BANKING, CURRENCY AND FINANCE IN THE PHILIPPINE ISLANDS

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When the United States government forces first occupied Manila, in August, 1898, and before that time, under the Spanish régime, the banking facilities of the islands were all furnished by three banks, the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia and China, and El Banco Espanol-Filipino, the two former being English corporations of large resources, having branches in nearly all the important cities in the Orient, and the latter an institution incorporated under the laws of the Philippines and by special grant from the crown of Spain, and owned largely by the Catholic church authorities. The paid-in capital of the Hongkong and Shanghai Banking Corporation is ten million dollars (Hongkong or British dollars, of the value of approximately fifty cents more or less, varying with the price of silver) and a reserve or surplus of ten million more. The Chartered Bank of India, Australia and China has a paid-up capital of £800,000, and a surplus of £975,000. The Spanish-Filipino Bank, or Banco Espanol-Filipino, has a paid-up capital of 1,500,000 pesos, or $750,000 of our money. These banks had branches at Iloilo and Cebu in the southern islands. There were no other banks in existence in any part of the islands to supply the needs of the eight million inhabitants, unless the Monte de Piedad be so-called, an institution founded largely for the charitable purpose of making small loans to poor people at low rates of interest, secured by the pledge of jewelry, household articles and apparel delivered into the possession of the institution, or, to a small extent, by real estate mortgages. This institution is still in existence, and is performing a most useful function. Its loans amount, on an average, to about 900,000 pesos. It has been conducted in a conservative manner and its losses have been few. It is mainly under the control of the Catholic church authorities, as was practically all charitable, benevolent and educational work under the old régime, when church and state were united.

As long as the currency of the country consisted almost wholly of silver coins, as was the case until 1904, as will be hereinafter stated, a very considerable portion of the earnings of the banks came from exchange in the narrow sense of buying and selling silver coins, the prices varying with the condition of the market from day to day. The principal earnings, however, arose largely from exchange in the broader sense, that is, in the buying and selling exchange on the foreign markets of the world, and through them were financed largely the payments for all commodities imported into and exported from the islands.

Neither of the English banks was chartered by the government of the islands or by the crown of Spain, but did business in the islands by permission, and of course had no power to issue circulating notes or paper money. The Spanish-Filipino bank, however, had by its charter power to issue circulating notes to the amount of three times its paid-up capital, without security other than that of the assets of the bank; but very rigid government supervision was provided for in its charter, the governor-general having most important powers of intervention in, and control over, the management, and of dictation of its policy. The government had the right to borrow money from it to large amounts at low rates of interest. It was, in a large sense, a government institution, although the shares were owned by private individuals or by church authorities. The Spanish law, incorporated in the charter of this bank, gave to it the exclusive right of issuing paper money. That special privilege expires on the first day of January, 1928.

On August 31, 1900, the amount of banknotes issued by it under its charter, and outstanding, was 2,750,750 pesos. It was the opinion of the Philippine Commission that this was an excessive amount of paper money to be issued without special security, by an institution having but 1,500,000 pesos paid-up capital, and the bank officials were urged to reduce their circulation to the amount of their paid-up capital. On October 15, 1901, the circulation had been reduced to substantially 2,100,000 pesos. A new internal revenue law came into force in the Philippine Islands on the first day of August, 1904, which imposed a tax of one-twelfth of one per cent per month on the average amount of circulation issued by any bank, and an additional tax of one per cent per month upon the average amount of such circulation issued beyond the amount of the paid-in capital of the bank. The effect of this taxation was to impose upon the privilege of circulation which the Spanish-Filipino Bank had, the moderate tax of one per cent per year, except as to such proportion thereof as should be in excess of the paid-up capital, and upon that excess a practically prohibitory tax of one per cent a month. The authority to impose such practically prohibitory taxation seems clearly to have been established by decisions of the United States Supreme Court, wherein similar burdensome taxation imposed by congress upon all note circulation issued by other than national banks resulted in the complete elimination of all the circulating notes that theretofore had been issued by banks chartered under the authority of the several states. The Spanish-Filipino Bank has contended, and still contends that this legislation impaired its charter rights, and was practically a confiscation of a valuable privilege; but the legislation seems to have been enacted in the interests of safe banking, and to have been abundantly justified by the decisions of the Supreme Court of the United States. The question at issue has not been brought to any legal determination in the courts of the Philippine Islands.

