■ This statement in a speech of Senator Jose J. Roy at M. L. Quezon University attempts to explain the nature of the Philippine Peso as the basic unit of the Philippine currency.

THE PESO AND THE CENTRAL BANK

The Philippine Peso, our monetary unit established by law, is the medium of exchange whereby prices are expressed, goods and services are paid for, and debts and other contracts discharged in this country.

Almost from the first time that Central Bank notes or paper money went into circulation in our country, the validity and worth of said paper money as a medium of exchange have been assailed on the Floor of Congress as early as 1949 on the ground that the new Central Bank paper notes lack gold or silver backing unlike the former treasury certificates or Victory paper currency which they have replaced. Indeed, even housewives eyed the new currency with doubt and suspicion as a medium of exchange. We had to explain again on the Floor of Congress, in spite of the many days of debate on the Central Bank Charter in the preceding year, the meaning of the managed currency system instituted by the Central Bank Charter. We had to assure our people that the new currency notes, though lacking in metallic backing such as gold or silver, can be as sound and stable as the currencies of other countries throughout the world if properly managed by the guardians of our monetary policy because said currency has for its backing, the wealth and resources of the nation and other internationally acceptable currencies of other nations constituting our international reserve.

But how sound has our Peso been? Has it promoted the economic growth of our country in the way of raising employment and increasing production and real income for our people?

We cannot deny that our Peso has been on trial from the beginning of its emergence as a Central Bank note. We instituted exchange controls in the later part of 1950 until January 1962, when partial decontrol took place, and in January 1966 when total decontrol was adopted. We instituted control as an economic necessity because we were creating local currency, very much more than we were producing foreign exchange or foreign moneys acceptable in the world trade and commerce, such as, the U.S. dollar which has been established by the International Monetary Fund as the standard monetary unit of the world.

Our local currency, the Peso, is not a legal tender or acceptable medium of exchange outside our country, in the same way that currencies of other countries are not legal tender in our country. We have to produce the US dollar and other currencies acceptable in world trade and commerce with which to purchase or acquire the things or commodities from outside our country, such as food, medicine, tools, and implements for production, machineries and raw materials for our industries and other vital which we do not or can not sufficiently produce in our country.

We have always been beset with the perennial problem of dollar or foreign exchange reserve — of the need of producing more dollars for our expanding economy by increasing our export receipts, inviting foreign borrowing. We all know that since the last war up to the present, the balance of trade has almost always been against us; our expenditures in dollars or purchases from abroad have exceeded our earnings in dollars. During the last year while we earned more than 800 million U.S. dollars worth of export receipts, we spent much more than that for our imports; and while we earned the further sum of another 850 million U.S. dollars worth from non-export items, otherwise known as invisibles, we spent for the same period about 900 million dollars worth for non-import items

That is why our dollar or foreign exchange reserves have gone down to such precarious or critical level as to compel the Central Bank authorities to adopt restrictive measures on credit and on the flow of our local currency. This, we have to do, short of returning to exchange control.

We are not alone in the world in this problem. Please remember that after the last great war almost all the civilized countries of the world have turned to the managed currency system like the one we have, abandoning the gold standard system as having become obsolete, dispensing almost entirely with the metallic reserve requirement. And only recently the US has done away with its 25 gold certificate backing of her currency thus having for its full backing the wealth and resources of the United States. Gold, however, will continue to be used in the payment or settlement of international obligations among nations as when, for instance, a country like France shall refuse the U.S. dollar for the reason that said country has more dollars than she needs, in which case, France can demand that she be paid in gold at the international price of ₱35 per ounce as fixed by the International Monetary Fund.

But you may ask why can we not adopt the monetary system we had before the institutions of the managed currency system when the peso had a metallic reserve and with much more purchasing power than the peso that we now have?

