And so even the IMF (International Monetary Fund) began to have some influence... After the Bell Mission, they proposed an exchange tax of 17 percent. So the multiple exchange rate was put in place, although Central Bank never acknowledged it. So you had a dual rate, you had two to one, and 2.34 to 1 as selling rates. So the Central Bank was buying at two, and they were selling at 2.34. In effect there was a 17 percent exchange tax. So that broke the ice already. By 1957-1958, there was the free market rate; the black market rate was three to one; the official rate was two and then 2.34, to three. That was the system. When [President Ramon] Magsaysay died, there was a fierce struggle for the mind of [President Carlos] Garcia. For his own reasons, Garcia, I think, liked the power and the graft involved in exchange controls. So the side of [Miguel] Cuaderno won again. <laughs> Then [Arsenio] Hizon resigned and Danding [Eduardo Sr.] Romualdez, who was very much of the Cuaderno’s school, took over PNB (Philippine National Bank). Danding Romualdez was an Ateneo alumnus and he always looked at me as a radical because I involved his son, Eddie [Eduardo Jr.], in the labor movement. He was the vice-president of PAL’s (Philippine Airlines) Soriano. So I was assistant to the president, to [Arsenio] Hizon, and head of the research department with the rank of vice-president. Hizon didn’t trust the officers of PNB and he would put me in charge every time he was away. When Danding Romualdez took over, he asked me to stay but I said to myself, “Well, it’s time to make a change.” This was also another part of the story; [President] Garcia retained controls for his own reason. He felt that for re-election, he had to have his own mandate. He felt ‘Filipino First’ would be his banner. So, the PHINMA (Philippine Investment-Management) Group had proposed a Filipino petroleum company. That was the first Filoil Refinery Corporation, the biggest project under the group of Monching [Ramon Jr.] Del Rosario, Leo [Leonides] Virata, and Jobo [Jose] Fernandez. And I was very close to that group. They needed a chief financial officer to put together the project, to do the financial plan, etc. They offered me that job. That was how I took over then in late 1958 or early 1959. It involved a 17,000-dollar per day refinery, but first, we had to setup a marketing company

and to set up the outlets first. My job was to put together the financial plan. We did [the] financial model of the whole petroleum marketing and refining operation. At that time, I had already decided to look for a staging area for development; it was still very much in my agenda. In PNB (Philippine National Bank), I recommended the establishment of an investment arm—the NIDC (National Investment and Development Corporation)... So I thought, having a management experience would be important because the question that an economist always has to face when he makes a policy proposal is ‘Have you ever met the payroll?’ So I said, ‘Okay, I’m gonna meet the payroll.’ So I decided to go into private enterprise. It was very exciting because it was the most interesting new project with only a ten-million dollar financing package. It had an elaborate and sophisticated plan. We had to do a financial model of petroleum operations, refining, and a consolidated balance sheet projection, income statement projection, cash flow projection, etc. You must remember that there were no computers then. So we were doing all that modeling work on mechanical calculators. The portable, laptop calculators was Monroe and it worked on the principle that multiplication is continuous addition, division is continuous subtraction, you just move the decimal point.

TADEM: Like the abacus... <laughs>

ROXAS: It was very interesting when we were doing this modeling. I remember we needed to invert a small matrix, a 12 by 12 matrix. The inversion of that matrix took weeks, which now takes a few seconds in Excel. So we did that model and then, I had to be in charge of the negotiations in three countries. Gulf Oil was our joint venture partner. So I worked with the finance people of Gulf Oil here. Then we had to negotiate. The winning bidder ...was still an American group but with French financing. And the financing [arm] was French Coface Financing, which was the French Export Credit Guarantee approach. So we had to negotiate in Paris, with the Banker Club Coface. It was complicated, because the French financing system had old Napoleonic codes, and there was a provision in the Napoleonic code that promissory notes, to be valid, could not have a maturity of more than 90 days and it had to have three signatures. So we needed a fifteen-year financing. They had a special institution created not only to produce a third signature, but also to keep the 90-day notes floating for fifteen years so that the mobilizer was a special business for CIAB (Compagnie industrielle pour l’avant extérieur).

CIAB was the company that we worked with. We negotiated with the financing in the United States because the refinery, Gulf Oil, was our partner. We also negotiated the financing here to finance the service stations under different arrangements. We had to innovate some of the arrangements... for service station equipment. Anyway, it was an elaborate piece of financial engineering; that was why I got interested in investment banking. But in the meantime, I continued writing so that was how I caught the attention of [President Diosdado] Macapagal.

I had been advocating decontrol as the only way to cut corruption. Corruption was a major issue, a political issue in the Central Bank. First, there was corruption in the import control commission. It became so corrupt that in 1953 the law expired and Congress allowed it to expire; Central Bank was desperate so they used the emergency powers of the Central Bank to create the exchange control and import control unit in Central Bank. It was the Central Bank [that] determined the budget for various categories of products and turned over the allocation to the import control commission, which was a separate commission and became extremely corrupt. The Central Bank took over both functions. The Central Bank became very corrupt too. I had always advocated that the only way to cure corruption was to remove the power to allocate—the source of corruption. Where do you move that? Well, put it to the market then. That was how I caught the attention of [President Diosdado] Macapagal... I was the executive vice-president of Filoil Refinery Corporation when Macapagal was elected in November 1961. The president had to take his oath of office at the end of December [1961] under the old Constitution. He took over January 1st [1962] and within January, he had to present the State of the Nation Address (SONA). Macapagal ran against [Carlos] Garcia, so he was opposition, and he did not have access to the administrative mechanism of government. So he asked me to do his economic planning and prepare his five-year economic program as well as the materials for his State of the Nation address. So I formed a technical group and developed the five-year economic program and the decontrol program. When Macapagal took over in January, his first act was to remove exchange controls. The Central Bank had already announced a program of decontrol a year before but it was really a multiple exchange rate. They had a dual exchange rate, they were still buying [US dollars] and the market was not intervening. They were compelling the exporters to sell to the Central Bank at their rate, at 2 to 1. Then they had multiple selling rates. They had selling rates as high as 3 or 3.20 at that time. That was still administrative allocation and not

