



Politics of the Great Debate in the 1950s: Revisiting Economic Decolonization in the Philippines

YUSUKE TAKAGI

ABSTRACT. After the Philippine government established the Central Bank and implemented import and exchange controls as part of economic decolonization, a Great Debate evolved as a clash of ideas and interests among politico-economic elites. The Central Bank governor tried to maintain a tight monetary policy and foreign exchange controls while some cabinet members, backed by the powerful sugar industry, advocated the implementation of a more liberal monetary policy and a change of the exchange rate. The debate became a major political as well as policy issue through a series of elections, and led to the resignation of cabinet members and reappointment of the governor. In contrast to the conventional view, a political consequence of the debate showed that the state bureaucracy acted strongly vis-à-vis vested interests. In fact, the debate represented a new type of politics in the Philippines: the politics of economic policy. Focusing on two prominent economists, Miguel Cuaderno and Salvador Araneta, this paper analyzes how different ideas and interests were contested in the debate, and how the politics of economic decolonization shaped the direction of economic policymaking at an initial phase of economic development.

KEYWORDS. economic decolonization Philippines Miguel Cuaderno Salvador Araneta Central Bank policy process Great Debate economic policy

INTRODUCTION

The Philippines witnessed a Great Debate during a five-year period in the 1950s over fiscal and monetary policies, between Miguel Cuaderno Sr., governor of the Central Bank, and several cabinet members who were close to the sugar industry (Golay 1956; Roxas 1958; Soberano 1963). Cuaderno argued for a tight fiscal policy and continuity in the exchange policy, which was vital for the import substitution industrialization policy. On the other hand, some cabinet members supported a more liberal fiscal policy and a change in the exchange

policy, which would be beneficial for the export industry, including the sugar industry. At the end of the debate, Cuaderno won the confidence of the president and was not only reappointed but also succeeded in maintaining the exchange rate policy, although the outgoing cabinet members were still able to author bills enabling the government to conduct a more liberal fiscal policy before they resigned from the cabinet.

The process and outcome of the debate are intriguing, considering that most researchers have emphasized the weakness of the state bureaucracy vis-à-vis vested interests, and raises the question of how the Central Bank could address vested interests. A former economist of the Central Bank as well as of the Philippine National Bank at the time, Sixto K. Roxas, characterized the debate as “a struggle between two schools of [economic] thought” in an introductory note to a chapter of the compilation of Araneta’s speeches (Roxas 1958, 328).¹ Some researchers have focused on the controversy under the Magsaysay administration (Soberano 1963; Hori 1997), while others have argued that the US support underpinned the Central Bank’s stand (Golay 1956; Hutchcroft 1998).

Although the above-mentioned works are helpful in understanding what happened at that time, the following two points remain unanswered. First, the aforementioned works do not explain why the debate appeared in the 1950s.² Second, in terms of US influence, it remains unexplained how the Central Bank could take advantage of external support in domestic politics. In other words, the previous literature does not pay much attention to a change in the debate’s domestic context.

To understand the changing politico-economic context, I argue that a changing phase of economic decolonization created the conditions of the debate: active participation of economists, and their contentions in the policy-making process as well as institutional settings that they worked for or criticized. Examination of relations between the debate and economic decolonization leads to a reconsideration of politics of economic development in the Philippines in two ways.

First, this paper emphasizes positive roles of the Filipino individuals in a process that is often politicized in a domestic context, unlike conventional literature that emphasizes the asymmetrical structure of Philippine-US relations. Bello and others, for instance, argue that the Philippine Trade Act of 1946 (Bell Trade Act) represented the continuing US influence on the Philippine political economy (Jenkins

1954; Bello, Kinley, and Ellison 1982).³ Maxfield and Nolt, furthermore, argue in their now classic work on the US influence on the Philippine economic policy in the 1950s that the US government supported import substitution industrialization in several Third World countries, including the Philippines (Maxfield and Nolt 1990; Rivera 1991; Doronila 1992). They underestimate, however, the role of the Filipinos who actively campaigned to revise the Bell Trade Act and the subsequent US support to modify it. As Haggard (1990) and Cullather (1994) argue that the United States failed to intervene in the Philippine political economy,⁴ it is necessary to reconsider the domestic political process through which the Central Bank could use US support in the 1950s.

Second, this paper signifies contesting ideas and interests of individual actors as the debate grew over the time. Those who highlight the durable influence of the domestic socioeconomic structure neglect the significance of the debate because they emphasize the socioeconomic structure in which the shared interests of dominant families absorb conflicts over policy orientations (Hutchcroft 1998; Kang 2002). Their weakness lies in the way they develop arguments that stress the role of a typology of capitalism such as rent capitalism, which, as Hutchcroft defines, quoting the work of Max Weber, is a term covering “systems in which ‘money is invested in arrangements for approaching wealth which has already been produced rather than in [arrangements for actually] producing it’” (1998, 19).⁵ Within the framework of rent capitalism, however, they mention only the end of the debate to emphasize the resilient influence of the family-driven economic structure (Hutchcroft 1998, 82), and fail to examine the process in which the debate developed over time.

Defining economic decolonization not as a synonym of economic nationalism but as a process through which the Filipinos tried to transform the colonial economic structures, this paper tries to grasp changing characteristics of Philippine politics. The first section examines the early phase of decolonization from the 1930s when the two leading economists shared the same opinion on the goal of the Philippine political economy. The second section analyzes the process and outcome of the debate as these economists began to clash with each other over various economic policies such as fiscal policy, monetary policy, and development policy. The concluding section considers the significance of the debate in the broader context of Filipino political economy.