It is very manifest that neither a million and a half, nor four million and a half pesos, which the Spanish-Filipino Bank claims the right to issue, would furnish any adequate circulating medium for a population of nearly 8,000,000 people. A considerable measure of relief has been obtained by the issue of silver certificates by the insular government, based upon silver pesos deposited in the treasury to the full amount of the certificates issued. These certificates have now been issued, and are in circulation to the extent of 16,015,708 pesos, as will be hereinafter stated in connection with the subject of currency. The Spanish-Filipino Bank also claims that the issue of these silver certificates is a violation of its exclusive charter rights to issue circulating paper money in the islands; but the insular government acted upon the theory that, while the charter of the Spanish-Filipino Bank is to be respected under the Treaty of Paris, and its right to exist as an entity could not be denied or destroyed, yet that a function pertaining so nearly to the fundamental powers of the government as the furnishing of a circulating medium for the inhabitants could not be deemed to have been protected or denied to the new sovereignty by the Treaty of Paris, nor could the United States government be deemed obliged to leave the people over whom it had assumed sovereignty without an adequate circulating medium in the form of paper money. The certificates, however, were not made legal tender, and probably are neither money nor circulating notes in the strict sense of those terms, although practically they perform the functions of money. This question has been the subject of much discussion between the bank authorities and the insular government, and is in process of adjustment by way of negotiation and compromise.

Subsequent to American occupancy two large American institutions opened branches in Manila, the Guaranty Trust Company of New York, and the International Banking Corporation, chartered under the laws of the State of Connecticut. These two institutions had not only to compete with one another, but also with the well-established institutions above referred to, who had an extensive clientage and a thorough knowledge of the methods of Oriental banking. It was subsequently deemed advisable by the managers of the Guaranty Trust Company to withdraw from the islands and transfer its business there to the International Banking Corporation, which was done, and the latter is now the only large American bank doing business there. It has obtained a large patronage, and at least its fair share of the current business.

One small bank called "The American Bank," was established in Manila after the American occupancy, but the capital was very small and it soon came to grief. Its cashier has been prosecuted for embezzling a large portion of its assets. A small bank in one of the provinces was also established by Americans and Filipinos, but it also soon came to grief and went into liquidation, but the depositors were paid in full.

None of the banks doing business in the Philippine Islands, aside from the Spanish-Filipino Bank, make loans upon real estate. That class of business will doubtless be done by agricultural banks authorized to be established by a recent act of congress. The existing banks pay interest on fixed deposits, the highest rate being four per cent on deposits that cannot be withdrawn for a year, and lower rates for shorter periods. These institutions, having offices in but three cities of the islands, afford but little facility for security of savings. This want will doubtless be supplied by the operations of the postal savings bank law, which has been recently enacted.

Banks with small capital cannot hope to compete successfully in the business of foreign exchange. The shipment of native products and the importation of foreign commodities are upon a large scale, and dealers must solicit the aid of capital in large amounts. The large bank, moreover, has advantages in the character of its management, the greater experience of its officers, and in the power to command the aid of other great banking institutions of the world. It is possible that small banks in the interior might meet local needs and be useful to the communities in which they should be located, but the great mass of the people are poor, and can furnish but little to such banks in the way of deposits, and the basis of credits is so uncertain that capital has not sought this field. But with the introduction of the new railroads now in the process of construction, and the general revival of business which is slowly, but actually, progressing, there will probably be a greater demand for capital and banking facilities than the existing institutions can supply.

The magnitude of the banking business done in the islands can, in part, be judged from the following tabulations:

Deposits in the several banks on the 31st of December, 1906, including their branches, were as follows:

	Pesos.
Chartered Bank of India, Australia and China	3,473,372.07
Hongkong and Shanghai Banking Corporation	4,770,418.05
International Banking Corporation	3,570,494.60
Banco Espanol-Filipino	2,345,573.38
Total	14,159,858.10

The loans, discounts and overdrafts of the same banks on the same date were as follows:

	Pesos.
Chartered Bank of India, Australia and China	1,869,543.57
Hongkong and Shanghai Banking Corporation	6,862,613.48
International Banking Corporation	3,119,225.89
Banco Espanol-Filipino	3,420,223.40
Total	15,271,606.34

The national bank laws of the United States have not been extended to the Philippine Islands, so that it is not now possible there to establish United States national banks.