really decontrol. As such, it was just multiple rates, although the Central Bank announced it as decontrol. So in January 1962, we launched the real decontrol program. [We] removed the exchange controls. And that removed the compulsion for exporters to sell to the Central Bank, and created a market—the dealing and trading market in foreign exchange. It worked quite well, because all the forecasts pointed to an inflationary movement. By that time the exchange rate, the real curve rate was handling a lot of transactions. Then, we needed a stabilization fund of 300 million dollars, so a mission was sent to the United States to negotiate for that fund in January 1962. The people around [President Diosdado] Macapagal were Fernando Sison who became Secretary of Finance; [Manuel] Marquez who was president of the Bankers' Association, Jesus Cabarrus who was very close to the exporters' block, and Rodrigo Perez. And so Macapagal formed a commission. I was the head of the technical staff of the mission, and the head of the mission was Fernando Sison. I thought that he was going to be made Secretary of Finance. Andres Castillo was the governor of Central Bank, so he was with us. We went to Washington to negotiate the stabilization loan with the US State Department, the World Bank, and the IMF (International Monetary Fund). The World Bank economist was a Yugoslav named Dragoslav Avramovic and we became very good friends. He was the point man of the World Bank. We negotiated for that stabilization loan and submitted the five-year development program, and the decontrol program, to the World Bank, IMF, and the State Department. They welcomed the program because everybody was sick of the corruption in the Philippines. Both the IMF and the World Bank had always frowned on the maintenance of controls. So they established the loan and I went back to Filoil until August of 1962. In July 1962, there was a World Bank mission to assess what was happening in the Philippines. And the results of the survey were terrible because there were no new projects being formulated and the project pipeline had dried up. Many of the programs lacked funds and when you listen to the problems now, they're the same as the problems then. We were not progressing and the government machinery was not working. So the World Bank said that "something needs to be done." The stabilization loans were based on certain performance conditions. Drag Avramovic recommended to President [Diosdado] Macapagal that they recruit me to the government. I didn't want to leave Filoil. I had already worked in the government for so many years. I had a job to finish at Filoil because the refinery was still unfinished. We had just set-up the marketing [program]. I was already executive vice-president at Filoil. But what persuaded me to join the government was another story. At that time

President [John F.] Kennedy ran Operation Tycoon where he invited a lot of chief executives of American companies and challenged them to help him administer the US AID (United States Agency for International Development) program. And James Ingersoll was among the recruits—the same Ingersoll of the Rand World Warner Company. His company's family was the principal stockholders of World Warner, and a very close friend of [Thomas] Watson of IBM (International Business Machines Corporation), and Watson recommended to Jim [Ingersoll] that he respond to Kennedy's call. So there were two tycoons who were assigned in Asia, one in Manila and the other was assigned to Thailand. Jim [Ingersoll] was assigned here. He was an alumnus of Dartmouth, his stepfather was a very devoted alumnus of Dartmouth... We became very good friends when he was the head of USAID (US Agency for Interational Development) in Manila. When [President Diosdado] Macapagal asked me to join the government again, I was reluctant. I had been meeting with Jim because he was administering the AID program. He was also frustrated that the project was not moving. He told me, "Well, look, I gave up my job to serve your country, you can't do less." <laughs>

TADEM: Although you were also a tycoon. <laughs>

ROXAS: And so I joined [President Diosdado] Macapagal. The official position was assistant executive secretary for economic affairs in Malacañang. He said that it was a better position. As an assistant executive secretary, I could sign the economic decrees and administrative orders for the President... In other words, we initiated performance budgeting in the Budget Commission. It was a trial ground for performance budgeting. We had an organizational management unit, a performance budgeting unit, the Presidential Economic Staff (PES), and the National Economic Council (NEC) for planning. You name it, we had it. None of it was working. <laughs> So now, government procurement was in a mess, the implementation of the project was a mess, and so forth. That was when I recommended that what we needed was a body that would be independent of the Budget so that it could not be influenced by Congress. It had to be an independent unit. Its job was not to do planning or programming on its own but to activate programs. Our model was the Commissariat du Plan Générale of France, which had a small in-house staff [and] it operated on the basis of seconded people depending on the task. We wrote the design for the Program Implementation Agency (PIA). What's the name of that fellow who

wrote the book on technocracy in the Philippines? He said that [the establishment of PIA] was the beginning of the technocratic movement in the Philippines. Our idea was to recruit the best people to act as PIA's core. So we had a dinner meeting in Malacañang with the President [Diosdado Macapagal]. Armand Fabella was present because he was in the Presidential Management Staff (PMS) in an informal [capacity]. When I came in as assistant executive secretary then, the President assigned Armand [Fabella] to me. Then we set up the Program Implementation Agency and recruited people. We structured it so that it performed two sets of functions: program functions and project functions. Program functions were cost-cutting functions across sectoral projects, and the idea was that you look at all the resources managed by the government through the different agencies: the budget commission, the operating departments, the government-owned financial institutions, the government corporations, and so forth. PIA was the thinking group that would help the President [Diosdado Macapagal] set the strategic and operational directions of those units. It would not be an operating unit but it could give the President guidelines. We set up office in the old German embassy in Aviles. The center of that office was an operations room. At that time, the model for operations rooms was Malaysian. **Tun Razak (check)**, an old District Officer, was the one who set up the planning system in Malaysia, where there was an operations room at every level of government. And there was a blue book or a red book on [the basis of] which everybody operated. Their operations room had scale maps and all the information needed in that room. Every level had to have its own operations room so that you had all the projects mapped in scale models. Alex [Alejandro] Melchor was in charge of the operations room of PIA (Program Implementation Agency). I recruited him from the Navy. He was a naval attaché and an Annapolis graduate. I said "Well, just resign from the Navy and come", and he did. He joined PIA. My nemesis was Feny [Rufino] Hechanova, the campaign manager of [President Diosdado] Macapagal. He was the right-hand man of Macapagal, his chief political arm. He was a former public relations man, and very political. At first, he was an executive secretary, then he became secretary of finance, and he had other ideas of how things should be. I remember that we had clashed in several areas. The first one [where] we clashed was the steel project, National Steel in Iligan. Originally, [the] National Steel plan was conceived by Jack [Bernardo] Abrera of the NASSCO (National Shipyards and Steel Corporation). His idea was that it would be in Iligan because of the hydropower, the Maria Cristina hydroelectric project. It needed a large power user so that they were going to have an

