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STRONG PAPERS

SUBJECT

WOOD, GENERAL LEONARD
GOV. GEN'L OF THE PHILIPPINES
1920 - 1926

Phoenix, Arizona, April 7, 1920.

Major Gen. Leonard Wood,
Headquarters Central Department U. S. Army,
Chicago, Illinois.

My dear Gen. Wood:

Basil and I left Phoenix for our camping trip well equipped with writing materials to enable me to prepare that article which I had expected to have in your hands before this, but we found that our travels kept us fairly busy almost every day from sunrise to sunset and there was no opportunity for serious thought about matters more important than the daily routine of travel and camp.

Our trip took us all the way to the Pinacate Mountains in old Mexico within about 15 miles of the Gulf of California. We connected with McCoy at Casa Grande, had a short visit with him at Douglas and another visit with him at Ajo. Basil has left me to visit the Bliss's at Santa Barbara, but I join him in San Francisco next week and on the 17th we sail for the Orient.

Both of us learned with much regret that the axe had fallen upon McCoy and that he had been transferred to the Central Department as a Major of Cavalry, the only compensation being his return to a close association with you. Won't you give him my best regards and tell him that if our photographs are ever developed I shall send him another installment.

The enclosed memorandum is intended to be no more than an expression of my personal views about some of the practical questions in finance and economics that are now pressing upon us as a result of the war. Obviously, my very close association with the treasury and its financial operations during the war period may on the one hand be considered as prejudicing my views, and on the other hand as imposing some restraint in expressing them. At least you may take what I say on these matters as the best convictions I have and as being based upon a rather intimate knowledge of what transpired.

With most cordial wishes, believe me

Sincerely yours,

Phoenix, Arizona, April 7, 1920.

MEMORANDUM FOR GENERAL WOOD

The whole world is addressing itself to a study of the economic problems growing out of the war, and they are so intimately involved with the social and political situation, both at home and abroad, that our public men cannot expect to satisfy those who are looking to them for leadership, unless they are able to present clear and easily understood opinions on these matters and more particularly some constructive program.

The comments given below are divided into the following subjects:-

1. Banking and currency expansion.
2. High cost of living.
3. Tariff.
4. Foreign Trade.
5. Loans to allies
6. Immigration.
7. Taxation and loans.
8. Business.

1. Banking and currency expansion.

For the past two years students of this subject and particularly some of our economists connected with the universities have severely criticized the financial policy of the treasury department, claiming that a great expansion of currency and bank credit had resulted from the governments borrowing at too low rates of interest, from the reserve banks maintaining to low discount rates in order that this policy might succeed, from the treasury borrowing too much on short loans and that the consequences of this expansion were the present high prices of commodities and disorganization of labor. There is, of course, some basis for a part of these charges, but the basis is theoretical and completely overlooks circumstances which frequently in time of war makes it necessary to select a choice of evils.

When the war started in 1914 all belligerent nations which had access to our markets came here to buy foodstuffs and military supplies in ulimited quantities, beyond our capacity to produce and their capacity to pay by the usual exchange of goods and services for goods and services and without regard to prices. This resulted in various economical phenomena, which may be summarized briefly as follows:-

(a) We planted more land and increased our farm production.

(b) We bred more food and draft animals and increased our herds.

(c) We enlarged our industrial plants, built new ones and greatly increased our production of all kinds of material required abroad for both civil and military use.

(d) We enlarged our exports beyond anything heretofore witnessed in the worlds history.

(e) We loaned large sums of money abroad.

(f) We repaid debts which we owed abroad.

(g) We imported over a billion dollars of gold and increaded our bank reserves by that amount.

(h) In consequence of the above there was a slight enlargement of the note currency in circulation and a considerable enlargement of bank loans and deposits.

These phenomena invariably accompany an increase in a nations wealth whether in time of peace or war. In other words, we were rapidly getting rich out of the war, enlarging our production, our national assets and our banking resources. The only question which can be raised as to the soundness and permanence of this prosperity relates to the question of the price level, which in my opinion, was unavoidably bound to advance under conditions which no system of banking of of economics which has yet been devised could be made to control.

The above relates to the period between the outbreak of war in 1914 and our entrance in 1917.

Those who have criticized the treasury's policy claim that the federal reserve system has been dominated by the treasury and its rates, as a result, have been kept too low in order to facilitate an unsound treasury program. They claim that these loow rates are responsible for inflation and high prices.

Broadly speaking, there are three ways by which inflation can be moderated or kept under control and prices kept down.

1. General economy in the consumption of all kinds of goods by all the people of the country so that what is required for military purposes may be available(andthis includes labor and transportation)

out of what is saved by economy.

(2) Restriction upon borrowing from banks for the purpose of expanding production by charging heavy rates for loans, thereby imposing a tax upon production which is based upon bank credit.

(3) The payment of higher and more attractive rates by the government for long time war loans, so that a wider distribution to investors might be obtained without calling upon the banks either to subscribe for bonds or to lend money to subscribers who were unable to pay for their bonds.

As to the first, the people of this country must be aware of the determined efforts which were made to impress upon them that there was urgent need for economy and that there would be disorganizing consequences growing out of higher prices if they did not heed the warning. It may be that more could have been done in this direction, but the responsibility for the failure, if it was a failure, rests neither with the treasury nor with the federal reserve system, but rather with the peculiarities of the American temperament and the habits of a people who had long been accustomed to enjoy the luxuries and extravagances that are characteristic of a new and rich country, and who were unwilling to surrender them.

