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# The “Filipino First” Policy and the Central Bank, 1958–1961

## Island of State Strength and Economic Decolonization

A gap exists between the high regard for the Central Bank of the Philippines and the Filipino First policy under Pres. Carlos P. Garcia’s administration. Patrimonial interests attempted to exploit the Filipino First policy but relied on the bank for foreign exchange. In such a setting, how could the Central Bank lead economic policy making and become an island of state strength? This article examines this puzzle by analyzing the process that involved politicians, private sector leaders, and even the American government. It argues that the Central Bank supported Filipino First only until it could achieve its policy goal of economic decolonization.

**KEYWORDS: CENTRAL BANK · POLICY MAKING · ECONOMIC DECOLONIZATION · IMPORT SUBSTITUTION INDUSTRIALIZATION · ECONOMIC NATIONALISM**

The administration of Pres. Carlos P. Garcia from 1957 to 1961 is remembered for promoting economic nationalism and the battle cry of “Filipino First” (Abinales and Amoroso 2005, 182; Sicat 2008, 9).<sup>1</sup> The National Economic Council (NEC), the highest consulting body to the president in matters of economic policy making, passed Resolution 204 on 21 August 1958 to encourage the growth of Filipino businesses through favorable foreign exchange allocation (Golay 1961, 332). Jose C. Locsin (1960, 152), the NEC chair, acknowledged President Garcia’s endorsement of “Filipino First” in his State of the Nation Address in January 1960. In this context, organizations like the Philippine Chamber of Commerce (PCC) and the Philippine Chamber of Industry (PCI) seemingly gained importance as locomotives of the Filipino First policy (Sicat 2008, 17).

This article argues that the exchange controls imposed by the Central Bank as an island of state strength engendered the plea for Filipino First. The notion of an island of state strength was first proposed by Theda Skocpol and Kenneth Finegold (1982, 271–73) in analyzing the Agricultural Adjustment Administration (AAA) of the US Department of Agriculture (USDA). According to them, even before the New Deal era, the USDA had enhanced its capability “for policy research and for centrally coordinated policy implementation” through active recruitment of professional experts who graduated from “land-grant colleges” that taught agriculture. The USDA’s institutional development resulted in a successful coordination of agricultural industry enterprises led by the AAA. In other words, the island of state strength achieved particular policy goals with the best use of professional knowledge and institutional support even within the weak state apparatus.

In Philippine studies, Abinales and Amoroso (2005, 5, 17) were the first to use the phrase to study the dynamics of Philippine politics.<sup>2</sup> The Central Bank of the Philippines under the governorship of Miguel P. Cuaderno (1949–1960) was esteemed as “an island of state strength in an ocean of weakness [of state capability]” because of its impressive role in economic policy making and management (ibid., 184). During this period the Philippines achieved rapid industrialization, with income from manufacturing increasing by 235 percent (Golay 1961, 106). Since 1949 the Central Bank implemented a policy of import substitution industrialization (ISI) through the allocation of foreign exchange to encourage industrialization, ushering in the so-called golden age of manufacturing in the 1950s (Bello et al. 1982, 128). However,

the role of the Philippine government in this “golden age” needs study because for some analysts industrialization happened “almost by accident” (ibid., 128).

Some may argue that a central bank in general is designed to be isolated from various political pressures. Hamilton-Hart’s (2002) comparative study of central banks in Southeast Asia argues that in practice the performance (including the extent of independence) of one central bank can differ from another depending on the historical and political contexts. While convincingly describing a variety of central banking in Southeast Asia, she asserts that the Central Bank of the Philippines is a captive of crony capitalism, but does so not by marshaling new data but by relying on the influential work of Hutchcroft (1998). We are left with the question: how was it possible for the Philippines to develop its own economy if the state was weak as portrayed in conventional literature?

Before we answer this question, we need to consider that those who have studied economic policy making in Southeast Asia have recognized the importance of economic nationalism. Frank Golay and colleagues (1969, viii) argued that economic nationalism was concerned about racial and ethnic distribution, whereas economic development pertained simply to the “size of the economic pie.” They concluded that economic nationalism was the driving force behind policy making in Southeast Asia, causing underdevelopment in the region (ibid.). The literature on economic nationalism in the Philippines in this period (e.g., Agpalo 1962) also focused on anti-Chinese sentiments. In addition, anti-Americanism, led by Sen. Claro M. Recto, was an important aspect of the nationalist movement in the 1950s (e.g., Constantino 1969).

Only in the 1980s did Alejandro Lichauco (1988), who supported Recto, publish his manifesto for economic nationalism in which he focused on industrialization rather than the racial dimension. Lichauco (ibid., 153) pointed out that Recto had urged the country to work for heavy industrialization “as early as 1956.” However, it is important to remember that the Philippine government had already begun to industrialize, at least in the case of light industries, by 1949, when Recto was still preparing for his political comeback and was more concerned about American presence in the Philippines than economic policy making (cf. Constantino 1969).

Lichauco (1988) also argued that the Philippine government failed to promote economic nationalism because of the neocolonial features

of economic policy making (cf. Constantino and Constantino 1978). Nonetheless Lichauco also admitted that Central Bank Governor Cuaderno played a role in promoting industrialization, but he did not elaborate on Cuaderno's policy ideas and puzzling attitude toward the Filipino First policy. Cuaderno (1964, 81), for instance, failed to mention Filipino First in his informative memoir, simply stating briefly, "there was the policy of giving Filipinos every opportunity to have a larger share in the country's economic activities."

In fact, until now the complex chronology of the Filipino First policy has not been fully analyzed.<sup>3</sup> Why did the NEC announce this policy only in 1958, even though the Central Bank had already carried out ISI through exchange controls since 1949?<sup>4</sup> In fact the PCC had organized the National Economic Protection Association (NEPA) as an interest group that advocated ISI since 1934 (Purugganan and Cruz 1959). Why did the Filipino business association not urge the government to proclaim the battle cry of Filipino First much earlier?