electric art furnace using scraps to build primarily ships' plates, plank products. That was Jack Abrera's original idea. By the time the project came to PIA for examination, the project study was seven years old. There was an old plant there, an electric art furnace. But a new plan had been formulated, for a regular smelting operation using the conventional coal burner type. Abrera said that this change raised the question of the location of the plant itself. It was located in Iligan with an electric art furnace in mind. If it was going to be a regular foundry, it was not near the supply of coal or iron ore; it was not near the market, and then, it didn't make sense to have it in Iligan. And this was a very critical point because it would affect the upstream of the whole engineering industry—all the metal-using industries. If you made a mistake there, then you would not be competitive all the way down. So we said, "Let's rethink this plan because there are new technologies now for steel-making. Let's take a fresh look because we can't make a mistake upstream; that would affect the whole downstream area..." But Feny [Rufino] Hechanova had already promised this project to the Jacintos. <laughs> He did not want it studied. He told [President Diosdado] Macapagal, "Ting [Sixto] Roxas always wants to do a study" <laughs>. So they gave it to the Jacintos under the original plan in Iligan. That was one. Again, as a sequel to that, I spent a three-month stint with Tito [Teofisto] Guingona, [and] one of the assignments that he asked from Gloria Macapagal-Arroyo, when he came in as vice president and as secretary of foreign affairs, was the revival of the steel industry in the Philippines. So Guingona put me in charge. <laughs> You know I could be polite... I said, "[We should get] people like Tony Arizabal." I recruited him at PIA (Program Implementation Agency) because he was with Jones Laughlin Steel. We were doing this study, as a matter of fact. We wanted an integrated steel mill there. So I recruited Arizabal and so all the gray-haired men in that table like [David] Consunji... They were all bemoaning, "What would happen to the industry?" Because sure enough, [of] all the mistakes... I mean the banks... they sold that mill to the Malaysians. And Tony Arizabal said, "If you're going to do something crazy like this, why pick the Malaysians? The Malaysians are the last people on earth who want to see a steel industry in the Philippines." Their ambition was to be a steel power in the whole [of Asia]... so they ran the steel [mill] to the ground. Later, a private Malaysian group took over and when it didn't work, the Malaysian government took over. And then, when we formulated our plan, we said, "Look, the banks had one of the biggest non-performing assets in their books... They would be very happy if they could just take it out of the non-performing category. So, [if you]

give them a twenty-year bullet bond, zero interest bond, they would be happy because it would be out of the books. The government could take over and then you form a new company and get a Filipino group organized to take it over and use the new technology also. Unless it's integrated, then it's not viable. There is an intermediate product which is the basic material of the smelter. There are no companies that manufacture it, so the world market supply is very unstable and that's their basic material. There are all sorts of processes now that with very little additional investment, you could convert it into state-of-the-art steel. The whole key to the steel industry is the downstream engineering. So you want this in Filipino hands so that in developing their market, they would develop systematically all the downstream engineering industries for ground products, flat products, and all the machine tool industry and so forth. And that was what we were telling Gloria [President Gloria Macapagal Arroyo], but she didn't want the government to take it now. I said that, "Look, make an exception on this." But she and Mar Roxas had already promised it to the Indians. <laughs> the Mittal Brothers. One of the brothers is the biggest steel producer now in the world, the London Mittal. He made it his business. His specialty is to negotiate with former Communist countries to take over their steel mills. Eventually, he had the largest capacity for smelting. There was a boom also in the steel market because China was preparing for the Summer Olympics. China is the biggest importer of steel; although China was already the biggest steel manufacturer in the world. The other brother is with the father, in India, the Mittal Steel Company. That company is practically bankrupt, with financial troubles. So, you guess to which of the brothers did they sell the steel mill?

TADEM: The bankrupt one? But why? <laughs>.

ROXAS: Well, all sorts of story. Mar Roxas made a commitment. When he was preparing to run for the Senate, he promised the Iligan people that they could open before December of last year, prior to the May elections. So when we made the presentation, they did not like it. An hour before Tito [Teofisto Guingona] resigned, I resigned first. That was my three-month stint.

My second big controversy was over power. In other words, Feny [Rufino] Hechanova was very jealous that suddenly PIA (Program Implementation Agency) became the most powerful agency. It was attracting all the best people and he got very jealous of that. He was particularly [jealous] of me because I was not with the election group and so forth, and now all of the sudden, there I

was—all the public relations attention and the press describing me as an economic czar. It was complicated because there was polarization between my group [and] Hechanova's group. My difficulty was that... Alex [Alejandro] Melchor was the brother-in-law of Feny. <laughs> But he was very loyal to me. I was not questioning his loyalty, but he was placed in an awkward spot. The other one was Armand Fabella.

TADEM: Yes.

ROXAS: And Armand... Marinela [his wife] is my niece.

TADEM: Niece? Kalaw?

ROXAS: Armand [Fabella] was a pragmatic person... We have to be practical about these things. You have to look at the core. Armand became the assistant director general of PIA. But he did not leave his office in Malacañang because that was close to the President. So in our meetings, there was a struggle for power. Feny [Rufino Hechanova] felt that he was being constrained, that he could not make outright commitments. For example, when the prime minister of Taiwan came, they always ended up in PIA because we had the operations room. We became the center of the briefings. And Feny [Hechanova] didn't like it. But I'd be interested to see or hear what Armand Fabella's side is. <laughs> Anyway, our next struggle was the entry of Dole.... President [Diosdado Macapagal] referred the Dole people to us... We had a meeting with Dole and our suggestion to Dole was, "Look, you can't come in on the same basis as Del Monte, because your demographics and your densities have changed. If you do the same thing, you will have 20,000 hectares and you'll have the landless people around. You're going to be under terrible pressure." We told Dole to work on contract growing with small and medium farmers... And of course, Dole did not like that, they liked full control. So they complained to Feny [Rufino Hechanova]. <laughs> Later, Dole was no longer speaking to us.

TADEM: What was in it for Feny?