As to two and three, opinions differ widely, but my best judgment was at the time and is now that had much higher rates been paid by the government and charged by the reserve banks, we would have brought on troubles that were successfully escaped, possibly more serious in their affects upon the country than those which result from the expansion and high prices now prevailing. Congress and not the secretary of the treasury was charged with the duty of authorizing war loans; Congress fixed the rates for those loans and delegated a most limited authority to the secretary of the treasury to fix rates and terms. The Congress simply heard his recommendations which were arrived at after consulting the reserve banks and other bankers. Assuming, however, that the secretary of the treasury had sufficient influence with Congress to be regarded as himself determining the rates to be paid, there were then two bodies between whom this question of rates had to be settled. On the one hand the treasury department and on the other hand the Federal Reserve system. The facts are that in every instance they made every effort to have their minds meet and to agree upon the wisest course. There were certainly differences of opinion. In some instances I personally felt that the rates were too low, whereas others of my own associates, as well as many bankers outside of the Reserve system, felt that they were about right, or in some cases too high. As must always be true of such matters, these policies as to rates were the result of discussion, inquiry and a composition of conflicting views at the meeting point at which it was

believed that the greatest possibilities of success existed.

The fact is that the rates at which the United States Government borrowed money had to be determined, either by Congress or by the secretary of the treasury, or by the Federal Reserve system. Congress gave very limited authority to the secretary to fix rates and terms for the long time loans, except in the case of the fifth loan, after Secretary Glass took office. As between Congress and the secretary of the Treasury, on the one hand, and the Federal Reserve System on the other hand, the former could fix rates so low and so much below the Federal Reserve rates that the loans would be hopeless failures, or on the other hand, the Federal Reserve System could have fixed rates so much above those at which the secretary believed that he could borrow money, that it would have caused the loans to fail. As to the long loans, the principal responsibility rested with Congress and I firmly believe that the terms fixed by Congress, which were partly upon the recommendation of the secretary of the Treasury, represented the best consensus of banking experience and judgment that could be had at the time. I also belive that little profit, and possibly a good deal of advantage would result from any attack of a political nature upon the war finance program, which on the whole, was a magnificent achievement.

The great cry for higher interest rates by critics principally college professors, really applies to the short time borrowing of the treasury made principally from the banks of the country rather than investors, because in those operations the greatest possibilities of expansion with the resulting effect upon prices existed. So far as the volume of that borrowing is concerned, it could hardly have been less, except we had been willing to pay more taxes, because the country's capacity to absorbe long time bonds had been strained to the breaking point. The only question which I regard as open to debate as to the wisdon of the treasury program, relates to the rates paid for short loans. As this letter is most confidential, I feel at liberty to say that I have differed with the officers of the treasury and with some of my own associates in the reserve system as to this policy since the summer of 1919, but nevertheless I realize that questions here involved are ones of judgment and time may disclose that my own opinion as to rates, which was a minority, was wrong and the treasuy view was right.

In general, however, the following should be said on the subject of interest rates. Any nation which encounters an unlimited demand for goods, at almost any price, and beyond its capacity to produce, and whose people are consuming and wasting goods beyond their ability to pay out of current savings must resort to credit and mortgage the savings of the future in order to pay for the waste and extravagance of the present. [illegible] under such conditions as these, such as

would have been effective in imposing a rigid economy upon a people who were mad to spend money, might indeed have smashed the values of all securities and possibly embarrassed or bankrupt many indivduals and corporations and caused hardships, losses and embarrassments, equal, if not greater than those resulting from the present high prices and inflation of bank deposits and currency.

Critics overlook the fact that the greatest corrective of wasteful expenditure b y the civil population in time of war is direct taxation, graduated to the point where it will not discourage production. While our tax laws were clumsy in some cases produced cumulative taxes and may to a degree be discouraging to production now that peace has come, the tax program was nevertheless on the whole courageous and constructive and saved us from many a disaster, such as were encountered during the civil war, which was financed almost entirely upon credit.

Lest you feel that these statements are dogmatic and somewhat egotiscal, I hope you will bear in mind that during the period since our entrance into the war, the author had a peculiarly favorable opportunity of viewing all sides of these subjects because of his intimate association with the treasury, his connection with the Reserve System and acting as the head of the various war loan organizations in New York. During this time, that is in 1916 and 1919, I spent some months in Europe studying their experiences and getting their views, which helped to confirm my opinion that while some mistakes were made, in general, the financing of the war was well done and there are few important mistakes, if any, that justify criticism.

2. <u>High Cost of Living</u>.

Most people discuss this matter as though some formula or nostrom could be administered to the patient at night and deliver him the next morning completely relieved of his disease without any period of convalescence. They also overlook the fact that it is a disease which is supported and stimulated by the atmosphere in which the patient lives, and that just now the atmosphere extends over the entire civilized world.

The real cure for the high cost of living is a supply of goods which are generally classed as necessities in excess of a normal demand for those goods. This can be brought about by bringing to bear influences which will stimulate production and discourage consumption. What are

the fundamental influences which do not develop of their own accord and which can be brought to bear in accomplishing this cure? Possibly the following are the most important. (I shall not arrange these in any order of importance, as opinions vary so widely and my own views are not positive)

1. A revision of the tax laws to remove those features which discourage production of necessities.

2. The prompt funding and payment of the short borrowings of the United States government so that these loans will reach the hands of investors and be taken out of the bank.

3. A determined and vigorous campaign of economy which must be practiced by the people of the United States.

4. A similiar policy of economy by the government of the United States and by the states and municipalities.

5. The maintainence of sufficiently high rates of discount by the reserve banks to make borrowings by the banks of the country unprofitable unless they charge their customers such high rates in turn as to discourage all unnecessary borrowing.