This article studies the Filipino First policy in the particular historical context in which policy makers actually operated. The Central Bank under Governor Cuaderno had worked toward economic decolonization—or industrialization through foreign exchange controls—starting in 1949 or almost a decade before the Filipino First policy was enunciated in 1958. In explaining Philippine national development in 1952, Cuaderno (1952, 330–31) had mentioned the names of the founders of development economics, such as Alexander Hamilton and Friedrich List, who emphasized industrialization. Significantly the bank won the confidence of successive presidents, Elpidio Quirino and Ramon Magsaysay, despite huge political pressure from the sugar bloc, which had opposed Cuaderno's economic policy amid policy debates in the early 1950s (Takagi 2008).<sup>5</sup> Given the political pressure from vested interests, it is hard to imagine that the Central Bank promoted industrialization by accident. In other words, prior to the Garcia administration's Filipino First policy, the Central Bank led by Cuaderno had striven for economic decolonization through industrialization; but it did not prioritize economic nationalism through a change in the racial aspect of economic activities.

The Central Bank, PCC, PCI, the sugar bloc, some politicians, and the US government played specific roles in the process of formulating the Filipino First policy. The Central Bank led by Cuaderno (1964, 127–54) was

always concerned about excessive government expenditure as a fiscal weapon, while private businesses and most politicians favored the government's deficit financing. On the matter of foreign exchange, the Central Bank continuously worked to maintain the hard currency policy in the early 1950s, but decided to lift exchange controls gradually later in that decade (ibid., 71). These controls received support from the PCC and PCI, which were composed of companies dependent on imports for raw materials and capital stock, and oriented to the domestic market. But exchange controls were opposed by the agro-export industry (composed mainly of the sugar bloc spearheaded by Alfredo Montelibano), which favored devaluation to maximize their profits by lowering the price of their products for export. Finally, there was the United States government, which the Central Bank expected would provide a loan to finance gradual decontrol but which came out in support of immediate devaluation in the late 1950s (ibid., 72). In this context, the Central Bank inevitably had to negotiate with various actors to carry out economic policies.

This article presents the actual process that the Central Bank underwent in managing its economic policy in several sections. The first section examines the policy agenda prior to the proclamation of Filipino First in order to clarify the main actors and their ideas and interests, asserting that policy makers were more concerned with the balance-of-payment crisis than with Filipino First. The next three sections trace the actual policy process of Filipino First from 1958 to 1959, focusing on the PCC as the main advocate of the Filipino First policy but also revealing the PCC's limitations in actual policy making. The fifth section examines the consequences of the Filipino First policy from 1960 to 1961. It analyzes the end of the policy amid policy change by the Central Bank. The concluding section revisits the significance of Filipino First in the context of Philippine political economy.

### **The Garcia Administration's Economic Policy before Filipino First**

Carlos P. Garcia, who took over the presidency after Ramon Magsaysay's sudden death on 16 March 1957, was not at all vocal about almost any issue, although he had held various posts such as congressman, governor of Bohol, senator, and vice president. The record of an interview with Garcia revealed that he was loyal to Manuel L. Quezon during the colonial period and close to Jose P. Laurel in the period after independence (Gleeck 1993, 210–11). It

would be safe to assume that Garcia was a passive leader who let key policy makers elaborate on their proposals but avoided direct intervention especially in controversial issues.

In his 30 December 1957 inaugural address as elected president, Garcia appealed not for Filipino First but for austerity (Golay 1961, 96; Malaya and Malaya 2004, 184). In referring to the deterioration in the level of the country's international reserves, Garcia (2004, 199) warned that "reality now constrains us to restore the correct proportion between dollar reserves and industrialization, and also between these reserves and bond issues and other forms of public borrowing. To achieve this end, it behooves us to submit temporarily to measures of austerity, self-discipline, and self-denial." He attributed the critical situation of the international reserves to the rapid industrialization program and liberal credit policy under his predecessor, the late President Magsaysay.

Garcia's remark was a de facto endorsement of the economic policy that the Central Bank had implemented after it prevailed over the pressure of the sugar bloc under the Magsaysay administration (Takagi 2008). Even prior to Garcia's inaugural address in 1957, the bank had tried to contain inflationary pressure through a series of disinflationary measures: raising the rediscount rate from 1.5 percent to 2 percent on 2 April and then from 2 percent to 4.5 percent on 2 September, and approving Circular 79 on 9 December to increase the rate for the reserve fund for imports (Central Bank 1957, 113–17; Golay 1961, 96, 235). The bank sought to curtail excessive loans to businesses in general by increasing the rediscount rate and constraining immoderate imports through a restrictive policy on the letters of credit for the import trade. In his first State of the Nation Address in 1958, Garcia explained the policies of the Central Bank as ways to implement the austerity program (Congress of the Republic of the Philippines 1958, 22).

In terms of currency policy, Cuaderno (1964, 69) consulted the Central Bank economists to consider whether the Philippines should change the peso-dollar exchange rate in January 1958. After the Philippine government introduced the tariff policy on 22 June 1957 (Valdepeñas 1969, 153), Cuaderno began to consider the possibility of lifting exchange controls.<sup>6</sup> Cuaderno (1964, 69) and his fellow economists concluded that "a straight devaluation of the peso was not the solution to our immediate problem, which was excessive aggregate demand induced by inflation" and recommended adopting a stabilization program composed of restrictive fiscal and monetary

policy and a 25-percent tax on the sale of foreign exchange. The bank's conservative fiscal policy and gradual decontrol of foreign exchange controls were the economic policies the Garcia administration first pursued.

### Clash over the Foreign Exchange Policy

However, the Central Bank faced difficulty in mobilizing support for its currency policy, especially from the US, whose financial support the bank sought in order to carry out its gradual decontrol. The US government shifted the emphasis of its economic policy from one that accepted the foreign exchange controls imposed by other countries to one that encouraged free trade, because of the overall balance-of-payment deficit and a gold drain from 1957 (Tadokoro 2001, 79). Cuaderno (1964, 71) noted in fact that the staff of the International Monetary Fund (IMF) suggested that the Philippine government should devalue its currency, referring to the example of France, which had done so.

