The bad, the ugly, and the possibly good about flood control corruption

Jesus Felipe, Gerardo Largoza, Mariel Monica Sauler
Carlos L. Tiu School of Economics, De La Salle University

November 11, 2025

The hundreds of billions of pesos malversed from flood control projects have robbed the Philippine economy of protection and productivity. But to say that Filipinos have been robbed of their taxes betrays a misunderstanding of how government finances actually work: i.e., that pesos are created and spent by fiat, constrained only by the local supply of real resources — not pesos. It is simply untrue that public spending is funded by taxes. Correcting such misconceptions is crucial because Philippine development has been held back by decades of public underinvestment, possibly even more than it has by decades of corruption.

Manila — People are spilling onto major streets and gathering around public monuments to protest corruption scandals. This time it's about flood control. President Marcos, Jr. dropped initial hints as to the scale of malversation in his State of the Nation Address last July. Since then, events have taken on a life of their own. After three months of Senate hearings, the public has been able to confirm what it has long suspected: hundreds of billions salted away from thousands of overpriced, substandard, or nonexistent ("ghost") projects. Nearly every level of government has been implicated, from district engineers to managers of government banks, to mayors, provincial governors, members of Congress, senators, including the Speaker of the House and Senate President, both of whom have had to step down.

The Philippines ranks 114th out of 180 countries in the 2024 Corruption Perceptions Index. No surprise then that many will have become inured to graft, conflicts of interest, and impunity among public officials. On the other hand, few will deny it feels just a bit more personal this time. It's one thing to be inundated on social media with base displays of the "nepo" lifestyle, even by the kin of low-level functionaries. It's another to actually experience days submerged in floodwaters as millions have, rich and poor, during the monsoon season. The outrage is likely to escalate, as scrutiny is now being extended to other infrastructure projects: schools and classrooms, public hospitals, highways and bridges.

What follows is intended to offer analytical light alongside the heat of public indignation. It is prompted by a number of awkward facts about the relationship between corruption and economic development, a relationship that we argue cannot simply be summarized by platitudes like "*kung walang korap, walang mahirap*" ("no corruption means no poverty").

For example, if it's true that over a trillion pesos have been plundered since 2023 (and more dating back to 2016), then why hasn't the Philippine economy collapsed, the way it did in 1983 when President Marcos, Sr. and his cronies set the Guinness World Record for "largest ever theft from a government"? More recently and closer to home, when Truong My Lan embezzled an estimated VND 297.9 trillion in 2023 — nearly three percent of Vietnam's GDP — why didn't that economy unravel either? Inflation stayed within target (as it has in the Philippines, "steady at 1.7 percent" in October), the currency held firm, and the banking system, though initially shaken, was quickly stabilized through a VND 592.7 trillion support package via special loans and cash injections by the State Bank of Vietnam. If successive Philippine national budgets have been inflated by unplanned "insertions" (matched by massive procurement scandals), then why hasn't the Philippine economy experienced runaway inflation and macroeconomic instability? The last time inflation spiked in 2022, it was driven by external shocks: oil price hikes, disruptions to global supply chains, the war in Ukraine. Despite the news, the current Finance Secretary has just this month forecast growth rates even faster than the 5.9 percent average so far observed during this administration (and the Q3 2025 rate of four percent). Could it be that there is more to Philippine development than "*kung walang korap, walang mahirap*"?

The Bad: Corruption. It's deeply immoral and must be fully prosecuted. But some modes of plunder are more destabilizing to the economy than others.

We shouldn't have to state it, but let's all agree on the obvious: graft and corruption are evil and must be fought at every turn. Societies are held together by institutions, and institutions survive only when founded on principles of ethics and justice. Impunity erodes trust, and trust is essential to the health of neighborhoods, legal systems, and markets. For this reason alone, all perpetrators must be held to account.

But when analyzing corruption and its effects on the economy, especially on our prospects for development, numbers and details matter. Not the sort of details like what PhP 1 billion looks like in cash (five feet long, five feet wide, four feet high, the size of a small SUV, according to Mayor Benjamin Magalong). Or what all the misappropriated funds could have been spent on (enumerated here, for example).

