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State and Finance in the Philippines, 1898–1941: The Mismanagement of an American Colony

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State and Finance in the Philippines, 1898–1941: The Mismanagement of an American Colony

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Yoshiko Nagano has written a book that rigorously documents the emergence of the agricultural banking system in early–twentieth-century Philippines. In tracing the emergence of lending institutions, Nagano is able to locate the origins of many elite families, particularly the so-called sugar barons of Negros. The book is also notable for being the first to examine the banking crisis of the early 1920s using official reports from the US National Archives and Records Administration and the Library of Congress. Because of it, we are now aware of the various actors and positions of a financial elite that designed the colony's currency system. Through this work Nagano, a professor of International Relations and Asian Studies at Kanagawa University, adds to her substantial contributions to research on the Philippine sugar industry, Negros Island, and Philippine economic history in general.

At its core, however, the book provides an explanation for the crisis triggered by what Nagano calls the "mismanagement" of the Philippine National Bank (PNB). The crux of the book's argument is simple: Because the American colonial government in the Philippines "deviated from the fundamental principle of the gold exchange standard system, this policy eventually brought confusion to the currency and exchange in the Philippines, and evolved into the grave financial crisis of 1919–1921" (137). The analysis is ostensibly anti-imperial because Nagano blames American administrators from the Bureau of Insular Affairs (BIA) for letting the PNB collapse into financial insolvency when the bank lent agriculturists money from the gold fund currency reserves.

If Nagano's analysis sounds familiar, it is because defending the stability of a gold standard has been a constant in the rhetoric of American conservatives from the nineteenth century until today: from William McKinley and Theodore Roosevelt to Alan Greenspan and Ron Paul. Nagano's faith in a "stable" gold standard, ironically, places her in the same camp as the American nationalists and imperialists she deplores.

The book's line of reasoning partially stems from its methodological focus. Throughout the book, Nagano analyzes the development of the Philippine banking system alongside those of other Southeast Asian countries like Thailand. In this regard, the "area studies" approach is both a strength and a weakness. On the one hand, it allows Nagano to explain certain oddities of the Philippine financial system that experts of "modern" banking may find puzzling. For example, she does a remarkable job of showing why the practice of using crops for loan collateral occurred in the Philippines through comparing its banking system with its similarly agricultural neighbors (114–15). On the other hand, the same approach can be a liability in analyzing the American-era Philippines because it neglects that the colony was, well, American. The Philippine economy served as a laboratory for American policy makers, whose ideas were forged in the context of American domestic politics. Any analysis of Philippine banking in the 1920s, therefore, must also be grounded in an intellectual history of American economics.

Consider ideas about gold. In American conservative thought, gold's so-called stability turned it into a bulwark against the hordes of agrarian populists, who wished to erode the wealth of the metropolitan elite through inflation either through fiat money or silver (inflation reduced the purchasing power of those with capital, but ensured higher prices and therefore returns on agricultural goods). This populism began with the post–Civil War Greenback movement and was extended into the late nineteenth and early twentieth century by the supporters of the Democrat William Jennings Bryan, who made three failed bids for the presidency against McKinley and Roosevelt. Two of the most salient issues of his campaigns were the gold standard and the annexation of the Philippines, both of which Bryan opposed.

Nagano does not explain why the early Republican imperialist administrators of the Philippines were determined to impose a gold standard on the colony, despite the wide use of silver during the Spanish period. She thus takes for granted the commonsensical view of gold as stabilizing and divorces the debate about gold from the one about the global spread of American power.

But these two were intimately linked. In her important work *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900–1930*, historian Emily Rosenberg (Cambridge and London: Duke University Press, 1999) shows how a cohort of financial diplomats made American loans to countries in Asia and Latin America that were contingent on these countries' adherence to the gold-exchange standard. Such a situation, they hoped, "would simplify international transactions and create a gold dollar bloc, centered in New York, to rival the *de facto* sterling standard that had prevailed in most of the world since the late nineteenth century and provided a competitive advantage for British businesses" (ibid., 24). Rosenberg argues that the Philippines was the test case for this new "dollar diplomacy," which eventually would be extended to South America and Eastern Europe. The gold-exchange standard caused the new colony to be absorbed into an American economic sphere, which limited its trade with other countries in Asia that used both gold and silver, because "an administration ideologically opposed to bimetallism could hardly maintain a bimetallic standard in a U.S. colony" (ibid., 15).

The economists who implemented the standard in the Philippines were self-proclaimed imperialists. They believed that unconsumed products in America required the creation of new markets within a seamless currency system anchored on gold (ibid., 14). Moreover, their economic ideology was premised on orientalist thinking. McKinley, for example, saw the gold standard as "civilizing" and believed that silver-based standards were reserved for "backward" Latin American and Asian markets (ibid., 10).

