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Flooded with Foreign Coins Spanish and American Administrators Dealing with Currency Problems in the Philippines 1890-1905

The Dutch anthropologist Van Baal (1976:103) has put forward the proposition that in Southeast Asia between the 1880s and the 1920s colonies were transformed into colonial states. The basic idea of this transformation was that the colonial state, like a business firm, had to be built up with the means by which it could produce itself. This entailed reforming the administrative system, balancing tax revenues with expenditures and streamlining the government apparatus. With the ongoing socioeconomic changes in society and the growth of commerce, government functions and thus expenditures increased. The expanding colonial state apparatus could no longer be staffed solely with foreigners; qualified local personnel had to be recruited to carry out increasingly complex technical and administrative tasks. The need for education and the mobilization of personnel in the service of the state created a stratum of people who were no longer rooted in their regions, but who acquired a national consciousness, focused on the national state.¹

This proposition holds for the Philippines as well: the final two decades of Spanish rule were a period of administrative reforms, and the first two decades of American rule completed that transformation. The Spanish administrators centralized the government, increased the efficiency of the revenue and tax collection system, improved public instruction, public

¹ This article is based on archival and library research in the National Archives and the Library of Congress of the United States in August 1996, funded by the International Institute for Asian Studies, Leiden, and in the American Historical Collection at Ateneo de Manila University, Quezon City, the Philippines. An earlier version of this paper has been presented at the Euroseas conference in London, 6-9 September 2001, and at the Philippine Studies conference in Alcalá, Spain, 10-12 September 2001. I thank the editors of this issue of the *Bijdragen* and Dr. B. Legarda Jr., for their valuable comments on this paper, and Drs Fer Hoekstra for making the photographs included in this article. I owe special thanks to Ingrid Diaz for helping me with the search for, and collection of, research material in 1996, 1997, 2000 and 2001.

works, public health and sanitation, and the supervision of the conduct of local governments (Robles 1969).

A specific problem with which both the Spanish and the American governments in the Philippines were confronted around the turn of the 19th century was the unstable currency system, which took on crisis proportions in the eyes of the administrators. Both Spanish and American administrators attempted to deal with the situation, using different strategies reflecting the different constraints and opportunities of the two colonial powers.

There are economic reasons for the close connection between a national currency and strict boundaries and border controls. By maintaining these boundaries and imposing restrictions on convertibility, governments can control the amount of money in circulation, isolate the price matrix of the domestic economy from prices obtaining elsewhere and rationalize the tax system (Crump 1981:166).

Two problems stood out in particular, both having to do with control of the borders. The first was that the Philippines had a silver-based currency system and that the country was thus affected by the gradual worldwide decline in the value of silver currencies in terms of gold. The second problem was the seemingly uncontrollable flow of foreign silver coins across the colony's boundaries, causing continuously fluctuating exchange rates between the currencies in use.

Spanish officials had the feeling that they were not in control of the situation, because a foreign currency, the Mexican silver dollar, had invaded the economy of the islands and flowed seemingly uncontrollably across the borders. Furthermore, foreign merchants dominated the export and import trade, Chinese traders played a prominent role in domestic trade, tax collection was weak and political rebellion was smouldering among the Filipino populace. During the 1890s the Spanish government introduced governmental reforms to impose controls on the economy. Although these policies were a serious effort to ameliorate the stagnant situation, they were not very effective as they were quickly overtaken by the course of political events.

Silver currencies in Asia

From about 1877 till 1903 the Philippine islands were part of a larger monetary world dominated by silver currencies, which also encompassed the Chinese coastal areas and parts of its hinterland, the British colony Hong Kong, French Indochina, Singapore and the Straits Settlements, British Borneo and Labuan, and the islands of Sumatra and Borneo of the Netherlands Indies. In fact this whole region formed a *de facto* monetary union; the feeble attempts to establish border controls were largely ineffective. Although Asia produces

hardly any silver itself, its monetary systems were all based on the use of silver coins. This silver had been supplied from the Americas on a large scale, ever since the European states had established military and trade links between the Old World and the New World. Even China, with hardly any silver in its own mines, had a monetary system based on silver.

This large area of Asia had become an export-oriented cash-crop region, supplying agricultural commodities to Europe and the United States of America. Western trading houses had offices in the main ports and conducted a lively trade in import goods and export products. Western banks had offices in the main port cities along the Chinese coast and in other capitals as well, primarily as exchange banks. Within this region there was a significant movement of people, money and goods. Chinese migrants from the southern provinces of China moved to Southeast Asia, either as sojourners or as labourers. By the early 1900s the number of Chinese in Southeast Asia was estimated at close to three million.

The trading of goods, both with the rest of the world and within the region, was based on an elaborate system of Western merchant firms, Western banks, Chinese merchant firms and native banks, shipping companies and insurance firms. In this silver currency area, money could flow more or less freely from one country to another, either in the form of cash shipped from one point to another by couriers, or in the form of bills of exchange and money orders, sent from one bank to another. Much of this flow was intended as payment for goods or to settle accounts, but there was also a flow of money from one country to another to fill up currency deficits.

The Asian silver currencies can be considered as commodity money, whereby the value of the coin was determined by its intrinsic metallic value. The coins circulating in the East Asian and Southeast Asian regions during the second half of the 19th century had very similar silver contents, differing only slightly from the Mexican standard. These coins were all called *dollar*, a corruption of the Austrian word *thaler*, after the Joachimsthal valley, where Austrian silver was mined for the production of the famous Maria Theresa Thalers. The oldest silver coins circulating widely in Asia were Spanish-American coins, minted in Mexico during the 17th and 18th centuries. These coins, known as *dos mundos*, *columnarias* or pillar dollars, or pieces-of-eight after the figure '8' imprinted on the coins, had a high degree of fineness. These dollars were minted in a large circulation – almost half a billion were coined – and were exported all over the world, including Asia; they were accepted as legal tender in many markets. After Mexico had freed itself from Spanish rule in 1821, silver coins having the same silver content as their predecessors were struck at the mint, but with the legends 'Republica Mexicana' and 'Libertad'. These Mexican dollars were minted in even larger numbers (about 1,466 million were produced between 1821 and 1903) and acquired a

large circulation. They entered the Philippines in the 1820s, China probably around the same time (Legarda 1976:163), and by 1870 the coin was current not only in both American continents, in the West Indies, in the islands of the Pacific and Japan, but also throughout the greater part of Asia, from the Arctic shores to the tropics (Andrew 1904). The principal cause for this phenomenal success was the superior fineness of its silver, its uniformity and reliability during the many decades of its existence. The Mexican dollar attained its widest circulation in China, where it was estimated that 400 to 500 million dollars were in circulation in the early 20th century (Andrew 1904; Perez 1954; Ganzon de Legarda 1976).