We mean details like how much has actually been plundered, especially compared to previous episodes, here and abroad.

Then how the funds were malversed and laundered — specifically, whether the theft was denominated mostly in local currency or in foreign exchange.

Finally, what impact, if any, the spending of embezzled funds has had on the macroeconomy. Did the purchases of luxury cars and airplanes, casino junkets, million-dollar rings, condominium units here and apartments in Paris cause the economy to overheat or increase systemic risk?

These details matter because, as we argue in the next section, the Bad can easily turn into the Ugly if we are not careful.

Unsurprisingly, estimates on the extent of graft in flood control vary, and the running tally is likely to change over the coming months. At present, official figures range from PhP 42 billion (USD 715 million) to PhP 118.5 billion (USD 2 billion) since 2023, according to the Department of Finance. These are based on assumptions that 25 to 70 percent of the total cost of flood control projects over the last two years has been siphoned off. Greenpeace extrapolates a much larger figure of PhP 1.089 trillion (USD 18.5 billion) over the same period, based on the total allocation for "climate-tagged" expenditures, with PhP 560 billion (USD 9.5 billion) lost to corruption in 2025 alone. As of mid-October, the Anti-Money Laundering Council (AMLC) has frozen about PhP 5 billion in assets from those incriminated, comprising over 2,800 accounts.

The gross domestic product (GDP) of the Philippines in 2024 was PhP 26.5 trillion (USD 462 billion). The national budget in 2024 was PhP 5.768 trillion (USD 103 billion).

Taking the Department of Finance's conservative estimate of PhP 42 billion to PhP 118.5 billion stolen over two years, and dividing over that period, we arrive at something like 0.36 percent to 1.03 percent of the 2024 national budget, and 0.07 percent to 0.22 percent of the country's GDP in 2024. Following Greenpeace's estimate, the percentages range from 2.1 percent of 2024 GDP and 9.4 percent of the 2024 national budget.

On their own, the absolute numbers can be difficult to fathom. Comparisons can provide a sense of scale. The Van Thinh Phat banking fraud in Vietnam was estimated at VND 297.9 trillion, three percent of Vietnamese GDP. Brazil's 2014 Petrobras scandal involved BRL 4.4 to 5.4 billion (0.08 percent of its 2014 GDP) stolen from the oil company through the connivance of executives and politicians. Malaysia's 1MDB scandal revealed in 2020 an estimated USD 4.5 billion (1.33 percent of 2020 GDP) misappropriated from the sovereign wealth fund (of which USD 1.2 billion was recovered and USD 2.9 billion paid by Goldman Sachs in a global settlement).

Not to be forgotten, President Marcos, Sr. is on record for having looted anywhere from USD 5 billion to 10 billion over his administration (1965 to 1986), although a 2008 study by the Center for Research and Communications (CRC) reported in the Vera Files claimed these figures to be understated. The real amount, it argues, could be as large as USD 30 billion, based on reports that the late dictator's daughter had been caught in 2001 attempting to transfer USD 13.2 billion from the Union Bank of Switzerland to Deutsche Bank.

Differences in the scale of corruption aside, the mechanics appear to have become less sophisticated. Whereas many forms of embezzlement involve international shell companies and secret bank accounts, Senate hearings on the flood control scandals have so far revealed a simple, direct and mostly peso-denominated malversation workflow. Politicians, district engineers and contractors conspire to inflate flood control appropriations, inserting them within the national budget through clandestine meetings of the so-called Bicameral Conference Committee. Bureaucrats within government departments facilitate project approvals, then accomplices within the banking system permit large cash withdrawals, circumventing anti-money laundering measures by the Bangko Sentral ng Pilipinas, such as Circular No. 1218. One billion pesos can be transported in 20 suitcases containing PhP 50 million each, and these are delivered to the trusted contacts of principals, with small prearranged percentages distributed down the chain. It appears that large amounts do not find their way back into the banking system. Instead, there must be dozens, if not hundreds of bunkers around the country, inside condominium units, mansions and offices, custom-built to store truckloads of cash.

