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The Philippine National Bank and Sugar Centrals During the American Period

Yoshiko Nagano



As a general characteristic of colonial Southeast Asia economies during the first half of the twentieth century, it has been widely recognized that with massive capital intrusion from the metropolis, export agriculture developed distortedly, while the growth of domestic capital was drastically limited in various sectors. However, in the case of the Philippines, it is very important to note that aside from capital inflow from the United States, domestic capital came to have a fairly large share of the total investment by the end of the American colonial period. In the Philippines, Spaniards as well as Chinese were Filipinized through the emergence of mestizos during the late nineteenth century. They played a vital role in domestic capital formation during the American period, particularly in the leading sector of the sugar industry. These features in the Philippine sugar industry were different from those of the British Malaya's tin industry where the Chinese maintained a dominant position.

For the purpose of illustrating the nature of the Philippine colonial economy, this article attempts to analyze the characteristics of domestic capital formation in the Philippines, focusing on the sugar industry. In discussing the domestic capital formation in a colonial economy, it is important to depict its characteristics in relation to the government economic policy, as well as to the activities of major financial institutions. Needless to say, whether the growth of domestic capital was accelerated or not largely depended not only on the individual behavior of entrepreneurs, but also on the direction of government policy and the financial assistance of major banks. It was the Philippine National Bank (PNB) that provided long-term loans to domestic producers for building modern sugar centrals from 1915 to the early 1920s.

This article is an abridged English version of Chapter 3 in the present writer's book (Nagano 1986).

Thus, this article will focus on the PNB's financing activities and how domestic entrepreneurs in the sugar industry were encouraged. First, the background of the establishment of the PNB is briefly reviewed. Secondly, the size and nature of the financing provided by the PNB to the sugar industry is illustrated. Thirdly, the financial conditions of the so-called PNB "Bank Centrals" are studied, and lastly, the ownership of the "Bank Centrals" is examined to analyze its oligopolistic structure.

The Formation of the PNB

In February 1916, the Philippine government passed Act No. 2612 creating the Philippine National Bank (PNB) which was actually incorporated in May 1916. Its authorized capital totalled P20 million, 50.5 percent of which was to be owned by the government. The government's subscription to the PNB's stock was to be made in two forms: the transfer of the assets of the government-owned Agricultural Bank which was established in 1908, and the subscription of actual cash to the stock. The initial subscription was set at one million pesos and with the net assets of the Agricultural Bank, the total initial paid-up capital increased to three million pesos. Though individuals or corporations were allowed to purchase the stock of the PNB, it was stipulated that the government should always retain the majority control. The president and vice president were appointed by the Governor-General of the Philippines and a majority of directors were annually elected by the government (Willis 1917a, 415-16; 1917b, 251-58).

The first PNB president, H. Parker Willis, explained the major authorized business of the bank as follows; (1) financing agricultural sectors. Loans were given long-term mortgage securities up to an amount equal to 50 percent of the PNB's capital and surplus; (2) conducting general banking business such as receiving deposits, opening foreign credits, rediscounting bills and advancing money; (3) erecting and operating warehouses for the storage of domestic products; (4) establishing branches; (5) issuing bank notes on a limited scale; (6) serving as depository of the central, provincial and municipal governments (Willis 1917a, 416-17, 425).

It should be emphasized that the PNB had close connections with the Federal Reserve System in the United States. Under United States law no bank in the Philippines could be a full member of the Re-

serve System—the Philippines being considered as a foreign country. Thus, the Federal Reserve Board authorized the PNB as a foreign correspondent and designated it as its representative in the Philippines (Willis 1917a, 425–26).

Why was the PNB, a government-owned bank, established in the mid-1910s? H. Parker Willis gave several reasons for its formation.

Major banks operating in the 1910s were branches of British banks such as the Hongkong & Shanghai Banking Corporation, and the Chartered Bank of India, Australia and China, a branch of an American bank of the International Banking Corporation and the Bank of the Philippine Islands as a Spanish bank based in the Philippines. Generally speaking, American banks were not active in the Philippines, and the Philippines was still placed under the British financial empire in Asia during this period. It was this financial structure which the United States intended to break up by establishing its own financial market in its colony (Willis 1917b, 251–52; 1916, 426–27).

