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The performance of American rule in the last three years (1932–35) is juxtaposed with the first three (1935–38) of the Commonwealth government to discover similarities and differences between their efforts to balance the budget. The purpose of the Americans in balancing the budget was to turn over the reigns of the government to the Filipinos, while showing the badge of a successful colonial project. The purpose of the Filipinos was to measure up to American notions of measuring public-governance success in terms of balanced budgets. In the end, two questions must be asked. First, were both objectives accomplished? Second, how were these objectives accomplished?

KEYWORDS: Appropriations and expenditures; government revenues; public finance; budgetary surplus; public governance

The budget of the Philippine government during the American period as a topic of inquiry has largely been a neglected field. This issue, however, is crucial because, before any evaluation of the impact of American rule in the Philippines can be made with accuracy, an analysis of its foundations should be made. As Harry Luton (1971, 65) acutely observed, "the whole administrative program of the United States—education, civil service, health, economic development, local and national governments, etc.—depended in part on the crucial questions of how much revenue was obtained, by what means, from what sources."

American policy in the Philippines, as concretely manifested by the "administrative program" enumerated above, was dictated by the avail-

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ability of funds in the public coffers. The usage of these funds by the government reflected tremendously and subtly on the success of American administration of the Philippines on at least two fronts. First, it was tremendously evident in relation to the impact of the projects and activities (i.e., schools, hospitals, roads, elections, etc.) made possible by these funds to the unfolding of Philippine society and nationhood. Second, it was subtly visible in *the way these funds were managed* (i.e., financial management), specifically because the outcome impacted on the perpetuation or cessation—as the case may be—of certain parts or of the administrative program as a whole. Besides, at a sublime level, most of the American proconsuls used the budget's bottomline (i.e., whether balance between revenues and expenditures was achieved or not) as a barometer of their administration's success or failure.

So far, the references to this era by experts on, for instance, public finance, under which the budget falls, often quote the landmark study of former member of the U.P. Department of Political Science, Quirino E. Austria, published in the *Philippine Social Science Review* in 1935. Austria's article analyzed the Commonwealth government's budgetary system, and traced the history of the budgetary systems employed in the Philippines during the entire American period. The focus of the article was the budgetary process itself, covering, among other things, an incisive scrutiny of the guiding principles that inspired the ideas of the framers of the country's budgetary system, both during the Commonwealth period and the thirty-five or so years before it. Being process-oriented, the article explained the significance of the system in place vis-à-vis other systems. Contemporary in scope, it raised certain suggestions and proposals, with the view of evaluating the impact it would generate on the budget system in place.

This article, on the other hand, approaches the budget from the perspective of economic history. Specifically, the emphasis is on the budget as a financial matter rather than on the dynamics of the system. This means juxtaposing the government's revenues with its expenditures, in money terms, purposely to determine whether or not balance was struck. Admittedly, an assessment of the relationship between American policy in the Philippines in its totality and the use of public funds requires a more in-depth analysis than is possible in this paper.

Nevertheless, this article aims to show that, more than being worried about the budgetary system employed or to be employed, the main concern of most American proconsuls was how to balance the budget. This was so because, as mentioned, part of the basis for the evaluation of a successful administration was balancing the budget, it seems irrespective of the strategy or system employed, it seems. In fact, many of them were not content with merely balancing the budget; they wanted to produce a surplus on the revenue side. Furthermore, it is apparent that the last two proconsuls, Theodore Roosevelt Jr. (1932–33) and Frank Murphy (1933–35), were hard-pressed, near the end of direct U.S. control over the Philippines, to produce a surplus to turn over to the Commonwealth government. Having achieved that goal, Murphy specifically offered a not-so-subtle suggestion to the incoming Quezon administration's revenue-and-expenditure patterns. The suggestion, basically, was for the Commonwealth government to follow the established path of producing a budgetary surplus at the end of every fiscal year.

Budget figures indicate that the Commonwealth government responded positively to American expectations and, for reasons of its own, also tried its best to produce a surplus at the end of every fiscal year. It must also be mentioned, however, that the Commonwealth government was not entirely autonomous. Overseeing the activities, conduct, and affairs of the Commonwealth was an appointee of the U.S. president: the high commissioner. Besides, the Joint Preparatory Commission for Philippine Affairs (JPCPA) was created in 1937, not just "to study the economic problems of the Philippines," as was stated in public documents, but also to evaluate the viability of Philippine independence after the Commonwealth's term expired in 1945. The fiscal stability of the Commonwealth as seen through the budget was definitely an important mode of measurement that the JPCPA used to come up with its recommendations in 1938. In short, the factors affecting the creation of budget surpluses during the two periods (1932–35 and 1935–38) were very different from each other. The aim of this paper is to explain the difference and provide the necessary details.

The Balanced Budget and the Commonwealth

The establishment of the Philippine Commonwealth on 15 November 1935 serves as an important watershed in Philippine history. With eventual self-rule just around the corner, this day, for all intents and purposes, corresponds to the end of the Filipino people's politico-legal struggle for independence. The atmosphere at the time was understandably heady. Compliments were heaped left and right. Both Filipinos and Americans congratulated each other for a job well done. Everyone looked forward to the future of the Philippines after the eventual American withdrawal.

The U.S. government sent no less than John Nance Garner, the incumbent vice-president, and Joseph W. Bryns, Speaker of the House of Representatives, to take part in the historic event. Three days before the inauguration ceremonies, the two gentlemen went before a joint session of the Philippine Legislature precisely to "reflect (on) the significance of a great historical occasion." Two days later, on the eve of the Commonwealth, Frank Murphy, last American governor-general of the Philippine Islands, delivered his valedictory speech before a similar audience.[1]

As reflected in the speeches of all three officials, it was an opportune time to pause and look back with pride at the achievements of their country and their people in the Philippine Islands. The central theme of their messages highlighted the remarkable success of the American colonial experiment in the Philippines. Murphy typified the effort to draw attention to their achievement, as he spared nothing in complimenting his nation for its efforts, especially since at the outset "the odds seemed to be heavily against (the) success of the venture." The speeches of Garner and Bryns echoed Murphy's in the sense that they expressed hope that an independent Philippines would be able to build on, and continue from, the initial U.S. success in the islands.

