

**ANNUAL REPORT**  
**OF THE**  
**GOVERNOR GENERAL**  
**OF THE PHILIPPINE ISLANDS**  
**1935**  
**COVERING THE PERIOD**  
**JANUARY 1 TO NOVEMBER 14**



**JANUARY 11, 1937.—Referred to the Committee on Insular Affairs  
and ordered to be printed**

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**UNITED STATES**  
**GOVERNMENT PRINTING OFFICE**  
**WASHINGTON : 1937**

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## MESSAGE FROM THE PRESIDENT

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*To the Congress of the United States:*

As required by section 21 of the act of Congress approved August 29, 1916, entitled "An act to declare the purpose of the people of the United States as to the future political status of the people of the Philippine Islands, and to provide a more autonomous government for those islands", I transmit herewith, for the information of the Congress, the report of the Governor General of the Philippine Islands covering the period from January 1, 1935, to November 14, 1935.

I concur in the recommendation of the Secretary of War that this report be printed as a Congressional document.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,  
*January 11, 1937.*



## LETTER OF TRANSMITTAL

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WAR DEPARTMENT,  
*Washington, January 5, 1937.*

The PRESIDENT,  
*The White House.*

DEAR MR. PRESIDENT: I enclose the annual report of the Governor General of the Philippine Islands covering the period from January 1, 1935, to November 14, 1935, together with drafts of messages for your signature transmitting it to the Congress as required by section 21 of the act of Congress approved August 29, 1916, entitled "An act to declare the purpose of the people of the United States as to the future political status of the people of the Philippine Islands, and to provide a more autonomous government for those islands."

This is the final report of the Governor General of the Philippine Islands. I believe that this report should be printed as it contains valuable and historical information, and I so recommend.

Respectfully yours,

HARRY H. WOODRING,  
*Secretary of War.*



# REPORT OF THE GOVERNOR GENERAL OF THE PHILIPPINE ISLANDS, JANUARY 1 TO NOVEM- BER 14, 1935

MANILA, *May 8, 1936.*

The SECRETARY OF WAR,  
*Washington, D. C.*

SIR: I have the honor to submit an annual report as Governor General of the Philippine Islands covering the period from January 1, 1935, to the termination of that office by operation of an act of Congress, on November 14, 1935.

The economic situation of the islands continued substantially as reported for the preceding 2 years. That is to say, the Philippines suffered relatively little from the effects of the world-wide depression. Unemployment was little, if any, greater than normal. Peace and order prevailed with one exception hereinafter discussed. The public health was good.

The outstanding event of the year was the transition from the form of government established by the Organic Act of 1916 to that effectuated by the Tydings-McDuffie Independence Act of 1934.

During the time this change was impending it was the chief concern of the administration to do everything possible to bring about the transfer in an orderly manner and to turn over the government in the best possible financial condition.

## CONSTITUTIONAL CHANGES

The constitutional convention, which was still in session at the end of 1934, finished its deliberations early in February and adopted the constitution on the 8th of that month. The document was taken to Washington by a delegation consisting of the president and four members of the constitutional convention and the president of the Philippine Senate. The text of the constitution had been sent by this office by radio to the Washington Government immediately upon its adoption and was receiving careful study by the administration during the time the delegation was en route. I was in Washington during this period and was glad to render such help as I was able to facilitate consideration. The constitution was submitted to the President by the delegation on March 18, 1935, and was approved on March 23. On this occasion the following public statement was issued at the White House and is quoted to indicate the spirit of cooperation which animated both parties:

I am happy to state that the constitution submitted to me on behalf of the Philippine constitutional convention for certification under the Tydings-McDuffie Independence Act conforms with the provisions of the act.

The members of the convention are congratulated on the satisfactory completion of a task so important and significant in the life of their people.

In the event of ratification of this constitution, the authority granted to the Commonwealth Government will permit exercise by the Filipino people of general control, subject only to a few important exceptions, of their local affairs.

During the period of the Commonwealth there will remain with the Government of the United States authority commensurate with and necessary for or appropriate to the ultimate responsibilities of sovereignty.

Animated solely by feelings of cordiality, sympathy, and loyalty, the people of the United States and the people of the Philippine Islands have been conducting together a great experiment, and during the period of the Commonwealth Government this experiment will continue until the ultimate withdrawal of United States sovereignty and the establishment of complete independence.

The certification to the United States Congress was as follows:

I have pleasure in informing the Congress that I have today certified to the Governor General of the Philippine Islands that the proposed constitution of the Philippines as adopted by the Philippine constitutional convention conforms substantially with the provisions of the act of Congress approved March 24, 1934 (U. S. Stat. L., vol. 48, pp. 456-465).

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, March 23, 1935.

The act of Congress to which reference is made in the foregoing certification specifies the ensuing steps as follows:

SEC. 4. After the President of the United States has certified that the constitution conforms with the provisions of this Act, it shall be submitted to the people of the Philippine Islands for their ratification or rejection at an election to be held within four months after the date of such certification, on a date to be fixed by the Philippine Legislature, at which election the qualified voters of the Philippine Islands shall have an opportunity to vote directly for or against the proposed constitution and ordinances appended thereto. Such election shall be held in such manner as may be prescribed by the Philippine Legislature, to which the return of the election shall be made. The Philippine Legislature shall by law provide for the canvassing of the return and shall certify the result to the Governor General of the Philippine Islands, together with a statement of the votes cast, and a copy of said constitution and ordinances. If a majority of the votes cast shall be for the constitution, such vote shall be deemed an expression of the will of the people of the Philippine Islands in favor of Philippine independence, and the Governor General shall, within thirty days after receipt of the certification from the Philippine Legislature, issue a proclamation for the election of officers of the government of the Commonwealth of the Philippine Islands provided for in the constitution. The election shall take place not earlier than three months nor later than six months after the proclamation by the Governor General ordering such election. When the election of the officers provided for under the constitution has been held and the results determined, the Governor General of the Philippine Islands shall certify the results of the election to the President of the United States, who shall thereupon issue a proclamation announcing the results of the election, and upon the issuance of such proclamation by the President the existing Philippine Government shall terminate and the new government shall enter upon its rights, privileges, powers, and duties, as provided under the constitution. The present government of the Philippine Islands shall provide for the orderly transfer of the functions of government.

If a majority of the votes cast are against the constitution, the existing government of the Philippine Islands shall continue without regard to the provisions of this Act.

As I have stated, the Honorable Manuel L. Quezon, president of the Philippine Senate, was in Washington when the President approved the constitution. At that time he invited a number of persons to attend the inauguration of the Commonwealth as guests of the Philippine Government. The guests included the Vice President of the United States, the Secretary of War, the Speaker of the House of Representatives, some Members of Congress, and representatives of the press. November 15, 1935, was the date set for the inauguration of the Commonwealth of the Philippines. This was the latest



date which permitted congressional visitors to be present at the inauguration and return to Washington in time for the opening of Congress. The steps required in the above quoted section of the Independence Act were accelerated accordingly.

This program went forward as planned, aided by the administration in calling special sessions of the legislature and taking all other necessary action to avoid delay.

The inauguration of the Commonwealth was a memorable occasion. No untoward event marred the ceremonies leading up to and following the inauguration. The inauguration itself was marked by simplicity, dignity, and the presence of a large group of distinguished visitors.

The Honorable George H. Dern, Secretary of War, was present as the representative of the President of the United States and promulgated the President's proclamation announcing the election of officers of the new government. This marked the moment at which the heretofore existing government of the Philippines ceased to exist and the new Commonwealth Government entered upon its duties and responsibilities.

In connection with the reading of the President's proclamation, the Secretary of War said, in part:

I need not trace the history of independence legislation. The Tydings-McDuffie Act, passed in 1934, and accepted by the Philippine Legislature, is the result of an earnest effort on the part of the Congress to meet the aims and aspirations of the Filipino people, so far as was consistent with harmonizing the various interests affected thereby. Its enactment is an expression of confidence by the Congress of the United States in the capacity of the Filipino people to carry out successfully the next and final steps in the program for the establishment of an independent Filipino nation.

The prescribed transition period of 10 years before complete independence becomes an accomplished fact seemed advisable and prudent in order to launch the Philippine Republic under the most favorable auspices. It provides adequate safeguards for the interests of both the American and the Filipino people. The problems that must be worked out in this period are vital, and must be given the most careful and thorough consideration.

President Roosevelt, in his message to the Congress on March 2, 1934, said:

"\* \* \* May I emphasize that while we desire to grant complete independence at the earliest proper moment, to effect this result without allowing sufficient time for necessary political and economic adjustments would be a definite injustice to the people of the Philippine Islands themselves little short of a denial of independence itself. \* \* \*

The Independence Act is a broad grant to the Filipino people of local government. The enlarged powers granted under this act reside essentially in the people. The Commonwealth Government is being organized in accordance with the provisions of your own constitution, which goes into effect today and which was formulated and drafted by delegates of your own selection. It is an enlightened, democratic document, and does great credit to the Filipino people. It contains a bill of rights expressing what the American people believe to be the basic principles of free government. Perhaps the greatest heritage that the United States has bequeathed to you is the bill of rights included in both the first and second organic acts of the Congress and carried over into your constitution.

You are about to witness the inauguration of the Chief Executive whom you have elected by popular vote; and all the agencies of local government will soon be functioning under the provisions of your constitution. Your President and Vice President, the members of your Supreme Court, and the other island officials heretofore appointed by the President of the United States, will take office under the provisions of your own constitution and the laws of your own National Assembly. Thus your local affairs pass to your own control, and you have the full responsibility of citizens of the Philippines, upon whose shoulders rests the mantle of government.

I may be pardoned an expression of pride and pleasure in the privilege of witnessing an event resulting from the cooperative efforts of two peoples situated on opposite sides of the globe, but laboring together to establish ultimately a new member of the family of independent nations. There is something unique and inspiring in the spectacle of two peoples voluntarily agreeing to dissolve the bands which unite them, and to go their separate ways; and yet that is the event to which we now eagerly look forward as the final consummation of the program for Philippine independence.

It is a source of satisfaction to the American people to know that the fiscal affairs of your government are at this time, perhaps, at the best level in its history. Your finances are in excellent condition. Income for the past year exceeded expenditures. There is but a small public debt. Your governmental structure is supported by a prosperous and increasing commerce and by a thriving industry, backed by agricultural, mineral, and forest resources adequate for the maintenance of a high standard of living for all the people.

During my present visit I have been astonished by the fertility of your soil, the diversity and abundance of your crops, the wealth of your mines, the vastness of your forests, the excellence of your harbors, and, greater than all of these, the industry and virtue of your people. With such resources, and with good government, you should succeed.

With the present change in your government, the office of Governor General is abolished. This exalted office has been filled by a long line of distinguished Americans, beginning with that illustrious statesman, William H. Taft, and ending with the able, efficient, and warm-hearted man who has served you during the past 2½ years, the Honorable Frank Murphy. In the discharge of his duties, Governor General Murphy has made a record of which his fellow citizens at home are justly proud, and I know that you people of the Philippines honor and love him. I have no doubt that it is a great satisfaction to you that he now becomes the first United States High Commissioner to the Philippines, and as such he will be the representative of American sovereignty and authority in your country.

While the American record in the Philippines is not ended, it is drawing to a close.

A complete record of the events connected with the inauguration and related information which has been compiled by the Philippine Government in an attractive 239-page volume entitled "Blue Book of the Inauguration of the Commonwealth of the Philippines" is available at the Bureau of Printing, Manila.

Just prior to the inauguration, two joint sessions of the Philippine Legislature were held; the first on November 12, 1935, to hear an address by the Honorable John Nance Garner, Vice President of the United States, and one by the Honorable Joseph W. Byrns, Speaker of the House of Representatives; and the other on November 14, 1935, to hear a last message from the Governor General. The addresses of the Vice President and the Speaker reflect the significance of a great historical occasion. They are quoted in full below, followed by the address of the Governor General, which briefly reviews the American régime in the Philippine Islands.

VICE PRESIDENT GARNER'S SPEECH AT THE JOINT SESSION OF THE PHILIPPINE LEGISLATURE, NOVEMBER 12, 1935

Mr. President: Through the accident of war some 35 years ago your beautiful islands came under the sovereignty of the United States.

Within 5 years of this acquisition my people made me a Member of the United States House of Representatives. During my first term in that body was formed the impression that our American sovereignty was of a temporary character. The discussions in those early days of whether they should be retained permanently or ultimately be given their independence caused keen interest in the expressions of opinion of our greater statesmen, and at a very early period there came from all the promise of ultimate independence.

This was followed by expressions of opinion of our great men in the Presidential chair and in our Congress that independence should be granted.



Today it is a pleasure to be with you because of your great happiness on this historic occasion, although, perhaps, the early years may prove a period of trial and tribulation, such as we had in our country.

The thought foremost in my mind is that Americans have fulfilled their promise—the word of the American Nation is good, no matter how great the sacrifice to make it good. It is a sacrifice to part with a wonderful country such as yours, populated by a kindly, industrious, and intelligent people.

I have a feeling of pride that for the first time in the world's history, at a great loss to itself, the American Nation has redeemed its promise.

In company with our distinguished Speaker Byrns, of the House of Representatives, one of the great coordinate branches of our Government, with 27 Congressmen and 17 United States Senators, and our wives, we have traveled approximately 10,000 miles and must travel 10,000 miles in return to celebrate two things.

Putting them in the order in which my mind dwells upon them, there is the redemption of a national promise that all right-thinking Americans will approve and that all self-governing nations of the earth will applaud.

As years went on in my congressional career fate finally placed me as Speaker of the great House of Representatives, and it was during my term of office that the first bill containing an offer of independence was passed.

And then, strange as events will sometimes order, as Vice President of the United States the pleasure came to me of witnessing for the second time as a presiding officer the final accepted offer of independence.

On both occasions the offer of independence was accompanied by conditions and obligations which should first be accepted by your people.

Amongst these was the perpetual preservation of human and property rights, which rights it had taken our ancestry many hundreds of years to secure. These rights were fought for upon battlefields and in debates and finally found themselves in written form in our American Constitution in what lawyers and even our school boys today know as our Bill of Rights.

Your new constitution was presented to President Roosevelt, examined by himself and his advisers, and we find that it contains these essentials of self-government:

1. No person shall be deprived of life, liberty, or property without due process of law.

2. Security against unreasonable search and seizure.

3. Religious liberty and its free exercise.

4. Freedom of speech, of the press, and the right of assembly and petition.

5. No involuntary servitude of any kind.

6. The privilege of the use of the writ of habeas corpus.

7. Due process of law in criminal offenses, the accused to be confronted with witnesses, and many other safeguards and protections for liberty, property, and orderly government.

It has been generally agreed by thinking men the world over that if liberty is to be preserved and the rights of property respected, these provisions are essential.

For some 34 years our public administrators in the islands, our soldiers who were here when the war was over, and our school teachers who came later and for long over a decade taught the blessings to be secured by liberty, education, and religious freedom, are now all covered in your constitution.

My friend, former Senator Hawes, a student of your country who has devoted years of his life toward promoting your aspirations for self-government, informs me that your people have paid all of its bills for education, bills for sanitation, the bills for public health, the bills for roads, and even the salaries of American administrators and their advisers, and that you enter upon your great experiment of freedom with probably the smallest per capita national debt of any nation.

He advises me that in the 35 years of American sovereignty, with the exception of \$3,000,000 provided for recuperation after the war, the entire cost of all civil administration has been provided by the revenues secured from the taxation of your own people.

Few nations have a record similar to this. The most of the world is not happy—it is in a state of much confusion and distress.

It speaks well for the character of your people and the temporary sovereignty of my people that an unequalled record of financial stability like this should exist.

Our trade relations have grown to such proportions that you have until recently ranked as our eighth best customer, and, through the laws passed

by our Congress, we have not only been your best customer, but practically your sole customer.

Trade relations of a beneficial character rest exclusively upon two things: the ability to sell, giving the ability to buy.

Our great President, Franklin D. Roosevelt, in sending the last independence bill to Congress, accompanied it with a recommendation that where there were inequalities in our trade relations, they should be adjusted by a Commission representing both peoples who could arrive at an equitable decision which would prove advantageous to our 120,000,000 people and to your 14,000,000 people.

And this I hope, after thoughtful consideration and investigation, will be worked out to the mutual advantage of both Nations.

May the new nation preserve the world's fine traditions of liberty and equality, a nation of Christian people, who by its careful and thoughtful consideration of all its people will prove an inspiration to the nations of the earth. Prosperity will not come to you without some trial and some sacrifice. Much will depend on the character of the men who administer your affairs.

You have sent to our country brilliant and able men as Commissioners to our House of Representatives. You have sent special commissions of studious, patriotic men whose eloquence and logic have impressed the American Congress.

Among these, as one of your Commissioners many years ago, I met the Honorable Manuel Quezon. He possessed individuality, activity, intellect, and courtesy rarely combined in one man. We became personal friends. I found him fair and vigorous, always patriotic, and it is a pleasure for me to know that in your recent election he was chosen as the first President of your new Commonwealth by decisive majorities.

It is a great responsibility. It will call for a high character of statesmanship. His term of office is limited to 6 years. He cannot succeed himself.

It would seem to me therefore to be the part of wisdom and patriotic thought for Filipinos to throw aside partisan and personal feeling and all unite in a coordinated support during these first trying years. Let all thoughtful men and women put aside ideas of change and surround him with loyal support from every quarter so that in the administration of his office he may pick the ablest advisers.

My thought goes back to the years in my country when Washington was its leader. At the birth of our Nation when there were not two parties all factions supported the one party and the one administration, our first Washington administration.

Why cannot this happen under my friend, your President-elect, Manuel Quezon?

There should be no quarrelling and discord or lack of harmony. You have in your constitution set a limitation upon his term, and during that time, in the fateful years of your first President, it seems to me that he should be given united support.

After this first administration there may be divisions. There is always honest disagreement in a republic such as you are forming, but let the first administration be united.

Our Presidents have sent to you as Governors General men of ability, of sympathetic interest in promoting your welfare. The last of these is among the best, Gov. Frank Murphy, who has won your confidence and esteem, has cooperated with your great leaders, Quezon and Osmeña, and received the applause of your people.

A consistent continued American policy of preparation and control, followed by what to me is of great historic significance, a redeemed national promise, with the well wishes of the nations of the earth, I came to this unusual historical spectacle with confidence in your future.

I shall watch your destiny with optimism and friendly interest.

You have the very best wishes of the people of the United States, and I am sure that prosperity will come, and with prosperity, happiness and national progress.

I thank you in behalf of each member of the congressional delegation for the invitation which brought us here and brought with us our wives, and I assure you that we are carrying back kindly feelings of confidence and interest.

Few people have had the privilege of witnessing the peaceful birth of a new nation that comes quietly into the world's sisterhood of states, with an orderly written government, with a well-chosen leader, with all promise for happiness.

We are impressed; we return home inspired, with another great forward step in world progress.

