Philippine council

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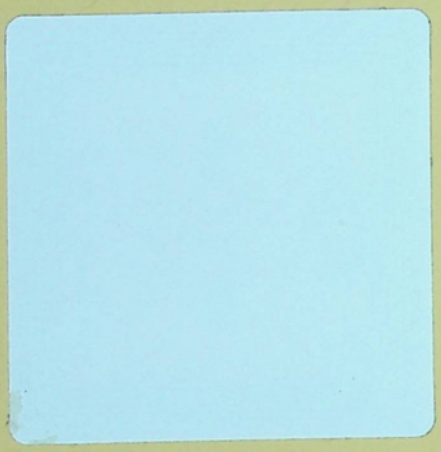

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Tanggal : 28-6-2010
Nomor Induk : 97/PN-Museum/10
BIB-ID : 0010-31181360
ITEM-ID : 0209068785
Asal : Museum Pusat

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PHILIPPINE COUNCIL PAPERS

Prepared for the Sixth Conference of the Institute of Pacific Relations, Yosemite National Park, California, August 15-29, 1936.

No. 1. WHAT AMERICAN POLICY IN THE PHILIPPINES WOULD DO MOST TO RELIEVE POTENTIAL SOURCES OF INTERNATIONAL FRICTION?

By

DR. JOSE S. REYES
Professor of Political Science
University of the Philippines

No. 2. NEUTRALIZATION OF THE PHILIPPINES

By

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No. 3. THE ECONOMIC POLICIES OF THE UNITED STATES IN THEIR EFFECT ON THE PHILIPPINES

Edited by

JOSÉ P. APOSTOL
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PHILIPPINE COUNCIL
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Manila
1936

PERPUSTAKAAN NASIONAL RI

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BIB - ID :
ITEM - ID :
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Philippine Council Papers, Number 1.

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INSTITUTE OF PACIFIC RELATIONS

Manila
1936

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WHAT AMERICAN POLICY IN THE PHILIPPINES WOULD DO MOST TO RELIEVE POTENTIAL SOURCES OF INTERNATIONAL FRICTION?*

Evidently this query can have as many answers as there are angles from which a policy may be viewed.

In general, national policies may be considered from any one of three angles - the political, the economic and the strategic. The political phase involves political and governmental relations. The economic includes such matters as trade, investments and all the questions that relate to material intercourse between one nation and another. The strategic relates to those considerations that have to do with national defense and military security.

The political and the economic angles merge with one another at many points. They are closely interconnected; while the strategic point of view may be more distinctly separated. Thus, it is possible to say with certainty that the policy of England with respect to such places as Gibraltar, Malta, Cyprus, the Suez Canal and Singapore is governed mainly by strategic considerations.

It appears clear from these preliminary observations that the main query will have to be re-stated and subdivided. Such a re-statement may be as follows: What political policy of the United States towards the Philippines would do most to relieve potential sources of international friction? What economic policy of the United States towards the Philippines would do most to relieve potential sources of international friction? What strategic policy of the United States towards the Philippines would minimize sources of international friction?

Let us now take the first of these questions. Assuming that the United States still has the choice of alternatives with respect to the Philippines, her policy would have to be one of the following:

First, repeal or modification of the Independence Law in such a manner as would provide for the continuation of American sovereignty. It has been said - and perhaps with reason - that such colonial powers as England, France, and Holland, which have large territories in this part of the world, would view with favor the adoption of this policy by the United States in order to assure the maintenance of the existing equilibrium in the Pacific and to avoid any unsettling influence on the native populations in their colonies. In the history of world politics, this consideration is a well-known factor. It suffers, however, from the defect that it disregards the legitimate claims of the people in the colonies.

As far as the Philippines are concerned, this alternative would seem to be out of the question. It cannot be imagined that it will ever be acceptable to the Filipino people; and it is difficult to conceive of the United States making a radical change in her Philippine policy without the consent of the Filipinos.

The second possibility before the United States is that of the indefinite continuation of the Commonwealth of the Philippines and the extension of the presumably transitory period. This is more of a possibility than the first suggestion. Whether or not it will ever arise as a practical question depends

* This outline was contributed to a discussion about "The Position of the Philippines in the Changing Political Balance of the Pacific," conducted by the Philippine Academy of Social Sciences, June 27, 1936.

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on whether development of public opinion in its favor will sufficiently grow in the Philippines and in the United States. It is impossible at this time to anticipate with any degree of accuracy the strength or intensity of any sentiment of this kind that may develop in the succeeding decade.

The third possibility from the political standpoint is the execution of the political program laid down in the Independence Law, namely, the establishment of the Philippine Republic after the expiration of the transition period, ten years hence. Since this policy is specifically embodied in the law, and it is not possible at this time to envisage any probable radical change, it must be assumed, for the purposes of our discussion, that the political angle of American policy toward the Philippines is definitely settled.

What economic policy of the United States towards the Philippines would do most to relieve potential sources of international friction? Here our discussion enters a more complicated ground. There is, as has been said, a necessary connection between the political and the economic aspects of a given national question. If it is assumed that the United States has definitely decided on the establishment of an independent Philippine Republic, it follows as an inevitable corollary that the United States should adopt an economic policy toward the Philippine Commonwealth which would give a reasonable chance of survival to the new nation that will be born ten years hence. Right at this point, we touch upon three general ideas that are now current with respect to the question of furnishing an adequate economic foundation for the Philippine Republic. Some hold the view that the restrictions on the entrance of Philippine products to the United States should be liberalized in order to give this country an assured outlet for its products and therewith adequate resources to face the problems involved in its independent existence; others believe that this is the time to accustom the Philippines to the realities of the economic and political situation that inevitably she must meet once she becomes independent; that if this period of training is not gone through, the country will be as unprepared from the economic standpoint for complete independence in 1946 as she is today; while a third view holds that the riddle of safeguarding our economic life from disaster when independence comes can be answered by the conclusion of an economic treaty that would give privileges to Philippine products in the American market after the Philippine Republic is established.

Those currents of opinion are the result of purely domestic considerations in our country. Let us now turn to the international aspect of the question. Everyone is aware of the intense economic competition between all the nations of the world, especially the great powers. The rivalries of the latter are the most dangerous, for they involve the risk of international friction resulting in open conflict. The United States is one of these great powers.