ROXAS: Well, I don't know what was in it for him. He wanted to be the 'center.' "I'm the one who makes the decision here, not [Sixto] Roxas." In the end, I think I did not last twelve months in PIA (Program Implementation Agency). They kicked me upstairs. They made me chairman of the National Economic Council (NEC)... [President Diosdado] Macapagal told me that the National Economic Council was the legally-constituted planning body. It was a full-fledged Cabinet position. And you know how I feel about NEC: it was an impotent organization... Then, it had Congressional representation... Its primary job was to allocate the Japanese reparations. So it had no influence over the programming of funds. In PIA, we had a program for the national budget, what we called the capital transfers budget, which formed the Loans and Investment Council—the portfolio strategy... Our contention was that government financial institutions had a developmental function. You cannot operate like any private financial institution. You must have a developmental mission. And therefore, you have certain priorities that must conform to the plan. So the Loans and Investments Council was supposed to provide the strategy for the administration of the cuts and transfers of fund. Then, we had the government properties fund, in other words, government was a property owner—rationalizing the whole property management function, land use, [and] government property. We had a capital budget programming body that looked at the whole capital investments, including public works and capital investments program for the government. We had policy planning with Ding [Alejandro] Lichauco, at the Nationalist League. We had the project division—programming the projects, working on private sector and government corporation projects, all working with public works. We had people seconded from public works to do the programming functions; we had people from the budget commission, and so forth. In other words, all these were going through the legal channels of the institutions in place, but the thinking was being coordinated by the PIA (Program Implementation Agency). So it was strategically placed... When I appeared before Congress during budget sessions, they asked me, what do you need? How are you operating? I replied that we did not need anything... We had taken the government financial institutions to create a fund for our operations. So we were outside the control of Congress, something which [President Ferdinand] Marcos later used and abused. We set up foundations for example, as conduits, we used those instruments. That was where Marcos learned a lot. We established PIA with an excellent group of people. We had special assignments like the Agrarian Reform Program. I headed its technical staff through PIA. We wrote the code which later [became] Republic Act 3844. We navigated it through Congress

and the sponsoring senator was Raul Manglapus. I was on the floor behind Raul [Manglapus] and he was debating and answering questions. We would exchange notes. Some moments were interesting. Our opponents then [were] people who were close friends, like [Lorenzo] Tañada, who was so against it on constitutional grounds... They claimed that under the Constitution, you cannot expropriate without just compensation. But in agrarian reform, our position was that you could not take cash for land if you would be monetizing a transfer transaction. You would not be creating new wealth but new money and it was going to be disastrous. It's like monetizing land, which is disastrous. So you had to swap assets for assets. That's double transfer transaction. Therefore, you had to create an instrument that was backed by an asset, not legal tender. The Land Bank was supposed to create the instruments and we were supposed to get very attractive assets to back those instruments so that the land owner would find the instrument more attractive as an investment from the land itself. That was the whole idea behind the Land Bank. So in the Senate, the question of the Land Bank bond as legal tender was raised. They said that it was not just compensation. So I slipped a note to Raul [Manglapus], "ask them to produce a peso bill, and read what is written on the peso bill." So on the peso bill is written: "This is an obligation of the Philippine government." I said, your currency is a debt obligation of the Philippine government. It's a debt instrument but it's a demand debt instrument. It's legal tender, and therefore, it is just compensation. Legal tender is just another obligation with another maturity. And so the question of maturity came up. "Well, legal tender means that you cannot limit its exchange at any time." And we said, "Alright, here's a provision in the law, a creditor can refuse to accept payment if the debtor attempts to pay him all with coins about this certain amount." So I said, "Therefore, there is precedent again for limiting the exchange qualifications of legal tender and still it's a legal tender." That was the discussion in the Senate. One of the functions that we performed was really to help navigate the legislation. So RA 3844 was passed. In PIA (Program Implementation Agency) then, I was appointed the first Land Bank governor. We had to reorganize all the Agrarian Reform Agencies—about ten thousand people in government. So we set up the Agrarian Reform Organizing Task Force. Agricultural Credit and Cooperative Financing Administration (ACCFA), the old Agricultural Credit Cooperative was folded into the Land Bank so all the credit operations were incorporated in the Land Bank. The agricultural extension [office] was incorporated into the Land Authority... then the Land Tenure Administration, and all the support services together. As we designed it, the structure of the

legislation was automatic upon declaration of the President. Once the code was effective, then all contracts of tenancy were abolished and became contracts of lease at a fixed rent based on the average production of the last three years. That was the first step. The second step was to give the land to the tillers. But we recognized that it could not be done right away since tenants would usually borrow money from the landowners themselves. You must have a credit mechanism. So unless you have all the support facilities, the harvest facilities and the credit facilities in place, you can not start agrarian reform. So, the way the law was supposed to operate, first, you form agrarian reform districts. The whole concept of a district was generally an ecosystem. The Land Authority would then work on each district and put in place all the support facilities. Once all the support facilities were in place, the extension, the credit, the feeder roads and so forth, then they would certify to the President that this district was ready [for land reform]. Then, the President would issue a proclamation that this district is now an agrarian reform district and at that point, the law would operate. So you would do it district by district, not nationwide. So our first district was Angat. But by this time, it was approaching midterm elections. <laughs> So what did [President Diosdado] Macapagal do? He declared the whole country under agrarian reform. <laughs> But he and all his candidates lost in the midterm elections.

TADEM: Why?

ROXAS: It is almost endemic in our system: a president in two years cannot fulfill his election promises. There is always a period of disenchantment, that's been our history. But remember, we had not reelected a president at all, up to [Ferdinand] Marcos. Marcos is the first one that was reelected. By midterm election, the tradition is that the President has already lost his popularity, and by his fourth year, he's very unpopular. So when [President Diosdado] Macapagal lost, I was already in NEC (National Economic Council).

TADEM: This agrarian reform was in NEC?