6. A vigorous campaign with the laboring classes particularly those belonging to labor unions, to speed up production. They should be shown that they can increase their own wages more rapidly by reducing the cost of goods through an increase in the production of goods than they can possibly be increased by striking for higher wages at the same time that they reduce production and increase the cost of goods.

7. Various measures of less importance, looking to a more prompt distribution of the necessities of life from producer to consumer, the disciplining of those who obtain control by one means or another of the supply of any article of necessity, etc., etc., can all be undertaken, but what can be accomplished by such measures is trifling, compared to those mentioned above. Of all influences upon the cost of living, the most important is economy ~~in~~ and the avoidance of waste.

Many diseased in the body politic are cured by remedies provided by nature, just as diseases of the human body are arrested by anti-bodies, developed by nature. Much of the economic disorder of the world and more than any other disorder this very serious one of high living costs, will find their principal remedy through the operations of the natural law of supply and demand, rather than by the enactment of statute designed to meet special conditions. It must be [illegible]

mind that the damage caused by this war did not occur in a day or in one year, or five years. It is the damage caused by the misdirection of human effort over a period of 40 years, ever since Germany undertook to be a military despotism and this damage will take a long time to repair and results cannot be expected without further losses and suffering.

3. Tariff

Undoubtedly the industrial development of this country received a great stimulus from the protection afforded by a protective tariff. We grew rich rapidly by developing the country's resources and employed much foreign capital for the purpose. It was accomplished, however, by establishing a higher level of costs and wages, which, I believe, is usually confused with a higher standard of living. Our working classes might have enjoyed a greater prosperity had we been able in the earlier years of our development to engage more largely in world trade.

Whatever may be the traditional view of this matter, I think the time has now arrived when the people of the country would be better satisfied to leave the development of tariff legislation and consequently the adoption of a tariff policy to a body of experts and eliminate it as a political issue. How otherwise can the uncertainties which now surround all of the economic affairs of Europe be taken into consideration in determing what our tariff policy shall be?

The war has unquestionably developed special situations in respect to special industries, such as the dye industry, where some sort of protection may be justified. It might also appear that in the case of some of the less developed countries, where standards of living are still very low and wages about a fraction of ours, as in China, some sort of protection against very cheaply produced goods coming into our markets in competition with our own, may be necessary. A tariff which would accomplish this purpose, such, for instance as would exclude Chinese pig iron, would, of course, operate to exclude all other foreign pig irons, but the list of such articles is comparatively small and applies to goods in which we ourselves, as a rule, command great advantages of production.

4. Foreign Trade.

One of the effects of the long period of education of the people of the country to the idea of a protective tariff has been to lead them to the mistaken belief that a nation grows rich principally outs of its export trade. Nations grow rich out of "trade" and trade consists in the exchange of goods and services between the nations.

In the long run the natural resources and other advantages, of climate, of a new industrious and virile population, of liberal government enjoyed by this country should enable us to compete with the other producing nations of the world, find markets for our surplus production, and import freely those things which we cannot produce ourselves.

It has always seemed to me that the greatest breeder of international dispute and warfare in modern times is the interference by governments through preferential tariffs, bounties, subsidies and other similar devices, in order to grasp for their citizens some of the international trade of the world which natural advantages did not entitle those nations to enjoy. With all of Europe prostrated by the war and most of the nations of Europe now owing us large sums of money, the temptation to all of their governments to employ devices of that character will be strong indeed. Since making two visits to Europe during the war period, I have become convinced that herein lies the great danger to the future peace of the world and the greatest argument for the early establishment of some such body as the League of Nations, under the direction of which international law may be codified, treaties made public, and ultimately, I hope, a court of International Adjudication established. Leaving out all other questions surrounding the treaty and the leeague as to this particular question, no surrounder of the soverignty of the United States need be involved in participating in such an international organization.

The future trade of the United States with all of the rest of the world is intimately involved in the question of what we shall do about the loans now owing to our government by the allied governments. If we expect them to be paid even though payment of principal and interest is spread over a very long period of years, it can only be done through large importations of goods in excess of the amount of our exportations. How these loans shall be dealt with is a serious and important question referred to in the next paragraph.. It is probable however, that the country must be gradually led to understand that we cannot expect to maintain any such surplus of exports as we have recently witnessed certainly not without a continuance of disordered exchanges a long delay in the economic recovery of Europe and ultimate inability of our creditors to pay their debts.

5. Loans to Allies.

One of the unfortunate necessities of the war emergency required our government to make direct loans to foreign governments. Had it been possible, it would have been infinitely better for these loans to have been sold direct to our people even though our government had been obliged to

continue to be an undercurrent of suggestion or pressure to induce a rich creditor to forgive an impoverished debtor. This would be a misfortune and a great blow to the credit of nations. In the event of another war, the citizens of neutral nations would be chary of dealing with belligerents and of lending them money, fearing that they would never get it back. On the other hand, for a generation or more every budget submitted by the finance ministers of these foreign countries must make provision for the payment of a tribute to this country. This will be a source of uneasiness and irritation.

Under present conditions it would seem to be most impolitic and unwise to agitate this subject at all. I should hope, however, that our present administration will shortly conclude an arrangement for dealing with current interest payments on our foreign loans so that no policy need by adopted for a year or two. After that period, and after conditions settle down in Germany and Austria, it should be possible to effect an adjustment of the debt by cancelling duplications and to some extent accepting payment in the form of the bonds given by Germany and Austria in reparation of war damage, so as to almost, if not quite, eliminate this cause of international bad feeling.