As a domestic bank, the Bank of the Philippine Islands (BPI) had played an important role before the establishment of the PNB. The BPI was first created as Banco Español-Filipino in 1815 under the Spanish government and was reorganized by Act No. 1790 in 1907. From its creation, it was authorized to issue bank notes, which privilege was still maintained under the new act. While the British banks confined their business activities to foreign trade such as foreign exchange, transfers of funds, etc., the BPI extended its business to provide agricultural and industrial loans. However, due to the scarcity of its resources, the BPI could not provide enough loans for the expansion of export agriculture (“The Bank of the Philippine Islands.” *Bankers Magazine* 95 [March 1918]: 371–76; Willis 1917a, 410–11).

In 1908 the Philippine government organized the Agricultural Bank, with an initial capital of 1 million pesos. The main purpose of this bank was to provide loans to agricultural sectors in general, but in reality, loans were mainly given to the sugar industry—a deviation from the initial aim (Willis 1917a, 412–13).

In 1903 the U.S. Congress passed the Gold Standard Act, by which Philippine pesos were linked to U.S. dollars at the exchange rate of 2:1. This act also created the Gold Standard Fund which was to be used for maintaining the official exchange rate. However, a part of this fund was appropriated for private investments, which necessitated the creation of a government bank to oversee and regulate it (Willis 1917a, 412–13).

From what has been mentioned, it is assumed that the PNB was established to accomplish three broad purposes such as breaking up the financial dominance of British banks, enlarging agricultural loans and managing the government treasury. There were, therefore, significant political and economic reasons behind the establishment of the PNB, a multi-purpose government-owned bank, in 1916. In the same year, the Jones Act was enacted in the U.S. Congress, promising independence to the Philippines in the future. This act made a critical impact on the direction of Philippine economic development as well as on the nature of the political system under the U.S. colonial rule. The Jones Act determined the U.S. policy to guarantee the political and economic autonomy to the Filipino elite under American leadership.

While the creation of a bicameral Philippine legislature symbolized political autonomy offered to local elites under U.S. protection, the establishment of the PNB for extending financial assistance to the domestic entrepreneurs characterized the Filipinization of the colonial economy. In terms of the Filipinization of the economy, it is noteworthy that in February 1915, the Philippine legislature authorized the appropriation of three million pesos from the Gold Standard Fund to provide loans for putting up agricultural processing factories such as sugar centrals, and determined the creation of the Sugar Central Board for the establishment of sugar centrals by Filipinos (Stanley 1974, 238). Furthermore, the Philippine Legislature passed a resolution declaring it national policy to provide government support for the establishment of cooperative factories through the efforts of sugar manufacturers and manila hemp or coconut processors.¹ Thus, we might assume that the basis for the participation of domestic capital in the processing of agricultural products was firmly laid by the mid-1910s. The PNB was created at the start of economic development in the Philippines, serving as its backbone throughout the American period.

PNB's Financial Assistance to the Sugar Industry

Among PNB's varied businesses, it was its financial assistance to agriculture and the processing of agricultural products that was directly related to export production. In this area, the importance of loans, particularly those given to export agriculture, illustrates the nature of PNB's activities.

Table 1 shows major items from PNB's financial statement from 1916 to 1928. From items of assets, that of loans & discounts is chosen, while the items of paid-up capital, surplus and note circulation are listed from among the liabilities. From this table, we notice the phenomenal growth of loans & discounts in the total assets. At the time of PNB's establishment, the item, "loans and discounts" comprised 26-46 percent of the total assets; however, the percentage increased to 67-85 percent in 1922-1925, and in 1928 it comprised 80 percent of the total—illustrating the item's importance in the PNB's business operations.

For which sectors did the PNB provide loans? Table 2 shows the PNB's loans by sector in 1925. First, the long-term loans to sugar centrals comprised 53 percent of the total, the largest percentage among all sectors. Secondly, the mid-term loans to agriculture and commerce comprised 15 percent each, and thirdly, the percentage of crop loans (short-term loans) to sugarcane agriculture was 7 percent of the total. The additional amount of the long-term loans to sugar centrals and crop loans to sugarcane agriculture comprised about 60 percent of the total loans & discounts. Moreover, it is assumed that most of the mid-term loans to agriculture were given to sugarcane growers.²

As has been mentioned, the first PNB president, H. Parker Willis, pointed out that the PNB's agricultural loans were limited to an amount equivalent to 50 percent of its paid-up capital and surplus. On the other hand, Act No. 2612 creating the PNB set a maximum amount of agricultural, industrial and commercial loans provided by the bank at 30 percent of paid-up capital and surplus and the full amount of note circulation.³ What is clear from Table 1 is that the amount of loans and discounts in 1916-28 exceeded the limited amount mentioned by H. Parker Willis, as well as that regulated by Act No. 2612. This indicates that the PNB constantly provided extremely large amounts of loans to export sectors, particularly to the sugar industry.

