The "Windfall" Revenue Controversy (1937-1941):

A Perspective on Philippine Commonwealth History

Satoshi Nakano

Introduction

In spite of the important place it occupies in the history of Philippine state building, the six-year term of the Philippine Commonwealth from its establishment in November of 1935 to the Japanese attack on Pearl Harbor in December of 1941 (hereafter referred to as "the prewar Commonwealth") has in recent years not received the attention it deserves. Although we have several notable studies on the subject,[1] in terms of quantity, there is no comparison with the amount of research literature that has been published on, for example, the Philippine Revolution or the early years of American colonialism.

Another problem concerning the study of the prewar Commonwealth is that historians see those years primarily as a prehistory of the Philippine involvement in the Asia-Pacific War. They put their emphasis on the political-military phases, thus drawing

Satoshi Nakano is Associate Professor of Asia-Pacific Cultural Studies at Kobe University. An earlier version of this article was prepared for the 5th International Philippine Studies Conference, Hawaii, April 1996. I am very grateful for the encouragement and valuable comments given by Frank Jenista (the commentator on my paper), the participants of the Conference, Nick Cullather, and the anonymous reader of *Pilipinas*. I would also like to thank Lewis E. Gleeck, Jr. for providing important information about James Weldon Jone's letter to Richard Lunt written in 1963, which contains very insightful recollections on Philippine-U.S. relations during the 1930s.

[1] Hayden (1942) and Friend (1965) stand as two very illustrative and informative works on the Philippine Commonwealth history. Among recent important research on the subject, see Gleeck (1986) on U.S. High Commissioners sent to the Commonwealth; Gopinath (1987), McCoy (1989), and Gripaldo (1994) on Quezon's presidency; and Jose (1992) on the establishment of the Philippine Army.

insufficient attention to the economic issues of the era. Therefore, often overlooked is one of the gravest concerns of Philippine-U.S. relations at the time: namely, the bilateral negotiations over revising the trade provisions of the Tydings-McDuffie Act of 1934.[2] Economic issues also require more attention, especially the task of analyzing the role of U.S. High Commissioner Francis B. Sayre and his dispute with Commonwealth President Manuel L. Quezon during the critical years just preceding the Asia-Pacific War. Many of the monographs dealing with this topic point to an opposition of political philosophies between a Wilsonian democrat and an idiosyncratic nationalist leader. However, proper emphasis has not been placed on an important point that in fact sharpened the dispute: that is, Sayre's hard-line stance concerning the question of giving priority to the promotion of a reciprocal trade policy rather than measures for maintaining colonial ties between two countries.[3]

Because state formation is an intertwining process involving politics, culture, society, and economic dynamics, any approach that tends to emphasize only one aspect at the expense of the others is not sufficient for understanding what really happened. This is especially true in the experience of the Philippine Commonwealth, because of the demand for "economic adjustment" along with political state building under the various conditions and ten-year time restriction written into the Tydings-McDuffie Act. This monograph will focus on the fiscal issues facing the Commonwealth as a point of articulation for the

[2] Friend (1965) and Churchill (1983) have extensively studied the history of Philippine independence acts and the interplay in the process between economic, political and diplomatic issues during the age of Great Depression and Far Eastern Crisis. Their scope, however, is limited to the period up to the enactment of the Tydings-McDuffie Act in 1934, as far as the legislative process is concerned. This author is of the opinion that it is important to examine the later developments; i.e., Philippine-U.S. relations on revising the Tydings-McDuffie Act after the establishment of the Commonwealth, which resulted in the Economic Adjustment Act of 1939, the 1941 Amendment to the Independence Act, the Joint Resolutions in 1943, and the Philippine Trade Act (the Bell Trade Act) of 1946. In these bilateral negotiations and related congressional politics to determine the "final" conditions of Philippine independence, one will no doubt discover the entire entanglement linking the political, military, and economic phases of Philippine-U.S. relations throughout the Commonwealth years. I have recently published a book on the topic in Japanese [Nakano 1997]; and in a separate recent monograph I have discussed the early stage of the negotiations [Nakano 1996].

elements of Philippine state building, politics and the economy. In particular, the Commonwealth government, which was preparing for full independence, ironically became in the process fiscally more dependent on the United States as a result of "windfall" revenues. Why were "windfall" revenues generated, and what influence did the series of disputes over them have on the Commonwealth's "economic adjustment" program in particular and on Philippine-U.S. relations in general? The answers to such questions are crucial for understanding the historical significance of the prewar Commonwealth.

U.S. Fiscal Policy Prior to 1935

On 14th November 1935, in a speech given the day before the inauguration of the Philippine Commonwealth, Frank Murphy boasted as the last Governor-General to the Philippines, "Philippine public finances are sound. In some respects they might well excite the envy of many of the large nations of the world today." However, he also issued a warning concerning public finance after the Commonwealth's establishment:

> Extraordinary and non-recurring accretions should be recognized and treated as windfalls that will not be repeated. Let us look well to cut within our financial cloth.
>
> (U.S. High Commissioner 1937, 121)

This was not a simple farewell address, for Murphy would be appointed the following day to the newly established post of U.S. High Commissioner to the Philippine Islands. The Tydings-McDuffie Act granted the Philippines independence following an initial ten-year transition period marked by an autonomous government and U.S. commonwealth status. However it placed many conditions on the content of the Commonwealth's Constitution and its government operations, in order to protect American

[3] On the Quezon-Sayre conflict, see Friend (1965), Dufault (1972), McCoy (1989), and Gripaldo (1994).

interests. The United States took special care to ensure that the Commonwealth would remain fiscally sound. The duties of the U.S. High Commissioner were very specific concerning this aspect of the Act, which authorized the High Commissioner to take charge of the customs offices if the Commonwealth government "fails to pay any of its bonded or other indebtedness or the interest thereon when due or to fulfill any of its contracts." In such cases, the High Commissioner could apply such part of the revenue necessary for the payment of overdue indebtedness or the fulfillment of contracts (The Tydings-McDuffie Law, Sec.7). On the other hand, the Act made no precise statement on the powers of the United States to intervene in Philippine budgetary legislation or fiscal operations per se, thus leaving plenty of leeway for friction between the two governments concerning what constituted Philippine fiscal autonomy and what would be the sphere of U.S. supervision.

Murphy's warning expressed the anxiety among U.S. officials concerning the future of fiscal operations conducted by the Commonwealth government. To understand this anxiety, it is necessary to take a backward glance at the fiscal policies of the U.S. colonial government prior to 1935, which generally aimed at maintaining "small government" through the restriction of expenditures.[4] One reason for such an approach was the existence of institutional barriers to revenue generation. In the first place, internal revenue could not be expanded sufficiently under a tax system that favored the wealthy and landowning classes, the most able taxpayers in any agricultural colonial society. Consequently, the U.S. colonial government during its early years could not but depend heavily upon tariff revenues, which occupied 59 percent of total government revenue between 1907 and 1909 (Golay 1984, 240). Moreover, tariff revenues also could not be expanded due to the reciprocal duty-free status of Philippine-U.S. trade, which was created in 1909 by the

[4] On the fiscal policy of the U.S. colonial government prior to 1935, see Luton (1971), Golay (1984), and Giesecke (1987).

