Yoshiko Nagano


Given the recent global financial crisis of 2008 and the Asian Financial Crisis of 1997, socio-historical studies on banking in Southeast Asia are becoming even more important and relevant in helping us to understand the powerful social forces bearing down on our global economy. Particularly with regards to the Philippines, examining the manner in which its financial system was established could provide some insight into why the Philippine economy has been plagued by the description, “sick man of Asia”. After all, an effective banking system can ensure a steady source of financial support to essential industries, spurring development, and the growth of a nation’s economic base. Flaws in this vital institution can lead to a shaky foundation to the development of any nation. Furthermore, whether or not the United States, under which the Philippines was a colony, is complicit in establishing a flawed foundation to the Philippine economy requires serious study and attention. The role of the United States in the Philippines is under even more scrutiny today with its president, Rodrigo Duterte, highlighting the “failed” promises of the United States, prompting a re-examination of the longstanding relationship between the two countries.

Yoshiko Nagano takes on this very important task of exploring the socio-historical roots of the Philippine banking sector and its American roots in her State Finance in the Philippines, 1898–1941: The Mismanagement of an American Colony. As a critical contribution to our understanding of the early development of the Philippine economy, she asks tough but important questions, such as: How did the Philippine National Bank emerge? What were the economic concerns and political motivations behind its development? And lastly, how was the United States negligent in establishing, overseeing and managing the bank? Through a very rich and comprehensive analysis, Nagano digs deep into the archives to explore how the bank was established, who the major players were, how they handled their responsibilities, and how their actions prompted a financial crisis from 1919 to 1922.

Nagano begins her analysis by providing the reader with an extremely comprehensive overview of the banking and currency systems in the Philippines under U.S. rule. Divided into three parts, the first part of the book examines the Philippine currency system and how the system eventually adopted a more “modern” banking system. In the first chapter, the complicated currency situation whereby American controlled Philippines is explained. Attempting to sort out the multiple currencies left behind by the Spanish, the Americans
Initially minted silver coins based on a gold coin whose denomination was a peso pegged to the U.S. dollar. Eventually, due to currency reserve issues, the Philippine peso was later directly pegged to a U.S. dollar that was no longer tied to the gold standard, further heightening U.S. economic supremacy over the islands and setting the stage for the management—or mismanagement—of the Philippine National Bank and its assets. In the second chapter, Nagano details how a modern banking system emerged in tandem with the growing export economy in the first half of the 20th Century. Due to preferential trading agreements with the U.S., certain industries became dependent on the U.S. market. Laws were then passed to shore up Philippine banks and further organise and regulate them to protect and grow these select industries, place restrictions on what types of loans could be made, and consolidate and enhance the presence of the Philippine National Bank.

In second part of the book, Nagano documents the spectacular rise and fall of the Philippine National Bank. Chapter 3 starts off with a discussion on the Agricultural Bank that was established in 1901 by the colonial government mainly at the behest of Filipino elites. It sheds light on how many of the loans issued by this bank were made to large land-owning elites to further enhance and entrench their holdings. Chapter 4 highlights how, by 1916, the Philippine National Bank was established and merged with the Agricultural Bank, effectively taking over its operations, and continuing the practice of lending to larger landowners and to the more financially-endowed borrowers. The chapter presents several cases in which the bank lent money to borrowers who did not use the money in the manner they had proposed to and how the bank negligently calculated assets secured as collateral for the loans. The situation had become so dire that by 1918, many of the bank directors resigned from the board. These bad loans, compounded by regional economic instabilities, triggered a financial crisis, and prompted an investigation commissioned by the President of the United States at that time, Warren G. Harding, in 1921.

The third and final part of the book details the political debacle that ensued from 1919 to 1941 as a result of the bank’s poor performance. Chapter 5 underlines how the Woods-Forbes Mission described the story of the Philippine National Bank as “one of the most unfortunate and darkest pages in Philippine history”. The report also emphasised the inexperience of the Filipino bank officials and staff, and the ill effects of the “Filipinisation” of the American colonial bureaucracy in the Philippines as the cause the bank’s downfall. Here, Nagano argues that it was the failure of economic policy, particularly with regards to the currency reserve fund, that contributed to the fall of the bank, rather than simply a mismanagement at the local level. Next, in Chapter 6, Nagano outlines how certain industries that were nurtured and supported by preferential trad-
ing agreements with the U.S., and the needs of the market during World War I, benefited from the bank’s loaning policies. The chapter also went on to discuss the role of xinyong, or trustworthiness, and personal relationships in the Chinese Filipino banking context as a possible explanation to the Filipino bankers’ predilection to lending to elites. Finally, Chapter 7 elaborates on how the American government failed to handle the near bankruptcy of the bank and refused to intervene into the calamitous currency crisis when intervention was needed.

What is remarkable about the book is the thorough analysis of the complex history of the banking industry in the Philippines. However, the technical description of the Philippine National Bank’s legal history and the concurrent currency crisis made the analysis potentially challenging for lay observers of the Philippine economy. This was compounded by the fact that, at times, the laws and other policies discussed were simply reproduced in the text verbatim with not enough summary and analysis. Secondly, the insightful argument that the 1919–1921 financial crisis was not just a product of corrupt local officials, or the Filipinisation of the political infrastructure, could have been substantiated more concretely. Bad economic policy decisions on the American colonial government’s part and Filipino-Chinese concepts of trustworthiness or personal relationships provide useful countervailing evidence to the “corrupt Filipino” image. But perhaps more biographical information on the Filipino bankers could have revealed the motivations, internal conflicts and personal reasons behind their actions. Moreover, it would be also be interesting to know how the trial portrayed Filipino bankers in contrast to the Americans who were also enmeshed in the entire system.

Overall, State Finance in the Philippines represents an important move forward in deconstructing colonial narratives that have dominated this important period in Philippine and Southeast Asian history. It provides a rich and thick description of the legal infrastructure of the banking industry in the Philippines, allowing us to peer deep into the inner workings of the system to understand its flaws. The analysis provides the reader with a comprehensive and detailed look into an essential establishment in modern-day Philippines and, perhaps, even provides some support to President Duterte’s recent claim that the United States had indeed failed the Philippines, particularly with regards to America’s attempt to establish a solid banking infrastructure for its former colony.

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