As far as the United States is concerned, the question may be re-phrased thus: Considering the present state of international economic relations, what policy of the United States towards the Philippines would do most to relieve potential sources of international friction? This question assumes what everybody knows to be a fact - the existence not only of potential but also of actual sources of friction between nations mainly as a result of economic competition.

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In considering the answer to this question, the United States can choose one of two policies. First, she can try to reach the simplest and most convenient arrangements with her most important and most powerful political and economic rivals without taking sufficiently into consideration the interests of the Philippines. This is by no means as incredible as it sounds. The conduct of the great powers of Europe with respect to Ethiopia is sufficient to prove once again the well-known truth that not infrequently small nations are considered as mere pawns on the international chessboard. Second, the United States may choose to implement her declared policy of establishing an independent Philippine Republic by deciding all questions, national and international, that may arise from that step with a view to assisting in the establishment of a strong and independent Filipino nation.

Although this task would be more difficult than that of solving international problems by give-and-take methods between the great powers, its successful accomplishment would, from the standpoint of the Filipino people, and of the broadest interests of the Pacific region, be a better guarantee of maintenance of peace in the Far East, inasmuch as a weak Philippines would be an ever-present source of international discord.

In discussing this topic, one cannot lose sight of the fundamental economic problem that confronts the international community. Even the statesmen of such self-sufficient powers as the British Empire lately recognized publicly the desirability of some arrangement to be reached by common agreement by which the land-hungry and less fortunate nations - such as Germany, Italy, and Japan - could be guaranteed access to the raw materials that they need and adequate opportunities to play their proper role in the sphere of international economic activity. One of the ideas presented in respect to this problem is that of dividing the world into large and self-sufficient economic units or regions, each one to be under the political or economic leadership of some great power or powers. If this proposal should reach the stage of serious discussion and be adopted, it would mean that the answer to the question, as to what economic policy of the United States towards the Philippines would do most to relieve potential sources of international friction, could only be a death-blow to the political program mapped out in the Independence Law and to the political and national ideals of our people.

Lastly, we come to the third question: What strategic policy of the United States towards the Philippines would do most to relieve potential sources of international friction? From the earliest times down to the present, the choice before the nations in their desire to secure their safety has been between a system of collective security and one of national power. One alternative, however, does not necessarily exclude the other, and the great powers have the privilege of simultaneously engaging in the building up of collective security and at the same time increasing their national military strength.

In what way may these truisms affect America's Philippine policy? If the system of collective security breaks down in the future - and unfortunately the prospects seem to be in that direction - the United States would be faced with the problem of deciding whether or not the defense of the Philippines should be included as a part of her vital national policies. If the answer is in the affirmative, the naval bases that she has in this country will have to be retained; if in the negative their retention would serve no useful purpose, and their abandonment would imply the retirement of the United States from active participation in Far Eastern politics.

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What we have attempted to do has been to subdivide the main question, to analyze the subject matter. National policies, however, must be unified; the political, the economic, and the strategic objectives must be harmonized. Therefore, the answer to each one of these three specific questions cannot be found without considering the answers to the other two.

From the point of view of the Philippines, the general answer to the question: What American policy in the Philippines would do most to relieve potential sources of international friction, must be in the following tenor: that policy which would most effectively help in building up a strong and self-reliant independent nation in the Islands. In the pursuit of this policy economic concessions by the United States government may be advisable but not to the extent of allowing the continued dependence of our national economy on the American market, the conditions of which may be decisively altered at any time by the vicissitudes of economic or political change. In other words, a happy medium must be sought between the abrupt termination of existing economic relationships and the perpetuation of a state of economic dependence that would necessarily lead to the nullification of the fundamental political rights acquired by the country and the violation of its political aspiration.

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Philippine Council Papers, Number 2.

PHILIPPINE COUNCIL
INSTITUTE OF PACIFIC RELATIONS

Manila
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NEUTRALIZATION OF THE PHILIPPINES

Neutralization Under the Tydings-McDuffie Law Analyzed

The original Hare bill of the United States Congress providing for the independence of the Philippines (H.R. 7233), did not contain a provision for neutralization. Nor did the Hawes or the Hawes-Cutting bills. All the bills approved before the amended Hare-Hawes-Cutting bill provided that the President of the United States shall, upon the proclamation and recognition of the Philippine Republic, notify the governments with which the United States is in diplomatic correspondence and invite said governments to recognize the independence of the Philippine Islands. Similar provision is embodied in Section 12 of the Tydings-McDuffie Law.

On the suggestion of Senator Hawes, Senator Reed of Pennsylvania presented an amendment which was finally adopted as Section 11 of the Hare-Hawes-Cutting Bill. The said provision reads as follows:

> "The President is requested, at the earliest practicable date, to enter into negotiations with foreign powers with a view to the conclusion of a treaty for the perpetual neutralization of the Philippine Islands, if and when independence shall have been achieved."

The same provision was incorporated in the Tydings-McDuffie Law.

It will be observed that the above-quoted provision contemplates action on the part of the President of the United States. Although in the language of Section 11, the President is not legally bound to work for Philippine neutralization, it is believed that he will carry out the intention of Congress by negotiation for neutralization. This neutralization, if agreed upon, is not regarded as impairing in any degree the independence of the Philippines, nor is its independence conditioned or dependent on neutralization.

Are Naval Reservations and Coaling Stations Compatible with Neutralization

The next question is whether the other provisions embodied in the Tydings-McDuffie Law are compatible with neutralization.

Section 10-B of the Act provides:

> "The President of the United States is hereby authorized and empowered to enter into negotiations with the Government of the Philippines not later than two years after his proclamation recognizing the independence of the Philippine Islands for the adjustment and settlement of all questions relating to Naval reservations and fueling stations of the United States in the Philippine Islands, and pending such adjustment and settlement the matter of naval reservations and fueling stations shall remain in its present status."

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International jurists are not unanimous in their opinions on the question as to whether one of the guaranteeing powers could be permitted to retain military or naval reservations in the territory of the neutralized state. The Law in this matter is still in the formative stage.

Some maintain that, unless prohibited by the treaty, one of the powers could retain such reservations if they were constructed before neutralization. Mr. Albert E. Pillsbury, formerly Attorney-General of Massachusetts, in discussing the subject of neutralization of the Philippine Islands, said:

> "It will be objected that neutralization will deprive us of any naval base or military station in the Philippines. This does not necessarily follow; but if it should, neutralization will avoid the necessity of defending the Islands themselves, and for any other legitimate purpose we probably need a naval base in the Philippines no more than we need one at the north pole."