ROXAS: Macapagal had a legal mind, even if he had a doctorate in economics. The passage of the law is the act itself. In other words, a thing is accomplished once you passed the law. So he passed the emergency... That's the other controversy here. Eleuterio Adevosio was the head of

the Emergency Employment... that was a pump priming effort... following Roosevelt. I had to explain to him that, “The Keynesian formula applies if you’re already a developed country in a recession so you have a lot of unused productive capacity.” It is not applicable in an underdeveloped country where your supply problems arise from the lack of development—lack of capital, lack of developed resources, and so forth. So there’s no elasticity. You put money in the hands of people, there will be no production costs, because we don’t have the capacity. But Macapagal was following his Keynesian formula; even now people do not realize that the Keynesian formula does not apply to a country like the Philippines. He put Terry (Eleuterio) Adevosio at emergency employment so they were creating massive jobs in public works. They were hiring people and that was his solution to the unemployment problem. Once agrarian reform was passed into law... we tried to organize the Land Bank. I designed the Land Bank charter and patterned it after the Landbank of Taiwan. The Landbank of Taiwan became the major property developer because the government transferred some of the prime real estate tools and they would develop, and use them to swap with agricultural lands to make them very attractive. But instead of directly swapping land for land, what we did in the case of the Land Bank was to give it power to pool assets, for example, prime real estate assets, and develop them. I don’t think they ever used this power. And then, instead of using the assets themselves, they could issue fully participative preferred shares that were tax exempt. In effect, all the profits would go to the preferred shares on a tax-exempt basis. If you have very attractive assets and you like property development—you get prime real estate property and then you develop and sell the property and pass on the profits to the land. Then get it on a tax-free basis. But then, when we asked for those assets, for example, every time I asked for a particular asset, they had promised it to somebody else.

TADEM: That’s politics, right?

ROXAS: So, it was very disenchanting. After the midterm elections, we started preparing the NEC (National Economic Council) terminal report. The World Bank Development Institute cited our terminal report in (Albert) Waterston’s book. We said precisely that the Philippines was not in a position to do any real economic planning because all the plans that it had written were not really plans, but were sort of wish lists and expressions of intent without the mechanism for

implementing them. Jun [Roman] Cruz Jr. [and] Fe Villafuerte were with me at that time. Those were the people closest to me and I brought them to NEC when I left PIA (Program Implementation Agency). And Armand [Fabella] took over PIA. After they kicked me upstairs, they put Armand in because he was closer to Feny [Rufino Hechanova]. You know they were saying that they maneuvered to have me kicked upstairs so that Armand could take over. That's the story and we documented a lot of it in the terminal report. The Ateneo Library has a copy. There's a Japanese [Yusuke] Takagi doing research on [Diosdado] Macapagal.

<Mr. Roxas calls for his assistant.>

TADEM: And that one that you said about the technocracy?

<Mr. Roxas goes upstairs to fetch the book.>

ROXAS: He's the one who told me that there is a copy in the Ateneo library. And the book...?

TADEM: [Roman] Dubsky?

ROXAS: Dubsky, Yes. It's called *Technocracy in the Philippines*.

TADEM: Where was Hilarion Henares? Was he part of...?

ROXAS: No, Larry [Hilarion Henares] took over NEC (National Economic Council) after I resigned in February 1964.

TADEM: How volatile! But President [Diosdado] Macapagal was not really intervening in economic policy then? As you said he had a PhD in Economics; he knew the people to get. But then, at the end of the day, you also said that he had no particular vision in that sense?

ROXAS: Macapagal had a general vision of Philippine development, industrialization, employment, and agrarian reform. Agrarian reform, we had the Taiwanese here, Chen Cheng

who was the premier of Taiwan and K.T. Li his chief economic planner. Chen Cheng and K.T. Li were our guests, so we gave them a briefing in the operations room at PIA (Program Implementation Agency). I became very close friends with K.T. Li particularly, but then Chen Cheng invited me to Taiwan to observe their agrarian reform. He was the author of the authoritative book on Taiwanese agrarian reform. So then, I had a sponsored tour of all the agrarian reform units, and talked to people. That was where I patterned the Land Bank after the Land Bank of China. But of course, the Japanese, when they occupied Taiwan, set up the Japanese administrative mechanism. In Taiwan, there's the concept of domicile, and everybody has a domicile. So you designate the domicile area, and all of your records are concentrated in your domicile area. So wherever you own land, there are files in your domicile. So that you know exactly how much land a person owns. Unlike here, we don't know how much land Lucio Tan owns. Because there is no one single place where you can find [a total record of land ownership], because [the record of] the land he owns in Rizal [province] would be in Rizal, and the land that he owns in Batangas would be in Batangas. I remember when we were discussing the idea of retention, we had that problem. Because the statistics referred to farms, the number of farms, and the size of farms, but you didn't know the ownership. You knew which were owned, which were tenanted. But there was no way of finding out about land ownership, unless you did it on the parcelary records of every municipality. Only then would you know how much land any one person owned in different jurisdictions. There was an attempt to do that. There was an agency that was attempting to research land ownership. I don't know how far they've gone. So when you talk of the retention of three hectares per person, you would know how to implement it. You wouldn't really know how much land an individual owned, except when an individual owned land in one municipality, only then would you know. But when you own land all over the country, you would have a difficult time finding out how much land Danding [Eduardo Jr.] Cojuangco owns, for example.

TADEM: But with this policy now it is so hard... I know it's difficult with all landed families in Congress.

ROXAS: But you see, in Taiwan, that's how the landed families became industrialists. The Koos became Taiwan Cement from agrarian reform. Taiwan Cement was a government cement corporation, and the shares were swapped for agricultural lands.

TADEM: They could see that their wealth could be transformed...

ROXAS: Yes, exactly. We set up that mechanism here but it was never followed. In other words, we set up the mechanism so the Land Bank bond had priority. If you were going to invest it in the same area, let us say, you were a landowner. You want to set up a rice mill, you could use the Land Bank bond to capitalize the rice mill company, or a post-harvest facility, or a processing plant. So we tried to do that, on a district basis. So that the land conversion, the wealth conversion could be complementary. The landowner would become the owner of the support facility, and the tenant would become the farmer supplying the materials. So if you set up a pineapple processing plant or tomato paste plant, the farmers could become the growers and your Land Bank bond could capitalize the facility and you would get priority in financing. They never implemented it that way. As a matter of fact, when Cesar Virata took over Land Bank under [President Ferdinand] Marcos, he converted Land Bank into a universal bank. And I told him, that it was a mistake... Those who were involved in the original Land Bank functions would be junior citizens and the senior citizens would be the universal banking people, which was exactly what happened. So the core function of the Land Bank, which is the agrarian reform function, was further marginalized. It became just another government bank.

