

CURRENCY *and* STABLE AGRICULTURE

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OUR currency problem is perhaps the most baffling of the economic problems confronting the country today. The working of the currency system is still a mystery to the layman in all countries, although everybody is vitally affected by changes in the system. The military notes of the Japanese occupation have radically affected our way of life that even the very young capable of remembering the events that happened during this hectic period will always recall the economic disorganization brought about by the use of this most subtle instrument for requisitioning the fruits of our productive labor. The misery, the hunger, the radical redistribution of wealth and income, the debauchery and demoralization of the race could be traced directly or indirectly to the chaotic currency situation of the past three years. The reestablishment of the pre-war currency system did not liquidate immediately our currency troubles. The effects of three years of currency irresponsibility and utter disregard of fundamental monetary principles will take at least a generation to shake off and to restore order in the national economy.

Our Prewar Currency System

Perhaps a summary background of the working and service of the currency system might be useful in understanding the magnitude of the problem before us and the importance of a sound currency system to the country as a whole. The Philippines was on what is known as the gold exchange standard from 1903 to 1933 and on the dollar exchange standard from 1934 to the outbreak of the war in 1941. Our currency system was, as it still is, inseparably linked to that of the United States. The gold exchange standard which was in operation for three decades was a device to place the country on a gold basis without the necessity and great expense of maintaining gold reserves in the Treasury. Reserves redeemable in gold were deposited in the United States to maintain the parity of the peso with gold. The peso was considered a gold currency but no gold peso was ever coined; the gold peso was only theoretical, it had no physical existence. The purchase and sale of exchange by the Treasury at rates presenting the costs of shipping gold

provided the mechanism of adjustment between the demand and supply of government money. This mechanism secured stability in the external value of the peso and encouraged the expansion of foreign trade. The big demand for Philippine products abroad stimulated production and since the bulk of our exports consisted of agricultural products, an unprecedented expansion of farm production followed.

When the United States abandoned the gold standard and devaluated the dollar in 1934, the Philippines had to follow suit, and it was provided in an amendment to the currency law (Act No. 4199) that the peso will always be equal to one-half of the dollar no matter what happens to the dollar. The currency reserves continued to be maintained in the United States with the exception that they were no longer directly redeemable in gold but simply in dollars. So long as the currency system was linked to the dollar, it was impregnable strong and withstood any crisis that caused havoc in the currency systems of most countries during the prewar period.

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The Currency System During the Japanese Occupation

The dollar exchange standard automatically passed out of existence upon the occupation of the Philippines by the Japanese armed forces. Military notes supplanted and drove quickly from circulation all kinds of Philippine currency. The military notes were issued by the Military Administration and later on by the Southern Development Bank, the fiscal agent of the Japanese Government in the Philippines. These military notes are euphemistically called Micky Mouse money. They were issued on the uncertain credit of the Japanese Government. The Mickey Mouse money is fiat money, entirely repudiated by the government.

There was no mechanism to effect the adjustment of the currency supply to the demand. Since the issuing authority did not bother to maintain any reserves for the notes, the only limitation to the quantity that was put into circulation was the need of the Japanese Imperial Forces and their agencies, the Japanese development companies, for the means of payment. Since the needs of the war machine were insatiable, to say nothing of the reckless and irresponsible business methods employed by the Japanese agencies, it was necessary to issue an enormous amount of the military notes to meet the demand for various kinds of goods and services.

The military notes circulated only in the occupied areas. For the unoccupied areas, emergency notes were issued to finance the activities of what was left of the Commonwealth Government in the Islands. Like the military notes, the emergency notes were issued without any reserve behind them. The currency reserves in the United States could not be considered as reserves for the emergency issues because they were outside of the control of the issuing authorities. And like the military notes, the issue of emergency notes was unregulated. Like the military notes, therefore, the emergency notes are fiat money. The Philippines was on an inconvertible paper standard.

