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Governor-General Leonard Wood's neoliberal agenda of privatizing public assets stymied, 1921-1927

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Abstract

After a serious fiscal and financial crisis erupted in 1920 to 1921 (in the wake of the termination of World War I), the new American Governor General to the Philippines, U.S. Army Major General Leonard Wood, promised in his inaugural address to privatize the country's government-owned and controlled corporations such as the Philippine National Bank and the Manila Railroad Company, among others. Wood's neoliberal agenda in the Philippines was opposed by Filipino politicians in the executive and legislative departments from the start. This key policy disagreement climaxed in the resignation *en masse* of Governor Wood's Filipino cabinet and the members of the executive-legislative Council of State in 1923. The particulars of the Cabinet Crisis of 1923 —the so-called Conley Affair— however, obscured from plain sight the true gravity of the broader conflict (i.e., Filipino opposition to Wood's agenda).

Moreover, the general perception that Governor Wood's asset privatization program was successfully blocked by the Cabinet Crisis of 1923 is inaccurate. In truth, Wood was stymied by adverse international and national market conditions from 1921 to 1923. A further delay occurred from 1924 to 1926 when Governor Wood endeavored to get the Council of State and the Filipino Legislature's Board of Control (an oversight committee) on board his neoliberal agenda; he failed to get the support of the Filipino leaders in this regard. When Wood finally decided in 1926 to take unilateral steps, he was tied up by litigation (locally and in the United States) arising from his actions until his death from an unsuccessful brain surgery in 1927.

Keywords: *asset privatization, fiscal reform, patronage politics, economic heritage*

In a previous article (Ybiernas, 2007), I showed that the Philippine government plunged into a financial (and later, fiscal) crisis in the wake of economic normalcy[1] in the United States at the end of World War I (in November 1918) and after U.S. President Woodrow Wilson bowed out of office in 1920. When the United States decided to cut back on its foreign trade,

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Philippine exports suffered an acute collapse.[2] The slump caused exporters in the Philippines—primarily from the sugar industry—to default on their loans with the Philippine National Bank (PNB). As the PNB's funds were tied to the loans it granted, the bank became illiquid. To complicate matters, the PNB was empowered by law to serve as a major depository of public funds, including those of the central, provincial, and municipal governments.

The trade slump also caused government revenue collections to fall off from its target beginning the first quarter of 1921, leading to a budgetary deficit (*Manila Times,* March 17, 1921). Ordinarily, in the event of a budgetary deficit, the central government resorts to its reserve funds to cover the difference. However, in this instance, the illiquidity of the PNB as custodian of government funds translated into the illiquidity of the central government as well.

In the midst of the burgeoning financial and fiscal crises, the Wood-Forbes Mission[3] arrived in the Philippines with a mandate from U.S. President Warren Harding to ascertain whether conditions in the Philippines warranted the granting of independence in accordance with the Jones Law of 1916 as well as to recommend an appropriate American policy towards the Philippines. The findings of the Wood-Forbes Mission and the predisposition of Commissioner Wood led him to resolve, as governor-general in October 1921, that financial and fiscal *reforms* were necessary for the Philippine government to solve the existing problem *and* to prevent it from occurring anew in the future (*Manila Times*, November 8, 1921). Wood expressed his adamant desire to oversee the sale of most, if not all, the government-owned corporations based on three reasons: (a) to free the government from having any further losses due to ownership of these firms; (b) to free the government from continuing to financially support these companies until they reach financial stability; and (c) the government should "keep out of business" in order to "encourage, not discourage, private enterprise".[4] In modern neoliberal parlance, Wood wanted to privatize public assets.

Wood's position, it will be evident below, was in polar opposition to that of the Filipino members of the Council of State and Board of Control. The Council of State was an advisory committee to the governor-general composed of the senate president, the speaker of the House of Representatives, and the members of the cabinet. Organized in 1918 during the incumbency of Governor Francis B. Harrison, the council was the brainchild of then-Speaker Sergio Osmeña. The Speaker drafted the Executive Order (EO) which Harrison signed to create the Council of State in October 1918 (ARGGPI, 1919, p. 6). The Board of Control, on the other hand, was created by the Legislature in a resolution (endorsed by Governor Harrison) to perform oversight functions on the operations of public corporations such as the PNB, the Manila Railroad Company (MRC), and the National Development Company (NDC), among others. Members of the Board of Control were composed of senators and representatives appointed by the Senate President and the Speaker, respectively (Quirino, 1971, p. 136).

Andres V. Castillo (1936) later explained why the Legislature endeavored to create, through acts of legislation, and to purchase through the Council of State, numerous public corporations. Castillo wrote that the government (primarily through the Filipino-dominated Legislature) had to step in to safeguard the country's "dormant wealth" from foreign capitalists who were seeking to exploit it, especially because the latter have the advantage of "greater capital, vision and industry" over the Filipino businessmen (pp. 157-159). Senate President Manuel L. Quezon candidly admitted to the journalist Teodoro M. Kalaw (in Quirino, 1971, p. 166) that he viewed these corporations as the country's "economic heritage" which had to be protected from American capitalists. Moreover, Filipino politicians were afraid that Governor-General Wood's neoliberal policy of asset privatization was expected to draw into the country American capitalists who would eventually serve as a formidable lobby group against Philippine independence in the U.S. Congress (*Manila Times*, February 20, 1924).