ECONOMIC DECOLONIZATION AS A PROCESS

Early Filipino Initiatives and American Reactions

Miguel Cuaderno and Salvador Araneta had played significant roles in the economic decolonization of the 1930s on various occasions, long before they engaged in the debate. Cuaderno, born in Bataan province in 1890, was one of the nation's first banking specialists. After working in the colonial government and the Philippine National Bank, he helped establish the investment corporation of the Jacintos and Cojuangcos in 1937, which developed into the Philippine Bank of Commerce in 1938 (Ty 1948, 2-3). Meanwhile Araneta, born in Manila in 1902, had played a leading role in private business and its organization. While working as a partner in a law firm, Araneta and some members of the Philippine Chamber of Commerce announced the formation of National Economic Protectionism Association (NEPA), on November 19, 1934 (Purugganan and Cruz 1959, 35). NEPA aimed to establish a more autonomous economy and sought industrialization in order "to make use of local materials whose manufacture would lessen our dependence on foreign supplies" (Purugganan and Cruz 1959, 55). In the 1933 Constitutional Convention, Cuaderno and Araneta even worked together on the tariff issue (Cuaderno 1937).

When the Filipino elites found that they could achieve political independence within the framework of the Tydings-McDuffie Act of 1934,⁶ they, however, could not expect positive US cooperation. This was because there were gaps between the Americans and the Filipinos over independence, and the Tydings-McDuffie Act of 1934 was designed mainly to preserve American interests rather than to prepare for Philippine independence (MacIsaac 2002). In 1939, for instance, the Philippine Economists Association (headed by future President Elpidio Quirino) wrote the first draft of a Central Bank bill, which was passed in the Philippine Assembly, and then sent to US President Franklin Roosevelt, who vetoed it (*Manila Chronicle*, January 22, 1949; *Bangko Sentral ng Pilipinas* 1998, 7-8).

In the last moments of the colonial period, the US government tried to tie up the two-country market with the Bell Trade Act, which represented American concerns over the negative economic impact of Philippine independence. The so-called parity clause, which allowed American businesses the same rights to exploit natural resources in the Philippines as local businesses and which contradicted the 1935

Philippine Constitution created serious political controversy in the Philippines (Jenkins 1954; Constantino and Constantino 1978).

It was Araneta who “pioneered in his fight against the Bell Trade Act” (*Manila Chronicle*, June 4, 1949, 4). In an article published on June 24, 1947, Araneta criticized the Roxas administration for pushing Congress to ratify the act, quoting Roxas who at the time was secretary of finance and chair of the NEC in 1936 (Araneta 1953, 85-92; Brazil 1961, 100). According to Araneta, Roxas said that Philippine independence may succeed without free trade and Roxas clearly stated that “the plan contemplates the establishment of new industries and the production of new crops, chiefly to supply local demand in substitution for articles now imported” (Araneta 1953, 88). Araneta concluded that the Filipinos should follow not the advice of American Congressman Bell but that of economist Roxas who could properly evaluate the value of the local market in 1936 (Araneta 1953, 92).

Araneta argued that the Bell Trade Act would prevent US capital from flowing into the Philippines as well as prohibit the Philippines from protecting its industries. Because of the free trade stipulation and the high exchange rate of peso to the US dollar, US businesses could export their products to the Philippine market and easily make profits. As a result, “free trade encouraged American entrepreneurs to send consumer goods, not capital, to the Philippines” (Araneta 1948, 281).

While keeping a critical perspective toward the Bell Trade Act, Araneta appreciated the activity of the Joint Philippine American Finance Commission in 1946. He supported the commission’s suggestion to create a Central Bank and to carry out import controls, for such measures would allow the Philippine government to protect local industries and hoped “that it [the Commission’s report] rather than the Trade Act expresses the spirit that will shape future American economic relations with the Republic of the Philippines” (Araneta 1948, 285). One of the Filipino members in the Commission whom Araneta positively appraised was Miguel Cuaderno (Araneta 1953, 146).

Establishment of the Central Bank

The official history of the Philippine Central Bank says that the Joint Philippine American Finance Commission’s recommendation prompted the Philippine government to establish the Central Bank (*Bangko Sentral ng Pilipinas* 1998, 7-8). Cuaderno as co-chair of the commission played a significant role in the subsequent establishment

of the Central Bank (Cuaderno 1949, 1960). Once, when the commission was deadlocked due to American co-chair Colonel Edward Crossman's opposition to the Philippine delegation's proposal to create a Central Bank, the members visited President Roxas to ask for his advice. Roxas was disgusted with the attitude of the US delegation and asked Cuaderno how much time he needed to prepare a separate report. Before Cuaderno could reply to the president's request, two American members stated that they would accept the suggestion to establish a Central Bank. As a result of Cuaderno's strong stance, the American members wrote several sentences about the establishment of a Central Bank in the final report of the commission (Cuaderno 1960, 9-11; Hori 1997, 264).

Cuaderno maintained his leading position in the subsequent decision-making process. Following the publication of the report, President Roxas created the Central Bank Council by Executive Order 81 of August 14, 1947, and appointed Cuaderno as the council chair. Cuaderno, consulting with economists of the US Federal Reserve System who had experience in establishing Central Banks in Latin American countries, finished the draft in early February 1948 (Cuaderno 1949, 6-7; Cuaderno 1955, 169). The council drew upon the experiences of Latin American countries rather than those of the United States or the United Kingdom (Cuaderno 1955, 170). Cuaderno assumed that the Philippine economy was essentially an export economy that depended on exports of a limited variety of primary products and which was vulnerable to international business cycles (Cuaderno 1949, 10; Cuaderno 1955, 171).