When Cuaderno began negotiations with the IMF on his proposed stabilization program that needed a stabilization loan, the IMF opposed him. He tried to convince the IMF officials that devaluation without fiscal and monetary restraint would not remedy the balance-of-payment crisis. But he was disappointed that IMF officials decided to suspend the discussion after they learned that the US State Department disfavored Cuaderno's program and preferred instead the removal of exchange controls and the devaluation of the Philippine peso (ibid., 71–72). He regretfully wrote: "Considering the critical situation of the balance of payment which existed at that time, I could not but feel frustrated in the efforts I had made in preparing the memorandum and in enlisting the support of a ranking official of the International Monetary Fund in Washington to the stabilization plan I suggested therein" (ibid., 59).

In addition to the unyielding IMF, Cuaderno also felt frustrated over the uncooperative group within the Philippine private sector. The Central Bank governor's hard currency policy was continuously criticized. The agro-export industry was especially against the bank's exchange rate policy because it had suffered from the overvalued peso (*Manila Bulletin* [MB] 1958c, A). The leading opponent of the bank's exchange rate policy was Alfredo Montelibano, who had resigned from the NEC in 1956 in protest over President Magsaysay's support for Cuaderno's economic policy (Takagi 2008, 108). After his resignation, Montelibano became president of the

Chamber of Agriculture and National Resources of the Philippines, where the sugar industry had significant influence.

The controversy over economic controls was so intense that Speaker Daniel Z. Romualdez finally organized a special team led by Majority Floor Leader Jose Aldeguer and Congressman Jose J. Roy, chair of the Ways and Means Committee of the House of Representatives, to evaluate the existing control measures (MB 1958d, 1). Both Aldeguer and Roy were members of the Democratic Party, which was formed by Sen. Fernando Lopez in 1954 and had the sugar bloc as its main ally (Abueva 1971, 477). However, Aldeguer, who was Roy's rival, belonged to the minority faction within the Democratic Party that was hostile to the Garcia administration (ibid.; MB 1958j, 1). Within a week, Aldeguer presented to the team a concrete program for the lifting of exchange controls (MB 1958e, A). He suggested that the government open "a partial free exchange market beginning January 1, 1959" to achieve full elimination of exchange controls by 1 January 1962 (ibid.). He said this "gradual creation of a free exchange market is the basic remedy to our existing [economic] ills . . . It is also [the] only way to establish a truly realistic rate of exchange" (ibid.). Aldeguer's program, which also meant a devaluation of the peso, was a counterproposal to Cuaderno's position of seeking a long-term gradual implementation of the decontrol measure.

In a press conference on 2 August 1958, President Garcia favored the moderate adjustment of the exchange rate, but also said it was up to Congress to decide whether controls should be rescinded or not (Republic of the Philippines 1958a, 308). Garcia's cautious remark probably reflected the opinion of his economic advisors, including Cuaderno. Cuaderno, Budget Commissioner Dominador Aytona, and Rehabilitation Finance Corporation chairman Eduardo Romualdez, then in Washington DC for the preparatory negotiation of the loan from the US, sent a joint cablegram to the president (ibid.). They warned that talk of a possible devaluation in the Philippines might adversely affect their negotiation with their American counterparts. They argued that controls may not be desirable as a long-term economic policy but were necessary steps to shift the colonial economy and achieve industrialization (Republic of the Philippines 1958b, 328–29; MB 1958f, 1, 13). The last point reflected Cuaderno's belief in industrialization not only for economic development but also for economic decolonization.

The opponents of Aldeguer's program found allies in the PCI and PCC. In a memorandum to Speaker Romualdez, the PCI argued that decontrol without proper preparations would cause devaluation as well as inflation and suggested the total abolition of controls "from 1968, or ten years from now" (MB 1958g, A, B). Showing their support for acting Central Bank Gov. Andres Castillo, the manager of the Philippine National Bank, Arsenio Jison, the new president of the PCC, Marcelo S. Balatbat, and the president of the PCI, Fernando E. V. Sison, urged Congress in a meeting with Speaker Romualdez not to take as drastic a measure as Aldeguer's decontrol program (MB 1958h, 1, 13).

President Garcia finally decided to abandon Aldeguer's program, although he stuck to his usual cautious style. After mentioning the congressional move to study the possibility of decontrol the president stated, "I have confidence in the sound opinion of Congressman Roy who is a conservative economist" (Republic of the Philippines 1958b, 328). By citing Roy, who was a leader of Aldeguer's "bitter enemies in the Congress" (MB 1958j, 1), the president indirectly made public his opposition to Aldeguer's program. Garcia also expressed his continued support for Cuaderno's governorship even if the latter, who was 67 years old in 1957, had held the post beyond the official retirement age. The *Manila Bulletin* (1958a, 20) wrote, Cuaderno's "continued retention in office is believed to be an official endorsement of his non-devaluation policy." The clash over the exchange policy revealed, however, that Cuaderno could barely maintain Garcia's confidence amid the complicated political power struggle.

### Clash over the Austerity Program

From the beginning of the implementation of its austerity program, the Central Bank bore the brunt of criticism from almost the entire private sector, because the bank failed to convince the private sector about the grave implications of inflation. Ignoring the rise in prices, the private sector expected the government to stimulate economic growth through expansionary fiscal and monetary policies. Primitivo Lovina, the PCC president, blamed the bank's rediscount rate policy, saying the bank was motivated by a "morbid fear of inflation" (Cuaderno 1964, 147). Lovina blamed the austerity policy for the collapse of the economic and social structure (ibid.). Salvador Araneta, a longtime advocate of bold deficit financing, criticized the bank's general



monetary policy, including the above-mentioned Circular 79 to increase the rate for the reserve fund for imports. Araneta asserted that the circular would not discourage but rather encourage inflation because it would curtail production, which would result in eventual price increases (*Manila Times* 1958). He even described the Central Bank's policies as "un-patriotic and 'foreign-inspired'" (ibid.), the latter description being an attempt to portray the bank as an institution influenced by foreign interests.