Table 3 shows the PNB's long-term loans provided to ten sugar centrals in 1918-20. As of June 1920, the PNB had given a total of P28.7 million of loans to ten centrals. According to the amount of loans, the ten sugar centrals can be classified into two groups: a first group of four centrals, to which a loan of not more than 1 million pesos each was provided, and a second group of six centrals with a loan of more than 1 million pesos for each central.

Table 1. Financial Statements of the PNB, 1916-1928 (in 1,000 pesos, % in parentheses)

	Assets (or liabilities)	Loans & discounts	Paid-up capital	Surplus	Note circulation
25 May 1916	11,838 (100.0)	5,461 (46.1)	2,386 (20.2)	-	-
31 Dec 1916	50,786 (100.0)	13,013 (25.6)	4,364 (8.6)	-	520 (1.0)
30 Jun 1922	167,457 (100.0)	141,965 ¹ (84.8)	35,300 (21.1)	-	30,758 (18.4)
31 Dec 1923	146,906 (100.0)	122,505 ² (83.4)	35,300 (24.0)	-	31,639 (21.5)
31 Dec 1924	115,668 (100.0)	77,790 (67.3)	10,000 (8.6)	-	31,774 (27.5)
31 Dec 1925	115,108 (100.0)	80,577 (70.0)	10,000 (8.7)	4,318 (3.8)	30,540 (26.5)
31 Jul 1928	115,809 (100.0)	93,058 (80.4)	10,000 (8.6)	5,576 (4.8)	14,178 (12.2)

Source: H. Parker Willis, "The Philippine National Bank," *Journal of Political Economy*, Vol. 25, No. 5 (May 1917), pp. 419, 422; "Consolidated Statement of Condition of the Philippine National Bank," 1922-1925, 1928, Philippine National Library, Quezon Papers (hereafter cited as QP), Box 169-171

Notes

1. Including overdrafts and accounts receivable.
2. Including other advances.

Table 2. The Amount of PNB Loans by Sector as of 31 Dec. 1925

Sector	Amount of loans (in 1,000 pesos)	Percentage
Agricultural	13,486	(14.6)
Sugar centrals	48,549	(52.6)
Crop loans		
Sugar	6,041	(6.5)
Others	208	(0.2)
Commercial	13,750	(14.9)
All others	10,340	(11.2)
Total	92,374	100.0

Source: Report of Rafael Corpus to Manuel L. Quezon (Feb. 24, 1926), p. 6, QP, Box 170.

Table 3. Ten Sugar Centrals Financed by the PNB

Name of Central	Year of establishment ¹		Milling capacity (ton/day) ²	Capital (in 1,000 pesos) ³	Value of guaranty (in 1,000 pesos)	Amt. of PNB (in 1,000 pesos)
Central Bearin	1919	(1912)	400	1,500	1,851	1,000
Central Palma		(1916)	200	-	1,118	600
Hinigaran Sugar Plantation Co. Inc.	1918	(1914)	250	1,000	1,350	710
Central Canlaon		(1914)	200	-	653	288
4 centrals: Sub-total			1,050	2,500	4,972	2,598
In Average			263	625	1,243	650
Bacolod-Murcia Milling Co., Inc.	1918		600	500	5,306	2,900
Binalbagan Estate, Inc.	1918		1,200	n.a.	n.a.	5,000
	1919 ⁴		n.a.	500	5,000	3,500
Isabela Sugar Co., Inc.	1918		600	10	3,642	1,700
Ma-ao Sugar Central Co. Inc.	1918		1,500	25	10,584	5,000
Pampanga Sugar Development Co., Inc. (Pasudeco)	1918		1,200	1,000	8,644	4,500
Talisay-Silay Milling Co. Inc.	1918		1,000	500	6,000	3,500
6 centrals: Sub-total			6,100	2,535	39,176	26,100
In Average			1,017	423	6,529	4,350
10 centrals: Total			7,150	5,035	44,148	28,698
In Average			715	504	4,415	2,870

Source: Report of Venancio Concepcion submitted to the Board of Directors of the Philippine National Bank (21 June 1920), QP, Box 169.