Payne-Aldrich Tariff Act. The Act initially applied quotas to principal Philippine agricultural products, but theses quotas were soon abolished by the Underwood-Simmons Tariff Act of 1913. Then throughout the 1910s, duty-free American goods came to occupy higher and higher percentages among total Philippine imports, while revenue from import duties dropped from 49 percent of total government revenues during 1907-1909 to only 21 percent in 1920. (Golay 1984, 250). In addition, duty-free trade was meant to abolish export taxes levied on Philippine goods to the United States, the revenue from which had been transferred to the colonial government beginning in 1902. This deprived the colonial government of another important revenue source, which had occupied 7 percent of total government receipts during 1907-1909 (Golay 1984, 240).

These revenue policies were integral parts of "policy of attraction" and were very successful in winning collaboration from the Filipino colonial elite, who had a great stake in land and agri-business and thus benefited most from lower taxation and duty-free export to the United States of such agricultural goods as sugar, coconut oil, copra, Manila hemp, and tobacco. Their collaboration unquestionably minimized the cost borne by the Unites States of maintaining "law and order" in the Islands. In terms of revenue generation, however, these policies were responsible for the stagnation of the colonial government's income throughout the period during U.S. direct rule of the Philippines.

One important exception to this "small government" approach was the bold economic policy implemented by Democratic Governor Francis B. Harrison (1913-21), under which the Philippine National Bank (PNB) was founded in 1916 and the National Development Company (NDC) was established in 1919 to promote various industries. In accordance with the "Filipinization" policy of the Harrison administration, the Filipino elite played the leading role in managing these enterprises. However, PNB soon became the victim of reckless management and was heading toward bankruptcy due to the excessive loans it had made to the sugar refining industry (Nagano 1986, 88-141). In 1924, PNB recorded a deficit of 61,950,000 pesos, which was equal to the annual government budget at the time (Truman Library, January 21, 1935). NDC also began suffering business setbacks almost immediately after its establishment and incurred losses of over 2.5 million pesos per year beginning in 1920 (USNA RG126, February 7, 1938). The failure of such enterprises not only incurred huge debt, but also made U.S. officials more skeptical concerning the fiscal abilities of the Philippine government. These factors constituted another important reason for the U.S. colonial government to follow a "small government" approach, which intended to provide the least possible room for the Filipino political elite to expand government spending.

Generation of "Windfall" Revenues and U.S. Intention on Their Use

"Windfalls," in the eyes of U.S. officials, were sources of revenue to boost public finance without changing the existing tax revenue structure favoring the wealthy and landowning classes. Moreover, "windfalls" would no doubt stimulate Filipino elite politicians to increase expenditures. There was fear that any failure in the management of these funds would result in damage to U.S. national interest. Here lay the core of Murphy's concern.

At the time the term "windfall" referred mainly to four funds earmarked for remittance to the Philippines from the United States. Three of the four funds were financed by taxes levied on the Philippine goods in the United States. They were namely export taxes, the coconut oil excise tax, and the sugar excise tax, determined by the Tydings-McDuffie Act, the Revenue Act of 1934, and the Sugar Act of 1937, respectively.[5] The remaining "windfall" was the gold devaluation fund set up in accordance with the devaluation of the gold standard dollar in 1934. All of these funds were to be controlled by the U.S. Treasury, and their remittance to the Philippine Commonwealth was bound by U.S. Congressional legislation containing all kinds of conditions and procedures. The reason why these funds were referred to as "windfalls" was that they were not autonomous Philippine fiscal resources, but rather provisional funds to be abolished after the granting of independence.

The legislative foundations of revenue transfer were established under the 1902 Tariff Act (regarding the transfer of export taxes) and the 1909 Tariff Act (regarding the transfer of excise taxes). Originally, these funds were set up to supplement the meager revenue sources possessed by the Philippines. Such was not the case, however, in the legislation passed in the 1930s, which specifically aimed at protecting U.S. domestic interests. The three tax funds were set up for no other reason than gratifying American agricultural interests demanding trade protectionism, while the gold devaluation fund was the product of the Roosevelt administration's monetary expansion policy, its trump card in the game of economic recovery. Revenue transfer only passively repeated precedent, meaning that the way in which these "windfalls" were to be used was not made clear in the original policy. Nevertheless, from the beginning there was anxiety, even criticism, about allowing the Philippines discretion over how these transfers would be spent, resulting in series of efforts by the U.S. government and Congress to place restrictions on their use.

The primary utilization of these "windfalls" expected in the United States was, above all, to finance "economic adjustment" programs necessary for abolishing special

[5]The predecessor of the sugar excise tax was the sugar processing tax determined by the Sugar Act of 1934. I have excluded the former fund from "windfall" categories, because it was not transferred to the Philippine government, but rather directly paid to sugar producers under the U.S. sugar quota system including the

preferences. Philippine-U.S. duty-free trade favored such Philippine agricultural products as cane sugar, coconut oil, copra, Manila hemp, and tobacco leaves, all of which competed with American agricultural producers in the cane and beat sugar, cotton-seed oil, dairy product industries, rope, and tobacco leaves, respectively. In its Great Depression mentality, the Tydings-McDuffie Act was fixed upon the idea of getting rid of the Philippines in the interest of agricultural protectionism by means of granting her independence, then taking away preferential treatment. It was for these reasons that the Act defined the ten years of the Philippine Commonwealth as a "transitional period" for the Philippine economy to free itself from dependency on duty-free exports to the U.S. markets. To attain this purpose, the Act provided duty-free quotas for sugar, coconut oil, hemp, and tobacco during the first half of the Commonwealth era (1936-40). During the latter half, export taxes were to be levied on all exports to the United States as well as on the four major products within the quota limitations, beginning at a rate of 5 percent of full tariffs in 1941, to be raised by 5 percent per year until reaching 25 percent in 1945. Full export taxes were to be levied on the four major products over quota limits throughout the period. After independence, all colonial preferences were to be abolished, and full tariffs were to be levied on all Philippine exports to the United States (The Tydings-McDuffie Law, Section 6). "Economic adjustment" from the U.S. Congressional point of view was meant Philippine efforts to meet such conditions created by the gradual elimination of trade preferences provided under the law.

The U.S. executive branch also found it imperative for the Philippines to carry out "economic adjustment." This position was placed under the guidance of the State Department, which assumed leadership in Philippine affairs during the Franklin D. Roosevelt (hereafter FDR) administration and revising the Tydings-McDuffie Act. In

Philippines, as "benefit payments" in compensation for reductions in sugar production. On the sugar quota system and benefit payments, see Dalton (1937) and Nagano (1986).

December of 1935, the Interdepartmental Committee on Philippine Affairs (hereafter ICPA) was established as a policy coordinating committee within the administration. The committee appointed Francis B. Sayre, an assistant secretary of state in charge of reciprocal trade agreement programs, as chairperson of the Committee. His appointment meant that the department's primary interests in Philippine affairs, apart from Far Eastern concerns in general, constituted policy coordination in Philippine-U.S. trade and the promotion of reciprocal trade agreements with the nations of the world, especially with Great Britain and its colonies. In its efforts to remove tariff and other trade barriers in the British colonies, the U.S. government could not very well justify continuation of the preferential commercial treatment it had extended to the Philippines. This is why the U.S. government hoped for the Philippine economy to eliminate its dependency on the U.S. market and regarded "windfalls" as fiscal sources to promote "economic adjustment" (Nakano 1996, 482-484). Such a policy direction was first incorporated into clear legislation with the passage of the Sugar Act of 1937.