In later years when European credit recovers, these loans now held by our government may be converted under arrangment with the borrowers into a form which can be distributed to American investors and the proceeds applied to reducing our own government debt.

6. Immigration.

It is altogether too soon to determine what the course of emigration and immigration will be throughout the world. It may be a fair guess that later on there will be a considerable migration to this country. If that proves to be the case, I cannot phrase in the memorandum any policy which would meet the situation so admirably as that which you stated to me in Chicago. We shall need added population in the future just as we have in the past, but we must make sure that these who come from abroad come here to beomce American citizens, and that they are capable of doing so.

Unfortunately, the ideal of self determination has taken such a strong hold upon the races and tribes of Europe that their relatives in this country have become thoroughly imbued with the idea and in many cases are beginning to think more of their old country and its welfare than they do of the United States. This idea must be combatted and it should

not be allowed to grow worse by allowing hordes of foreigners to come to this country without any regard to their education, their understanding of our institutions, and their willingness to learn the language and observe our laws.

7. Taxation and Loans.

There is almost natural outcry against the present tax laws and some danger lest in heeding it our Congress may go too far to the other extreme and reduce revenue from taxation, too much and too soon.

United States Government now has a debt of about twenty-five billion dollars offset by about ten billion dollars, owing us by the allies. Great care must be exercised lest this situation develop a menace similar to that which occurred during President Cleveland's administration, when an adverse balance of trade, following the reduction of the tariff caused heavy gold exports and almost forced us to a suspension of specie payment. This is a subject of great complexity and difficulty, largely one of administration for which the statesmanship of the Secretary of the Treasury will be a better protection to the country, if he is an able and experienced man, than anything else that I can think of. At the present time, I belive that the most that can be claimed for a constructive program for the future will be to so revise our tax laws that revenues will not be greatly reduced, but will spread over a larger number of tax payers and relieve some of the burdens which I believe it has been found rest too heavily upon some of our industries and upon their proprietors.

There will be a natural tendency in a new Congress to look to indirect taxation, the effects of which are obscure but which, nevertheless, bear too heavily upon the laboring classes for relief from the present situation. Such a policy will in the end be calamitous. It will play into the hands of that class of agitators who in their hearts are enemies of our institutions. This is one of the penalties of the war, which must be principally borne by those of moderate and larger means, and to as great an extent as possible, by direct taxes.

Little can be expected in the way of revenues from our allies for many years to come. The burden, therefore, of amortizing our own loans must be borne by our own people. It will be a mistake to defer commencing repayment to later years. Our Government should quit borrowing at the earliest possible moment and start a regular and scientific retirement of its debt. Failure to do so will render it exceedingly difficult to get this painful process well under way and will long defer a return to normal conditions.

8. Business.

Every war of modern times which inflicted heavy destruction of life and property has been followed immediately upon its conclusion by a period of business activity, speculation, and higher prices. This post war period of somewhat artificial prosperity has varied in length and intensity and has then been followed by a reaction and liquidation with great prostration to business and heavy losses and suffering. It seems as though the speculative period following this war might last for some time, and how serious the period of liquidation will be, no one can safely prophesy.

Probably at no time in our history has it been so necessary that our government should adopt a constructive policy, looking to the conservation and security of the industry and commerce of the country, as at the present time.

So many of the business activities of our citizens in manufacture, transportation and banking, are now subject to statutory regulations of the Federal and State governments that it is impossible in this brief memorandum to attempt to refer to any particular branch of this subject. The most that I shall say is that our government should set about assisting the business interests of the country and adopt a more sympathetic and helpful attitude than has characterized the past twenty years.

Much has been accomplished in searching out and destroying dishonest practices and abuses. It has been followed by an antagonism felt throughout the whole country directed against our successful men of affairs and their enterprises and frequently expressed in all sorts of congressional investigations which have accomplished little more than to create and to perpetuate sectional and class feeling.

The above memorandum has not contained any reference to the need for budget legislation. It is a subject now fairly well understood and as I understand it, the proposal has received the endorsement of both political parties.

For obvious reasons this memorandum is confidential for General Wood's personal use and information and not for publication or distribution.

[From B Sleeper Jr]

Office of the Governor-General
of the Philippine Islands

Manila, September 15, 1925.

Dear Mr. Strong:

Ever since the Insular Auditor, Mr. Wright, told me of his interesting conversation with you and spoke of your interest in Philippine affairs I have intended to write you concerning the situation here.

I frequently receive letters asking me what my views are concerning the Philippine situation and what I think should be done. Last year I sent the inclosed telegram of March 14 to the home government. This telegram expressed my views at that time and expresses them now. It was published in the Official Gazette here and went to practically every important official in the Islands. It was also published in the insular press and at home and had a wide circulation. It is a concrete expression of my views on the situation and as to what our policy should be. The views expressed were not pleasing to the political agitators, but nevertheless caused little comment among the people. Indeed, I did not receive a letter, telegram or verbal protest against any of the statements made therein.

That the Filipino people are contented and happy and making steady progress is everywhere evident. Business is steadily increasing, as are our revenues, which were nine million pesos more last year than the year before and the expenses of the government a million less. Exchange, which at one time was 15 per cent against us, is stable and during the past year has at times been in our favor. The balance of trade is heavily in our favor. There has been general improvement all along the line: in the administration of justice, public health, public education, etc.