The paper standard as such is not necessarily an inefficient monetary standard, incapable of promoting sound economic conditions. All the countries during the war were and are still on the paper standard for they do not redeem their currency in specie. But in some countries, especially in the United States and Great Britain, their paper currencies were expertly managed. They are on what is known as a managed currency. Inflation and hyperinflation occur under the paper standard, as did occur in the Philippines, China and other countries, when the issue of currency and credit is unregulated and divorced from the needs of industry and trade.

Present Monetary System

The reestablishment of the Commonwealth Government in February, 1945 also meant the restoration of the dollar

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exchange standard, the monetary system at the outbreak of the war. The peso is as inseparably linked to the dollar as before the war. For every peso of Treasury certificate in circulation there is an equivalent reserve in the United States. There has been some apprehension on the part of some people that the present enormous circulation as a result of the vast expenditures of the American armed forces in the Philippines has placed the currency in a position not very much different from that during the Japanese occupation. With the present inflation and the consequent deterioration of the standard of living of the great majority, the Philippine peso is often compared to the Mickey Mouse money. This is a mistaken view. The Treasury certificate, whether it is a victory note or not is fully backed up by reserves in the United States. As a matter of fact, the Philippine peso is one of the rare currencies in the world, if there is any at present, that has more than 100 per cent backing. If there is any defect in the present currency system, it is that the amount of currency reserves is excessive, unnecessary and too expensive for a poor country like the Philippines. And this defect is made more glaring by the fact that this country is short of capital funds especially during this period when reconstruction and rehabilitation are of paramount consideration, and we allow much needed funds to lie idle. Clearly a reform of the currency system is much in order. But more of this later.

The Philippine currency system is linked at present not only to the American dollar but also to an international currency system by virtue of the membership of the Philippines in the International Monetary Fund proposed in the Bretton Woods Conference of July, 1944. Part of the currency reserves is kept with the International Monetary Fund. This fund with resources amounting to \$8,800,000,000 would be used to provide financial assistance to the member countries in stabilizing their exchange rates so as to foster international trade.

Changes in the Value of Money

The importance of a sound and stable currency system was brought home with telling effect upon us during the Japanese occupation. We do not realize the benefits and the blessings of a most useful institution until we lose it. The relative economic stability fostered by the gold exchange standard and later on by the dollar exchange standard was replaced by economic chaos under the military note standard of the Japanese occupation. The currency system is so important a part of the economic life of the nation that when it goes out of order the body economy lies frustrate. The excessive issue of currency during the emergency poisoned the economic system. Economic stability is so intimately linked with the volume of currency that the latter has been compared to the blood stream of the human body. The blood stream vitally determines the health of the individual. Too little blood makes a person anemic and weak. Too much of it causes high blood pressure that may result in collapse any time. So also is the money stream to the body economy. Too little money causes business stagnation and economic depression, while too much money brings about an artificial prosperity which cannot but lead to the collapse of the economic system. Unless the issue of currency is properly regulated to meet the legitimate needs of business, inflation is bound to set in to plague everybody as was evident during the Japanese occupation.

No country is entirely free from inflation. Now inflation is one of the most troublesome of economic terms, and there is no general agreement on an accurate definition of the term. Inflation is often referred to as the creation of purchasing power in excess of what is needed in the production and consumption of goods at prevailing prices. Many writers use the term in connection with the increase in the supply and velocity of currency and credit at a much more rapid rate than the increase in the supply of goods. There is no gain in going extensively into definitions; suffice it to observe that high prices of

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- (i) To advocate legislation providing for the use of public schoolhouses for assemblies as meeting halls to insure the educational work for the masses;
- (j) To advocate political and economic security and to safeguard freedom of speech, freedom of the press, and the pursuit of happiness;
- (k) To advocate full protection of laborers who may be recruited from the Philippines to work outside the Philippine waters; to advocate the amendment of the laws concerning the recruitment of laborers in the Philippines to the effect that besides the payment of license in the amount of ₱6,000.00 a year, a bond in the amount of ₱1,000.00 be required for every laborer recruited as a guaranty of the compliance of the contract.