The Mexican silver peso, minted from 1824-1909, circulated widely in Asia and became the monetary standard for most of the trading centres in the western Pacific. The design shows on the reverse a standing eagle and on the obverse the liberty cap with rays. The coin portrayed here shows a Chinese chop mark, certifying its authenticity among Chinese traders.

Between the 1860s and 1903 a number of other silver coins were minted and brought into circulation in Asia with the aim of supplanting the Mexican dollar. Western countries striving to extend their sphere of influence in Asia tried to achieve this by bringing their own trade dollars into circulation. Some of these coins were minted in large numbers and acquired a wide circulation in some of the port areas along the Chinese coast, particularly the Japanese yen, the French piastre de commerce and the British dollar. In Hong Kong the Mexican dollar, the British dollar and the Indian rupee were all legal tender. From the mid-1870s until the end of the 19th century this extensive silver region in Asia felt the negative effects of the worldwide decline in the value of silver, measured in terms of gold. This decline resulted from a massive

move towards the gold standard in several Western countries. For most of the period from the Napoleonic wars until the mid-1870s, most countries in the world had maintained a double standard of gold and silver, based on a relatively steady exchange value between gold and silver at the ratio of 15 or 16 to 1, meaning that one grain of gold was worth 15 or 16 grains of silver. This more or less stable exchange rate allowed governments to fix a legal ratio and to have both gold and silver coins in circulation, at least for a certain period of time (Laughlin 1968:60).

However, during the 1860s some of the Western commercial nations expressed a preference for gold as the most stable of the two precious metals. A new philosophy came to dominate monetary theory, the gold standard, a system of state money in which the value of the currency is determined by the state in terms of gold, guaranteed by the gold reserves in the state treasury, while the standard coin is a token coin with a lower metallic gold, silver or copper content, and a large part of the money in circulation consists of paper money. Under the gold standard the currency has ceased to be commodity money, the value is no longer in the coin itself, but is guaranteed by the state. Great Britain had adopted the gold standard earlier in the 19th century. Germany adopted the system in 1873, and several other European countries followed. These countries purchased large amounts of gold on the world market, demonetized their silver currency and started to sell their silver bullion on the open market (Laughlin 1968:92-105). As a result the price

Figure 1. Average price of silver in London in pence per ounce, 1872-1910

Sources: King 1987, I:274 (Table 8.2), 308 (Table 9.3), 401 (Table 12.1), 454 (Table 13.1), King 1988, II:42 (Table 1.3).

of silver in gold terms started to go down, and this downward trend continued until the end of the century (see Figure 1). Between 1878 and 1900 the silver coins in Asia were worth less and less in terms of the gold-based British pound sterling or the United States dollar. There was a growing gap between the Western world using the gold standard and Asia remaining on depreciating silver.

This system of competing silver currencies had both advantages and disadvantages for Asian inhabitants and trading communities. One obvious advantage was that these coins could easily cross national frontiers, without cumbersome exchange operations. Large ports with extensive surrounding agricultural hinterlands, even when controlled by other political powers, had a common currency as a basis for commercial integration. In monsoon Asia, the seasonal rhythms of production and trade demanded a high degree of flexibility in the provision of money, and coins that could be physically transported between areas and across borders contributed to such flexibility. At the same time, this feature shows the limitations of a system of metallic money. When everybody expects the silver content of the coin to be equal to its intrinsic value, money substitutes are not easily accepted. The system does not allow the use of paper money on a significant scale. In Asia the big commercial banks issued bank notes, which circulated among their clients in the business community. Cheques and bills of exchange could circulate among merchants; that is, they were used on a small scale and in limited circles. The name and the reputation of the commercial institutions guaranteed that this paper would ultimately be redeemed. But the system had no room for government issue of paper money on a larger scale. This means that a system based on metallic money is inherently inflexible. Because the cost of producing metallic money is high, the amount of money in circulation cannot easily be adjusted to the seasonal fluctuation of money (Conant 1905, II:128).

Another disadvantage was that large amounts of silver money could suddenly flow out of or into the country, disturbing prices and causing economic problems. These flows could be caused by political events elsewhere, such as war in China, or by economic events such as harvest failure, necessitating large-scale imports of rice to be paid with silver money.

There were practical problems as well. Large payments required the transportation of heavy loads of silver coins from one place to another, with the necessary costs of packing, shipping, handling, brokerage and insurance. These costs, however, were not prohibitive. It was estimated that the total expense of shipping coins from Manila to Hong Kong did not exceed half of one per cent of the total amount (Kemmerer 1916:352).

Another source of transaction costs was the exchange of money. In multiple currency systems coins constantly had to be converted into each other,

requiring the mediation of large numbers of money changers. Converting coins was an elaborate ritual, as the money changers had to weigh the coins and test their purity.

The decline in the gold value of silver was another cause of difficulties. Around 1900 many people in the business communities of Asia were convinced that the decline of silver actually was an advantage, as it made exports from Asia cheaper and therefore increased their volume. Importers, on the other hand, feared that prices of import goods from gold-based countries would increase. Early on, the American economist and banker Conant (1905) expressed doubts about this relationship. Later research has shown that the correlation does not hold (Van der Eng 1999:75-8). The other prediction, that investors from gold-based countries would shy away from investing their capital in silver-based countries, does not hold either, in retrospect. The declining silver price and exchange rate instability did not inhibit trade in countries with a silver standard during this period (Van der Eng 1999:81). The only problem for the business community seems to have been that exchange rate instability made business unpredictable.

The currency system in the Philippines from the 1850s till 1903

The transformation of the Philippine economy into an agricultural export economy was brought about by the financial stimulus of foreign merchant houses (Legarda 1999). These firms, owned by British, American and German entrepreneurs, were engaged in the purchase of agricultural produce (sugar, Manila hemp, tobacco) from Philippine producers, and in distributing imported goods. Middlemen, many of whom were Chinese, managed the marketing channels between Manila and the provinces. Between the 1860s and the 1880s the merchant houses had provided loans to middlemen and producers and extended liberal credit facilities to distributors of imported goods. After the economic depression of the mid-1880s, when the biggest American merchant firm suffered bad losses and collapsed, business transactions took place on a cash basis.

