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Monetary Policy and the Treasury

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tend to create a propensity for conspicuous consumption, nevertheless honest and sober advertising is necessary to support industry and commerce in a developing economy.

But this is precisely the crux of the question. *Has* advertising in the Philippines tended, on the whole, to raise the Filipino standard of living and promote economic growth, or merely to encourage conspicuous consumption? A simple yes or no will almost certainly be the wrong answer, for the problem of a developing advertising profession in an underdeveloped economy is a very complicated one involving many intangible factors incapable of statistical measurement.

A great deal was said at the conference about "creative" advertising, and the observation may be permitted that the trouble with much Philippine advertising is precisely that it is not creative enough, in the sense of being adapted to our Philippine culture, needs, temperament and environment. A billboard displaying a Filipina housewife wearing a fur stole and white gloves simply does not make sense. On the other hand, certain TV commercials which dramatically portray the human achievement behind the high quality of a new and distinctive product are particularly good examples of creative advertising, and we would like to see more of them on our TV screens.

On the whole, the advertising conference was a significant one for many reasons, but chiefly because if repeated regularly (as we hope it will be) it can mold a solid and systematic body of thinking on the role of advertising in our society, and thus be instrumental in promoting not only economic development but enlightened and intelligent public opinion.

VITALIANO R. GOROSPE

Monetary Policy and the Treasury

In the monetary economics of the United States, the role of the Treasury as one of the principal instruments of financial and credit management is traditionally acknowledged. This is due to the fact that the U. S. Treasury exercises a number of major functions whose magnitude can effectively restrict or liberalize credit conditions, particularly in the short run. These functions involve revenue and expenditure policies, fiscal debt operations, and the disposition and size of its money balances and metal stock.

This substantial influence, which is wielded either in a positive or preventive manner, cannot be said of the Philippine Bureau of the Treasury in the same measure. Our Bureau of the Treasury possesses less powers affecting the country's money conditions. Under the law, the Bureau of the Treasury is responsible for: 1) the receipt and custody of all funds pertaining to national collections, including legal disbursements; 2) the administration and management of the Public Bonding Laws; 3) the administration and management of the Back Pay Law; 4) the redemption of Philippine National Bank (PNB) circulating notes, emergency currency, and guerilla notes; 5) the escheat of balance of savings deposits with the local banks in favor of the government; 6) cash management and forecasting with a view to avoiding deficits and enabling the Treasury to obtain cash under favorable terms; 7) the provision of funds for pensions, retirement and gratuities, loan repayments and sinking fund contributions, and interest payments.

In the past the Treasury was also charged with the supervision of the currency and with the administration of American and Commonwealth laws relating to coinage and currency. These functions ceased for the Treasury upon independence and the creation of the Central Bank in early 1949. The transfer of authority from the Treasury to the Central Bank, embodied in Section 138 of R. A. Act Number 265, was sweeping in its formulation: "...all powers, duties, and functions vested in the Bureau of the Treasury and the Treasurer of the Philippines which by the provisions of this Act shall be exercised by the Bank are hereby transferred to the Central Bank."

With this abrogation of Treasury powers, Treasury influence over monetary conditions naturally suffered diminution. Currency and government bond issues became the sole right of the Central Bank, while revenue and expenditure policies continued to be prepared, executed, and controlled by the Budget Commission.

Thus, compared with its U. S. counterpart, the Philippine Treasury's only monetary tool of any consequence is that of the management of its money balances and its various special funds. And even here it is clear that the Treasury is not responsible for controlling the rate at which the national government disburses cash. The rate is originally controlled by the Budget Commission alone. As for the General Auditing Office, it only ensures the legal propriety of the manner in which public moneys are spent and financial records kept.

The funds which form the basis of the Treasury's sole money-generating potentiality are drawn from three sources. These are: national and local revenue collections, operating surplus of publicly-owned concerns, and net reductions in government assets. The last-named usually takes the form of increases in the government's indebtedness to the private sector.

