to succeed, American business will also need more vigorous diplomatic support from our State Department than it has received in the past."

The Chamber of Commerce of the United States, in the brochure already referred to, states that the established policies of the Chamber "justify a sympathetic attitude toward the Point Four program", but that Chamber principles "do not countenance waste or needless expenditure of funds in any program which may be inaugurated either at home or abroad".

A summary statement runs:

"The Chamber specifically has warned against 'industrialization at any cost' in the less developed countries of the world. In this connection, it has held that factors to be taken into account should include the establishment of political and economic security and equal justice for domestic and foreign traders, possession of or access to essential raw materials, necessary capital whether domestic or foreign, the requisite technical personnel, the prospect of adequate markets for industrial products either at home or abroad, the ability of industries thus fostered to survive without uneconomic trade barriers, and private rather than government operation."

Among the Chamber's final recommendations are:

"That the Government confine its technical aid projects to countries where there is a genuine desire and ability to cooperate and where there is no question as to conditions favorable for economic development...

"That the program of technical or other aid be restricted to countries which through treaties and agreements or financial guaranties provide assurance of fair treatment for American private capital..."

This *Jo rnal* will not say that the Philippines will get no further United States Government assistance additional to that still on schedule. It is possible, perhaps even likely, that a further inter-governmental loan may be negotiated for economic development purposes, but this could not be under more than a nominal application of Point Four policy.

An inter-government loan, if it were to be agreed upon at all, would have the advantage of being comparatively quick and sure, which private investments under the Point Four Program would not be. But development under Point Four would in the long run be far more sound, enduring, extensive, and self-multiplying, than any piece-meal development on the basis of a government loan could be, provided only the proper "climate" were established, and this rests with the Philippine people and Government.

If the Philippines is to be a "pilot area" in the implementation of the Point Four Program, a "show-window" for democracy in the Far East, it rests largely with the Philippines, because the success of the Program will depend on cooperation and *reciprocity*, on the profit there will be in it for *both sides*.

The Tañada Bill Again

With the re-introduction of the Tañada Bill on the forced disposition of lands acquired by foreigners, we feel impelled to sound the warning once again that the Supreme Court decision (not, we claim, any of the provisions of the Constitution) which this Bill seeks to implement, will strike foreign capital investment in the Philippines its possibly most deadly blow.

It is true that under the interpretation given the Supreme Court decision in the notorious Krivenko Case by other high officials of the Government, American holdings will not be affected under the present "Parity" provisions, but this is a safeguard likely to be good for only a limited number of years.

What could be more discouraging to capital than the fact that the investor could never own land here,—the land which he would develop as a plantation, the land on which he would erect a factory or a shop, even the land on which he would build his residence? The possibility of acquiring a sound title to any land necessary, is generally one of the first concerns of any one who is contemplating a new industrial or business venture.

And speaking of a favorable "climate" for investment, what could produce a more vivid impression of a hostile climate than if any man who might come into the country learned that he would not even have the right to a small piece of land on which to build his private home, let alone his factory or mill or shop?

We say again that such a policy is not in consonance with the Philippine Constitution, but traduces what is, in the main, a liberal, democratic basic law. We say that it is contrary, too, to the letter and spirit of the Universal Declaration of Human Rights, in the drafting of which, by the United Nations, the Philippines took so honorable a part. What, indeed, could be more cruel than forcibly to dispossess any resident here, of whatever race or nationality, of the home he and his family occupies, in which, perhaps, with foresight and care for those dependent on him, he has invested all his savings, and which he has tended with the love and pride which go into home-making everywhere? Such an inhuman and wicked policy, executed wholesale, under a mere color of law, would make the Philippines a by-word for its hostility to the aliens within its territories.

Meaning of The Coin Shortage

It is fortunate that there are members of Congress who understand the nature of our present economic and financial problems and who are ready to face them realistically and speak of them frankly.

We refer at the moment especially to Senator Lorenzo Sumulong, worthy son of a worthy father, who according to the newspapers at the time of this writing, is initiating a move in the Senate—

"to amend the monetary reserve provisions of the Central Bank Charter so as to strengthen domestic as well as international confidence in the Philippine Peso...

"Senator Sumulong said yesterday he planned to introduce a bill to require the Central Bank to keep a reasonable percentage, possibly 25 per cent, of its reserves in gold as is done in the United States.

"Under the present Charter, the Central Bank is under no requirement to keep a definite percentage of its reserves in this stable metal..."
—*Manila Daily Bulletin*, February 11.