One more important use of these "windfalls" expected by the U.S. government was the redemption of government debt incurred in the past. The Tydings-McDuffie Act stated explicitly that this was how the export tax "windfall" was to be used (The Tydings-McDuffie Law, Sec.6). Debt redemption was also initially thought to be the purpose for which the gold devaluation fund "windfall" would be used. However, in actuality, no sugar excise tax, export taxes, or gold devaluation funds were transferred to the Philippines prior to World War II. With respect to export tax funds, their collection was deferred back to January 1, 1941 in the revised Independence Act, which was passed after the declaration of war with Japan (Public Act No.367, 77th Cong., 1st sess). Concerning the gold devaluation fund, the stoppage of transfer was from time to time deliberated in Congress (Bulletin, March 25, 1936). As for the sugar excise tax fund, after the outbreak of the war in Europe, there was talk of diverting it along with the gold devaluation fund to defense plan spending, a point that will be discussed later. In sum, no transfers of these three funds were made prior to the War.

Hence, the only "windfall" that was transferred before the War was the coconut oil excise tax fund. The 1934 Revenue Act made it "automatically" transferable to the Philippines on the single condition that direct payments to coconut oil and copra producers be prohibited. Remittance of the fund was temporarily stopped during litigation (Haskins Brothers and Company v. Morgenthau, Secretary of the Treasury) concerning its constitutionality. In April 1937, however, the Federal Supreme Court decided to verify its legality; accordingly, funds collected since August 1934 and managed by the U.S. Treasury were transferred in one payment on 1 July 1937. It accounted for a huge amount of money, some 114 million pesos, or nearly double the net revenue from taxation during 1936 (U.S. High Commissioner 1939, 65-66). From that time on, yearly payments equally between 30 and 50 percent of the net revenue from taxation were transferred.

Of course, the U.S. government did not let this go by quietly. In response to the Supreme Court decision, Sayre lost no time in applying pressure on Quezon, then on tour in the United States, to earmark the coconut oil fund for "economic adjustment" (USNA RG59 Entry 733, April 9, 1937). Quezon replied to Sayre in a letter dated April 19, saying that he would make the following recommendations: first, "to purchase all large landed estates for the purpose of reselling them in small parcels to the tenants of those estates [et al.]"; secondly, to establish a credit institution for the purchasers of these parcels of land; thirdly, to build roads in Mindanao and other such undeveloped islands; fourthly, to build schools, particularly in the rural districts; and finally, to establish government institutions "to take care of the insane and indigent aged and children [et al.]" (U.S. High Commissioner 1939, 127).

Quezon's reply was made public in June of the same year as a mutual accord between the two governments. On this occasion Quezon expressed his opinion that around 20 million dollars (40 million pesos) should be spent for the purposes stated above and that the use of the remaining 30 million dollars should be decided through talks between the two governments (USNA RG59 Entry 733, June 23, 1937).

"Windfall" Revenues and Philippine Public Finance: 1937-41

Let us now look at the ways in which "windfall" funds transferred from the United States to the Philippines were actually used. In his inaugural address of November 15, 1935, Quezon responded to the concerns of the United States by saying:

> A government draws the breath of life from its finances, and it must balance its income and expenditures as any other going business concern if it expects to survive.

Then, concerning increased defense spending, he stated:

> We are among the least taxed people in the world and, therefore, when necessity arises, we should be willing to accept the burden of increased taxation.
>
> (U.S. High Commissioner 1937, 135)

Here, he expressed his commitment to a balanced budget.

Table 1 shows the steady growth that occurred in Philippine internal revenue up through 1937. This trend can be attributed not only to prosperity brought about by a recovery in exports that bottomed out in 1935 (see Table 5), but also to Quezon's determination to cover increased disbursements with increased revenue. The 1936 autumn session of the National Assembly deliberated and enacted several tax increases, starting with the income tax (U.S. High Commissioner 1937, 46). Tax revenues came to about 81,640,000 pesos in 1937, a 34 percent increase over the figure for the previous year. However, from that time on internal revenues dropped under the influence of the 1937 financial panic in the United States and never regained their 1937 level. Nevertheless, from 1937 on the Philippine government's total receipts grew immensely by virtue of coconut oil fund transfers. The fund soon became the largest source of revenue available to the Philippines, while attempts to increase internal tax revenue were abandoned. At the autumn 1937 session of the National Assembly, two bills were introduced to cut taxes. One of the bills called for the abolition of the *cedula*, a sort of poll tax dating back to the Spanish period that brought in some 5 million pesos annually and was appropriated for local public education projects (U.S. High Commissioner 1939, 55-56).

On the other hand, disbursements grew in explosive proportion. Total government expenditures after the establishment of the Commonwealth grew by 16 percent in 1936, 20 percent in 1937 and 40 percent in 1938, the year in which coconut oil funds were officially made part of the budget. Expenditures grew by another 8 percent in fiscal year (FY) 1939 and 20 percent in FY1940, resulting in a total increase of around 150 percent of the 1935 figure. The major items requiring these yearly increases were public works, outlays and investments, salaries and wages, and defense spending. Salaries and wages in FY1940 were 80 percent greater than the 1935 figure, public works 90 percent greater and outlays and investments were 13 times greater. Furthermore, the total figure for public works and outlays and investments increased from 10 percent of total disbursements to 40 percent by FY1940. One more important point is that from 1938 on both the general fund and the coconut oil fund constantly recorded deficits. Therefore, as Philippine public finance was greatly expanded in scale, the government was forced to tread a path of deficit spending, in spite of the coconut oil fund transfers. From 1938 on, both the general fund and the coconut oil fund constantly recorded deficits (excluding FY1941 for the general fund and FY1939 for the coconut oil fund). In other words, coconut oil fund transfers stimulated Philippine government spending beyond the limits of its financial resources.

Let us now turn to the kinds of programs initiated by the Quezon administration with the huge funding allocations it made. Immediately after the first coconut oil fund transfer was made, Quezon stood before the National Assembly on October 18, 1937 and presented his plan for how the funds should be used. The plan proposed two areas of allocation: a Social Justice Program in the public sphere and an Economic Adjustment Program in the industrial sector (Quezon 1937, 25-32). Tables 2 and 3 summarize the specific items of expenditure contained in the Quezon plan. As shown in Table 2, total appropriations passed by the Assembly up through June 1940 came to over 200 million pesos. About one-third of the amount went to investment in government-run enterprises, while the remainder was spent for public and social projects. The latter was mainly occupied by the large-scale public works projects funded under Commonwealth Act 330, which have been broken down into the items listed in Table 3. While there was some overlap, the Social Justice Program was tied to the public and social projects, while the Economic Adjustment Program encompassed the government investment portion.

From 1933 up through 1940, James Weldon Jones, in his role as insular auditor, the High Commissioner's office financial advisor, and the Acting High Commissioner, can be called the closest U.S. observer of Philippine fiscal affairs. Jones analyzed the content of Commonwealth Act 330 as early as April 1938, while it was still under discussion. He reported that the "lion's share" of the bill's appropriations was earmarked for roads passing through Manila, with only 10 percent appropriated for the provinces. There were a total of 2,700 projects to be funded by the bill for the provinces, resulting in each project receiving a mere 3,000 pesos, with no consideration given to repair and maintenance costs (Truman Library, May 2, 1938). The largest part of the funds for provinces was earmarked for "barrio roads," all of which, Secretary of Finance Antonio de las Alas told Jones, "is 'pork'.... They were not projects that would last past a few rains or a typhoon; that it was for election purposes." With respect to repair and maintenance, de las Alas related that "very few provinces could make any such appropriations." Quezon also commented on the barrio road projects, saying that "it gave the humble ones a little pocket money" (Truman Library, August 17, 1938). Of course, the Social Justice Program did not stop at public works; but as far as Jones and other U.S. officials on the scene were concerned, all the funds seemed to constitute merely "pork barrel" appropriations.