Such irrevocably conflicting positions conceivably conditioned the monumental clash between Governor-General Wood and senior Filipinos in government in July 1923. Yet, this essay will show that the political conflict of July 1923, known in Philippine history textbooks as "the Cabinet Crisis," does not *fully* account for the failure of Governor-General Wood's neoliberal agenda to push through. This essay will show that adverse economic conditions prevailing in the country prevented Wood from selling the said companies from 1921 to 1923 and 1924. Moreover, when economic conditions improved beginning in 1924, Governor-General Wood chose to engage the Council of State and Board of Control in pursuit of his neoliberal agenda, *in spite of the Cabinet Crisis of 1923*. This essay will also show how Filipino politicians, through the Council of State and Board of Control, took advantage of Governor-General Wood's engagement of them in order to stymie the latter's neoliberal agenda.

It was only in November 1926 when Wood, tired of fencing with the Legislature on the issue of asset privatization, issued EO 37 abolishing the Board of Control. In effect, Wood finally vested himself with the sole authority to dispose of government-owned corporations to push through with his longdelayed plan to privatize the public assets. Unfortunately for Wood, he was unable to move forward with his neoliberal agenda even after EO 37, as he was initially tied down by litigation in connection with his executive order. Thereafter, he went on medical leave and eventually died after an unsuccessful brain surgery in August 1927.

Backgrounder

As a result of American entry into World War I in 1917, the Philippines experienced what Governor Harrison called "extraordinary commercial prosperity," especially in key national exports to the United States (Annual Report of the Governor General of the Philippine Islands to the Secretary of War [ARGGPI], 1918, p. 5). Harrison sought to build from this war-induced commercial prosperity the acceleration of economic development in the country. The PNB was established through the passage of Act 2612 in 1916 to finance the agricultural sector (Willis, 1917, pp. 415-416). The NDC was created a year later with the passage of Act 2849 for the purpose of financing *other* public enterprises such as the National Coal Company, the National Cement Company, and the Cebu Portland Cement Company, among others, to exploit the country's natural resources (ARGGPI, 1918).

After the United States reduced its international trade as part of economic normalcy, the demand for key Philippine exports plummeted. According to a *Manila Times* report of July 14, 1921, abaca prices fell from PHP 50 to PHP 16, sugar from PHP 50 to PHP 9, and copra from PHP 30 to PHP 10.[5] Suffering heavy losses, many exporters had to default on their loans with the PNB. The bank, upon default, seized the collateral put up by the borrowers for the loan. However, the seized assets were non-liquid, the value of which in the market (had there been buyers) during a financial downturn was marginal and proved to be of no assistance to the liquidity requirements of the bank.

Another problem beginning in 1920 was the unusually large foreign exchange transactions with the Treasury; almost PHP 65 million worth of exchange was demanded from the Treasury in 1920 even though the country had a trade surplus of PHP 3,371,146.[6] When the insular treasurer, Dr. A.P. Fitzsimmons, inquired into the unusually large demand made by foreign banks, he was told that the banks wanted to transfer their investments to the Chinese coast where the prospects for profit were much better (*Manila Times*, March 6, 1921). The Philippines was a victim of currency speculation by the foreign banks, causing the Treasury's reserves to run out by June 1921. Parenthetically, it must be pointed out that Act 2776, passed on August 16, 1918, reduced the currency reserve fund from 100% to 60% of the total currency in circulation (ARGGPI, 1919, p. 128), lessening the government's buffer fund in times of financial—i.e., balance of trade—difficulties.

In May 1921, Wood recommended to the U.S. Congress the amendment of Section 11 of the Jones Law of 1916, seeking to increase the ceiling on the Philippines' public debt from PHP 30 million to PHP 70 million. In July 1921, the sought-after amendment to Section 11 of the Jones Law of 1916, sponsored by Rep. Horace Towner of Iowa, was approved; the limit was increased from USD 15 million (PHP 30 million) to USD 30 million (PHP 60 million), providing immediate relief for the Philippines' financial troubles (Golay, 1997, p. 233). The Bureau of Insular Affairs (BIA) informed Manila that PHP 20 million were going to be available by August 15, 1921 (*Manila Times*, August 6, 1921). Governor-General Wood, in view of the financial crisis in the Philippines and with the whole-hearted cooperation of the Legislature, prioritized four key pieces of legislation:

- Act 2999: "An act providing for the issue of USD 5,000,000 worth of bonds for the purpose of protecting the financial interests of the government in the present emergency;"
- Act 3000: "Amending the charter of the city of Manila to provide for the depositing with the insular treasury of insular and municipal revenues;"
- Act 3005: "Amending the National Bank act to provide for an appropriate method of handling and issuing new notes of the National Bank and repealing the clause making it obligatory upon insular, provincial and municipal authorities to deposit their funds with the bank;" and
- Act 3033: "An act restoring the currency system to its original principles."