Others believe that the very nature and essence of neutralization imply equal rights and privileges to be enjoyed by the powers in the neutralized state, as they assume corresponding mutual and equal obligations. Hence, no special privilege, such as the retention of military or naval reservations should be granted one of the powers. It is for this reason that the formidable fortress at the City of Luxemburg, garrisoned by Prussia, was demolished in order to maintain the balance of power among the neutralizing states.

In this connection, it may be stated that, while the establishment of a balance of power among the neutralizing states is one of the principal aims of neutralization, these two terms have different meanings. Balance of power is a political concept, while neutralization is an international legal concept. Neutralization can only exist by virtue of an international agreement, but balance of power may exist without the necessity of a treaty.

It is unlikely that Japan, Great Britain, France, Russia, Holland, and China will join or sign a treaty of perpetual neutralization of the Philippines, if the said naval reservations are retained by the United States during the lifetime of the international agreement.

President Hoover, in vetoing the original Philippine Independence Bill, stated, among other things, that there was an inconsistency in the bill in that, on the one hand, it authorized him to enter into neutralization agreements with other nations concerning the Philippine Islands but, on the other hand, gave the United States the option of maintaining military and naval bases after the realization of independence. His words are as follows:

> "The bill makes no effective provision for the maintenance of their independence thereafter from outside pressure, except a promise of effort on our part toward neutralization. We have the option to continue the maintenance of military and naval bases. Other nations are unlikely to become parties to neutralization if we continue such bases, and neutralization is a feeble assurance of independence in any event unless we guarantee it. That again is the perpetual engagement of the United States in their affairs."

Senator Cutting of New Mexico aptly answered this observation in the following manner:

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"I do not think there is any inconsistency in the option given the President of entering into a neutralization agreement, or of maintaining military and naval bases. He does not have to do either one. Obviously, he cannot do both. If, at any time, the United States should enter into a neutralization agreement with other nations about the Philippines, one of the terms for such agreement would certainly be our withdrawal from our military and naval bases It is impossible to argue the contrary."

From the remarks of Senator Cutting and other members of Congress, it may be gathered that the continuance of American naval bases or reservations and coaling stations in the Islands after independence would be incompatible with the neutralization of the Philippines. But it is significant to note, to judge from the utterances of several leading members of Congress, that the existence of these American naval bases and coaling stations might serve as an effective, diplomatic weapon on the part of the United States in securing better terms for Philippine neutrality. In this respect, it must be remembered that in the game of diplomacy the policy of give-and-take plays an important role.

It might be to our advantage if we suggest that the negotiations for neutralization should precede the adjustment and settlement of all questions relating to naval reservations and coaling stations. This is necessary because no fixed period is provided for in the law within which the President may negotiate for the neutralization of the Islands after independence has been achieved. As stated above, it is not even mandatory on his part to perform this delicate but important task. In case the neutralization negotiations fail, the retention of these naval bases and coaling stations might be considered if the United States should so desire, until another adequate arrangement could be worked out for the security of the Islands against possible foreign aggression.

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76 Cong. Record, Part 2, supra, p. 1820
76 Cong. Record, Part 2, supra, p. 1821

American-Philippine Trade Relations and Neutralization

Section 3 of the Tydings-McDuffie Law provides, among other things, that one year prior to the date of the inauguration of the independence of the Islands, a conference take place between the representatives of the United States and the Philippine Commonwealth for the purpose of formulating recommendations as to the future trade relations between the two nations.

From the foregoing it may be inferred that new trade relations between the two countries might be established immediately after the proclamation of independence. This arrangement may entitle American goods to either equal or preferential treatment as against other foreign goods that enter the Islands.

In this connection, Senator Sumulong, one of our far-sighted statesmen, made these observations:

"Ten years hence, the Philippines will be turned adrift in the family of nations, and it is the avowed purpose in these ten years of adjustment to give us an opportunity to find our economic as well as our political policies in the family of nations. Let us negotiate with America if and when this seems wise... A similar policy should be pursued with other nations with whom we trade."

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Even prior to the formal inauguration of the Commonwealth, we heard discussions, both in the press and in the legislature, regarding the establishment of trade reciprocity between the two countries. The last Philippine Mission to Washington headed by President (then Senator) Quezon and ably assisted by Governor Murphy, worked for trade reciprocity between the United States and the Philippines.

Does the new trade arrangement which resulted from these negotiations apply only during the Commonwealth regime, or will it continue even after the Independence of the Islands? And is neutralization compatible with trade reciprocity or with preferential trade relations between a neutralized state and one of its guaranteeing powers?

On this latter question, there is a diversity of opinion. It is advanced that trade reciprocity is absolutely an economic arrangement. It is similar in that respect to the most-favored-nation clause. It is unconnected with a political or military alliance. Hence, there could be no legal objection, as it does not violate the obligations assumed by either the neutralized state or the guaranteeing power signing such treaty of reciprocity.

On the other hand, it is argued that once a country is neutralized, it should be opened to the trade of all the nations on equal terms, particularly to the neutralizing states. This is important nowadays when the economic rivalry for commercial markets between states is manifest and keen. Trade reciprocity or a customs union between the neutralized state and one of its guarantors may be condemned now on political grounds, although it is obvious that this adjustment is purely economic in nature, since it has no relation to warlike alliances which are legally interdicted to neutralized states.

At this point, it may be recalled that the proposed customs union between Belgium and France in 1842, which was almost in the process of realization, failed because of the objection of England and Prussia, signatories to the perpetual neutrality treaty of Belgium. A similar customs union was entered into between Luxemburg and Prussia without any objection or opposition on the part of any of the neutralizing powers. This was made possible, however, by the fact that Luxemburg had been a member of the Zollverein of Prussia since 1842.

It may be well to mention in this connection that on September 5, 1931, the Permanent Court of International Justice, by a close vote (8 to 7), ruled as illegal the Austro-German Customs Union or Regime created by the Vienna Protocol of March 19, 1931, on the ground that it violated Article 80 of the Treaty of Saint-Germain which prohibits Austria from entering into any negotiation or economic engagement calculated to compromise her independence, without the consent of the Council of the League of Nations. The said questioned treaty provides, among other things, that "there are to be no import or export duties on goods exchanged between the two countries, except as may be agreed in the proposed treaty." (Art. III).