This proposal comes at a time, and is no doubt largely prompted by the growing shortage in the circulation of silver coins which became apparent recently and which is now (middle February)* creating not only great inconvenience but is leading to all sorts of charges in official quarters as well as in the newspapers that this is the result of wilful hoarding and speculation on the part of "Chinese merchants".

The circulation of such charges and reports, together with the fact that many merchants, Chinese and others, find it actually impossible to make change, could easily result in rioting in which many innocent people would suffer injury. To single out one group in the population and to charge it with being responsible for what is actually a natural economic phenomenon under present conditions, is unfair and indicative of a lack of a sense of responsibility. There is hoarding but it is general, and, as is well known, for instance the conductors of certain bus-lines, Filipino-owned, are among those who simply refuse to make change, though it is obvious that after the first few runs of the day, the conductors must have collected enough coins to hand out some change when necessary. In a number of stores change is now being offered in the form of postage stamps and small "promissory notes."

There are no doubt a number of causes contributory to the disappearance of our silver coins. This is the season

*As this issue of the *Journal* goes to press (early March), the coin shortage appears to have been pretty well overcome, at least for the time being, through the release of additional coins by the Central Bank, through appeals for confidence published in the newspapers, and through the introduction of legislation providing for the punishment of hoarders. These are all proper measures, but the shortage as a phenomenon of last month remains to be explained, as also the possibility of a recurrence.

of the year when there is usually some shortage because the farmers are selling and being paid for their crops and it is a country custom to put away silver coins rather than paper money as safer to keep against the danger of fire.

Also, once a shortage becomes noticeable, everyone, willy-nilly, becomes a hoarder. Every man who has to have some change for small purchases or for transportation or other such purpose, will do his best to see to it that he has some in his pocket. With several million people doing this and attempting to keep more change than they ordinarily would, a great quantity of coins naturally disappears from view; they are in people's pockets. This is what an official of the Central Bank meant when he said that the cause of the coin shortage is "psychological";—it is that, but it is also more than that.

It is possible that there may be some individuals, perhaps even a "syndicate" such as is being talked about, buying up silver coins which, at the present price-levels, may actually be worth more than the monetary equivalent,* doing this buying either for such profit as there may be in it, or, as has also been suggested, for shipment to Formosa to help pay Chiang Kai-shek's soldiers. The latter seems a pretty far-fetched guess, and as to the holding of large quantities of silver coins for hoarding or for sale at a profit as bullion, no such activity has actually been uncovered, and there may be nothing at all to any of this talk.

But if it were true that silver coins are being hoarded and sold at a profit on the basis of the silver-content, which is considerably below the normal monetary value of the coins, then the real cause of the coin shortage would not be this speculation, but both the fact that the paper peso had greatly depreciated in value and the fact that a loss of confidence in the national currency was manifesting itself.

This, indeed, may be one of the principal causes of the phenomenon, and Senator Sumulong, therefore, put his finger precisely on the weak spot in our present currency system,—the lack of a mandatory metal reserve supporting the currency, and proposed the proper remedy. The lack of a mandatory metal reserve has from the first threatened to be destructive of confidence, and a year ago, we stated editorially in this *Journal:*

> "January, 1949, marks an important point, a point of departure, in Philippine economic life. With the inauguration of the Central Bank, the currency and banking situation changes radically from that of a banking system which has been largely free and from a virtually automatic exchange currency standard, to a system of direct government control over both currency and credit...
>
> "As the old banking system served the country well and as the Philippine currency under the former standard has been one of the few stable currencies in the world, it may truthfully be said that the new system, with all its obvious risks has not been hailed with excessive enthusiasm outside of certain government circles..."

In the main, the country is still using the old pre-independence Philippine notes, but merely as a convenience until new notes can be printed and these old notes can be retired. Last year the Central Bank issued the first of its new one-peso bills, printed in England on not-so-good paper and in a rather unattractive gun-metal black. It is generally known that the common people throughout the country do not much like them and call them "*piso maitim*", the black pesos. The Central Bank would have been better advised had it printed the notes in some more cheerful color and had it, indeed, reproduced the appearance of the old note as closely as possible in the new issue.

Public hesitancy in the acceptance of the new peso-note is probably chiefly due to "aesthetic" reasons and because they are different from what the people are accustomed to, as only the instructed among the people are likely to take notice of what is technically known as the "covenant" on this first issue of the new currency.

The old Philippine Peso note bears the following covenant or promise:

> "This certifies that there has been deposited in the Treasury of the Philippines One Peso payable to the bearer on demand in silver pesos or in legal tender currency of the United States of equivalent value."