Later, the U.S. Congress allowed the Philippine government to release bonds worth an additional USD 42 million ([PHP 84 million], Golay, 1997, p. 233). In 1922, Governor-General Wood reported that the total debt of the national government had increased to PHP 135.5 million.

By the end of 1922, the Philippine government spent some PHP 70 million for government-owned corporations distributed as follows: PHP 30,753,400 for PNB stock; PHP 14,127,000 for MRC stock; PHP 8,000,000 for capital stock of the MRC; PHP 6,850,545.83 for interest advances on

Philippine Railway Company bonds; PHP 4,950,000 for NDC stock; PHP 2,997,600 for National Coal Company stock; PHP 1,598,508.88 for interest advances on MRC bonds (*Manila Times*, March 11, 1923). Evidently, by sheer government investment alone, the largest of these government-owned companies were the PNB and the MRC.

The price was steep but Wood felt that after completing the *initial* neoliberal financial and fiscal reforms, public finances could be stabilized, business activity and public revenues would eventually improve, and the government's budgetary problems shall be solved for good (ARGGPI, 1923, p. 14).

End of the Honeymoon Period

The first year of Leonard Wood as governor-general of the Philippine Islands was fruitful. Wood had the cooperation of the Legislature as he endeavored to stabilize government finances. Wood remained committed to his inaugural promise to sell off government corporations to the private sector. Does this mean that Filipino politicians had signed on to the governor's neoliberal agenda? The answer is a resounding NO. The cooperation the Legislature gave to Wood during his first year in office was a matter of courtesy and with the understanding that the governor-general would soon return to the United States to resume his candicacy for president after the encouraging results in the 1920 primaries. Moreover, while the Legislature supported Wood's financial reform agenda, the solons never went aboard with Wood's asset privatization program.

By late 1922 and early 1923, it became clear that Governor-General Wood was not going back to the United States and that he was seriously scouting for buyers for the sugar centrals that the PNB held in receivership. However, in light of the adverse economic conditions, Wood was admonished by General Frank McIntyre of the BIA against selling the sugar centrals (Aguilar, 1998, pp. 204-205). McIntyre sided with the opinion of the bank president E.W. Wilson that retention of the assets was the safest and best course to follow at the time. Wilson pointed out that high sugar production output in 1923 and in the years to come would allow the centrals to pay back their loans little by little until the deflated market prices recovered (ARGGPI, 1924, p. 20; *Manila Times,* March 16, 1923; April 5, 1923). PNB President Wilson's recommendation was endorsed by a committee Governor-General Wood himself formed via EO 54 to protect the interests of the national government in the bank.[7]

Despite the sound advice of Wilson and the admonition of McIntyre, Wood bullheadedly continued to look around for a buyer for the sugar centrals. The chief executive announced that he was willing to accept an offer *substantially* *less than the centrals' market value* (*Manila Times*, February 23, 1923; March 9, 1923). Furthermore, Wood leaked to the media the extent of the (huge) losses incurred by the PNB in the past years,[8] causing irreparable damage to the public reputation of the bank. Wood's actions enraged Wilson (Gleeck, 1998, p. 282) who felt that the governor-general was publicly undercutting his rehabilitation efforts for the bank. Subsequently, Wilson tendered his resignation from the PNB, citing health reasons.

Like the PNB, the MRC also experienced financial difficulties beginning 1921 as trade conditions abroad, deflation in particular, worsened; the transport of cash crops from the farms to the seaports, an important source of revenues for the MRC, was not as vibrant as in the period 1917 to 1919. However, the firm, unlike the PNB, was not on the brink of bankruptcy. Nevertheless, the company was *still* financially dependent on government subsidy, especially for the repayment of earlier loans. Moreover, the company was not able to pay dividends on the government's stocks and interest on the bonds sold to the central government. Thus, Governor-General Wood threw his support behind the move to have the J.G. White Company take over the MRC under an "operating contract" in 1922. The governor's proposal was opposed by members of the Philippine Legislature who saw the arrangement as a "denationalization" of public enterprises (ARGGPI, 1923, p. 36).

It is in this context (i.e., conflicting views on the fate of the public assets) that the events of July 17, 1923, when the Filipino members of Governor-General Wood's cabinet resigned *en masse*, must be viewed.[9] While the "Cabinet Crisis" was precipitated by Governor-General Wood's reinstatement of Ray Conley, a controversial American police detective assigned to the anti-gambling squad of the Manila Police Department against the recommendations of Manila Mayor Ramon Fernandez and Interior Secretary Jose Laurel (Onorato, 1967, Chapter V), the roots of the crisis were never actually about Conley. According to Quezon, the self-confessed instigator of the Cabinet Crisis of 1923 (Quirino, 1971, p. 166): "When all these (events) can be written down calmly, it will be shown that in the fight with General Wood I defended not only our political autonomy but also our *economic heritage* [emphasis added]."