The dissenting judges, including the American representative, Mr. Justice Kellogg, maintained that the said Customs Union could not be regarded as incompatible with the treaty obligations of Austria, because it was within its sovereign right as a separate and independent state to conclude any agreement which would be beneficial to its commerce.

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The instances cited above involve customs unions which are similar to trade reciprocity agreements. It cannot, however, be safely deduced that a neutralized state cannot conclude a reciprocity treaty with one of the guaranteeing powers. On the contrary, history records several instances in which neutralized states concluded such agreements with one or several of their neutralizing powers.

It is worthy of note that in 1891 and 1892, Switzerland adopted a bargaining tariff with some of the powers which guaranteed its perpetual neutrality. It signed a reciprocity treaty with France in 1905, as a result of the promulgation of the maximum and minimum tariff by the French Government. A similar treaty was concluded between Switzerland and Italy.

It seems that, in the last analysis, the question as to whether or not a treaty of reciprocity or a customs union between a neutralized state and one of the neutralizing powers becomes incompatible with a perpetual neutralization agreement, depends to a large extent on the terms and provisions of the treaty.

It is unlikely that the United States will give preferential treatment to our goods, as against foreign goods, when independence has already been achieved, unless we are in a position to give similar advantages to American goods. As Senator Tydings aptly puts it, "when a nation asks for independence, it assumes the responsibilities as well as the benefits thereof."

Whether or not neutralization may exist side by side with a treaty of reciprocity, or free trade between the Philippines and the United States, it is very probable that Japan, which may be expected to be one of the signatory parties to the perpetual neutralization treaty, will demand equal and the same privileges for its expanding commercial interests in the Islands as those granted to other countries, including the United States.

Objections to Philippine Neutralization Answered

It has been said that the United States is prepared to sign a neutralization treaty which would pledge only to respect but not to guarantee and protect the territorial integrity of the Philippine Republic. This statement is based on the premise that the United States could not consent to delegate the power granted to Congress by the Constitution to declare war against any group of states.

Senator Borah, for many years Chairman of the Committee on Foreign Relations, and one of the leading statesmen of America, made these observations:

> "I desire to say now that any treaty of neutrality which may be negotiated will have to be very limited in its terms before I shall be bound to support it."

It could not have been the intention of Congress to recognize Philippine neutrality without guaranteeing the territorial integrity and political independence of the new state because that would be contrary to the very spirit and purpose of Section 11. In the discussion of this question, the international security of the Philippines was the paramount consideration. Representative Hare, one of the authors of the independence bill, significantly remarked:

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"The provisions of Sections 11 and 13, if carried out to the purposes and intention of the Act, should relieve any apprehension as to the relationship between the Philippine Islands and other countries, including the United States."

Others believe that Section 11 of the Tydings-McDuffie law might automatically drag the United States into war. There is no foundation for this fear. The aforesaid Section 11 does not take away the power of Congree to declare war nor could automatically drag the United States into war; because a perpetual neutrality treaty that will be negotiated by the President, as contemplated in said section, requires the consent and ratification of the American Senate before it becomes internationally binding upon the United States. Once the said treaty is ratified, it forms part of the fundamental law of the United States.

Is it not a fact that the constitutions of some of the guaranteeing powers which signed the neutralization treaties of Switzerland, Belgium, and Luxemburg contained provisions similar to that embodied in the American Constitution - to the effect that the power to declare war requires the sanction of the legislative branch? The House of Commons in Great Britain and the Chamber of Deputies in France have always maintained that they possess such power. And is it not also a fact that most of the state-members of the League now contain similar provisions in their constitutions? Do we understand now that the statesmen of these countries violated their constitutions by signing neutralization treaties and the Covenant of the League of Nations? Certainly not.

As a passing observation, it may be stated that the United States took active part in the Conference of Berlin of 1884 which decided the neutralization of the Congo Free State. Mr. Kasson, the United States Minister at the Court of Berlin, was one of the American delegates. In 1889, an agreement was also entered into by the representatives of the United States, Great Britain and Germany, by which a regime or status somewhat similar to that of permanent neutrality was established in the Samoan Islands.

Moreover, Congress, composed of many able constitutional lawyers, could not have overlooked this question before it approved Section 11 of the Tydings-McDuffie Law.

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23 - 76 Cong. Record, Part 2, supra, p. 2005.
24 - 76 Cong. Record, Part 2, supra, p. 1825.
25 - I Willoughby on the Constitution, p. 463.

It is significant that in the discussion of the Hare-Hawes-Cutting and the Tydings-McDuffie Laws, this constitutional question, unlike the power of Congress to alienate territory or to give the Philippines its independence, was not raised or discussed. It is probable that the members of Congress took it for granted that the United States could sign such a neutralization treaty.

It is also advanced by Professor Pio Duran, of the University of the Philippines, that the Philippines should reject a neutralization treaty because her independence would be confined "to the administration of her internal affairs, and her foreign policies will be dominated by meddlesome Occidental powers."

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This is a far-fetched interpretation of the position of a neutralized state before international law. Even those who maintain that neutralized states are part-sovereign states do not conclude that their foreign policies or affairs are dominated by other powers. Switzerland, Belgium and Luxemburg signed the Hague Conference of 1907.

In this respect, Professor Oppenheim, one of the leading authorities in International Law, in discussing the nature of the neutralized state, said:

> "The reason why a state asks or consents to become neutralized is that it is a weak state and does not want an active part in international politics, being exclusively devoted to peaceful development of welfare..... Since a neutralized state is under the obligation not to make war against any other state, except when attacked, and not to conclude treaties of alliance, guarantee, and the like, it is frequently maintained that neutralized states are part-sovereign only, and not international persons of the same position within the family of nations as other states. This opinion has, however, no basis if the real facts and conditions of their neutralization are taken into consideration."

Professor George G. Wilson, of Harvard University, writing in the January, 1935 number of the American Journal of International Law, remarked:

> "It is evident from Section 12 of the Act (Tydings-McDuffie) that this neutralization, if agreed upon, is not regarded as impairing in any degree the independence of the Philippine Islands."