Notes:

1. The year of incorporation. In parentheses, the years of establishment of factories are indicated.

2. Milling capacity at the starting of operation.

3. Capital at the time of the PNB loans provided. Distinction between paid-up capital or authorized capital is not known except the Isabela Sugar Co., Inc., for which paid-up capital is given.

4. Reorganized in 1919.

The four centrals in the first group were the Central Bearin, the Central Palma, the Hinigaran Sugar Plantation Co., Inc. and the Central Canlaon, all of which were relatively smaller in size and created by Filipino or Spanish local landlords or merchants.⁴ On the average, each of these four centrals had a milling capacity of 263 tons per day, a collateral (real estate & machinery) of P1.24 million and a PNB loan of P650,000.

The six centrals in the second group consisted of the Bacolod-Murcia Milling Co., Inc., the Binalbagan Estate, Inc., the Isabela Sugar Co., Inc., The Ma-ao Sugar Central Co., Inc., the Pampanga Sugar Development Co., Inc. (Pasudeco), and the Talisay-Silay Milling Co., Inc. On the average, each of these six centrals had a milling capacity of 1,017 tons per day, a collateral of P6.53 million and a PNB loan of P4.35 million, showing a much larger scale of production capacity and financial assistance in comparison with the former group of four centrals.

However, it is noteworthy that the average capital (in most cases, the distinction between the paid-up capital or the authorized capital was not clear) of the first group of four centrals (two centrals were not incorporated) reached P625,000 while that of the second group of six centrals (all of which were corporations) was limited to P423,000 pesos. These facts indicated that six centrals of the second group which were established during the economic boom after World War I relied heavily on PNB loans. As will be discussed later, these centrals were mostly organized by groups of local Filipino landlords with the assistance of American investors.

All of these six centrals imported their machinery from the United States, particularly from Hawaii.⁵ The PNB's financial assistance to establish these modern sugar centrals was consistent with Philippine government policy to promote the provision of primary commodities. However, after being established, these sugar centrals faced one financial and management crisis after another and the PNB had to reschedule their previous amortization period of twenty years and oblige them to pay their debt in a few years, by allotting the total amount of net profits for amortization.⁶ The rescheduling was implemented at the time of the management crisis of the PNB itself in the early 1920s. Thus, the PNB placed the six heavily indebted sugar centrals above under its management in August 1921.

The "Bank Centrals" under PNB Management

In May 1921, with the government's initiative, the PNB board passed a resolution to organize the Philippine Sugar Centrals Agency to control six sugar centrals under its direct management. These sugar centrals, namely, the Bacolod-Murcia Milling Co., Inc., the Binalbagan Estate, Inc., the Isabela Sugar Co., Inc., the Ma-ao Sugar Central Co., Inc., the Pampanga Sugar Development Co., Inc. (Pasudeco), and the Talisay-Silay Milling Co., Inc. which were constructed mainly out of the PNB's loans, had no capacity to complete construction work or to operate centrals. All financing plans of the Agency were submitted to the PNB management and the supervising contract with six sugar centrals was concluded in August 1921. Later these sugar centrals were called "Bank Centrals" under the PNB's management (*First Annual Report of the Philippine Sugar Centrals Agency*, 1 July 1921 to 30 June 1922, Manila, p.5; Wilson 1921, 482-83; 1923a, 42-43; 1923b, 59-61; 1923c, 428, 481-87; 1927, 570).

In the supervising contract, the Philippine Sugar Centrals Agency was given the authoritative power to investigate the financing of centrals, to supervise the expenditure of PNB loans, to purchase equipment and materials for factories, to provide various technical work, to supervise the marketing of sugar and other products, to cooperate with centrals in increasing their capital stocks, to establish a uniform accounting system among sugar centrals, and to engage in other businesses to improve the financial condition of sugar centrals. On the other hand, sugar centrals were obliged to shoulder the total expenses of supervision of the agency. They were obliged to submit for approval to the Agency all plans to incur new financial obligations with more than P1,000. The power given to the Agency was effective for five years or until loans secured by centrals were fully paid. (*First Annual Report of the Philippine Sugar Centrals Agency*, pp. 37-38).