SPEAKER BYRNS' SPEECH AT THE JOINT SESSION OF THE PHILIPPINE LEGISLATURE,  
NOVEMBER 12, 1935

Mr. President, Mr. Speaker, and members of the Philippine Assembly: It is indeed a high honor to appear before you on this occasion in anticipation of the historic processes soon to be inaugurated as a preliminary to the birth of a new and independent nation. As a member of the party of United States Senators and Congressmen, who, with their wives and important members of the United States press, have come on your generous invitation from our homeland to extend our congratulations and cordial good will on this memorable occasion, I wish to join in the felicitations and good wishes so eloquently expressed by our able, distinguished, and much-beloved Vice President, the second ranking officer of our Government, and who speaks as the leader of our delegation. I join in his expression of pride that this historic event has been made possible by the generous action of our great Republic in voluntarily surrendering its right of sovereignty and the interests which go with it in order that the people of the Philippine Islands may enjoy that sense of national freedom and independence which we have enjoyed for nearly 150 years. So far as I know, it is the first time that a great people have achieved independence without the necessity of securing it at the point of the sword; and may I say, Mr. President, and to you, Mr. Speaker, that while my country has surrendered its sovereignty it never has and never will surrender its friendship and sympathetic interest in the Filipino people. No real republican form of government has ever existed as such for any great length of time which did not recognize the principles of democracy and the common good of the people as a whole. It is the practice of those fundamental ideals which has made our own country great and powerful and its people happy and contented during the past years.

May I say that it is for you gentlemen and other leaders in your nation to preserve and make lasting these principles so well expressed in the highly progressive constitution which you have approved. We feel certain that this will be done by the incoming administration, headed as it will be by your very able and devoted leader and President, Hon. Manuel Quezon. We look with confidence, therefore, to your development and "strike hands with you across the sea" in best wishes for your future endeavors along these lines.

In the House of Representatives we find that the following Congressmen and Senators in our party served in the same period that your President, Manuel Quezon, represented your country as the Philippine Commissioner in the House of Representatives: John N. Garner, Joseph T. Robinson, Matthew M. Neely, James F. Byrnes, Robert L. Doughton, Bertrand H. Snell, and Allen T. Treadway, all of whom have risen to places of influence and distinction in the Congress.

We found him to be a very able man, resourceful, considerate, and dependable. His contacts with these Members of Congress, a few of whom I have mentioned, I know have given him not only a theoretical but a very practical knowledge of the workings of the American system of government.

We have all come in contact with the many able Commissioners you have sent to Washington during past years and whose names I shall not have time to mention, and also with the able men who have come to Washington from time to time as members of various high commissions. All of this has served to increase our confidence in your future, for all were able and faithful representatives of your interests. Undoubtedly honest differences of political opinion will arise, but these will be solved, I am sure, in a spirit of amity and good will.

In considering your new constitution I find first and foremost those declarations in the bill of rights to which the Vice President has referred.

Through his pleasant contact with the Congress, your new President-elect has acquired a practical viewpoint of other administration details for the interpretation in a fair and equitable way of the provisions of your constitution.

I bespeak for him your united support, and that you will give him generously of your advice and assistance that the way may be smoothed for the attainment of the high ideals he possesses.

He has had associated with him for the last few years as Governor General of the Philippine Islands, Gov. Frank Murphy, an able and conscientious executive whose experiences as mayor of one of our great cities, Detroit, has familiarized him with finance and orderly government. In his official contacts here we are pleased but not surprised to know that he has displayed tact and good judgment.

For the next 10 years, at least, the American flag will fly over your Commonwealth, and you will have with you an official representing the United States, who will have the title of High Commissioner. This official, I am happy to believe, will be your present able Governor General, and he will be representative of the President of the United States when it is necessary for him to act.

His sympathetic cooperation during our continued sovereignty, subject to changes by Congress, will be the expression of the American people.

For 10 years, unless there is a change, the Stars and Stripes, for which I know you have the greatest respect, will fly over the Commonwealth. The Philippine flag—red, white, and blue, with its three stars and its blazing sun typifying the tropics—will be carried on all standards. These sister flags will do much as they have in the past to strengthen the fine type of friendship which exists today.

When the time comes for the Republic to replace the Commonwealth, we believe that the conduct of its affairs during this period will so impress the nations of the world that the new Republic will begin its career with not only the old friendship of my country, but that all the enlightened nations of the earth will unite in its protection and in the preservation of its sovereignty.

The great American Nation will watch your development with keen interest and, wherever we may, will extend a helping hand.

You raise products which are not raised in the United States. We sell you manufactured articles which are not made in your country. We believe that the President's Commission will work out an equitable plan beneficial to both our nations, and that the result of its recommendations will strengthen the ties that will become stronger with the years.

The administration of President Quezon and Vice President Osmeña is entitled to unified support. Your example of unity, patriotism, and self-sacrifice will have a most beneficial and heartening effect on the people of my country, and make it more simple and easy to reconcile any inequalities that now exist or may occur.

A strong government administering your affairs under your progressive constitution, which has been approved by our great President, Franklin D. Roosevelt, will make for harmony, unity, and cooperation.

It was kind of the Philippine people to include in their invitation to Senators and Congressmen an invitation for their wives. They have enjoyed the visit. You have aroused their sympathy and interest as you have our own.

I have learned that the Filipino women are leaders in the matter of education. They are the household bankers. They have followed the teachings of our school teachers and our economists. They have many of the favorite American dishes in their kitchens. So, on behalf of the ladies of the Senate and of the House of Representatives, I thank you for the courtesy of the invitation, but I have the suspicion that back of it was the thought that our wives and daughters who have come with us will in the future help to tighten the bonds of friendship and good will between our nations.

I cannot close these remarks without referring briefly to my friend and your friend, Hon. Harry B. Hawes. As United States Senator, and since then, he has been an earnest, devoted, and able friend of the Philippine people. He merits your friendship and gratitude for his faithful and unselfish work in your behalf.

Let me again thank you for the high privilege that has been extended to us and to our wives to visit you and study first hand your conditions and your aspirations. Let me assure you that we are taking home with us the kindest thoughts of a pleasant and instructive visit.

To have even a small part in the establishment of an independent republic in the great Orient, to know that the fine traditions of America will be preserved, is satisfaction enough for all right-thinking Americans.

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MESSAGE OF HIS EXCELLENCY, GOVERNOR GENERAL FRANK MURPHY, TO THE PHILIPPINE LEGISLATURE IN ITS FINAL SESSION, NOVEMBER 14, 1935, MANILA

Gentlemen of the legislature: Today we are completing another chapter in American-Filipino relations. Upon issuance by the President tomorrow of a proclamation announcing the results of the recent national election, in accordance with section 4 of the Tydings-McDuffie Act, the office of the Governor General of the Philippine Islands will come to an end. This legislative body



likewise will pass into history. The charter of our authority known as the Jones Act, granted by the United States Congress in 1916, under whose liberal and beneficent provisions the Philippine people have governed and been governed for nearly two decades—this great charter of liberal government will terminate. In its place a new charter of government, a constitution framed by the representatives of the Philippine people themselves in pursuance of authority granted by the United States Congress, and a new form of government constituted thereunder, will come into operation. At such a time it seems fitting for us to pause a few moments before final adjournment, to consider the situation of our government and review briefly the significant events and forces that have shaped our course until the present hour.

Under the auspices of the Spanish Empire of the sixteenth century, the foremost nation of Europe, rich, cultured, and powerful, western civilization was brought to the Philippines in the year 1564. During three centuries and a half that followed, the people of these islands received the impress of a great Spanish culture and became indoctrinated with the Christian religion. Through devout Spanish churchmen and administrators, the Filipino people became familiar with the institutions and customs and moral conceptions of the western world.

When American civil administrators came to the islands in 1900 to assume the task that had been commenced by the Army forces, they found not only the beginnings of an American school system, with soldiers in the role of teachers. They found a people that was prepared to benefit by the privileges and advantages that were to be offered to them under the American system of government. They found a quality akin to their own. For here was a people that already had revolted against oppressive rule and attempted to set up an independent republic. The events that preceded the truce of Biac-na-bato help to explain the remarkable early success of the American experiment with democracy in these islands beyond the distant seas.

While to many persons the odds seemed to be heavily against success of the venture, it was almost inevitable that a people nurtured as the American people were in the political philosophy that had produced the Declaration of Independence, with its emphasis on freedom and equality, and had evolved the American Constitution based on the presumed right and capacity of the common people to govern themselves—it was inevitable that such a people should seek to implant these doctrines and principles of government in the new territory that had been committed to their control. For democracy as conceived and expressed in these great documents, and as the American people had received it from their fathers, was something more than a method of government. It was a passionate political faith. It was a faith in the natural capacities and inherent possibilities of the common man, in his essential worth and dignity. In the scheme of democracy, as in the code of Christianity, all men were on a common level of dignity and importance. In this sense as stated by a great political philosopher of my own state, Christianity and democracy were twin-born. They provide for the common men, without distinction of race or clime, a way of salvation from forces of oppression and greed and selfishness.

Having found democracy good for herself, America believed it was good for the people of the Philippines. With a faith and passion like that which enabled their Spanish predecessors to establish throughout the land the practice of the Christian religion, the early American administrators and their devoted co-workers in the field of education undertook to educate and train the people of these islands in the principles and technique of self-government, taking for their keynote and guide the memorable instructions issued by President McKinley in April 1900.

#### EDUCATION

If with their simple and sincere faith in the principles by which they had won their own independence and founded their governments, the American people failed to realize fully the nature and difficulty of the mission they were undertaking, they understood clearly that for its successful practice and permanent enjoyment, democratic government required an educated and informed citizenry. This understanding and conviction were as strong as they had been 100 years earlier, when the framers of the great Ordinance of 1787 enacted for the government of the so-called northwest territory, stated that "religion, morality, and knowledge being essential to good government and the happiness of mankind, schools and the means of education shall forever be encouraged."

In similar vein, President McKinley directed that the Commission "should regard as of *first importance* the extension of a system of primary education which shall be free to all, and which shall tend to fit the people for the duties of citizenship and for the ordinary avocations of a civilized community." In its first proclamation to the people of the Philippines in 1899 the First Philippine Commission declared the establishment of elementary schools and appropriate facilities for higher education to be of cardinal importance in the American program for the islands.

No people ever accepted the blessings of education with more enthusiasm than the Filipinos. Like the Americans, they saw that the road to self-government lies through the schoolhouse. The United States Army began the establishment of modern schools in 1898, and within a year more than 4,500 primary pupils were enrolled in Manila alone. The foundations for the permanent educational system of the country were laid by the Philippine Commission in January 1901. One of its first acts provided for the appointment of more than 1,000 American teachers. Some of the members of this original group of educational pioneers are still in the Philippines. The splendid and devoted work of these and thousands of others who followed them has been a credit to their country and of immeasurable value to the Filipino people.

Although a system of primary public schools was provided for by royal Spanish decree in 1863, few Filipino children were being educated at public expense at the end of the Spanish régime. Today about two-thirds of all Filipino children of primary school age (7 to 10) are enrolled in the first four grades of the public schools. Total public school enrollment in March 1935, was 1,204,485 pupils. They are taught in 7,680 schools, staffed by 27,120 teachers and administrators. In 1934 total expenditure for public education amounted to nearly ₱23,000,000.<sup>1</sup> This included more than 20 percent of the total expenditures of the central government for all purposes.

Although the burden of popular education in the Philippines, as elsewhere, has been borne mainly by the state, 97,500 pupils are enrolled in private educational institutions recognized by the Philippine Government and operated under government supervision. Those that meet certain definite standards are accredited by the state and are articulated with the public educational system. Among these are the oldest and some of the best institutions of learning in the Philippines.

No agency of the state has been more effective than the public schools in the creation of a strong consciousness of Philippine nationality and the development of a sense of civic responsibility. The English language is now spoken in every barrio in the archipelago by people of all ranks of life. The schools have been an important factor and effective instrument in the improvement of the health of the people. The offices of the government and of private business have been almost completely staffed with competent Filipinos trained in the public schools. The standards of efficiency in agriculture, commerce, and industry have been raised and the wealth of the country increased by the efforts of vocationally trained citizens. Professional and technical education has been placed upon a high plane and our own institutions of higher learning are now supplying the country with specially trained men capable of meeting its technical and scientific needs. The Bureau of Science, the University of the Philippines and some of the older private institutions, besides providing opportunities for general and specialized high education, are making distinguished contributions to the common fund of human knowledge. Through the National Research Council, founded and supported as an agency of the state, the direct aid of the government has been placed behind scientific research.

Further expansion of the school facilities of the Philippines is primarily a financial problem. Insular appropriations for school purposes probably cannot be greatly increased during the next few years, and in the present financial condition of the provinces and municipalities no large increase in their school expenditures may be expected. Further substantial progress toward the goal of universal, free primary education apparently must depend upon and follow an increase in the taxable wealth of the country.

Within the limited financial resources of the country, however, the educational system that has been developed in the Philippines is successfully serving the fundamental needs of the nation. The schools, colleges, and universities of the country have become effective means for the intellectual development and self-expression of the people—in the extension of general culture, and in civic, vocational, and professional education. The people of this country know

<sup>1</sup> The Philippine peso (₱) equals 50 cents, U. S. currency.

that an educated citizenry is indispensable to the existence of a free, democratic, progressive state. I am confident that they will continue to press forward to the educational goals that were set a generation ago, and will not fail to support their schools to the limit of their resources, as an indispensable instrument in their national development. This determination has been written into the constitution they have adopted as the supreme law of the future Philippine Nation.

#### PUBLIC WORKS

Important as education is, however, in building the structure of strong national life, other elements were needed. Roads and transportation facilities and public works were required to develop trade and commerce, and to promote understanding and cooperation between communities and groups. The revenues of the state have been liberally and profitably employed in this direction, bringing to isolated communities the advantages of easy communication and the conveniences of modern civilization.

When the Americans came, nothing remained of the old Spanish road system but 990 miles of right-of-way, impassable in the rainy season, and available for travel in the dry season only to a very limited extent.

Today the Philippines has 9,057.6 kilometers of first-class roads, 4,831.1 kilometers of second-class, 2,009.4 kilometers of trails, or a total of 20,826 kilometers (12,912.12 miles) of roads and trails representing an investment of ₱240,000,000.

There were 2,600 bridges and culverts in existence when civil government under American sovereignty was started; 5,500 others have been added at an expenditure of ₱25,000,000, including such notable bridges as the Gilbert Bridge at Laoag, the Quirino Bridge spanning the Abra, the Plaridel Bridge in Pangasinan, and the General Luna Bridge at Cabanatuan.

With the advent of the American régime, there was inaugurated the construction of schools, hospitals, municipal buildings, and provincial capitols. In Manila we have the Legislative building, Post Office, Executive building, Philippine General Hospital, Bureau of Science, College of Medicine, Insular Psychopathic Hospital, Philippine Normal School and dormitory, Pandacan Research Library, ice plant, and University of the Philippines. In the provinces the fine capitol buildings of Ilocos Sur, Ilocos Norte, Pangasinan, Batangas, Tayabas, Leyte, and Occidental Negros are worthy of special mention. From the beginning of the American régime to date ₱98,891,285 have been spent in the construction of public buildings.

During the Spanish régime the only important water-supply system was the Carriedo System, now part of the Manila Metropolitan Water System. In the old days water for domestic use was secured by means of jars, buckets, and tin cans from shallow wells, springs, rivers, and lakes, and from impounded rain-water from roofs.

Up to 1911 the American Army had completed 13 water systems, which later were improved and are now furnishing water to the towns where the systems are located. Excluding the Metropolitan Water System of Manila, there have been completed up to December 31, 1934, 288 municipal and provincial water-supply systems, 19 extensions and 10 improvements, furnishing potable water to a population of 1,008,918, at a cost of ₱12,184,106.50. The most important systems constructed are:

1. Metropolitan Water System of Manila, including filtration plant.
2. The Vigan (Singson) Waterworks, Ilocos Sur.
3. Ilocos Norte Metropolitan Waterworks.
4. Camarines Sur Metropolitan Waterworks.
5. Zamboanga Waterworks.
6. Cebu Metropolitan Waterworks.
7. Iloilo Metropolitan Waterworks.
8. Lucena-Pagbilao Waterworks in Tayabas.

Prior to 1898 and up to the early part of 1904, no artesian wells had been constructed in the Philippines. The first was drilled by the Bureau of Public Works at Engineer Island in December 1904. From then until September 30, 1935, 2,390 successful artesian wells have been drilled in towns, barrios, and sitios throughout the islands, at a total cost of ₱5,611,315.44, supplying approximately 3,000,000 people with pure water.

Irrigation was known in the Philippines even prior to 1521 as evidenced by the wonderful rice terraces of Northern Luzon. Under the initiative of Spanish priests 27,700 hectares of rice land were placed under irrigation at an estimated cost of ₱6,000,000. To this the American régime has added irrigating systems

for 83,200 hectares at a cost of ₱18,647,000. To these must be added private systems built during the past 25 years irrigating 604,000 additional hectares, and bringing the grand total of irrigated land up to 715,000 hectares, a great advance over the Spanish régime.

Of the port works in use today, only the old river walls and a very short part of the north breakwater at Manila were built prior to 1898. During the past 35 years ₱75,000,000 have been devoted to construction and improvement at nearly 100 ports throughout the islands, ranging from the breakwater, sheltered harbor, and modern piers at Manila to simple landings for small coasters at isolated towns.

There is reflected in all this an earnestness of purpose in the American stewardship, and a capacity on the part of the Filipino people to build and enjoy better things. The Filipino people can continue to have them only if the tax burden is levied equitably, paid cheerfully, and spent wisely for the good of the people as a whole.

#### INTERISLAND SHIPPING

Before American occupation there was very little interisland shipping. Seven days after the fall of Manila the Manila Customhouse was established. It was apparent that there should be a larger number of ships in the coastwise service, to strengthen the newly established civil government and better conditions for farmers in all sections of the islands. In March 1902, 196 ports were opened to interisland traffic. There being no government funds available for subsidies, and few capitalists and merchants willing to invest in shipping, Act 520 was passed in November 1902, throwing open coastwise trade to foreign vessels without restriction until July 1904. A growing tendency toward nationalization of the coastwise shipping industry culminated in Act 3084 passed in March 1923, which provides that only vessels of domestic ownership may engage in the coastwise trade. Foreign firms which had engaged in the trade before 1904 were allowed to continue, but were prohibited from adding any new ships.

Prior to December 1927, interisland service was mediocre. Fixed schedules were not maintained and the service was uncertain and unsatisfactory. With the passage of Act No. 3418 the jurisdiction of the Public Utility Commission over routes was withdrawn. This led to free competition, acceleration of service, and the entry of new ships into the field. The commerce of the islands has steadily increased from about ₱68,000,000 in 1899 to over ₱350,000,000 in 1934. Goods amounting to such a sum must be moved expeditiously.

An important factor in the development of this commerce has been the steady improvement of ports. Beginning with the construction of sea walls and small wooden docks in Manila, Iloilo, and Cebu, a program of port works has received generous support from the government. The result has been that all the important sea ports from Aparri to Sulu have been improved, with Manila the outstanding example of what can be done in this line.

Between 1916 and 1926 there were many losses due to shipwrecks, etc. An annual inspection by the Bureau of Customs was instituted, improving the seaworthiness of the ships. The development of the interisland shipping to its present level of efficiency is a notable and vital achievement for a people largely dependent upon the sea for their channels of trade.