More vectors may be revealed as investigations continue, but casinos seem to have played a role in laundering the dirty currency. As far as we can tell, the playbook involves criminal proceeds (cash) being brought into these establishments and exchanged for chips. Whether the launderer gambles a little or a lot, the chips are eventually redeemed, allowing casinos to issue checks, wire transfers, account credits, possibly even cryptocurrencies as cashouts. The amount so far identified as laundered this way is small compared to the totals cited above: just over PhP 1 billion lost by the most notorious district engineer and his group.

The key point is that however scandalous these crimes, both the national budget and Philippine economy are today much larger than the public likely apprehends. This means the economy can still absorb the conspicuous consumption of nepo-wives, nepo-kids, and nepo-sidepieces without triggering inflationary pressures. More importantly, despite the reported purchases of real estate abroad and imported luxury goods, the corruption has remained largely peso-denominated, which means that the country's foreign exchange reserves are not being drained to the same extent they were in the early 1980s, when the country experienced a balance of payments crisis, courtesy of President Marcos, Sr. and his cronies.

In other words, things are bad. But it's more important they don't turn ugly.

The Ugly: Mixing bad governance with craven economics.

It is possible that with growing protests, the country will finally reach a reckoning with its institutions and governance. Moves to livestream public bidding and incorporate blockchain technology into procurement, for instance, have already begun. Yet there is a significant risk hidden in reform efforts, best evinced by three measures separately proposed by three sitting senators. First is to reduce the budget of disreputable agencies such as the Department of Public Works and Highways by 25 to 30 percent. Second is to do away with "unprogrammed funds" from the national budget (i.e., allocations that have not been matched to sources of government revenue). Third is to declare a one-month income tax holiday for all taxpayers.

The populism in each is plain to see, the desire to assuage public anger. What is much harder to spot is the egregious misunderstanding of how public finances actually work: that is, where government money comes from, what taxes are for, and therefore what corruption actually does and does not do to an economy. Yet it is this persistent collective failure to grasp the country's monetary reality that has likely cost the Philippines "lost decades" of underdevelopment, with or without corruption.

Ideas have consequences. If lawmakers, the public, and worst, the country's finance officials all remain convinced that government expenditures must be matched peso for peso by tax collections, the way a household's spending must be financed by the earnings of its heads, then not much more can be expected by future generations of Filipinos. According to our projections detailed in a forthcoming book (Felipe et al, 2026), with MOTS (More of the Same) economic policies, the Philippines will reach the centenary of its independence in 2046 without having joined the ranks of high-income countries. Make no mistake, the economy will continue to expand and poverty incidence shall be reduced — but at a pace consistent with a low-growth path. Even if corruption were fully eradicated.

We can illustrate using a few empirical exercises. In Figure 1 below, we plot the gross domestic product of 106 countries (log at constant 2015 USD) against their respective scores on the Corruption Perceptions Index (CPI). The CPI score indicates how corrupt a public sector is perceived to be, on a scale from zero (highly corrupt) to 100 (very clean). The regression line drawn through the scatterplot yields unsurprising results: every unit improvement in the CPI is associated with about a USD 1,000 increase in GDP per capita.