Largely as a matter of race pride, the mass of the people desire independence without understanding its responsibilities or what it means. To turn over the twelve million people of these islands to their political leaders would not establish a condition of independence but one of stagnation and

exploitation. The people are not strong enough to defend themselves successfully nor are they prepared either from the standpoint of economic development or resources to maintain an independent government. Such stability as exists here is fundamentally due to the presence of the American flag, and anything which unstabilizes the flag will affect adversely the wellbeing and progress of these people through the destruction of confidence - confidence in investments, confidence in the administration of justice, confidence in the efficiency, integrity and stability of the government.

We are trying to build up here a well-organized, well-trained Christian people. Great progress has been made. The people are mostly Christians and under our protection and leadership will be a tremendous force in Christianizing the Orient and in establishing a Western type of civilization. To do anything which would bring this work to an end or put it in the hands of those who cannot carry it forward would be a blow to progress in both lines.

To withdraw from the Philippines with the East talking self-determination and full of unrest would be a great blow to civilization throughout the East and impose a heavy additional burden or responsibility upon England, the Dutch and eventually the French in Indo-China, as it would result in a great increase in the existing unrest in all the Eastern holdings of the principal Western nations. Moreover, if we withdraw one of the great powers will promptly take our place and this change will not be to the benefit of the Filipinos nor of the upbuilding of our own ideals of government in this part of the world. (1)

If we are to be strong in the Pacific west of Oahu, it is absolutely essential that we have a strong first-class well-equipped naval base in these islands. There is no other place where we can establish such a base. The Islands are our part of the Far Eastern problem and are our only holdings in this part of the world. Without a first-class well-equipped naval base our Navy will be tremendously handicapped in all its operations west of Oahu. Indeed it will be pretty effectually off the Pacificwest of that island.

We cannot fortify Guam. Such action would be taken as an offensive rather than a defensive measure. We are free, however, even under the terms of the Washington Conference, to develop to any extent our air forces, our submarine forces, and surface craft up to 10,000 tons, with guns not to exceed 8 inches in caliber. Full development on these lines will make the

Philippines safe from attack, provided we have an adequate fleet on the Pacific, which now seems to have been adopted as our policy after years of struggle to this end.

We should also maintain a military and commercial base at the place where we maintain our naval base or its immediate vicinity, namely, Manila Bay, which is the best available base.

This is the century of the Pacific and our position and influence in the Pacific will be greatly improved if we stand here in strength, as will our influence in the maintenance of the Open Door in China, and our ability to protect our educational, Missionary and commercial interests there and secure fair treatment for our growing trade with Asia.

To withdraw from the Islands now would be in effect a betrayal of the Filipino people and a failure on our part to discharge our clear responsibility to carry our part of the Eastern burden. We are confronted by a situation of responsibility toward these people, the world and our own interests, and we should discharge it fearlessly and to the best of our ability. It is no time for idealistic dreams based on self-determination, which has done so much to destroy good government and upset the world in recent years.

If these people were as near us as Cuba, we might attempt the experiment, because if anyone molested them or intolerable internal conditions arose, their vary position would justify our intervention; but if we leave here of our own volition, we can never return except through a great war.

We have done more for these people in 25 years than any other nation ever did for a dependent people in a much longer period. They have made excellent progress under our leadership and with our assistance. They enjoy true liberty to an extent which they can never hope for under a government of their own. They have confidence in us, as shown by the fact that practically every request for a special inspector has stipulated that the inspector be an American if possible.

The problem here is not political but biological. We cannot expect a black, yellow or brown race to ask to be governed by a white race. They will accept such government if it is efficient, honest, kindly and tolerant, but we cannot expect them to ask for it.

As I stated in the dispatch, it is our clear duty to continue our government here until we are confident that conditions are such that the Filipino people can maintain an independent stable government and protect themselves.

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If these people were as ready as we think, we might attempt the experiment, because if anyone suffered from or intolerable internal conditions arose, their very population would justify our intervention; but if we leave here of our own volition, we can never return except through a great war.

We have done more for these people in 25 years than any other nation ever did for a dependent people in a much longer period. They have made excellent progress under our leadership and with our assistance. They enjoy freedom to an extent which they can never hope for under a government of their own. They have confidence in us, as shown by the fact that practically every request for a special inspector has stipulated that the inspector be an American if possible.

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As I stated in Washington, it is our clear duty to continue our government here until we are confident that conditions are such that the Filipino people can maintain an independent stable government and protect themselves.

The independence propaganda has been limited to a very small but very active group who hope to control matters themselves in case we withdraw from the Islands. One hears little of this propaganda outside of Manila. Although, as I have stated, the mass of the people want independence as a matter of race pride, I am convinced that in their own hearts what the intelligent and informed ones want is the protection which comes from our sovereignty, coupled with the largest practicable measure of autonomy. The present agitation and attacks upon the policy of the United States keep the eyes of the masses upon the agitators and are in a way their sources of influence and income.

As to local autonomy, they have a very large measure of autonomy at present and no more should be given until they have accepted and lived up to , in letter and spirit, the clear intent of Congress as expressed in the Organic Act. There is not an American who holds elective office in the Islands and the total percentage of Americans in office is between 1 and 2. Even including schoolteachers, men and women, the Americans who hold office or government positions is only a little over 3 per cent of the total number.

We must not be swept off our feet but hold steadily on our course until we are sure the situation warrants a change.

The Vice-Governor should always be an American and should be available for assignment in case of an emergency as the head of a department or to discharge such other duties as the Governor-General may assign to him from time to time. The Vice-Governor, who may be Acting Governor-General at times, would then have the power to call upon the Army and Navy of the United States and to do other things the power to do which should only be extended to an American.

