

Insular Treasury Maintains Parity of Peso with Dollar

Paper read by Insular Treasurer Salvador Lagdameo before guests at the home of Mr. Robert E. Cecil, Manila

... I wish to refresh your minds about the definition of "the gold standard" because I will refer to that term frequently in my discussion. According to an author, "the gold standard is a monetary system in which the unit of value, be it the dollar, the franc, the pound, or some other unit in which prices and wages are customarily paid and in which debts are usually contracted, consists of the value of a fixed quantity of gold in a free market."

Now, our present currency system is and is not gold standard at the same time. This statement, however paradoxical or contradictory it may sound to you, is a fact and I shall explain why. It is gold standard because we recognize the theoretical gold peso as the unit of value, it being stipulated that such gold peso is equivalent in weight, fineness and value to the half gold standard dollar of the United States. It is not gold standard, however, because for our internal circulation we use the silver peso, we do not circulate gold coins and there is no free coinage of gold in the Philippine Islands. While our domestic circulation consists of silver pesos, yet when it comes to the settlement of our international obligations we do it by means of our theoretical gold peso which is tantamount to saying U. S. gold dollar. Ours, therefore, is what we may call a half-breed system to which the devisers have given the name of "gold exchange standard." Under it the Philippine Government undertakes to guarantee that for two silver pesos delivered to the Insular Treasurer in Manila, two gold pesos or one gold dollar will be given in exchange in New York, and vice-versa.

From what I have just said, you will agree with me that, while my statement that our system is a gold standard system and at the same time is not gold standard, with equal truthfulness we may state that for practical purposes the Philippine Islands is on gold standard basis just the same as a country on strict gold standard, my previous statement having been enunciated only for the purpose of emphasizing the difference between a strict gold standard system and a gold exchange standard.

But how is the parity of the silver peso with the gold dollar at two-for-one being maintained, or what is the machinery that has been set up to achieve that result as well as to keep the currency of this country equal only in volume to the demands of trade? How is that machinery being operated?

To maintain the parity of the silver peso with the theoretical gold peso, which as I said, ultimately means parity with the gold dollar of the United States, and to keep the currency equal in volume only to the demands of trade, the Gold Standard Fund was constituted. This fund is to be kept in the vaults of the Treasury in Manila in the form of Philippine silver currency and United States currency and may in part be in the form of gold bank deposits with government depositories in the United States. Its size is now fixed to be not less than 15% of the money in circulation and available for circulation with a legal maximum of not less than 25%. This size, however, has been fixed for the purpose of taking care of the probable fluctuations of our external trade. In this connection let me quote what Mr. Kemmerer, regarded as the money wizard, said in this matter:

"The size of this fund ought primarily to be determined by the probable variations in the currency demands of the country. If, for example, the currency needs of the Islands during the most active period of a prosperous year were estimated to be P55,000,000, and, for a time of extreme depression, say P45,000,000, the reserve fund

would need to be such that approximately \$5,000,000 could be paid out in New York in case of emergency to enable the retirement of P10,000,000 in the Philippines; and, on the other hand, there would need to be available P10,000,000 in the Philippines to meet the demands for an expanding circulation at the time of most active business. Of course the Fund should be large enough to allow a generous margin of safety over and above all needs that seem reasonably probable. Contrary to popular belief, the size of the reserve fund needed in a country like the Philippines has very little to do with the difference between the bullion value and the money value of the current coins. It is not a question of confidence in the money, but one of adjusting the supply of money to trade demands so as to keep the country's currency and its price level in equilibrium with those of other countries."

The Insular Treasurer, in order to accomplish the purposes of the law is authorized and directed to sell, on demand, drafts on his gold reserves pertaining to the Gold Standard Fund in the United States, for Philippine currency delivered to him at the rate of two silver pesos for one gold dollar plus a premium which represents the cost at commercial rates of transporting gold from Manila to New York. He is also directed to instruct his depositories in the United States to sell Philippine pesos for United States currency at a premium equivalent to the actual cost of transporting gold from New York to Manila.