Understandably, there were many indicators for evaluating the continuity of success from the American colonial era to the Commonwealth period. Indeed, many of these indicators were found in Murphy's valedictory speech. One very important yet overlooked detail stood out from the rest. This detail was provided by Vice President Garner who, in an effort to sound magnanimous, relayed to the members of the Philippine Legislature a piece of information passed on to him by his friend U.S. Sen. Harry Hawes. Said Garner:

> He [i.e., Hawes] advises me that in 35 years of American sovereignty, with the exception of $3,000,000 provided for recuperation after the war [i.e., Filipino-American War], the entire cost of all civil administration has been provided by the revenues secured from the taxation of your own people.[2]

Judging from the manner this piece of information was delivered by Garner—who, by his own admission, became a member of the U.S. House of Representatives five years after American acquisition of the Philippines in 1898—it could be inferred that he was not aware that the Philippines had been financially self-sufficient. On the other hand, it is possible Garner knew that the Philippines was self-sufficient, but he might have just wanted to generate the maximum effect on his listeners.

Indeed, it serves as the highest form of flattery to U.S. achievements in the islands—something the Americans wanted an independent Philippines to remember for a long time—for them to note that, as was widely believed, a once financially troubled government under Spain was operated with considerable success by American proconsuls and under a balanced budget, too. Outgoing Governor Murphy made this declaration:

> (The) Philippine public finances are sound. In some respects they might well excite the envy of many of the large nations of the world today. In the central government for the past 2¾ years, expenditures from all funds have been considerably less than the current revenues accruing to those funds. Our budget is balanced in fact as well as in form. (See *ARGGPI* 1937)

On the Question of American Financial Intervention

Many experts can use Hawes's revelations as a springboard to lionize the role of the United States in Philippine development. After all, the phenomenon of a balanced budget could not be achieved except through superb management of resources (obviously, by American pro-consul-managers). Furthermore, the "mother country" could be seen from the very beginning as extending a helping hand to the Philippines, such as through the provision of a safe and secure market for the latter's exports through Free Trade (Jenkins 1954). Moreover, American banks—with guarantees from the U.S. Federal Government—bought most of the certificate of bonded indebtedness issued by the insular government, beginning with the so-called Friar Land Bonds which were sold during the first decade of American rule and thereby giving an added boost to the Philippines' fledgling finances (Golay 1997).

Furthermore, to save the islands from financial ruin, as a consequence of the "economics of normalcy" following the aftermath of the cessation of hostilities of World War I, bonds amounting to the vicinity of P100 million were bought by American banks in the early 1920s.[3] The negative effects of normalcy on the economy—specifically in deflating government revenues—were so great that the government saw itself face to face with a burgeoning eight-figure budget with no alternative source of financing (to solve the crisis) in sight. The issuance and purchase of these bonds were what saved the day. As an explanatory note to the issuance of these bonds, it must be pointed out that section 11 of the Jones Law of 1916 explicitly limits the insular government's borrowing capacity—its rights to sell certificates of bonded indebtedness— "at any one time (to) the sum of $15 million exclusive of those obligations known as the friar land bonds, nor that of any province or municipality a sum in excess of seven per centum of the aggregate tax valuation of its property at any one time" (Zaide 1990, 169–90).

By 1921, the country's debt limit had already been used up by previous borrowings. As a result, section 11 of the Jones Law had to be amended by the U.S. Congress to allow the increase in the borrowing capacity of the insular government to 10 percent of taxable property.[4] This was promptly done. The permission to issue the said bonds, together with other timely points of intervention by the U.S. government, made relief from the crisis relatively swift. Moreover, bonds issued all throughout the American era by Philippine provinces and municipalities —which were sold presumably to help improve their own economic positions—were also bought by many American banks. Likewise, these financial institutions were the chief buyers of bonds issued by government companies like the Manila Railroad Company and others. In fact, by 1934, American banks were in possession of about 80 percent of all bonds issued by the Philippine government.[5]

Several conflicting contentions can be made from this point on. First, the American banks bought Philippine bonds only because their value was guaranteed by the U.S. federal government. That would seem to prove Philippine dependence on the U.S.; however, these bonds were also redeemed at the appropriate time—and with great ease—by funds raised from the revenues generated by the Philippine government using its own mechanisms. These two points, in turn, can lead to more points of discussion and divergence. For instance, it should be mentioned that much of the insular government's revenues—whence funds for the redemption of the bonds issued came—were raised as a result of the economy's performance. The main, *but not the only*, indicator of the economy's performance was trade output, of which the U.S. (after Free Trade) accounted for more than 60 percent.

It must also be argued, however, that Free Trade was initiated by the Americans as a consequence of their decision to colonize the Philippines, *which was without Filipino assent in the first place.* As will be seen below, the Philippine government before the Americans came was generating a substantial sum of money from internal revenues. While it is true that Free Trade was beneficial in the financial sense, it is not true that it was indispensable, especially during the early years of American rule. Moreover, it was the Americans who unilaterally decided to sever the Philippines from the internal revenues it previously generated. And after direct financial aid to the Philippines was ruled out by the U.S. Congress in 1905 as a result of a series of controversies involving Americans in the islands, Free Trade became, for proconsuls like William H. Taft and others, the only means available to sustain the Philippine economy *of that time* (Golay 1997, 96–112). Moreover, the availability of the U.S. market for Philippine products is just one side of the coin. There are other sides to the equation such as the production, transportation, and distribution sides. A discussion of these other dimensions will be very lengthy and tedious. *The point is that not all aspects of the country's positive economic performance can be attributed to American intervention.*

In short, it can be said that to Murphy's mind the role of American contributions to Philippine development was clear and indisputable. A deeper analysis, however, will show that the line delineating American and Filipino contributions to the overall success of the American colonial experiment Murphy emphasized in 1935 actually could not be drawn so easily. There are just too many areas that are unaccounted for.