The most populous sections of the Philippines, Central Luzon, and Cebu, have been given the advantage of efficient railroad facilities for a number of years, and commercial automobile traffic has closely followed the improvement in highways.

#### AVIATION MAKES AUSPICIOUS START

Very recently the first chapters of Philippine aviation history have been written. Private enterprise has pioneered and has demonstrated the practicability of air communication. A country of more than 7,000 islands offers a great field for this most modern development in transportation, and the past several years have shown results which hold great promise for the future.

Thousands of miles have been flown commercially, on regular schedules, north to Baguio, and south to Iloilo and Cebu, and only the other day regular service was extended to Davao in Mindanao.

At present there are some 40 landing fields throughout the islands, 20 of which have been constructed by the Philippine Government. This work is progressing as rapidly as possible so that within a year every town of the Philippines will be within a day's trip from Manila. Great credit is due to



the Air Corps of the United States Army and in particular to the enthusiastic interest and support of Major General Frank Parker for the recent acquisition and construction of landing fields at strategic points. In addition, the Air Corps has made exhaustive surveys and has drawn up plans for a system of air routes covering the entire archipelago.

Within a few days we shall hail the first trans-Pacific flight by the Pan-American Airways, which will mark the beginning of a new epoch of travel and communication between the Philippines and the rest of the world.

#### PHILIPPINE CONSTABULARY

In recent months reforms have been inaugurated in the Philippine Constabulary, bringing the organization to a high state of efficiency. With the cooperation of the legislature, which appropriated the necessary funds, the force has been increased from 400 officers and 5,047 men to its present strength of 549 officers and 8,512 enlisted men. Two signal companies, two chemical warfare companies, and one howitzer company have been organized. Twelve machine guns and several Thompson submachine guns have been acquired. At the same time it has been put upon a solid basis of promotions and rewards on merit only. The Filipino people and their American sponsors have every reason to feel pride and confidence in the Philippine Constabulary as it exists today. It is not an arm of war, but an agency of law and order and our goal during the past two years and a half has been to make it a unit reasonably adequate to the needs of peace in the islands. This, I am firmly convinced, has been achieved and my only injunction in this connection is that this goal be kept clearly and steadfastly in mind.

#### ECONOMIC DEVELOPMENT

Economic progress in the Philippines has justified the hopes of those who set out 35 years ago to train a people for nationhood on the principles enunciated by the farseeing revolutionaries of 1776. Building on a foundation of enlightened altruism, America has consummated an achievement without parallel in the annals of colonial administration.

The early American Government found the Philippines with a meager and inadequate economy. The total of foreign trade was less than ₱100,000,000 a year. Imports exceeded exports and the balance of trade, both visible and invisible, was seriously against the islands. Internal trade was seriously restricted and Philippine economy was essentially that of the village. The country was almost wholly agricultural. Industrial development and improvement were negligible. Even in the field of agriculture, the necessity of importing a considerable fraction of the principal item of diet, consisting of rice, attested the inadequacy of the national economy. It is estimated that probably less than 5 percent of the land area was under any form of cultivation.

By successive steps the government proceeded to build a larger and surer economy and obtain a wider distribution of the growing wealth. In 1902 a discount of 25 percent from the regular United States tariff rates was granted. In 1909 free trade was set up with mild restrictions. In 1913 unlimited free trade was established. In the years that followed, American import duties on foreign goods competing with Philippine goods were successively raised.

Today at the end of 35 years of economic growth, the foreign trade of the Philippines is running approximately ₱400,000,000 annually—more than fourfold as compared with trade in 1901. Even the invisible items of trade have turned in favor of the islands. Trade with America has acquired so favorable a position that it has offset for many years with a favorable balance the negative balances with all oriental and most European countries with which the Philippines trade.

The population has more than doubled. Land under cultivation has increased nearly threefold. The rice problem has been solved, and during the past few years the islands have been all but self-sufficient in cereal requirements. Should necessity arise, the cattle-raising industry has made it possible to supply all of our meat. The production of abaca and tobacco has more than doubled. Corn has increased fourfold, rice fivefold, lumber and forest products sixfold, sugar sixfold. Copra production has increased ninefold, and mineral production has risen from a negligible position to one that is commanding the respect of the world.

Formerly all our products left our shores in raw state, or as nearly so as conditions of transport allowed. Today nearly half our copra is converted into oil; practically all our sugar is carried to 96° or more; our tobacco goes forth as cigars; and a respectable fraction of our abaca leaves as rope. The sound first steps of industrial development have been taken in the form of maximum elaboration of our agricultural products.

This economic advance has not been made on the basis of exploitation. A share of the profit has been passed all the way down the line, resulting in the highest labor wage in the Orient. Philippine labor has been preserved, guided, and trained to a degree of competence of which we are proud. The public domain has not been exploited. Large estate grants—a sore spot in other days—have not been tolerated. The natural inheritance of the Filipino as the owner of his fatherland has not been violated. The Filipino has been encouraged to enter the professions. No door has been closed, no reasonable want has been denied him.

But what does it signify, this gaining of a better economy, if the chief aim of government is the well-being of the people generally? Is it merely crass materialism, or has it improved and enriched the life and spirit of the generality of men and women? The public benefits that have accrued from the wealth created during the last 35 years are too numerous to catalog fully. A few may be sketched:

1. Higher standards of diet, clothing, and housing have lifted the Filipino laborer far above the level on which he formerly lived.

2. State funds have been provided out of which railroads, highways, bridges, and ports have been brought into useful being.

3. State pay rolls make possible the highest average salary for government employees and the largest number per capita to be found in the Orient or Tropics.

4. Private capital is available for investment in sugar mills, oil mills, stores and offices, land and houses; capital that has been used to modernize the old industries and create new ones.

5. Less tangible but equally important are the acquirement of better health, wider education, and higher scientific and artistic culture, and all the chain of advancing social standards, which come with an expanding and diffused economy.

#### GOVERNMENT-CONTROLLED COMPANIES GAIN

All government-owned companies showed decided gains during the past 2 years with the exception of the Manila Railroad Co., which has suffered loss due to optional currency clauses in its 4-percent Southern Lines bonds and the reduction of freight volume. The Manila Hotel Co. showed a net profit of ₱122,652.89 for the year 1934 as against a nominal profit of only ₱500.19 for the preceding year. The Cebu Portland Cement Co. continued its profitable operation with a net profit of ₱432,510.68 as compared with ₱268,483.73 for the year 1933.

The Philippine National Bank had a profit of ₱3,931,266.90 as compared with ₱3,153,759.21 in 1933. This favorable showing has been continued in 1935, the first 9 months of which show a profit of ₱3,060,244.07. These profits include recoveries of charged-off items and have been accomplished despite the lowering of interest rates on all classes of paper.

The profits of the Philippine National Bank are not the true measure of its service to the people of these islands. It provides service in many ways. As a depository of the government it serves the country as a whole. The facilities of the bank have been extended to the remote districts and at all of these places it provides facilities for a safe depository for funds, for exchanging checks for cash, for sending drafts for collection, and extending loans to small farmers and merchants.

#### PUBLIC HEALTH AND WELFARE

The Philippines has led during the American occupation all other oriental countries in progress made in health and welfare. Epidemics are controlled; pandemics are definitely of the past; commerce is no longer impeded by quarantine and other restrictions necessary to prevent the spread of disease; new measures have been inaugurated by the government to improve the living conditions of the poor and to protect those economically distressed from the ravages of disease.

As a typical example, I refer particularly to the construction during the past 2 years of a modern water-filtration plant for the city of Manila. It is signifi-

cant of the progress which had been made that Manila, a tropical city, is thus provided with a water supply which is not excelled in purity by that of any other city in the world. The prevalence of water-borne diseases in the city of Manila has already been reduced and there is no doubt that the pure water now available for the inhabitants of Manila will be an important factor in the continued improvement in the public health of the city.

Today the insular government operates 80 hospitals having 4,402 beds, and more than 1,000 dispensaries. During the past 2 years special attention has been devoted to the care of the insane and the mentally defective. Government facilities for the institutional treatment of insane patients have been doubled and many of the unfortunates who formerly wandered at large or were confined in jails now receive proper care. During the past year we have revised the standard of care of the insane and perfected our administrative methods to conform to the best practices in this field. Also, during the past year we have set up a school for mentally defective children at Welfareville where they can be trained, guided, and given the opportunity to become useful citizens.

Within the last 2 years we have developed a new approach to health and social work in the Philippines. The modern conception of government supervision of all matters relating to the welfare of the public has been put into actual practice, and the Philippine Government has assumed full and complete responsibility for the relief of public distress due to any cause, whether it be social maladjustment, economic conditions, disaster, or sickness.

The problem of providing medical care for the people of the barrios and the congested districts of the cities and towns is being met by a public health nursing service which is being extended to the more remote communities. Only within the last year we have placed 250 additional nurses in this work. Traveling clinics, which are in fact mobile hospitals, are now being employed to reach the isolated villages of the Mountain Province.

In the overcrowded areas and slum districts of Manila and the larger towns we have established social services for the poor, the distressed, and the underprivileged. Greatly increased protection for the health and the welfare of children and the mothers of the slums has been thus provided. Methods of improving the housing of the poor have been adopted on a basis which will permit of continued progress.

Since 1933 the best the western world has to offer in public welfare service has been inaugurated here and been eagerly adopted by the Filipino people. A well grounded, long-time program of health and social services has been established. If persistently developed over a period of years it will be an important factor in the success of the Commonwealth Government. A widespread social consciousness has been aroused among the officials and the people of the towns and barrios. I cannot overemphasize the importance of sustaining this social consciousness through the years to come. I trust that all of us who have been responsible will make continued efforts along these lines and will consider ourselves to be trustees charged with preserving these services and making them more and more progressive and with seeing that there is no stagnation and above all no backward movement.

The present government of the Philippine Islands may take just pride in its adoption of the humanitarian principles of government responsibility to ameliorate distress among our helpless people due to any cause, whether it be social maladjustment, economic conditions, disaster, or sickness.

#### BUREAU OF SCIENCE

The Bureau of Science, organized in 1901 as the Bureau of Government Laboratories, and taking its present name in 1905, has been of inestimable assistance in the progress achieved here. At first concerned almost wholly in protection against disease, it did magnificent work, and for many years there has been no possibility of such major disasters as the outbreak of cholera that occurred in 1902, continuing for 2 years and taking the lives of nearly 100,000 people. In fact it can be said that cholera, bubonic plague, dysentery, and malaria are under control.

The bureau is tireless in its efforts to assist in improving the general health of the people, in its researches to develop natural resources, and in its cooperation with and helpfulness toward industry.

Thanks to the bureau, copra production has become doubly profitable through elimination of wasteful methods, and similar assistance to the sugar industry has produced additional millions. The bureau has assisted factories making

paints, varnishes, cement, and other industrial products from local raw materials; it has conducted experiments in the field of ceramics; aided materially in conservation of fish and game; in development of the mineral resources of the islands; in improvement of crops, forestry, and tropical plants, and in general has made a place for itself in the very heart and marrow of the economic life of the people.

The bureau is a research institute of extreme value. Its international reputation is deserved and it is one of the greatest legacies that the new Philippine Commonwealth will inherit from the American régime.

#### ADMINISTRATION OF JUSTICE

In the administration of justice, there are outstanding milestones erected by the joint efforts of Americans and Filipinos, that reflect the genius of American institutions and the capacity of the Filipino people to absorb and apply democratic principles of government.

Before the galleons of Magellan touched these shores, the native laws were mostly based on usages and ancestral customs. The penalties for violations of penal laws were severe and cruel.

Spain did much to modernize the administration of justice in the islands. The Spanish Penal Code was implanted here. A supreme court, courts of first instance in the provinces, and justice-of-the-peace courts in the municipalities were established. Individual liberty, however, was hemmed in by a multitude of restrictions which resulted in many injustices, especially to the common people.

One of the first acts of American rule was the organization of a judicial system, and in the Philippine bill of 1902, Congress implanted in these islands the same guaranties of constitutional and individual liberty that are found in the United States Constitution with the exception of the right to keep and bear arms and the system of trial by jury. A reorganization of the courts was effected and orderly procedure was provided for the trial of cases. In all criminal prosecutions, a speedy and public trial was guaranteed to the accused; his right to bail, to compulsory process of obtaining witnesses in his favor, to be assisted by counsel, and not to be compelled to be a witness against himself, were expressly recognized.

Today, we have a modern system of courts and judicial procedure. Conscientious efforts have been exerted during the last 35 years to guarantee to the people of these islands a fair and impartial administration of justice. In line with this policy, there has been introduced recently a far-reaching innovation in the selection of judges. I refer to the organization of the judicial council, which has been functioning satisfactorily. Properly guided and directed, this judicial council should insure to the people of these islands the appointment of competent judges selected primarily on merit.

In the field of penology, there have been introduced changes intended to aid the accused and to ameliorate the condition of those convicted by the courts of justice. I refer to the law providing for public defenders, the Indeterminate Sentence Law, and the law creating the probation office which is now being organized.

Since the indeterminate sentence law went into effect in January 1934, there has been marked improvement in the behavior and morale of prisoners. During the 22 months of its effectiveness, 645 prisoners have been given parole. Of these only three have violated their parole. The probation system, which will soon be in operation, will complement the Indeterminate Sentence Law. We have every reason to expect that these two institutions will be found eminently suited to the social conditions of these islands, because the spiritual side of the Filipino character is especially receptive to the benign idea of reform.

#### CULTURAL DESTINIES

The cultural prospects of the Filipino people are full of promise. The racial and cultural differences of the Philippine population have been unduly exaggerated. Evidence is strong that there is building up in these islands a true general Philippine culture around which future development will revolve. A blending of diverse elements in the population has been going on continuously for 2,000 years, and has been especially rapid during the Spanish and American periods due to the greater peace and order and freer communication.

The increasing homogeneity in the population is not a mere altruistic hope. There is strong scientific basis for holding that seemingly discordant and non-



fusable elements not only can be but are *being* fused. From the time of Dr. José Rizal down to the present the opinion has been held by many American and Filipino authorities that among the non-Christian population are elements that constitute a strong asset for the future Philippines.

The pagan, Moro, and other non-Christian peoples possess essentially the same racial traits and innate psychology as the majority of the inhabitants of the Christian provinces. Investigations of Professor Beyer and others show that the Filipino-blend type is developing steadily in all parts of the islands—regardless of linguistic, religious, and cultural differences. Such studies forecast the steady growth of an harmonious and blended Filipino race that will one day be characteristic throughout the islands.

On the cultural side, there will be need for much patient and tolerant consideration in dealing with the pagan and non-Christian groups. A policy of gradual education and improvement of economic conditions, however, will eventually bring about cultural amalgamation—and develop a strong and unified Philippine population.

#### GOVERNMENTAL FINANCE

This gratifying and remarkable expansion in the natural economy is reflected also in the parallel story of governmental finances. Let us look at a few figures. Excluding bond issues, the total revenues in all funds of the central government in 1901 amounted to ₱21,532,490. They rose to a high peak of ₱92,783,173.70 in the boom year of 1929. In the last fiscal year (1934) they totaled ₱78,674,751.33.

Provincial revenues increased during the same period from ₱2,410,437.16 to ₱24,385,978.07 in 1934, reaching an all-time high of ₱30,889,071.38 in 1930.

In municipal and city governments, revenues increased from ₱10,059,546.58 in 1906 to ₱36,509,794.48 in 1934, with a high figure in 1929 of ₱44,881,945.32.

With the two chartered cities included, total public revenues in the islands grew from ₱48,772,193.21 in 1910 to ₱119,792,900.38 in 1934.

These large levies on the public and their industries have in large measure been returned to them or preserved in the form of increasing public services and valuable fixed properties owned by the government. The permanent investments of the central government alone in real property and equipment and other forms, have a cost value of ₱267,800,493.23 as of December 31, 1934.

Interesting as they are, these matters are perhaps of less immediate importance and concern to us at the present moment than the current financial condition of the government. In all funds of the central government on December 31, 1934, there was a surplus of more than 75 million pesos (₱75,179,189.42), as compared with less than nine and one-half million pesos (₱9,331,582.85) on June 30, 1901. In the general fund alone there was a current surplus of approximately 37 million pesos (₱36,900,492.19) on December 31, 1934. Of this amount a substantial portion was cash in the governmental depositories. The excess of cash over recorded obligations and liabilities was almost 17 million pesos (₱16,881,497.41) as of December 31, 1934. In addition to this approximately ₱30,000,000 awaits clearance in Washington and will soon be paid into the Philippine treasury from excise taxes levied and collected on coconut oil under a recent act of Congress, which will leave our general fund in the strongest position of our history.

The bonded debt of the central government and its subdivisions is not excessive. At the end of 1934 it stood at slightly more than 160 million pesos (₱160,364,700), but with sinking funds totaling more than 60 millions (₱60,895,286.55), the net bonded indebtedness is slightly less than 100 million pesos (₱99,469,413.45). The Manila Railroad Co., whose stock is wholly owned by the government, also has a net bonded debt after sinking fund of ₱48,856,424.14. Interest on bonds of the Philippine Railway Co., amounting to ₱17,098,800, is guaranteed by the central government until July 1937.

Philippine public finances are sound. In some respects they might well excite the envy of many of the large nations of the world today. In the central government for the past  $2\frac{3}{4}$  years, expenditures from all funds have been considerably less than the current revenues accruing to those funds. Our budget is balanced in fact as well as in form.

The surplus of the central government should be jealously guarded. It may be difficult to borrow externally at advantageous rates of interest. Lack of large local capital accumulations limits the possibilities of internal loans. While the governmental bonded debt is not excessive and is being properly serviced, major financial problems exist in the bonded indebtedness of our rail-

roads, and in the pension funds of the government wherein liabilities are steadily accruing without adequate provision to meet them. These pension funds at present are not actuarially sound and a government policy for their rehabilitation should be instituted without delay. Several provinces are financially weak. Ordinary and recurring normal expenditures for the national defense will tax government resources severely. Continuing demands may be expected for concessions to delinquent taxpayers, and the prospects of increasing revenues are not favorable without extreme measures that might curtail business and investment activities.

It would seem wise, therefore, to keep the present surplus intact as the proper reserve for a government of the position and size of the Philippine Government. Extraordinary and nonrecurring accretions should be recognized and treated as windfalls that will not be repeated. Let us look well to cut within our financial cloth. In our present economy and environment, the safe course for this government is to keep its budget in balance and its current expenditures within current income. Without a sound financial position and a program of sound public finance, the most essential and fundamental functions of government are handicapped and may be completely paralyzed. No governmental activity comes ahead of an orderly financial program.

In closing this subject I should like to repeat the exhortation contained in my first address to the Philippine people:

"The first duty of such a government (this government), in order of statement if not of importance, is to conduct its own business on a sound and orderly basis, efficiently and economically, giving a peso in actual service for every peso of income. It must carefully budget its expenditures so that they will not exceed its revenue or dissipate the public resources in unnecessary services or activities. For the time being we must have recourse to uncompromising economy in spending. The public debt also must be kept within proper and conservative limits. This result will be assured by the preparation of a careful program and strict and rigid adherence to it by all the departments of the government. A budget is valuable only if, and when, expenditures are kept within it. Together we will make a stubborn stand against the unwholesome practice of allowing deficits to creep into our balance sheets."