Furthermore, the Sugar Centrals Agency intervened in the relationship between sugar centrals and sugarcane planters. Most of the prominent planters provided their agricultural lands as collateral for the PNB loans, thereby assuming responsibility for the indebtedness of sugar centrals. After concluding the supervising contract, the PNB, planters and centrals came to an agreement that planters who as-

sumed the responsibility for the mortgage of the centrals should contribute 25 percent of the net sugar produced for the payment of the central's debt to the PNB. Under this plan the planter could pay his part of the indebtedness at any time and obtain release of the mortgage of his property. And planters might get capital stock of the centrals for the same amount which they had paid and become the stockholders of the centrals, after the liquidation of the indebtedness to the PNB (*First Annual Report of the Philippine Sugar Centrals Agency*, pp. 13-14).

How did the "Bank Centrals" settle their financial obligations to the PNB?

Table 4 shows the amount of indebtedness of the "Bank Centrals" to the PNB in 1922-26. As shown in table 4, during the period 1922-26, in spite of the creation of the Philippine Sugar Centrals Agency, the total amount of indebtedness of the "Bank Centrals" increased from P43 million to P48 million. In the case of the Pasudeco and the Talisay-Silay Milling Co., Inc., the amount of indebtedness to the PNB decreased; however, the debts of the remaining four centrals increased tremendously. For example, the debts of the Bacolod-Murcia Milling Co., Inc. increased from P6.7 million to P11.1 million, while that of the Isabela Sugar Co., Inc. increased from P3.6 million to 6.2 million.

After five years under PNB management, the financial conditions of the six "Bank Centrals" varied. Though there is no detailed data available on the schedule of debt payments made by the "Bank Centrals" from the late 1920s to the late 1930s,⁷ one can find the total amount of debt payment to the PNB and the debt liquidation year. According to Table 5, all the six "Bank Centrals" fully paid the debt to the PNB by 1937. The total debt amount of the six centrals reached P86.4 million, P1.4 million on the average for each central. The Pasudeco liquidated its indebtedness as early as 1927, having the smallest debt amount, followed by the Talisay-Silay Milling Co. Inc. in 1929, and the other four centrals in 1936-37.

The difference in the financial conditions of the six centrals can be also observed from the amount of paid-up capital, as well as from the year of first dividend payment. Table 5 shows the paid-up capital in 1937 and the year of first dividend payment of the six centrals. The comparison of the paid-up capital of the six centrals in Table 5 with that of Table 1 clearly shows that all of the six centrals successfully increased their paid-up capital from the 1920s to the late 1930s. Among the six centrals, it was the Pasudeco which

Table 4. The Debt Amount of the "Bank Centrals" to the PNB, 1922-1926¹
(in 1,000 pesos)

Name of central (abbreviated)	1922	1923	1924	1925	1926
Bacolod-Murcia	6,688	5,878	6,110	9,253	11,118
Binalbagan	10,396	10,963	9,996	11,286	11,875
Isabela	3,575	4,114	5,489	5,916	6,235
Ma-ao	10,569	10,137	9,561	10,079	10,849
Pasudeco	5,182	3,717	3,296	2,386	2,009
Talisay-Silay	6,103	5,252	5,375	4,909	4,830
Sub-total	42,513	40,061	39,827	43,829	46,916
Phil. Sugar Centrals Agency	702	508	1,328	1,345	1,311
Total	43,216	40,569	41,154	45,174	48,227
In Average	7,203	6,762	6,859	7,529	8,038

Source: *Annual Report of the Philippine Sugar Centrals Agency*, Manila, No. 5 (1926), p. 11

Note:

1. Data as of October 31

Table 5. Paid-up Capital (in 1937) and the Year of First Dividend of Six Centrals

Name of central (abbreviated)	Paid-up capital in 1937 (in 1,000 pesos)	Year of first dividend provided
Bacolod-Murcia	3,573	1937
Binalbagan	1,065	1939 ²
Isabela	965	1937
Ma-ao	659 ¹	1937
Pasudeco	4,365	1926
Talisay-Silay	4,361	1930

Source: Philippines (Commonwealth), Office of the President, National Sugar Board, "Memorandum in the Sugar Industry to Dr. Manuel L. Roxas, Chairman, Committee No. 1, National Sugar Board," Manila, 1939 (unpublished), Vol. 1, pp. 26, 48-49, 93, 113, 143, 168.