A Survey of "Sources"

In the absence of a thriving domestic economy, the Philippines under American rule became greatly dependent on trade and government spending. These two accounted for most of the economic activity in the islands, affecting consumption, investment, employment, and other matters. Although important, trade is not the main issue here; government spending is. Under the policy of a balanced budget, public expenditures naturally follow the dictates of public revenues.

At the onset of American rule, sources of government revenues dating back to the Spanish revenue system were still in place. In fact, these sources contributed roughly US$20 million annually to the public coffers during the early period of American rule. Much of the Spanish internal revenue collections, however, came from sources that the Americans frowned upon. According to Frank Golay (1997), five-sixths of these revenues came from (1) the much-maligned *cedula,* (2) the opium monopoly, (3) lotteries, and (4) the sale of documentary stamps. The cedula was one of the most prominent gripes Filipinos had against Spanish rule, and opium was later classified as an illegal substance. The moralistic American proconsuls also did not want to institutionalize gambling, thus they rejected taxes on lotteries, cockfighting, etc.; later they reduced taxes on documentary stamps (ibid., 96–97). The result was a gradual reduction—ultimately to the point of insignificance—of the Spanish-era sources of revenues.

These details show that the Philippines had some degree of economic organization under the Spanish system (which is not given the attention it deserves), but obviously the Philippines was prevailed upon by the U.S. to depend on the latter's economic might instead, chiefly through Free Trade. There can be no end to the arguments and counterarguments on the issue of Philippine economic dependence on the U.S. during the first half of the twentieth century. Rather than delving into this issue, my interest in the debate lies with its implications on the nature of the Philippine government's financial standing, leading to the establishment of the Commonwealth government. It is disconcerting but hardly surprising to note the relative paucity in the historiography on this subject area.

Despite the dearth of historical studies, the few that are available are quite impressive. Frank Golay (1984, 231–60), for instance, wrote an influential article analyzing the sources of revenues for the Philippine government from the inception of American rule to 1920. Charles Burke Elliott (1968, ch. 7) also devoted an entire chapter of his book, *The Philippines to the End of the Commission Government,* to explain the various revenue-generating mechanisms made available by the "Commission government" for the operational maintenance of the Philippine government. His time frame is from the inception of American rule to the enactment of the Jones Law in 1916. Harry Luton (1971, 49–64), for his part, analyzed the nature of American internal revenue policy in the islands, also from the inception of American rule to 1916.

The historiography on the revenues of the Philippine government, especially during the American period, has been limited almost entirely to the first twenty years or so. Very few, if any at all, have focused on the next twenty years. Studying this aspect of history should prove more vital than, for example, laboriously struggling with polemics because, as Luton has asserted, the activities, projects and programs of the U.S. in the Philippines were largely dependent on the availability of funds. As far as expenditures are concerned, surprisingly enough, there are no organized studies of public spending during the American period. There are, however, brief and scattered discussions of expenditures in numerous secondary materials as they train their focus on such topics as education, health, and others. These secondary materials will not be enumerated here.

The need to balance the budget will, almost invariably, not be found in any set document and the like. It is because balancing the budget is not so much set forth by any law or policy as transcending them. Over the years, the balanced budget had acquired the status of tradition among American proconsuls. They aspired for fiscal stability and success during their respective administrations, and when they accomplished the task, they would take great pride in being able to do so. One only needs to read the annual reports of the proconsuls, and most especially Frank Murphy's valedictory speech, to be reminded of this. It was the kind of tradition that, to the minds of the proconsuls (and as reflected in American-published books about the Philippines), set the American regime apart from the Spanish regime. These proconsuls looked down on their Spanish counterparts in general for their inability to manage properly the finances of the government. Therefore, as far as they were concerned, at best, a surplus should be reflected in the balance sheet; at worst, deficits should be negligible; but always the budget must be balanced. This was the established norm leading to the Commonwealth era.

Given this context, it is therefore important to assess the budgeting practices of the Quezon government in financial terms. In this regard, it is crucial to note that the last American vice governor of the islands, J. Ralston Hayden (1942, 49–64), devoted a chapter in his scholarly book, *The Philippines: A Study in National Development*, to the importance of government finances, focusing on the budget.

Parenthetically, it may be noted that Quirino Austria sent Hayden a copy of his July 1935 article on the Commonwealth's budgetary system, to which the American wrote in reply:

> I wish to thank you for sending me a copy of your important paper on the budgetary system of the Philippine Commonwealth. This monograph deals concisely and clearly with a very important aspect of the commonwealth government. I am sure that it will be an aid to the development of proper budgetary procedure in the new government and at the same time be an important contribution to scholarly literature on this subject. (Austria 1935)

In any case, Hayden wrote that the year before Quezon took over control in 1935 the government had an accumulated surplus in the general fund worth about P37 million. This figure ballooned to P52 million in 1938, before going into a steady decline from then on until 30 June 1942 when the surplus was pegged at a measly P306,602.02. This last figure is misleading because the decline from the peak in 1938 to 1940 (when the surplus was about P30.1 million) was admittedly substantial but not really that far off from the figures in 1934, the last year of direct American control.

By the end of 1941, the surplus was still at a respectable P20.7 million, notwithstanding the fact that the government pushed the panic button and appropriated "all the available funds in the Treasury not otherwise appropriated for the care and protection of the civilian population." This was the time when various military installations in the country were attacked by Japanese bombers in the wake of Pearl Harbor, making war a reality for the Philippines (see Agoncillo 2001). Naturally, even before 30 June 1942—one-and-a-half months after Corregidor fell—the government had already withdrawn all the monies it could spare from the national treasury and funneled them all to the war effort against Japan, hence explaining the meager surplus.