Jones and his High Commissioner's office colleagues were also unhappy with the coconut oil fund expenditures for the Economic Adjustment Program. The program that the Quezon administration envisaged was one that would expand government-owned enterprises. As shown in Table 2, a very large portion of coconut oil fund allocations to government-owned enterprises went to the Agricultural and Industrial Bank, NDC, and the Manila Railroad Co.[6] The Agricultural and Industrial Bank was founded in 1939 and consisted of a Banking Department that had balances of 7,010,000 pesos in agricultural loans and 1,180,000 pesos in industrial loans outstanding, and a Trust Department with investments in stocks and bonds totaling 13,430,000 pesos and another 26,090,000 pesos in loans outstanding, as of 30 June 1940 (U.S. High Commissioner 1941, 143-145). A large amount of the investments were inherited from PNB; but there was some new investment for starting up such industries as marine and air transportation, tobacco products, bottling, and paper for sugar vats (Doeppers 1984, 31). It could be said that the Bank acted the government's financial institution, taking over for the "bankrupt" PNB.

[6] Incidentally, most of the investment funds allocated to the Manila Railroad Co. were used for debt repayment, and thus have nothing to do with "economic adjustment" *per se*.

The second largest government enterprise receiving the coconut oil tax fund was NDC, which had long operated in red ink and was nationalized in November 1936 following the establishment of the Commonwealth. That same year NDC set up a hundred percent internally capitalized subsidiary called the National Rice and Corn Corporation (NARIC) and in later years proceeded to establish such new government-owned enterprises as the National Food Corporation and Textile Mills (see Table 4). The business content of these enterprises indicates that the "economic adjustment" program promoted by the Quezon administration intended to start various new industries without converting existing export-oriented agriculture to self-sufficiency. It should be also noted that most of the increase that took place in NDC's total assets may be attributed to subscriptions from the coconut oil fund; that is to say, "windfalls," not internal capital accumulation, brought about this type of enterprise expansion.

Most of the NDC subsidiaries eventually ended up operating in the red. The National Food Corporation recorded deficits of 59,832 and 128,697 pesos in first halves of 1939 and 1940 respectively, and Textile Mills lost 84,330 pesos during first half of 1940. On the other hand, large profits were recorded by Insular Sugar Refining Company and Cebu Portland Cement Company. The former earned 171,676 pesos in FY1939 and 787,315 pesos during first half of 1940, while the latter claimed profits of 493,319 pesos during first half of 1939 and 1,092,646 pesos during FY1940 (U.S. High Commissioner 1941, 155-164). However, criticism was leveled at these enterprises by the 1940 High Commissioner's Report, which stated, "The Commonwealth government cannot justify the purchase of the sugar refineries on grounds of economic adjustment" (U.S. High Commissioner 1940, 122). Besides, two-thirds of the sales recorded by the Cebu Portland Cement Company consisted of government purchases. Such large orders for cement were to be used in building public works funded by Commonwealth Act 330, and it was the coconut oil "windfall" that made it possible (U.S. High Commissioner 1941, 155). Of course, with the start of hostilities in the Asia-Pacific War not far off, a fair evaluation of the enterprises embarked on is impossible, given the performance figures for so few years. However, we cannot ignore doubts held by U.S. officials at the time that the actual form of "economic adjustment" projects undertaken by the Quezon administration was resulting in mere consumption of "windfalls" that should have been put to use in capital formation.

Now, how exactly did fiscal administration dependent on coconut oil funds influence the Philippine economy and its foreign trade situation? To begin with, foreign trade during the era of the Commonwealth changed very little in terms of the export trade destination, which was heavily dependent on duty-free exports to the United States. During 1926 to 1935, the United States had occupied 78.5 percent of the total Philippine exports, and still occupied 78.1 percent during 1936 to 1940 (U.S. Congress 1946). The import trade, however, jumped to higher levels, as shown in Table 5. The increase that occurred in imports up through the first half of 1938 was grounded in improved purchasing power accompanying a recovery in exports in addition to increased government expenditures. However, under the influence of recurring financial panics in the United States during 1937, exports began to drop drastically during 1938, while imports still increased to higher levels, as the commodity trade recorded deficits. Up until that time, because the amount of the export trade had determined import purchasing power, in that whenever exports began to decrease, imports would soon follow suit, Philippine trade balances always tended towards small surpluses. The appearance of deficit balances from 1938 on, therefore, indicates that the structure of trade was changing. Moreover, commodity trade deficits also began to be experienced along with fiscal red ink in 1938, the year after the initial transfer of coconut oil funds. Thus, it can be concluded that from 1937 on, "windfall" funds began to occupy a large portion of international payments receipts and play an important role along with gold exports in offsetting commodity trade deficits.

James W. Jones, in a memorandum dated January 1938, stated that due to such conditions as greatly expanded government spending, "new purchasing power is being injected into the Philippine economy at a greater rate than real wealth is being created," and warned that inflation was soon to follow. According to Jones, no matter what kind of "economic adjustment" program was carried out, with the arrival of national independence, the Philippines would inevitably lose some of its export markets and suffer reductions in its import purchasing power. What was necessary now, in his opinion, were reductions in domestic prices. This is the reason for his concern that the temporary increases in purchasing power brought about by "windfalls" would only exacerbate the economic shock after national independence (USNA RG126, January 27, 1938).

The Debate over "Windfall" Revenues and Philippine-U.S. Relations: 1937-41

Given the critical view in the United States concerning "windfall"-dependent fiscal administration in the Philippines, the "windfall" problem came into question in various aspects of the relations between the two countries following the establishment of the Commonwealth. While it is impossible to touch upon all of these aspects in the present essay, I would like to direct special attention to the "windfall" question in relation to the political process characterizing the negotiations over revising the Tydings-McDuffie Act and the passage of the revised Independence Act of 1939, the so-called "Economic Adjustment Act."

In 1934, FDR stated in his message to the Congress asking for passage of the Tydings-McDuffie Act that "where imperfections or inequalities exist in [the Act]… they can be worked out later upon proper hearing and, I hope, in fairness to both people" (U.S. Congress 1934, 3580). The statement was regarded in the Philippine business circles as an important promise to start bilateral talks on revising the trade provisions of the Act, which threatened to ruin existing export industries --- above all, the sugar industry. As there were other important questions regarding the political and military phases of Philippine independence such as military bases and neutralization treaty, how to revise the Act became a very important pending question for the two governments. Then from February 1937 to May of the following year, "experts" representing the two governments convened in the Joint Preparatory Committee on Philippine Affairs (hereafter JPCPA) to deliberate the question.

As far as the trade issues were concerned, the U.S. government had confirmed its position through a basic policy summary approved by the ICPA in February 1937, which said in part:

> The continuance of preferential trade relations with the Philippines after independence would be out of harmony with the general commercial policy of the United States.

There was fear, however, that a hasty abolition of preferential treatment would bring the Philippines to the brink of serious economic disaster, which in the end would harm U.S. national interests and burden the United States with the responsibility for the recovery of the Philippine economy. The ICPA thus conceded that it was necessary to ease the original trade provisions in some way or another, while they categorically denied prolonging preferential treatment for an indefinite time. In this context, "economic adjustment" was meant to pressure the Commonwealth government to undertake programs that would make it possible for the Philippine economy to endure abolition of preferential treatment "at the earliest practical date" (USNA RG59 Entry 733, February 19, 1937).