The Spanish colonial government relaxed trade regulations, allowing foreign ships to enter the harbour of Manila and later also other ports, and to take part in the shipment of imported goods and agricultural export produce, such as sugar, Manila hemp and tobacco. From about 1860 till the end of Spanish rule, the Philippines functioned as a cash-crop economy, tied to foreign markets and at the same time an outlet for Western consumer products. This growing commercial economy needed an enlarged monetary system and modern business practices.

In order to improve the inadequate monetary situation in the islands, the

Spanish colonial government established a mint in 1861 and started to produce coins. Initially the currency system was on the double standard of gold and silver. The mint in Manila produced gold coins of four, two and one peso, and silver coins of fractional value. Between 1861 and 1885 the mint produced gold coins at a value of 18.5 million pesos, and silver coins at a value of 6.4 million pesos. Until 1876-1877 the exchange rate of gold and silver in the Philippines was stable. However, in 1876 the adoption of the gold standard in a number of countries made itself felt and the resulting decline in the international value of silver (in terms of gold) started to undermine the system of stable exchange.

Remarkably the Spanish government in the Philippines did not notice this phenomenon until it was too late. In 1876 the government issued a decree declaring that the circulation of Mexican dollars in the islands was legal and that the Philippine gold peso and the Mexican silver peso were at par. This opened the possibility for traders to exchange cheaper silver dollars for more expensive gold coins. As a result, traders imported large quantities of Mexican dollars and bought Philippine gold at the official parity rate. These gold coins were shipped out of the country and melted, a classic example of Gresham's law. In 1877 the disappearance of gold coins from the islands became noticeable and the government quickly tried to remedy the situation. A decree was issued, prohibiting the importation of Mexican silver coins, but stating that Mexican silver already in the country, and coined in 1877 or before, would continue to be accepted as legal tender in the country. However, the outflow of gold could not be stopped. In 1884 gold coins had entirely disappeared from circulation. The mint ceased production of gold coins. Close to 20 million gold pesos had been replaced by the same amount in Mexican silver dollars. The country was *de facto* no longer on a gold standard.

Although the 1877 prohibition of the importation of Mexican dollars was not strictly enforced, it did create a money scarcity in the Philippine islands. The effect was that silver coins in Manila had a higher value than the bullion content of the coins, in other words they had a 'scarcity value', so that in fact, as the American economist Kemmerer (1916:250-2) observed, the monetary system was not based on a pure silver standard, but on a fiduciary standard.

For most of the years between the 1870s and the early 1900s silver coins had a higher value in Manila than in Hong Kong. The Dutch civil servant Wiselius (1876), who travelled in the Philippine islands in 1875, mentions this exchange difference between Hong Kong and Manila. Wiselius (1876:108) reports that he was advised in Hong Kong not to bring paper money or gold coins to Manila, but only silver, and he notes that this earned him a profit of 5 per cent in a few days. The difference in value between the two places was on the order of 8 to 12 per cent in the 1880s, and 25 per cent in 1894 (Foreman 1980:260). Bills of exchange on London were cheaper in Manila than in Hong

Kong, so that 'it was more advantageous to get exchange on London from Manila than from Hong Kong'.²

One effect of this artificial money scarcity in Manila, and consequently the higher value of the coins, was that Mexican dollars were smuggled from Hong Kong to the Philippine islands. Foreman (1980:260) estimates that in 1887 the clandestine import of Mexican dollars averaged 150,000 pesos per month. And Harden writes:

The smuggling of silver into the islands was a recognized industry. It was carried on largely by the rich 'mestizos', or Chinese half-castes. There was a regular system for the bringing in of these coins, which would be shipped from Hong Kong in a special steamer and the cargo would be landed at some point north or south of Manila Bay. (Harden 1898:6.)

As the currency was inelastic, an outside money source had to function as reserve and overflow area. The Hong Kong–Amoy region could fulfil these functions for the Philippine islands, because both regions used the Mexican dollar as standard currency, and exchange was easy as there were numerous links between the Philippines and these port cities. The two countries formed, as it were, a set of communicating vessels, in which money could flow back and forth, in response to the demand for currency.

Figure 2 shows the semi-yearly fluctuations in the exchange rate on London and the average bullion value of the Mexican peso in gold terms, both quoted in terms of the number of English pence to the peso.³ In Manila the exchange rate on London is systematically higher than the bullion value of the Mexican dollar, and also higher than the exchange rate in Hong Kong, all measured in sterling terms. In Mexican silver terms, we have the reverse situation: exchange on London is cheaper in Manila than in Hong Kong, because the silver dollar is more valuable in Manila than in Hong Kong (Kemmerer 1916:250-1; Kemmerer 1905:23).

While the smuggling of Mexican dollars into the Philippine islands can be explained by the scarcity value of dollars (thus the higher value) in Manila, the opposite movement of money out of Manila seems to defy basic economic logic. If Mexican dollars were more valuable in Manila than on the coast of China, why would one bring these dollars back to the mainland? On several occasions large amounts of Mexican dollars were exported from the islands, back to mainland China. These large exports of Mexican dollars cannot be explained by sudden reversals in the exchange rate. As shown by

² Report, 1900:148; U.S. National Archives, War Department, Bureau of Insular Affairs, Record Collection 350, File 808–373:5.

³ These figures were compiled by the Chief of the Division of the Currency, the American economist Kemmerer, from the daily records of the Manila branch of the Hongkong and Shanghai Bank (Kemmerer 1905:23).

Figure 2. Semi-yearly variation in exchange rate and bullion value of the Mexican peso in Manila

Figure 2 and the figures quoted by Kemmerer (1905), the rate of exchange on London remained consistently higher than the bullion value of Mexican dollars over the years. The explanation often cited in contemporary reports is that events in China caused these outflows. In other words, while Mexican dollars remained at a premium in Manila business circles dealing with London, a stronger demand for Mexican dollars made itself felt from mainland China. This shows that the money markets were not integrated. Large in- and outflows of Mexican dollars made the monetary situation in the Philippines unstable.