The currency problem was a most difficult one. Aside from the small amount of paper money issued by the Spanish-Filipino Bank, and a limited amount of United States currency which was in circulation, the money of the country in 1900 consisted of Mexican pesos or dollars, Spanish-Filipino pesos, subsidiary silver fractional Spanish, and Spanish-Filipino, Japanese, Chinese and other foreign coins, and a most insufficient supply of minor coins of copper and other metals. The handling of money of this character was in itself a great handicap upon commerce. The monthly salary of the governor-general weighed as much as a barrel of flour. The transportation of immense boxes of coin to remote parts of the islands for the purchase of commodities by exporting houses, or for the payment of salaries of officials and employees, was attended with great risk, not only from robbers and thieves, but from transportation on small boats, in crossing streams and in landing from vessels. The fluctuations in value were constant and attended with great pecuniary hazard, particularly when silver was falling in price. Wholesalers sold their goods mainly upon credit, necessarily payable in local currency. Before payments became due the fall in the price of silver was liable to be sufficient to wipe out a profit of 25 per cent or more. At times during the American occupancy an American dollar would purchase less than two dollars of local currency, while at other times it would purchase $2.66, and between these two extremes the shifting was uncertain but ever present. The problem might have been solved by making United States currency the only money of the country; but experience shows that such a change in a primitive country has always been attended by a great rise in the price of commodities and labor. The natives are quite sure to demand, if they are to receive American money, as many dollars for their commodities or labor as they had before received of Mexican dollars, the two being of nearly the same size and intrinsic value. Besides that, native transactions are, many of them, on so small a scale that a currency based more nearly on the intrinsic value of silver than on an artificial or token value is better suited to their wants. The plan finally determined upon was the coinage of a new currency with a gold standard, so that the value of the coins in commerce should be entirely independent of the intrinsic value of the silver contained therein. The standard or unit was made a gold coin of the value of fifty cents, United States currency, called a peso. The coinage consisted of silver coins of that value and denomination, and convenient subsidiary coins of the same proportionate weight and fineness as the pesos, and minor coins of baser metals. A gold standard fund was provided to maintain the parity between the new currency and gold. This fund consisted of the seigniorage resulting from the recoinage of old coins or silver purchased and coined, and from profits resulting from the sale of exchange in Manila on New York, or in New York on Manila, out of the gold standard fund, and of money borrowed on one-year certificates for the purpose of obtaining funds to purchase the needed silver. These certificates bore interest at four per cent and were issued to the amount of 6,000,000 dollars in all. As each series of certificates matured it was paid off and a new series issued, if necessary. The amount outstanding now is 1,000,000 dollars, which will undoubtedly be paid off at maturity on September 1, 1907, without the issuance of a new series. These certificates were given great advantages by way of exemption from taxation in the United States and the Philippines, and by being made available as security for United States deposits in national banks, and consequently were sold at such premiums, and the proceeds of their sale were deposited at such rates of interest, that the money borrowed upon them cost the insular government nothing, but was an absolute source of profit.

The parity between the silver peso and the gold peso was maintained, and the currency kept equal in volume to the demands of trade, by special provisions. First, the sale of drafts on that portion of the gold standard fund deposited in the United States at a premium of three-fourths of one per cent for demand drafts and 1⅛ per cent for telegraphic transfers, and by like sales in the United States on the insular treasury at Manila, the premium charged being subject to temporary increase or decrease, as conditions might require. Second, by the exchange at par of United States currency for Philippine currency and the reverse. Third, by the exchange of Philippine currency for United States gold coin or gold bars with a charge only sufficient to cover the expenses of transporting gold coin from New York to Manila. Fourth, by the temporary withdrawal from circulation of Philippine currency exchanged and deposited in the treasury. Fifth, by the temporary withdrawal of United States paper currency, gold coin and gold bars received at the insular treasury in exchange for insular currency, until the same should be called out in response to the presentation of Philippine currency, or until an insufficiency of Philippine currency should make necessary an increased coinage. This system of maintenance of the gold standard and of the parity might require large shipments of money from Manila to New York, or the reverse, according to the demands for exchange. This difficulty, however, was obviated by an arrangement with the treasury of the United States, such that the actual transfer of money has in most cases been avoided. The Treasurer of the United States necessarily disburses large sums in the islands for the payment of expenses incident to the maintenance of the United States army there. In case the insular funds in New York need replenishment by reason of an excess of exchange sold against them, the Treasurer of the United States, upon request, deposits in New York, to the credit of the insular treasury, the million dollars, more or less, that may be needed to maintain a sufficient sum in the New York depository, and the insular treasury, which is a United States depository in the Philippines, at the same time passes to the credit of the United States government at Manila the million dollars, more or less, that it has received in New York to its credit. Most of the disbursements of army paymasters in the Philippines are made in Philippine currency, the United States currency standing to the credit of army disbursing officers there being actually paid to them in Philippine currency at the ratio of two for one. This system, with practically no expense, has given to the islands an absolutely uniform and stable currency based upon the gold standard, has put an end to the gambling in silver, before so universally prevalent, and has placed business, governmental and commercial, upon a substantial basis.