The toughest battle occurred not between the Central Bank and its private sector opponents but among the members of the Monetary Board, the bank's highest decision-making body. Gaudencio Antonino, who was engaged in lumber export and the founding president of the Producers and Exporters Association of the Philippines, was appointed by Garcia to the Monetary Board together with Roberto Villanueva, who was a member of the pro-exchange control PCI and the "right hand man" of the powerful Lopez family (MB 1958l, A, C; Roces 2001, 110). Antonino declared that his appointment "had ended a period of non-consultation with business elements by the Central Bank" (MB 1958l, A). Antonino was an ally of Montelibano and Araneta when they opposed the exchange policy of Cuaderno during the Magsaysay administration (Subramanian 1980, 209, 283; Takagi 2008). These two new appointees did not share the same views on exchange control, but acted as one voice of the private business sector in its opposition to the austerity program. As expected, soon after their appointment, the Monetary Board was embroiled in controversy.

In his memoir Cuaderno (1964, 61) wrote about an incident on 27 November 1958 when he was at home recovering from a surgical operation: "Deputy Governor Castillo informed [him] by telephone that the Monetary Board had approved the Government's request for the issue of five-year Treasury notes, in the amount of P75 million; also an overdraft line of P80 million." Cuaderno was very upset about the decision because he had already expressed to the board his strong opposition to deficit financing. He even wrote to Secretary of Finance Jaime Hernandez on 26 November and to President Garcia on 22 November (ibid.). In the confidential letter to the president he revealed that "our free reserves . . . will be around \$3 million only"; he appealed to the president for fiscal, monetary, and credit restraints to avoid "*a forced* [sic] devaluation of the peso [which] will bring chaos to the country" (ibid., 182–83). Through Castillo, Cuaderno (ibid., 61) sent a memorandum to the Monetary Board reminding its members of

"the critical position of the peso due to the rising aggregate demand" and of his opposition to deficit financing.

Faced with Cuaderno's (ibid., 62–63) opposition to the resolution of the Monetary Board, two board members, Jaime Velasquez and Roberto Villanueva, together with Auditor General Pedro Gimenez, Budget Commissioner Dominador Aytona, Deputy Governor Castillo, and the bank's Atty. Natalio Balboa visited Cuaderno at his home at around 9 P.M. on the same day, 27 November 1958. Cuaderno reiterated his objections and informed the group that the Central Bank was not allowed to certify the issuance and acquisition of treasury notes because this move would have an adverse effect on the money supply, the price level, and the balance of payments according to Section 128 of the Central Bank charter (ibid., 62). He asserted that the Monetary Board's plan under the circumstances would be deemed "an illegal act" (ibid., 183).

Failing to convince Cuaderno, the Monetary Board called on the president on 11 December 1958, only to be met with similar objections. Garcia was not convinced that the Philippine economy would suffer from devastating inflation, but he believed that the Central Bank governor's legal position should be respected (ibid., 64). Cuaderno had finally won the president's confidence. In a birthday message to Cuaderno on 12 December 1958 President Garcia wrote, "may our people continue to profit from your valuable services as we also wish you continued success, good health, and prosperity in the coming years" (ibid., 65). The incident, however, was only a foretaste of the emerging influence of the private business sector within the Monetary Board and in the Garcia administration, as we will see below.

### **The NEC's Proclamation of the Filipino First Policy**

Amid the controversy over fiscal policy, the NEC led by its new chair, Jose C. Locsin, was uncooperative with the Central Bank. Locsin openly expressed dissatisfaction with the existing system of dollar allocation, asserting that the miserable performance of ISI resulted in the development of a mere packaging industry rather than that of a manufacturing industry (Benitez 1958a, A). Responding to such criticism, the bank emphasized the achievements of ISI. Then Acting Governor Castillo argued that "the Central Bank has succeeded in shifting emphasis of importation from consumer to producer goods in the face of ever-increasing opposition of importers,

especially established firms” (MB 1958b, A). He pointed out that “whereas capital goods made up 53 percent of our imports in 1949 . . . they made up 78 percent of aggregate imports in 1957” (ibid.). Castillo highlighted the changes in the composition of imports to demonstrate the success of industrialization, but he failed to convince Locsin that the existing foreign exchange policy was satisfactory.

The NEC therefore approved Resolution 204 and proclaimed the Filipino First policy on 21 August 1958 (MB 1958i, 1, 13). The resolution aimed to “encourage Filipinos to engage in enterprises and industries vital to the economic growth, stability and security of the country” (NEC 1974, 371). The NEC recognized that “the allocation of the foreign exchange is now the most effective instrument by which the above objective can be realized” (ibid.). The NEC also approved Resolution 206 on 28 August 1958, supporting the joint Filipino-Gulf Oil Company refinery by limiting the foreign-dominated oil company’s allocation to the 1957 level (Golay 1961, 333). When Locsin talked with officials of foreign oil companies about Filipino First, he explained that he subscribed to the idea of free enterprise but recognized the limitation of the idea under the current system of dollar allocations (Benitez 1958b, A). The NEC participated in the promotion of Filipino First, but the real driving forces behind it were not so clear at that time.

Locsin, who was a partisan politician of the Nacionalista Party (NP) as well as a wealthy sugar plantation owner, expected a certain return from the party’s president, Eulogio Rodriguez, regarding his dedicated support for the party in the 1957 elections (Yoshikawa 1987, 59–60). Locsin did not seem to exercise active leadership in the NEC because, as expressed in a private letter to Rodriguez, he had sought a higher position other than that of the NEC chairmanship (ibid., 60). Locsin revealed that Sen. Gil Puyat (1960, 66), a member of the NEC who was presiding officer before Locsin’s appointment, always took the initiative in the crafting and passing of resolutions (MB 1958k, C). Puyat, who was also PCC president from 1945 to 1949, supported import controls before he was elected senator in 1951.