In any case, the year 1938 was also important because it coincided with a point when the viability of Philippine independence scheduled in 1946 was hotly discussed. It was during this year that the Joint Preparatory Committee on Philippine Affairs published its findings analyzing and projecting the financial and economic future of an independent Philippines. Voices asking for an earlier inauguration of independence were mixed with voices calling for a "reexamination" of Philippine self-rule. The performance of Quezon's government—in fiscal terms especially—was crucial in establishing Filipino fitness for self-governance. For independence to remain safe, it had to be proved that the Quezon administration could keep the finances of the government healthy after the American withdrawal.

The Tenure of Governor Theodore Roosevelt Jr., February 1932–January 1933

Of crucial concern in the early 1930s was the effect of the Great Depression on the economy as a whole, and on the revenue generation capabilities of the Philippine government in particular.[6] Theodore Roosevelt Jr. arrived in Manila on 29 February 1932 to serve as President Hoover's appointee as the islands' governor-general, replacing Dwight F. Davis at the helm. His stint in the Philippines was cut short by the election of Franklin D. Roosevelt as U.S. president in November. President Roosevelt replaced him with former Detroit Mayor Frank Murphy as the new Philippine chief executive. Yet even in that short span, Roosevelt Jr. knew what the main focus of his term was.

Governor Roosevelt was cognizant of the American "tradition" of a balanced budget. The government in 1931, as a result of the Depression, was not able to balance the budget. Governor Davis's administration incurred a deficit of P7,215,873.98. When subtracted from the surplus in the general fund accumulated from the previous years, the deficit reduced the surplus fund to P33,086,082.13. Arriving as he did in February, Governor Roosevelt came after the Appropriations Act for 1932 had already been approved. Upon assuming office, his finance secretary informed him that the revenue collection for January was P1.5 million short of the estimates. Roosevelt Jr. decried the fact that the revenue estimates of Governor Davis, his predecessor, upon which the expenditures for the year were based, were "badly adjusted" so much so that the collections for the year, said the Finance Department, were estimated to be P17.5 million below target.

To arrest this slide, and more importantly to maintain balance in the budget, Roosevelt Jr.'s administration's program of government centered on a threefold objective: (1) a balanced budget, (2) a reorganization of the government along lines of greater economy and efficiency, and (3) a revision of the revenue system. As a short-term solution to the impending budget deficit, the governor decided to exercise an emergency provision granted him by the legislature to automatically reduce all appropriations by 10 percent. Upon consultation with all the branches of government, a systematic survey was conducted to reduce expenses whenever possible "without seriously upsetting the governmental machinery." The governor summarized the result of this concerted effort at reducing government expenditures as follows:

- Salaries and allowances were reduced from 5 percent to 10 percent, and all possible vacancies were left unfilled;
- Per diems of employees traveling on official business were reduced 10 percent;
- Cheap transportation for employees traveling on official business was prescribed, and inspection trips that were not vital were eliminated;
- Telephones were reduced;

- Economy in the purchase of equipment and supplies and their use was instituted;
- The construction of all public works considered nonessential was halted;
- Special appropriations for nonessential projects, such as participation in the Chicago Fair, were suspended; and
- Unnecessary units, such as various vessels of the government, were eliminated.

These measures effected an economy of P6,100,443.22. If this figure was subtracted from the original appropriations of P71,900,000 (in round terms), the grand total of government expenditures for 1932 would be P65,721,647.63. This last amount was, according to the secretary of finance, lower than the previous year's expenditures of P76,421,496.80 by about P10.7 million. The P6.1 million worth of government savings produced by Roosevelt were concentrated during the latter half of the year, after the legislature met on 16 July 1932. This means that, in effect, the savings amounted to 20 rather than 10 percent from that point on. Furthermore, these savings did not cover what Roosevelt Jr. referred to as "irreducible items" in the budget—principally the P10,640,000 set aside for debt servicing. Therefore, the P6.1 million was actually taken from the "net" government expenditures of P61,260,000, the total figure after P10,640,000 was subtracted from the "gross" appropriations of about P71,900,000 originally allotted in the Appropriations Act for 1932.

Given the earlier projections of the secretary of finance for a revenue drop-off of P17.5 million at the end of the fiscal year, and even with the P6.1 million worth of savings, the government still stood to incur a budget deficit of more than P11 million. Fortunately, there was an unexpected increase in customs revenue collection resulting from heavy importation late in the year as businessmen braced themselves for an increase in the tariff rates. This pushed the total monies of the government in the general fund to P61,226,231.40, reducing the deficit to P4,495,416.23 by the end of the year. The accumulated surplus in the general fund as of 1 January 1933 was now down to P28,590,695.90.

In the meantime, the executive departments, due to the prodding of Governor Roosevelt, reduced the salaries of their employees. Many individuals who were exempted from the executive action "voluntarily surrendered the percentage of his pay." The members of the legislature also effected a reduction in their own salaries. This broad salary reduction scheme was implemented, according to the chief executive, with "practically no complaining of any sort." Furthermore, the provincial and municipal governments—which were beyond executive control—of their own accord also reduced expenses and salaries. These reductions helped lower the deficit a little bit.

Roosevelt, however, wanted to approach the cost-cutting activities in an organized fashion. As a result, legislative action was initiated—with executive backing—to reorganize the government structure. In his report the governor outlined some of the notable examples of the reorganization:

- Whereas the health service in the past had been divided between two departments and three different divisions, it is now under one head;
- The Department of Justice is reorganized and the attorney-general, who in the past was separated and independent, is a part thereof;
- Various activities in the nature of public works which were divided between the three departments are now concentrated in one division of one department;
- The corps of surveyors, which previously was divided between two departments and three different divisions, is being combined under one head;
- The Bureau of Supply is completely reorganized and a purchasing agent substituted therefore;
- The Bureau of Commerce, which formerly was in the department the main function of which was public works and communications, is transferred to the logical department, namely, Agriculture and Commerce;
- The government vessels, which were handled in the past by bureaus not specifically adapted thereto, are now being assigned where they can be operated with the greatest efficiency and economy;
- The number of judges of First Instance has been reduced from 62 to 55.