The inflow of funds to the Treasury, itself an intricate process, has for its terminal points three loci: the Treasury vault, the Central Bank, and the PNB (head office, branches, and agencies). As collections come in, currency goes to the Treasury vault, money orders are cleared with the Bureau of Posts, PNB checks are deposited with the PNB, and other bank and foreign checks are directed to the Central Bank. Furthermore, excesses of Treasury cash operations are withdrawn from the Treasury vault and deposited either with the Central Bank or the PNB.

Treasury cash balances show a steadily rising trend. In the year 1960, for instance, the following was the pattern of distribution in millions of pesos:

	Treasury Vault	CB	PNB	Total
January 1	7.4	160.5	21.6	189.5
October 31	6.5	257.8	21.7	286.0

It is to be noted that the largest proportion of Treasury funds are kept in the Central Bank. These CB deposits are not allowed to reach low levels. If such a likelihood becomes imminent, withdrawals by check are made from the PNB and the fund transferred to the Central Bank. Thus the bulk of the Treasury's working funds are virtually funnelled into the Central Bank.

This flow-of-funds situation among the Treasury, the Central Bank, and the PNB leads to the conclusion that the Treasury actually possesses only a single tool that can directly influence the country's monetary condition. This is its power over the amount it assigns to its vaults in the form of inactive cash balances. If the Treasury decides to retain a large amount or seeks to increase the size of its present vault holdings by drawing, for instance, on its Central Bank account, then theoretically the operation is restrictive in nature. A reduction in vault holdings would, on the other hand, produce expansionary results.

This manipulation, however, particularly if executed independently of Central Bank operations and policies, would have very little practical effects, since the amounts involved would necessarily be greatly limited by Central Bank regulations and by the demands of liquidity to meet government expenditures.

Ultimately, it is the Central Bank that can effectively utilize Treasury funds to control money conditions. First of all, it has a larger amount of these funds at its disposal, close to one-sixth of the country's total money supply. Secondly, its operations are directly linked to the nation's banking system. If the Central Bank chooses to maintain Treasury funds as inactive cash holdings, money conditions would be contracted to that extent. But if the Central Bank adopts the other alternative, which is its general practice (the Central Bank, for instance, held only ₱61.3 million as inactive cash last year), and allocates a portion of the Treasury's sizable deposit as part of available reserves behind loans and advances to commercial banks, then a multiple expansion of credit could be expected.

The PNB can likewise influence monetary conditions by the use it makes of its Treasury funds. It can immobilize these funds as inactive cash, or treat them dynamically as potential or available reserves.

The fact has been previously noted that the Treasury does not determine the absolute rate of government spending. In reality it has only a tenuous hold on the majority of government funds which can be used for Keynesian "pump-priming" of the economy.

The level of expenditures and the initial rate of disbursements are the prerogatives of the Budget Commission. Once budgetary appropriations have been completed, the Commission determines the releases of funds to the various government agencies. Upon a fund's release, the agency concerned may incur financial obligations or increase them. At this stage there is still technically no actual outflow of money from the public to the private sector. However, a leakage has occurred under present regulations allowing government and semi-government entities to shift funds from government financial institutions to CB-certified private banks. Such "agency checking accounts" make possible, with a few exceptions, the by-passing of use of Treasury warrants in the disbursement process.

These independent accounts represent current budgets and overbalances of past fiscal years. In 1952 the amount was ₱216.9 million. By mid-1962 the amount had risen to a peak ₱858.6 million, nearly 50 percent of the national government's annual expenditures. This latter sum, however, cannot be considered in its totality as the government's support of the private banking system. The PNB holds an 80.27 percentage of government deposits. The share is large, but it must be remembered that up to 1953 all government funds were deposited with the PNB.

Without examining the particular dispositions of these funds and the controversy they have recently aroused, it is clear from an economic viewpoint that the arrangement is expansionary. How expansionary depends on many factors. One of these is the size of the deposits. For private banks, size has risen from a flat ₱500,000 limit abolished in 1956 to a current ceiling not exceeding a bank's capital surplus by three times. Outstanding time deposits alone account for a total of ₱200 million, which is one-tenth of the annual rate of present government releases.