Subsequent developments reflected the strong support for Filipino First by the PCC under the presidency of Marcelo Balatbat. Born in Bulacan in 1908, Balatbat started his career in the Bureau of Commerce after which he moved to the Bureau of Banking in the 1930s. He subsequently established his career as a successful realtor before being elected president of the PCC

on 18 August 1958 (Jacinto et al. 1957, 78). In his inaugural address he declared:

**While the Philippines is no longer a colony, a pattern of the obnoxious colonialism still runs through some of the government’s economic policies and regulations. It is time we took stock of the present conditions of Filipinos in business and discharged our duty to our fellow countrymen. It behooves the government and all of us to adopt economic policies that would really promote and protect the interests of the Filipinos. That is the only way to encourage greater participation of Filipinos in business in this country. (MB 1959c, 1)**

Balatbat urged the government to adopt a bolder economic policy that would be more beneficial to Filipino businesses. After the NEC’s proclamation of the Filipino First policy Balatbat argued, “Filipinos will never be able to increase their participation in commerce and industry unless they are given a fair deal in the allocation and use of dollars” (MB 1958k, A). He complained that the previous pattern of foreign exchange allocations and scarce credits for Filipino businesses were “the two stumbling blocks” that prevented Filipinos from expanding their economic activities (MB 1959e, 1). The PCC under Balatbat encouraged the government to modify its foreign exchange control policy but stopped short of calling for the complete abolition of exchange controls.

Meanwhile, foreign firms were afraid of the imposition of a ceiling on their production (Hartendorp 1961, 360; Golay 1961, 333). Regarded as the voice of American businesses in the Philippines, A. V. H. Hartendorp (1961, 367), editor of the *American Chamber of Commerce Journal* (ACCJ), opposed the Filipino First policy, asserting that “the slogan is not inspired by an honest nationalism, let alone patriotism, but by greed and cupidity.” Hartendorp criticized the policy as tending to be discriminatory and noncompetitive. He even associated it with the Japanese propaganda “Asia for the Asians” and took President Garcia to task for depending on economic controls and succumbing to a piece of “fascist slogan” (ibid., 366–67). Because of his harsh criticism, Gleeck (1993, 249) reported, without specifying who exactly said so, that Hartendorp was branded as “anti-Filipino.” In response to Hartendorp, Balatbat stated that “it is clear from the . . . editorial [of the ACCJ] that some American interests resent the aspirations of Filipinos who wish to engage



in business” (MB 1958m, C). Balatbat also argued that, if the Philippines were still an American colony, the concerns of American business on the possible deleterious effects of Filipino First on their investments would have been justified; “but certainly not today when they are no longer masters, but merely guests” (ibid.). He strongly supported Filipino First by pleading for the abolition of “this pernicious alien-first policy” (ibid.). From the viewpoint of Balatbat, who believed that earlier economic policies had discriminated against Filipino businesses, the Filipino First policy was a valid claim for Filipinos. Balatbat even argued that the government should reexamine the effects of the parity rights clause and the Laurel–Langley trade agreement in general to determine whether these had promoted Filipino interests (MB 1958o, A). Although the government did not respond to this point, it is worth considering that one of the prominent supporters of the Filipino First policy aired his skepticism over the existing Philippine–US economic relations.

In contrast to the chamber’s bold response to American business, the NEC was muted in addressing American complaints. Locsin reiterated that Filipino First never intended to deprive American businesses of their economic gains in the country, since these were protected by the revised Philippine constitution and the Laurel–Langley trade agreement (Benitez 1958c, B). He found their reaction “understandable,” considering the standpoint of American businesses, but stated that the NEC would still implement the policy (MB 1958n, A). The NEC’s moderate reaction portended the council’s lukewarm attitude toward the Filipino First policy thereafter. Instead of the NEC, the Central Bank gradually took charge of the Filipino First policy.

### **Filipino First Policy and the Central Bank**

On 5 January 1959, a few months after the NEC’s proclamation of Filipino First and within a month after the fiscal policy controversy in the Monetary Board, the Central Bank approved Resolution 12, reducing foreign exchange allocations for all aliens except Americans, whose rights were protected by the parity clause of the Laurel–Langley agreement (Golay 1961, 321). The media reported that “the Central Bank is expected to help implement the ‘Filipino First’ policy of the National Economic Council” (MB 1959a, A). The bank made the resolution effective on 15 January (MB 1959d, 7) and set provisions to reduce foreign exchange allocations gradually with a 50-percent reduction in the first quarter of 1959 compared to the last quarter

of 1958, to be followed by a 25-percent reduction in the second and third quarter, and a further 25-percent reduction in the fourth quarter (Central Bank 1959, 153). The bank would virtually eliminate these selective foreign exchange allocations by the end of 1959, if it had completely implemented the resolution.

While the PCC’s Balatbat expressed his support for the resolution (MB 1959b, A), congressional leaders did not take an aggressive position on Filipino First, stating instead that they had no intention of damaging the local Chinese community’s business interests, which the resolution would affect substantially (J. Bigornia 1959, 1). Senators Pedro Sabido and Edmundo Cea expressed their concern about Filipino First, saying that they did not oppose the idea but favored a more moderate implementation (ibid.). These leaders asked the president to urge the bank to reconsider its resolution.

President Garcia delivered the State of the Nation Address on 26 January 1959. Revealingly, while he supported the 1957 policy agenda of the Central Bank, he avoided references to the Filipino First policy (Congress of the Republic of the Philippines 1959, 5–14). Garcia attributed this grueling fiscal condition to the Magsaysay administration’s deficit financing and warned of inflationary pressure on the economy (ibid., 6). Garcia declared, “I am definitely against the devaluation of the peso,” but kept silent on the Filipino First policy (ibid., 11).

The Filipino First policy was open to harsh attacks from the foreign business sector in the Philippines. On 17 February 1959 the local diplomatic corps met with Secretary of Foreign Affairs Felixberto M. Serrano to ask the Philippine government to reconsider the bank’s resolution (Villadolid 1959a, 1, 13). British ambassador George L. Clutton, who headed the corps, subsequently handed a resolution from the Board of Governors of the Philippine national committee of the International Chamber of Commerce (ICC) to President Garcia (MB 1959g, 1, 7).

Responding to the protests, Garcia directed the Monetary Board to reexamine and slow down the implementation of Filipino First (ibid.). After the protests, the president’s office seemingly kept its distance from the issue. When the Monetary Board’s members spoke with Secretary Serrano, they only decided to hold a series of meetings between the Board and foreign businesses (Villadolid 1959b, 1, 11). The NEC and the president’s office also avoided being involved in the controversy, and some NEC officials

reportedly denied any connection between the NEC's Filipino First policy and the Central Bank's resolutions (Benitez 1959, A, C). Responding to the query posed by the Philippine embassy in London, the NEC officials said that most of the council members favored a more moderate implementation of Filipino First (*ibid.*).