The present sound and satisfactory state of governmental finances, with budgets balanced and substantial reserves at hand, is clear indication that an honest effort has been made to practice what we have preached.

#### POLITICAL PROGRESS

With the development we have been tracing in the fields of economics and finance, communication and education, science and hygiene, political development has kept pace. The Philippine public gradually attained an understanding of the theory and processes of popular government, and acquired experience in its practice. This was according to the plans conceived and formulated by the first American administrators. Small beginnings had been made in Spanish times with a limited right of suffrage and the privilege of electing municipal and barrio officials. Municipalities became autonomous in 1901. Provincial boards came under popular control in 1905. Two years later the first national legislative assembly was inaugurated. Filipinos were taking rapidly to the ways and methods of American democracy.

The next step was the Jones Act in 1916, under which we have operated until today. Within the short space of 16 years, the Filipino people had qualified themselves to the satisfaction of the American Congress for exclusive control of the legislative branch of their government. In large measure they had justified the great American faith in the inherent capacity of people to govern themselves, given equal advantages of education and training. The administration of justice also was gradually placed in the hands of the Filipinos. Although the executive branch until now has been under American direction and control, actual administration during recent years has been largely in Philippine hands. The recent extension of equal suffrage to women was a notable contribution by the Philippine Legislature to democratic progress.

In this steady advance in the art of democratic and constitutional government toward the ultimate goal of complete independence, the crowning event has been the framing and adoption by the Philippine people, under the terms of the Tydings-McDuffie Act, of a permanent constitution for their government. This admirable document, with its guaranties of representative government and freedom for the individual citizen, is eloquent proof of the success of our policies and the soundness of our political faith.

Under the stipulation of the Tydings-McDuffie Act, by voting the adoption of this constitution, the Filipino people themselves definitely and freely decided the matter of independence. This act was fundamentally a product of the political idealism and unselfishness of the American people. It was the generous act of a generous people. If some adjustments should appear desirable to alleviate unnecessary hardships, we may be confident that the American Congress will not refuse to consider them. With full warning, however, and understanding of the inconvenience and risk and hardship that may be entailed by their separation from the United States, the Filipino people have definitely and gladly assumed the conditions and responsibilities and have adhered to the course that leads ultimately to full sovereignty and independence.

America has kept faith with her political principles and has been true to her origins. Putting aside considerations of empire and self-interest, with deep understanding of the strong yearning of a people for political freedom, acknowledging the right of a people to self-determination when supported by demonstrated understanding of constitutional self-government and evidence of capacity to sustain it, the United States has accepted the decision that has been made here, and is prepared to surrender its leadership. In good time this will be done.

Material progress is dearly bought and of little worth when obtained at the price of exploitation and suppression of a people's patrimony and liberty and their individual initiative. The record of America cannot be told merely in terms of public revenues and economic production. Things more precious in the life of a people are the preservation of racial integrity and culture, the enlargement of human liberty, the cultivation of a spirit of adventure and initiative. These priceless qualities, so essential in the building of a nation, have been permitted to grow and flourish by the liberal and farseeing policies that have guided the administration of Philippine affairs by American authorities. With these elements of character and mutual toleration of differences in religious faith, aided by a favorable geographical grouping and freedom from deep racial conflicts, the Philippines, under wise and patient and just leadership may become a strong and united nation.

So we have come to this present hour. Through the idealistic policies of her statesmen, McKinley, Root and Taft, and Wilson and Roosevelt, supplemented by the conscientious and devoted service of her representatives in these islands, and the strong friendship and sympathy of Franklin D. Roosevelt, the political faith of America has flowered and is nearing fruition. Free education, constitutional principles, freedom of conscience and opinion, material progress, economic development, stable finances, responsible government—these essentials of a sound and enduring democracy have been established in the land.

A splendid chapter in Philippine history, in which this body under able leaders has played a distinguished part, is now coming to a close. With a large and growing population, expanding industry and agriculture, easy communication and increasing wealth, a government financially stable and sound, an enlightened press, and an informed and patriotic citizenry, the sinews of statehood and the elements of a strong national life have been provided. We place in the hands of our successors a rich estate, a high trust, and a glorious privilege to preserve and administer this government that we have built together upon the faith and confidence of the American people.

Another chapter remains to be written before the record is complete, and the mission accomplished. To assure its success a further period of adjustment has been provided, under the protection and guidance of United States authority. Retaining full rights of sovereignty, with appropriate functions and authority vested in the President and other agencies for the protection of its legitimate interests under the Independence Act, the United States Government is now entrusting direct management of domestic affairs to the newly elected representatives of the Philippine people—the President and members of the National Assembly.

Their success and the success of the Commonwealth will rest not upon the fine hopes and enthusiasm of this moment. It will require deep and abiding loyalty to the principles of sound finance and social justice, freedom from measures that are selfish and oppressive, steadfast devotion to the ideals and principles of democracy. The personal aspect of government must be minimized. All officials should be humble before the majesty of the law. Above personal success and personal loyalty, the good citizen and true patriot will

place the supremacy of the law, duty to the State, and devotion to the public good and welfare.

This great and happy venture of the American and Filipino people is not yet ended. With an altered framework and broader autonomy, the Philippine Government goes on under the American flag, with the full confidence and support of the people and Government of the United States. As in all good books of high adventure and romance, we close this chapter anticipating the next, confident that the Divine Author will bring the story to a fair ending in accordance with the faith and high purpose of its beginning.

FRANK MURPHY, *Governor-General.*

THE PHILIPPINE LEGISLATURE,  
*Manila, P. I.*

## ELECTIONS

The inauguration of the Commonwealth necessitated the holding of two special elections: The first election was a plebiscite on the acceptance or rejection of the constitution; the second was to elect a president, a vice president, and the members of the National Assembly for the Commonwealth.

In the first election there were 1,833,186 registered voters of whom 199,129 were women. The vote was as follows:

For acceptance of the constitution-----	1,213,046
For rejection-----	44,963

In the second election the number of registered voters was reduced to 1,627,903 because the legislature in passing the act providing for this election adopted the qualifications prescribed for voters in Article V of the constitution. This article excludes the illiterate and temporarily disfranchises the women. The result of the election for president and vice president was:

	Votes
For president:	
Manuel L. Quezon-----	695,297
Emilio Aguinaldo-----	179,401
Gregorio Aglipay-----	148,006
For vice president:	
Sergio Osmeña-----	810,666
Raymundo Melliza-----	70,891
Juan Nabong-----	51,444

## PEACE AND ORDER

In the first paragraph of this report the statement is made that peace and order prevailed. It must be noted, however, that on the night of May 2, 1935, the members of a society known as the Sakdals rose to arms in one town in the province of Bulacan, three towns in the province of Laguna and two towns in the province of Cavite. Of these six towns, the nearest to Manila is 17 miles away and the most distant is 38 miles away. This uprising was put down by the Constabulary the same night it occurred. The most serious incident occurred in the town of Cabuyao, Laguna, where a fight took place between about a thousand Sakdals armed with stolen firearms and homemade shot guns, and 78 officers and men of the Constabulary. In this fight 59 Sakdals were killed and 56 wounded. The Constabulary lost four men killed and two officers and eight men wounded.

The Sakdal organization is composed of poor and ignorant people who joined the society in a vague hope of bettering their economic condition and of stopping the supposed corruption among govern-



ment officials. The reason their uprising was so easily and quickly put down was that it was poorly planned, due to their lack of intelligent leaders. There was no recurrence of the Sakdal disturbances.

In the Provinces of Laguna and Tayabas a gang of bandits headed by Capitan Kulas Encalledo and ex-chief of police Teodoro Asedillo committed a series of robberies and murders. These outlaws were captured or killed toward the end of the year and the survivors are now facing court action.

### LEGISLATION

During 1935 the Philippine Legislature held the following sessions (three special sessions lasted 1 day each):

Special sessions, April 8; June 12 to June 22.

Regular session, June 24 to July 18 (July 19 to Sept. 22, election recess).

Continuation of regular session, September 23 to October 17.

Special session, November 12 and 14.

The special session of April 8 was called for the purpose of enacting necessary legislation authorizing the submission of the Philippine Constitution to the registered voters for acceptance or rejection. The special session beginning June 12 was called "to canvass the returns and certify the results of the election held under legislation passed at the special session of April 8; to enact necessary legislation for the election of the officers of the Commonwealth; to provide for the orderly transfer of the functions of the government to the Commonwealth, and all matters appertaining thereto; and to consider and enact other legislation."

The Independence Act requires that the then existing government provide for the orderly transfer of the functions of government to the new Commonwealth. Despite the fact that compliance with the above requirement was necessarily the major legislative activity of the year, a creditable amount of other useful legislation was enacted. The following acts deserve special mention:

Act 4199: Amending Philippine laws which provide for parity between the United States and the Philippine currencies, to bring them into conformity with the situation produced by the devaluation of the dollar and the retirement of gold from circulation.

Act 4204: Authorizing the United States High Commissioner to occupy temporarily the Mansion House at Baguio as his residence and office.

Act 4207: Providing for payment of traveling expenses of indigent insane persons to institutions.

Act 4209: Providing for the institutional care of children of leper parents.

Act 4221: Authorizing the release of prisoners on parole.

Act 4222: Exempting landing fields from taxation for 5 years.

Act 4246: Providing for additional wards in the Insular Psychopathic Hospital.

Act 4249: Granting a franchise to Pan-American Airways to operate between the Philippine Islands and the United States and foreign countries.

Act 4268: Declaring valid mining locations within forest reserves, made before February 8, 1935.

Act 4269: Providing for the filling of land in Manila for a site for the residence and offices of the United States High Commissioner.

### OVERSEAS TRADE

The overseas trade of the Philippines during the year 1935 amounted to ₱359,539,059, showing a decrease of 7 percent as compared with the year 1934. The principal cause of this decrease was

the reduction in sugar exported, from ₱130,909,161 in 1934 to ₱65,981,359 in 1935, due to limitations imposed by law.

Imports amounted to ₱171,047,699 and exports (not counting gold bullion) to ₱188,491,360. Philippine foreign trade for the year 1935 shows a favorable balance of ₱17,443,661, which compares with the favorable balance of ₱53,593,050 in 1934. Philippine trade statistics do not include exports of gold ore and gold bullion. Therefore, to the above favorable balance of trade there should be added the 1935 exports of gold ore and gold bullion reported by the United States Trade Commissioner at a value of ₱26,034,357. The sugar benefit payments, amounting to ₱24,700,000 in 1935, should also be added, because they are equivalent to sugar exports.

This favorable balance was due, as in previous years, to the trade with the United States, which more than offsets the unfavorable balance with foreign countries. Imports from the United States in 1935 were practically the same in value as in the preceding year.

As in previous years, the United States was the leading market for Philippine products, taking about 80 percent. About 6 percent of exports went to Japan, 3 percent to Great Britain, nearly 3 percent to Spain, and the rest to other countries.

Sixty-three and a half percent of our imports came from the United States, 14 percent from Japan, 3 and a fraction percent from China, 3 percent from Germany, 2 and a fraction percent from the Dutch East Indies, 2 percent from British India, 1 $\frac{3}{4}$  percent from Australia, 1 $\frac{1}{2}$  percent from Holland, and 1 percent from Canada.

*Table showing the sources of the 10 principal imports in the order of their value*

#### 1. COTTON GOODS

Imported from—	1935		1934	
	Value	Percent	Value	Percent
United States.....	₱13,534,941	44.23	₱15,645,107	50.08
Japan.....	13,071,817	42.72	11,111,838	35.57
Great Britain.....	1,294,905	4.23	1,692,278	5.42
China.....	1,181,666	3.86	1,395,024	4.47
France.....	683,517	2.23	519,679	1.66
Switzerland.....	635,790	2.08	652,745	2.09
Germany.....	59,444	.19	90,151	.29
British East Indies.....	44,619	.15	31,980	.10
Italy.....	32,411	.11	21,152	.07
Netherlands.....	23,220	.08	33,911	.11
Other countries.....	37,511	.12	49,055	.14
Total.....	30,599,841	100.00	31,242,920	100.00

#### 2. IRON AND STEEL AND MANUFACTURES THEREOF

United States.....	₱17,032,080	76.80	₱17,774,867	77.88
Germany.....	1,634,140	7.37	1,893,417	8.30
Japan.....	1,225,474	5.53	887,221	3.89
Belgium.....	880,151	3.97	1,201,489	5.26
Sweden.....	466,016	2.10	313,870	1.38
Great Britain.....	451,062	2.03	397,217	1.74
France.....	81,012	.37	24,275	.11
Luxemburg.....	63,794	.29	29,189	.13
China.....	55,811	.25	86,161	.38
Czechoslovakia.....	55,775	.25	30,707	.13
Other countries.....	231,524	1.04	184,595	.80
Total.....	22,176,839	100.00	22,823,008	100.00

Table showing the sources of the 10 principal imports in the order of their value—Continued

## 3. MINERAL OILS

Imported from—	1935		1934	
	Value	Percent	Value	Percent
United States.....	P13,334,552	87.19	P11,001,376	86.07
Dutch East Indies.....	1,887,113	12.34	1,729,872	13.53
Great Britain.....	43,962	.29	7,149	.06
Other countries.....	27,555	.18	42,889	.34
Total.....	15,293,182	100.00	12,781,286	100.00

## 4. MEAT AND DAIRY PRODUCTS

United States.....	P5,131,443	55.14	P5,540,238	67.31
Netherlands.....	2,110,865	22.68	550,318	6.69
Australia.....	661,880	7.11	1,246,841	15.15
China.....	559,824	6.02	422,540	5.13
Uruguay.....	223,358	2.40	74,936	.91
Japan.....	195,726	2.10	44,856	.54
Switzerland.....	144,216	1.55	133,438	1.62
Argentina.....	69,961	.75	90,301	1.10
Great Britain.....	64,714	.70	24,320	.30
New Zealand.....	46,124	.50	11	-----
Other countries.....	97,711	1.05	103,601	1.25
Total.....	9,305,822	100.00	8,231,400	100.00

## 5. AUTOMOBILES, PARTS OF, AND TIRES FOR

United States.....	P9,155,711	99.36	P10,045,981	97.57
Japan.....	26,456	.29	42,507	.41
Great Britain.....	9,563	.10	130,355	1.27
Belgium.....	9,482	.10	-----	-----
Germany.....	8,019	.09	40,781	.40
Canada.....	2,128	.02	13,776	.13
Other countries.....	2,927	.04	23,239	.22
Total.....	9,214,286	100.00	10,296,639	100.00

## 6. TOBACCO PRODUCTS

United States.....	P7,392,173	98.55	P5,714,657	97.62
Dutch East Indies.....	92,128	1.23	124,733	2.13
China.....	12,343	.16	11,898	.20
Other countries.....	3,915	.06	2,514	.05
Total.....	P7,500,559	100.00	P5,853,802	100.00

## 7. PAPER AND MANUFACTURES THEREOF

United States.....	P4,959,642	74.92	P4,850,400	75.96
Germany.....	536,943	8.11	338,911	5.31
Japan.....	280,386	4.24	262,016	4.10
France.....	237,459	3.59	250,168	3.92
Sweden.....	87,275	1.32	58,471	.92
Canada.....	84,192	1.27	87,220	1.37
China.....	73,817	1.12	102,574	1.61
Spain.....	72,710	1.10	113,780	1.78
Norway.....	68,497	1.03	62,884	.98
Great Britain.....	67,656	1.02	49,271	.77
Other countries.....	151,218	2.28	209,846	3.28
Total.....	P6,619,795	100.00	P6,385,541	100.00

## 8. WHEAT FLOUR

United States.....	P2,444,690	42.80	P3,633,820	69.25
Australia.....	1,716,349	30.05	560,454	10.68
Canada.....	1,105,445	19.36	758,525	14.46
Japan.....	409,433	7.17	237,773	4.53
China.....	35,248	.62	56,510	1.08
Other countries.....	89	-----	306	-----
Total.....	5,711,254	100.00	5,247,388	100.00

Table showing the sources of the 10 principal imports in the order of their value—Continued

## 9. CHEMICALS, DRUGS, DYES, AND MEDICINES

Imported from—	1935		1934	
	Value	Percent	Value	Percent
United States.....	P3, 449, 577	66.92	P3, 390, 441	70.13
Germany.....	424, 158	8.23	444, 965	9.21
Canada.....	345, 084	6.69	131, 907	2.73
Japan.....	234, 714	4.55	181, 956	3.76
France.....	204, 413	3.97	245, 103	5.07
China.....	119, 260	2.31	111, 720	2.31
British East Indies.....	112, 193	2.18	89, 029	1.84
Switzerland.....	63, 366	1.23	33, 726	.70
Dutch East Indies.....	54, 411	1.06	53, 396	1.10
Finland.....	46, 758	.91	27, 112	.56
Other countries.....	100, 702	1.95	125, 009	2.59
Total.....	5, 154, 636	100.00	4, 834, 364	100.00

## 10. SILK AND RAYON AND MANUFACTURES THEREOF

Japan.....	P2, 454, 341	50.59	P1, 781, 128	38.69
United States.....	1, 941, 132	40.01	2, 354, 124	51.14
China.....	261, 877	5.40	218, 928	4.75
France.....	83, 054	1.71	90, 258	1.96
Great Britain.....	49, 544	1.02	88, 681	1.93
Germany.....	25, 282	.52	28, 564	.62
Switzerland.....	15, 655	.32	23, 044	.50
British East Indies.....	5, 560	.12	1, 416	.03
Netherlands.....	4, 590	.10	2, 384	.05
Belgium.....	4, 444	.09	1, 298	.03
Other countries.....	5, 921	.12	13, 825	.30
Total.....	4, 851, 400	100.00	4, 603, 650	100.00

*Other imports.*—Articles other than the 10 principal items of imports registered a decrease amounting to P294,138. The value of such imports during 1935 being P54,620,085 as compared with P54,914,223 during 1934.