It is true that the peso under the old system of currency when we were a dependency of the U.S. had a one hundred per cent (100%) dollar backing which in turn had a metallic backing. It was so because we were not a sovereign state, and the power to create currency is an attribute of sovereignty. America imposed upon us a colonial system of currency whereby the peso we could issue was the equivalent of the dollar we could produce at the exchange rate of two pesos to the dollar. To illustrate: For the one hundred million dollars receipt from all our exports in one year, for instance, the National Treasurer could only issue the peso equivalent of two hundred million pesos in treasury certificates at the official rate of two pesos for every dollar. Said dollar income from our export receipts shall form part of our dollar reserve in the U.S. And if we had to use for instance in the same year the whole of the one hundred million dollars to pay for our imports from the U.S., we had to retire from circulation the same two hundred million pesos worth of treasury certificates or notes to pay for said one hundred million dollars.

Under such a system whereby the Peso is dependent automatically on the U.S. dollar, we were not able to promote the growth of our economy. We suffered from economic stagnation during the more than forty years of American rule in our country; we were pinned down to an agricultural economy we were forced to the status of supplier of raw materials to America, and consumer of her manufactured goods. And the U.S. saw to it, that for every dollar invested in our country, she got back her profits and capital in dollar. Under the colonial system of currency, I repeat, we could not produce our local currency, the peso, in excess of its equivalence in dollar; and all our peso had a 100 backing of the U.S. DOLLAR. While we had no problem of dollar reserve we were however, prevented from developing our agriculture and other natural resources, and especially, our industries.

Upon the establishment of our Republic in 1946, we adopted our own system of currency and broke away from the dollar standard by instituting the managed currency system under the charter of our economic sovereignty, the Charter of the Central Bank, R.A. 265.

How do we create money or when do we issue peso notes and coins? The Charter of the Central Bank which has the sole right and authority to issue currency provides expressly that the Central Bank may issue notes and coins only against, and in amounts not exceeding, the assets of the Bank. And what are the assets of the Central Bank against which notes and coins are issued?

There are about five billion pesos worth of unissued currency notes or printed paper bills in the vault of the Central Bank, and said notes are issued against our earnings in foreign currencies, from our export receipts, and the so-called income in invisibles, such as, foreign investments, expenditures of the U.S. in its military installations, U.S. pensions to our veterans, expenditures of tourists and many other forms of income in invisibles.

But that is not all. The Central Bank also issues fresh money or currency notes against bonds and securities issued by our Government by authority of law. While the Central Bank is prohibited by the Central Bank Charter from subscribing to bonds issued by the Government, it can buy said bonds in the open market. Since bonds are assets in the form of promissory notes the Central Bank can issue money against said bond assets. Please understand that our government in its yearly budget is providing about two hundred million pesos for the servicing or redemption of said bonds when the periods of their maturities come. They are paid from money in circulation or from the income of the government from taxes and revenues. Unless they are paid out of the money in circulation, we may be flooded with local currency resulting in harmful inflation. It may surprise you to know that the largest asset of the Central Bank against which currency were issued are the bonds acquired by it in the total sum of about one and one-half billion pesos.

A very important function of the Central Bank in creating money is the issue of currency against assets or credit instruments of the banking system under its rediscounting and discounting operations. Banks and other financial institutions take recourse to the Central Bank for fresh money on their eligible papers or solid guarantees or collaterals. Without said facilities extended by the Central Bank, most of our banks will not be able to operate. Fresh money may also be issued in the form of budgetary advances to the government in an amount of not more than

15 per cent of its expected income from revenues which, at the present time, amounts to about 300 million pesos on its revenue income of about two billion pesos but payable during the first quarter of the year following. But most of the time the government has been delinquent in paying said obligation to the Central Bank.

In the instances I have cited, the issue of money is made against the resources of our government in the case of bonds and budgetary advances, and against the resources of our banking and financial institutions which reflect the wealth of the nation.

The managed currency system is now obtaining or has been adopted in almost all free or civilized countries of the world accounting for the general increases in prices and corresponding raises in wages and salaries The desirable degree of inflation has spurred progress all over the world, enabling nations to recover remarkably from the chaos and material havoc caused by the last Great War. Massive public borrowings or bond issues have been resorted to.

NOT BY RICE ALONE

Abundance in rice is not enough to win and sustain the faith of the people in the government. There must also be abundance of goodwill, sincerity, and honesty. — *Fernando Lopez*