There were no changes in the fundamental structure of the government and the number of executive departments remained at six as before. These have been designated as (1) Department of Finance, (2) Department of Public Instruction, (3) Department of Justice, (4) Department of Agriculture and Commerce, (5) Department of Public Works and Communications, and (6) Department of the Interior and Labor.

As a result, the government was able to reduce by 10 percent, or approximately 2,000, the number of its employees, allowing the governor to claim in his report for 1932–33 that "duplication has been practically eliminated."

The Tenure of Gov. Frank Murphy, January 1933–November 1935

Gov. Frank Murphy, who succeeded Theodore Roosevelt Jr. as governor-general, also held the belief that the budget should be balanced, and even raised it to the level of a philosophy.[7] In his inaugural speech, he had this to say:

> The first duty of such a government (this government), in order of statement if not of importance, is to conduct its own business on a sound and orderly basis, efficiently and economically, giving it a peso in actual service for every peso of income. It must carefully budget its expenditures so that they will not exceed its revenue or dissipate the public resources in unnecessary services or activities. For the time being we must have recourse to uncompromising economy in spending. . . . *A budget is valuable only if, and when, expenditures are kept within it.* Together we will make a stubborn stand against the unwholesome practice of allowing deficits to creep into our balance sheets. (Emphasis supplied; see *ARGGPI* 1937)

The governor was able to achieve his objective through cost-cutting measures. Among them were the continuation of a "detailed central control" (perhaps referring to the disbursement of funds), the withholding of "expenditures under conditional and discretionary appropriations," and the elimination of pork barrel items in the public works appropriations. As a result, departments under the executive branch saved an average of 5.32 percent from their respective budgets, the total savings amounting to P2,293,143.60.

Murphy's aggressive savings, together with the strong performance of the government's income, which totaled P63,203,962.02 in 1934 (or an increase of P5,156,587.67 from the 1933 value of P58,047,374.35), resulted in a budgetary surplus for the fiscal year 1934 to the tune of P6,893,913.44. By adding the surpluses earned in 1933 (P1,416,012.84) and 1934 (P6,893,913.44) to the total sum in 1932 (P28,590,695.90), we arrive at a grand total of P36,900,622.18, the very same figure alluded to by J. Ralston Hayden, cited earlier.

By November 1935, Murphy had already balanced the budget. Establishing his credibility as administrator by getting his job done, Murphy then launched a series of advice for the soon-to-be-inaugurated Commonwealth Government, harping especially on the importance of "jealously guard(ing)" the surplus. Still quoting from the valedictory speech:

> It would seem wise, therefore, to keep the present surplus intact as the proper reserve for a government of the position and size of the Philippine Government. Extraordinary and nonrecurring accretions should be recognized and treated as windfalls that will not be repeated. Let us look well to cut within our financial cloth. In our present economy and environment, the safe course for this government is to keep its budget in balance and its current expenditures within current income. Without a sound financial position and a program of sound public finance, the most essential and fundamental functions of government are handicapped and may be a [*sic*] completely paralyzed. No governmental activity comes ahead of an orderly financial program. (See *ARGGPI* 1937)

The path was laid out for Quezon to follow.

The First Three Years of the Commonwealth

To prove that the semi-independent Commonwealth government was serious about the budget, President Quezon created via Executive Order (E.O.) No. 25 the Budget Commission. The establishment of this precursor of the current Department of Budget Management was already being contemplated as early as the 1920s when a bill was filed in the legislature seeking the creation of the Budget Commission. Then Gov. Leonard Wood vetoed the bill because of a technicality. In any case, President Quezon issued E.O. No. 25 on 25 April 1936 upon the recommendation of the Government Survey Board (created by Commonwealth Act No. 5) headed by Miguel Unson. The Budget Commission's mandate included the coordination with various government offices and the collection of data vital to the preparation of the budget.[8] For us today the figures contained in the annual reports of the Budget Commission serve as an invaluable source of information

Table 1. Government income and expenditures, 1930–32

	Income	Expenditures	Surplus or Deficit
Year			
1930	84,494,630.24	95,828,238.78	(11,333,608.54)
1931	69,425,591.75	76,641.465.73	(7,215,873.98)
1932	61,441,172.50	65,936,588.72	(4,495,416.22)
1933	58,047,374.35	56,631,361.51	1,416,012.84
Difference			
1930–31	(15,069,038.49)	(19,186,773.05)	
1931–32	(7,984,419.25)	(10,704,877.01)	
1932–33	(3,393,798.15)	(9,305,227.21)	
1933–34	(5,156,587.67	(321,212.93)	

Source: *ARGGPI* 1934, 1935, 1936, 1937.

on the financial status of the government. It also gives researchers a bird's-eye view of the government's financial policy and strategy.

A vital piece of detail regarding the budget during the first three years of the Commonwealth involved the remittance from the U.S. of proceeds from the so-called Coconut Oil Excise Tax Fund (COETF) in 1937. The fund corresponded to imposts collected by the American government on Philippine coconut oil exports to the United States after the latter initiated tariff adjustments in the mid-1930s to protect its domestic oil industry. The collection of tariff on Philippine coconut oil exports to the U.S. became controversial in light of the special status between the Philippines and the United States. American politicians, however, could not fend off the vociferous calls of their domestic industries for protectionism, so they put the protective mechanism in place. In exchange, the U.S. government promised to collect the imposts and remit them to the Commonwealth, to help the latter establish Filipino industries in preparation for independence. The COETF was, of course, separate from any and all of the funds in the national treasury. Some expenditures approved by the Commonwealth government, however, were covered by this fund, thereby easing the burden on the national treasury.