Notes:

1. Data before the payment of stock dividend amounting to P2.6 million in 1937. Data taken from Taiwan Ginko Taihoku Chosabu (Research Division, Bank of Taiwan, Ltd.), *Hito Togyo Chosahokoku (Hito Togyo Shinsakai) (A Research Report of the Philippine Sugar Industry (National Sugar Board))*, 1944, p. 21.

2. Data taken from "Binalbagan Estate, Inc.," *Sugar News*, Vol. XX, No. 3 (Mar. 1939), p. 108.

first started to pay dividends to its stockholders in 1926, followed by the Talisay-Silay Milling Co., Inc. in 1930. The other four centrals paid their first dividends in 1937-39.

These data indicate that the six centrals which were incorporated using smaller capital were successful in rapid capital formation by the late 1930s, with the PNB's financial assistance as their great support. The six centrals incorporated by Filipinos were recognized as major sugar centrals in the Philippines, together with the American and Spanish centrals. Who then incorporated these centrals and who controlled them? In the following section, the ownership of the six centrals is discussed to show the oligopolistic structure of the sugar manufacturing sector in the Philippines during the American period.

The Oligopolistic Structure of Filipino Centrals

The original stockholders of the Pampanga Sugar Development Co., Inc. (Pasudeco) consisted of big landlords in the province of Pampanga, such as the de Leons, the Hizons, the Lazatins, the Hensons, the Tiglaos, the Eusebios, the Consunjis, the Gonzaleses, and the Rodriguezes. Most of them came from the municipalities of San Fernando, Bacolor and Mexico, which were located in the central part of the province, while some landlords in the municipalities of Magalang, Mabalacat and Angeles in the western part of the province also joined in its incorporation. In the Pasudeco, a group of prominent landlords maintained the position of major stockholders of the corporation, which meant that the system of group ownership of the central persisted even under PNB management. The sugarland of these landlords formed part of the collateral for the PNB loan to this central. After the central liquidated its debt, they obtained stock in the central, whose value was equivalent to P152.75 per hectare, in return for offering their land as collateral. ("The Pasudeco Story," *Sugarcane Farmers Bulletin*, pp. 4-5; "The Pasudeco Story," n.p., n.d., pp. 1-3. See also Larkin 1972, 287-88). Through this process, a few prominent families in Pampanga successfully accumulated wealth, not only as sugarcane planters of large tracts of land, but also as major stockholders of the sugar central.

In the case of the Talisay-Silay Milling Co., Inc., its major stockholders were the prominent families in Talisay and Silay, such as the Gastons, the Lizareses, the Lacsons, and the Ledesmas, at the time of its establishment. However, the stock of this central was later

concentrated in the hands of the Lizares family and in the late 1930s, the central was managed by Placido L. Mapa who was related with the Lizareses (Lacsamana 1939, F24-F25; 1937, 66). In the Bacolod-Murcia Milling Co., Inc., most of the sugarcane planters who had milling contracts with the central obtained its stock, while its board members consisted of Emilio Lizares, Agustin Amenabar, Baldomero de la Rama, Mariano Ramos and Antonio Jayme (*Handbook of the Philippine Sugar Industry* 1929, 70). In the late 1930s, the major stockholders of the central were the Lizareses' Financial Corporation of the Philippines, as well as the PNB, and it was managed by Placido L. Mapa in cooperation with the Lizares, Ledesma and Villanueva families (Lacsamana 1939, F6-F7).

The Isabela Sugar Co., Inc. and the Ma-ao Sugar Central Co., Inc. were incorporated with the assistance of George H. Fairchild, an American who played an important role in modernizing sugar manufacturing in the Philippines. The original major stockholders of the Isabela Sugar Co., Inc. were the Montilla, Cuyugan and Roxas families, while those of the Ma-ao Sugar Central Co., Inc. consisted of the Montilla, Cuyugan and Ortigas families (Letter of George H. Fairchild to Francis Burton Harrison, 9 Oct. 1919, QP Box 198A). Individually, Gil M. Montilla obtained the largest share of stock in both centrals from the beginning. Even in the late 1930s it was assumed that he controlled the majority of their stocks (Fairchild to Harrison 1919). However, at the management level, the Montilla family kept important positions in the Isabela Sugar Co., Inc., while it was the Aranetas who occupied the vital positions in the Ma-ao Sugar Central Co., Inc. (Fairchild to Harrison 1919). The Binalbagan Estate, Inc. was first organized by the Yulo family in 1918 (Fairchild to Harrison 1919). It was soon dissolved and reorganized in 1919 by P.C. Whitaker and V. Concepcion (Fairchild to Harrison 1919; Arroyo 1924). After it was placed under PNB management, it changed hands again, and was first sold to Enrique Echaus, who later transferred his shares to the PNB (Lacsamana 1939, F10). Thus, the PNB still controlled the Binalbagan Estate, Inc. in the late 1930s (Lacsamana 1939, F10; "Binalbagan Central Taken Over Agency," *Sugar News* 8 Aug. 1940): 321.