From May to October 1895, Mexican currency was exported in large amounts (*Administración* 1895). The reason was probably that the Chinese government was in need of silver coins. China had just been defeated in the Sino-Japanese War (1894-1895), and it had been agreed at the Tokyo armistice negotiations in March 1895 that the Chinese government would pay a large war indemnity to Japan, amounting to 230 million taels, to be paid in sterling gold currency (Chesneaux, Bastid and Bergère 1976:285, 294). To purchase this money, the Chinese government apparently imported Mexican dollars from overseas.

From September to November 1897 about two million dollars were exported (Edwards 1900:10, quoting the manager of the Hongkong Bank). The reason for this export was probably the revolutionary upheaval in the Philippines, which made many Chinese merchants decide to temporarily return to Amoy, taking money with them.

The total amount of money circulating in the Philippine islands was relatively small for the size of the export economy. During the 1890s circulation was estimated at 30 to 35 million silver pesos, consisting of about 10 million Spanish-Filipino fractionary silver coins, about 20-25 million Mexican dollars, and about 2-3 million in bank notes issued by the Banco Español-Filipino (Cámara 1895; Foreman 1980:635; Kemmerer 1916:249-50). In 1897 the Spanish government imported 6 million Spanish-Filipino pesos, the so-called Alfonsinos. One Spanish author estimated the amount circulating in the provinces at not more than 12 million, so that most of the money must have circulated in Manila, part of which consisted of bank notes and cheques from British banks (Feced 1894:273).

The question arises to what extent the Filipino population was affected by the currency fluctuations. The answer is: not very much. Although international advocates of the gold standard argued that the decline in silver prices would cause domestic prices to rise, in fact not much of a price increase was noticeable during the 1890s. The price of textiles from Great Britain increased, but there was a significant import of textiles from China, which was on a silver standard. The overall conclusion is that the currency problem was primarily a problem for the Spanish community, and to a lesser degree for merchants in the import trade, who had problems with fluctuations in the exchange rate. The Filipino population was hardly affected by the international decline in the silver price.

Spanish views on currency problems in the islands

In the first half of the 1890s the Spanish community in the Philippines was alarmed by the steep decline of silver currency in gold terms, for instance in terms of the British pound sterling. The people hit hardest by the decline were Spanish civil servants, military and retired persons in the islands, who customarily sent part of their income to Spain, and retired civil servants and military living in Spain who received their pensions from the colony. The silver currency in which they were paid lost almost one half of its value in gold terms. Importers in the Philippines who purchased their goods in countries on the gold standard had to pay their letters of credit at a premium.

Exporters are believed to have benefited from the decline of silver, as they purchased their products in the Philippines with cheap silver, and received

payment in gold from countries on the gold standard, such as Great Britain and the United States. Foreign traders in Manila and the officials of foreign banks were in favour of the silver standard and of the use of Mexican dollars.

Spanish observers and commentators writing about the monetary situation did so primarily from the point of view of the Spanish community. They despised the fact that the islands were flooded with Mexican dollars, and they often attributed the decline in the silver price to the use of what they considered bad and fraudulent coins. They compared the situation unfavourably with that in Spain. The Spanish commentator and advisor Francisco Godinez wrote that purchasing one sterling pound would cost 10 Mexican silver coins in China, 8 silver coins in the Philippines and 5 equivalent silver coins of 25 grams in Spain (Godinez 1894a:9). They looked with suspicion at Chinese traders who brought Mexican dollars to the Philippines. Godinez (1894a:9) pointed out that the price difference between China and Manila of bills of exchange on Europe, on the order of 10 to 15 per cent, drew Mexican pesos to the islands, because a profit of this kind (to be made in less than eight days, the time needed to make the round trip from Hong Kong to Manila) presented a strong incentive which could not be resisted.

While most observers agreed that the currency situation in the Philippines was unfortunate, at least for the Spanish administration and for the Spanish community, opinions differed on how to remedy the situation. They agreed with the principle that the Mexican silver dollar, controlled by outside forces, had to be driven out of the Philippine economic system, and that the means to achieve this was to impose stricter border controls.

Three options for a fundamental currency reform were discussed: 1. introduction of a gold-based currency system; 2. use of the bimetallic currency of the Spanish motherland; 3. coinage of a silver coin especially for the Philippine islands (Godinez 1894a:14-21).

The first option was heavily discussed in the Spanish press. A number of authors were in favour of a switch to gold, in the form of a gold standard, in which the gold fund would be kept in the treasury, and the silver token coins would be supplemented with bank notes, to be issued by the Banco Español-Filipino. Others, like Godinez, rejected this solution. They thought that replacing the 35 million Mexican pesos circulating in the islands with gold coins would require over 17 million Spanish duros, and this would be an unbearable burden for the treasury of the colony.

The second solution, the use of the bimetallic (gold and silver) currency of Spain, was attractive in the eyes of many Spaniards both in the islands and in Madrid because it would create a monetary identity between the motherland and the colony, and promote economic integration between the two countries. Godinez (1894a, 1894b) strongly favoured this option. The third option was given less attention, because it was feared that the silver coins

from the islands would disappear from circulation and be exported to neighbouring countries.

In 1895 an advisory commission of the Ministry of Colonies in Madrid chose the first option, with the support of the Manila Chamber of Commerce. The plan was to drive out the Mexican dollar and to shift to a gold standard. The calculation was as follows. The total amount of silver in circulation was estimated at 35 million pesos, of which 10 million consisted of Spanish-Filipino fractionary coins, and 25 million of Mexican dollars. The fractionary coins would remain in circulation, augmented to 14 million. The amount of 21 million pesos would be replaced by gold pesos. As the circulating silver could be used to purchase part of the gold, the rest could be covered by a loan of 8 million pesos. This loan and the interest on it would be paid by imposing an extra duty of 5 per cent on imported goods. (*Cámara* 1895; Quioquiap 1895).

The plan was never carried out in its entirety, but the Spanish government undertook the first preparatory steps. In 1897 the government in Madrid ordered the minting of a Spanish-Filipino peso, bearing the bust of the young King Alfonso XIII. These 'Alfonsinos', each weighing 25 grams 0.900 fine, had a pure silver content of 347.175 grains, which was lower than that of the Mexican peso (*Ganzon de Legarda* 1976:44). More than six million of these coins were minted and shipped to the islands, but these well-designed coins did not succeed in driving out the Mexican dollars. The lower silver content and the small number were not sufficient to replace the Mexican silver in circulation (*Ganzon de Legarda* 1976:44-5).