This Peso was backed 100% by United States Dollars in the ratio of 2 to 1, the then existing law requiring that the Philippine Treasury maintain a Treasury Certificate Fund in dollars at the rate of $1 for every ₱2 in circulation or available for circulation. This Fund was not in silver but in United States Dollars, which Dollars themselves were supported by a substantial gold and silver metalic reserve (the minimum being 25 per cent and the actual generally much larger).

The new Peso note bears the following covenant:

> "This note is a liability of the Central Bank and is fully guaranteed by the Government of the Republic of the Philippines. This note is legal tender in the Philippines for all debts, public and private."

Nothing is said about any Treasury Certificate Fund or any metal backing, and the word "liability", though technically correct, does not have a reassuring sound. However, in effect, the old Treasury Certificate Fund has now become what is called the "International Reserve" which properly may be considered a reserve against the Philippine currency issue, as this issue, a direct liability of the Central Bank, is backed by the total assets of the Bank of which the International Reserve forms a part.

But whereas the old Treasury Certificate Fund was a very stable one, not to be diminished except by retirement of notes in circulation or available for circulation, the new International Reserve increases or decreases according to the amount of foreign exchange which has to be bought or sold by the Central Bank and its agencies, as is required by the general balance of trade and of payments. The International Reserve goes down if Philippine payments exceed collections, and vice versa.

In December, 1945, Philippine reserve funds amounted to $557,000,000. In January, 1949, when the Central Bank was established, the reserve amounted to $279,000,000.

As of January 31, 1950, the International Reserve was made up as follows, according to a Central Bank report:

Gold	₱ 2,935,162.93
Due from United States Depositories	439,472,634.85
Foreign Currency (United States coins)	25,120.98
	₱442,432,918.76

As against this Reserve, the currency issue in notes and coins stood as follows on January 31, 1950:

Notes	₱540,849,900.00
Coins	74,723,481.60
	₱615,573,381.60

As Central Bank authorities have pointed out, the Philippine currency, despite the large decrease in the total of the International Reserve, still has a very considerable backing, over 70 per cent, which exceeds the backing behind most national currencies these days. But because of the continuing excess of imports over exports, the Reserve continues to dwindle, and it is for that reason that exchange control was recently imposed on top of the earlier controls on imports and credits.

Some such control was evidently necessary to diminish the drain on the International Reserve, although such control is not a cure, and while the drain has been temporarily diminished, the restrictions placed on the convertibility of the peso is having most serious effects. Converti-

*According to the *Manila Times* (February 19), "Currency profiteers and agitators tiptoe on sound business logic . . . Melted, one peso in silver coins amounts to ₱.76. At present blackmarket rates (₱2.80 to a dollar) a peso bill is worth ₱.71."

The silver content of Philippine coins runs as follows:

Peso	20 grams	(800/1000 fine)
50-centavo piece	10 "	(750/1000 ")
20-centavo piece	4 "	(750/1000 ")
10-centavo piece	2 "	(750/1000 ")

Central Bank figures show that most of the coins in circulation are silver pieces: ₱53,394,000 in 10- and 20-centavo pieces; ₱28,154,000 in 50-centavo pieces; and ₱19,299,000 in silver pesos. Only ₱12,459,000 are in 1-centavo and 5-centavo pieces.

bility is the one thing of most crucial importance, not only in the maintenance of industry and trade but of the inflow of outside capital, and, finally, in the maintenance of confidence not only in the currency, but in the whole economy of a country and in the wisdom of its management.

As has been noted, Philippine currency is backed not only by the total assets of the Central Bank, whatever these may be, but is "fully guaranteed by the Government of the Republic of the Philippines". This could be a very strong guarantee, just as the American Dollar enjoys all the world's confidence though it has a metal backing of only 25 per cent. But if conditions arise which cause a loss of confidence in a government, in its political and financial stability, then there is a corresponding loss of confidence in the paper currency guaranteed by that government.

As is well known, the Philippine Government has spent sums greatly in excess of its revenues,—partly from necessity, partly in extravagance. The country as a whole, also, partly from necessity and partly in extravagance, has bought far more (in the form of imports) than it has been able to pay for (in the form of exports). As results: loan funds are being exhausted and the International Reserve is, or was, rapidly dwindling.

Under these circumstances, we must accept the no doubt unhappy interpretation that the disappearance of the country's silver coins is one symptom of a loss of confidence in the Peso, not so much, in this case, a loss of confidence on the part of aliens, but on the part of the people of the country, the common people, themselves. They are coming to think that silver money is at least better than the paper peso, so, whenever they can, they are holding on to the coins. It is an example of Gresham's law at work, —the tendency of money of lesser intrinsic or imputed value to remain in circulation while that of some higher value is hoarded.