From what has been mentioned, it is clear that in the late 1930s, five sugar centrals excluding the Binalbagan Estate, Inc. were controlled by prominent landlords in local areas. Among the five centrals, it was only in the Pasudeco that the system of group ownership among local planters was somehow maintained, while the

ownership and management of the four other sugar centrals were concentrated in the hands of one or two prominent families. The differences in the ownership and management of sugar centrals in Pampanga and Negros were assumed to be the consequences of differences in the behavioral patterns of landlords in the two provinces, as well as the difference in the business performance in these centrals.

Conclusion

This article has traced the process of capital formation in the sugar manufacturing sector financed by the PNB. Based on the above analysis, it should be pointed out that government policy for promoting the establishment of Filipino sugar centrals in the 1910's was successful, as was shown in the case of six sugar centrals which were able to liquidate their indebtedness to the PNB by the late 1930s. However, this policy also accelerated the formation of oligopolistic structures in the sugar centrals and promoted Filipino landlords participation in sugar manufacturing. The Filipinization of sugar manufacturing sector meant the concentration of the ownership and management of sugar centrals in the hands of prominent Filipino landlords. The creation of Filipino sugar centrals was instrumental in eliminating the total foreign domination in the Philippine sugar industry. But it also widened the income disparity in the industry.

Notes

1. "Philippine Legislature Act. No. 2479 (5 Feb. 1915)," U.S. National Archives, Bureau of Insular Affairs (hereafter cited as BIA), 4122-93; Opinion of Attorney General of the Philippines forwarded by the Executive Bureau of the Philippines (8 July 1915), BIA, 4122-97; Letter of the Secretary of the Central Sugar Board to the Acting Executive Secretary (13 Sept. 1915) BIA, 4122-104B; Letter of Acting Executive Secretary of the Philippines to Geo. L. Squier Manufacturing Co. (29 Dec. 1915), BIA, 8497-6; *Manila Times*, 6, 14 March 1916; Stanley, 1974, 238.

2. This assumption is based on the fact that the amount of crop loans provided through the PNB subagency at Bacolod, Negros Occidental in 1925 reached P5.2 million, 83 percent of the total. See Report of Rafael Corpus to Manuel L. Quezon (24 Feb. 1926), p. 3, Philippine National Library, Quezon Papers (hereafter cited as QP), Box 170.

3. "Report Concerning the Liability Civil or Criminal, of Former Directors of the Philippine National Bank Arising Acts or Omissions Concerning with Their Management of Its Affairs (28 Nov. 1923), p. 116, QP, Box 170.

4: Report of Venancio Concepcion submitted to the Board of Directors of the Philippine National Bank (21 June 1920), pp. 1-3, QP, Box 169; *Handbook of the Philippine Sugar Industry*, 2nd ed., Manila: Sugar News Press, 1929, Table 1, pp. 86-87, 98, 109, 110, 163.

5. "Extract from the Minutes of the 172nd Regular Meeting of the Board of Directors, Philippine National Bank held on 22 June 1920, at the Office of the Philippine National Bank on the Escolta, Manila," QP, Box. 169.

6. Letter of the Secretary to the Governor-General to BIA (11 Sept. 1915), BIA, 4122-101; The Government of the Philippine Islands, Central Sugar Board, *Proposed Central Sugar Factory at Isabela, Occidental Negros*, BIA, 4122-108; Letter of George H. Fairchild to Francis Burton Harrison (9 Oct. 1919), QP, Box, 198A; Report of Venancio Concepcion.

7. As of 31 May 1927, the total debt of the six "Bank Centrals" to the PNB amounted at P39.5 million, decreasing P7.5 million from that of May 1926. For the last five months they paid P6.9 million to the PNB. This shows that by the late 1920s, these centrals had favorable financial records. *Manila Times*, 14 June 1927.

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