The Commonwealth Government's Income, 1936–38

Actual government income in 1936, amounting to P84,927,915.67, registered a big increase of P16,163,353.60 from the 1935 total of P68,764,362.07.[9] The discrepancy is explained by higher tax collections, chiefly from import duties (an additional P3 million), license and business tax payments (an extra P3.3 million), and excise taxes on imported goods (a further P1 million). Under the heading of "extraordinary income," the government collected almost P4 million from the Philippine National Bank, in accordance with certain provisions of Commonwealth Act No. 6. Income under this same heading also received a transfer of surplus from the exchange standard fund of a little more than P6 million.

Income for 1937 grew by an additional P11.3 million from the previous year, aided by an improvement in income taxes, which grew by an amazing P11.5 million from the 1936 level. Collection of import duties again expanded, this time by P2.8 million. License and business tax contributions also swelled by P3.2 million, excise tax collections on imported commodities improved by P1.1 million, while excise taxes on domestic products generated almost an additional P900 thousand for the year. Furthermore, there were slight nominal increases from other tax sources, offsetting the loss of one-time collections amounting to more than P9 million under "extraordinary income" from the previous year.

Tax collections for 1938, however, dropped by about P8.4 million from the 1937 level. Give or take several hundreds of thousands of pesos, this explains the reduction in income from 1937 to 1938. The main culprits were reduced collections from import duties (about P4.5 million) and income taxes (about P4.15 million). Other revenue sources for the year were fairly stable compared with the 1937 standards.

In 1937, actual income exceeded estimated income in 1937 and 1938 by an average of P18 million even as the discrepancy was only about P8 million in 1936. It makes one think whether or not the Budget Commission was merely being too conservative in their estimates from 1937 onward.

The Commonwealth Government's Appropriations and Expenditures, 1936–38

Compared with appropriations for 1937, one of the most glaring details in the 1936 appropriations is the one under the heading "supplemental appropriations."[10] The difference is more than P16 million. This figure, however, is illusory because it is merely the P15 million appropriated for the Philippine Army under the provisions set by Commonwealth Act No. 1. Funds set aside for the Army fell under the "special appropriations" portion of the 1937 budget.

The real main difference in appropriations lays in the "extraordinary expenditures and investment" part, where the major movements in the year-to-year comparisons between the 1936 and the 1937 budgets can be noticed. Two interesting pieces of expenditures stand out when the details of these "extraordinary expenditures and investment" figures are analyzed. These are the P10 million investments on the National Development Company stock and the P9.9 million loans to the Manila Railroad Company. It turns out that these expenditures, authorized in 1936 and 1937, and swelling the budget for those years, were actually to be reimbursed later from the COETF remittance.

The receipt of this fund from the United States caused an amount worth P26,840,000—the total expenditures set aside for the National Development Company, the Manila Railroad Company cited above, and others as well—to be advanced by the general fund. These were one-time extraordinary expenditures only, so that in the "extraordinary expenditures and investment" portion of 1938, the figure went back to

Table 2. Actual and estimated government income, by incomes sources, in pesos, fiscal years 1936–38

	Ordinary Income Sources					
	Taxation	Incidental Revenue	Earnings and Other Credits	Total	Extraordinary Income	Grand Total
1936						
Actual	57,899,680.37	4,496,777.48	10,473,079.19	72,869,537.04	12,058,378.63	84,927,915.67
Estimated	42,406,900.00	3,405,000.00	9,225,700.00	55,037,600.00	1,201,720.00	56,239,320.00
Difference	15,492,780.37	1,091,777.48	1,247,379.19	17,831,937.04	10,856,658.63	28,688,595.67
1937						
Actual	78,459,157.07	4,713,868.68	11,970,224.14	95,143,249.89	1,103,713.23	96,246,963.12
Estimated	60,104,000.00	4,092,400.00	11,295,800.00	75,492,200.00	6,600.00	75,498,800.00
Difference	18,355,157.07	621,468.68	674,424.14	19,651,049.89	1,097,113.23	20,748,163.12
1938						
Actual	70,061,002.37	4,691,433.85	12,763,838.28	87,516,274.50	834,706.92	88,350,981.42
Estimated	63,237,000.00	4,275,100.00	12,263,600.00	79,775,700.00	670,000.00	80,445,700.00
Difference	6,824,002.37	416,333.85	500,238.28	7,740,574.50	164,706.92	7,905,281.42

Source: Budget Commission 1937, 1938, 1939.

about P22 million from more than P30 million the previous year. The amount advanced by the general fund was later reimbursed after the government received the COETF remittance.

After reimbursing P26,840,000.00 to the general fund for the said expenditures, the COETF total was reduced from the original P111,179,383.32 to P84,339,383.32. Subsequently, the Commonwealth went to work on the COETF. In 1937, the government appropriated an additional P6,719,552.50 to be charged to the COETF, from which only P1,669,552.50 was released, leaving an unexpended balance of P5,050,000.00. The following year, in 1938, the COETF earned an additional P20,486,581.12, which when added to the balance from the previous year of P82,669,860.82 (P84,339,383.32 *minus* P1,669,552.50) bring the total to P103,156,441.94. In the same year, appropriations totaling P137,721,398.50 were authorized, of which only P31,869,994.70 were expended, and P165,257.09 reverted to the fund proper. Therefore, at the end of 1938, the total income of the COETF was P71,286,447.24 (P103,156,441.94 minus P31,869,994.70), with the balance of unexpended appropriations at P110,736,146.71.