Another factor is the type of deposit utilized. This decision is left to the depositing entity. However, the interest rate on these deposits are fixed by the Central Bank. This rate may or may not influence prevailing money costs and consequent demand for money.

The right to determine the type of deposit is significant. For instance, by merely shifting funds from time deposits to checking deposits, agencies could create a deflationary impact on the banking system, while at the same time pushing money supply and price levels upward. In effect, therefore, a power to affect monetary conditions which could have rested with the Treasury has now been shifted to the intiative of individual government offices and private bank executives.

This reduction of Treasury discipline over fiscal operations is further aggravated by the presence in government accounts of excess liquidity over which the Treasury has only a small degree of control, that is, in final encashments. At the end of 1962, the auditor-general estimated these cash inventories, entered as "Accounts Payable" and therefore escaping reversion to the Treasury's unappropriated surplus, at ₱200 million. An arbitrary reduction of these unliquidated obligations, now considered at more than ₱500 milion, will mean an increase of cash disbursements. Such an infusion of cash into the private sector—₱100 million, for example—would suffice to raise commercial bank deposits by some multiple of the amount and expand credit by six to twelve percent. Without a corresponding rise in output, inflation becomes a dangerous possibility.

The expansionary effect of this flexible, if not anomalous, situation is complicated by the fact that close to ₱200 million of these outstanding claims take the form of Treasury warrants for whose validity there is no time limit. This renders forecasting of money conditions more difficult, since the discrepancy (due mainly to the existence of fiscal intermediaries) between the rate of releases by the Budget Commisison and the rate of cash disbursements by the Treasury is exposed to time lags. And without some rational forecasting, implementation of fiscal and monetary policies becomes less effective.

Another source of excess liquidity is the tendency of the Treasury's Special Fund to show a surplus at the end of fiscal years. On the other hand, the Treasury's General Fund almost invariably registers a deficit. It is clear that the Special Fund Surplus could be applied to offset the indebtedness of the General Fund. Nevertheless, the surplus has never been used in this equilibrating fashion. Technically, such a move, which could tighten bank liquidity and minimize the cost of the public debt, is within the authority of the Treasury, even as the loaning and investment of a handful of funds are by law assigned to the Treasury's administrative control subject to Presidential aproval. It appears, however, that authorities outside the Treasury are considering loaning this surplus as time deposits to commercial banks.

A money-management tool unequivocably in the hands of the Treasury at present is its payments of back-pay claims. This function is admittedly of a temporary nature, but the ultimate amount involved is considerable , roughly ₱800 million. Only about 30 percent of these claims have been paid, a process which is entirely performed by the Treasury staff. Obviously, a faster rate of claim approvals would make for easier money, and vice-versa.

Among the various government entities engaged in fiscal operations, therefore, the Treasury seems to possess the least power for influencing monetary conditions. It certainly does not embark on formulating and implementing its own monetary policy. It has to be content with docilely supplementing Central Bank decisions.

This present limitation in Treasury operations is excused (and therefore perpetuated with a convenient indifference) by "a deficiency in personnel and facilities." In the meantime there continues to prevail an often contradictory structure of relationships between treasury, budgetary, accounting, and banking procedures. This mesh results, in particular, in the absence of a unified control over public transactions with the private sector, and, in general, in a dilution of effective exercise of influence over the country's money supply and demand forces.

FERNANDO S. DAVID

Renewal Through Worship

A religious event of major import to Catholics everywhere took place in Philadelphia, Pennsylvania, from August 19th to the 22nd. It was the 24th North American Liturgical Week, a four-day gathering of clergy and laity dedicated to the apostolate of Catholic worship. Its significance lay chiefly in its role as probably "the only nationwide gathering devoted specifically to the renewal of the life of the Church in her central concern held during the Second Vatican Council." Thus, while primarily intended for Catholics in the United States and Canada, it should rightly interest all who have come to share the late Pope John's prayer for a "new Pentecost" in the Church.