Commencing almost immediately after the passage of the Organic Act, known as the Jones Law, there have been almost constant enroachments upon the executive authority through legislative enactment. These enroachments have been such that we need certain changes in the Organic Act to strengthen the hands of the Governor-General. His main strength now rests on the right of supervision and control over all departments and bureaus. This has enabled me to keep the situation well in hand, but certain changes should be made in the Act in order to minimize certain conflicts with the Legislature, especially in the matter of the confirmation of appointments. The Senate, for example, claims that it should be consulted prior to an appointment, and that an appointment should not be made except with its approval. This would mean that, in

The independence propaganda has been limited to a very small but very active group who hope to control matters themselves in case we withdraw from the Islands. One hears little of this propaganda outside of Manila. Although, as I have stated, the mass of the people want independence as a matter of race pride, I am convinced that in their own hearts what the intelligent and informed ones want is the protection which comes from our sovereignty, coupled with the largest practicable measure of autonomy. The present agitation and attacks upon the policy of the United States keep the eyes of the masses upon the agitators and are in a way their sources of influence and income.

As to local autonomy, they have a very large measure of autonomy at present and no more should be given until they have accepted and lived up to, in letter and spirit, the clear intent of Congress as expressed in the Organic Act. There is not an American who holds elective office in the Islands and the total percentage of Americans in office is between 1 and 2. Even including schoolteachers, men and women, the Americans who hold office or government positions is only a little over 5 per cent of the total number.

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addition to having the power to confirm, it would also virtually control the power of appointment. I have always freely admitted the Senate's power to confirm or reject, but I have always held that I was in no way obligated to consult with it or be guided by it in the making of appointments, the only exception being possibly in case of judges of first instance, where the phraseology of the Organic Act states that the appointments shall be made with the advice and consent of the Senate.

Department Secretaries. Under the Organic Act all executive authority is vested in the Governor-General and must be exercised by him in person or through the executive departments under his control and supervision. These executive departments are: Public Instruction, including public health; Interior; Justice; Finance; Agriculture and Natural Resources; and Commerce and Communications. Under these departments are the various bureaus. The Department of the Interior is the department which has the most to do with the conduct of municipal and provincial affairs. It is the department which is most closely in contact with the administration of these units and the political influences therein. All the Secretaries, with the exception of Public Instruction (the Vice-Governor), are Filipinos, appointed by the Governor-General and confirmed by the Senate. This, as you will see, largely ties the Governor-General's hands in the free selection of his own Secretaries, heads of executive departments, in other words, the selection of those who are to carry out his policy and exercise a large measure of executive authority. The necessity for their confirmation by the Senate results in the Senate claiming that the Secretaries owe allegiance to it and are dependent on it rather than the Governor-General. The Governor-General, who under the Organic Act has the power of supervision and control, maintains, and properly, that they are dependent on him and are his representatives and not in any way subordinate to or dependent on the Senate. The result is that it is at times difficult and indeed impossible to obtain confirmation of Secretaries of departments. In some cases the Senate has carried the issue to the point of demanding of the Secretaries a promise of allegiance to it prior to confirmation.

The confirmation of the appointments of the Governor of a State or the President of the United States is supported by the party which elected him, but the Governor-General has no party and no representatives in the Legislature other than the two appointive Senators and seven appointive Representatives representing the non-Christians. These men naturally have very little weight in the Legislature and can only be expected to look after affairs immediately affecting their own people.

I think, in view of the situation, that the Secretaries of departments should be appointed by the Governor-General without confirmation and should hold office during his pleasure. If

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this cannot be done, they should be appointed by the President upon the recommendation of the Governor-General.

The Governors of the non-Christian provinces, that is, of the Mohammedan and non-Christian mountain people, should be appointed by the Governor-General without confirmation. These people have been disarmed and are absolutely dependent on us for protection and are a unit in desiring the confirmation of American Governors by the Senate. I have one or two cases which have been pending for months. The Senate desires to place Filipinos over these people regardless of their demands for American Governors.

Other changes are also very desirable. First, with reference to the Constabulary, a force of nearly 6,000 officers and men, of which the Governor-General is commander-in-chief. This is the only organized force for the maintenance of law and order within the limits of the Islands. It is under the immediate command of an officer known as the Chief of Constabulary, who holds the relative rank of Brigadier-General. He is appointed by the Governor-General and must be confirmed by the Senate. This is undesirable, as he is the immediate head of a force of which the Governor-General is commander-in-chief, and the only force outside the Army and Navy (which can only be used in case of martial law) which he has for the maintenance of law and order from one end of the Archipelago to the other. I feel that the Chief of Constabulary should be detailed by the Governor-General (from among the assistant chiefs) and hold office during his pleasure. This would do away with the present condition of double allegiance, so to speak, which results from the Chief being dependent upon the Senate for confirmation. It also introduces the element of politics into a force which should be absolutely free from it.

3

The same policy should be in force with reference to the assistant chiefs. They should be appointed by the Governor-General from the field officers of the Constabulary without confirmation by the Senate. The change suggested would not be a very radical change. As it now stands, all officers of the Constabulary from lieutenants up to and including majors are appointed by the Chief of Constabulary and commissioned by the Governor-General without confirmation by the Senate. It is highly important that the senior officers should be in no way dependent upon political support; in other words, they should be appointed by the Governor-General and serve during his pleasure. This would not in any way affect their permanent commission in the Constabulary.

Unless I can be furnished a thoroughly competent legal adviser, there is another official who should be appointed by the Governor-General and hold office without confirmation, namely, the Attorney-General. Anyone familiar with Filipino character realizes how difficult it is for a native Attorney-General to declare uncon-

stitutional the Acts of his own Legislature or to interpret the provisions of the Organic Act in a manner contrary to the prejudices and political aspirations of his people.