Cuaderno enjoyed full support from President Roxas, who endorsed Cuaderno's views in his message to Congress on April 7, 1948. Roxas specifically mentioned the similarity of the Philippine economy to many Latin American economies, which were dependent for their prosperity on economic conditions abroad, and emphasized the significance of international balance of payments for these kinds of economies (Congressional Records, 1948, 925). The subsequent president, Elpidio Quirino, continued to support the Central Bank. After a relatively favorable discussion in Congress, President Quirino signed the Central Bank Bill on June 15, 1948, stating that Republic Act (RA) 265 was a "charter of our economic sovereignty," and appointed Cuaderno the first governor of the Central Bank (Cuaderno 1949, 8).

As governor, the only member who was required to devote all his time to the highest governing body of the Central Bank, the Monetary Board, Cuaderno succeeded in making the board the dominant institution in the economic policymaking in the 1950s (Golay 1961, 20). Cuaderno “recruited the earliest team of economists, finance, statistics and accounting specialists.... The Department of Economic Research, organized by Leonides Virata in 1949, became the premier center of applied economic and statistical research and attracted the cream of local talent.” This is according to the description of a prominent Filipino technocrat who had worked for the Bank in the early 1950s, Sixto K. Roxas (2000, 86).

Imposition of the Import and Exchange Controls

The establishment of the Central Bank was one significant recommendation of the Joint Philippine American Finance Commission; another was the imposition of import controls in order to balance international payments. Because of the devastation of the domestic production system and massive dollar inflow through the US war damage payments and veterans’ payments that would stop in 1951, the Philippines imported a far greater amount of various goods, including luxury or non-essential items, than the goods it exported. The Bell Trade Act encouraged such imports through the waiver of all taxes on American imports into the Philippines (Valdepeñas 1969, 106-7).

Cuaderno was, however, disappointed at the poor implementation of import controls and wrote three times to President Quirino to recommend strict enforcement of the import control law of 1948, which set up the import control board charged with determining the volume of non-essential and luxury imports for a given period (Cuaderno 1960, 22; Valdepeñas 1969, 104). In an interview in September 1949, Cuaderno emphasized the necessity of import controls on non-essential items, arguing that controls encourage local producers to manufacture commodities (*Manila Chronicle*, September 4, 1949).

After the general elections in early November 1949, the government became more serious about control measures. First, the Central Bank announced its decision to tighten the import controls in Circular 19 of November 17, 1949. Second, the Central Bank implemented exchange controls with the authority of section 74 of RA 265 about emergency restrictions on exchange operations. The Central Bank

aimed to block unnecessary imports through exchange controls rather than the previously used import controls (Valdepeñas 1969, 112).

Philippine businesses responded incoherently to these measures. Aurelio Periquet, then president of the Philippine Chamber of Commerce, praised the controls for the protection of local industry, joined the import control board, and eventually became chairman of the board. Meanwhile, Albino Sycip, president of the Chinese Chamber of Commerce, raised the question of how to make up for any possible decrease in tax revenue due to the reduction of import trade (*Manila Chronicle*, January 7, 1950). There were criticisms of the Philippine Chamber of Commerce for overlooking the interests of Filipino traders, and some Filipino importers even organized an association to protect their economic interests (*Manila Chronicle*, January 5, 1950).

In public speeches after the imposition of controls, Cuaderno not only explained the necessity of the controls but also criticized the importers without any hesitation. In a speech before the Philippine Importer Association on January 21, 1950, for instance, Cuaderno implied that the importers had time to adjust their management before the implementation of the controls, because implementation took more than six months due to pressure from business sectors. He argued that the controls would lead to the development of a Philippine economy purely composed of Filipinos and would prevent an outflow of pesos. He also saw the necessity of adjusting the Philippine economy before US war damage payments stopped in 1951 (*Manila Chronicle*, January 22, 1950).

Two things are significant when we think of the early phase of economic decolonization. First, it is interesting that Cuaderno and Araneta could share views on the Philippine economy before the debate. They worked together at the Constitutional Convention and shared a critical perspective on the Bell Trade Act in the late 1940s. While Araneta publicly criticized the Act, Cuaderno devoted himself to changing the economic policy orientation from the one shaped by the Bell Trade Act through active participation in the Joint Philippine American Finance Commission. Although some US officials were sympathetic to the Philippines, the economic policy shift would have been inconceivable without Filipino economists and the support of the president.

Second, we cannot find dissonance between the two economists' position toward local industries in this phase. Araneta, collaborating with the Philippine Chamber of Commerce, established the NEPA for

the promotion of local industry and criticized the Bell Trade Act, although he recognized the act would be an economic salvation for the sugar industry (Araneta 1948, 282). Although we can hardly find direct connections between Cuaderno and the local industry, it is undeniable that the Central Bank went ahead with the trade controls policy, which was beneficial for local manufacturers and was supported by members of the Philippine Chamber of Commerce except those engaged in imports. In the 1950s, relations between the two economists and local industries changed substantially.

POLITICS OF ECONOMIC POLICY

Conservatives and the Tightening Controls

The establishment of a reorganized Quirino administration resulted in Cuaderno facing strong opposition. In the 1949 presidential election, incumbent President Quirino had preferred Jose Yulo as the vice president candidate (Roces 1990, 107). Nonetheless, due to the pressure from then-acting Senate president Mariano Cuenco, the Liberal Party (LP) convention elected Fernando Lopez, who had been elected as an LP Senator in 1947, as Quirino's running mate (Olivera 1981, 177-80).