Table presenting destinations and comparative values of the 10 principal commodities exported in 1935 and 1934

[Gold bullion exported is not included in these figures]

## 1. SUGAR

Exported to—	1935		1934	
	Value	Percent	Value	Percent
United States.....	P65, 898, 341	99.87	P130, 889, 986	99.99
Guam.....	24, 723	.04	16, 860	.01
Other countries.....	58, 295	.09	2, 315	-----
Total.....	65, 981, 359	100.00	130, 909, 161	100.00

## 2. COCONUT OIL

United States.....	P24, 010, 197	97.96	P12, 793, 114	94.14
British East Indies.....	181, 817	.74	29, 609	.22
Germany.....	91, 875	.37	53, 389	.39
Dutch East Indies.....	61, 426	.25	48, 338	.36
Netherlands.....	59, 546	.24	283, 090	2.08
China.....	31, 403	.13	98, 831	.73
Other countries.....	72, 898	.31	283, 371	2.08
Total.....	24, 509, 162	100.00	13, 589, 742	100.00

Table presenting destinations and comparative values of the 10 principal commodities exported in 1935 and 1934—Continued

## 3. ABACA (MANILA HEMP)

Exported to—	1935		1934	
	Value	Percent	Value	Percent
United States.....	P7,622,019	33.21	P5,391,791	31.13
Japan.....	6,299,084	27.45	4,762,660	27.49
Great Britain.....	4,899,068	21.35	3,879,238	22.39
Belgium.....	559,422	2.44	393,416	2.27
Canada.....	485,557	2.12	320,460	1.85
Australia.....	447,788	1.95	311,910	1.80
Germany.....	446,767	1.95	286,313	1.65
France.....	411,191	1.79	257,313	1.49
Spain.....	318,805	1.39	284,316	1.64
Norway.....	229,091	1.00	178,346	1.02
Other countries.....	1,229,141	5.35	1,257,373	7.27
Total.....	22,947,933	100.00	17,323,136	100.00

## 4. COPRA

United States.....	P18,212,020	82.88	P7,800,120	45.32
Spain.....	1,833,698	8.34	289,152	1.68
France.....	1,277,266	5.81	4,324,744	25.12
Sweden.....	129,000	.59	281,819	1.64
Netherlands.....	146,417	.67	847,956	4.93
Japan.....	102,034	.46	494,087	2.87
Germany.....	83,284	.38	856,922	4.98
Other countries.....	190,941	.87	2,315,449	13.46
Total.....	21,974,660	100.00	17,210,249	100.00

## 5. TOBACCO AND ITS PRODUCTS

United States.....	P6,577,130	54.79	P6,727,306	64.75
Spain.....	3,177,450	26.47	1,223,092	11.77
Korea.....	739,662	6.16	579,542	5.58
Japan.....	334,428	2.79	465,553	4.48
China.....	288,400	2.40	222,104	2.14
Hawaii.....	205,688	1.71	217,809	2.10
France.....	173,133	1.44	141,604	1.36
Hongkong.....	93,455	.78	104,973	1.01
British East Indies.....	89,185	.74	80,384	.77
French Africa.....	73,170	.61	81,627	.79
Other countries.....	251,957	2.11	545,413	5.25
Total.....	12,003,658	100.00	10,389,407	100.00

## 6. EMBROIDERIES (COTTON AND SILK)

United States.....	P10,138,446	99.86	P5,318,243	99.73
Hawaii.....	10,936	.11	12,385	.23
Other countries.....	3,107	.03	2,212	.04
Total.....	10,152,489	100.00	5,532,840	100.00

## 7. DESICCATED COCONUT

United States.....	P7,883,876	99.49	P4,506,471	99.94
Hawaii.....	33,567	.42	2,608	.06
Other countries.....	7,187	.09	-----	-----
Total.....	7,924,630	100.00	4,509,079	100.00



Table presenting destinations and comparative values of the 10 principal commodities exported in 1935 and 1934—Continued

## 8. LUMBER

Exported to—	1935		1934	
	Value	Percent	Value	Percent
United States.....	P1,944,973	38.72	P1,548,481	35.66
Japan.....	1,545,140	30.76	1,421,607	32.73
Great Britain.....	578,570	11.52	427,897	9.85
China.....	415,739	8.28	331,919	7.64
Australia.....	224,171	4.46	229,938	5.29
British Africa.....	180,708	3.60	211,440	4.87
Portuguese Africa.....	29,652	.59	86,574	1.99
Ireland.....	23,881	1.47	3,034	.07
Other countries.....	80,685	1.60	81,900	1.90
Total.....	5,023,519	100.00	4,342,790	100.00

## 9. COPRA MEAL OR CAKE

United States.....	P1,235,359	37.67	P894,819	42.57
Germany.....	974,592	29.72	769,675	36.61
Denmark.....	670,616	20.45	30,562	1.45
Sweden.....	152,384	4.65	185,186	8.81
Netherlands.....	137,565	4.20	149,497	7.11
Other countries.....	108,331	3.31	72,502	3.45
Total.....	3,278,847	100.00	2,102,241	100.00

## 10. CORDAGE

United States.....	P1,257,918	54.14	P1,570,106	58.85
British East Indies.....	248,592	10.70	223,799	8.39
Siam.....	163,948	7.06	147,933	5.54
Puerto Rico.....	111,113	4.78	195,957	7.34
Dutch East Indies.....	82,848	3.57	85,670	3.21
Hong Kong.....	77,014	3.31	49,496	1.86
Peru.....	72,349	3.11	54,915	2.06
China.....	66,097	2.84	74,147	2.78
Hawaii.....	43,278	1.86	47,328	1.77
Dutch West Indies.....	31,966	1.38	4,740	.18
Other countries.....	168,506	7.25	214,128	8.02
Total.....	2,323,629	100.00	2,668,219	100.00

*Other exports.*—The other exports (except gold bullion) during the year under review amounted to P12,371,474 as compared with P12,248,899 in 1934, showing an increase of P122,575, or 1 percent.

*Exports of gold ore and bullion.*—The following figures have been furnished by the American Trade Commissioner, Manila:

Year	Gold ore <sup>1</sup>	Gold bullion	Total value	Year	Gold ore <sup>1</sup>	Gold bullion	Total value
	Kilos	Ounces	Pesos		Kilos	Ounces	Pesos
1920.....		92,317	3,972,652	1929.....		281,893	11,187,672
1921.....		108,968	4,510,764	1930.....		323,179	12,680,025
1922.....		118,005	4,916,662	1931.....		320,408	12,769,805
1923.....		145,059	5,700,304	1932.....		439,394	17,071,442
1924.....		151,454	5,887,852	1933.....		425,030	16,442,175
1925.....		159,580	6,572,488	1934.....		517,934	19,786,604
1926.....		156,304	6,598,432	1935.....	841,308	659,843	26,034,357
1927.....		141,134	5,424,134				
1928.....		153,223	6,325,115	Total.....	841,308	4,193,725	165,860,483

<sup>1</sup> Gold ore has been continuously exported during this period but quantity figures are not available prior to 1935.

## PUBLIC FINANCE

Because the Tydings-McDuffie Act emphasizes the financial aspects of the transition period, it seems well to give in this report somewhat more detailed financial information than has been the practice in previous reports. Comparative figures for the past 10 years have been presented in connection with some of the financial statements. It is hoped that at a later date a very comprehensive report on public finance as of November 14, 1935, may be submitted.

The following information is furnished in table I (pp. 28-29).

*Result of operation—General fund.*—This statement presents actual income, actual expenditures, and excess of actual income over actual expenditures, in the general fund only, of the central government for the years 1926 to 1935, both inclusive. Excess of actual income over actual expenditures for the last 3 years totaled ₱10,757,924.45. This figure is the amount by which the current surplus account of the general fund increased during the last 3 years. Revenues accruing to the general fund during the past 10 years reached a peak in 1929 when they totaled ₱89,681,205.13; they reached a low in 1933 when they totaled ₱58,047,374.35. During 6 of the 10 years shown, actual income exceeded actual expenditures in the general fund; during the other 4 years actual expenditures exceeded actual income.

*Current surplus account—General fund.*—Mathematically, this account is the excess of current assets plus deferred charges over current liabilities plus deferred credits. It does not represent free unencumbered cash. The current surplus account varied during the 10 years presented from ₱51,789,035.29 as of December 31, 1929, to ₱28,590,665.91 on December 31, 1932. The account stood at ₱39,348,590.36 as of November 14, 1935.

*Annual authorizations and disbursements.*—This statement presents the details of the total authorized appropriations by years, the total actual expenditures and the excess of authorizations over actual expenditures. It should be stated in this connection that some authorizations were for various reasons not recorded in the books of account. Total recorded authorizations reached ₱103,064,413.33 in 1930; they amounted to ₱63,923,606.73 in 1933. Excess of recorded authorizations over actual expenditures was lowest during the 10-year period in 1928 when it amounted to ₱4,947,361.06. Recorded authorizations during 1935 (to Nov. 14) exceeded actual expenditures during the same period in the amount of ₱15,868,507.42.

*Cash position—General fund.*—This statement presents cash position by showing the excess of cash accounts over current liabilities, deferred credits, continuing appropriations, and advances to the money-order fund. Other calculations may be made in presenting "Cash position." The statement indicates that the excess of cash over the accounts above mentioned was lowest, during the 10-year period on December 31, 1926, when it amounted to ₱4,041,103.39. The most favorable showing was on December 31, 1929, when the excess amounted to ₱22,723,254.89. It should be noted that this figure was slightly over the figure presented on November 14, 1935, which appears as ₱22,461,257.35.

*Bonded indebtedness of the Philippine Government, November 14, 1935.*—The following statement presents the details of the bonded indebtedness of the Philippine government as of November

TABLE I.—Statement showing the result of operation, current surplus, annual authorizations, and disbursements and cash position of the general fund of the central government for the years 1926 to Nov. 14, 1935, inclusive (all figures in pesos)

## RESULT OF OPERATION

	1935 (to Nov. 14)	1934	1933	1932	1931
Actual income.....	60,447,773.89	63,203,962.02	58,047,374.35	61,441,172.50	69,425,591.75
Actual expenditures.....	57,999,675.72	56,310,148.58	56,631,361.51	65,936,588.72	76,641,465.73
Excess of actual income over actual expenditures.....	2,448,098.17	6,893,813.44	1,416,012.84	(4,495,416.22)	(7,215,873.98)
CURRENT SURPLUS					
Excess (or deficit) of actual income over actual expenditures.....	2,448,098.17	6,893,813.44	1,416,012.84	(4,495,416.22)	(7,215,873.98)
Add current surplus, Jan. 1.....	36,900,492.19	30,006,678.75	28,590,665.91	33,086,082.13	40,301,956.11
Current surplus.....	39,348,590.36	36,900,492.19	30,006,678.75	28,590,665.91	33,086,082.13
ANNUAL AUTHORIZATIONS AND DISBURSEMENTS					
Annual budget appropriations.....	42,886,996.20	56,510,338.00	54,058,674.00	65,690,451.78	76,460,873.75
Supplemental.....	4,038,240.98	4,466,903.70	1,163,302.04	475,708.69	102,113.32
Definite appropriations offset by receipts.....	3,259,091.03	177,885.21	110,993.83	457,364.36	343,571.25
Public Works appropriations.....	4,640,900.00				
Permanent appropriations.....	13,133,103.22	366,541.15			
Advances to Manila R. R. Co.....			1,542,775.17		
Conditional appropriations.....			4,432,347.00		
Total authorized appropriations.....	67,958,331.43	61,521,668.06	61,308,092.04	66,623,524.83	76,906,558.32
Add balance of continuing appropriations, Jan. 1.....	5,909,851.71	5,731,073.68	2,615,514.69	4,355,397.53	5,412,098.27
Total authorizations for the year.....	73,868,183.14	67,252,741.74	63,923,606.73	70,978,922.36	82,318,656.59
Deduct—					
Actual expenditures out of current appropriations.....	55,320,105.22	54,210,879.03	55,126,490.03	64,322,015.13	73,383,761.85
Actual expenditures out of continuing appropriations.....	2,679,570.50	2,099,269.55	1,504,871.48	1,614,573.59	3,257,703.88
Total actual expenditures.....	57,999,675.72	56,310,148.58	56,631,361.51	65,936,588.72	76,641,465.73
Excess of authorizations over actual expenditures.....	15,868,507.42	10,942,593.16	7,292,245.22	5,042,333.64	5,677,190.86
CASH POSITION					
Total cash.....	46,787,050.89	42,642,889.90	37,947,655.96	33,054,036.95	36,450,193.48
Deduct total current liabilities and deferred credits.....	13,267,497.21	16,122,839.19	19,327,482.97	17,259,789.72	22,340,562.58
Excess of cash over current liabilities and deferred credits.....	33,519,553.68	26,520,050.71	18,620,172.99	15,794,247.23	14,109,630.90
Deduct—					
Continuing appropriations.....	5,593,011.99	5,909,851.71	5,731,073.68	2,615,514.69	4,355,397.53
Cash advances to money-order fund.....	5,465,284.34	3,728,701.59	3,622,695.36	3,541,133.76	3,704,943.19
Total.....	11,058,296.33	9,638,553.30	9,353,769.04	6,156,648.45	8,060,340.72
Excess of cash over current liabilities, deferred credits, continuing appropriations and cash advances to the money-order fund.....	22,461,257.35	16,881,497.41	9,266,403.95	9,637,598.78	6,049,290.18



	1930	1929	1928	1927	1926
Actual income.....	84,494,630.24	89,681,205.13	85,454,252.44	77,977,658.69	78,413,363.51
Actual expenditures.....	95,828,238.78	79,071,437.31	79,866,551.37	74,595,811.68	90,948,603.22
Excess of actual income over actual expenditures.....	(11,333,608.54)	10,609,767.82	5,587,701.07	3,381,847.01	(12,535,239.71)
CURRENT SURPLUS					
Excess (or deficit) of actual income over actual expenditures.....	(11,333,608.54)	10,609,767.82	5,587,701.07	3,381,847.01	(12,535,239.71)
Add current surplus, Jan. 1.....	51,789,035.29	41,179,267.47	35,591,566.40	32,209,719.39	44,744,959.10
Current surplus.....	40,455,426.75	51,789,035.29	41,179,267.47	35,591,566.40	32,209,719.39
ANNUAL AUTHORIZATIONS AND DISBURSEMENTS					
Annual budget appropriations.....	80,442,990.90	80,207,283.00	74,972,495.79	76,102,487.00	69,957,894.24
Supplemental.....	17,147,280.36	1,966,167.77	4,764,174.30	661,824.28	24,145,882.60
Definite appropriations offset by receipts.....	861,527.98	180,875.55	195,517.62	195,784.93	218,508.00
Total authorized appropriations.....	98,451,799.24	82,354,326.32	79,932,187.71	76,960,096.21	94,322,284.84
Add balance of continuing appropriations, Jan. 1.....	4,612,614.09	3,561,795.79	4,881,724.72	3,822,518.55	1,643,812.34
Total authorizations for the year.....	103,064,413.33	85,916,122.11	84,813,912.43	80,782,614.76	95,966,097.18
Deduct—					
Actual expenditures out of current appropriations.....	92,354,894.10	76,638,707.62	76,091,174.00	72,157,109.24	89,390,905.02
Actual expenditures out of continuing appropriations.....	3,473,344.68	2,432,729.69	3,775,377.37	2,438,702.44	1,557,698.20
Total actual expenditures.....	95,828,238.78	79,071,437.31	79,866,551.37	74,595,811.68	90,948,603.22
Excess of authorizations over actual expenditures.....	7,236,174.55	6,844,684.80	4,947,361.06	6,186,803.08	5,017,493.96
CASH POSITION					
Total cash.....	60,431,885.17	58,095,268.98	46,493,428.22	40,651,670.64	35,813,834.85
Deduct total current liabilities and deferred credits.....	38,494,054.79	25,697,641.70	23,774,235.81	22,467,984.23	21,909,332.04
Excess of cash over current liabilities and deferred credits.....	21,937,830.38	32,397,627.28	22,719,192.41	18,183,686.41	13,904,502.81
Deduct—					
Continuing appropriations.....	5,412,098.27	4,612,614.09	3,561,795.79	4,881,724.72	3,822,518.55
Cash advances to money-order fund.....	5,323,321.56	5,061,758.30	8,462,565.40	7,880,326.78	6,040,880.87
Total.....	10,735,419.83	9,674,372.39	12,024,361.19	12,762,051.50	9,863,399.42
Excess of cash over current liabilities, deferred credits, continuing appropriations, and cash advances to the money-order fund.....	11,202,410.55	22,723,254.89	10,694,831.22	5,421,634.91	4,041,103.39

14, 1935, and the relating sinking funds. A net bonded indebtedness of ₱95,076,798.27 existed at the time of the inauguration of the Commonwealth.

*Bonded indebtedness and related sinking funds of the Philippine government,  
Nov. 14, 1935*

Central government-----	₱120,950,000.00
Provincial governments-----	7,904,700.00
Municipal governments-----	1,510,000.00
City of Manila-----	7,500,000.00
Metropolitan water district-----	16,500,000.00

Gross bonded indebtedness-----	154,364,700.00
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Deduct sinking funds accumulated on Nov. 14, 1935:

Central government-----	47,669,922.11
Provincial governments-----	1,382,570.72
Municipal governments-----	486,329.55
City of Manila-----	2,224,636.38
Metropolitan water district-----	7,524,442.97

Total-----	59,287,901.73
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Net bonded indebtedness on Nov. 14, 1935-----	95,076,798.27
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The history and the present status of the bonded indebtedness of the Philippine Islands on November 14, 1935, is presented on table II (pp. 31-36, incl.).

The sinking funds are made up of annual contributions from the general funds of the insular government or the respective provincial, municipal, or city governments or the Metropolitan Water District, together with the accretions derived from their investment.

*Bonded indebtedness of the Manila Railroad Co.*—The general balance sheet of the Manila Railroad Co., showing financial position on November 14, 1935, gives the bonded indebtedness of that company, together with government advances, as follows:

Refunding mortgage 5-percent gold bonds due July 1, 1956----	₱26,472,000.00
First mortgage 4-percent gold bonds due May	

1, 1939-----	₱31,182,000.00
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Less 4-percent gold bonds:

Pledged-----	₱5,622,000.00
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Retired-----	3,680,000.00
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Reacquired and held by the company-----	710,000.00
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10,012,000.00
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21,170,000.00
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First mortgage 4-percent gold bonds due May	
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1, 1959-----	2,246,000.00
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Less:

Retired-----	₱36,000.00
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Reacquired and held by the company-----	70,000.00
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106,000.00
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2,140,000.00
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7-percent sinking-fund bonds due May 1, 1937-----	3,000,000.00
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Philippine Government advances interest on 4- and 7-percent bonds-----	4,823,575.17
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Total long-term debt-----	57,605,575.17
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Against the bonded indebtedness, the balance sheet shows a sinking-fund reserve in the amount of ₱4,088,538.83.