There are also certain necessary changes with reference to the exercise of the veto power in connection with appropriation bills. Under the law as it now stands, the Governor-General can veto an item or items or a section or the entire bill, but he cannot veto a proviso of a bill. The provisos are sometimes the most objectionable features. The power of veto with reference to appropriation bills should give the Governor-General the power to veto the bill in toto or any item or items, proviso or provisos, section or sections of the bill or parts of the same.

The Jones Law on the whole is a good law, and with the power of control and supervision in the hands of the Governor-General it has been practicable to maintain a progressive and efficient government; but there has been a great deal of difficulty in securing satisfactory Secretaries as heads of departments, for the reasons above outlined. I have therefore suggested the above changes.

With reference to further autonomy. As I have stated, we can give further autonomy by appointing Filipinos to Secretaryships of Public Health and later on Public Education if it is deemed important and advisable to further extend local autonomy. I have already appointed a Filipino Director of Civil Service, a very important position with far-reaching powers. The few Americans left in the service are highly technical men such as the Director of Forestry, the Director of theBureau of Science, the Director of Education, and the Director of Public Works.

I have no particular objection to all Secretaries being Filipinos, provided my hands are strengthened as to their appointment and I continue to have the power of supervision and control.

While the present law giving the Governor-General power of supervision and control makes it perfectly clear that the Secretaries are dependent upon him and not upon the Legislature, nevertheless it would be well to emphasize this in any change which may be made in the law.

We do not need a radical rewriting of the Jones Law, because we are likely to get something much worse; but if we have the changes herein suggested, it will be tremendously strengthen the hands of the Governor-General, clear up the situation, and tend to a more efficient conduct of the government.

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All reports that the people are uneasy and discontented should be disregarded. I know of no more happy people in any land than the Filipinos: they are free from all responsibility and worry, and their tax rate is the lowest in the world for any people receiving the advantages they enjoy.

If I were to recommend the policy to be followed, I should recommend the permanent continuation of our sovereignty, with the largest possible measure of local autonomy, combined with adequate power of control and supervision in the hands of the Governor-General. With this power clearly defined, local autonomy can be as extensive as the progress and loyalty of the people warrant. (5)

With reference to the Fairfield Bill. In my opinion, it was a most objectionable and dangerous measure and it is very fortunate that it was never favorably considered. It would have left us with full responsibility local and international but without any adequate power of control. It would have opened up the natural resources of the Islands to practically unrestrained exploitation during the period of probation. Moreover, whatever period of probation was agreed upon no sooner would it have been fixed than there would have been an insistent demand that the period be shortened.

I am practically conducting the government without Americans. A British or French colonial possession with twelve million people would probably have from six to ten times as many nationals representing the home government as I have here. I can get on, however, provided I am given the same support which I have had up to date; but it would be much easier if some of the changes in the Organic Law which I suggested were made.

I do need, as I set forth in a letter of November 12 of last year, the assignment of a group of three carefully selected men to serve as assistants and advisers very much as does the staff of an embassy or legation, men who could pass on from one Governor-General to another the policy and traditions of the office. I have asked for a first-class man from the United States Treasury Department and one from the State Department as well as a carefully selected man from the Attorney-General's or the Judge Advocate General's office. In addition, a man from the Department of Agriculture would be very valuable as the future development of the Islands depends very largely upon the development of their agriculture. This is a rather modest request considering the magnitude of the problem. Its approval would be of the greatest assistance, and the appointment of a thoroughly competent man from the Attorney-General's or the Judge Advocate General's office would make it possible to get on satisfactorily with a native Attorney-General and obviate the necessity of placing the appointment of this official in the hands of the Governor-General without confirmation. (6)

I do not, however, wish to ask for the impracticable. I should place first in importance the appointments of the Secretaries; second, the appointments of officers of the Constabulary; and third, the appointments of the Governors of the so-called Special Provinces chiefly inhabited by the Mohammedans and other non-Christian peoples.

The President's letter to Speaker Roxas embodies a sound policy and was and is most helpful and there should be no change in the policy therein announced . It was thoroughly sound and for the best interests of these people.

There should be no further extension of local autonomy until the Legislature and the people have accepted in good faith the provisions of the present Organic Act and have shown capacity and fitness by constructive legislation and full cooperation. There has been a lack of cooperation, and too much effort has been expended by the Legislature to defeat the clear intent of Congress as expressed in the Organic Act, and too little to comply with its provisions in a spirit of loyal cooperation and an effort to promote the progress and welfare of the people and the proper development of the natural resources of the Islands.

Senator Quezon and Speaker Roxas have declared it to be their purpose to reduce the Governor-General to a mere figurehead. Senator Osmeña and other leaders, in effect, concurred by actively supporting the policy of non-cooperation. These statements indicate a lack of that spirit of true loyalty and cooperation which is so much needed in solving a problem such as we have here, in which all concerned must work together.

Whatever changes are made, the Governor-General, the Vice-Governor, the Auditor and a majority of the Justices of the Supreme Court should be Americans, and in case of disability of the Governor-General and the Vice-Governor, the President should be free to name anyone he sees fit to serve during such disability. At present in case of disability of both the Governor-General and the Vice-Governor, he would be required to name one of the Secretaries. This would be a Filipino, whose detail might result in very serious complications.

The Organic Act should also make it perfectly clear that Americans, otherwise qualified, may hold any office or position under the government - insular, provincial or municipal. At present their appointment as Secretaries of Departments is prevented by the requirements of local legislation - that they be Filipino citizens and have been residents of the Islands three years immediately preceding their appointment.