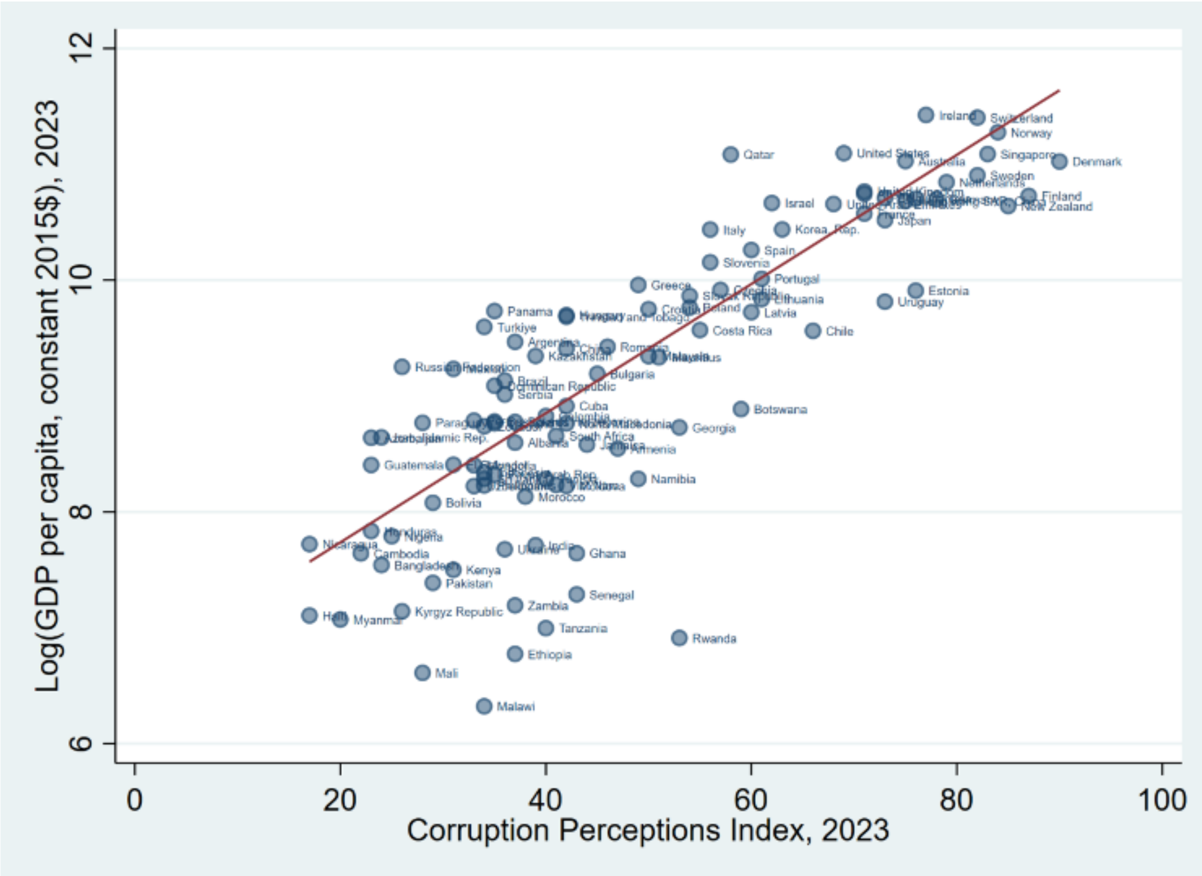

Fig. 1. Gross domestic product (106 countries) against Corruption Perceptions Index 2023
Source: Authors' construction

Yet the story is not as simple. The Corruption Perceptions Index is not exogenous (randomly determined). Even if it relies on the subjective opinions of experts, it is likely what econometricians call "endogenous": determined by multiple variables considered by respondents, including the one it is trying to explain, economic growth. Endogeneity within the explanatory variable introduces doubt as to which way causality actually runs: do improvements in the CPI cause economies to grow, as conventional wisdom suggests, or does economic growth make stronger and more accountable institutions possible, improving country perceptions? The regression above cannot provide the answer.

Now consider Table 1, where we list countries from the same sample that are richer than the Philippines (CPI score=34) but whose governments are considered more corrupt. Then examine Table 2, showing countries richer than the Philippines, with similar perceived levels of corruption:

If all it took for the Philippines to finally develop was for all corrupt officials to be jailed, then how can one account for the nearly two dozen anomalous cases listed above? How does a country like Panama achieve more than five times our per capita income with the same level of corruption? How have Russia and Mexico achieved triple our per capita income despite their oligarchs and murderous narcopolitics?