Difficulties Incident to the Negotiation for Neutralization

There is no doubt that innumerable and great difficulties will be encountered in obtaining effective neutralization for the Philippines. Even if the President of the United States should succeed in securing a neutralization treaty, still the Senate might interpose certain objections because of the so-called American policy - "entangling alliances with none." Furthermore, we cannot foretell definitely what the foreign policy of the United States may be ten years hence.

Moreover, Article 10 of the Covenant of the League of Nations may possibly be used by some state-members of the League as an argument to refuse to act as guaranteeing powers for Philippine neutralization.

The uncertainty of the withdrawal of American naval reservations and coaling stations after Philippine Independence has been achieved, may be another stumbling block in the way of a successful negotiation of Philippine neutrality. In this connection, it is worthy of note that the recommendations of the Committee on the Philippines sponsored by the Foreign Policy Association and the World Peace Foundation state the following:

> "From the strategic standpoint, the majority of the Committee regards the possession of the Philippines by the United States as a definite liability."

Another difficulty is the recent announcement by the Japanese Government of the creation or application of the so-called "Asiastic Monroe Doctrine."

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Mr. Hirota, at that time Japanese Minister for Foreign Affairs, aptly described this principle in the following words:

> "If the United States desires an amicable solution of the pending problems ... the United States should keep her hands off the Far Eastern affairs and place implicit confidence in Japan's efforts to maintain peace and order in Asia. The world would be divided into three parts under the influence of American, European and Asiatic Monroe Doctrines."

There is no doubt, however, that we should exert our supreme efforts to obtain an effective Philippine neutralization treaty.

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Part I is based on materials collected for a symposium conducted by the Philippine Academy of Social Sciences on June 27, 1936.

Part II is based on a discussion of this subject by the Philippine Academy of Social Sciences, led by José M. Espino, of the P. I. Department of Finance.

Part III is based on materials collected for a symposium on this subject by the Philippine Academy of Social Sciences, led by José L. Celeste, Agent of the P. I. Department of Finance.

The Philippine Council and the Institute of Pacific Relations do not assume responsibility for statements of fact and opinion contained in these papers.

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THE ECONOMIC POLICIES OF THE UNITED STATES IN THEIR EFFECT ON THE PHILIPPINES

I.

THE UNITED STATES AND JAPAN IN PHILIPPINE FOREIGN TRADE

Among the signs of a changing balance of power in the Pacific is the expansion of Japanese commerce on the western rim of the ocean. Examination of Japan's exports to the Straits Settlements, Netherlands East Indies, British India, and Siam show that, in the seven-year period from 1928 to 1934, they rose in varying degrees ranging from 170 to 500 percent, using 1928 as base. The trade with British India had the smallest percentage rise, that with Siam the largest, however, the former country received the largest absolute amount of Japanese goods, in terms of value which increased steadily from 146 million yen in 1928 to 258 millions in 1934.

Japan's commercial expansion in the Philippines has not been as noticeable as in these countries: Her exports in 1934, which was worth, 36.5 million yen, was only 125 percent of that of 1928. Nevertheless, her share of Philippine imports has risen between 1932 and 1935, as follows: 7.75 percent in 1932, 8.43 percent in 1933, 12.37 percent in 1934 and 14.23 percent in 1935. The United States' share of Philippine imports has not moved away from 65 percent in all these years, except in 1935, when her share went down to 63.5 percent.

Although Japan's share in Philippine imports has expanded, as a whole it was not at the expense of the United States, except perhaps in 1935 as shown above. In some commodities, of course, Japan gained at the expense of some American producers, especially those in the textile industry. Thus, in the matter of unbleached textiles, the United States supplied 92 percent of the quantity bought in 1932, while Japan supplied only 18 percent. In 1934, the share of the United States went down to 50 percent and that of Japan went up to 36 percent; in other words, the former lost to the latter about one-half of the Philippine market for unbleached cloth. In printed cotton goods, the decline of the United States was very large. She supplied 78 percent of the quantity in 1928 but in 1934 only 21 percent. On the other hand, Japan's share of 9.4 percent in 1928 rose to 77.9 percent in the first half of 1935.

Reduction of the American share in favor of Japan occurred also in the imports of bleached cloth, in that of dyed cloth and of cloth woven with dyed yarns, in knitted socks and stockings, and in sardines. Of course, the decline in the shares of other countries to Philippine imports also contributed to the expansion of Japan's, but the United States' contribution was the most important.

It is interesting to note that, in spite of the devaluation of the American dollar at the end of January, 1934, which would tend to favor American exports to the Philippines and would operate to increase the actual as well as relative cost of non-American imports, (the Philippine peso being pegged to the American dollar), the United States' share of total imports did not go up,

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but actually declined in the cotton textile field. The reduction in imports of American textiles was so great that, perhaps, to avoid irritation a quota arrangement between the United States and Japan was entered into beginning September, 1935, to last for two years, - the whole negotiation having been conducted without the knowledge of the Philippines.

One of the problems bothering economic planners in the Philippines is that, in spite of the rise of Philippine imports from Japan during 1932 to 1935, Japan's own imports from the Philippines have not risen as fast. On the contrary, the yearly percentage average of Japan's share in Philippine exports was lower in 1930-1934 than in 1925-1929. The following table contrasts the movement of Philippine exports to and Philippine imports from Japan:

AVERAGE YEARLY PERCENTAGE

	1925-1929	1930-1934	
Exports	4.61	3.21	Decrease 1.40 percent
Imports	9.23	10.02	Increase .79 percent

If Japan would only buy more from the Philippines!, - such is the desire of the Islands' economic planners. It is to be noted, though, that Japan's share of Philippine exports rose from 3.86 percent in 1934 to 5.63 percent in 1935, a figure never reached since 1923.

The expansion of Japan's textile exports to the Philippine market at the expense of American producers gave rise to an attempt to revise the Philippine tariff upward. When this failed, in view of the strong opposition of many Filipino individuals and groups, American and Japanese textile producers entered into the quota arrangement, beginning September, 1935. This is an instance of how two national groups, in their desire to avoid monetary losses and possible misunderstandings between themselves, create a situation not at all satisfactory to a third party.

II.