After the elections, Vice President Lopez swiftly demonstrated his clout in the government. Initially, President Quirino appointed Lopez as chairman of the Government Enterprises Council and several other institutions. Lopez preferred, however, the portfolio of the Secretary of Agriculture and Natural Resources and there were already reports of a possible "break" between the president and the Lopezes on April 25, 1950 (Roces 1990, 116). Roces notes that "perhaps in capitulation to all the attacks on his person," Quirino finally appointed Lopez as Secretary of Agriculture and Natural Resources on September 14, 1950 (Roces 1990, 110; *Manila Chronicle*, September 13, 1950).

When Quirino appointed Lopez as Agriculture Secretary, he appointed Salvador Araneta to be the Secretary of Economic Coordination (*Manila Chronicle*, September 13, 1950). Journalist and publisher of the *Philippines Free Press* T. M. Locsin introduced Araneta's ideas to the public in an article entitled "Cause for Optimism?" and summarized Araneta's ideas in one phrase, "put money to work," which simplified the recommendation of government deficit spending in response to massive unemployment. Locsin noted Araneta's remark

that when the US engaged in deficit spending, the Philippine government had no reason to refuse it (Locsin 1951, 2-3).

On March 6, 1951, Araneta was appointed as member of the committee to revise the conventional import control law, which had been harshly criticized by various sectors (*Manila Chronicle*, March 7, 28, 1951). Araneta suggested that the government utilize the control measures in order to develop local industries (*Manila Chronicle*, February 8, 1951). Based on the Araneta draft, the Congress passed RA 601 on March 28, and President Quirino appointed Alfredo Montelibano, a representative of sugar industry's interests, as chairman of the new import control board on March 30 (*Manila Chronicle*, March 31, 1951).

As Araneta gradually gained the confidence of President Quirino, the rivalry between Araneta and Cuaderno became apparent. Cuaderno remembered that there was an influential leader of the administration who would like to remove him from his office, although he did not mention the name (Cuaderno 1960, 37). On April 11, 1951, the *Manila Chronicle* reported that a businessman said he was willing to prepare a public debate between Araneta and Cuaderno. Araneta argued for the benefits of deficit spending, while Cuaderno maintained deficit spending would cause inflation and deter development (*Manila Chronicle*, April 11, 1951). The *Chronicle* published an open letter from Araneta to Cuaderno asking him about his ideas on deficit spending, unemployment issues, and the way to achieve economic development (*Manila Chronicle*, April 12, 1951), but Cuaderno never replied directly (Araneta 1953, 236-37).

Instead of conducting a public debate, Cuaderno repeatedly clarified his ideas in public speeches. For instance, he emphasized the need of checking unrestrained public spending to remedy inflationary pressures (*Manila Chronicle*, April 15, 1951). He pointed out the difference between the American economy, which had high industrial potential and a huge domestic market, and the Philippine economy, which was basically underdeveloped and lacked the potential to respond to the fiscal stimulations of deficit spending (*Manila Chronicle*, April 21, 1951).

Another key cabinet official was Jose Yulo. President Quirino appointed Yulo, then "top Malacañan economic advisor" (*Manila Chronicle*, March 8, 1950, 1), as the head of the Economic Survey Commission (which included Finance Secretary Pio Pedrosa, Governor Cuaderno, and Chairman Filemon Rodriguez of the National Power

Corporation) on March 20, 1950 (Olivera 1981, 182). Subsequently, President Quirino organized the Philippine Council for US Aid and appointed Yulo as the head of the council (Olivera 1981, 183, 192). From his writings in 1960, Cuaderno seemed to be sure that President Quirino had been on his side. “Quirino recognized the importance of a Central Bank that was as free from extraneous interference as possible” (Cuaderno 1960, 38). Lopez and his allies failed to kick Yulo out of the cabinet or to fully implement their preferred policies.

Araneta left the cabinet on January 18, 1952, because of his dissatisfaction with the government policy on sugar exports (Araneta 1953). The *Chronicle* described the dramatic scene of his resignation (*Manila Chronicle*, January 17, 1952). When Araneta went to persuade Quirino to reconsider his decision on the sale of sugar to Japan, Quirino said, “This is already a decided question. You have no discretion on the matter.” Araneta replied, “In that case, Mr. President, I am resigning as of now from the government.” Quirino then answered, “*Esta bien* [that is good]” (*Manila Chronicle*, January 17, 1952, 5).

Given Cuaderno’s close relations with Quirino and the conflict between Cuaderno and Araneta over economic policy, it seems likely that the issue of the sugar exports was not the only reason for Araneta’s resignation. After leaving that post, Araneta indeed gave a speech titled “Can We Apply the New Deal Approach to our Problem?” advocating “the need for adopting the New Deal approach to solve the pressing economic problems of the country” (Araneta 1953, 246-56). In this speech, he did not categorically criticize the Central Bank’s policy; rather, he praised it moderately and encouraged more bold economic policies while arguing that inflation could be manipulated through proper economic policy management.

In addition to the support from President Quirino, the power struggle between the LP administration and the opposition Nacionalista Party (NP) strengthened the position of the Central Bank vis-à-vis politicians. The opposition NP won all eight seats contested in the 1951 Senate election and consolidated the majority in the Senate, preventing the government from renewing the import control act in 1953.⁷ NP President Eulogio A. Rodriguez tried to turn the administration’s alleged graft and corruption to the NP’s advantage, and used the removal of a hotbed of corruption—the import control board—as a symbol of the toughness toward the government dishonesty (Golay 1961, 168).