The Commonwealth government also believed that "economic adjustment" should be a device by which the Philippines could avoid economic disaster. They nevertheless thought preferential treatment should be continued indefinitely following the granting of independence at a level sufficient for the survival of existing export industries. Such differences between the two governments regarding the interpretation of "economic adjustment" resulted in the negotiations being dominated by bargaining over the extent and duration of preferential treatment after independence, rather than discussing what really was necessary for the Philippine economy.

Filipino members of the JPCPA, following Quezon's instruction, showed "an unexpected stubbornness in holding out for extravagant demands for the maintenance of preferences" (USNA RG59 Entry 731, October 19, 1937). The U.S. delegation, however, refused to budge on the position that all preferential treatment should end "at the earliest practical date." The negotiations held in Manila from September of 1937 almost broke down the following month, and J.V.A. McMurray, a veteran U.S. diplomat and JPCPA chairperson, prepared a statement blaming Quezon for failure to reach agreement (USNA RG59 Entry 731, October 29, 1937). The State Department ordered McMurray not to issue any statement closing the door to further participation by the Philippine delegation in the negotiations, and instructed him to announce that the JPCPA had completed "the first phase" of its work, while "the second phase" to formulate definite recommendations would be completed in Washington, D.C. (USNA RG59 Entry 731, November 5, 1937). It was in May 1938 that the two parties finally reached an agreement in Washington, D.C. and signed the JPCPA report containing detailed recommendations on how to revise the Tydings-McDuffie Act. As for trade relations before independence, the report recommended that the export taxes programs provided by the present law should be maintained in principle; i.e., general export taxes would be levied and raised by 5 percent of full tariffs per year beginning in 1941. The report recommended that a projection of the export tax formula of the Independence Act be made from the time of independence into the future. In other words, tariffs rates should not be suddenly raised to one-hundred percent of full tariffs, but rather increased by the same yearly 5 percent rate, as the extent of preferential treatment was gradually reduced. Tariffs should reach their hundred percent levels by 1960, at which time preferential treatment would be totally abolished (JPCPA 1938).

These negotiations coincided exactly with the start of the coconut oil tax transfers to the Philippines and the Commonwealth government's initiation of fiscal operations dependent on "windfall" revenue. For this reason, the "windfall" question came up in the negotiations in several ways and influenced them in various respects. In October 1937, Paul V. McNutt, who had succeeded Murphy as High Commissioner in February of that year, met with the U.S. delegation of the JPCPA, then on tour in the Philippines. On this occasion he expressed doubts about the Commonwealth government's ability to handle its fiscal affairs and urged the United States to undertake responsibility in managing all the "windfall" funds (USNA RG59 Entry 733, October 20, 1937). Despite sharing McNutt's mistrust of the Commonwealth's fiscal administration capabilities, the U.S. members of the JPCPA disagreed with his call for active intervention and concluded:

> It would be unwise to provide for strict supervision by the American authorities over the kind of adjustments and the expenditures themselves, because of the danger which might later arise, in the event of failure of the program, that the United States would be accused of defeating the adjustment and this accusation be made a pretext for demanding further concessions.
>
> (USNA RG59 Entry 733, December 15, 1937).

They, however, were willing to strengthen U.S. supervision over "windfall" revenue funds by means other than taking direct administrative responsibility. In the draft report prepared by the U.S. delegation for the final negotiations, it was recommended that coconut oil and sugar taxes be transferred only if their "primary purpose" was "economic adjustment." It was further recommended that "in the event that [the President of the United States decides that the funds should] be appropriated or expended for purposes *or in a manner* which would seriously prejudice the realization of the objective... [The President of the United States] should be given the authority to withhold or discontinue remittances" (USNA RG59 Entry 733, March 19, 1938 [*italics* added]).

Quezon feared that the recommendation was made to provide legal grounds for U.S. intervention in Philippine budgetary legislation based on the decision as to whether or not the remittances were being used in accordance with the "economic adjustment" programs. He reacted strongly with the words, "[I] am definitely opposed to changing existing laws that directly or indirectly restrict the powers already granted to the Commonwealth" (USNA RG59 Entry 733, April 15, 1938). In the final negotiations aimed at signing the JPCPA report, the "windfall" question thus became the last hurdle to cross.

On this point the U.S. government relayed a message from FDR expressing concern that if Congress would continue to decide whether or not remittances to the Philippines were to be made in each revenue act deliberation, a strong reaction could erupt someday, in which Congress would suddenly abolish the remittances. The message went on to emphasize the merits of the recommendation proposal, containing assurance that remittances would be made during the Commonwealth period without congressional deliberation. (USNA RG59 Entry 733, April 16, 1938). In a reply on May 2, Quezon finally agreed in principle to the proposal. He still expressed fears, though, that even "the money duly appropriated by the National Assembly in accordance with the economic plan honestly and wisely" would be subject to U.S. interference, asking that the phrase "*in a manner*" be stricken from the proposal (USNA RG59 Entry 733, May 2, 1938). "*In a manner*" was duly taken out of the proposal, after which the final version of the JPCPA report containing various recommendations for revision of the Independence Act was signed on May 20 (JPCPA 1938, 168).

This final exchange over what would seem at first glance to be a trivial problem of wording was in fact directly related to Commonwealth Act 330, which was being deliberated by the National Assembly in the Philippines. On April 9th Sayre sent a message to Quezon, telling him that there was concern and apprehension within the U.S. government regarding Act 330 and hopes of seeking some clarification. Quezon emphasized in a reply dated April 30 that Commonwealth Act 330 coincided precisely with the meaning of "economic adjustment" contained in the JPCPA report's recommendations. He further promised that steps could be taken to prevent inflation, and that 60 million pesos would be kept in the "economic adjustment" funds as he had publicly vowed the previous year, by the powers invested in him by the Act to suspend the expenditure "at any time" (Truman Library, April 30, 1938). While showing apprehension over U.S. concerns about "economic adjustment," Quezon continued to insist on nationalism with regard to the problem of authority.

The report was thus finally signed and the bill for revising the Tydings-McDuffie Act based on the report introduced in Congress in January of 1939. However, the fate of the bill was to be tossed upon the rough waves of a tense international atmosphere, batted back and forth within the confrontation between FDR and the isolationists in Congress over the Neutrality Act issues, and held in check under war clouds hanging over Europe.[7] Calling the Philippines America's "heel of Achilles" in international disputes, isolationist senators and congressmen naturally wanted to rid themselves of the territory as soon as possible. They argued that if the proposed bill already established an "economic adjustment" program

[7] The 1939 Neutrality Act issue was one of major subjects of FDR-Congressional relations; but its influence on the Philippine problem has been rarely discussed: see Divine (1962), Cole (1983), and Davis (1993).

that would make the Philippines prepare for abolishment of all preferential treatment by 1960, it was not necessary to wait until 1946 to grant national independence.

Another factor affecting the bill was personal in nature, but significant in any case. Millard E. Tydings, the chairperson of the Senate Committee on Territories and Insular Affairs, had held ill feelings toward FDR since the time when he was made a major target of the President’s vigorous, but unsuccessful campaign to "purge" conservative Democratic senators during the previous year's mid-term election. Tydings told Sayre that he was not in a position to cooperate with the administration, adding that "I do not wish to quarrel; I merely intend to fight" (USNA RG59 Entry 734, January 4, 1939). Tydings aligned himself with the isolationists advocating advancing the date of independence. To the Sayre’s question as to whether the Filipinos themselves were particularly anxious to secure independence before 1946, Tydings went as far as to reply that he was not "particularly concerned with their desires" (USNA RG59 Entry 734, January 18, 1939).