What constituted this "economic heritage" which Quezon defended to the point of declaring open war against the incumbent American governor-general? Quezon himself explains in the same interview: "General Wood wanted to hand over to American capitalists the Philippine National Bank, the Manila Railroad (Company), and our sugar centrals. I fought hard to keep these for the Filipinos" (Quirino, 1971, p. 166).

Quezon disapproved of Wood's neoliberal policy of asset privatization as it set the stage for the untrammeled entry of U.S. capital into the country (Quirino, 1971, p. 166). The entrenchment of American capitalists in the archipelago, it was feared, could lead to the establishment of a formidable lobby group against Philippine independence in the U.S. Congress (*Manila Times*, February 20, 1924). Quezon and his cohorts would not allow that to happen.

Governor-General Wood, on the other hand, had proof that these assets greatly contributed to the massive financial losses the national government experienced beginning in 1921 (Wood-Forbes Report, 1921, pp. 38-40, 42). As the losses from these companies continued to pile up after 1921, Wood found it necessary and rational to try to sell off these assets to American investors. The governor-general justified his decision, saying that Filipino businessmen—as opposed to American investors—lacked the necessary financial capital to buy the assets at the time (*Manila Times*, July 20, 1923). An additional factor that helped concretize Wood's disposition on the subject were the swirling rumors against Senators Quezon and Osmeña of using these companies for the promotion of patronage politics. Osmeña was accused of using the PNB's resources to reward his political followers; Quezon was accused of the same with the MRC.

For Economic Development or Patronage Politics?

In the face of the PNB's near bankruptcy, House Minority Leader Claro M. Recto accused the dominant Nacionalista Party of using the bank as a political campaign tool (*Manila Times*, January 7, 1922). According to American journalist Katherine Mayo (1924, p. 117), loans were awarded to businessmen and politicians closely associated with the majority party in complete disregard of the bank's financial security. General Venancio Concepcion, the bank's third president, was singled out as the culprit. His record as PNB chief executive was so bad that E.J. Westerhouse (in Hoyt, 1963, p. 304) thought it was akin to "the reminiscences of a drunken sailor." Concepcion's sole qualification, according to Mayo (1994, p. 106), was his connection with then-Speaker Osmeña as a Nacionalista Party stalwart in Cagayan province. Concepcion was arrested at 9:30 p.m. on June 23, 1921 to face charges stating that he had anomalously dispensed loans in violation of the PNB charter.

After Concepcion was arrested, the media reported a slew of anomalies involving lower bank officials. Isidoro Lerma, chief of the bank's foreign exchange department, was indicted for estafa together with a certain Nicanor Karag. According to the *Manila Times* (January 10, 1922), Lerma sold 1.85 million (German) marks at a discounted price to his partner Karag who posed as a buyer of foreign currency. Karag then sold the foreign currency he acquired to legitimate buyers at the normal price. Lerma and Karag split between them the profit of PHP 38,000.

On June 30, 1921, Jose E. Santiago, manager of the PNB's Iloilo branch (the pioneer branch), was prosecuted for indirectly loaning PHP 46,000 to himself. Trinitario Quintero, chief accountant of the Iloilo branch, was similarly sued for falsifying public documents and for estafa involving the sum of PHP 11,000 (*Manila Times*, August 19, 1921). In the Aparri branch, bank manager Teodorico Angeles was charged with six counts of estafa, while Manuel Nieto, Jr. (personal secretary of Senate President Quezon) was slapped five counts; a certain Attorney A. Crisologo, Cagayan Representative Manuel Concepcion (Venancio's son), and Ricardo Paredes were indicted for one count each. Former Cagayan Governor Honorio Lasam's name was also implicated in the scandal, though his involvement was not specified (*Manila Times*, September 15, 1921).

In Manila, Guillermo Martinez, the bank's secretary general, was found guilty of illegally profiting from the sale of 300 shares of PNB stock to a certain Vicente Arias. Martinez allegedly used his position to buy stock at PHP 5 lower than the official selling price. He was ordered to reimburse Arias PHP 1,500 and serve a prison term of one year, eight months and 21 days. During the trial, Martinez alleged that PNB President Venancio Concepcion, his son Manuel, the department chiefs (i.e., Lerma, et al.) and the branches managers (i.e., Santiago, Angeles, et al.) were engaged in illegal transactions utilizing the bank's resources and privileges (*Manila Times*, January 5, 1922).

PNB board members Vicente Madrigal (a future senator), Senator Vicente Singson Encarnacion of the 1st Senatorial District[10] and Manila Mayor Ramon J. Fernandez were similarly investigated for facilitating several dubious loans in violation of Article 35 of the PNB charter, which prohibited the direct or indirect granting of loans to bank officials. Senator Singson Encarnacion was probed for his role in the approval of a one-million-peso loan to the *Compania Naviera de Filipinas* where he also served as a member of the board. Fernandez and Madrigal were likewise investigated in connection with the approval of several loans totaling more than PHP 4 million to companies where they owned a substantial share of stocks (Mayo, 1924, pp. 109-111). Agriculture Secretary Rafael Corpus, as PNB president in 1923, exonerated the three gentlemen from complicity in the approval of anomalous bank loans (*Manila Times*, September 14, 1923).