In contrast to the virtual neglect of the policy by the president's office and the NEC, the PCC and the Central Bank actively supported it. The PCC's Balatbat, who was already recognized as an "advocate of 'Filipino First' policy," harshly criticized the foreign business sector (*MB* 1959f, A, C), and insinuated that the president's office ordered the bank to reconsider the resolution because several foreign businessmen had probably corrupted the public officials (*ibid.*). A few days after Balatbat's assertion, Deputy Governor Castillo explained that the bank adopted the resolution to change the country's economic structure from one dominated by aliens to one controlled by Filipinos (Castillo 1959, C). Although he mentioned the pressure exerted by European and American businesses, he centered his criticisms on the supposed dominance of Chinese businesses in the Philippine economy (*ibid.*). Lewis Gleeck (1993, 205), a former American diplomat and a longtime observer of Philippine politics, asserted that Castillo was a proponent of the anti-foreign policy.

Although there is hardly any further evidence to support Gleeck's assertion, some foreign businesses were seriously concerned about the development of the Filipino First policy. Sensing growing support for Filipino First, foreign firms also began to consider abandoning their businesses in the Philippines (Hartendorp 1961, 351). Hartendorp mentioned the case of the British firm, Smith, Bell and Co., Ltd, which was established in Manila in 1846 and whose 91-percent stocks had been owned by British interests. On 10 April 1959, 100-percent Filipino-owned Aboitiz and Co., Ltd. acquired 60 percent of the capital stock of the British firm (*ibid.*).

In the midst of controversy, the policy makers worked hard to clarify the purpose of the Filipino First policy. The US State Department formally sent a letter of protest to the Philippine ambassador to the US in May 1959. The assistant secretary of commerce of the US directly appealed to several cabinet members in Manila to revise the Filipino First policy when he was in Manila in November 1959. Foreign Secretary Serrano and Governor

Cuaderno replied to American protests by claiming that "the compelling need to reduce the excessive alien control of business justified Filipino First policies" (Cullather 1994, 174).

Central Bank board member Antonino organized a forum to consider how to implement Filipino First (*MB* 1959g, 1, 11). One of the guest speakers was Leonides Virata, who once headed the Central Bank's research department and who became president of the Commonwealth and Philippine Foods Corporations and director of the Chamber of Commerce. Virata told his audience that "the nationalism movement was merely the outgrowth or expression of what he called 'a new middle class mentality' which has found new opportunities for expansion and 'has found a rallying point in the concept of 'Filipino First'" (*ibid.*, 11). He suggested that the government pass a law breaking up the vested interests in order to expand business opportunities for this emerging middle class (*ibid.*).

It would be misleading to assume that there was consensus among the policy makers who promoted Filipino First. First, the above-mentioned responses by Cuaderno and Serrano should be understood as legitimate reactions aimed at clarifying the preeminence of sovereignty over economic policy management. Second, Virata's assertion could be understood as a proposal not to emphasize the ethnic aspect in economic policy making but to highlight economic development.

In fact, the Central Bank (1959, 153) suspended the implementation of Resolution 12 and maintained the foreign-exchange allocation at the level of the first quarter of 1959, which was a 50-percent reduction from the quota of the last quarter of 1958. Although there was no direct evidence from which we can study the reason for the suspension, the above-mentioned pressure and apparent indifference of Governor Cuaderno seem to be factors leading to the suspension. Amado Castro (1974), an economics professor at the University of the Philippines, held the policy of Cuaderno in high esteem and assumed that Cuaderno might have known Filipino First was a selfish strategy coming from the private business sector, although Castro (2012) later stated that he did not know well what Cuaderno exactly thought about.<sup>7</sup> Meanwhile the PCC gradually realized that neither the NEC nor the Central Bank could vigorously carry out Filipino First; thus, it shifted its focus to electoral politics. But engaging in elections would further reveal limitations on the PCC's influence, as we shall see in the next section.

## Filipino First Policy and Elections

Sen. Claro M. Recto, enjoying fame as a nationalist legislator and founding president of the Nationalist Citizens Party (NCP), was a part of the opposition but maintained close relations with the ruling Nacionalista Party. He indeed supported Filipino First and was “even more enthusiastic in his support of Garcia’s ‘Filipino First policy’” according to Recto’s letter of 29 October 1958 to Jose Y. Orosa, one of the prominent figures in the PCC (Constantino 1969, 283, 311).

Recto’s pro-Filipino First position had more to do with his agenda to revise Philippines–US relations than with the policy management of the Garcia administration. His public remark about Filipino First was in fact triggered by an article in the *U.S. News & World Report*, “An Ally Angry at U.S.,” written by Robert P. Martin (1959), the newspaper’s correspondent in Manila. Martin warned that communists, in taking advantage of Filipino First, had found a chance to come back to the Philippines. Martin wrote that Recto had been against the US bases in the Philippines while he had been for the recognition of as well as trade with the People’s Republic of China and the Soviet Union. Martin further alleged that Recto was a powerful friend of the communists as well as one of the major supporters of Filipino First. Although Martin (*ibid.*, 68–70) recognized that thus far Filipino First had not yet affected American businesses in the Philippines, he warned that the policy would most probably affect them eventually, even before the Laurel–Langley agreement expired in 1974. Martin’s piece was reprinted and circulated in the Philippine mass media (MB 1959e, 1, 12).

Recto (1959, 5) refuted Martin’s article in a public speech and described the article as “a clever admixture of truth, half-truth, honest error, and deliberate falsehoods” published by a magazine that “represented the most conservative and even reactionary group in the United States.” Recto reiterated his support for Filipino First and then proceeded to explain the background of the policy in relation to Filipino nationalism. He also clarified the relationship between the Philippines and the US by differentiating “Philippine First” from Filipino First and warned that a Philippine First policy would promote not the welfare of the nation but that of the foreign capital in the country (*ibid.*). Second, Recto explained that, because of the parity rights stipulated in the Philippine Trade Act of 1946 which was kept untouched by the Laurel–Langley agreement of 1954, Filipinos were forced into a subordinate position in their own country. According to Recto,

resentment against such imbalance had resulted in Filipino First being adopted by nationalists (*ibid.*). Recto also advocated the repeal of the parity rights of American businesses in order to expand the coverage of Filipino First (*ibid.*), but the next day President Garcia quickly denied the possibility of repealing the parity rights (A. Bigornia 1959, 1). The reason for this presidential denial was fairly obvious; Recto’s support for Filipino First did not necessarily adhere to the Garcia administration’s diplomatic policy that sought to maintain smooth ties with the US.