The elimination of the old currency presented a specially difficult problem. It permeated the most remote portions of the archipelago, and some means must be devised to get rid of it. This was especially difficult with a falling market price of silver, because it was much more profitable to pay for commodities and labor in the cheap currency than in the dearer one. The large sums that were required to be sent out of the islands for a time in payment for rice imported, aided the process of elimination, as immense amounts of Mexican pesos were sent out of the country for this purpose, the return coming in the form of rice. The Mexican pesos had a perfectly good market at Hongkong and all along the coast of China, and there was no hardship in driving them out of the country. The Spanish-Filipino pesos and minor coins, of which there were about 16,000,000 pesos in circulation, were more difficult to deal with. They had no market in China, and contained from ten to twelve per cent less silver in value than the Mexican pesos. They had circulated side by side on a parity with the Mexicans, and it was deemed unjust to deal with them on any different basis. The government therefore redeemed them both for a considerable time at ratios based substantially upon the intrinsic value of the Mexican dollar. It gave notice that after a fixed date the Mexican dollars would no longer be receivable by the government, nor after a certain date would the Spanish-Filipino coins be so receivable. Ample time was given for everyone to shape himself to meet the contingencies, but it became apparent that the temptation to pay for all commodities and labor in the cheap currency was such that stringent measures would be necessary to eliminate the old. The theory of the legislation that was enacted to accomplish that result was that the use of the old currency must be made so unprofitable that it could no longer continue to serve as coin in the islands. Its life must be made a burden. Taxation was imposed upon deposits of the old currency so heavy as to compel all the banks to co-operate in its elimination. Heavy license fees were imposed upon all who wished to deal in the old currency for any purpose, except exporting or gathering it in for sale to the government. The result was that the natives refused to take the old currency on any terms, and it took its natural course of export in the case of the Mexicans and payment into the treasury in the case of the Spanish-Filipino coins. Very little hardship resulted; the whole process was completed within about a year and a half, but by such gradual steps that business adjusted itself to the new conditions without difficulty.

One feature of the new currency system was the issuance of silver certificates by the treasurer, for Philippine pesos deposited in the treasury. These certificates are of denominations of 2, 5, 10, 20, 50, 100 and 500 pesos. They have proven to be very popular, and have gone into every part of the archipelago, constantly increasing in amount from month to month so that on February 28, 1907, there were in circulation 16,015,708 pesos of such certificates. The total amount of new coinage is 33,745,501.80 pesos. It should be added that during the past two years the rise in the price of silver has been such that the Philippine peso has become worth for bullion or for export more than its face value. It is undoubtedly true that the peso, as originally coined, did not allow a sufficient margin by way of seigniorage to be safe in the face of a long-continued rise in the value of silver. Congress has authorized a recoinage on a basis such that the new peso will contain a materially less amount of silver and a greater one of alloy than the old. The rise in value of the silver involved in the Philippine coins has been such that the government will derive a profit of six million dollars, gold, more or less, from the recoinage. The process of recoinage is now going on.

This paper is already of such a length that the financial conditions of the Philippine government must be dealt with most briefly. From the beginning of the American occupancy the insular government has been self-sustaining. This statement, of course, does not include the expenses of the government of the United States in maintaining its army and navy, portions of which have been stationed in the Philippine Islands and in Philippine waters. The support of every department of the insular government, including the maintenance of schools, scientific institutions, the construction of roads, bridges and public buildings, the preservation of good order by means of a constabulary force of five or six thousand men, and of all other activities of the government, has been met from insular revenues. At the close of the fiscal year 1906 there were in the treasury $1,286,134.19 gold, available for appropriation after all the obligations and expenses of the year had been met. The fiscal year 1907 will probably show an additional surplus from its operations of $1,500,000.

The bonded indebtedness of the government, aside from the certificates of indebtedness relating to the gold standard fund, which will be paid off, as above stated, out of the gold standard fund, on the first of next September, consists of $7,000,000 in bonds issued to purchase friar lands, to settle agrarian disputes, and $3,500,000 public improvement bonds. The friar lands bonds have the lands and their income which were purchased with the proceeds as a trust fund for their payment. All of the bonds above mentioned (made payable in 30 years, but redeemable in 10) bear four per cent interest. They were sold on such favorable terms, and under such conditions that the money was obtained nearly upon a three per cent basis. They will be treated as ten-year bonds, which is the proper method, and will, at the expiration of that period, be paid from the sinking funds and by the issue of new bonds. The credit of the islands is of the highest. It is believed that no bonds, aside from those of the United States government itself, have been sold in the last few years on more favorable terms than those of the Philippine Islands.