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commodities and almost everything else are the hall mark of inflation. High or low prices presupposes a concept of normal conditions. Prices are high or low because they are above or below this normal level, and the existence of inflation or its opposite, deflation, is to be determined by this criterion. A general rise in prices due to an increase in the quantity of money is the distinguishing characteristic of inflation. A general fall in prices due to the scarcity of the means of payment is regarded as deflation.

All major wars have always been the occasion for inflation of varying degrees of severity. There are other causes of inflation, but it is generally admitted that the most severe forms of inflation occurred during wartime or shortly thereafter. Such was the case in Germany and other European countries during and following World War I. There was inflation in the Philippines from 1917 to 1920 which developed into a relatively acute one by the beginning of the latter year, followed by an equally disastrous deflation by the end of 1920 to 1922. The inflation during this period was chiefly of prices and to some extent currency inflation. With 1937-1939 as 100 the index of wholesale prices rose to over 500 by the middle of 1920. Currency and demand deposits increased rapidly during this period.

World War II brought another inflation to the Philippines, a more virulent type than that of World War I. Speculation, hoarding, monopolization, profiteering and other evils were rife to the misery of the great mass of the population. The facts of that most chaotic period of our economic life so far are of common knowledge and experience and need not be mentioned here. The skyrocketing of prices brought about radical changes in our modes of living which are just beginning to be rectified. Prices of necessities soared to dizzy heights beyond the reach of the majority. Only the "buy-and-sell" crowd could afford a decent meal which was always available. In spite of the fact that we were supposed to have a controlled economy with ceiling prices for most vital goods, the black market thrived openly. The producers of necessities, especially foodstuffs, reaped fabulous profits as inflation reached the runaway stage. The farmers' pockets bulged with Mickey Mouse money, and the external evidences of affluence and the trappings of the leisure class before the war in the form of jewelry, furniture, radio sets and even fine clothing gravitated to the rural districts.

Effects of Price Fluctuations

The effects of the fluctuations of the value of money or prices on agriculture in general and the farmers in particular have never been squarely presented. In so far as the farmer is a debtor and has mortgaged his farm, he is greatly benefited by inflation because he could pay off his mortgage indebtedness with the proceeds of the sale of a smaller quantity of his products than would be required if prices were lower. The farmer is a good risk and he could have easy access to the banks and take advantage of his favorable position. The farmers'

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more of the palay-tobacco types? Should we extend this type of farm to other money crops as abaca, coconut, and sugar?

5. Area of cultivated land by types of farms.

The relative importance of each type of farming may also be indicated by the following area involved:

TABLE NO. IV

Type of Farms	Hectares	Per Cent
Total	3,953,810.64	100
1. Palay Farms	1,723,311.06	43.6
2. Coconut Farms	975,012.95	24.7
3. Corn Farms	316,113.93	8.0
4. Abaca Farms	278,240.95	7.1
5. Sugar cane Farms	206,767.25	5.2
6. Vegetable Farms	31,136.84	0.8
7. Fruit Farms	24,332.05	0.6
8. Tobacco Farms	19,788.52	0.5
9. Palay-Tobacco Farms	19,213.89	0.5
10. Livestock Farms	7,596.52	0.2
11. Poultry Farms	46.60	—
12. Other Farms	352,250.08	8.9

From the above figures we notice the increase importance of sugar, coconut, and abaca farms as to area cultivated as shown by their respective percentages to the total area cultivated as compared with those of the preceding table on the number of farms. There is a corresponding decrease in the relative importance of the other types of farms as the vegetable, corn, palay farms.

The problems in the preceding section

are also involved under this one.