Nagano would obviously reject this imperialist logic. However, her economic analysis shares many of the limitations of early–twentieth-century Republican economics. Like other advocates of "sound currency," Nagano's main bogeyman is inflation, and she continually reminds readers that the main effect of mismanagement was an increase in prices. Chapter 6, for example, is entitled "The Philippine National Bank and Credit Inflation." However, the most direct effect of the 1919–1921 crisis was not increased prices but the inability of borrowers to pay the PNB. Nagano herself notes that the actual effect of the crunch was that agricultural loans from the PNB "could not be repaid, and landowners and traders in export businesses incurred heavy indebtedness" (3). It was, thus, the bursting of an economic bubble.

Why did these defaults happen? Nagano wishes to downplay the corruption of the Philippine elite in handing out bad loans and focus instead on currency policy. In this respect Nagano acutely exposes how previous accounts of crises in the Philippines have used "corruption" as a way to shortcut an informed analysis of macroeconomic factors.

Removing the corruption factor, however, does not make the crisis an issue of sound currency. Nagano herself admits that similar crises occurred across Southeast Asia during that time because of the fluctuations in export prices after the First World War (192). She concedes that *even with a gold-exchange standard*, "Thailand experienced a serious financial crisis in 1919–1922" (192). She also notes that the Philippine crisis was "precipitated by a sharp drop in export prices." Yet, with little explanation, she insists that "what exacerbated the ultimate financial crisis in the Philippines was the mishandling of treasury reserves by the Philippine treasury" (192).

Nagano believes that adherence to the gold-exchange standard would have limited the money supply and precluded the formation of "an extravagant loan business" (186). However, these loans only became "extravagant" because they were not paid. And they were not paid because of the decline in global export prices.

If we take low export prices as the major contributor to unpaid loans (corruption being the alternative explanation), we can easily see the absurdity of what Keynes referred to as the "straightjacket" of a gold-exchange standard. When export prices are low, as was the case during the PNB crisis, it is reasonable to depreciate one's currency to ensure export competitiveness. However, achieving this depreciation is impossible when the money supply is tied to a fixed amount of gold or a country's dollar reserves are tied to gold. Thus, Nagano's conservative counterfactual solution would likely have deepened the crisis. Instead of laying the blame on simply currency policy, the book could have explored factors such as regional trade and, crucially, interest rates. Readers would have benefited from a sustained analysis of how and if the PNB adjusted its interest rates before, during, and after the crisis.

As it turns out, Nagano's alternative was actually tested. The protagonist of chapters 5 and 7 is Princeton economist Edwin W. Kemmerer, who advised then Speaker Sergio Osmeña to protect the sacred gold-exchange standard—advice that was roundly rejected by what Nagano considers the villainous and imperial BIA. Kemmerer was one of the missionaries of the American gold-exchange standard who was devoted to austerity and anti-inflationary economics as a measure of "manliness" and responsibility (Rosenberg 1999, 25–26). Like McKinley and Roosevelt, he tied his notions of racial superiority to economic expertise, believing that Filipinos were "children" who "have yet to learn the lessons of political honesty, thrift, and of self reliance" (quoted in ibid., 39). The restrictions of the gold standard would, of course, help teach the Filipinos this thrift.

Kemmerer became famous for financial missions in Latin America countries, which initially brought American investments to these countries by dint of the "money doctor's" celebrity. In the long run, however, the missions led to massive indebtedness. By the time Kemmerer's plans for Bolivia had been implemented, for example, it was close to bankruptcy (ibid., 165–66).

Kemmerer's coup de grâce, however, was in Poland, where in 1926 he became official adviser to the Polish government (ironically, while on retainer with American banking interests) (ibid., 178). The mission produced his standard recommendations, such as the strict adherence to the gold standard. Although his British critics claimed that Poland's trade deficits made Kemmerer's recommendations untenable, the money doctor argued that trade deficits were inconsequential since gold-stabilized currencies always moved toward "equilibrium" (ibid., 180). By 1927 Poland, like Bolivia, was severely indebted, and its bond prices had fallen precipitously. It was another crisis of insolvency (ibid., 182). This history of Kemmerer's missions is reminiscent of the International Monetary Fund's neoliberal "parachute" economists in the 1990s, who also created bubbles and crises of insolvency.

Certainly Nagano is correct to bemoan the mismanagement of the PNB, both under Americans and Filipinos, and her important contribution has been to open up a discussion of a little-known crisis in Philippine economic history. Both an examination of macroeconomic theory and the global history of the American gold standard, however, reveal that Nagano's retrospective solution would have been ill advised. Given the vexed history of the American gold-exchange standard, more research needs to be conducted regarding the cause of the PNB crisis. Perhaps the golden cure would have been worse than the actual disease.

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