Table 1. Countries richer than the Philippines but with worse Corruption Perception Index scores

Countries	GDP per Capita (in Constant 2015$)	Corruption Perceptions Index
Russian Federation	10421	26
Mexico	10242	31
Paraguay	6432	28
Iran, Islamic Rep.	5668	24
Azerbaijan	5652	23
El Salvador	4482	31
Guatemala	4471	23

Note: The Philippines' GDP per capita (in constant 2015$) in 2023 was $3,745, while its Corruption Perceptions Index score was 34. We include countries with CPI scores of less than 32 and higher GDP per capita levels than the Philippines in this Table.

Table 2. Countries richer than the Philippines with similar perceived levels of corruption

Countries	GDP per Capita (Constant 2015$)	Corruption Perceptions Index
Panama	16873	35
Turkiye	14714	34
Brazil	9259	35
Dominican Republic	8858	35
Serbia	8211	36
Bosnia and Herzegovina	6508	35
Peru	6553	33
Thailand	6394	35
Ecuador	6239	34
Mongolia	4457	33
Indonesia	4193	34
Egypt, Arab Rep.	4112	35
Sri Lanka	3969	34

Source: Authors' construction

The ugliest outcome from this historical moment would be for bad governance to be compounded by craven economics. That is, if well-meaning lawmakers and economic planners fear fiscal collapse so much they're happy to continue a decades-long pattern of public underinvestment. No country has ever been able to increase national productivity — the one driver of development that matters — without significant spending on public goods. The Philippines? UNESCO has long recommended that countries spend four to six percent of their GDP on education. This year's budget for education has been proposed at four percent of GDP, an historical high, after averaging 2.87 percent from 1980 to 2023. Would scandals related to the Department of Education now provide a pretext to roll back? The Department of Trade and Industry (DTI), the agency presumably responsible for industrial policy, received a total budget of PhP 7.66 billion last year — 0.14 percent of the national budget, piteous compared to the 0.3 to 0.7 percent of GDP averaged by countries, according to Juhasz et al (2023). Assuming DTI were to finally commit to a serious industrial policy, its budget would have to be increased tenfold just to approach the lower bound.

Public spending and investment are important for developing countries, not just to rapidly improve productivity, but because it is ultimately growth that raises wages and creates a middle class who demands better governance and institutions. That is why it is crucial for the public and lawmakers to understand how modern public finances actually work: i.e., that Philippine pesos are created *ex nihilo* by the government in conjunction with the Bangko Sentral, not backed by gold nor silver, as they were in medieval times (nor dollars, as they were up until 1971). This does not mean the government can spend without restraint. But it means that the true limit to spending is the condition of the real economy (the stock of idle labor, capital, and productive resources), which can be monitored by monthly inflation. The limit is certainly *not* determined by tax collections. In a modern economy, taxes are collected for different reasons. Governments impose taxes to create demand for the pesos initially circulated, as taxes can only be paid in that currency. Taxes are also imposed to redistribute income, to raise the cost of undesirable activities, to express public purpose, and of course to cool down the economy.

What taxes do *not* do is fund public services. As an analogy, it would be like insisting that individual swimmers first create water in a pool before diving in. This, of course, is not how swimming pools work. Instead, the water, like money and public spending, must first be introduced into the pool by *fiat* — literally by the will of the administrator — before any swimming can take place. Likewise, modern governments must first spend fiat money in order for firms, banks, and consumers to participate in the monetary system.

Why does this matter at a time when the burning question is how to swiftly bring grafters to justice? Because jailing the guilty, while important for moral reasons, is not going to undo generations of underinvestment in public services. Even with the cleanest government, Philippine national budgets have always been too timid, over-indexed on essentially the same macro stability indicators upheld by international credit agencies — and ignored by governments intent on growing. The first question posed by Philippine economic planners has always been "how much have we raised in taxes" rather than "how much do we need to spend in order to achieve our education, health, infrastructure, and productivity targets?". It's why the country is where it is, at USD 4.4K per capita income, recently surpassed by Vietnam, whose per capita income was eight times smaller a mere 35 years ago.