As a result of the expiration of RA 650, the Central Bank was in exclusive charge of control policy. An economist, Amado A. Castro, argued in the 1970s that from 1953 onward, the exchange-control issues had often dominated discussion in the Monetary Board and led the Central Bank to be “more an import-regulating body than a bank of banks” (Castro 1972, 11). However, long before Castro criticized the Central Bank, a Great Debate had developed over its policy.

The Conservatives and the “Sugar Block” during the 1953 Elections⁸

The year 1953 was crucial; the import control law expired in the opposition-dominated Senate and a presidential election was held. The ruling LP failed to bring together all its members under incumbent President Quirino. After President Quirino chose Jose Yulo as a running mate, Fernando Lopez abandoned the LP with his allies and established the Democratic Party (DP). Three months later, the DP forged an electoral alliance with the NP (Hartendorp 1958, 284).

In a speech on April 10, 1953, Araneta openly criticized the economic policies, saying, “I believe that a fundamental mistake committed by the Government in the past is found in its timid and too conservative monetary and credit policy The present conservative and old-fashioned monetary policy of Monetary Board constitutes straitjacket to our economy” (Araneta 1953, 266). He suggested adopting multiple foreign exchange rates instead of the official exchange rate of one dollar to two pesos compelled by the Bell Trade Act, which overvalued the peso (Araneta 1953).

About one month later, Governor Cuaderno sent a letter to the Manila Lions Club as a reply to Araneta’s speech of May 15, 1953 (Cuaderno 1955, 105-30). Cuaderno repeated his conviction that “experience in other underdeveloped countries has shown that monetary stability is a precondition for orderly economic development. The high costs which inflation generates sooner or later are bound to retard the very development that is being envisaged” (Cuaderno 1955, 111). In his evaluation of the Bell Trade Act, Cuaderno shared with Araneta the recognition of the bad effects of free trade with the United States but differed on the solution. He suggested the utility of tariffs to protect domestic industries and advocated the revision of the Bell Trade Act to allow the Philippine government to create a sound tariff system (Cuaderno 1952).

The exchange of letters clarified the discrepancy between Araneta and Cuaderno over two issues; first, Araneta was for expanding fiscal policy using a more liberal credit policy or bond issues, while Cuaderno was against it because he was skeptical about the feasibility of adopting the effective-demand theory in developing areas. Second, whereas Araneta advocated a multiple foreign exchange rate favorable for the export industry, Cuaderno stuck to maintaining the existing exchange rate encouraging the import substitute industry to import capital goods, and suggested the revision of the Bell Trade Act to introduce a tariff system in the local industry.

The Rise of the “Sugar Block” and Deficit Financing

As a result of the November 1953 elections, the Nacionalista-Democratic alliance won the presidency and a majority in both houses, which led to the greater influence of the “sugar block.” Considering the initial appointment of the cabinet, however, “it was apparent that Magsaysay was trying to ‘straddle,’ perhaps reconcile, the opposing schools of economic thought in the country” (Soberano 1963, 337). President Magsaysay, for instance, requested Araneta to prepare a draft for his first State of the Nation Address, but he used it only partially in his actual address (Araneta 1958, 153; Soberano 1963, 336-39).

In Araneta’s draft, which was made public in Araneta’s speech about two months after the presidential address, he began pointing out increasing population and unemployment problems as well as land issues. In terms of finance, he argued, “money is just an instrument of exchange. It is the instrument of Government to mobilize people and resources to create wealth” (Araneta 1953, 158). He emphasized the need for a liberal credit policy and a gradual lifting of exchange controls and reiterated that “economic development will be continuously stimulated by providing credit” (Araneta 1958, 161). In terms of exchange controls, he supported simple import controls, recommended devising ways to make Philippine peso freely convertible, and adopted a multiple exchange rate system that he had suggested in 1953 (Araneta 1958, 162).

President Magsaysay, however, began his address with the national security issue of the Huk rebellion on January 24, 1954 (*Official Gazette*, 1954, 81-89), because of which Magsaysay received strong popular support. Then he moved on to the issue of land, farmers, and laborers, and then pointed out the need for economic planning and

relations between government and private enterprise. Here he mentioned, "My administration is pledged to the eventual elimination of controls", but also emphasized the need of economic development as a condition for the elimination (*Official Gazette*, 1954, 85). In terms of finance, the president confirmed the constricted fiscal conditions of the government and mentioned the need for strict tax collection and proposed that "ordinary expenses should never exceed the total revenues in any fiscal year" (*Official Gazette*, 1954, 87), which was close to the opinion of the conservatives.

President Magsaysay heeded the advice of Filemon Rodriguez, who was assumed to be close to Cuaderno, in completing the above-summarized address (Soberano 1963, 337). President Magsaysay subsequently asked Rodriguez to lead the NEC. Rodriguez took the lead in the establishment of the Socioeconomic Program, which would be submitted to President Magsaysay in April 1954. In the address before the Manila Rotary Club on February 4, 1954, Rodriguez explained the principal elements of the Socioeconomic Program and juxtaposed six points as the basis for the program: industrialization, the proper role of private enterprise, a balance between production and employment, a balance between consumption and investment, the modernization of productive facilities, and the development of rural communities (Rodriguez 1967, 147, 152).