6. The distribution of idle land by types of farms.

As given, there were in 1938 1,108,159.35 hectares of idle land within the cultivable farm area. This area constituted 28% of the cultivated land. How this area of idle land has been distributed to the various types of farm, is shown in the following table:

TABLE NO. V

Type of Farm	Hectares	% Distribution
Total	1,108,159.35	100
1. Palay Farms	403,365.10	36.4
2. Corn Farms	101,840.69	9.2
3. Abaca Farms	69,743.13	6.3
4. Sugar cane Farms	38,667.80	3.5
5. Coconut Farms	257,183.27	23.2
6. Fruit Farms	14,043.41	1.3
7. Tobacco Farms	4,924.89	0.4
8. Palay-Tobacco Farms	6,828.91	0.6
9. Vegetable Farms	11,443.81	1.0
10. Livestock Farms	24,319.37	2.2
11. Poultry Farms	31.74	—
12. Other Farms	175,767.23	15.9

There are no marked indications that the problem of idle land has much to do with types of farm. All types of farms seem to be affected by it. Taking, however, the relative importance of land under cultivation by types of farms as a basis, we notice that the share of palay, abaca, sugar cane, coconut, and tobacco farms of the idle land is less in

proportion to area cultivated than that of the "Other Farms", livestock farms, vegetable farms, palay-tobacco farms, and fruit farms.

The relation of types of farms to the idle land may be well indicated by its proportion to the cultivated land, as may be shown in the following table:

TABLE NO. VI

Type of Farm	Cultivated Land in Hectares	Idle Land Hectares	Percentage of Idle Land over Cultivated Land
Total	3,953,810.64	1,108,159.35	28
1. Palay Farms	1,723,311.06	403,365.10	23
2. Coconut Farms	975,012.95	257,183.27	26
3. Corn Farms	316,113.93	101,840.69	32
4. Abaca Farms	278,240.95	69,743.13	25
5. Sugar cane Farms	206,767.25	38,667.80	18
6. Vegetable Farms	31,136.84	11,443.81	36
7. Fruit Farms	24,332.05	14,043.41	57
8. Tobacco Farms	19,788.52	4,924.89	24
9. Palay-Tobacco Farms	19,213.89	6,828.91	35
10. Livestock Farms	7,596.52	24,319.37	320
11. Poultry Farms	46.60	31.74	68
12. Other Farms	352,250.08	175,767.23	44

Census of the Philippine Islands: 1939; Vol. II, p. 1025.

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costs of production do not rise as fast as the price of their products and they are able to realize a larger margin of profit. Most farmers were able to get out of debt during the Japanese occupation. Many of them assumed a new role, that of creditor to the other classes in the community. Debtors as a class are benefited by inflation.

While farmers in debt are undoubtedly favored by inflation, it is to be observed that the advantages gained by the farming class as a whole are not as great and real as they might appear. For increasing prices affect all kinds of goods, agricultural products which the farmers sell and the various commodities and services that the farmers have to buy. While it is true that their money income is increasing rapidly even if their total output is decreasing, they have to spend that income on goods which are also rapidly increasing in prices. In some instances it is to be doubted whether the farmers are really favored by inflation. There is reason to believe that in the long run the farmers as a class are not much benefited because of the disorganization of trade and industry and of economic life as a whole which cannot but affect everybody. The higher costs that are bound to be incurred as inflation progresses will mean that all producers including the farmers have to sell at higher prices, and the foreign markets for agricultural products would be adversely affected.

The benefit that any class or groups in the community derive from inflation is in the final analysis temporary. Increasing prices bring increasing profits, but like all the good things in life sooner

Table No. VI shows that among the well established crops, as sugar, tobacco, rice, abaca, and coconut, the proportion of idle land to cultivated land is less than in the other crops, which are considered minor crops. Take the case of the livestock farms, the idle land is more than three times the area of the cultivated land; the case of fruit farms, the area of idle land is 57% of that of the cultivated land; and the case of "Other Farms," the area of idle land is 44% of that of the cultivated land. The laudable reason may be that the later types of farms have not as yet been well established and that they are still in the process of development. The case of livestock farms is an object lesson in land utilization. The idle land is as good a grazing land as any pasture land. So it is a question as to which use is more profitable.

The problems involved in this section are the same as those under Section 3.

(To be continued)