As congressional deliberations on an essentially economic bill became more and more politicized in this way, the following episode clearly shows how congressional politics also became entangled with the "windfall" question. Senator Bennett Champ Clark, a seasoned isolationist, at one point addressed the Commonwealth Vice President Sergio Osmena, who was then heading a special mission to the United States for lobbying purposes, saying that the problem lies in doubts held by the American people as to whether or not the Philippines really wanted independence. High Commissioner McNutt was at that time calling for "re-examination" of the Philippine independence question in order to pave the way for postponing the granting of independence. New York Times reported that Quezon concurred with McNutt. Clark warned Osmena that such reports would cause serious repercussions in Congress and make revision of the economic features in the independence act more difficult. He further indicated that if Quezon could guarantee that there would be no change in the political phase of the Philippine problem, he "would not only vote for [the pending bill], but would be most liberal to the Philippines even after independence" (Philippine National Library, March 25, 1939). Quezon, upon hearing of this statement, gave Osmena the following directive:

> In order that every possibility of reopening the question of independence by future Congress may be definitely avoided I want to suggest that Senator Clark introduce an amendment to the recommendations of the JPCPA to the effect that the Philippines shall become independent on the 4th of July 1940 provided that the trade relations between the United States and the Philippines on and after that date shall be as recommended in the JPCPA report as though no change had taken place in the date of the granting of independence *and that the return to the Philippine Treasury of the proceeds from the excise taxes on coconut oil and sugar shall continue until 1946*.
>
> (Philippine National Library, March 30, 1939 [*italics* added]).

Osmena, fearing that the Quezon directive would further disturb congressional deliberations on the bill, decided not to communicate it to Clark. He then tried to reason Quezon down, explaining that Clark was not asking for immediate independence, but was merely opposed to "reopening question of independence" (Philippine National Library, April 6, 1939). Quezon reiterated his directive, adding that he himself believed advancing the date of independence placed the Philippines in a better position "if the recommendations of the JPCPA regarding trade relations can be kept intact including the return of the excise taxes" (Philippine National Library, April 7, 1939).

The State Department of course would not tolerate any attempt to move up the date of Philippine independence, since such action would cause a serious setback for U.S. diplomatic efforts in the Far East.[8] Sayre, through Osmena, tried to persuade Quezon to

[8]Stanley K. Hornbeck, a well known diplomat who played a very important roll in U.S. policy towards Far East during the FDR administration, took the viewpoint of the Philippines as a "diplomatic weapon" against Japan (Hoover Archives, December 31, 1936). Thus, Hornbeck and the Far Eastern Division of the State Department opposed advancement of Philippine independence quite stubbornly (USNA RG59 Entry 734, January 21, 1939). Concerning Hornbeck's influence on U.S. Philippine policy, see Nakano (1996).

drop his proposal by arguing that the refund of excise taxes after independence could not be justified on constitutional grounds (Philippine National Library, April 10, 1939). It was obvious from the following telegram addressed to Osmena that Quezon finally conceded out of necessity for coconut oil tax fund transfers:

> If the Department of State holds that the return of the excise taxes will be unconstitutional after independence, you may discuss this aspect of the question with Senator Clark in line with my statement… that *in such a case the presentation of the suggested amendment would not be desirable*.
>
> (Philippine National Library, April 11, 1939 [*italics* added])

Quezon, though, still wanted Clark to correct his "mistaken idea" and sent a telegram directly to the senator, firmly stating:

> If it were not for the economic aspect of the Philippine problem, I would not hesitate to advocate immediate independence… If it were possible to grant to an independent Philippines the same concessions recommended by the JPCPA both as to the return of the excise taxes until 1946 and with regard to the trade relations proposed in the said recommendations until 1960, I have no doubt that the Filipino people and I with them welcome such a measure.
>
> (Philippine National Library, April 13, 1939).

To the disappointment of both Osmena and the State Department, Clark disclosed Quezon's message when the Committee assembled for a vote on the bill on April 18. The message could not but have drawn the attention of the isolationist senators, who no doubt would have preferred Quezon's idea of immediate independence to the administration's program; and after deliberations the Committee finally agreed not to report the bill (Truman Library, May 12, 1939). Tydings handed a statement to the press, saying that the Committee decided to take no action on the pending bill at the time, and "in order to avoid all possible misunderstanding," they would like Quezon to appear before the Committee in the near future (USNA RG59 Entry 734, April 18, 1939).

Facing the confusion caused by Quezon's proposal, the administration decided to scrap the post-independence tariff program in exchange for no change in the date of independence. Though Clark was satisfied with this arrangement, Tydings told Sayre that he would still fight the administration and introduce a new bill during the next session calling for the granting of independence in 1941 and a program for tariffs to be raised yearly by 10 percent and reach their hundred percent levels by 1951. Quezon replied that he would approve the administration's revised bill; but he could not oppose Tydings' plan, though it was much harder on the Philippine economy than the plan recommended by the JPCPA. He instructed Osmena:

> You should merely state that the granting of independence to the Philippines whether in 1941 or 1946 without approving the recommendation of the JPCPA regarding the excise taxes and the trade relations would seriously endanger the economic stability of the Philippines. With that statement, let the Government of the United States assume responsibility for the consequences of its action.
>
> (Philippine National Library, April 29, 1939).

On this point, Sayre decided to ask the President to urge the passage of the administration's revised bill. Then on May 9, FDR invited Tydings and other influential Senators on the Committee to the White House, asking their cooperation for the bill’s passage into law. It was the first time that FDR met Tydings since the "purge" campaign separated them. All the Senators, including Tydings, were honored to enjoy personally the good offices of the President and unanimously agreed with the President’s position. Finally, in August 1939, Congress passed the Economic Adjustment Act, containing only minor revisions to the original Tydings-McDuffie Act.

This whole story shows how significant "windfall" issues were to overall Philippine-U.S. relations at the time. Quezon's consistent references to coconut oil tax fund transfers throughout the process plainly indicates that already at this stage "windfall" revenue had become an indispensable fiscal source, along with preferential trade relations, determining the Commonwealth government's attitude toward the entire independence question. It should also be noted that one important reason for the U.S. government to urge the passage of the bill, even without revising the trade provisions concerning the period after independence, was the necessity to strengthen U.S. supervision over "windfall" funds, so that they would be used solely for the purpose of "economic adjustment" (USNA RG59 Entry 734, May 8, 1939).

The "windfall" question continued to be an important issue in Philippine-U.S. relations right up to the outbreak of war in the Pacific. One example of this is the series of Quezon-Sayre confrontations over the question of how Philippine national defense costs should be covered. Concerning the Quezon administration's desire to supplement insufficient fiscal resources for defense with unspent "windfall" revenue from the sugar tax and gold devaluation fund, Sayre opposed the additional release of new "windfall" funds. On the other hand, concerning how to cover the costs of a civilian defense plan, Sayre demanded that the Commonwealth government re-appropriate a part or all of the coconut oil funds for that purpose. Quezon opposed the proposal, arguing that since civilian defense was the responsibility of the United States, it should be paid for out of "windfalls" that were still not earmarked for spending. Here, coconut oil funds were understood as Philippine fiscal resources, while unspent "windfalls" were looked upon as American fiscal sources; so each side was demanding that the other increase its defense burden.