In case of unfavorable balance of trade in countries under the strictly gold standard basis, merchants or their bankers ship gold to foreign countries in order to settle that balance, while in countries under the gold exchange standard, no actual shipment of gold is made, but drafts are drawn on the gold reserves abroad in order that payments may be made in gold to that and other countries. Conversely, countries on the strictly gold standard basis receive payments in gold shipped to them from other countries in case the balance of trade is in their favor and release that gold into circulation. On the other hand, a country which is on the gold exchange standard, instead of receiving gold physically, such gold is deposited with its depository abroad and the government agency in charge of the operation in turn releases silver coins into circulation. This explains the reason for the premium that the Insular Treasury charges on drafts sold by it in exchange for Philippine pesos offered or vice-versa. That premium represents the cost of the transportation that the merchant would have paid himself for actually transporting gold to foreign countries in settlement of his obligations.

You will see, therefore, that the maintenance of the parity of the peso with the dollar is being achieved through the exchange operations of the Gold Standard Fund.

Two essential things, however, are very necessary to be taken into consideration and performed in order to make the functioning of the gold exchange standard system a success. There are:

(a) That the money received as proceeds of the sale of exchange against the Gold Standard Fund should not be permitted to be placed again into circulation in the country; it should be kept in the Treasury vaults and remain there until called out in response to the demands of trade, or more plainly, only when an exchange for currency is demanded upon presentation of either United States or Philippine currency, as the case may be. In fact the law is very specific

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Senator Quirino's Plan . . .

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his wife's sacrifices, his children's limited schooling and opportunities; ceasing to give too much sugar for a cent, he abandons the fight with the wilderness, the new community is weakened by his defection. Homesteaders' aid is therefore, as a general proposition, fully justified.

Now, however, it will be shown that aiding Mindanao immigrants is most difficult even with the best of intentions because of the peculiar land tenure prevailing there and the clash between statute and custom. (Past recency to trust of local officials in Mindanao might also be shown, how in a single limited region of Zamboanga no less than 200 bona fide homesteaders had been bookended out of their claims by officials and their stragglers, who first got from them their carabao and cash advances, then, when they were thus stripped, the land itself. All this was due directly to doubts about the government's titles, the sharpers were able to set out *prima facie* claims of their own—holding water just long enough to get the genuine claimants eased off the land. Tardiness of the Zamboanga land office to the tune of nearly 800 claims, leases and homesteads perhaps, might also be cited; and a general survey of the titles and homestead situation in Zamboanga and Sulu, tallying precisely with what has just been said. But as this refers to the past, let it go).

By custom in Mindanao, all land is communal. Datus hold Mohammedan lands, are given tribute from the crops, but may not alienate their holdings; and their subjects hold unmoested possession of land while they put it to use, but when they abandon use of it their possessory rights lapse and another may use it under the same terms of tribute to the datu. To this law, private title to property is abhorrent. The laws of the pagan peoples are similar to the Mohammedan. The general domain is the feehold, as it were, of chief or datus whatever happens, it remains to his right. Plots in this

general domain are subject to possessory rights only. Exact boundaries between domains may not be distinctly marked. But in general, practically the whole extent of Mindanao, approximately 39,000 square miles, is definitely claimed, and only a small portion, in the few plantations—town property, farms, pasture leases, homesteads, etc.,—under statute law and private title.

Introduction of this statute law has wrought confusion, provoked endless border disputes and much formal litigation. In the tribes, as among the Bogobos of Davao, it has wrought social hardship; as when a Bogobo has been induced by the land officers to accept private title to his domain, ostracism has made him a tribal outcast—from rulership he has fallen to renegade. Other Bogobos have killed, maddened by encroachments on their domain by plantations and claims under private title. Pagan and Mohammedan alike reckon these private titles morally wrong. Many datos, as in Sulu, will have nothing to do with them; there are many such datos who now, nominally, have no domains—under Torrens titles they have been adjudicated to others. But custom ascribes them their old domains without regard to these strange titles from the insular courts: their people hold possession under their fiefship and pay tribute as of old.

Basically, the new titles must be defended with force. Gradually supplementary influences, as of the schools, will moderate customary law. In time, it may be expected, the statutory law will prevail; unrecognized by the general government, customary law will be obliterated. But the day is distant. Maintaining such utter confusion prevails respecting land in Mindanao that Senator-Secretary Quirino's plans must go the way of similar plans before them, they must fail or but moderately succeed. They are subject to insular administration, a good precaution. But in place of the predatory local official will still stand the crafty general storekeeper, his eye on the treasury's cash advances to the settler, and on their own benefits. When at last they have their titles, his will be

the cultivated fields, theirs the wild areas still to be subdued; practically they will be just where they began. Therefore, no lump sum ought ever be granted a settler. What he is provided by way of livestock and tools should be charged him at low interest, and in addition he should draw a small sum each month, say \$5 for actual needs, and in the end have a debt to the government of no more than P400. This has been recommended. If then the government will stand between the settler and dispossession, in limping fashion the colonization of Mindanao may proceed. All said and done, a beginning is very important.