Some Notes on Budgeting

At this point, a distinction must be made between appropriations and expenditures. Appropriations correspond to the planned expenditures of the government and subject to the availability of funds from the treasury or other sources specified by law. Expenditures, on the other hand, refer to monies actually released for the said appropriations. Hence, one will often find discrepancies between appropriations and actual expenditures because of several reasons. First, appropriations are based on estimates while expenditures are based on actual disbursements. Therefore, unless the estimates for specific expenses are really accurate (which almost never happens), there should be some disparity in the figures. If the actual expenses are lower than the estimates, the government saves. If it is higher, the government incurs overdrafts. In other cases, the government forces "savings" by delaying release of funds that had already been appropriated. When this happens, the difference is carried over to the next year(s) either as "unexpended appro-

Table 3. Statement of appropriations and expenditures, in pesos, fiscal years 1936–38

	1936			1937			1938		
	Appropriations	Expenditures	Difference	Appropriations	Expenditures	Difference	Appropriations	Expenditures	Difference
Salaries & Wages	18,010,829.59	16,474,926.72	1,535,902.87	18,747,835.00	16,882,341.61	1,865,493.39	24,501,215.40	21,850,085.22	2,651,130.18
Sundry Expenses	5,504,475.54	5,553,832.44	(49,356.90)	5,442,643.90	5,707,962.69	(265,318.79)	7,256,612.00	7,790,504.94	(533,892.94)
Furniture & Equipment	81,403.00	426,120.37	(344,717.37)	162,464.00	332,201.35	(169,737.35)	796,060.00	1,174,353.59	(378,293.59)
Special Appropriations	14,557,098.35	14,513,717.51	43,380.84	31,047,246.90	25,403,884.96	5,643,361.94	35,901,878.72	32,410,101.39	3,491,777.33
Forced Savings	–	–	–	(267,634.80)	–	–	(1,012,474.84)	–	–
Supplemental Appropriations	17,637,149.36	11,252,972.87	6,384,176.49	1,425,680.00	1,371,658.63	54,021.37	2,598,102.39	1,685,698.58	912,403.81
Fixed Expenditures	10,219,749.27	10,210,812.23	8,937.04	9,934,001.15	9,894,164.44	39,836.71	10,457,685.02	10,455,223.45	2,461.57
Extraordinary Expenditures & Investments	29,674,296.99	17,498,232.28	12,176,064.71	44,886,896.68	30,406,711.42	14,480,185.26	51,093,378.84	22,070,701.68	29,022,677.16
Indefinite Expenditures	4,686.11	41,531.06	(36,844.95)	22,210.22	54,636.80	(32,426.58)	8,423.56	24,638.20	(16,214.64)
Receipts Automatically Appropriated	628,429.07	613,596.89	14,832.18	865,102.77	829,894.47	35,208.30	723,021.00	574,629.16	148,391.84
TOTAL	96,318,117.28	76,585,742.37	19,732,374.91	112,266,445.82	90,883,456.37	21,382,989.45	132,323,902.09	98,035,936.21	34,287,965.88

Source: Budget Commission 1937, 1938, 1939.

priation" or "balance from continuing appropriations," and is computed separately (i.e., balance from the previous years plus new appropriations for the year minus expenditures and reversions) from ordinary expenditures.

As far as budget computations go, these unexpended appropriations become chargeable to the accumulated surplus in the Treasury from the previous years, the difference of which becomes the unappropriated surplus for the end of the year. In short, these delayed expenses will be covered by savings from previous years at a time convenient to the government. This way the government appears to have balanced the budget because it shows a surplus at the end of the year. In truth, however, it just means that the government is postponing payment on some of its current expenses so that, at that instance, it appears to be living within its means.

In the case of this particular study, if the total appropriations were released in whole, the Commonwealth government would have incurred a deficit of more than P11 million in 1936, a total of P16 million in 1937, and P44 million in 1938. Yet, "savings" of P20 million in 1936, P21 million in 1937, and P34 million in 1938 were effected by the government, assuring that—excepting 1938—income would outweigh expenditures.

Another curious category is the previously mentioned "unexpended appropriations." Regarding previously incurred unexpended appropriations, the executive decided when it was proper to release funds for them (it can sometimes reach into several years after the appropriation was made). Depending on the release of funds, both for previous and present appropriations, the unexpended appropriations at the end of every year could either go up or down. For the period 1936–38, specifically, the Budget Commission maintained a separate accounting (i.e., separate from other budget figures which were related to each other) for this section.

In 1936 the figure corresponding to unexpended appropriations was P18,485,336.68. For 1937 it was P19,483,751.30, and for 1938 it was P31,136,838.39. The figure for 1936, for example, was accounted for by the nonrelease of funds worth P5 million to the Philippine Army (C.A. No. 1); P2 million for the waterworks construction revolving

Table 4. Comparative statement of income, appropriations and expenditures, in pesos, fiscal years 1936–38

	1936	1937	1938
Total Income	84,927,915.67	96,246,963.12	88,350,981.42
Total Expenditures	76,585,742.37	90,883,456.37	98,035,936.21
Total Appropriations	96,318,117.28	112,266,445.82	132,323,902.09
Differences between			
Income & Expenditures	8,342,173.30	5,363,506.75	(9,684,954.79)
Income & Appropriations	(11,390,201.61)	(16,019,482.70)	(43,972,920.67)

Source: Budget Commission 1937, 1938, 1939.

Table 5. Computation of the budget surplus, in pesos, fiscal years 1936–38

	1936	1937	1938
Total Income	84,927,915.67	96,246,963.12	88,350,981.42
+Net Surplus*	39,565,495.59	47,907,668.89	80,111,175.64
	124,493,411.26	144,154,632.01	168,462,157.06
+Coconut Oil Excise Tax Fund	–	26,840,000.00	–
TOTAL	124,493,411.26	170,994,632.01	168,462,157.06
–Total Expenditures	76,585,742.37	90,883,456.37	98,035,936.21
Net Surplus at Yearend	47,907,668.89	80,111,175.64	70,426,220.85
–Unexpended Balance of Continuing Appropriations	18,485,336.68	19,483,751.30	31,136,838.46
TOTAL UNAPPROPRIATED SURPLUS	29,422,332.21	60,627,424.34	39,289,382.39
–Allocation of the Surplus	no figures	26,078,000.00	24,296,966.24
TOTAL UNENCUMBERED SURPLUS	no figures	34,549,424.34	14,992,416.15

*31 December of the previous year

Source: Budget Commission 1937, 1938, 1939.

fund (C.A. No. 125); almost P1.5 million for "communities and indigent sufferers from typhoons, floods, or other public calamities" (C.A. No. 90); P1.22 million for construction, repair, and improvement of national government buildings and offices in Manila and Baguio (C.A. No. 36); a little over P1 million for artesian wells and waterworks (C.A. No. 67); almost P1 million for the purchase of homesites to be resold to their occupants (C.A. No. 20); P720 thousand for river control (C.A. Nos. 67 and 204); as well as other smaller amounts for other appropriations. All these details about the release of funds can be found in the annual report of the Budget Commission for 1936. A similar set of details for 1937 and 1938 can be found in their respective annual reports.