The Spanish-Philippine silver peso, minted in Madrid in 1897 for use in the Philippines, bore the bust of the young Spanish king Alfonso XIII, and was therefore popularly known as 'Alfonsino'.

In 1896 the Philippine Revolution started, coinciding with the revolution in Cuba, and soon the Spanish government was confronted with skyrocketing expenses for war operations, which precluded any further reforms. Between October 1896 and June 1897 the costs of the insurrection amounted to more than 38 million pesos (*Gastos* 1897).

In theory the government could have chosen another approach to introduce the gold standard. Replacing silver with actual gold currency, or purchasing full gold coverage were not the only ways to shift to such a system. Another strategy would have been to start with the existing silver-based system and to turn the silver coins into token coins with a higher value under a gold-based system. Giving the silver coins a higher fiduciary value could be achieved by limiting the supply of silver coins, by suspending the free coinage of silver and prohibiting the importation of silver. The effect would be to make the coins scarce and to disassociate the value of the metal as a commodity from the value of the coin (Casasus 1904). This strategy was successfully followed in India, Siam and the Straits Settlements. The strategy could have been applied in the Philippines, as the silver currency already had a higher value than the bullion content warranted. British economic historian Frank King (1988:217) suggests that the Spanish authorities in the Philippines were in fact 'attempting the equivalent of the Indian "closing" of the mints to free coinage'. But he adds:

Unfortunately, they put these import restrictions into effect before they were in a position to provide the islands with a specifically minted coin of their own, although they did contract with the Hongkong Bank for the import of silver for this purpose.

American administrators and currency problems in the islands

When the Americans occupied the Philippine islands in 1898 and 1899, they were confronted with a chaotic and confusing monetary system, with a variety of silver coins in circulation. To ease the monetary situation, in 1898 the American administration allowed local banks to freely import Mexican dollars. With this decision the Philippines passed from the fiduciary coin standard to a silver standard, with the Mexican dollar as the unit of value.

The monetary situation during the first few years of American rule was complicated by the fact that a silver and a gold system coexisted side by side. The American administration brought large amounts of American dollars into the Philippine islands, as payment for army and navy personnel and for government expenditures. The effect was that two kinds of 'dollars' circulated side by side, yet the American dollar was on a gold standard and the

Mexican dollar on a silver standard. Although the American dollar was made of silver and contained less silver than the Mexican dollar, in the United States, where it was legal tender, the American dollar had twice the value of the Mexican, because it could be exchanged at par with the gold-based currency. However, the one-to-two rate was not automatically maintained outside US territory. There, it remained to be seen what price the market would assign to American dollars. The American administration in the islands tried to maintain a fixed exchange rate between the two currencies, at the rate of one American dollar to two Mexican dollars, or the equivalent in local Spanish-Filipino fractional currency. They negotiated with the foreign banks in an attempt to freeze the exchange rate via an agreement. However, to the amazement of the Americans, the exchange rate could not be fixed, and fluctuated heavily between 1.80 and 2.66 Mexican dollars to one American dollar.

The cause of this fluctuation was that the demand for Mexican dollars internationally fluctuated widely. In 1899 the American military administration had granted permission to the two British banks to import Mexican silver dollars legally in an unlimited amount. It is estimated that between August 1898 and August 1900 the two banks imported about 12 million Mexican pesos into the islands. Between August and November 1900, at least three million Mexican dollars and probably several millions more, disappeared from circulation in the islands and were apparently exported to China (*Report* 1901). This outflow was caused by a large demand for Mexican dollars in northern China, where Western military forces were carrying out military operations around Beijing, with the purpose of crushing the Boxer rebellion. The outflow of Mexican dollars from the Philippines was so large that Manila was reported to be devoid of currency.

American officials found to their chagrin that most of the American currency which Americans spent in the Philippine islands disappeared from circulation. Only a small amount returned to the treasuries of the American administration. Between August 1898 and June 1901, almost 24 million American dollars had been paid out to the troops, and very little had returned to the American government.⁴

An exceptionally large inflow of about 20 million Mexican dollars took place in 1902-1903. The Chinese government required gold-based currency to settle indemnity obligations to Western states, and came to the Philippine market with its Mexican silver to purchase American dollars, which had been brought into circulation through payments to army and navy personnel. As a result of this silver inflow, the exchange rate between the American and the

⁴ Memorandum, U.S. National Archives, War Department, Bureau of Insular Affairs, Record Group 350, File 808-373:16.

Mexican dollar went up to 2.60. As the American Collector of Customs reported in 1904:

the volume of Mexican silver became so great in Manila that the banks gave notice that they would no longer receive it on deposit from their customers, and for a time it was necessary to store the same under counters and in out-of-the-way places in boxes and sacks about the business houses, much in the same manner as a merchant would store salt or nails.⁵

Between March and November 1903 more than 15 million Mexican dollars were exported from the islands. Several causes were mentioned at the time. One of the factors was that the government of Siam was changing its monetary system from silver to gold, and it was expected that Mexican dollars in the country would be redeemed at a higher price than elsewhere, and that the importation of coins would soon be forbidden. This situation brought traders to hurriedly import Mexican dollars into Siam. A similar situation existed in the Straits Settlements, where the British colonial government was attempting to move from a silver basis to the gold standard, and it was also expected that the price of Mexican dollars would rise after a law prohibiting the further importation of these coins. A second factor was that at the time the anticipation of a Russian-Japanese war increased the demand for Mexican dollars in Manchuria. A third factor was the need for large rice imports from Indochina, as the rice harvest had failed that year in the Philippines, due to excessive drought.

The export of such a large amount of money did not create a shortage of currency at the time, as the American administration had just started introducing the new Philippine currency. In fact, the outflow of Mexican dollars facilitated the shift to a gold standard.⁶

American administrators and the British banks

During its first years the American administration in the Philippines clashed with the British commercial banks in the islands, over payment problems and currency management. In 1898 there were four banks in the islands, two Spanish and two British. One of the Spanish banks, the Banco Español-Filipino (established in 1852), had the right to issue bank notes, of which about 2.4 million were in circulation. The other one, the Monte de Piedad (estab-

⁵ Memorandum, U.S. National Archives, BIA, RG 350, File 808-373:14a.