Cuaderno continued to emphasize the necessity of maintaining the foreign exchange policy, citing the harmful effects of devaluation. In his remark on March 6, 1954, at the annual convention of the Philippine Coconut Planters Association, Cuaderno argued that the government did not need to devalue the currency vis-à-vis the US dollar (Cuaderno 1955, 201-7). He mentioned that "both volume and value of copra exports of the Philippines increased tremendously during the postwar period," and argued that devaluation would be harmful to the Philippine economy, because it would increase the price of essential imported consumer goods such as milk, flour, and medicines (Cuaderno 1955, 202). He also warned that devaluation would increase cost of imported machinery, equipment, and raw materials and would return the Philippine economy to the export economy of the past (Cuaderno 1955, 204, 207).

President Magsaysay, however, never neglected the presence of those close to the sugar industry for two reasons. First, during the suppression of the Huk rebellion, Magsaysay became convinced that the government needed to improve socioeconomic conditions rather

than merely resort to arms, which led to his support for deficit financing (Cuaderno 1960, 142). Second, as a candidate of the coalition, it was said that he never forgot the financial support from the “sugar block” (Liang 1971, 347). The president appointed Araneta as secretary of agriculture and natural resources, Alfred Montelibano as the administrator of the office of economic coordination, and Oscar Ledesma as secretary of commerce and industry. All of whom were close to the sugar industry (Golay 1956).

Araneta and his allies gradually gained influence in the economic planning institutions. First, they dominated the newly created Cabinet Committee on Employment and Production. At the establishment of the committee, President Magsaysay asked them to clarify the adoptability of the New Deal measures in the Philippines (Soberano 1963, 340). Second, the Congressional Commission of Appointment rejected the appointment of Rodriguez as NEC chairman. President Magsaysay subsequently appointed Montelibano on August 13, 1955. An article in the *Philippines Free Press* implied that Montelibano’s remarks in a radio program, criticizing Rodriguez for exploiting public position for his own private business, prompted the commission to reject Rodriguez’s appointment (Ty 1955, 4, 73).

In addition to the struggle over key positions in the government, Araneta and his allies steadily undertook legislative activities and came into conflict with the Central Bank over exchange rate policy and fiscal policy. In case of Senate Bill (SB) 167, for instance, the NEC and Monetary Board of the Bank “do not seem to see eye to eye” (*Manila Chronicle*, May 14, 1954, 1). SB167, patterned on the system of import rights of West Germany, would allow exporters to sell their dollars in the free market at a higher rate than the official rate of the Central Bank (Araneta 1958, 338-39).

Araneta strongly supported SB 167, which was assumed to embody Araneta’s ideas (Roxas 1958, 329). In a speech on July 22, 1954, he criticized the Central Bank’s conventional monetary policy and expressed the need for devaluation, saying, “the existence of the black market at about three pesos to one US dollar is an evidence of the overvaluation of our peso” (Araneta 1958, 334-41). He claimed that the continuity of the exchange controls for more than four years and the existence of mass unemployment as well as unfavorable balance of trade were evidence of fundamental disequilibrium, and then advocated devaluation of the peso to remedy the disequilibrium through SB 167, which had been passed in the Senate on May 17,

1954 (Araneta 1958, 335-36, 338-39). The Lower House suspended discussion of the bill, however, because of the president's opposition (Roxas 1958, 329).

The first major accomplishment of Araneta and his allies was RA 1000, which enabled the government to carry out deficit financing through bond issue. "On 12 June 1954, RA 1000 was approved which authorized the President to issue bonds in an amount not exceeding one billion pesos to finance public works" (Soberano 1963, 345). Mainly referring to the creation of RA 1000, Golay argues, "the principal economic change of the Magsaysay administration was abandonment of the conservative monetary and fiscal policies which had tended to prevail throughout the postwar period" (Golay 1961, 90). Before the passage of RA 1000 only the Central Bank was allowed to issue bonds, and with the restriction of not more than PHP 200 million (Golay 1956, 258).

While the discussion in the Lower House on SB 167 was suspended, Araneta and his allies attacked the control measures and urged Congress to enact a so-called No-Dollar Import Law. Under RA 1410 of September 10, 1955, exporters, authorized by the secretary of commerce and industry, would be able to trade outside the exchange control system (Golay 1956, 259). Governor Cuaderno had sent President Magsaysay a memorandum on August 26, 1955, in which he expressed his concern about the inflationary tendency caused by the bill and recommended vetoing it (Cuaderno 1960, 50). Cuaderno was greatly surprised to find out about the president's decision to allow the bill to become law through a newspaper (Cuaderno 1960, 51).

At last the Central Bank itself became the target of the attack. On July 20, 1955, Senators Gil Puyat and Edmundo B. Cea urged a "general reorganization" of the Central Bank in response to reported irregularities in dollar allocations. President Magsaysay established a Central Bank survey commission to investigate the Central Bank's performance. Cuaderno was upset once again when he found out about the establishment of the commission through newspaper articles (Cuaderno 1960, 50). The Central Bank was, thereafter, "under the cloud of 'investigation' with all the uncertainties" (Soberano 1963, 344-45).

Araneta submitted a memorandum to this new commission in August 1955 (Araneta 1958, 347-72). In the memorandum, he clarified his ideas on economic development of the Philippines. First, he prioritized three objectives of the Central Bank: maintenance of

monetary stability; preservation of the international value of the peso and convertibility of the peso into other currencies; and promotion of a rising level of production, employment, and real income—all of which were jeopardized in the original charter. He argued that the first and second objectives were the means to achieve the third objective (Araneta 1958, 348). Second, with respect to the issue of exchange control, Araneta mentioned that many countries, including Great Britain, adopted devaluation of their currency instead of exchange controls in 1949 (Araneta 1958, 349). Third, he argued that if the government needed to impose exchange controls continuously, the free convertibility of the peso would be preferable to maintaining the artificial exchange rate (Araneta 1958, 351).