As the 1959 mid-term election approached, Recto requested the NP leaders to consider incumbent Sen. Lorenzo Tañada and Balatbat as candidates of the electoral coalition between the NCP and NP (Rodriguez 1959, 1). Recto already knew Tañada, who was his running mate in the 1957 presidential election, but it was the first time that Recto met Balatbat, who was introduced to Recto by Orosa in a letter written in October 1958. Recto was impressed by Balatbat’s nationalism (Constantino 1969, 284).

Although Recto failed to secure a slot for Balatbat as a candidate of the NP–NCP coalition, the two of them continued to advocate Filipino First. Recto then justified the NCP’s coalition with the NP because the NP supported the NCP platform of “complete independence in the field of foreign policy and Filipino-First in the sphere of economy” (MB 1959h, 14). Balatbat continued to work on strengthening and hastening the Filipinization of the economy. He cited the Indonesian nationalistic policy as an example and argued that the Philippines should adopt a similar policy (MB 1959i, A). But while the Indonesian government nationalized “the large chunks of foreign private enterprise (Dutch and Kuomintang Chinese)” (Anspach 1969, 125), the Philippine government did not intend to follow suit. In the eyes of the administration, Recto and Balatbat were advocating a policy beyond the original scope of Filipino First.

Meanwhile, President Garcia maintained his style of avoiding direct intervention in controversial policy issues. During the electoral campaign, he addressed a meeting of the Junior Chamber of Commerce where he emphasized the achievement of the bank’s foreign exchange control policy (Castro 1974, 18; MB 1959j, 1, 14). According to him, the Filipino business sector had increased its share of dollar allocation from 39 percent in 1953 to 44 percent in 1958 and 51 percent in the first semester of 1959 (*ibid.*, 14). He mentioned that the share of Americans went up from 26 percent to 36 percent and down to 34 percent in the same time period, alongside the

share of the Chinese that declined from 20 percent to 10 percent and 7.5 percent in the same time frame (ibid.). Notable here was that the Philippines had already begun to experience this change even before the Garcia administration. Garcia, in fact, emphasized the achievement of the Central Bank's control policy under the late President Magsaysay, but did not even mention the NEC's Filipino First policy that was being implemented under his administration. Only after the mid-term elections were held did President Garcia say, "for the first time since the Philippines became independent, 'nationalism became a burning issue at the polls'" (Hartendorp 1961, 369). He added in his state of the nation address in 1960 that "the Filipino First policy of this administration received a resounding popular [e]ndorsement in the last election" (Garcia 1960).

The leading journalist Teodoro Locsin's candid observation of the electoral outcome differed from Garcia's evaluation. Locsin (1960, 2) mentioned that the two close Garcia aides, Juan C. Pajo and Sofronio Quimson, lost, explaining that "the people may be for nationalism, but they are [also] against graft." The journalist observed that voters based their judgment not only on the nationalistic slogan of the NP-NCP coalition but also on the Liberal Party's appeal for a clean government. Clearly the president attempted to portray himself as a nationalist, but in the Senate elections he also became the symbol of graft and corruption.

After the election, it was in fact the NEC and not the president that became the face of Filipino First. On 6 February 1960, NEC chair Locsin was featured as the "father of the 'Filipino First' policy" in a lead article of the *Philippines Free Press* (Ty 1960, 4–5, 57). Locsin referred to the Filipino-owned oil company, Filoil Refinery Company, which received substantial support from the NEC, as one of the successful projects of Filipino First. He said the policy was "dictated by common sense" and was inspired neither by any anti-foreign nor anti-American sentiment (ibid., 4). Locsin never mentioned any endorsement of Filipino First by the Central Bank, suggesting there was no solid collaboration between the NEC and Central Bank.

### **Gradual Decontrol and the End of Filipino First**

As already mentioned, Central Bank Governor Cuaderno (1964, 80–83) did not publicly support Filipino First; instead in March 1959 he implemented the gradual decontrol program aimed at carrying out the gradual lifting

of exchange and import controls. Cuaderno designed this program to last from April 1960 to 1964 (Baldwin 1975, 50–52). It was more moderate than Congressman Aldeguer's proposal to eliminate exchange controls beginning January 1959, with the stabilization program completed by 1961.

The Central Bank maintained its prerogative to control the pace of decontrol and in fact resorted to reversing the pace of devaluation in September 1960 (ibid.). As Cuaderno (1964, 83) reminisced in his memoir, "Perhaps the most dangerous substitute for the gradual decontrol that had been suggested by the influential group was the immediate lifting of controls." In his view the Central Bank, after winning the power struggle against the sugar bloc, "was ready to recommend the adoption of a plan providing for the gradual lifting of exchange and import controls" in December 1959 (ibid., 80). The Central Bank began to carry out Cuaderno's program by issuing Circulars 105 and 106 on 22 and 25 April 1960, respectively, which were different from both Aldeguer's program and the policy prescription of the US government (ibid., 69–83; Payer 1973, 60). Satisfied that the implementation of his decontrol program was proceeding in earnest, Cuaderno (1964, 84) announced his retirement as governor on 7 June 1960 and finished his term on 31 December 1960.

Cuaderno was not so active in supporting Filipino First but he was also not indifferent to industrialization. After retiring from the Central Bank, Cuaderno once worked for the Lopez family that had close ties to Senator Recto (Abueva 1971, 477). Sen. Fernando Lopez was the brother of Eugenio Lopez, a major player in the sugar industry (Roces 2001). At the height of the Filipino First policy, the Lopezes expanded their business beyond sugar and succeeded in acquiring the Manila Electric Company (Meralco) from an American firm in October 1961 with the support of a resigned and now private practitioner Cuaderno (ibid., 110). Thus, among the prime beneficiaries of Filipino First were the Lopezes who were major players belonging to a group that had previously opposed some of the Central Bank's policy programs (McCoy 1994, 503). Although McCoy emphasized the shrewdness of the Lopezes, we should not underestimate the government's contribution to the change in the portfolio of a leader of the sugar bloc to accelerate industrialization.