Another major setback to the PNB was the bankruptcy of the Shanghai branch in China. On August 4, 1921, after an exhaustive investigation, PNB

General Manager E.W. Wilson announced that PHP 11 million worth of exchange contracts with other banks in Shanghai were settled and that the branch was going to be permanently closed. Wilson did not disclose the full scale of the Shanghai losses but the *Manila Times* (March 3, 1921) estimated it to be in the vicinity of PHP 12 million to PHP 22 million. J.W. Miller, the American branch manager, was thoroughly investigated but never implicated for any wrongdoing in connection with the losses.

The operations of the MRC, on the other hand, expanded year after year beginning in 1916 as the national government embarked on an ambitious development program. From 1916 to 1920, Governor Harrison announced the extension of existing lines or the opening of new ones all over the island of Luzon, some of which would prove to be quite unprofitable in the future. In 1921, the railroad stations at San Felipe Nery (in Cavite), San Pedro Makati, Fort McKinley (now Fort Bonifacio), Rosario (in Pasig), Marikina, Bayanbayanan (in Marikina) and San Mateo, and the entire Noveleta-San Roque line in Cavite were ordered closed as the cost of maintenance was higher than the returns (*Manila Times*, January 20, 1921).

E.J. Westerhouse, the company general manager in 1921, claimed that the wage increases implemented in 1918[11] led to monthly losses worth PHP 1 million for the MRC (*Manila Times*, January 18, 1921). *La Nacion,* the opposition Democrata Party organ, insinuated that the losses were a result of political intervention in the operations of the company. When Westerhouse denied the charge, *La Nacion* (in *Manila Times,* January 20, 1921) asked him to explain the cause of the railroad's "gross inefficiency" and "enormous expenditures." In private, however, Westerhouse did not deny the allegation. C.W. Franks, Governor Harrison's executive secretary, wrote his former chief saying, "It seems that an audit of the Manila railroad has shown that its difficulties were due to political interference… (and) Westerhouse did not deny this allegation" (Onorato, 1964, pp. 140-141).

As president of the MRC from 1917 to 1921, Senator Quezon became the principal target of corruption charges in the media. Katherine Mayo (1924, pp. 121-122) accused the senate president of issuing during the last two years of his presidency 150,000 free travel passes, each pass valid anywhere throughout the railroad for the entire year and honored for the use of the recipient, his family, and dependents. Senator Sergio Osmeña insinuated to Dr. Graham Taylor, a visiting Chicago sociologist, that Quezon had illegally used company funds for political patronage (*Manila Times*, May 5, 1922). Commentator Daniel R. Williams, in a series of articles published by the *Manila Times* in 1924, similarly accused Quezon of using the MRC as "a clearing house for political favorites and as an adjunct of the Nacionalista Party." Quezon's biographer Carlos Quirino (1971, pp. 8-9) narrates an anecdote that could serve as proof that the Senate President was indeed using the railroad's resources for the promotion of personal loyalty:

> When Quezon was president of the Manila Railroad Company, he accidentally met Dr. Bertol, who was carrying on an insignificant practice in the town of Baliwag, Bulacan. *In memory of old days, the grateful Quezon appointed him doctor of the railroad company at a comfortable stipend* [emphasis added].

Quezon, however, was never charged for any wrongdoing in connection with the MRC.

Wood Stymied

Given the Cabinet Crisis of 1923 and the dirt against the PNB, the MRC and its political patrons, in addition to the governor-general's predisposition towards these companies, it is reasonable to expect that Wood would expedite the sale of the said companies. However, in spite of everything, Wood still chose to work within the framework of the Council of State and the Board of Control. It must be recalled that General McIntyre of the BIA earlier prevailed upon Wood not to sell at a loss the sugar centrals owned by the PNB. Moreover, Wood consented to the release of a further financial rescue package for the PNB, the MRC, and a host of smaller government-owned companies because he was made to believe—presumably by his colleagues in the Council of State—that these would be sold as soon as a better price in the market emerged. Wood's plan was to sell the sugar centrals and convert the PNB from a commercial to an agricultural bank with limited access to government funds. Wood was also aggressively looking for buyers for the National Coal Company and the Sabani Estate.

The Legislature had no intention of endorsing the sale of these assets even after the country experienced a certain degree of economic recovery beginning in 1924. An unidentified member of the dominant Nacionalista Party was quoted as saying that his colleagues at the Board of Control and the Council of State did not want to sell the sugar centrals because business prospects were encouraging (*Manila Times*, May 15, 1924). Thus, Wood's dilemma was that he could not get the Board of Control and the Council of State, even the BIA, to agree with his decision to sell when market conditions were dismal; conversely, he could not get them on board to sell when market conditions were bright!