For people to hold on to their silver is a rather pitiful thing for at best this gives them only little protection, coins constituting only around one-eighth of the total currency and the silver in the silver coins being ordinarily valued at much less than their monetary value.

And the drain on the silver coins could be stopped quickly enough by issuing paper notes in small denominations, as is generally done in war-time, but even if this were done, it would still be to deal only with a symptom and not the disease.

The coin shortage should be taken by the Government as a grave warning-signal. It is a manifestation of a local reaction among the people themselves which, in a sense, is more serious than any reaction, outside of the Philippines, in foreign countries. It is a warning far more spontaneous, far deeper, far more unmistakable (if we only do not try to explain it away falsely) than a popular vote at an election.

We may take it for granted that the Government will want to take every possible measure to restore the people's waning confidence in the currency. It would not be enough merely to issue appeals against hoarding, and we say this although certain members of the American Chamber of Commerce very creditably took the initiative in organizing the Philippine and Chinese Chambers and the Philippine Media Association for the purpose of instituting, in cooperation with the Central Bank, a publicity campaign against hoarding. That is a good thing, but neither such appeals nor the passing of laws punishing hoarders can result in anything but a mitigation of a symptom.

To treat the basic cause, some such legislation as Senator Sumulong's proposed bill should be adopted. The Government also should take even the most radical measures necessary to balance the budget. At the same time the Government should seize upon every available means to promote the rapidest possible increase in the national production and in the country's exports.

In such an all-out effort, the American Chamber of Commerce, as an organization and through its membership, will do everything possible to assist, and so, we are sure, will all the foreign business elements in the country, for certainly it is not to their interest to do anything else.

Annual Report of the Philippine-American Chamber of Commerce

Members of the American Chamber of Commerce of the Philippines who had an opportunity to see it, read with interest the 1949 Annual Report of the Board of Directors of the Philippine-American Chamber of Commerce (New York), presented by Mr. E. F. Koch, the Vice-President. For those who did not have the opportunity, we shall quote a few paragraphs to show "how others see us":

In speaking of the economic situation in the Philippines, the Report states:

> "The Philippine economic situation progressively deteriorated during 1949. At the close of the year, the outlook for 1950 was far from bright. Relatively mild import controls, mainly on luxury goods, were imposed January 1, 1949. These were followed by more drastic controls toward the end of the year. To these import controls were added, in November and December, first selective credit control and then exchange control. The latter suspended the free convertibility of pesos into dollars, the maintenance of which it had been expected would be insured to the mutual benefit of the Philippines and the United States, under the provisions of the Philippine Trade Act of 1946. . . .
>
> "The underlying factors that brought about the predicament in which the Philippine Government now finds itself are varied and complex, but they are water under the bridge. Regardless of the causes, we are all facing an extremely confused situation which has for the present at least undermined confidence in the Philippines as an attractive field for the investment of capital and for other commercial operations. The mere removal of recently invoked controls will not be the cure, but the efficient and equitable administration of these controls and a flexible attitude on the part of the Philippine Government toward such liberal modifications as may be justified, will be of some temporary help. The basic need is further constructive long-range planning in which both the Philippines and the United States should participate, including representatives of business from both countries. A more favorable climate should be created in the Philippines to attract the investment of private capital...."

Commenting on the Chamber's relations with the Philippine and American Governments, the Report declares:

> "As in the past, the Chamber has maintained friendly relations with the elected as well as the appointed leaders of the Philippine Government and with its diplomatic and consular representatives in the United States. The same applies to the government departments in Washington that deal with Philippine affairs. We have at all times found the representatives of both governments accessible and prepared to discuss Philippine problems frankly. In cases where we had constructive suggestions to offer that were within the scope of established governmental policies or regulations, there has generally been a disposition to be helpful to business interests. This has been especially true with respect to the Chamber's day-to-day dealings with the Philippine Consulate General in New York."

With respect to the American Chamber of Commerce here, the Report remarks:

> "The closest possible contact has also been maintained with the National Foreign Trade Council and with the American Chamber of Commerce in Manila, with a view toward coordinating policies, complementing each other's activities, and thus avoiding working at cross-purposes..."

In commenting on the fact that "with a less promising outlook for the Philippine economy shaping up during the course of the last year, it was expected that some firms with only a marginal or transitory interest in the Philippines would drop their membership", the Report expresses the hope that there will be no further loss, and concludes:

> "While the immediate outlook for the Philippines is clouded, the return of better days is hoped for, and it is precisely during a period like now that the Chamber can best serve its members by being of assistance in accelerating the arrival of these better days."