*Detailed statement of all the outstanding bonds issued by the various branches and entities of the Philippine government, showing the history and the present status of each as of Nov. 14, 1935*

Name of bond	Nature of bond	Authority of issue			Date of—		Duration in years	Interest rate per annum (percent)
		Act of Congress of the United States	Act of the Philippine Island Legislature		Issue	Maturity		
			No.	Date approved				
Central government:								
Public improvement of 1906.....	Registered.....	Feb. 6, 1905	1444	Jan. 24, 1906	Feb. 1, 1906	Feb. 1, 1936	10-30	1 4
Public improvement of 1909.....	do.....	do.....	1954	May 20, 1909	Aug. 1, 1909	Aug. 1, 1939	10-30	1 4
Railroad purchase.....	do.....	Aug. 29, 1916	2615	Feb. 4, 1916	Dec. 1, 1916	Dec. 1, 1946	10-30	1 4
Public improvement of 1921.....	Coupon.....	July 21, 1921	2940	Feb. 5, 1921	Aug. 1, 1921	Aug. 1, 1941	20	2 5½
Financial interests protection.....	do.....	do.....	2999	Feb. 2, 1922	Feb. 1, 1922	Feb. 1, 1952	30	2 5
Irrigation and other permanent public works.....	do.....	May 31, 1922	3013	Mar. 8, 1922	July 1, 1922	July 1, 1952	30	2 4½
Currency.....	do.....	do.....	3058	June 13, 1922	July 15, 1922	July 15, 1952	30	2 4½
Cebu port works and improvement:								
First series.....	do.....	do.....	3413	Dec. 7, 1927	Mar. 1, 1928	Mar. 1, 1958	30	2 4½
Second series.....	do.....	do.....	3413	do.....	Sept. 15, 1929	Sept. 15, 1959	30	2 4½
Third series.....	do.....	do.....	3413	do.....	Mar. 15, 1930	Mar. 15, 1960	30	2 4½
Iloilo port work, and improvement:								
First series.....	do.....	do.....	3417	do.....	Apr. 1, 1928	Apr. 1, 1958	30	2 4½
Second series.....	do.....	do.....	3417	do.....	Oct. 15, 1929	Oct. 15, 1959	30	2 4½
Third series.....	do.....	do.....	3417	do.....	Apr. 15, 1930	Apr. 15, 1960	30	2 4½
Total (excluding collateral bonds in the amount of ₱15,494,700 which are shown and indicated below under the respective entities).								
Provincial governments:								
Iloilo public improvement <sup>3</sup> .....	Registered.....	May 31, 1922	3222	Sept. 16, 1925	Jan. 1, 1926	Jan. 1, 1956	10-30	2 4½
Pangasinan public improvement <sup>3</sup> .....	do.....	do.....	3228	Nov. 12, 1925	Mar. 1, 1926	Mar. 1, 1956	30	2 4½
Occidental Negros public improvement <sup>3</sup> .....	do.....	do.....	3229	Nov. 14, 1925	Apr. 1, 1926	Apr. 1, 1956	30	2 4½
Marinduque public improvement <sup>3</sup> .....	do.....	do.....	3268	Dec. 9, 1925	May 1, 1926	May 1, 1956	30	2 4½
Laguna public improvement <sup>3</sup> .....	Coupon.....	do.....	3265	Dec. 7, 1925	May 1, 1927	May 1, 1957	30	2 4½
Ilocos Norte public improvement <sup>3</sup> .....	Registered.....	do.....	3266	do.....	June 1, 1926	June 1, 1956	30	2 4½
Ilocos Sur public improvement <sup>3</sup> .....	Coupon.....	do.....	3278	Nov. 30, 1926	July 1, 1927	July 1, 1957	30	2 4½
Tarlac public improvement <sup>3</sup> .....	do.....	do.....	3279	do.....	do.....	do.....	30	2 4½
Pampanga public improvement <sup>3</sup> .....	do.....	do.....	3282	do.....	do.....	do.....	30	2 4½
Nueva Ecija public improvement <sup>3</sup> .....	do.....	do.....	3329	Dec. 7, 1926	do.....	do.....	30	2 4½
Bulacan public improvement <sup>3</sup> .....	do.....	do.....	3331	do.....	do.....	do.....	30	2 4½
Camarines Sur public improvement <sup>3</sup> .....	do.....	do.....	3280	Nov. 30, 1926	Aug. 1, 1927	Aug. 1, 1957	10-30	2 4½
La Union public improvement <sup>3</sup> .....	do.....	do.....	3281	do.....	Jan. 1, 1928	Jan. 1, 1958	30	2 4½
Occidental Negros public improvement bonds <sup>3</sup> .....	Registered.....	do.....	3987	Dec. 3, 1932	July 1, 1933	July 1, 1963	30	2 5
Total.....								

Footnotes at end of table.

*Detailed statement of all the outstanding bonds issued by the various branches and entities of the Philippine government, showing the history and the present status of each as of Nov. 14, 1935—Continued*

Name of bond	Nature of bond	Authority of issue			Date of—		Duration in years	Interest rate per annum (percent)
		Act of Congress of the United States	Act of the Philippine Island Legislature		Issue	Maturity		
			No.	Date approved				
Municipal governments:								
Cebu sewer and waterworks, Cebu	Registered	July 1, 1902	2009	Dec. 27, 1910	Jan. 1, 1911	Jan. 1, 1941	10-30	1 4
Majayjay sewer and waterworks, Laguna	do	Aug. 29, 1916	2773	Mar. 8, 1918	Jan. 1, 1919	Jan. 1, 1949	30	1 5
Santa Cruz sewer and waterworks, Laguna	do	do	2773	do	do	do	30	1 5
Bangued sewer and waterworks, Abra	do	do	2838	do	do	do	30	1 5
Cabatuan waterworks system, Iloilo <sup>3</sup>	do	May 31, 1922	3222	Sept. 16, 1925	Jan. 1, 1926	Jan. 1, 1956	10-30	2 4½
Dingle waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Iloilo waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Jaro waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
La Paz waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Maasin waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Pavia waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Pototan waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Santa Barbara waterworks system, Iloilo <sup>3</sup>	do	do	3222	do	do	do	10-30	2 4½
Bacarra waterworks system, Ilocos Norte <sup>3</sup>	do	do	3266	Dec. 7, 1925	June 1, 1926	June 1, 1956	30	2 4½
Laoag waterworks system, Ilocos Norte <sup>3</sup>	do	do	3266	do	do	do	30	2 4½
Pasquin waterworks system, Ilocos Norte <sup>3</sup>	do	do	3266	do	do	do	30	2 4½
Vigan waterworks system, Ilocos Sur <sup>3</sup>	Coupon	do	3278	Nov. 30, 1926	July 1, 1927	July 1, 1957	30	2 4½
Camaligan waterworks system, Camarines Sur <sup>3</sup>	do	do	3280	do	Aug. 1, 1927	Aug. 1, 1957	10-30	2 4½
Canaman waterworks system, Camarines Sur <sup>3</sup>	do	do	3280	do	do	do	10-30	2 4½
Magarao waterworks system, Camarines Sur <sup>3</sup>	do	do	3280	do	do	do	10-30	2 4½
Naga waterworks system, Camarines Sur <sup>3</sup>	do	do	3280	do	do	do	10-30	2 4½
City of Manila:								
Public improvement, Act 2894 <sup>3</sup>	do	do	3051	Mar. 11, 1922	June 1, 1922	Dec. 1, 1950	28½	2 4½
Lowland improvement <sup>3</sup>	do	do	3352	Nov. 17, 1927	May 1, 1928	May 1, 1958	10-30	2 4½
Public improvement	do	do	3456	Dec. 3, 1928	Apr. 1, 1929	Apr. 1, 1959	30	2 4½
Metropolitan water district:								
Sewer and waterworks (Manila):								
Second series	Registered	July 1, 1902	1323	Apr. 14, 1905	Jan. 2, 1907	Jan. 2, 1937	10-30	1 4
Third series	do	do	1323	do	Jan. 2, 1908	Jan. 2, 1938	10-30	1 4
Metropolitan water district	Coupon	May 31, 1922	3204	Dec. 3, 1924	Apr. 1, 1925	Apr. 1, 1955	10-30	2 5
Do	do	do	3255	Dec. 3, 1925	(4)	(4)	30	(4)

Name of bond	Nature of bond	Amount authorized			Sinking fund reserve				Net bonded liability	Purpose of issue
		Total	Issued	Unissued	Cash	Investments	Canceled bonds, Act 3014	Total		
Central government:										
Public improvement of 1906.	Registered-----	P2,000,000	P2,000,000	-----	P183,601.05	P585,000	P1,210,000	P1,978,601.05	P21,398.95	To construct public works projects, etc.
Public improvement of 1909.	-----do-----	3,000,000	3,000,000	-----	210,280.75	484,000	1,744,000	2,438,280.75	561,719.25	
Railroad purchase-----	-----do-----	8,000,000	8,000,000	-----	34,372.60	836,000	3,048,000	3,918,372.60	4,081,627.40	To purchase capital stock of the Manila Railroad Co.
Public improvement of 1921.	Coupon-----	20,000,000	20,000,000	-----	2,085,829.68	6,405,500	4,290,000	12,781,329.68	7,218,670.32	To construct irrigation systems and other public improvements.
Financial interests protection.	-----do-----	10,000,000	10,000,000	-----	81,339.76	685,000	2,476,000	3,242,339.76	6,757,660.24	To protect the financial interests of the government.
Irrigation and other permanent public works.	-----do-----	43,000,000	23,600,000	<sup>5</sup> P19,400,000	11,195.16	2,080,000	5,448,000	7,539,195.16	16,060,804.84	To provide funds for the construction of public improvements, etc.
Currency-----	-----do-----	47,000,000	46,000,000	<sup>5</sup> 1,000,000	761,625.55	3,251,000	10,672,000	14,684,625.55	31,315,374.45	To provide funds with which to constitute the gold-standard fund and the treasury-certificate fund.
Cebu port works and improvement:										
First series-----	-----do-----	1,500,000	1,500,000	-----	361.06	69,000	164,000	233,361.06	1,266,638.94	To provide funds for the extension and improvement of the port of Cebu, Cebu.
Second series-----	-----do-----	1,500,000	1,500,000	-----	1,737.13	113,000	78,000	192,737.13	1,307,262.87	
Third series-----	-----do-----	1,000,000	1,000,000	-----	4,084.97	103,000	-----	107,084.97	892,915.03	
Iloilo port works and improvement:										
First series-----	-----do-----	1,500,000	1,500,000	-----	3,785.89	65,000	164,000	232,785.89	1,267,214.11	To provide funds for the construction and improvement of the port of Iloilo, Iloilo.
Second series-----	-----do-----	1,000,000	1,000,000	-----	2,636.55	105,000	20,000	127,636.55	872,363.45	
Third series-----	-----do-----	1,850,000	1,850,000	-----	2,571.96	191,000	-----	193,571.96	1,656,428.04	
Total (excluding collateral bonds in the amount of P15,494,700 which are shown and indicated below under the respective entities).	-----	141,350,000	120,950,000	20,400,000	3,383,422.11	14,972,500	29,314,000	47,669,922.11	73,280,077.89	

Footnotes at end of table.



*Detailed statement of all the outstanding bonds issued by the various branches and entities of the Philippine government, showing the history and the present status of each as of Nov. 14, 1935—Continued*

Name of bond	Nature of bond	Amount authorized			Sinking fund reserve				Net bonded liability	Purpose of issue
		Total	Issued	Unissued	Cash	Investments	Canceled bonds, Act 3014	Total		
Provincial governments:										
Iloilo public improvement <sup>3</sup>	Registered	1,121,000	1,121,000	-----	1,196.18	88,000	145,000	234,196.18	886,803.82	To construct water works systems, etc.
Pangasinan public improvement <sup>3</sup>	do	857,000	857,000	-----	18,322.73	51,000	112,000	181,322.73	675,677.27	
Occidental Negros public improvement <sup>3</sup>	do	800,000	800,000	-----	251.68	99,000	68,000	167,251.68	632,748.32	
Marinduque public improvement <sup>3</sup>	do	111,000	111,000	-----	1,318.21	22,000	-----	23,318.21	87,681.79	
Laguna public improvement <sup>3</sup>	Coupon	196,000	196,000	-----	2,405.70	47,000	2,000	51,405.70	144,594.30	To construct public works, etc.
Ilocos Norte public improvement <sup>3</sup>	Registered	442,000	442,000	-----	1,659.61	47,000	42,000	90,659.61	351,340.39	
Ilocos Sur public improvement <sup>3</sup>	Coupon	260,000	260,000	-----	396.11	24,500	22,000	46,896.11	213,103.89	
Tarlac public improvement <sup>3</sup>	do	343,000	342,000	1,000	1,262.87	18,000	42,000	61,262.87	280,737.13	
Pampanga public improvement <sup>3</sup>	do	955,000	954,000	1,000	2,297.54	77,000	94,000	173,297.54	780,702.46	To construct roads and to reimburse insular government of outstanding loans contracted for permanent improvements.
Nueva Ecija public improvement <sup>3</sup>	do	690,000	690,000	-----	621.99	25,000	98,000	123,621.99	566,378.01	
Bulacan public improvement <sup>3</sup>	do	474,000	474,000	-----	2,321.97	43,000	40,000	85,321.97	388,678.03	
Camarines Sur public improvement <sup>3</sup>	do	160,000	160,000	-----	1,064.70	21,500	6,000	28,564.70	131,435.30	
La Union public improvement <sup>3</sup>	do	330,000	220,000	110,000	2,307.43	62,000	-----	64,307.43	155,692.57	
Occidental Negros public improvement bonds <sup>3</sup>	Registered	1,500,000	1,277,700	222,300	144.00	51,000	-----	51,144.00	1,226,556.00	
Total		8,239,000	7,904,700	334,300	35,570.72	676,000	671,000	1,382,570.72	6,522,129.28	

Municipal governments:										
Cebu sewer and water-works, Cebu.	Registered----	250,000	250,000	-----	6,183.96	95,000.00	92,000	193,183.96	56,816.04	} To construct sewer and water-supply system, etc.
Majayjay sewer and water-works, Laguna.	-----do-----	60,000	40,000	20,000	1,748.74	15,000.00	-----	16,748.74	23,251.26	
Santa Cruz sewer and waterworks, Laguna.	-----do-----	90,000	90,000	-----	1,229.70	37,000.00	-----	38,229.70	51,770.36	
Bangued sewer and water-works, Abra.	-----do-----	40,000	40,000	-----	957.20	16,000.00	-----	16,957.20	23,042.80	
Cabatuan waterworks system, Iloilo. <sup>3</sup>	-----do-----	8,000	8,000	-----	1,557.73	-----	-----	1,557.73	6,442.27	
Dingle waterworks system, Iloilo. <sup>3</sup>	-----do-----	20,000	20,000	-----	471.96	2,500.00	1,000	3,971.96	16,028.04	
Iloilo waterworks system, Iloilo. <sup>3</sup>	-----do-----	338,000	338,000	-----	1,503.56	37,000.00	32,000	70,503.56	267,496.44	
Jaro waterworks system, Iloilo. <sup>3</sup>	-----do-----	94,000	94,000	-----	1,563.14	11,000.00	7,000	19,563.14	74,436.86	
La Paz waterworks system, Iloilo. <sup>3</sup>	-----do-----	80,000	80,000	-----	1,247.13	10,500.00	5,000	16,747.13	63,252.87	
Maasin waterworks system, Iloilo. <sup>3</sup>	-----do-----	3,000	3,000	-----	584.11	-----	-----	584.11	2,415.89	
Pavia waterworks system, Iloilo. <sup>3</sup>	-----do-----	25,000	25,000	-----	682.82	3,500.00	1,000	5,182.82	19,817.18	
Pototan waterworks system, Iloilo. <sup>3</sup>	-----do-----	159,300	159,200	100	1,488.68	11,500.00	20,000	32,988.68	126,211.32	
Santa Barbara waterworks system, Iloilo. <sup>3</sup>	-----do-----	104,800	104,800	-----	436.08	13,500.00	8,000	21,936.08	82,863.92	
Bacarra waterworks system, Ilocos Norte. <sup>3</sup>	-----do-----	7,000	7,000	-----	1,347.63	-----	-----	1,347.63	5,652.37	
Laoag waterworks system, Ilocos Norte. <sup>3</sup>	-----do-----	89,000	89,000	-----	1,051.66	9,000.00	8,000	18,051.66	70,943.34	
Pasquin waterworks system, Ilocos Norte. <sup>3</sup>	-----do-----	10,000	10,000	-----	1,925.13	-----	-----	1,925.13	8,074.87	
Vigan waterworks system, Ilocos Sur. <sup>3</sup>	Coupon-----	90,000	90,000	-----	1,966.64	8,000.00	6,000	15,966.64	74,033.36	
Camaligan waterworks system, Camarines Sur. <sup>3</sup>	-----do-----	5,000	5,000	-----	837.40	-----	-----	837.40	4,162.60	
Canaman waterworks system, Camarines Sur. <sup>3</sup>	-----do-----	5,000	5,000	-----	837.40	-----	-----	837.40	4,162.60	
Magarao waterworks system, Camarines Sur. <sup>3</sup>	-----do-----	15,000	15,000	-----	1,602.19	1,000.00	-----	2,602.19	12,397.81	
Naga waterworks system, Camarines Sur. <sup>3</sup>	-----do-----	37,500	37,000	500	1,606.69	5,000.00	-----	6,606.69	30,393.31	
Total-----	-----	1,530,600	1,510,000	20,600	30,829.55	275,500.00	180,000	486,329.55	1,023,670.45	

Footnotes at end of table.

*Detailed statement of all the outstanding bonds issued by the various branches and entities of the Philippine government, showing the history and the present status of each as of Nov. 14, 1935—Continued*

Name of bond	Nature of bond	Amount authorized			Sinking fund reserve				Net bonded liability	Purpose of issue
		Total	Issued	Unissued	Cash	Investments	Canceled bonds, Act 3014	Total		
City of Manila: Public improvement, Act 2894. <sup>3</sup>	Coupon-----	5,500,000	5,500,000	-----	11,682.20	681,000.00	1,242,000	1,934,682.20	3,565,317.80	To construct public works and other improvements. To fill lowlands in the city of Manila. To construct permanent public improvements.
Lowland improvement <sup>3</sup> -----	do-----	1,000,000	1,000,000	-----	25,533.82	37,000.00	96,000	158,533.82	841,466.18	
Public improvement-----	do-----	10,000,000	1,000,000	9,000,000	4,420.36	77,000.00	50,000	131,420.36	868,579.64	
Total-----	-----	16,500,000	7,500,000	9,000,000	41,636.38	795,000.00	1,388,000	2,224,636.38	5,275,363.62	
Metropolitan water district: Sewer and waterworks (Manila):										To provide funds for the construction and extension of sewer and waterworks systems for the city of Manila. Extension of sewer and water-supply systems.
Second series-----	Registered-----	4,000,000	4,000,000	-----	106,444.46	1,220,000.00	2,388,000	3,714,444.46	285,555.54	
Third series-----	do-----	2,000,000	2,000,000	-----	60,333.46	1,102,472.50	770,000	1,932,805.96	67,194.04	
Metropolitan water district. Do-----	Coupon-----	6,000,000	6,000,000	-----	12,016.18	487,000.00	944,000	1,443,016.18	4,556,983.82	
	do-----	6,000,000	4,500,000	1,500,000	11,176.37	363,000.00	60,000	434,176.37	4,065,823.63	
Total-----	-----	18,000,000	16,500,000	1,500,000	189,970.47	3,172,472.50	4,162,000	7,524,442.97	8,975,557.03	
Grand total-----	-----	85,619,600	154,364,700	31,254,900	3,681,429.23	19,891,472.50	35,715,000	59,287,901.73	95,076,798.27	

<sup>1</sup> Payable quarterly.<sup>2</sup> Payable semiannually.<sup>3</sup> Total collateral bonds, ₱15,494,700.<sup>4</sup> See following table:

Date of issue	Maturity	Rate of interest (percent)	Amount issued	Date of issue	Maturity	Rate of interest (percent)	Amount issued
Oct. 1, 1929-----	Oct. 1, 1959-----	4½	₱3,000,000	Nov. 1, 1935-----	Nov. 1, 1965-----	5	₱500,000
Apr. 1, 1931-----	Apr. 1, 1961-----	4½	500,000				4,500,000
Mar. 15, 1935-----	Mar. 15, 1965-----	5	500,000				

<sup>5</sup> Unissued bonds under Acts 3013 and 3058 in the sums of ₱19,400,000 and ₱1,000,000, respectively, are authorized to be canceled under Act 3383.