Wood's motives came into question in 1923 when he was faced by two separate potential buyers for the sugar centrals in the receivership of the PNB. The first prospective buyer was a group of sugar planters from Negros Occidental headed by Bacolod-Murcia Central President Rafael Alunan. The group expressed its willingness to purchase in cash the centrals owned by the PNB provided that the original asking price of PHP 34.1 million was lowered to account for "depreciation and the present money stringency." The deal likewise did not include the Pampanga sugar centrals, which were a different entity (*Manila Times,* September 4, 1923). The Philippine Chamber of Commerce supported the Alunan proposal.

Commerce and Communications Secretary Salvador Laguda, for his part, improved on the Alunan offer by coming up with some modifications. Laguda proposed that the centrals be sold for PHP 21 million on condition that the buyers pay in cash within six to eight months. He also urged the PNB to guarantee the availability of PHP 6 million for commercial loans so that the centrals could continue ordinary operations unimpaired; the loanable amount had to be repaid wholly within five years with interest pegged at 8% per annum. According to Laguda, the PHP 13.1-million reduction shall be considered "suspended or dormant credit" of the centrals in favor of the bank. It will not earn any interest nor have any value until after the original PHP 21 million was paid in eight months. Subsequently, the dormant credit could be paid either in cash or in shares of stock, depending on the decision of the centrals. The centrals were also required to pay dividends to the PNB until the first PHP 21 million was paid in full.

If the buyers were forced to float bonds to secure the PHP 21 million within the time allotted, either the bank or the government had to guarantee the said bonds. In that case, the PNB or the national government could require all the planters who hold shares of stock in the new ownership to annually deliver to the bank 50% of their utilities as planters. This arrangement was to continue until the bank was in possession of a reserve fund big enough to pay both the accumulated interest on the bonds over a period of three years *and* the redemption of the bonds during that period (*Manila Times*, April 20, 1923).

Wood was not comfortable with the idea of selling the PNB holdings in the sugar centrals to the Negros hacienderos because he felt that they did not have the most capable technical and management groups in the production and business sides. He had greater faith in the technical and managerial proficiency of the second group of buyers, American capitalists Hayden, Stone and Company, and E. Atkins and Company of Cuba (ARGGPI, 1924, p. 20).

These American-syndicated interests proposed to raise the necessary funds for the purchase of the sugar centrals by floating 15-year mortgage bonds totaling PHP 20 million at 95%, bearing interest payable semi-annually at a rate of 7% per year. Under this setup the government was set to receive PHP 19 million and half of the original PHP 40-million debt of the Negros and Pampanga sugar centrals as a result would be written off. According to the proposal, a new holding company would be established with a capitalization of PHP 10 million with the promoters [i.e., Hayden, Stone and Co., and E. Atkins and Co.] cornering 40%, the planters [i.e., the hacienderos] 45%, and the government having a modest 15% share of the stock. Management control was to rest with the promoters (*Manila Times,* September 2, 1923).

The Negros hacienderos claimed that the American syndicates' plan was contrary to the best interest of the government, arguing that their proposal was superior to the one offered by Hayden, Stone and Company, and E. Atkins and Company. The group's official statement was signed by a certain Alfred D. Cooper, who introduced himself as an agent for the San Carlos Milling Co., Ltd., and M.J. Ossorio, managing director of the North Negros Sugar Company, Inc. and the Victorias Milling Company, Inc. (*Manila Times,* September 2, 1923). Eventually, the American offer was not accepted. Wood explained in his annual report that the deal did not push through because the syndicates insisted on controlling 51% of the stock (ARGGPI, 1923, 20).

The National Coal Company was constituted on May 10, 1917 by virtue of Act No. 2705, and formally organized in March 1918 with businessman-politician Vicente Madrigal as president and general manager, Insular Auditor C.H. French as vice president, and Dalmacio Costas as secretary (ARGGPI, 1918, p. 8). French resigned as manager a year later and was replaced by Bureau of Public Works Director Claude Russell. The National Coal Company was endowed with a PHP 3-million appropriation from 1918 to 1919. Its initial task was to investigate the coal deposits of the Philippines. Governor Harrison felt that the PHP 3-million investment could be easily recovered once a suitable mining area was found because coal prices had increased from PHP 12 a ton in Manila prior to World War I to about PHP 40 to PHP 50 per ton in 1918.

The bulk of the National Coal Company investments was concentrated in the Sibuguey Peninsula in Mindanao where, as of 1919, the company had already spent PHP 2 million. Experts expected coal from Sibuguey to be delivered at the company's dock in August or September of 1920. Another key area was Compostela in Cebu province. By 1919, almost PHP 650,000 had already been invested there, but with no positive results (ARGGPI, 1919, 12-13). By 1920, the PHP 3 million appropriated by the Legislature for the National

Coal Company had already been spent without any tangible financial results. In 1921, Manager Claude Russell asked the national government for PHP 1 million in new appropriations and urged all government offices to purchase their coal requirements exclusively from the company (*Manila Times,* May 27, 1921).

Governor-General Wood thought that, in light of the depression, the National Coal Company was not viable as a recipient of government investment. As a compromise, Wood entertained a proposal to lease the company coal mines in Cebu to C.F. Massey of the Cebu Portland Cement Company (*Manila Times*, January 23, 1922). The deal did not push through as Senate President Quezon and Speaker Manuel Roxas blocked it. Massey eventually sold his stake in the cement company to the government on March 23, 1923 for PHP 2.75 million (ARGGPI, 1924, p. 129).