⁶ Memorandum, National Archives, War Department, Bureau of Insular Affairs, Record Group 350, File 808-373:48-9, quoting from the Report made by the Secretary of War, November 1904, House Document No.2.

lished in 1882), was a small savings and loan bank. The two British banks, the Hongkong and Shanghai Banking Corporation (branch opened in 1876) and the Chartered Bank of India, Australia and China (branch in 1873), were exchange banks, financing trade in import and export products and handling bills of exchange on foreign countries. The Hongkong Bank had its head office in Hong Kong, the Chartered Bank in Shanghai.

When the Americans occupied Manila in August 1898 and the rest of the country in 1899, the American commanders experienced payment problems. The Americans had brought US dollars to a silver country, and faced uncertain exchange rates between their gold-based money and the Mexican and local silver coins. On 19 August 1898 the two British banks and the Spanish-Filipino bank wrote a letter to the American commanding officer, stating that:

while we are anxious to give the soldiers and your Government every assistance by being in a position to quote an exchange of not worse than \$2 Mexican for \$1 gold, we shall be quite unable to preserve this basis of exchange should there be any scarcity.

In view of this the banks requested the freedom to import Mexican dollars duty-free. If that request were to be granted, 'we agree to maintain a rate of exchange of not less than two Mexican dollars for one gold to the extent of our imports of Mexican dollars' (*Report* 1900:101).

An agreement was concluded between the American administration and the banks, whereby it was understood that the two banks would assist the administration in maintaining the exchange rate of two to one between the peso and the American dollar, and that the banks were allowed to import Mexican dollars legally to an unlimited amount. The banks would supply Mexican dollars to the troops for 'gold', and would import Mexican dollars equal to the amount of gold purchased.

However, the agreement failed to bring the desired stability in the exchange rate. In 1900 the gold price of silver rose some 12 per cent, and in addition the Mexican dollar rose as much as 8 per cent compared to the market in mainland China. The latter was caused by the increased demand in Shanghai for silver to pay for the military and related expenses arising from the Boxer rebellion. The American authorities noted that between August and November 1900 the banks exported more than three million Mexican pesos to China, and that private speculators also exported money. In November 1900 the government imposed a custom tax of 10 per cent on all Mexican silver exported (*Report* 1900:106-7).

There were more irritations. In 1899 the two British banks had lobbied with the American government to be designated as official depositories of US treasury funds in the islands. These requests were granted and in August 1899 the two banks were appointed as official depositories of American government

funds. However, the banks only accepted deposits from the government, not from individuals. An American soldier wishing to deposit his pay with the bank had to sell his US currency to the bank in exchange for local or silver currency. And if he wanted to send money back home, he had to purchase American dollars from the bank, and for this the banks charged a commission.

In May 1899 the chief paymaster of the army wrote to headquarters:

The two English banks seem to be in collusion, and charge exorbitantly for all business transactions over their counters. When an officer or enlisted man goes to deposit his gold with them it is credited to his account in silver, at the current rate – for this is a silver country – and if he wants gold for any purpose they never charge him less than 5 per cent for it. I have noticed that when pay day approaches, the banks put down the rate for gold, so that they can make a greater profit from the soldiers. (Edwards 1900:8.)

From late 1899 onward, American officials noticed that American money disbursed in the islands did not return to the treasury, but disappeared from circulation. They concluded:

The banks of the country buy up all the gold which it is possible to obtain at the lowest exchange rates, which in fact they fix, and ship it out of the country, and hence the gold introduced by the United States seeks a foreign market (Edwards 1900:6).

The Philippine Commission wrote in its report for the fiscal year 1899-1900:

the banks have never done anything, so far as we are able to discover, to fulfill the guaranty to maintain the ratio of at least two to one as between American and Mexican money, made on August 19, 1898. [...] It is the opinion of the Commission that the banks have not cooperated to the extent that they legally and morally ought to have don. (*Report* 1900:106.)

In the second half of 1900 a fierce exchange of arguments took place. On 3 August General MacArthur (the father of the Pacific War hero) reported from Manila that the exchange rate of the American dollar was dropping rapidly:

Remote cause of fluctuations is Chinese war, which is made pretext by local banks for profitable speculation in United States currency. As a temporary restraint on downward movement have ordered United States currency tendered in payment of customs to be received as heretofore at the rate of two for one. (Edwards 1900: 45.)

The Secretary of the Treasury in Washington, L.J. Gage, responded in strong language on 10 August:

General MacArthur seems to think that the higher price of Mexican dollars at the bank is due to the perversity and greed of the bank, but it finds its excuse in the disturbance in the movement of money caused by the Chinese troubles. I am more

inclined to believe that the banks are giving no new exhibition of sordidness, but that they themselves are the necessary victims of the unfavourable influences occasioned by the Chinese war. They are obliged to adjust themselves and their actions to the influence of movements they can not control, and I do not see why General MacArthur is not subject to the same rule of commercial necessity. (Edwards 1900:46-7.)

The economic rationality of the banks' actions was explained clearly by representatives of the British banks in Manila, in October 1900. They argued that they had made arrangements to open gold accounts with American officers, but that these accounts did not function properly. The paymaster-general of the American army explained this as follows:

The objection the bank makes to opening such accounts with individuals and others is that they can not employ gold so deposited in their business, but are obliged to store and hold it until it is withdrawn by the parties depositing. Thus the bank is obliged to run a separate branch at considerable expense and trouble, from which they can derive no profit. (Edwards 1900:63.)

The agent of the Chartered Bank in Washington, G. Bruce-Webster, wrote in a memorandum to the War Department in October 1900:

Much has been said and written against the action of the banks in Manila, in converting the gold coin brought to it into local Philippine currency. It has not been understood seemingly that the legal tender in the islands has not been changed by the transfer of ownership and that so far as the banks are concerned and others interested in large money transactions, the United States money cannot legally be tendered by them in settlement of accounts, and must, therefore, be treated as bullion and be liable to fluctuating local prices as such. For this reason, it is an error to think that the local price of U.S. currency indicates or affects its popularity measured in sentiment, whereas it merely expresses its utility, measured in the local standard of value, the peso.⁷

In short, the Americans found that in an Asian country US currency could not be handled at par, since it was worth less than at home. They also found that Asian legal tender silver coins were subject to the laws of supply and demand, and that their value fluctuated not only according to market forces, but also to the vagaries of political developments in China and other Asian countries.