The unkindest cut? That the hundreds of billions in flood control projects alone, embezzled over a decade with imperceptible impacts on macroeconomic stability, confirm that the fiscal space to spend has always been there. Philippine administrations have simply lacked the vision and leadership to do what every single developed country has done when it reached this stage: mobilize resources boldly to boost national productivity, while aggressively pursuing the kind of industrialization that rapidly raises incomes.

The Possibly Good: Finally realizing that the Philippines can develop and attain high income status, as others have, despite scandals and worse levels of corruption. We can create a constructive national agenda for development based on productivity, industrialization, and a proper understanding of government finances, beyond simply pursuing and punishing the corrupt.

Recall that we began this essay by asking why, if billions have been stolen, the economy has not collapsed. To explain, we make two claims: one, that governments spend by crediting bank accounts, which create money into the system; and two, that taxes do *not* finance government spending. Indeed, a government that issues its own currency (like the USA, Japan, or the Philippines in pesos) cannot run out of money, because it can always create more by crediting bank accounts. This important technical process is explained below.

In all truth, government spending comes first — that is, the government must spend money into the economy *before* it can collect it back as taxes. In other words, it is government spending that creates the money (in the form of so-called reserves) that people then use to pay taxes. Governments do not need to "get" money from the private sector to be able to spend. They simply need the political authority and institutional coordination to do so. Figure 2 summarizes the process of actual government spending: government accesses its account at the Central Bank (BSP) and this creates reserves. These are transferred to the commercial bank where the recipient (household or firm) has the account (through Landbank). This is the process for every single payment the government makes. Taxes are *not* involved.

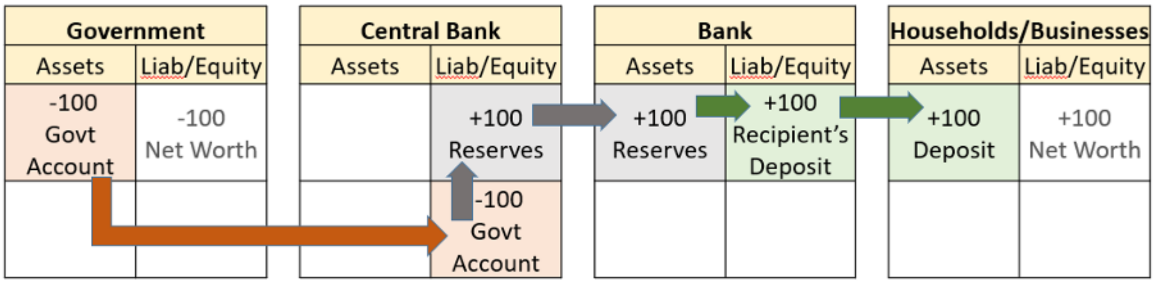

Fig. 2. How governments spend
Source: Authors' construction

Taxes do not fund spending the way a household's earnings fund grocery purchases because households do not create money, governments do. This is incidentally why a tax holiday, such as the one being proposed by a senator, will not really curtail government spending. Instead, the state's power to tax is what gives the local currency its value and demand, since people need the currency to pay taxes. When a sovereign government spends, it credits bank accounts electronically — essentially creating new money, as spending adds reserves to the banking system. When it taxes, on the other hand, it deletes or removes money from the system; that is, taxes subtract from reserves.

We understand that in standard economics, taxes are viewed as the way governments collect money from citizens to fund spending. According to this view, citizens pay taxes, money goes into the Treasury, the government uses that money to pay for roads, schools, etc. If taxes are insufficient, government must borrow, usually by issuing bonds. In short, taxes fund spending.

This is *not* how modern economies operate, and we challenge the economics departments of the nation as well as our own finance officials to prove us wrong. We ask the reader to think carefully about whether all the excellent infrastructure that developed countries built over decades was really the result of citizens paying taxes, and governments planning based on projected tax collections.