Later, Cuaderno recollected that he had become “the unfortunate victim of intrigue” (Cuaderno 1960, 49). On September 5, 1955, President Magsaysay issued a directive to the NEC to examine the possibility of elimination of exchange controls as soon as possible (Roxas 1958, 300). Cuaderno remembered thinking that he lost presidential support and offered the president his resignation; however, the offer was not accepted (Cuaderno 1960, 51-52).

In the middle of the storm of criticism against the Central Bank, President Magsaysay extended Cuaderno’s appointment for another year, although he would reach the retirement age of sixty-five (*Manila Chronicle*, December 12, 1955). As Golay says, “an abrupt change in the fortunes of the Central Bank occurred on December 14, when President Magsaysay instructed the secretary of justice to investigate charges that the special investigator [to the Bank’s anomalies] . . . was himself involved in the irregular importation and sale of garlic” (Golay 1956, 262). Although it took about a year for the congressional committee to accept the reappointment, Senators Jose P. Laurel, Lorenzo Tañada, and Gil Puyat strongly supported the reappointment of Cuaderno (Hori 1997, 267). Laurel worked together with Cuaderno when the Philippine government negotiated with the US government to revise the Bell Trade Act, and Puyat was the former president of the Philippine Chamber of Commerce that supported trade control.

The Comeback of the Conservatives and Tightening Fiscal Policy

Cuaderno maintained his conservative stance under siege from Araneta and his allies. He urged the government to adopt necessary measures to check inflationary tendencies in a speech on November 17 (*Manila Chronicle*, November 18, 1955, 1, 11). In this speech, he said “the

recessionary conditions which the government tried to check with easy money and easy credit policies during last few years have come to an end" (*Manila Chronicle*, November 18, 1955, 1). As a result of the split between Governor Cuaderno and the other NEC members, the Central Bank and NEC submitted different reports to the president over the economic situation and economic policies (Soberano 1963).

In January 1956, the *Philippines Free Press*, in two consecutive issues, featured the two different views on the Philippine economy and clarified several points. First, the Monetary Board of the Central Bank maintained that the Central Bank was performing well and supported industrialization through foreign exchange allocation to new industries. Second, while criticizing the Central Bank, Montelibano or Araneta could hardly contribute to increasing the production. Third, many other countries maintained exchange controls, although they were detestable. Fourth, the Central Bank, in fact, had been supplying production or development loans to banks despite inflationary tendencies. Although the *Philippines Free Press* admitted that previous attempts of industrialization did not go particularly well, it did recognize the needs for industrialization and the Central Bank's achievements to a certain extent (Locsin 1956a, 1956b).

President Magsaysay slowly recognized inflation as a threat to the people (Soberano 1963, 361-62). In his budget message to the Congress on February 7, 1956, the president said: "The most significant feature of the current economic status has been our success in maintaining monetary stability in the face of public borrowings for development and extensions of liberal credit for private enterprise" (Soberano 1963, 361). After President Magsaysay clearly announced in a speech on February 20, 1956, that "he came out strongly against public borrowing, devaluation of the peso, and relaxation of exchange and import controls" (*Manila Chronicle*, February 21, 1956), Montelibano and Araneta resigned from the cabinet on February 22 and 23, 1956, respectively. Cuaderno confirmed, "I finally won Magsaysay to my side in the so-called Great Debate on fiscal and monetary policy" (Cuaderno 1960, 55).

The debate over SB 167 in 1957 was rehashed, however, after the sudden death of President Magsaysay in March 1957 (Roxas 1958, 329). The legislators close to the "sugar block" brought the bill back and succeeded in passing it in the chambers. The two sides fought over the decision of President Carlos P. Garcia, who had to take into consideration possible support from the "sugar block" in the upcoming

presidential election at the end of the year, which would receive huge profits from the implementation of the bill (*Philippines Free Press*, June 15, 1957, 3, 83).

Cuaderno warned that if the bill became a law, the country would face grave economic and social dangers and would “return to a colonial economic pattern” (Ty 1957, 4-5). Meanwhile Montelibano clarified his support for the bill. First, he emphasized that without the bill, the country would go into economic doom of high rate of unemployment, rising daily costs, and unbalanced foreign trade owing to the control policy. Second, he argued that those who opposed the bill were small minority in the country, some of them were aliens, and that the bill would encourage exports, increase production and employment, and improve the balance of payments (Ty 1957, 81).

President Garcia vetoed the bill on June 22, 1957, and explained his decision in his message. First, it would cause inflation and profit the prosperous at the expense of the masses. Second, it would lead to the adoption of multiple currency practices that was prohibited by IMF agreement. Third, it would violate the constitution that forbade any single law from containing more than one issue (*Official Gazette*, 1957, 3734-35). The fact that President Garcia made a decision against the bill that would be beneficial to the “sugar block” and won the general elections in the same year reveals the beginning of a retrenchment of the country’s strong vested interests, or the sugar industry.

In contrast to the apparent cooperative relations in the 1930s and 1940s, Cuaderno and Araneta clashed over economic policies in the 1950s. Under the Quirino administration they fought each other over deficit financing, resulting in the resignation of Araneta. The inauguration of the Magsaysay administration led to the rise of Araneta and he drafted laws aimed at allowing deficit financing and eliminating exchange controls. Cuaderno, however, had never lost the confidence of the president. When Magsaysay reconsidered the impact of inflation, Cuaderno remained governor of the Central Bank, while Araneta left the government again. Cuaderno succeeded in consolidating an advantageous position in the subsequent Garcia administration and in maintaining the foreign exchange control policy despite the recurring hostility from the strong pressure group and the opposition party.