TADEM: Where were the US and IMF in all of these? ... I have an impression that they're very influential, but when you were doing your policy it seems that they were not there?

ROXAS: No, those were the conditionalities, I mean those were primarily the Department of Finance and Central Bank... and the planning office at that time. But we worked closely with Drag Abramovic. It all also depended on the individual and Drag would not subscribe to the Washington consensus. He's a Yugoslav. As a matter of fact, when they split Yugoslavia, he became prime minister of one faction.

TADEM: So it was okay...?

ROXAS: No, it was at that time. Our problem was the IMF but the World Bank was at our side. IMF, their function was stabilization although they were proposing to have joint IMF-World Bank teams. But they could not get them to work together. Those two institutions had very different views then. I think they're more open to working together now.

TADEM: Yeah. In Marcos's time, it was always IMF-World Bank together. I wanted to go back to your views about social movement when you were in government. There must have been public reactions to the policy...

ROXAS: The NGO (non-government organization) movement was not very strong then; it was primarily sector-based, in other words, the exporters' sector, the importers' sector. As a matter of fact, the Central Bank [and] the World Bank introduced the discourse on import substitution versus export orientation, and so forth. The struggle was primarily between the import substitution people and the exporters. This was because of the exchange rate policy. That whole doctrine gave import substitution a bad name much later. When you look at it, industrialization starts with import substitution because you're catering to an existing market that by definition is imports. If you're going to have local industry, it would be import substitution... What is the name of the economist who is very close to Gerry [Gerardo] Sicat here—[John] Powers? They were the ones who picked up all that discourse on import substitution and total protection measurement. And it became part of the party line: "Down with import substitution and the export orientation." But that came later. Even now, if you look at the Philippine economists' treatment of [President Diosdado] Macapagal's decontrol, they're generally unfavorable. There was no alternative; there was no other way to go. We could not continue controls because the whole mechanism was dropping. So you had to remove controls, which meant devaluation. Macapagal's problem was that the political lobby went to work with him. So he restored a lot of the distortions through the tariff mechanism. Like the distinction between tariff on raw material, intermediate goods and finished goods. You should have an equal tariff, so that you have an incentive to increase your local content. I have always maintained that it's better to let the exchange rate give you a uniform... so that 50 percent devaluation is like a 50 percent across-

the-board tariff. The only way to beat it is to reduce the import content. But if you have a differential lower tariff on imports, it reduces the incentive to do substitution. So you end up having intermediate products as your major imports, and this is where we are now. The intermediate products are our major imports. Like textile, that's another story because the finishing industry is like everywhere else, a separate industry from the spinning and weaving. Spinning is one industry where yarn is your end product; but weaving is a separate industry where gray goods are the finished products. But finishing is a bit market-oriented because it's very fashion-oriented. Therefore, in all countries with major textile industries, finishing is a separate business. You do not integrate weaving with finishing. But here, the Central Bank compelled integration. So it's the most inefficient way and we were not competitive in the textile [industry] except for denims because the finished product is not subject to style...In the Japanese case, the way they did that was through uniforms. Everybody wore uniforms—there was no diversity of clothes, which the Chinese did also. But there were several things that came out of that. My contention has always been that you cannot do development on a one-size-fits-all national basis. You have to divide the country into small community planning and development units so that the unit has to combine the human settlement with the habitat, with the territory. You cannot separate them. And that's the biological meaning of a community, a colony with its habitat. A beehive, a colony of ants, a colony of termites...they all have territorial grounding. So it's not just indigenous people who has to have an ancestral domain, any community must have an ancestral domain. They should have a domicile, a habitat. National wealth also means a national net worth. Resources that you don't own are not part of your wealth. So this business of foreign equity, foreign ownership is very much an erosion of your national worth. What you do not own, you cannot pass on to your children. You should have a national balance sheet and a national net worth. Scandinavian countries have a national balance sheet. There's a national wealth account in the United States, where they look at their national net worth. But the West does not encourage developing countries to do a national net worth because that would be contrary to their interest. They don't want us to be conscious of our national net worth. Because then, we would be sensitive to the foreign ownership of our national assets.

TADEM: So was NEC (National Economic Council) your last government position?

ROXAS: Yes. There was a sequel there—I started the Bancom Group. I left the government in 1964 and in the fall of 1964, we started Bancom. So in 1965, we went into the investment banking business. We were one of the first, probably the first real investment bank here. We offered to do a domestic debt analysis for the Philippine government—one of our early assignments. At that time, the Philippine government relied principally on bonds... they used to float these development bonds which had a nominal maturity of fifteen years. But they were eligible for reserves, they could be encashed. Therefore we said, “These are not fifteen-year bonds, they’re demand bonds. They’re demand debtor short-term debt. What you want is to lengthen the average maturity of the debt of the Philippine government and to develop the debt market.” So by the end of 1965, we submitted a proposal to develop a treasury bill market. That’s the paradox: you lengthen the average maturity of the debt by substituting 91-day bills for fifteen-year bonds. Because the fifteen-year bonds were on demand therefore, they were demand debt. So the 91-day bills would have maturities of 91 days, then you float them. So you would have a full spectrum of maturities eventually. So you float, you have a weekly auction, and gradually you would have bills that have a one-week up to 52 weeks in maturity. Then you begin to float an intermediate debt and the market gets used to it. So we set up that program; we had our first issue in April 1966. We did that for the government. We also developed the Government Dealers’ Association. I was already in the private sector but working with the government...

TADEM: It was transitioning into [President Ferdinand] Marcos time?