Tighe Pleased with Manila

On October 2, Harry Tighe, British novelist and playwright, armed with an introduction from the American artist Carl Weritz, spent a brief day in Manila which he writes:

"Thank you very sincerely for my happy and entirely satisfactory day in lovely Manila. It was a pleasure to meet the men you so kindly introduced to me, foremost among them being the Governor, whom I hope to meet again. I also much look forward to further talk with you. I will be in closer touch with the *feeding* of Manila on my next visit, November 4 or 5, and shall be asking all sorts of questions. The town of Manila interests me more than almost any place I have visited. It has the fascinating colour of the East and added to it the charm of an old civilization like Spain's—this being spiced by modern America. Truly a wonderful combination."

Mr. Tighe is typically a Londoner, though born in Australia; and visiting the homeland for a while, he is making the round trip to Japan via Manila on the s. s. *Nelore*. His Manila impressions go out in the form of illustrated travel stories for publication in England and Australia. He is a capital companion on a day around Manila.

Insular Treasury . . .

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in this matter by going to the extent of requiring the Insular Treasurer to physically segregate such funds in his vaults and keep them separate and detached from all other funds in the vaults. In case of deposit in our depositories abroad, the law provides that "no portion of the fund shall be deposited in a bank doing business in the Philippine Islands or in any branch or agency outside of said Islands of a bank doing business in said Islands or in any bank doing business outside said Islands which may be controlled by a bank doing business in said Islands thru the ownership of stock therein or otherwise."

(b) That the rate of premium to be charged should be always the actual cost of shipping gold as represented by the prevailing rate of interest, freight, insurance, cartage and other miscellaneous expenses in connection with such shipment.

If these principles are ignored, the likelihood is that the system would fail.

The system is designed to be as automatic in its regulation of the money supply as the strict gold standard.

The present condition of the Gold Standard Fund as reflected in the books of the Insular Treasury on June 30, 1934 is as follows:

In Philippine currency	₱ 4,200,000
In United States currency	3,300,000
On deposit with United States banks	38,200,000
	₱45,700,000
15% minimum limit	₱16,600,000
Excess over legal minimum	₱29,100,000
25% maximum limit	₱27,700,000
Excess over legal maximum	₱18,000,000

To complete our currency system another fund was constituted, the function of which is

to permit the circulation of paper currency secured with silver coins. This fund is called the Treasury Certificate Fund which consists of silver coins deposited in exchange for Treasury certificates issued. It is maintained as 100% reserve of all Treasury certificates in circulation and available for circulation thus backing up the certificates peso per peso. Under this arrangement, the Treasury certificates are of the nature of warehouse receipts in that they are issued for each silver peso delivered to the Insular Treasury. However, inasmuch as the supply of silver coins may at times be insufficient to meet the demands of trade, the law provides that gold coins of the United States may be substituted temporarily for silver pesos in the fund or, in part, by gold deposits with the depositories of the Philippine government in the United States, pending the purchase of silver bullion for the coinage of silver coins. This fund should also be physically segregated from other funds in the vaults of the Treasury and should not likewise be permitted to go into circulation unless to meet withdrawals of Treasury certificates in equivalent amounts presented for redemption.

The condition of this fund on the same date specified above, in round figures, is as follows:

In silver coins	₱17,600,000
On deposit with United States depositories	74,300,000
Total	₱91,900,000
Treasury certificates outstanding	₱91,900,000

I wish to draw your attention to the fact that of our circulation, on that date, ₱18,400,000 are in Philippine coins and ₱91,900,000 are in Treasury certificates. Of these Treasury certificates, ₱10,000,000 are backed up by gold coins and ₱74,300,000 are backed up by gold deposits with our United States depositories. If we add these gold deposits to the Treasury Certificate Fund to deposits and gold currency pertaining

to the Gold Standard Fund, we get a total of ₱12,500,000 which, if compared with our total circulation and available for circulation of ₱110,900,000 would show that our Government circulation is over 100% backed up by gold. You will agree with me that this is a condition which really bespeaks of the soundness and stability of our currency system at present.

THE GOVERNMENT OF THE PHILIPPINE ISLANDS

DEPARTMENT OF COMMERCE AND COMMUNICATIONS

BUREAU OF POSTS
MANILA

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