In spite of the fact that liberal circles in Washington expressed sympathy for the point of view of the private banks, the Philippine Commission in Manila took steps to regulate the banks. Between November 1900 and August 1901, the Commission imposed a tax of 10 per cent on the export of Mexican dollars from the Philippine islands. The Commission regarded the banks' business practice of not accepting private deposits of American dol-

⁷ National Archives, War Department, Bureau of Insular Affairs, RG 350, File 808-45:6-7.

lars 'as a discrimination against money of the United States', and passed an ordinance in November 1900 requiring the banks to accept deposits both in the currency of the United States and in Mexican or local currency, and to repay such deposits with cheques or otherwise in the kind of money in which they were made, that is silver for silver and gold for gold. Although representatives of the two British banks lobbied with politicians to change the policy, the ordinance remained in force until the adoption of the gold standard. This measure stabilized the exchange rate in 1901 and 1902. In 1902 two American banks opened branches in Manila, and the government transferred a large part of its funds to these new banks. In subsequent years the British banks were subjected to closer control than they were used to in Hong Kong.

Views of the foreign business community in Manila on currency reforms

The community of foreign traders and bankers in Manila strongly favoured the silver-based currency system rather than a gold-based one. That became clear during the hearings which the Philippine Commission, the provisional American governing board of the islands, held with prominent persons in the new colony in 1899. Almost all of the foreign business people, including a Spanish banker, expressed a strong preference for the continuation of the silver standard and rejected the idea of a shift to the gold standard. They often used strong language. When asked about his opinion on a shift to a gold basis, British businessman John T. McCleod answered: 'I think it would be a great mistake' (*Report* 1900:306). The British trader Barnes stated: 'this is a producing country, and I believe the silver basis is the best' (*Report* 1900: 185). The director of the Banco Español-Filipino, the Spaniard Balbas, said of a possible switch to the gold dollar: 'Well, it would be disastrous to the country, I think' (*Report* 1900:155). Of the eight foreign businessmen interviewed by the Commission, seven were in favour of retaining the silver-based system.

An important domestic consideration for most of these experts was that the switch would affect prices. They thought that the silver dollar would be replaced straight away by a gold dollar (having twice the value of the silver one), and that the indigenous inhabitants would continue to ask full payment in dollars, regardless of the official value, thereby raising prices. An additional argument was that gold dollars would be 'too big' for day-to-day transactions, and that gold currency would therefore circulate much more slowly than silver coins. Most of the experts expressed the fear that wages and payments for agricultural products would go up, and that Philippine export products would no longer be competitive on the world market. The businessmen agreed that it would be advisable to replace the Mexican dollar with an American-Filipino peso of the same value.

The almost unanimous preference of the business community for a silver currency is remarkable, considering the fact that the Manila Chamber of Commerce, consisting of the same people, had advised the Spanish government in 1894 to shift to a gold-based currency and even to impose extra levies on imports in order to finance this reform (*Cámara* 1895). In his interview with the Philippine Commission McCleod stated that he had been a member of the 1894 advisory commission. The most probable explanation for this change of heart is that in 1894 the Chamber of Commerce formulated a public standpoint, to a large extent conforming to Spanish interests and wishes, and that in 1899 individual businessmen expressed their personal opinions.

The only expert interviewed by the Commission who was in favour of a gold-based currency system was the Filipino businessman Benito Legarda, who stated: 'The opinion of the majority of Filipinos is that we should have a gold basis' (*Report* 1900:176). Legarda did not expect a doubling of prices, because, as he said: 'people would simply pay one half of what they pay now in dollars'.

In 1902 the New York agent of the Hongkong and Shanghai Bank, British businessman A.M. Townsend, was heard before a committee of the United States Senate in Washington. In a written statement and in the interview A.M. Townsend took a strong stand against the introduction of the American dollar or a gold-based system in the Philippines, and expressed his preference for an American-coined silver dollar as the basis for the currency in the islands.⁸ He considered a gold-based currency as unsuitable for the islands, because it was too expensive, and it could be expected that gold would leave the country. The advantage of a silver dollar in his opinion was that it would facilitate commercial links with surrounding countries, especially China, which were on a silver basis. Silver currency can flow back and forth across the boundaries, to pay the debts abroad when the balance of payments is against the country, and can come back when the balance is favourable.

The introduction of a gold-based Philippine peso in 1903

In spite of the predominantly negative view of the foreign business community in Manila, the Americans pushed ahead with their plans to provide the Philippines with the gold standard. The American economist and banker Charles Conant formulated a plan in 1901 (Conant 1901), which subsequently formed the basis of an act of the American Congress, called the Philippine

⁸ Statement re Philippine Currency by A.M. Townsend, submitted to the Subcommittee of the Committee on the Philippines of the U.S. Senate, National Archives, BIA, RG 350, File 808-53.

Coinage Act, passed in February 1903. The plan entailed the introduction of a gold standard with a theoretical gold peso, consisting of 12.9 grains of gold .900 fine, as the unit of value. This unit was equivalent to one half of an American dollar. For actual circulation, the theoretical gold peso would be represented by a silver peso, containing 416 grains of silver .900 fine, the same silver content as the Mexican dollar. The government installed a gold reserve, called the Gold Exchange Fund, which had the function of maintaining the gold value of the currency in transactions abroad. The government would issue paper money, called silver certificates, against which silver pesos of an equal value would be held in reserve. In this gold exchange system the silver coins were token coins, the value of which was higher than that of their silver content.

The new Philippine coins were introduced in July 1903, but initially they met with unexpected resistance. For many months Chinese merchants still preferred the Mexican peso, and the new Philippine peso, which had a higher fiduciary value than the Mexican dollar but the same bullion content, was accepted as merely equivalent to the old. The old money, which was less valuable in terms of gold, had the same purchasing power as the new. The banks used the new coins to purchase drafts on the Gold Exchange Fund, and with the foreign balances purchased Mexican dollars for importation into the islands. In this way the new currency was returned to the treasury as quickly as it was brought into circulation.