EFFECTS ON THE PHILIPPINES OF AMERICAN RECIPROCAL TRADE AGREEMENTS

The Roosevelt Administration has embarked on the policy of promoting international commerce, especially that of American exports, by entering into reciprocal trade agreements with other countries, with the end in view of reducing import duties and other trade barriers on certain products. These agreements are intended ultimately to bring about widespread reductions of duties and the abolition of other trade barriers. According to data on hand, the United States has already entered into as many as 49 such arrangements, most of them on the basis of an unconditional most-favored-nation clause. So far, these arrangements are with countries not bordering on the Pacific, except those with the Netherlands concerning such products as tobacco, cords and twines, and certain kind of hats.

One question quite vital to the Philippines is: How far can further agreements, especially with Pacific countries, be entered into without prejudice to Philippine products? In this connection, it is necessary to remember that

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the United States - Philippine trade since 1909 has been governed by a preferential tariff arrangement whereby the products of each country can enter the market of the other absolutely free of duty and, since 1913, in unlimited amount. Thus, Philippine exports have been developed under so much differential that most of them find their way into the American market. Apparently, therefore, if further reciprocal trade agreements were to be entered into with countries on the western side of the Pacific Ocean, the advantage heretofore enjoyed by the Philippines may be seriously reduced. And already the United States agreements with the Netherlands covering wrapper and filler tobacco, and cordage, - including cables, cords and twine - are tending to modify the Philippine advantage in these products which constitute important items of Philippine export to America.

Other Philippine exports that may be affected by further trade agreements would be sugar and coconut oil. It is quite unlikely, of course, that sugar can be the subject of further agreement with, say, Java, in view of the Cuban and Hawaiian interests. With regard to coconut oil, the combined production of India, Ceylon, Malaya, and Dutch East Indies in 1934 was 112,000 tons as contrasted with 145,000 tons of the Philippines. Trade agreements extended to these countries providing for a reduced duty on their coconut oils upon entering the American market, would necessarily cause a decline of Philippine oil exports.

The reciprocity agreements with the Netherlands regarding exports to America of tobacco, cordage and twine, have a direct bearing on the plans of the United States in the Philippines during the next ten years. In this connection, it is to be remembered that the Independence Law, approved by the United States Government and operative from May 1, 1934, contains provisions intended to prepare the Philippine people to meet the economic problems that will arise as soon as they become politically separate from the United States. These provisions gradually modify the free trade arrangement existing since 1909. Thus, during the first half of the ten-year preparatory period, only a given quantity of sugar, coconut oil and cordage can enter the American market free of duty; any excess over this amount has to pay the full tariff rate. Then, during the second half of the period, the above quantity limitations will be done away with, to be replaced by a graduated export tax that increases every year by 5 percent until the tenth year when its total amount is 25 percent of the full American duty existing at that time. What the arrangement will be when Independence is granted, nobody knows.

The economic provisions of the Independence Law are intended to force the Philippines to curtail the production of certain products, to shift liberated resources to other industries, and to adjust the price level, all with the end in view of lessening its dependence on the American market. These adjustments will have to be carried out at a certain rate, but cannot much exceed this rate; otherwise the process of readjustment will become too painful to bear. The United States-Netherlands agreement, however, would make the required readjustment in the Philippines more rapid. In as much as it is already concluded, nothing can be done except to wait for its termination and to prevent its renewal. Then, with regard to further reciprocity agreements with other countries on the Pacific, the attitude of the Philippines depends on the products involved; if these should be coconut oil or sugar, the intention of the American Government would be further violated.

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Granting now that the reciprocal agreements already entered into by the United States and further agreements to be concluded would have a prejudicial effect on the great aim of the Philippines - namely, to prepare for an independent existence during the ten-year period mentioned above - what method of action is available to her to counteract the effects of these agreements? There seems to be no way open, because the Philippines, according to the Independence Law, has no autonomy in her tariff-making, so that she may not impose a tariff on American goods. Neither may she offer any concession to another country if by so doing the United States were adversely affected. Moreover, the Philippines has not yet the right to deal directly with other countries.

Thus, from the standpoint of both Philippine exports and imports, reciprocity agreements entered into for the sole benefit of American consumers and industries may be disadvantageous to the Philippines. It is for this reason that there is developing a feeling in this country that a general downward revision of the American tariff would be preferable to reciprocity agreements, at least during the time that the United States does not deem it fit to enter into a definite agreement with the Philippines. But while President Roosevelt's policy of promoting foreign trade is still in the stage of using reciprocity agreements, the Philippines may only trust that in the negotiations her interests will not be forgotten.

There are some students of economic relations who believe that so far there has not been any agreement entered into by the United States that has prejudiced the Philippines; and they maintain, to cite one illustration, that the reduction of the tariff rate given to Cuban sugar is not in reality aimed at the Philippines, because such reduction is an integral part of the greater plan of the curtailment of output, the achievement of which will raise sugar prices. Whether or not the Cuban sugar illustration is valid, there is also an instance showing how an agreement entered into by the United States has become prejudicial to the Philippines, namely that of coconut oil. The Brazilian "babasu" is replacing Philippine coconut oil in the American market because the excise tax imposed on coconut oil cannot be imposed on the Brazilian "babasu" by virtue of an agreement that this should be placed on the free list of the American tariff. But there is no certainty either that a general revision downwards of the American tariff will not become prejudicial to Philippine exports to America. At present some of the Philippine products can be exported to the United States, because the protection given by the American tariff is sufficiently high. When the revision downward takes place, it is possible that the rate may be so reduced that the differential in favor of the Philippines would disappear.

III.

EFFECTS OF AMERICAN MONETARY POLICIES ON THE PHILIPPINES.

Effects on the Gold Industry

Two of the measures adopted to carry out President Roosevelt's monetary policy have had a profound effect on Philippine economic life. The first measure was the decision reached at the White House Conference, held on October 29,1933, to purchase gold in the world market. Inasmuch as this was done at an increasing

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price that finally reached $35.00 per ounce, the gold industry in the Philippines experienced a boom such as it never had before, as shown by this table:

PRODUCTION OF GOLD BULLION
(Port of Manila, 1935)

Year	Quantity (oz.)	Value
1931	182,008	$ 3,762,434
1932	244,292	5,100,053
1933	296,265	8,095,397
1934	340,313	11,971,785
1935	449,086	15,718,014

Note:- Mint value only for years 1931 and 1932.