When the national government created the NDC through Act No. 2849 to spearhead the utilization of the country's natural resources, it included in its development program huge investments in the coal mines of the National Coal Company, the cement factories of the National Cement Company and the Cebu Portland Cement Company. The NDC loaned the National Coal Company PHP 40,000 in 1923 and PHP 60,000 in 1924 for its exploitation of the Sibuguey coal mines. In 1925, the company invested another PHP 200,000 in order to keep the National Coal Company afloat. From 1917 to 1924, the company had only earned PHP 1.8 million after spending PHP 3.4 million for operations, for a net loss of PHP 1.6 million. In 1924 alone, the total coal produced by the mines was 92,998 tons, of which 90,299 were sold and issued. The average cost per ton of coal produced was PHP 36.61 but the average selling price per ton was only PHP 19.26. For every ton of coal produced, the company lost PHP 17.35 (*Manila Times,* January 13, 1925; ARGGPI, 1924, pp. 129-130; ARGGPI, 1925, pp. 102-103; ARGGPI, 1926, p. 112).

In 1926, the National Coal Company borrowed another PHP 80,000 from the NDC to sustain its operations; however, this move was not enough to prevent the company's impending bankruptcy (ARGGPI, 1927, 15). In 1927, all the assets of the company, including leases over coal lands and mining equipment, were transferred to the NDC, which then paid the claims of the coal company's creditors and negotiated the sale of its assets (ARGGPI, 1927, p. 11). Governor-General Wood had been advised by his Filipino subordinates not to sell the National Coal Company at a loss. He was encouraged to wait until the economy had recovered and businessmen willing to buy the company for a profit could be found. When economic recovery came in 1925, Quezon and Roxas again blocked the sale of the company and declared that they wished to preserve it as a part of the national patrimony. The two legislative leaders told the *Manila Times* (January 15, 1925) that the company was expected to lose in the beginning because it was engaged in pioneer work in the field. They pointed out that the pioneering work the company was doing would serve to lower the production cost later; thus, it would not be a good decision to sell the company then either. Wood was angered and befuddled by the turn of events.

From 1922 to 1924 the NDC allocated PHP 1.15 million, PHP 340,000, and PHP 120,000 annually for C.F. Massey in payment for the Cebu Portland Cement deal. After Massey was paid off, his ties with the company were completely severed on October 1, 1924. According to the cement company president, profits worth PHP 200,000 and PHP 379,000 were registered in 1926 and 1927 (ARGGPI, 1927, pp. 110-111; ARGGPI, 1928, pp. 172-173).

Apart from the Cebu Portland Cement Company, another valuable asset of the NDC was the Sabani Estate in Nueva Ecija, which had a land area of 11,000 hectares including 5,000 hectares of agricultural land, 3,000 hectares of forests and 3,000 hectares of pasture. As early as 1922 and in light of the financial crisis in the country, Justice Secretary Jose Abad Santos and Finance Secretary Alberto Barretto recommended the gradual liquidation of the Sabani Estate to the Council of State, which subsequently approved the suggestion (*Manila Times,* July 2, 1922). In 1924, the NDC moved to sell the Sabani Estate in small parcels to make it more attractive to buyers. A first-class road was also constructed between Laur and Cabanatuan towns (in Nueva Ecija) to make the property more accessible to buyers but the road construction had not been finished by 1925, thus, the estate was never sold. In 1927, the property was put up for lease to private persons for a period of five years for PHP 12,000 per lessee per annum (ARGGPI, 1925, pp. 102-103; ARGGPI, 1926, p. 112; ARGGPI, 1927, pp. 110-111; ARGGPI, 1928, pp. 172-173).

Conclusion

By November 1926, Governor-General Wood grew tired of fencing with the Legislature through the Council of State and the Board of Control. Armed with legal opinions from the judge advocate general of the United States Army and the U.S. attorney general, Wood signed EO 37 abolishing the Board of Control. By that time, in hindsight, it was already too late. Wood, early in 1927, was tied by numerous litigations stemming from his issuance of EO 37. Wood's claim to sole power to vote on the government's stocks in various companies was contested before the courts (Castañeda, 2001, pp. 161-163). Later on, Wood had to leave the Philippines to undergo brain surgery in the United States. Unfortunately, the procedure did not go well and Wood died in August 1927.

In the end, Wood was unable to see his neoliberal agenda through. Contrary to conventional wisdom, Wood's failure had little to do with the Cabinet Crisis of 1923. Wood's failure to privatize the government's corporate assets from 1921 to 1923 and 1924 had to do with adverse economic conditions prevailing in the Philippines. Adverse economic conditions drove down the market price of the assets, and as a result Wood was prevailed upon to postpone the sale. When economic conditions improved from 1924 onwards, Wood was stymied by the Board of Control/Council of State framework in his efforts to sell. Finally, when Wood abolished the Board of Control in November 1926, litigation, his failing health, and eventual death, prevented the governor-general from fulfilling his neoliberal agenda.