In view of the provisions of the Tydings-McDuffie Act, under which the Commonwealth Government assumes responsibility for the payment of the bonded indebtedness of its instrumentalities, it is evident that the inability of the Manila Railroad Co. to set up adequate sinking funds out of earnings produces an obligation which the Philippine Government will have to meet.

*Government-owned corporations.*—The following is a statement reflecting the financial condition of the Government-owned corporations on November 14, 1935. The Sabani Estate is administered by the National Development Co.

	Outstanding capital stock			
	Total	Held by the central government	Held by Government-owned companies	Held by private parties
Philippine National Bank.....	P10,000,000.00	P9,838,600		P161,400
Manila Railroad Co.....	25,127,000.00	25,127,000		
Manila Hotel Co.....	900,000.00		<sup>1</sup> P871,600.00	28,400
National Development Co.....	5,935,900.00	5,935,000		900
Cebu Portland Cement Co.....	2,750,800.00		<sup>2</sup> 2,750,000.00	800
Sabani estate.....	288,338.90		<sup>3</sup> 288,338.90	

  

	Surplus or deficit		
	Nov. 14, 1935	Dec. 31, 1934	Increase (+), decrease (-)
Philippine National Bank.....	P15,745,253.62	P14,207,887.61	+P1,537,366.01
Manila Railroad Co.....	18,230,484.79	20,110,524.53	-1,880,039.74
Manila Hotel Co.....	873,749.96	753,930.84	+119,819.12
National Development Co.....	<sup>2</sup> 2,179,672.24	<sup>2</sup> 2,449,229.29	+269,557.05
Cebu Portland Cement Co.....	2,918,557.53	2,837,826.32	+80,731.21

<sup>1</sup> Manila Railroad Co.

<sup>2</sup> Deficit.

<sup>3</sup> National Development Co.

As will be seen from the above statement, the net worth of the Philippine National Bank was increased by P1,537,366.01 during the period from January 1 to November 14, 1935. During this period 22 shares of stock were repurchased by the government from private parties at their par value, leaving P161,400 worth of shares outstanding in private ownership. In accordance with section 4 of Act 3174, the bank reimbursed the government in the sum of P2,050,748.81 during this period. The contingent obligations of the bank to the government for contributions stood as follows on November 14, 1935:

Original contributions by the government.....	P61,951,931.75
Less payments made by bank under sec. 4 of Act 3174 to Nov. 14, 1935.....	13,662,834.14
Balance, payable as profits are realized.....	48,289,097.61

This situation is the result of the losses incurred by the bank in the years just prior to 1921, for an account of which see Report of the Governor-General for that year, and the rehabilitation of the bank by the Philippine Government as provided in Acts 2999 and 3174.

A consolidated balance sheet showing the financial condition of the Philippine National Bank on November 14, 1935, follows:

*Consolidated Condensed Balance Sheet of Philippine National Bank, Manila,  
P. I., Nov. 14, 1935*

RESOURCES		
Cash and due from banks:		
Cash on hand	₱10,273,655.73	
Circulation reserve deposited with United States banks	2,500,000.00	
Due from United States banks (time)	2,900,000.00	
Due from foreign banks (time)	1,000,000.00	
Due from United States banks (demand)	11,550,812.46	
Due from foreign banks (demand)	781,150.49	
Due from local banks	161,059.43	
Checks and other cash items	36,266.00	
		₱29,202,944.11
Bonds:		
U. S. Government bonds	8,052,008.54	
Philippine government bonds	13,022,000.00	
State, municipal, and other bonds	18,485,250.00	
Total (par value)	39,559,258.54	
Bond premiums	573,329.72	
		40,132,588.26
Other investments		45,799.00
Loans and discounts:		
Bankers' acceptances import, export, and other similar self-liquidating bills	5,077,041.70	
Real-estate mortgage loans	9,271,902.97	
Other loans	29,064,140.45	
		43,413,085.12
Assets acquired in settlement of loans		1,041,340.68
Interoffice float (net)		1,764,328.07
Bank sites and office equipment		483,592.20
Other assets		41,894.68
Total resources		116,125,572.12
LIABILITIES		
Present net worth:		
Capital paid up	₱10,000,000.00	
Surplus	8,136,807.05	
Reserve for contingencies	6,210,899.95	
Reserve for self-insurance	544,000.00	
Undivided profits	853,546.62	
		₱25,745,253.62
Deferred profits:		
Discount collected not earned	197,125.66	
Reserve for uncollected interest	812,789.57	
Reserve for uncollected profits	2,608,877.32	
		3,618,792.55
Deposits:		
Government	32,913,467.31	
Individual	43,675,447.62	
Trust department	116,634.81	
Cashier's and manager's checks	306,041.75	
Due to United States banks	18,199.17	
Due to foreign banks	16,758.91	
Due to local banks	1,137,572.39	
		78,184,121.96
Bank notes in circulation		7,190,506.00



## Other liabilities:

Philippine National Bank real-estate mortgage 6 percent bonds-----	₱128, 100. 00	
Interest accrued payable-----	351, 260. 34	
Reserve for taxes-----	324, 434. 49	
Accounts payable and others-----	583, 103. 16	
		₱1, 386, 897. 99
Total liabilities-----		116, 125, 572. 12

## CONTINGENT ACCOUNTS

Exchange contracts-----	₱2, 528, 704. 29
Letters of credit-----	2, 296, 371. 66
Bills on hand—collection-----	1, 046, 719. 35
Items for safekeeping and held as collateral-----	1, 838, 129. 00
Assets held in trust-----	5, 902, 786. 05
Total-----	13, 612, 710. 35

The strong liquid position of the Philippine National Bank is self-evident from the above balance sheet. The reserve for contingencies in the amount of ₱6,210,899.95 is sufficient to cover all past-due paper, all items in litigation and reasonable depreciation on the bonds owned by the bank.

The Manila Railroad Co. registered an increase of ₱556,463.70 as of November 14, 1935, in its total assets over those of the preceding year (ending Dec. 31, 1934). On the other hand, it showed an increase of ₱1,748,400 in its long-term debt, due to advances made by the government on account of interest on its first mortgage 4-percent gold bonds and 7-percent sinking-fund bonds; an increase of ₱73,422.37 in its current and deferred liabilities; and an increase of ₱614,681.07 in its unadjusted credits consisting mainly of accrued depreciation on equipment and other property, thus resulting in a decrease in net worth of ₱1,880,034.74 on November 14, 1935, as compared with that on December 31, 1934.

During the period under review, the Manila Hotel Co. reported an increase of ₱119,819.12 in its surplus over that of the preceding year. This increase is attributed to the profit realized during the period, due mainly to the tourist trade and the improvement in general conditions.

At the close of business on November 14, 1935, the National Development Co. showed an increase of ₱269,557.05 in its net worth which was principally due to dividends received on the company's investment in stock of the Cebu Portland Cement Co.

As a result of successful operations during the period under review, the Cebu Portland Cement Co. realized an increase in its net worth of ₱80,731.21. Five shares of stock were repurchased by the company from private parties, leaving a balance of ₱800 worth of stock in private ownership.

## THE CURRENCY

*Composition.*—The money in circulation on November 14, 1935, was as follows:

Philippine pesos, silver half-pesos, subsidiary and minor coins:

Issued:

Silver pesos-----	₱21,812,541.00
Silver half pesos---	6,272,494.50
Subsidiary coins---	9,422,424.00
Minor coins-----	3,280,226.45

₱40,787,685.95

Less amount in treasury vaults pertaining to general and other miscellaneous funds:

Silver pesos-----	₱17,357,823.00
Silver half pesos---	3,265,139.50
Subsidiary coins---	1,216,080.20
Minor coins-----	251,142.07

Amount estimated destroyed,

unknown----- 100,000.00

22,190,184.77

Net amount in circulation----- ₱18,597,501.18

Philippine treasury certificates:

Issued----- ₱102,314,882.00

Less amount in treasury vaults pertaining to general and other miscellaneous funds: ₱18,520,757.00

Add amount estimated destroyed, unknown----- 350,000.00

18,870,757.00

Net amount in circulation----- 83,444,125.00

Bank notes:

Issued by the Bank of the Philippine Islands-----

₱4,228,745.00

Less amount estimated destroyed, unknown-----

40,000.00

₱4,188,745.00

Issued by the Philippine National Bank-----

7,272,000.00

Add Philippine National Bank emergency notes-----

54,767.77

Total----- 7,326,767.77

Less amount estimated destroyed, unknown-----

150,000.00

7,176,767.77

Net amount in circulation of bank notes----- 11,365,512.77

Total net circulation, Nov. 14, 1935----- 113,407,138.95

*Reserves.*—The reserve behind the treasury certificates consists of silver pesos and half-pesos on deposit in the Philippine Treasury in the amount of 100 percent of all treasury certificates in circulation and available for circulation, or the equivalent in United States currency on deposit in the United States Treasury or in those United States banks which are designated by proper authority as depositories.

The reserve behind the bank notes in addition to the resources of the issuing banks consists of a deposit with the insular treasurer or the Treasurer of the United States of 25 percent of the notes in circulation.

In order to maintain the parity between the Philippine peso and the United States dollar at the rate of 2 pesos for \$1 and to serve as an additional reserve behind the Philippine currency, a fund known as the Exchange Standard Fund was established in an amount not less than 15 percent of the Philippine coins and treasury certificates in circulation or available for circulation. Provision was made for accretions to this fund by profits of seignorage, sale of exchange, and other items of income; but it was stipulated that when the fund reached an amount equal to 25 percent of the Philippine coins and treasury notes in circulation or available for circulation, any surplus above this percentage might be transferred in whole or in part to the general fund.

The amount of Philippine coins and treasury certificates in circulation and available therefor on November 14, 1935 (a legal computation), was ₱121,407,545.01. The minimum limit of the Exchange Standard Fund on that date was ₱18,211,131.75. The amount actually on hand in the Philippine Treasury and deposited in the Treasury of the United States and in United States banks was ₱47,838,049.08 which was, therefore, ₱29,626,917.33 above the minimum limit and ₱17,486,162.83 above the 25-percent provision mentioned above. Legally, this latter sum might have been transferred to the general fund on November 14, 1935.

#### SUGAR CONTROL

*Authority.*—Under the provisions of the Jones-Costigan Act, on May 10, 1934, the Secretary of Agriculture of the United States appointed the Governor General of the Philippine Islands in his name to allot the quota of sugar for the Philippine Islands which might be transported to, received in, processed, or marketed in continental United States during the calendar year 1934. On August 3, 1934, the Secretary of Agriculture appointed the Governor General to allot the Philippine quota for calendar year 1935. On September 11, 1934, the President of the United States by proclamation extended and made applicable to the Philippines in the case of sugar beets and sugar cane the provisions of section 10 (f) of the Agricultural Adjustment Act as amended. On May 17, 1935, the Secretary of Agriculture appointed the Governor General to allot the Philippine sugar quota for 1936 and on November 7, 1935, appointed the High Commissioner to continue the allotments for 1936, effective November 15, 1935. In connection with the appointment of the High Commissioner as allotment officer the President on October 19, 1935, delegated to him the authority to perform this additional duty under section 7, paragraph 4, of the Tydings-McDuffie Act. On December 4, 1934, the Governor General approved Act No. 4166 of the Tenth Philippine Legislature, known as the Sugar Limitation Law, which authorized the Governor General to determine Philippine consumption and reserve quotas and to allot and control their production, milling, and marketing. The act further strengthened and provided

sanctions for the enforcement of the Jones-Costigan Act within the Philippine Islands, specifically providing in section 6 that "The Governor General, or such other authority as the Government of the United States may so empower, together with such officials and employees of the Government of the United States or of the Philippine Islands as such officer may designate, shall constitute the 'United States Sugar Authority in the Philippine Islands', and as such, when acting within its legal powers, shall be given full faith and obedience by all persons affected. The allocation of all A (centrifugal, permitted to be shipped to continental United States) and AA (refined, permitted to be shipped to continental United States) sugar permitted to be milled within any given calendar or crop year shall be made by the United States Sugar Authority in the Philippine Islands among the sugar plantation owners, sugar mills, and refining plants entitled thereto under the laws and regulations governing the same." On November 7, 1935, the President designated and empowered the High Commissioner, with such officials and employees of the United States or of the Philippine Islands as he might designate, to constitute the "United States Sugar Authority in the Philippine Islands."

The effect of the foregoing authorizations and enactments was to place the Governor General in complete control of all centrifugal and refined sugar produced in the Philippine Islands for the period beginning with the 1933-34 crop and extending to the inauguration of the Commonwealth. In addition, the extension to the Philippines of section 10 (f) of the Agricultural Adjustment Act as amended resulted in the collection within the Philippine Islands by representatives of the United States Bureau of Internal Revenue of the floor stocks and processing taxes on sugar and in the establishment by representatives of the Agricultural Adjustment Administration of a program of benefit payments to planters executing and complying with contracts for adjustment of production.

*Personnel and organization.*—The administration of the Governor General's duties as allotment officer for the United States quota was set up late in May 1934 under an informal sugar committee consisting of three members of the Governor General's staff—Mr. E. D. Hester, Economic Adviser, as executive officer; Mr. J. Weldon Jones, Insular Auditor, as sugar auditor; and Mr. E. G. Kemp, Legal Adviser, as counsel. These men, without compensation and in addition to their other duties, served continuously in the capacities indicated. Subsequent to its enactment and until the inauguration of the Commonwealth, the same officers administered the local sugar limitation law.

On July 27, 1934, Dr. C. M. Rosenquist, Chief Agricultural Economist, arrived from Washington and established a local branch of the Agricultural Adjustment Administration's sugar section. He was assisted by Dr. Thurman S. Arnold, legal assistant, and by Mr. Elisha Lee, Jr., Agricultural Economist, and by a considerable number of local American and Filipino employees. Dr. Arnold left in September 1934, and Dr. Rosenquist in August 1935, since which time Mr. Lee has been in charge of the sugar section office. The function of the sugar section has been almost exclusively that of executing production adjustment contracts, inspecting compliance

therewith, and certifying payments thereunder. Two divisions were established and maintained by the sugar section in the office of the Governor General to assist him in the making and enforcing of allotments: A computation division established November 20, 1934, under Mr. D. E. Graham and a records division established February 15, 1935, under Mr. F. A. Hendricks. The records division maintained a field force of authorized permit agents working out of eight provincial stations so arranged as to allow a weekly visit to each of the mills. On November 9, 1935, the computation and records divisions were merged as the permit and allotment section which was then separated from the sugar section and placed directly under the Governor General.

Several Washington officers arrived on October 23, 1934, and established the following service offices: A branch of the Office of the Comptroller of the Agricultural Adjustment Administration under Mr. Lester A. Twigg; a disbursing office of the Treasury Department under Mr. Walter K. Trought; a branch of the General Accounting Office under Mr. Frank F. Conway; a branch of the Bureau of Internal Revenue under Mr. Wilson E. Wells.

*Audits.*—The first step in sugar administration, begun early in July 1934, was an audit covering in complete detail the ownership, operations, and production for the 1930–31 to 1933–34 crop years of each of the 47 centrifugal sugar mills and three refineries. This was followed by an audit covering area, title, ownership, leaseholds (written, oral, or customary) and production for the 1930–31 to 1933–34 crop years of each of the 21,229 sugar plantations from which cane was delivered to the mills. The work was performed under the charge of Mr. J. Weldon Jones, the Insular Auditor, assisted by officers and employees of his office detailed for the purpose. The mill audits were completed in September 1934, and the plantation audits together with settlement of all appeals were completed by the end of October 1935.

All subsequent work including allocation, execution of production adjustment contracts and benefit payments, was directly based upon the mill and plantation audits. Their high degree of accuracy and the competence of the auditing staff were evidenced by the fact that less than 450 contested appeals were received.

*Allocation of United States quota.*—The second step was the allocation of the Philippine quota of sugar permitted to be shipped to continental United States. The Governor General in June 1934, determined that the allocation among mills, plantations, and planters should be proportionately on the basis of their average annual production during an index period consisting of the calendar years 1931, 1932, 1933. Inasmuch as the Jones-Costigan law was not enacted and the authority to allocate was not received until the 1933–34 crop had been almost entirely shipped or contracted for sale in a quantity half again as large as the quota, no individual mill and plantation allotments were made for 1934. Agreement was had with the Agricultural Adjustment Administration in Washington to admit into the United States all 1934 sugar shipped prior to October 15, 1934, hold the excess over quota in customs bond until January 1, 1935, then admit it and charge it against the Philippine quota for 1935.



Quota and shipment figures for 1934 and 1935 in short tons, raw value, were as follows:

1934 quota as revised.....	1, 005, 602
1934 shipments.....	1, 493, 932
1934 overquota shipments.....	488, 330
1935 quota as revised.....	981, 958
1934 overquota shipments deducted from 1935 quota.....	476, 286
1935 "effective" quota.....	505, 672
1935 shipments.....	529, 180
1935 overquota shipments.....	23, 508

To be deducted from 1936 quota:

Balance of 1934 overquota shipments.....	12, 044
1935 overquota shipments.....	23, 508
Total to be deducted.....	35, 552
Less credit for tolerance, 1935.....	4, 495
Net to be deducted.....	31, 057

On January 10, 1935, the Agricultural Adjustment Administration in Washington certified an effective quota for 1935 of 524,606 short tons, raw value. Later calculations and revisions not finally reported to the Manila office until October 15, 1935, reduced the effective quota to 505,672 short tons, raw value. Consequently, the former quantity was the subject of individual allotment to the 47 mill companies, 21,229 plantations, and to the 23,734 planters, effected in the following manner:

(a) First, 47 mill districts were established each consisting of a centrifugal sugar mill and of the plantations from which cane had been delivered to the mill during the index period.

(b) Second, on the basis of the mill audits, the Philippine quota of United States sugar was split up between the mill districts proportionately on the basis of their average annual production of centrifugal sugar during the index period. That is, if the mill in a sugar district produced 10 percent of the centrifugal sugar produced in the Philippine Islands during the index period, the district received rights to produce 10 percent of any Philippine quota of United States sugar to be established—the percentage being known as a "district United States production coefficient." The quantity of sugar resulting from the application of the coefficient to the quota was termed the "district United States production allowance."

(c) Third, on the basis of the plantation audits, and as rapidly as they were completed for each district, the district United States production allowance was split up among the plantations in the district proportionately on the basis of their average annual production during the index period. That is, if a plantation had grown the sugarcane which produced 2 percent of the centrifugal sugar milled in the district during the index period, it received rights to 2 percent of any district United States production allowance—the percentage being termed a "plantation-owner's United States production coefficient." The quantity of sugar resulting from the application of the coefficient to the district United States production allowance was termed the "plantation-owner's United States production allowance."