When the problem of sugar relief came up due to an insufficiency of cargo ships to the United States caused by export regulations just before the outbreak of war in the Pacific, the question was again raised over how "windfalls" were to be used. This time, in response to Export-Import Bank relief loans being considered by the U.S. government, Sayre proposed a program for promoting large scale reductions in sugar production to be financed by the sugar excise tax. This proposal, based on the ideas of Evett D. Hester, was the first concrete "economic adjustment" program ever to be suggested; but the U.S. government found it unacceptable (Library of Congress, November 17, 1941; U.S. High Commissioner 1943b, 36-42).

Throughout this process, Sayre continued to act on the belief that promoting the economic de-colonization of Philippine-U.S. relations was in accord with U.S. national interests in pursuit of a reciprocal trade policy. This type of behavior forced General MacArthur to comment, "the Department of State considers the Philippines a foreign country already -- and even, perhaps, an unfriendly country!" (Harrison 1951, 136-137). Quezon also lamented:

> Unfortunately, we have a High Commissioner.... who seems to be lacking of that sympathy which we have been accustomed to expect from those who represented the U.S. in the Philippines .... in the consideration of our economic problems.
>
> (Philippine National Library, April 4, 1941).

However, Sayre's standpoint on these matters started to depart more and more from the official U.S. government position from the time he himself was appointed High Commissioner in September 1939. After the outbreak of war in Europe, the Philippines grew in more importance that ever before as an important strategic base in the Far East. For this reason, the U.S. government disagreed with Sayre's attempt to give priority to implementation of the "economic adjustment" program in favor of making the maintenance of close cooperation by the Quezon administration its top priority.

Reflections

Upon reflection on the above political and diplomatic processes, a unique aspect of Philippine-U.S. relations during the Commonwealth era comes to forefront. In the continued efforts by Quezon to free his administration from U.S. government intervention as to how coconut oil funds were to be spent, we discover a call for nationalism and resistance to the whims of the suzerain. However, Quezon was in no position to claim that these funds were autonomous fiscal resources. Here we can see the unique way in which state building carried out by Filipino elite became a hybrid product of nationalism and U.S. dependency.

On the other hand, the U.S. government continued to pressure the Philippines to carry out "economic adjustment", while questioning the Commonwealth government's intent, motivation and ability to manage "windfall" revenues and declaring operations to have failed just after they began. For example, there is a High Commissioner Report that analyzes the reason for losses incurred by Textile Mills as a "lack of experienced personnel, high salaries of foreign experts, defective machinery and equipment and high cost of materials" (U.S. High Commissioner 1941, 163). Lawrence E. Salisbury, who was dispatched from the State Department to the High Commissioner's Office and was one of the Quezon administration's severest critics, stated in a 1940 report:

> During the five subsequent years, the Commonwealth authorities have made little serious or thoughtful effort to prepare for the economic difficulties which will inevitably follow independence in 1946.
>
> (USNA RG59 811B. 50/17, September 26, 1940).

However, this type of criticism leveled at the Commonwealth government only indicates that sufficient conditions for the success of "economic adjustment" were not satisfied, and furthermore gives us little idea of what conditions were in fact necessary. The situation in which reciprocal free trade was maintained and American duty-free imports was ensured until independence took away the necessary conditions for not only converting existing export industries, but also developing successful import substitute industries like textiles.[9]

[9] The criticism that an industrial promotion policy dependent on "windfall" revenues was meaningless to the development of the Philippine national economy was far too hasty. In the propaganda materials published by the Japanese army of occupation declaring a "new Philippines," one finds references to Textile Mills, which

Furthermore, in spite of the Tydings-McDuffie Act pushing for "economic adjustment," other legislation provided such benefits as the sugar quota system and preferential treatment regarding the coconut oil excise tax. The former functioned to ease the pressure being applied in the United States for the exclusion of Philippine sugar and to maintain U.S. sugar prices at much higher levels than the world market price. This system was of great benefit to the Philippine sugar industry, which could not compete in the world market, because of high production costs. As for the coconut oil excise tax, although it aimed at protecting U.S. vegetable oil and dairy producers from foreign competition, preferential tax rates to Philippine producers were applied against other foreign producers. This tax was an additional benefit to Philippine coconut industries, since no coconut oil or copra import duties or excise taxes had been levied on any country in the United States before, and Philippine products had not been given any preferential treatment. These legislation thus worked rather to stabilize the position of Philippine agricultural products in the United States, providing no motivation for U.S.-dependent Philippine export industries to adjust their economic behavior and begin changing their businesses accordingly (U.S. Tariff Commission 1937; Abelarde 1947).

In sum, the Philippine national economy during the Commonwealth era was greatly affected by the fact that U.S. government policy and congressional legislation was lacking in both consistency and coordination. Moreover, there was never any agreement between the U.S. and the Philippine governments concerning the substance of "economic adjustment," and the United States had no concrete proposals. James Weldon Jones recalled in 1963:

had been built by the "windfall"-funded NDC (Manila Shimbun December 8, 1942, 8). Of course, the Japanese occupation and the war itself would destroy the largest part of the infrastructure built by "windfall" revenues; and there is the important problem of how the Japanese occupation influenced state formation in the Philippines after taking over for the Americans. Concerning this question, the reader is urged to refer to a

> [Quezon] said "Mr. Jones what is economic readjustment? Where can I buy it? Did you ever see it on the shelf of any store?" I admitted that I was as much at sea as he was. I ventured that getting out of sugar would be a step towards self sufficiency and more rice, but I knew I was not helpful or realistic in suggesting it! I suggested that heaving sugar to the U.S. and buying California Pilchards was poor economics for a country that had the world's best fish all around them! Quezon thought a minute... then wrinkled up his nose as he could do when frustrated and said: "Aren't pilchards terrible eating!"
>
> (Bentley Historical Library, January 25, 1963).

If we can state that during the colonial period the United States perceived itself to be in the role of teacher guiding the Philippines with the best of intentions, then we may conclude that during the Commonwealth era the teacher presented his student with a problem called "economic adjustment" to which he himself had no right answer.

List of References

Archival Records

Bentley Historical Library, University of Michigan. Richard Lunt Collection.
James W. Jones to Richard Lunt, January 25, 1963.

Hoover Institution Archives, Stanford University. Stanley K. Hornbeck Papers. Box 343.
Stanley K. Hornbeck, "Naval Limitation(?) and Contemporary Diplomatic Effectiveness," December 31, 1936.

Library of Congress, Manuscript Division. Francis B. Sayre Papers. Box 10.
Memorandum of Evett D. Hester, "Notes on Sugar Relief." November 17, 1941.

Philippine National Library. Manuel L. Quezon Papers. Box 108.
Sergio Osmena to Manuel L. Quezon, March 25, 1939.
Quezon to Osmena, March 30, 1939.
Osmena to Quezon, April 6, 1939.
Quezon to Osmena, April 7, 1939.
Osmena to Quezon, April 10, 1939.
Quezon to Osmena, April 11, 1939.
Quezon to Benett Champ Clark, April 13, 1939.
Quezon to Osmena, April 29, 1939.
------. Box 112.
Quezon to Joaquin M. Elizalde, April 4, 1941.

Truman, Harry S., Library. James W. Jones Papers. Box 2.
G.W. Porter to E.G. Kemp, "A Brief History of Philippine National Bank." January 21, 1935.
------. Box 4.

compilation of essays edited by Setsuho Ikehata [Ikehata 1996], an important contribution to the field that is now being translated into English.

J.W. Jones to Wayne Coy, "Memorandum to Mr. Coy: Bill No.3589," May 2, 1938.
Coy to Jones, May 12, 1939.
------. Box 9.
Quezon to Francis B. Sayre, April 30, 1938.
Jones to Coy, August 17, 1938.