The process of paying taxes is the reverse of the process depicted in Fig. 2. We show it in Fig. 3:

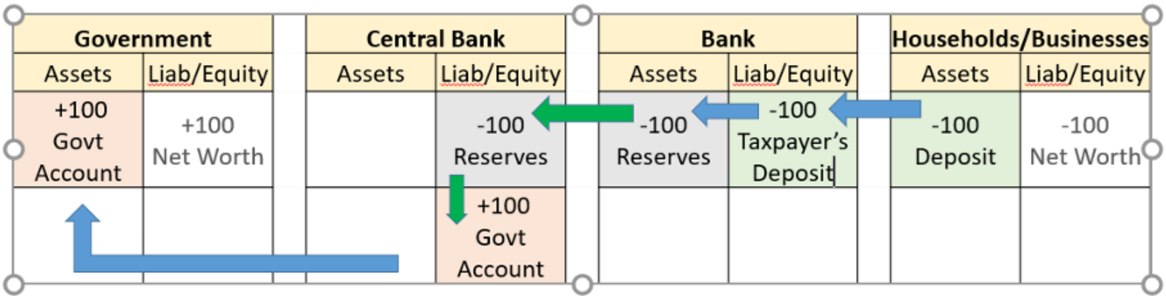

Fig. 3. How governments tax
Source: Authors' construction

When we pay taxes, we instruct our bank to transfer some of our bank deposits (claims on reserves) to the Treasury's account at the Bangko Sentral ng Pilipinas. The BSP then reduces the amount of reserves in the banking system by that amount. The government's tax receipts are merely an accounting record — the money does *not* go into some kind of jar, earmarked for building roads, schools and ports. Instead, the funds are, in essence, deleted from the system; that is, the reserves are extinguished. So taxes in fact destroy money; they remove money from circulation.

Summing up this short operational lesson in modern public finance: where do our taxes go? They go to the Treasury's account at BSP, where they are effectively *deleted* from circulation.

We insist that the current state of affairs (widespread corruption) is a disgrace to the nation. We do not have the public goods that we need. Yet we have a real opportunity today to understand that the government has always had much more scope to spend pesos to build infrastructure and to provide public education and health. Yes, the thieves got away with Louis Vuitton bags, and must be caught. Yet they did not steal our taxes because it is technically impossible to steal them (see Figs. 2 and 3), and because pesos, properly conceived, are not a scarce resource.

Once we understand the monetary reality of a sovereign country, we can get down to the business of actually pursuing development. That is, not by planning from a scarcity mentality, budgeting from tax collections and relying on the private sector to provide essential services. Instead, by planning based on national purpose and strategy: to raise productivity, and to deploy industrial policy to produce complex goods for export as our neighbors have; in the process generating jobs that pay better wages, ultimately resulting in a larger middle class less tolerant of and more able to fight corruption.

References

Baclig, C. E. (2025). What billions look like: Visualizing the staggering scale of flood control corruption. Philippine Daily Inquirer, 1 October 2025. https://newsinfo.inquirer.net/2118008/what-billions-look-like-visualizing-the-staggering-scale-of-flood-control-corruption

Felipe, J., Sauler, M., Cabuay, C., Sobreviñas, A., Kurdli, S., Aragones, E., & Largoza, G. (2026). The Philippine Economy Toward 2050: Economic Structure and Monetary Reality. Taylor & Francis.

Felipe, J., and Kurdli, S. (2024). The Philippine economy: Glass half-empty or half-full? Angelo King Institute Policy Brief 2024-08-034. https://animorepository.dlsu.edu.ph/res_aki/203/

Juhasz, R., Lane, J. J., and Rodrik, D. (2023). The new economics of industrial policy. National Bureau of Economic Research Working Paper 31538. https://www.nber.org/papers/w31538

Montalvan II, A. J. (2023). How much did the Marcoses exactly steal? Commentary, Vera Files, 10 Feb 2023. https://verafiles.org/articles/how-much-did-the-marcoses-exactly-steal