In addition, relations between Araneta and the sugar industry changed. Although Araneta had been close to the sugar industry before the debate, he had stayed away from the industry’s benefits. His ties to the sugar industry, however, became clear in the 1950s. As Golay

argues, he became a close ally of representatives of the sugar industry interests such as Ledesma and Montelibano. Generally speaking, the Great Debate developed along the line of the rivalry between the Central Bank that implemented the control policy, which is beneficial for the local manufacturing industry, and the cabinet members who were close to the leading export industry such as the sugar industry.

CONCLUSION

The beginning of the Great Debate in the early 1950s reflected the fact that the Philippines had completed an early phase of economic decolonization. Before the debate, the two leading economists collaborated with each other in the Constitutional Convention in the 1930s, shared similar critical views toward the Bell Trade Act, and supported the establishment of a Central Bank and impositions of import controls even under pressure from several private sectors, including American businesses. After the establishment of the Central Bank and trade control measures in the 1950s, they lost their common goals and began to clash with each other.

The debate was a clash of ideas and interests. First, Cuaderno was skeptical about the feasibility of adopting economic theory created from experiences of developed countries and he assumed a stable currency was a precondition for economic development, while Araneta believed in the utility of Keynesian economics and expected the government to take an active role. Second, Cuaderno emphasized the need for a tight monetary policy to curb inflationary tendencies and a high peso value to allow imports of essential materials for the industrialization of local economy, whereas Araneta advocated a bold fiscal policy to respond to the unemployment problem and suggested a devaluation of the peso to increase the profits of the export industry.

The consequences of the debate were mixed. In the field of economic policy, under the Quirino administration, Cuaderno was appointed governor of the Central Bank and kept a tight monetary policy and foreign exchange controls. Under the Magsaysay administration, Cuaderno failed to prevent Araneta and his allies from enacting RA 1000, which enabled the government to conduct a more liberal monetary policy, but he succeeded in maintaining the foreign exchange rate and in convincing President Garcia to veto SB 167 despite strong pressure from Araneta and the sugar industry. Politically speaking, the end of the debate opened up a new politics. It was the

beginning of a series of conflicts between the Garcia administration, which espoused the Filipino First policy in 1958, and some prominent members of the opposition LP, including future president Diosdado Macapagal.

Analysis of the debate prompts us to reconsider the characteristics of the Philippine political economy in two ways; first, although the Philippine decision makers neither completely neglected nor defied the US policy toward the Philippines, they found their own way to carry out policies for economic decolonization. Without the Central Bank led by Cuaderno, the United States could not have found any supporters of its policy in the 1950s. Second, the president would have faced situations that might compel him or her to choose one set of interests over others and this decision would have a certain impact on economic policy. Reconsidering the politics of the debate leads to revisiting the subsequent politics of economic policy in which politicians took over the leading role from economists. ❀

ACKNOWLEDGEMENTS

The author wishes to thank the Philippine Political Science Association (PPSA) for the opportunity to present an earlier version of this paper at the 2008 International Conference of the PPSA, April 11-12, 2008, Bethel Hotel, Dumaguete City, Philippines. He also wishes to express sincere appreciations for the comments from the participants of the session, his supervisor Prof. Yamamoto Nobuto of Keio University, and the two anonymous reviewers of *Kasarinlan*. This study was funded by the Grants-in-Aid for Scientific Research for JSPS Fellows by the Japan Ministry of Education, Science and Culture in FY 2008-2009.

NOTES

1. Bracketed words are added by the author unless otherwise mentioned.
2. Although existing literature mentions the existence of the conflict early in the 1950s, the focus was only on the conflicts under the Magsaysay administration or the subsequent Garcia administration in the main discussion.
3. As explained by Cortes, Boncan, and Jose (2000): "The US Congress passed the Philippine Trade Act of 1946, also known as the Bell Trade Act, providing for an executive agreement between the Philippines and the US allowing reciprocal free trade between the two countries until 3 June 1954, after which there would be a gradual imposition of duties on specific products until 1973, when each country's full tariff regulations would apply. While this meant that Philippine products, especially sugar and tobacco, would be assured of a huge market and, hopefully, a

massive infusion of American capital investment, the Filipinos had to pay a price. The Philippines was required to amend its constitution to allow Americans the rights previously granted only to Filipino citizens to operate public utilities and exploit the natural resources of the country, or the ‘parity amendment,’ pending the adoption of which only the first \$500,000 of large war damage payments was to be paid. The amendment was approved by a national plebiscite held in March 1947. It expired only on 3 July 1974.”

4. Although Haggard mentions the international influence on the Philippine economic policy, he emphasizes “weak” characteristics of the Philippine regime dominated by oligarchic political economic elites.
5. Brackets are added by Hutchcroft.
6. The Philippine Independence Act, or the Tydings-McDuffie Act, is the act that shaped the procedure and substance of self-government in the Philippines ten years after its passage.
7. In addition to the power struggle within the ruling Liberal Party (Dalton 1952, 122), the poll-watching organization, Namfrel, made a great contribution to hold clean elections in 1951 (Hedman 2006).
8. Cuaderno in his book identified himself as a conservative (Cuaderno 1952, 1960), and scholars categorize Cuaderno and his allies as conservatives. “Sugar block” in this paper does not mean the sugar industry as a whole, but Araneta and his allies in the sugar industry, especially in the 1950s (i.e., the Lopez brothers, Alfredo Montelibano, and Oscar Ledesma).

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