U.S. National Archives (USNA). RG126, Records of the U.S. High Commissioner to the Philippine Islands, Entry 2.
J. W. Jones, "Confidential Report on the NDC," February 7, 1938.
------, "Fragmentary Comments on Philippine Governmental Finance and Economic Readjustment." January 27, 1938.

------. RG59. Records of the Joint Preparatory Committee on Philippine Affairs (JPCPA). Entry 731.
J.V.A. McMurray to Sumner Welles and Francis B. Sayre, October 19, 1937.
McMurray to Welles and Sayre, October 29, 1937.
Welles and Sayre to McMurray, November 5, 1937.
------. Entry 733.
"Memorandum of the ICPA in Regard to Various Problems Concerning the Relations between the United States and the Philippine Islands," February 19, 1937.
Minutes of the ICPA, April 9, 1937
"For the Press," June 23, 1937.
"Confidential Notes on Conference of the American Delegation of the JPCPA with McNutt," October 20, 1937.
"Outline of the Economic and Trade Adjustment," December 15, 1937.
Cordell Hull to Franklin D. Roosevelt (FDR), March 19, 1938.
Quezon to Quintin Paredes, April 15, 1938.
FDR to Quezon, April 16, 1938.
Quezon to FDR, May 2, 1938.
------. Entry 734.
Memorandum of Conversation, "Philippine Legislation." January 4, 1939.
Memorandum of Conversation, "Proposed Philippine Legislation," January 18, 1939.
Stanley K. Hornbeck, "Arguments of a Political Character against Advancing from July 1946 to January 1, 1941, the Date of Relinquishment of American Sovereignty over the PI," January 21, 1939.
"Text of Statement handed to the Press by Senator Millard E. Tydings at the Conclusion of an Executive Session of the Senate Committee on Territories and Insular Affairs, Held on April 18, 1939." April 18, 1939.
Memorandum, "Reasons for Enacting Philippine Bill during the Present Sessions." May 8, 1939.

------. RG59. State Department Decimal Files (1940-44). 811B.50/17.
Laurence E. Salisbury, "Secretary Roxas on Philippine Economy." September 26, 1940.

Secondary Sources

ABELARDE, PEDRO. 1947. *American Tariff Policy towards the Philippines: 1898-1946*. New York: Kings Crown.
BULLETIN. March 25, 1936. "P.I. Not Entitled To Gold Profit, Adams Tells Committee At Hearing." by Edward E. Bomar.
CHURCHILL, BERNARDITA REYES. 1983. *The Philippine Independence Missions to the United States, 1919-1934*. Manila: National Historical Institute.
COLE, WAYNE S. 1983. *Roosevelt and the Isolationists, 1932-45*. Lincoln: University of Nebraska Press.
DALTON, JOHN E. 1937. *Sugar: A Case Study of Government Control*. New York: MacMillan Co.
DAVIS, KENNETH S. 1993. *FDR: Into the Storm, 1937-1940*. New York: Random House.
DIVINE, ROBERT A. 1962. *The Illusion of Neutrality*. Chicago: University of Chicago Press.
DOEPPERS, DANIEL F. 1984. *Manila:1900-1941*. Manila: Ateneo de Manila University Press.
DUFAULT, DAVID VAWTER. 1972. "Francis B. Sayre and the Commonwealth of the Philippines, 1936-1942." Ph.D. dissertation. University of Oregon.
FRIEND, THEODORE. 1965. *Between Two Empires: Philippine Ordeal and Development from the Great Depression through the Pacific War, 1929-1946*. New Haven: Yale University Press.

GIESECKE, LEONARD F. 1987. *History of American Economic Policy in the Philippines during American Colonial Period: 1900-1935*. New York: Garland Publishing.
GLEECK JR., LEWIS E. 1986. *The American Governors-General and High Commissioners in the Philippines*. Manila: New Day Publishers.
GOLAY, FRANK H. 1984. "The Search for Revenues." In Peter W. Stanley, ed., *Reappraising an Empire*. Mass.: Harvard University Press. 231-260.
GOPINATH, ARUNA. 1987. *Manuel L. Quezon: The Tutelary Democrat*. Manila: New Day Publishers.
GRIPALDO, ROLAND M. 1994. *The Quezon-Winslow Correspondence and Other Essays*. Manila: De La Salle University Press.
HARRISON, FRANCIS B. 1951. *Origins of the Philippine Republic*. Tangier: Powderhouse Press.
HAYDEN, JOSEPH RALSTON. 1942. *The Philippines: A Study in National Development*. New York: MacMillan Co.
IKEHATA, SETSUHO. 1996. *Nihon Senryo-ka no Firipin* [The Philippines under Japanese occupation]. Tokyo: Iwanami Shoten.
JOINT PREPRATORY COMMITTEE ON PHILIPPINE AFFAIRS. 1938. *Report of May 20, 1938*. Washington, D.C.: USGPO.
JOSE, RICORDO TROTA. 1992. *The Philippine Army, 1935-1942*. Quezon City: Ateneo de Manila University Press.
LUTON, HARRY. 1971. "American Internal Revenue Policy in the Philippines to 1916." In Norman G. Owen, ed., *Compadre Colonialism*. Manila, 1971. 65-80.
MANILA SHIMBUN December 8, 1942. "Rotogravure Supplement." (*Manila Shimbun [Manila Times] Reprinted Edition*. 1991. Tokyo: Nippon Tosho Center).
MCCOY, ALFRED W. 1989. "Quezon's Commonwealth." In Ruby R Paredes, ed. *Philippine Colonial Democracy*. Quezon City: Ateneo de Manila University Press.
NAGANO, YOSHIKO. 1986. *Firipin Keizaishi Kenkyu: Togyo Shihon to Jinushi Sei [A Study on the Philippine Economic History: Sugar Capitals and Landlords]*. Tokyo: Keiso Shobo.
NAKANO, SATOSHI. 1996. " US Philippine Policy and the Interpretation of National Interest: The FDR Administration and the Philippine Question, 1935-42." *Journal of American Studies* [American Studies Association of Korea] 28-2: 475-502.
------. 1997. *Firipin Dokuritsu Mondaishi: Dokuritsuho Mondai wo meguru Beihi Kankeishi no Kenkyu (1929-46) [A History of the Philippine Independence Problem: a Study on the Philippine-U.S. relations regarding the Philippine Independence Acts, 1929-46]*. Tokyo: Ryukei Shosha.
QUEZON, MANUEL. 1937. *Message of the President of the Philippines to the National Assembly, October 18, 1937*. Manila: Bureau of Printing.
U.S. CONGRESS. 1934. *Congressional Records* 73-2.
U.S. CONGRESS. 1946. House Committee on Insular Affairs. *Philippine Rehabilitation Act of 1946: Hearings on S.1610, Appendix*. 79th Congress, 2nd session.
U.S. HIGH COMMISSIONER TO THE PHILIPPINE ISLANDS, 1937. *First Annual Report of the U.S. High Commissioner to the Philippine Islands*. Washington, D.C.: USGPO.
------, 1939. *Second Annual Report*.
------, 1940. *Third Annual Report*.
------, 1941. *Fourth Annual Report*.
------, 1943a. *Fifth Annual Report*.
------, 1943b. *Sixth Annual Report*.
U.S. TARIFF COMMISSION. 1937. *United States-Philippines Trade: with Special Reference to the Philippine Independence Act and Other Recent Legislation*. Washington, D.C.: USGPO.