The Cabinet Crisis of 1923 may have gotten the most attention in so far as the historiography on the administration of Governor-General Leonard Wood is concerned. However, the Cabinet Crisis should not be expected to explain everything during the period. Conversely, the prevalent image of Governor-General Wood and the Filipino politicians being at each other's throats after the Cabinet Crisis is similarly misleading. On the contrary, as shown above, Wood *continued* to engage the Legislature through the Board of Control and the Council of State in so far as his desire to sell the government corporations is concerned. In fact, Wood engaged the Legislature through the Board of Control and the Council of State from the beginning of his term until the issuance of EO 37 in November 1926 as he had been made to believe that the Filipino leadership was on board his program of (neoliberal) reforms.

Wood *probably* did not realize at the time that Filipinos were vehemently opposed to selling the companies *to American capitalists*. For Wood, it was a matter of merit: American capitalists were in a better position to buy in comparison with their Filipino counterparts. Wood's supporters scoffed at the idea that the Filipinos were opposed to the neoliberal agenda on nationalistic grounds; articles in the American-owned *Manila Times* were dripping with sarcasm when they regarded the nationalist angle in the discussion. Wood was similarly unconvinced. Wood and his supporters, cynical after the Cabinet Crisis, focused on patronage politics as the *real* reason why the Legislature blocked the sale of the companies.

It was a huge mistake, however, to completely dissociate patronage politics from nationalism. The Filipino leaders were nationalists. Unfortunately, as *national politicians*, they did not have the means—outside of patronage politics—to establish a political base that was singularly loyal to them. Wood should have realized this when he personally witnessed Senators Quezon ("Colectivistas") and Osmeña ("Unipersonalistas") clash and tear apart the Nacionalista Party that political parties meant little in the Philippines. Ultimately, nationalism and patronage politics are a matter of political ends and political means for Filipino politicians.

Governor-General Wood, as American pro-consuls go, was not expected to be a political fixture in the Philippines. He should not have expected to earn the trust of Filipino politicians based on principles alone; even then, their principles clashed anyway. Moreover, Wood misunderstood the limits of the Legislature's engagement of him. He failed to see that Filipinos understood that succeeding pro-consuls were not duty-bound to continue Wood's neoliberal policies of governance, just as the latter had not been obligated to continue his predecessor's programs of government. As political ends and political means went, Governor-General Wood was a victim of his own naiveté and his terrible misunderstanding of how Philippine politics was. Thus, it is clear that, ultimately, it was Wood's own shortcomings that stymied his neoliberal agenda in the Philippines.

Notes

[1]Economic normalcy refers to the reversion of the United States economy to pre-war (or "normal") levels. See Frederick Lewis Allen (1931, Chapter II).

[2]Total Philippine trade (exports and imports) with the United States in 1920 (PHP 395,012,081) was two-thirds of the country's total foreign trade (PHP 601,124,276), see ARGGPI, 1921.

[3]The Mission was co-chaired by U.S. Army chief Major General Leonard Wood and former Governor-General W. Cameron Forbes, hence the name Wood-Forbes Mission.

[4]See the text of Governor-General Wood's inauguration speech in Volume 11 of Zaide's *Documentary Sources of Philippine History* (1990, p. 198).

[5]The unit of measurement for the said exports was not specified.

[6]In contrast, during the height of "extraordinary commercial prosperity" in the Philippines in 1917 and 1918, the demand for foreign exchange was just PHP 1,459,681.16 and PHP 2,200,148.88, respectively (*Manila Times*, March 6, 1921).

[7]Members of the committee included Finance Undersecretary Miguel Unson and Special Examiner Ben F. Wright. See ARGGPI, 1923, p. 17.

[8]According to information relayed by Auditor William Nolting in 1921, the PNB at the time incurred losses totaling PHP 22.5 million (Wood-Forbes Report, 1921, p. 38). Subsequently, the government hired two more auditors to determine the losses incurred by the PNB. The firm of Haskins & Sells pegged the PNB's total losses at PHP 75.1

million. Meanwhile, Special Bank Examiner Ben F. Wright and L.H. Martin, in a separate investigation, put the deficit at PHP 74.7 million as of 1922 (ARGGPI, 1923, pp. 15-20).

[9]The cabinet members who resigned were Jose P. Laurel, Interior Secretary; Alberto Barretto, Finance Secretary; Rafael Corpus, Agriculture and Natural Resources Secretary; Jose Abad Santos, Justice Secretary; and Salvador Laguda, Commerce and Communications Secretary.

[10]The district was composed of the provinces of Abra, Batanes, Cagayan, Isabela, Ilocos Sur, and Ilocos Norte.

[11]The wages of unskilled laborers were increased by an average of 25 percent. Employees receiving a salary of PHP 1,200 or less per annum were gifted a raise of 44.87%, while workers getting paid more than PHP 1,200 per annum had their remuneration increased by 27.64% (ARGGPI, 1919, pp. 7-8).

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