Over 150 gold mining companies have been incorporated, but only 15 of these companies are actually producing gold. If we look only at the number of companies producing in relation to the number incorporated, we may well wonder if the industry has gained as a whole; for, against the profits realized by the operating companies, there must be set off the losses incurred by the non-operating companies in prospecting and other preparatory work on claims that will finally not be worked out. And, because the Filipinos have already learned some rudiments of "high finance," many buyers of shares of stock for investment or for rise of price have lost in connection with many of these ventures: this also has to be considered in arriving at the net gain of the industry.

The gold boom is one of the consequences of the United States monetary policy. There is another result that is of greater and more lasting importance. Inasmuch as the Philippine sugar industry has had to curtail production by virtue of the Jones-Costigan Law, part of the resources of the sugar people has been invested in gold and other mining ventures. The new mining industry, therefore, has relieved the sugar people of part of their worry because one way, at least, has been indicated whereby they can avoid the predicted economic "debacle" which, it was said, would happen as soon as the Independence Law imposed the graduated export tax on sugar and other products beginning in 1940.

The stock market in the Philippines which deals mostly in mine securities, experienced its first boom in September 1933, seven months after President Roosevelt assumed office and one month before the decision to buy gold in the world market. Not long after that boom, the second measure of President Roosevelt's monetary policy came with the formal devaluation of the American dollar, on January 31, 1934, in connection with which the price of gold was fixed at $35.00 an ounce. Although there was already an expansion of gold mining operation before that date, the devaluation accentuated mining activities. The Philippine gold fever reached such a height that it was even rumored that the earth under the City of Manila contained gold.

Equipment and a special kind of lumber have been brought from the United States, some of which has been installed hardly two or three months at the moment of writing. All this, of course, is the result of the increased price of gold from $20.67 to $35.00 per ounce. The difference between the new and old prices, amounting to over $14.00, has been only partly absorbed by a rise of cost, so that there has been really the equivalent of a subsidy to the enterprise. The estimated production for 1936 is over $40,000,000, in view of the installation of new equipment.

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So far, this has been the effect of the American policy on the Philippine gold industry. It may be interesting to inquire what is to happen with the mining investments if the Republican Party should win the Presidential election next November. How many of the mines would close completely, if a Republican President should go back to the old American gold standard, nobody can foretell.

The Rise of the Dollar and Trade

The Philippine peso, for purposes of foreign trade, is pegged to the American dollar at the rate of one peso for fifty cents. The rise of the dollar would naturally raise the purchasing power of the peso. This would tend to make it easier for the Filipinos to buy foreign goods, thus buying relatively less American commodities. Philippine exports would become dearer from the point of view of foreign buyers, and this would tend to shift these exports toward America.

Before the dollar was devaluated on January 31, 1934, England went off the gold standard on September 21, 1931. The English pound since then took a downward course, reaching a low level in November 1932, when on the 29th of that month it cost $3.15. From that point it rose gradually, and on February 28, 1933 it was worth $3.42. In the month following, on March 6, gold payment was suspended in America, and the pound continued its rise until November of that year when it was worth more than its par value of $4.866. During that time it would have been advantageous for the Filipino to buy goods from Great Britain and other countries whose currencies followed the pound. The returns of trade show that the British share of the Philippine imports rose from 3.03 percent in 1931 to 3.57 percent in 1932, and that of the British East-Indies from 1.93 percent in 1931, to 2.34 percent in 1932. The share of Australia increased only slightly, but that of Canada rose by almost 50 percent.

The decline of the pound would make it more difficult for those who hold this currency to buy Philippine exports. Trade statistics indeed show a drastic fall of the British share of Philippine exports, from 4.01 percent in 1931 to 1.44 percent in 1932; and from this 1932 low level, its share rose slightly in 1933 in spite of the rise of the pound, as noted above. The share of British East Indies fell also, from .40 percent in 1931 to .23 percent in 1932. Australia's share did not change and Canada's fell slightly.

The trade with Japan behaved somewhat differently. Britain went off gold in September, but Japan placed the embargo on gold only on December 13, 1931. However, because of rumors, the fall of the yen started three days ahead of the embargo. On December 10, it went down to $ .42, the par being $ .498. The decline continued, and on November 29, 1932, the yen was worth only $ .20. A definite and continuous rise began almost simultaneously with the suspension of gold payments in America, until in November, 1933, it reached the position it had when President Roosevelt devalued the dollar.

Theoretically Japan's share of Philippine imports should during 1932, have increased over that of 1931; on the contrary, it fell actually from 11.05 percent in 1931 to 7.75 percent in 1932. During 1933, as the yen was recovering, Japan's share was 8.43 percent or a difference of .68 percent above that of 1932.

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Japan's share of Philippine exports behaved as expected: it fell from 3.45 percent in 1931 to 2.70 percent in 1932. In 1933 it rose to 2.80 percent in view of the fall of the dollar.

The United States' share of Philippine imports, contrary to theoretical expectation, rose from 63 percent to 65 percent between 1931 and 1932; in 1933 it was also 65 percent. Evidently, this increased share was partly at the expense of Japan. However, the effect of the rise of the dollar against other currencies was plainly reflected in the increased share of the United States in Philippine exports. Exports to America rose from 80 percent in 1931 to 87 percent in 1932; that is, the share of foreign nations fell from 20 percent in 1931 to 13 percent in 1932.

Dollar Devaluation and Trade

Whatever general statements could be made in connection with the dollar devaluation would be the reverse of what was said with reference to its rise. That is, the devaluation would induce increased purchases by foreigners of Philippine exports, thus tending to draw these goods away from the United States. Imports from foreign countries would become dearer to the Filipinos, hence there would be more purchases from the United States, relatively speaking.

Although the formal devaluation did not occur until January 31, 1934, the American dollar began to fall in value relative to other currencies in the early part of March, 1933. Thus the British pound which was worth $3.42 on February 28, 1933, reached $3.99 at the end of May; the yen, worth $ .206 on February 28, was $ .24 on April 29. As stated above, these currencies continued their rise, and on the eve of the formal declaration of the devaluation the pound was $4.98 while the yen was $ .298. Now and then during 1934, the English pound rose a few cents above $5.00, while in 1935 it even went down below $4.98, the rate on December 30, 1935 being $4.93. The yen oscillated during 1934 and 1935 between $ .28 and $ .31.