ROXAS: That was the time of Marcos. Who was the secretary of finance at that time? It wasn’t [Eduardo Sr.] Romualdez... But I remember we were working with Andres Castillo at the Central Bank. We organized the Association of Government Securities Dealers, and we gave seminars for our competitors. We taught them how to bid for treasury bills, to understand the yield curve ... because they were discounted and there were two discounting, not bank discounts. In other words, there were two yields. So we developed the market. The first market was April 1966, after a very tight money situation because of the 1965 crisis. We were just getting away from the crisis. So liquidity was going into the banking system, and they were not yet aggressively giving loans. So the first bid, the interest came as a surprise to the government. It

was only seven percent per annum for a 91-day bill. It was under 7 percent—6.8 percent, the winning set of bids. There were auctions every week, until we filled the spectrum. Then we floated the tax anticipation bills. There were two tax payment dates, April 15th and June 15th. So then, the companies would have to build up liquidity to make the April 15th deadline. So we floated a tax anticipation bill, which had a maturity of one week after April 15. But it would be eligible to pay for the tax on April 15, so you got a bonus of another week's interest. So that would go on in an auction as tax anticipation series. We had a problem when we designed that. So we had a committee seconded from the government. We were a private investment bank, and we had been seconded to the government. In other words, we were doing what PIA (Program Implementation Agency) was supposed to be doing on the outside. But then the Internal Revenue people said, "You are not permitted to accept in terms of payment a debt instrument of the government." We were not permitted to offset a tax against a liability of the government because there was no law, we had to have legislation. So we studied it, "So okay, what would you accept as payment? Do you accept checks?" And they said, "Yes, we accept checks". Well, that was an instrument. So a check was acceptable. One of the main features of the Treasury bill program is that you had to have value on maturity. In other words, that you could really count on value, as it was so difficult to collect from the government. Therefore, the Treasury bill became a clearing instrument. When it matures, you just put it into the bank and it would clear because it is good government fund. So that was part of the treasury bill making. We had to assure the market—they had to be confident that they could get good funds right on maturity, not one day more. So as the market became confident, then the yield again could be conducted and there would be more confidence. So when they said, "No, it's not possible," I said, "Okay, this government Treasury bill is a clearing instrument, so it's good fund. Suppose we design it so that on maturity date, when you turn it around, it becomes a draft, which is what a check is. It's a draft against good funds. It becomes a check, would that be acceptable?" They couldn't find anything wrong with it. You accept the check, which is a draft against good funds, and they don't know whether they're good funds because they're private deposits. It is a good fund of the government, cleared with the Central Bank. You deposit it in a bank, it gets cleared. So finally they came back and said "Look, we don't see anything wrong with that." That was the sort of thing that we were trying to get PIA (Program Implementation Agency) to do. Because half the time, no, more than half, 80 percent of the time, when you try to do anything, you ran up against obstacles put by the

government. So the real problem was how to get around the obstacles, which became our business in Bancom.

TADEM: Who were with you in Bancom when you established it?

ROXAS: Well, it was a joint venture between the commercial banks and the trust people who were the Yulos, the Tuazons, the Sorianos, and the Bankers Trust of New York. So that started the joint venture. Later, Bankers Trust sold their shares to American Express, so American Express became our shark. Our two main tasks with the government were domestic debt and the external debt management system. In 1968, there was a balance-of-payment crisis. We monitored the economy and we issued economic reports. From our studies, it was not a classic balance-of-payment problem, it was not a problem of trade—it was a problem of external debt service. If you get project finance, unless you're putting in new projects into the works, eventually, the flow will be reversed anew. In other words, you will be paying more than what you'll be getting as new funds; that was what happened. By 1968, that was our difficulty. The project funding was reaching maturity. They were being amortized. No new projects were going to the pipeline. The requirements of the country were no longer for entire plants and equipment but for intermediate materials. Therefore, they were not eligible for export financing from IMF (International Monetary Fund), Export-Import Bank, or World Bank. So we were on a net liquidation basis. It was an external debt service problem. When the original third-world debt problem in Brazil took place, Drag Abramovic was the main officer in the World Bank. He wrote the first book on [the debt problem] and his assistant in the Brazil rescheduling was Fe Villafuerte who later worked in PIA (Program Implementation Agency). Drag recruited her to help him with the Brazil rescheduling. So we're a bit tired of history. We were the first to call attention to the external debt problem because when we got rid of decontrol in 1962, the Central Bank removed its external debt monitoring mechanism because there were no exchange controls anymore. They were not monitoring the maturity of their own debt. And so as they ran into cash flow problems, the foreign exchange receipts and disbursement. Dr. [Andres] Castillo would call up Chase, and say "Oh we need a 90-day credit." So what was happening was they were liquidating the long-term loans and substituting them with 90-day credits. And Central Bank was not monitoring the country's external debt. So in 1968, we pointed this out and we offered to

tabulate the external debt of the Filipinos, official and private sector, for a small fee of fifty thousand pesos. So we did that and I took Fe Villafuerte as my project officer because she had World Bank experience. She tabulated the external debt. By October 1969, our results showed that the total debt was quite manageable. It was only 1.4 billion. At that time, it was just a little over a year's imports, I think. But 90 percent of it was maturing in three months. We did not need to devalue because it was not a balance-of-trade problem. We needed a program loan, because our import needs were no longer project needs. We just had to be able to import our intermediate materials. But we needed to reschedule the debt, which was due in November, and right after the elections, the votes had been cast. They had not been counted yet. And it was an awkward time to negotiate with foreign banks, particularly with the official creditors. We could not send an official mission. So I was deputized by the government, so I could speak informally for them and explain that the votes had been cast, but technically, we didn't know yet who would be the president. So we had to inform the creditors in advance that we would need a debt rescheduling. So, I went around to the governments and to the World Bank. We suggested to the World Bank to form a consultative group like in Indonesia. So we made presentations. Our difficulty was that the head of the syndicate of banks in New York was Manufacturers Hanover. It was also one of our major creditors. It was not in their interest to have a rescheduling. They wanted the IMF and they said that, if IMF would come in, they would want a devaluation [of the currency], and so forth. We didn't need devaluation but they were insistent. And the secretary of finance at that time was Danding [Eduardo Sr.] Romualdez. [Andres] Castillo was retiring and there were all sorts of rumors about the next Central Bank governor. One of the rumors was that since I was the negotiator of the government, I would be made governor. But it was Danding [Eduardo Romualdez Sr.] who wanted to be governor. <laughs> We said we needed a very small fresh loan and a rescheduling of the loan maturities. We needed only about fifty million dollars to tide us over and after the rescheduling, we would be alright. The senior vice-president of Manufacturers Hanover was not in favor of that request. And unfortunately, Danding Romualdez, who was the secretary of finance, was not on our side. We, Fe Villafuerte and I, were insisting, but they wanted a consultative group headed by the World Bank; they wanted the IMF (International Monetary Fund) in for the private commercial banks in the States. They were sort of the policeman. And we said, if the IMF would come in, then it would be a devaluation [that] was not needed at all. And so, in short, it was left there until [Ferdinand] Marcos was

officially proclaimed. They followed the plan of sending a consultative group and then, they had a classic IMF conditionality package with further devaluation. And Danding Romualdez did not get appointed as the Central Bank governor.