The advocates of Filipino First, meanwhile, lost momentum. On 2 October 1960 Senator Recto suffered a fatal heart attack on his way to Spain as the newly appointed ambassador (Constantino 1969, 296). Balatbat lost

a powerful ally in the Senate. President Garcia reiterated his support for the Filipino First policy, but did not vigorously implement it. At a PCC meeting Garcia (1961, 36) declared that “the Filipino First movement which you are spearheading is of tremendous significance to our life as a people.” However, rather than talk about Filipino First, he focused on his achievements by reciting parts of the State of the Nation Address that he had delivered two months earlier. Garcia pointed out successes in achieving self-sufficiency in some food staples, a favorable balance of payments, an increase in dollar reserves, and the stabilization of the financial and monetary system. He never mentioned any concrete achievement resulting from the Filipino First policy under the NEC and the Central Bank (ibid., 41). That Garcia labeled Filipino First not as a policy but as a “movement,” which he also stated was spearheaded by the PCC, *not the government*, was highly telling of his passive stance toward the policy.

Although the NP attempted to keep Filipino First in their agenda in the general elections of 1961, the party seemed to have failed to convince voters that it was serious in implementing it (Meadows 1962). For instance, journalists Adrian and Rene Cristobal (1961) published *Filipino First: An Approach to the “Filipino First” Policy and Selected Readings* to support the Filipino First Policy, but they failed to persuade NP leaders to advocate the policy vigorously and convincingly. The opposition LP accused the NP of graft and corruption, rather than expose its cosmetic plea for Filipino First. Meadows (1962, 263), a contemporary observer, concluded that “much more important than the issue of government exchange controls was that of graft and corruption in [the] government.” Filipino First completely disappeared with the election of the Liberal Party’s Diosdado Macapagal. Upon assuming the presidency, Macapagal abandoned Cuaderno’s decontrol measure and abolished exchange controls on 27 January 1962.

## Conclusion

By tracing the entire process undergone by the Filipino First policy, we can recognize the Central Bank’s significance in economic policy making. Prior to the NEC’s proclamation, none of the policy makers of the Garcia administration discussed Filipino First. They were more concerned with the emergent balance-of-payment crisis or the validity of the foreign exchange policy. After defeating the influence of the sugar bloc inside the government and implementing tariff on imports in 1957, the Central Bank decided to

lift exchange controls with minimal fluctuations on the peso value and, at the same time, compel the government to carry out an austerity program to curtail inflation. Policy makers, therefore, had to promote the unpopular austerity program and deal with politically complicated issues, such as the elimination of foreign exchange controls.

The Filipino First policy was not a product of the private sector’s economic nationalism. The NEC proposed the Filipino First policy based on the exchange control policy managed by the Central Bank. The Central Bank shaped the NEC’s proposal by adopting the resolution for the Filipino First policy. While the private sector failed to compel the government to enforce the bolder implementation of Filipino First, the Central Bank won the confidence of the president to curtail deficit financing and implement a moderate decontrol program. This latter program saw the end of the industrial policy through foreign exchange controls, which meant the disappearance of the policy tool that advocates of Filipino First had relied upon. The decision of the Central Bank marked the end of the Filipino First policy.

The Central Bank led by Cuaderno was interested in industrialization. The bank worked for import substitution industrialization through foreign exchange controls in the 1950s. The industrialization sought by the bank was apparently similar to but in fact different from the private sector’s plea for changing the racial distribution of the economy. The bank was working for an economic structural shift from a colonial agricultural economy to an industrial economy, but it was not so much interested in a change in the racial allocation of the economic pie. Policy makers were nationalists in the sense that they paid attention to a certain shape of the national (or macro) economic structure but not to the interests of particular industries or to international pressure. Considering the nature of the policy makers’ kind of nationalism, we can see that the Central Bank of the Philippines was an island of state strength in the way it achieved its policy goal of economic decolonization.

## Notes

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- 1 The Garcia administration was also known for its graft and corruption alongside its discrimination against foreign businesses (e.g., Gleeck 1993, 249–51; Cullather 1994, 154–80).
- 2 Amando Doronila (1992) analyzes the role of Philippine state as an autonomous actor and as an arena of social conflict from 1946 until 1972 when Marcos declared martial law.
- 3 Brazil (1961, ch. 7) briefly mentions that President Garcia advocated Filipino First in the midst of a fiscal crisis, but focuses more on the NEC and does not study the broader policy process.
- 4 Nick Cullather (1994, 63), one of the leading scholars working on this period, observes that “the Filipino First movement” was only an endorsement of the existing policy. He fails to explain, nonetheless, why it took so long for the Philippine government to proclaim Filipino First.
- 5 The “sugar bloc” was a term for the group of people from the sugar industry who behaved as a pressure group. However, the sugar bloc did not necessarily reflect the general interest of the people who worked in the sugar industry. In addition, some of the leading capitalists in the sugar industry began to diversify their portfolio outside of the sugar industry.
- 6 Cuaderno (1952), who vigorously supported exchange controls, actually preferred imposing tariffs over exchange controls, in order to achieve national development. However, he reluctantly implemented exchange controls because the Bell Trade Act did not allow the Philippine government to impose tariffs freely. The Philippine government could take action regarding tariff policy only after it agreed with the US government to revise the Bell Trade Act and pass the Laurel–Langley Agreement in 1955 (Valdepeñas 1969). Senators Jose P. Laurel and Gil Puyat collaborated with Cuaderno to bring about the Laurel–Langley Agreement, but their role in the tariff policy making is still understudied and could be a topic of a future study.
- 7 The author appreciates the help of Mr. Martin C. Galan, who kindly set up the meeting with Prof. Amado Castro (2012) and shared the time with us.

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