It is seen that the formal devaluation did not materially lower the market value of the dollar. But however slight the depreciation of the dollar was in terms of foreign currencies, the fact that the United States' share of Philippine imports remained at 65 percent from 1933 to 1934 and the further fact that her share of Philippine exports fell from 86 percent in 1933 to 83 percent in 1934, are possibly sufficient indications that the devaluation worked as intended in connection with the United States-Philippine trade. With regard to the effect on Philippine import-export ratio, the imports rose from 1933 to 1934 by only 22 percent, while the exports rose by 28 percent.

From the Philippine standpoint, the devaluation fulfilled its purpose of stimulating exports and discouraging imports. Judged accordingly, this American monetary measure is not a cause of misunderstanding, except perhaps among those Filipinos who believe that it is a better policy for imports to come in unhindered and for imports from foreign countries to come in in greater quantity so as to induce these countries to extend better treatment to Philippine exports.

Dollar Devaluation and the Gold Profits

If the interference with the flow of trade by the devaluation has not been viewed with misgivings but, on the contrary, has been considered desirable by dealers in American goods, there has been quite a misunderstanding with

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regard to the gold profits realized by the American Government out of certain funds deposited by the Philippine Government in some banks in America. These deposits comprise two funds. The first fund is known as the Gold Standard Fund, the purpose of which is to maintain the parity between the actual peso and the theoretical gold peso which is equivalent to fifty cents of the American dollar. The second fund is the Treasury Certificate Fund which is provided for the exclusive purpose of redeeming the treasury certificates issued by the Philippine Government. These funds amounted on January 31, 1934, to $56,276,057. The profits realized by the devaluation out of this total was $23,800.000. Profit from the interest earned by those funds is not here included.

Congress had already passed a law authorizing the payment to the Philippine Government of this sum of $23,800,000, but failed to appropriate the necessary amount. Recently, the United States Senate passed a bill repealing that authorization, but the House has not yet acted on the measure. The Senate action is based on the arguments that (a) the Philippines had no gold reserve to speak of; it had deposits to be sure, but these were specifically payable in lawful money like any other deposits; (b) the Philippines had no occasion for a gold reserve as it had no currency requiring redemption in gold; (c) there is no legal difference between the Philippine deposits and those of American citizens, and (d) the deposits were maintained for a specific purpose, and the adequacy of the deposits for that purpose was not lessened by even one dollar by the devaluation; that is they will redeem actually as many Treasury certificates as before the devaluation.

The Philippine claim is based on the point that, had it had this gold in its possession, it would have made a profit on it at the same rate as that made by the United States upon its gold. Some time in April, 1933, the Philippines demanded its deposits in gold, but the suspension of gold payments on March 6 made that demand impossible of compliance. In October of 1932, the Secretary of War was asked whether it was possible to modify the agreement with bank depositories by which these banks would agree to pay gold to the Philippines on demand, but the Secretary answered that such modification would not be feasible, unless a material reduction of the interest rate were made. It is unfortunate that the matter was not pressed further in 1932 or before the gold payment was suspended.

Perhaps a bit of historical comment would clarify the matter in favor of the Philippine claim. In 1903, these funds were created incident to the institution of the present currency system. Bonds were issued the proceeds of which formed these funds. A law of Congress set up this currency system and provided for issuance of these bonds. Furthermore, it was the American Government that determined where these funds should be deposited. For this reason, these funds could not be like the deposit of any individual, because there was no choice on the part of the Philippines, whether to deposit them in American banks or in banks in England or France. There being no similarity, because there was no alternative for the Philippines, the gold equivalent of these deposits does not properly belong to the American Government.

The bonds issued for the purpose contained the gold clause, that is, they were to be redeemed in gold dollars with the content existing at the time of the issue. This being the case, the contention that the deposits were simply in "lawful money" cannot stand, because when the proceeds were received from the

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buyers of the bonds and deposited in the banks, there was in the mind of the Philippine Government that very specific obligation of paying in gold dollars with a given metallic content. The deposits were made, therefore, with the full expectation that they could be withdrawn in such a form as to be able to meet that definite clause of the contract.

The bonds were already redeemed, and they were redeemed with funds contributed by Filipino effort. This effort produced commodities that stood for a definite amount of gold, which was the price obtained for them in the market. Why a part of this gold, which is the product of a given amount of effort, should be taken away from the Philippines is not clear to the Filipinos.

If the unilateral action of the United States in the devaluation was no more than to regain for the American exporters the same position that they occupied in the world market before England and Japan went off gold, and enabled these exporters to continue their leading position in the Philippine market, it operated to divert part of the Philippine exports from the American market. It also reduced the Philippine purchasing power for foreign goods, at least to the extent of the gold profit that may not ultimately come to the Philippines.

How Far Can Problems Arising Out of American Monetary Policy be Adjusted other than by Unilateral Action in the United States?

From the Philippine standpoint, this query is largely academic. So long as the Congressional law creating the Gold Exchange Standard of the Philippines is not repealed, there cannot be any bilateral action in which the Philippines can participate. And there is no probability in the next six years, or perhaps during the ten-year period of the Commonwealth Government, that the Philippine monetary system could suffer a change. The President of the Philippine Commonwealth, in accepting his nomination to become presidential candidate in May, 1934, said that he did not contemplate initiating a departure from the actual system.

It is to be noted, however, that so long as the Philippine peso is tied up with the American dollar, changes in the value of the dollar will affect the Philippines, irrespective of what Filipinos desire and of the consequences to Philippine economy. To be free from this effect, the alternative is to set up an independent monetary system. But some people believe that it will be quite difficult to maintain this system, in spite of the fact that the Philippines is an important gold producer. A price policy of gold, determined by the leading countries, like the United States and England, may wreck the independent system.

Over and against this difficulty of maintaining an alternative, independent system, there is the limitation imposed by the present arrangement on the Philippine Government. The Philippines cannot inflate or deflate its currency with much hope of success unless the backing of the Federal Reserve in America is given. The last devaluation is illustrative of this point. Out of the devaluation profits, the United States can issue more currency if it likes. The Philippines cannot follow without the backing of America. But if the claim on the profit is granted, the Philippines would have resources with which to initiate whatever action it may deem wise, irrespective of the attitude of American financiers. In this way, the burden that will necessarily be felt by, say, an American inflation, can to a certain extent be avoided.

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