TADEM: Who was appointed?

ROXAS: [Gregorio] Licaros. And it was very ironic because part of the problem of the maturity arose when Licaros was with DBP (Development Bank of the Philippines). Licaros entertained every money broker. And it was part of their racket to give companies, in effect, blanket guarantees through money brokers. They had money brokers and they would have the worst possible debt management. In other words, they would get a blanket guarantee for an instrument which the money brokers would peddle in the market. And the syndicated banks were up in arms against [Gregorio] Licaros because there was no control over this and it was not being recorded anywhere. So, he was the main villain, as far as the banks were concerned. I think, in a way, it was very shrewd of the President [Ferdinand Marcos] to appoint the main villain to go on and complete the official renegotiation of the rescheduling. So he was in the worst bargaining position because he was the culprit and he was the governor of the Central Bank. He was the one who headed the official mission to negotiate the rescheduling. I remember him saying that before, the banks in the US would meet them with limousines and so forth. This time [there were] no cars waiting <laughs> and he was being treated like dirt. We recommended the establishment of the External Debt Management Office (EDMO) in the Central Bank. I'm mentioning that, because in a way, it was a continuation of what we were attempting to do in PIA (Program Implementation Agency)...

TADEM: So where was PIA in all of these? Under Armand Fabella what were their policies? Did they continue your policies or...?

ROXAS: Well, we didnt have much dealings with PIA at all because it was primarily Central Bank and Finance that we dealt with; that you have to get from Armand.

TADEM: Did you have dealings with Cesar Virata?

ROXAS: ... Even with Cesar... not very much during the time of Marcos. We would primarily finance projects, financial markets at that time.

TADEM: Then the lifespan, how long were you with BanCom in performing that?

ROXAS: Fifteen years... Well, in the [case of the] treasury bill, we were very active with the Government Dealers Association. We were trying to package agrarian reform... but they were not very successful. I think Condring [Conrado] Estrella was the governor of Agrarian Reform, of the Land Authority. But speaking of continuity, what we were attempting to do was to put policies in place to work: the rationalization of government financing, the rationalization of [economic] programs, and decontrol. Even now, there's no complete decontrol. You can't just walk into a bank and buy foreign exchange. They ask all sorts of questions. When you hand greenbacks, they will take down the serial number. <laughs> There's no real free market in foreign exchange. There's no real forward market. The forward exchange market is not effective banking. It does not have a cost of money ingredient because it's pure speculation on where the future exchange rate is going to be. You could cover, you could hedge.

TADEM: That's it. Thank you.

ROXAS: Sorry, if we have such short time, but that could give you the background.

TADEM: No, no... but if we have a few questions, can we go back? Because... for each technocrat, we'd like to come out with a paper, or a monograph. We would come back.

ROXAS: Alright, and check on that Japanese, who interviewed me in two sessions.

TADEM: Can we photocopy and send this back to you?

ROXAS: Oh sure. Okay. Just make sure you send it, it's my only copy, so make it sure...

TADEM: And I'd also like to share this with other colleagues....

ROXAS: And it would be interesting to get Armand Fabella's side. Maybe some of it you can share with me and find out...<laughs> The other person that I took in was Ting [Vicente] Jaime. When I joined PNB (Philippine National Bank), he was the personnel officer in Caltex, but he was the one who was taking economics when I was taking pre-med. So I made him my assistant manager in PNB, [for] research. So he went back to economics and finance. Then, one of the projects that I carried with me in PNB was organizing the first private development corporation with the International Finance Corporation of the World Bank. George Woods was with First Boston and he was the consultant who was hired by the World Bank. He later became its president. So he and I were working on the establishment of the Private Development Corporation of the Philippines (PDCP). That was one of the tasks I carried with me to PIA (Program Implementation Agency), because they needed a soft loan. So they had to find funds for a soft loan. I looked around and I found a military grant that had been given to the National Defense Department to build barracks. They had not used it. There were a lot of foreign grants that were unused. So I took it. The secretary of national defense was this ex-guerilla. I forgot his name. But anyway, we took it and returned it to the US government on condition that the loan was through PDCP, under soft terms, a thirty-year loan, with a 15-year grace period, and three fourths of one percent interest. In the event of liquidation, it had a position junior to equity so that private investors would be covered first and then... So with the very soft loans I negotiated it in Washington. When we were negotiating with US AID (US Agency for International Development), they were complaining, you know we always negotiated with a lot of bad experience and that bad experience was I think, an African country, Liberia. They had given Liberia a very soft loan. Then during the life of that loan, Liberia struck oil. So they had cash flowing out. There was a congressional investigation later, and they found out, "Why do you give this soft loan to this country when they got cash coming out of its ears." And so they wanted to make sure that this would not happen again. My final appeal to them, "Look, you're treating this as a soft loan. It's not a soft loan, it's a hard grant. Don't forget that this was a grant. You gave this to the Philippine government. We are returning it to you, because as a US government grant, we didn't have to pay it back. Now it's a loan, we have to pay it back, but it's still a loan, so it's not soft anymore, it's a hard grant, it's a returnable grant."

Sixto Roxas1
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JSPS Technocracy Project
Transcript of Interview

TADEM: Was Bancom your last time to have dealings with the government? After your stint in Bancom, did you have any other experience dealing with government?

ROXAS: Yes that's right. I can't think of anything right now. <laughs>

TADEM: Thank you very much.

<Mr. Roxas introduces his daughter.>

<End of interview>