To change this situation, the American government in the Philippines enacted two laws. The first law, passed in October 1903, prohibited the im-

The U.S.-Philippine silver peso, minted in the USA, beginning in 1903, based on a design by the Filipino engraver and artist Melecio Figueroa. The design shows on the reverse the shield and stylized heraldic American eagle, and on the obverse a standing female figure in Philippine dress.

portation into the islands of Mexican dollars or any other foreign currency. The second law, passed in January 1904, announced that starting at the end of that year the use of old currency would be heavily taxed. These measures broke the resistance against the new currency; by 1905 the old currency had practically been eliminated from circulation and the gold standard was firmly established.

The new currency had hardly begun to circulate when new difficulties arose as a result of the rapid rise in the price of silver, starting in April 1905 and continuing into the second half of 1906. The bullion value of the peso became higher than the money value of the coin. The gold value of the new peso was officially fixed at 50 American dollar cents, but fluctuated in practice around 49.5 cents. The bullion par of the new Philippine peso was reached when the price of silver on the London market was 29 1/4 pence per ounce of silver, and the export of pesos became profitable when the price of sixty days forward silver reached 30 1/4 pence. In 1906 the silver price went even above this level. It became profitable to export the pesos to Hong Kong and to melt them.

It was also possible that the new pesos would be exported not as silver

Source: Kemmerer 1916:353-5

Figure 3. Exchange value and bullion value of the new Philippine peso in American dollar cents, between September 1904 and January 1908

bullion but as money. In Hong Kong, Shanghai, Tientsin, Peking and other Chinese cities, the circulating medium was composed of a great variety of coins, old and new Mexican dollars, old Hong Kong dollars, new British dollars, new Straits dollars – all at different rates. These dollars all commanded a premium of about 3 to 4 per cent in terms of sterling exchange. In Hong Kong the unit of account was the bank notes of the Hongkong Bank, redeemable in chopped dollars, that is dollars stamped with a mark to certify their authenticity. Philippine pesos had the same silver content as these other coins, and could easily be absorbed in circulation along the Chinese coast. The total expense of shipping coins from Manila to Hong Kong would be only about half of one per cent. As the premium was more than 3 per cent, the exporter would still make a profit. At one time it would be more profitable to export Philippine currency as bullion; at another as money.⁹

It was estimated that between one half and one million pesos was exported, all of it probably going to China. The head office of the Hongkong Bank at Hong Kong was reported to have held in its vaults at one time as much as 400,000 pesos (Kemmerer 1916:355). The government prohibited the export of the coins or the bullion obtained from melting them, by an act adopted in early 1906. However, it was difficult to control the borders, and there was constant danger that the coins would be smuggled out of the country.

The government therefore decided in July 1906 to recoin the money into coins with a smaller fine silver content. To be safe from silver price increases in the future, the government decided to drastically reduce the weight and the silver content of the new coins to a weight of 308.64 grains and a silver content of 246.912 grains. Between late 1906 and 1908, coins of the first issue were withdrawn from circulation and recoinced, and then brought back into circulation. The silver coinage of the first issue had been 32.7 million, and eventually 30 million coins were withdrawn from circulation and recoinced, leaving 2.7 million unaccounted for.

A national currency has to be controlled and protected by political and legal institutions. This is observable in the case of the new Philippine territorial currency. In 1910 the law prohibiting the export of silver coins was still valid in the Philippines. A Chinese merchant in the islands protested this prohibition and brought suit in the federal court of the United States against the Philippine government on the grounds that he was being deprived of his private property 'without due process of law', a kind of deprivation prohibited by the Constitution of the United States and the enabling act which set up the Philippine government. The merchant's silver peso coin was worth 8 cents more in Hong Kong than in Manila. However, the Philippine government's

⁹ Kemmerer, Memorandum 1905, National Archives, Bureau of Insular Affairs, RC 350, File 808-290.

prohibition deprived him not of his coins but of their value. The United States Supreme Court conceded the scarcity value of the coin in Hong Kong to be private property, but the Court held that 'due process of law' in this case meant the public purpose of establishing the exchange equivalent of a gold standard. The Philippine government's prohibition act was a matter of public policy and therefore the merchant's claim was rejected (*Ling Su Fan v. U.S.* 1910). This shows, in the words of economist John Commons, 'that the state as the supreme "pay community" (Knapp) establishes the means of payment by mere fiat' (Commons 1995).

Conclusion

This article started with Van Baal's proposition that the period between the 1880s and the 1920s was one of colonial state formation in Southeast Asia. Van Baal (1976) has shown that this proposition holds true for the Netherlands Indies during that period. In a more general way the proposition still has to be tested for all the other colonies and independent states in the region. There are indications that the proposition holds for the Philippines as well, although a thorough test has not yet been carried out.

The article deals with one specific aspect of colonial state formation, the introduction of a national and territorial currency in the Philippines, as part of a state formation process. Until the introduction of the new peso in 1903, the Philippines belonged to the world of silver currencies in Asia, in a period when the gold value of silver declined and occasionally fluctuated heavily. The Mexican silver dollar, or peso, circulating in most of Asia, was the standard coin. As an agrarian export economy the Philippines needed a flexible currency system, which could only be provided by money flows between the islands and the coastal areas of China. The Spanish government in the Philippines had prohibited the importation of Mexican dollars, but had not been able to control the smuggling of coins from China to the Philippines. The prohibition did make the dollars scarce, and as a result of this measure Mexican dollars were more valuable in Manila than in Hong Kong, thus effectively putting the Philippines not on a pure silver but on a fiduciary money standard.

When the Americans occupied the islands in 1898, they allowed the free importation of Mexican dollars, which eased the currency scarcity somewhat. The American army and government offices made their payments in the islands in American gold dollars, which were not legal tender, and thus subject to exchange fluctuations as a result of changing supply and international price movements. The American government attempted but failed to control these cross-border flows. The British banks and the Chinese merchants used

their connections with Hong Kong and Chinese port cities to ship large amounts of Mexican dollars in and out of the country.

In 1903 the American government introduced a new monetary system, based on gold, linked to the American dollar. A new Philippine peso was introduced, and measures were taken to drive out the Mexican dollars and local coins. To enforce the new system the government had to rely on legislation proclaiming the new currency as legal tender and prohibiting the use and importation of foreign coins. When the silver value of the new Philippine peso exceeded the money value of the coins, the government had to prohibit the export of the new coins and eventually had to undertake a massive program of recoinage to lower the silver content of the coins. These monetary reforms between 1903 and 1906 and attempts to control the borders were part of the state building policy of the American government in the Philippine islands.

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