Conclusion

The key element in this study is the availability of the details contained in the annual reports of the Budget Commission. As mentioned, the figures contained in the annual reports serve as an organized source of information on the financial status of the Commonwealth government. Such privilege is virtually nonexistent in the analysis of the earlier period covered by this study.

Nevertheless, the findings of this study show that the government—both under the American governors Roosevelt and Murphy, and the Commonwealth—exhibited an inclination towards showing a surplus at the end of every fiscal year. This meant an emphasis on the balancing of public revenues with expenditures. During the tenure of Roosevelt and Murphy, when the appropriations exceeded income, "savings" were effected, sometimes forcibly, by using mechanisms made available to them by law. Moreover, public statements made, especially by Murphy, prove that, come hell or high water, the budget would be balanced. Roosevelt was equally adamant in balancing the budget, to the extent of criticizing his predecessor for failing to accomplish this feat. On the other hand, the Commonwealth government never really had to seriously grapple with this problem because it received such a huge windfall from the COETF, which it had used quite liberally. In its limited experience with the issue, however, the Commonwealth government followed the same practice of pursuing a budgetary surplus at the end of each fiscal year.

Moreover, the absence of more complete and detailed figures for the tenure of Roosevelt and Murphy made the analysis of these "savings" one-sided—it is heavily centered on the Commonwealth. Nonetheless, it has been possible to show that, to keep expenditures below income, the executive suppressed the release of funds for appropriations earlier made, presumably until the time when funds were "available." This strategy was employed from Roosevelt to Murphy to Quezon. Official figures made it evident for the Commonwealth, while statements alluding to this strategy were made by Roosevelt and Murphy in their annual reports.

It is quite probable that the reason why the government from 1932 to 1938, notwithstanding the change in status and form, had to resort to this strategy was due to the fact that year after year the appropriations could not be prevented from increasing. The increases were demanded by the fact that the population was growing and government operations were evolving and expanding. Another possible explanation could be that effective governance in the public's perception was often measured by the amount of appropriations for public needs. Increasing appropriations made the government appear responsive to public welfare. The actual release of these funds, however, was oftentimes lost in the public eye. Even if questions about the delayed release of funds were raised, government could easily deflect them by saying that the release was subject to the availability of funds from the treasury. The confirmation of the availability of funds from the treasury, obviously, was not easily made. Therefore, there would be no point in raising further questions.

Furthermore, not too many people knew the difference between the appropriations approved and funds released for expenditures, as well as their impact on government "surplus." People, in general, could be elated when the government appropriated funds for, say, school buildings. Yet, appropriating funds was just one half of the story. The other half—the more important half—was when the funds were actually released. A considerable amount of time passed between the two. As it stood, the executive had the privilege of choosing when to release funds for appropriations. They held the purse strings. The strategic release (or nonrelease) of funds definitely affected the manifestation of a surplus (or deficit) at the end of a fiscal year.

In any case, the Commonwealth government achieved the highest levels in terms of accumulating surplus in 1938. For some, it might be easy to use this fact as proof of Quezon's brilliant management of public funds. The available facts, however, had not really proven this point. The real reason for the surplus was the additional income from the COETF. Its remittance by the U.S. government to the Commonwealth government helped by allowing the latter to cover some of its key expenditures, as per the agreement between the two governments.

Furthermore, this study has discovered that the surplus in the national treasury's general fund was due to the executive's conservative releasing of funds—unexpended appropriations grew from P18 million in 1936 to P19 million in 1937, and finally to P34 million in 1938. It also allowed the Commonwealth government to show an "unexpended balance" which was reverted to the "general unappropriated surplus" worth P1,247,038.23 in 1936; P1,899,238.15 in 1937; and P3,151,127.49 in 1938. The unexpended balance reverted to the general unappropriated surplus was computed by subtracting from the "savings" (the difference between authorized appropriations and actual expenditures) the unexpended balance of continuing appropriations.

Clearly, there is more to public finance than meets the eye. Budgeting is not just a matter of raising revenues and then spending them. The raising of revenues it seems is easy and uncomplicated. The same thing, however, cannot be said of spending these funds. That figures don't lie is true, but if they are not understood properly they can be very misleading.

Notes

The original version of this paper was written for one of the author's graduate courses at the University of the Philippines, Diliman.

1. The transcript of the speeches delivered by Garner, Bryns and Murpy can be found in *ARGGPI* 1937, 4–20.

2. See transcript of Murphy's speech. Senator Hawes also said as much in his book. See Hawes 1932.

3. For an account of the World War I induced crisis, see the author's unpublished seminar paper entitled "Anatomy of a Financial Crisis, 1918–1921," presented in the *First Research Conference for Higher Education Institutions in the National Capital Region,* held on 10–12 April 2002, at the De La Salle University, Taft Avenue, Manila.

4. Ten percent of taxable property in the islands amounted to almost P200 million. See *ARGGPI* 1934, 1935.

5. See *Report of the Joint Preparatory Committee on Philippine Affairs,* vol. 1, 1938.

6. Unless specified, the source of information in this section is taken from *ARGGPI* 1934; 1935.

7. Unless specified, the source of information in this section is taken from *ARGGPI* 1936; 1937.

8. See Budget Commission 1937.

9. See Budget Commission 1937, 1938, 1939.

10. Ibid.

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