(d) Fourth, as all Philippine sugar mills work on a toll system (the mill retaining 40 to 50 percent of the sugar and returning 50 to 60 percent to the planter) it was necessary to divide production coefficients and allowances into mill company and plantation marketing allotments. The toll percentage varied between districts and frequently between plantations in a district. The toll percentages for each plantation were set forth accurately in the audits and these were applied to the plantation-owner's United States production coefficients. That is, if a plantation received 60 percent of the sugar derived from the cane

it delivered during the 1933-34 crop year, it received rights to market sugar measured by 60 percent of its plantation-owner's United States production coefficient—the percentage being known as a “plantation-owner's United States marketing coefficient.” The quantity of sugar resulting from the application of the coefficient to the district United States production allowance was termed the “plantation-owner's United States marketing allotment.” As a part of this procedure, the total of the plantation-owner's United States marketing coefficients for all plantations within a district was subtracted from the district United States production coefficient, thus establishing a “mill company United States marketing coefficient.” The quantity of sugar resulting from the application of this coefficient to the district United States production allowance was termed the “mill company United States marketing allotment.”

(e) Fifth, although most Philippine sugar plantations are operated by their owners and their families, or on a labor-administration basis, the audits showed a considerable number of lessee-planters operating under written, oral, or customary contracts with owners. Because of their weak social and economic position, the Governor-General deemed it necessary to specially protect this element in the industry and consequently there was devised an ultimate step in allocation known as “planter's rights to plantation-owner's United States production allowances” and “planter's rights to plantation-owner's United States marketing allotments.” It was provided by Executive order that, annually, on each plantation, the right to exercise the plantation-owner's United States production allowance and marketing allotment should fall to all planters who, by reason of ownership, or by reason of written, oral, or customary contract with the owner, cultivated the whole, or any part, of the plantation and delivered sugarcane to the mill in their own names. Further, the percentage of the allowances and allotments to be exercised by each planter, whether owner or lessee, was determined as the proportion which the average annual production during the index period on the lot which he or his predecessor in interest cultivated held to the production during the index period on the entire plantation. Thus, if the lot occupied by a planter accounted for 20 percent of the sugar produced during the index period on a plantation, the planter or his successor in interest was assured of the right to produce 20 percent of the plantation-owner's United States production allowance and to market 20 percent of the plantation-owner's United States marketing allotment. In the greater number of cases where the owner was the sole planter, such rights were identical with the plantation-owner's United States production allowance and marketing allotment.

(f) Each plantation-owner's United States production coefficient was established as a right attached to the land area described in the corresponding audit and within the legal competency of the owner, subject to third-party interests, particularly those of lessee-planters. Each plantation-owner's United States marketing coefficient was similarly attached to the corresponding land area but was subject to variation due to possible change in toll percentage. Provision was made for the voluntary or involuntary transfer, in whole or in part, of ownership of a plantation and for the lifting of allotments, in whole or in part, temporarily or permanently, from one registered plantation to another or to a land area not constituting a registered plantation. It was recognized that each sugar district was established and developed as an economic unit with mill investment, capacity and cane-transport organization physically adjusted to the total production of its adherent plantations. To prevent the tearing-down of mill company allotments, it was required that interdistrict transfers must have the consent of both mill companies concerned. It was further provided that changes in plantation-owner's marketing coefficients, and planter's rights thereto arising from changes in toll percentages, should be recorded and evidenced by a written milling contract between the mill company and the plantation-owner or his planters, and that planters operating without such contracts should pay toll percentages not greater than the most frequent toll percentage stipulated in written milling contracts subsisting between their mill company and owners of adherent plantations, excepting from consideration plantations owned by, or operated for the account of the mill company. All transfers of ownership of plantations and of coefficients, allowances, and allotments, were required to be fully documented and entered in a public record maintained by each mill company and known as the “District Transfer Registry.”

It was early recognized that, irrespective of ownership, lessee-planters would vary from year to year, due to reductions, extensions and consolidations of holdings, expiration of contracts, and eviction or death of lessees. Provision was

therefore made whereby plantation-owners may file sworn reports covering any changes in the names of lessees or in the areas of the plantation cultivated by them. Written contracts were required for all new leases, thus eliminating oral and customary contracts, which formerly caused some confusion and dissension. Lessee-planters were protected by: Prohibiting the termination or decrease of planter's rights where the oral or customary contract planter had planted, but not harvested, 50 percent of the current or proximate crop; requiring owners to file copies of written contracts terminated; and requiring owners to file either planter's consent or a proper court order in cases of eviction. Changes in planter's rights were required to be fully documented and to be entered in a public record maintained by each mill company and known as the "District Planters' Registry."

On the basis of the mill audits, district United States production coefficients were published for each mill on October 5, 1934. As the cane was rapidly becoming overmature, mills were permitted at their own risk to mill the 1934-35 crop on the basis of district United States production allowances obtained by applying the district United States production coefficients to a tentative 1935 quota of 524,606 short tons, raw value. They were further warranted to accept cane from individual plantations on the temporary formula of 40 percent of the average annual weight of cane delivered from each plantation during the index period. This procedure naturally resulted in fractional overmilling and undermilling of sugar from cane delivered by different planters within the district and provision was therefore made for readjustment subsequent to the publication of plantation-owner's coefficients through sale at a nominal price of parcels of overmilled sugar to planters who had been short-milled through no fault of their own. To sustain satisfactory commercial movement of sugar prior to the publication of final mill company and plantation-owner's marketing coefficients and allotments, mill companies were allowed to apply their average toll percentage to the tentative mill district United States production allowance and sell for shipment to the United States 80 percent of the resulting quantity.

On the basis of the plantation audits, proceeding as rapidly as they were completed for the different districts, plantation-owner's United States production coefficients, mill and plantation-owner's United States marketing coefficients, plantation-owner's United States production allowances, mill and plantation-owner's United States marketing allotments and planter's rights were published in final form, beginning, for the first district, on December 22, 1934, and concluding with the last district, on September 11, 1935.

*Allocation of domestic and reserve quotas.*—Allocation of the domestic and reserve quotas under the Philippine sugar limitation law was effected by the Governor General under the same terms and procedure as indicated above for the allocation of the Philippine quota of United States sugar, except for three qualifications, as follows:

(a) Four submarginal sugar districts, whose maximum annual production was less than 4,000 short tons, were allotted an amelioration quantity of domestic and reserve sugar sufficient with their district United States production allowances to bring the totals of their production allowances to their maximum production;

(b) Four marginal sugar districts, whose maximum annual production exceeded 4,000 short tons, but which by virtue of limitation would be reduced to below 4,000 short tons, were allotted an amelioration quantity of domestic and reserve sugar sufficient with their district United States production allowances to bring the totals of their production allowances to 4,000 short tons; and

(c) The domestic and reserve sugar quotas, less the amounts required for amelioration, were distributed among the remaining standard mill districts, and in all districts among mills, plantations, and planters proportionately on the basis of their production during the crop year 1932-33 or the crop year 1933-34, whichever was the greater.

*Enforcement of allocation.*—Philippine centrifugal sugar had invariably moved under negotiable warehouse receipts or *quedanes* issued periodically to each planter as milling progressed. Sugar was delivered only on presentation of warehouse receipts and payment of storage, insurance, and special liens noted thereon. Advantage was taken of this established system of documentation as a basis for enforcement:

(a) Mill companies were required: To use only official warehouse receipts, uniformly printed, serially numbered, and registered with the Records Division; to cover all quota sugar with such warehouse receipts; and not to issue warehouse receipts to any nonallottee or to any allottee in excess of his marketing rights.

(b) To preserve their negotiability, each warehouse receipt included an individual permit certifying that a quantity of sugar (identical to that stated in the body of the document) was within the marketing rights of the allottee in whose name it was issued. The warehouse receipts were verified and, if correct, the permits were signed by an authorized permit agent, who immediately forwarded a duplicate of each permit to the Records Division, where it was posted both in a day book and in a ledger containing the sugar account of each mill and planter.

(c) Mill companies were forbidden to deliver any sugar except on presentation of an official, fully executed warehouse receipt and individual permit. On delivery the company detached the permit, canceled the warehouse receipt, and returned the permit along with the physical sugar to the holder. From this point on, the sugar and the permit moved together through dealers and bankers to exporters.

(d) The Insular Collector of Customs and his deputies were forbidden to permit the loading of any sugar except under a special form of export declaration accompanied by one or more individual permits covering a quantity of sugar equal to that declared. As each consignment was loaded, the collectors canceled the permits and forwarded them to the Records Division together with a copy of the export declaration and a signed list of the serial numbers and quantities of the permits involved.

(e) On receipt from the collectors of a lot of canceled individual permits and covering declaration, the Records Division checked the canceled permits against the postings previously made on the basis of duplicate permits and, if all papers were found correct, forwarded a radiographic consignment permit to the Agricultural Adjustment Administration in Washington, which in turn advised the United States Bureau of Customs. The radiograms carried the name, date of clearance and ports of destination of the vessel, the net weight raw value of the sugar, and the names of the consignor and consignee.

(f) Due to changes in weight and polarization of sugar in storage and transit and in some instances to misdeclaration, a consignment arriving in the United States generally showed a net weight, raw value, in excess of that stated in the radiographic consignment permit. To correct this situation an arrangement was perfected whereby, beginning June 15, 1935, the United States Bureau of Customs withheld from delivery and reported back all excesses. On receipt of such information, the local exporter was required to deliver directly to the Records Division one or more individual permits carrying a quantity equal to the excess reported. These were canceled, a supplementary radiographic consignment permit was filed with Washington and the sugar released from customs custody. The sugar corresponding to the permits delivered to cover excesses in the United States was reclassified as reserve sugar.

The enforcement measures described above applied to sugar under the United States quota. With modifications, the same methods were employed for enforcing allocation of the domestic and reserve quotas.

All allocation work, including enforcement, was accomplished by the Computation and Records Divisions under the supervision of



Mr. E. D. Hester, Economic Adviser. The number of mathematical calculations, postings, and checks totaled over 10,000,000. The mill and plantation coefficients, allowances, allotments, and planter's rights for each mill district were published in executive orders signed by the Governor General. The number of these orders, together with others covering procedure and regulation, totaled 350. The original typewritten copies of all orders were sealed and filed in the Malacanan archives and a limited number of working copies were produced by manifold process. As required by the Administrative Code, they were finally printed in English and Spanish editions, publicly distributed, and inserted in the Official Gazette.

*Benefit payments.*—In June 1934 the Governor General recommended and the Agricultural Adjustment Administration accepted a policy for the distribution of benefit payments characterized as below:

(a) Distribution to planters only: Mill companies and plantation owners, as such, to be excluded.

(b) A single program of payments covering the 3 years 1934, 1935, and 1936.

(c) Total payments to be comfortably within a conservative estimate of the amount of processing taxes to be collected on Philippine sugar during 1934, 1935, and 1936.

(d) Payments to be made in three installments in order to allow for close inspection of compliance and adjustment of errors and to increase the marginal utility to the planters of the sums involved.

(e) The amount of each planter's benefit payment to be determined by application of the following formula: Quantity of sugar in piculs milled from the planter's cane deliveries during the 1933-34 crop less quantity in piculs of planter's United States, domestic, and reserve production allowances for the 1934-35 crop times Px.xx.

(f) Laborers and sharecroppers not classified as planters to be protected by stipulations requiring settlement of all wage and share claims arising during 1934 and 1935.

On the basis of total production of the Philippine Islands during the 1933-34 crop, the probable total production allowances for the Philippine Islands for the 1934-35 crop, the estimate of processing tax collections and the average yield of centrifugal sugar per ton of cane, Agricultural Adjustment officials in Washington determined the price factor for the formula given above at ₱2.40. It was further determined that the beneficiaries would be required to execute a contract to destroy, cut back, or ratoon cane in excess of the quantity required to fill their United States, domestic, and reserve production allowances for the 1934-35 crop and guarantee not to cultivate cane in excess of 120 percent of their United States, domestic, and reserve production allowances for the 1935-36 crop.

The first installments were paid as soon as possible after the contracts were signed, the first checks being issued in January 1935. The second installments were paid after inspection proving compliance as to destruction or ratooning of the 1934-35 excess cane. The third installments were paid after inspection proving compliance as to cane cultivated for the 1935-36 crop. From the beginning of the benefit payment program to November 14, 1935, approximately ₱18,400,000 had been paid to planters in 27,300 installments under 16,800 contracts.

Administration of the benefit payment program was conducted entirely by representatives of the United States Secretary of Agri-



culture, and subsequent to determining policy, neither the Governor General nor his representatives exercised supervision over the program. The benefit payment organization consisted of an Administrative Division under Dr. C. M. Rosenquist and Mr. Elisha Lee, Jr., with a central office in Manila and at various times from 5 to 15 inspectors in the field. After certification of compliance by the Administrative Division, vouchers for payment were prepared by the branch office of the Comptroller of the Agricultural Adjustment Administration under Mr. Lester A. Twigg and passed on to the branch of the General Accounting Office for pre-audit and thence to the disbursing office of the Treasury Department for payment.

*Expenditures.*—Expenditures paid in the Philippines for administration of the sugar program including auditing, allocation, and administration (but not principal) of benefit payments for the period May 10, 1934, to November 30, 1935, were as follows:

(a) By the Federal Government-----	₱454, 507. 40
(b) By the Insular Government, for preliminary and auditing costs, claim filed against the Federal Government-----	90, 089. 68
(c) By the Insular Government for personnel, office space, illumination, telephone and other services furnished free of charge to Federal offices, no claim anticipated, estimated-----	40, 000. 00
(d) By the Insular Government, for administration of Act 4166 up to Nov. 14, 1935-----	18, 871. 27
Total, estimated-----	603, 468. 35

In addition to the above amounts, unpaid obligations of the Federal Government for printing of executive orders as of November 30, 1935, were estimated at ₱53,000.

*Cooperation of industry.*—The sugar administration enjoyed the full support of the Philippine Sugar Association, representing the mill companies, and of the Confederacion de Asociaciones de Cana Dulce, Inc., representing the planters. Both entities realized the long-run advantages accruing to the local industry through limitation of off-shore quotas provided the same could be established and maintained by a fair and careful administration of allocation of marketing rights to mill companies and planters. In no instance having to do with the allocation or benefit payment programs was it necessary to have recourse to arrest or litigation and none of the sanctions provided either in the Jones-Costigan Act or in the local sugar limitation law was invoked. It is my opinion that to a very high degree the success of the undertaking depended upon the uniformly helpful attitude of the industry.

#### TRADE CONFERENCE

The Tydings-McDuffie law provided for a conference of representatives of the Governments of the United States and the Philippine Islands, at least a year prior to the date fixed for the independence of the Philippines, for the purpose of "formulating recommendations as to future trade relations between the Government of the United States and the independent government of the Philippine Islands."

During my visit to Washington in the spring of the year I had occasion to set before the President and interested members of his Cabinet the desirability of holding the joint trade conference at the earliest practical date in order to give the Philippine Government as

well as businessmen and other investors in the Philippines guidance in directing their policies during the years preceding independence. I found substantial agreement, and an Interdepartmental Committee was formed consisting of the Secretaries of State, War, and Commerce. While no fixed date was set it was agreed to call at least a preliminary session of the conference during 1936. The Interdepartmental Committee also planned to send experts to the islands to collect and check data and list the various questions and problems likely to be brought under consideration at the conference.

To advise on major policies and prepare factual data for the use of the Philippine delegation to the proposed Joint Trade Conference, two committees were appointed. The first, composed of the Secretary of Finance, the Secretary of Agriculture and Commerce, and the Secretary of Public Works and Communications, was intended to pass upon matters of major policy. The second, known as the Technical Trade Committee and composed of government experts and prominent businessmen, both Filipino and American, was charged with studying all phases of the problem and gathering, coordinating and interpreting statistical data. The latter worked through subcommittees covering the principal export industries of the Philippines, each of which prepared an exhaustive report on the subject of its study. A subcommittee on imports was also appointed to study and report on import trends. These reports provide a compendium of information on Philippine export industries not hitherto available and will be of considerable value in considering and formulating policies for future trade relations between the Philippine Islands and the United States and other countries.

Two experts from the United States Tariff Commission were sent out from Washington to study the economic situation in the Philippines and report to the American Interdepartmental Committee on the Philippines, on the possible effect of various alternative courses of action. They were joined in Manila by the American Trade Commissioner. They were engaged from their arrival, September 9, to the end of the period covered by this report, in the collection of data on the chief export industries; studying among other things employment statistics in each industry, wage rates, production costs, and the extent of dependence on free access to the American market. In the course of these studies they visited factories, mines, and plantations and talked with political and business leaders. They cooperated with the Philippine Technical Trade Committee, freely exchanging information and suggestions, since it is realized that both committees are working toward a common goal.

#### COTTON TEXTILE QUOTA AGREEMENT

Importers of American cotton textiles have for some time viewed with concern the increasing sales of Japanese cloth to the detriment of the American trade. Whereas in 1932 American-made cotton piece goods made up 72 percent of the total quantity imported, the proportion fell to 67 percent in 1933, 40 percent in 1934, and 38 percent in the first half of 1935. (In value of imports, the American position appears somewhat better, due to the considerably higher valuation of American goods.) Announcement of an agreement by the Association of Japanese Exporters of Cotton Piece Goods that im-

ports of Japanese cotton piece goods into the Philippine Islands would be limited to 45,000,000 square meters annually, for the 2 years beginning August 1, 1935, with provision that 10 percent of that annual figure might be flexible between the 2 years but that the amount could in no event exceed 26,000,000 square meters in any half-year, encouraged the hope that the American position in the textile market might be improved. Prices of cotton piece goods have improved somewhat since the announcement of the agreement and imports of American goods have increased moderately, though the very heavy stocks of cloth, principally Japanese, in the Philippines at the beginning of the quota period have so far prevented full realization of the benefits anticipated.

There was some confusion in the first 4 months, due to the fact that the bureau of customs has been keeping its statistical records on a basis of liquidation of entries rather than actual imports. This led to erroneous reports that the quota had been exceeded by November 1. Actually, it appeared by the middle of November that Japanese shipments were nearing the quota limit of 26,000,000 square meters and announcement was made that shipments would be discontinued after November 15. Arrangements have been made with the bureau of customs to record actual imports of cotton textiles from Japan, so that an accurate statement of the position will be available at any time in the future.

If the American cotton-goods trade gains by the full measure of the amount given up by the Japanese cotton goods exporters under the quota agreement, it should be very substantially benefited. Many of those in touch with the situation fear, however, that not enough consideration has been given to the possibility that Japanese cotton goods may be replaced with Chinese cotton goods and Japanese rayon, and that the importers of American goods may thus be deprived of the anticipated benefits. There is also a possibility that difficulty may be experienced in controlling imports of Japanese-made cotton goods from Hong Kong.

#### SUPPLEMENTARY REPORTS

The reports of the department secretaries are being forwarded herewith.<sup>2</sup>

#### CONCLUSION

In conclusion, I wish to make grateful acknowledgment of the cooperation and loyalty of my associates in the government, including all the Filipino leaders. I take pleasure and pride in the cordial relationship between the office of the Governor General, the Filipino leaders, the Cabinet, and the Legislature. There is a prevailing good will toward the United States and the American people that is unique, I think, between countries having the relationship of a sovereignty and a dependency. Our greatest asset here, good will and friendly spirit, should be noted in the record.

Respectively submitted,

FRANK MURPHY,  
*High Commissioner.*

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<sup>2</sup> The reports of the department secretaries are on file in the Bureau of Insular Affairs, War Department, Washington, D. C.



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