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Knighting citizens who have been residents of the Islands since they were by the Legislature - that they be

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hospitals under the Government - Insanity, Tuberculosis, Leprosy.

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Appointments

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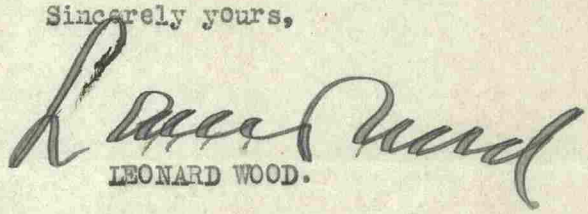
The policy of the Legislature has been to get Americans out of the government as rapidly as possible and to Filipinize throughout. This is in a way to be expected, but we cannot go beyond a certain point without seriously crippling the government. The Filipinization which has already taken place has been too rapid and has resulted in a loss of efficiency.

We must have a certain number of efficient Americans here, and especially must we have a great increase in the number of American schoolteachers.

I have gone somewhat into detail so as to give you a little view of the situation here. There is nothing whatever to worry about so far as any reported trouble with the Legislature is concerned. I have gotten through my budgets for the last three years. Our personal relations are very good indeed. It is simply the inevitable differences between the executive and legislative branches, which have been added to by racial differences, and lack of training - on the part of the Filipino - in our form of government and lack of appreciation of the sharp distinctions we insist upon between the executive, legislative and judicial functions of government. After all is said, it must be remembered that at the bottom the problem here is not so much political as biological.

With kind regards.

Sincerely yours,



LEONARD WOOD.

Governor-General.

Benjamin Strong, Esq.,
Federal Reserve Bank, 15 Nassau St.,
New York City.

enclosure - 1.

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With best regards.

Sincerely yours,

Leon Guerrero

LEONARD WOOD.

Governor-General.

Benjamin Strong, Esq.,
Federal Reserve Bank, 15 Nassau St.,
New York City.

enclosure - 1.

[From B. Strong]

Office of the Governor-General
Manila

September 30, 1925.

Dear Mr. Strong:

I have sent you a rough memorandum which gives you a general idea of the situation.

Bob Bacon has been here for five weeks and has gotten pretty thoroughly in touch with the general broad problem. I hope you will see him and have a good talk with him. His visit has been most helpful and I am sure he can be of great assistance to us at the Washington end of the line.

You can render a great public service if you would take a vacation and come out here for a month or two and look over the general situation. I will guarantee you some very good fishing and an interesting trip and a most cordial reception.

With kindest regards, as ever,

Sincerely yours,

L. Emmet Wood

Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York City.

[From B Strong]

CONFIDENTIAL:

November 30, 1925

My dear General:

My absence in Europe and an exceedingly busy time for the last few weeks since my return, has made it impossible until today to reply to your letters of September 15 and September 30. But you may be sure that I have read them both with the greatest possible interest and attention.

Nothing would please me more than to be able to make you a visit, such as you suggest, which is really the best way to prepare oneself for some constructive work here, but we are, as I think you realize, in the midst of a period of monetary reorganization abroad which places a good deal of responsibility upon us in the Federal Reserve System, and it seems most unlikely that I can leave for so extended an absence for some time to come.

May I express some impressions which I gain from your letter rather categorically:

1. It would seem that too strong a development in the direction of autonomy, or certainly complete independence, presents the possibility of great danger unless we are willing to turn the Filippino loose to become the prey to their own immediate incapacity of self-government, or to immediate subjection to the sovereignty of some other power.

I have in mind that autonomy, as expressed by some of the agitators, would mean that the United States Government would still retain all responsibility for Filippino independence, but would leave the country in condition politically where mis-government, exploitation and other like developments would shortly call for the need of intervention of some sort, and at a time when we had so weakened our local organization that the intervention would be costly in the extreme.

2. The Jones Law, which is the organic law of the Islands, requires amendment, principally in the matter of appointments and their confirmation by the Senate, in order that your organization may be strengthened at the top by including a larger percentage of skilled Americans as Department Secretaries, etc.

3. A more effective, direct responsibility of the constabulary to the Governor General would seem desirable.

4. Executive control of appropriations is now not as complete as it should be.

5. There should be assigned to the Governor General's staff a small group of four or five technical experts who would be the backbone of a permanent organization to carry on policies intelligently.

6. With the Departmental organization so strengthened, an intelligent development of greater autonomy would be possible and safe, which cannot now be undertaken.

From this end I think changes are required which apply not only to the Philippine Islands, but to our other insular possessions, even possibly to Alaska and the Canal Zone. Leaving out the territorial government of Hawaii, as well as Alaska, we now have the Virgin Islands, Porto Rico, the Philippine Islands, and the Canal Zone, all more or less subject to a military government which centers in the War Department. Each of these possessions has problems of a special nature which require the review of specially trained men such as we have for our own continental government of the United States in the various departments of the Government, that is to say, political matters under the State Department, financial matters under the Treasury Department, law matters in the office of the Attorney General, Commerce, Agriculture, etc. etc.

My thought has been that if the management of all of these possessions could be put under the executive supervision of a Secretary who would be a Cabinet Member, and who would have as his staff a group of men, say the permanent Under Secretaries in the various Departments, it might be possible to develop an organization in Washington which would correspond to and coordinate with the organizations in the various possessions, so that all local problems would be subject to the consideration and review of men of experience in each division of the work.

You will not understand this to be any criticism of any individual at present concerned with insular affairs. It is difficult for me to visualize an organization to cover all of this ground which could effectively center in one man without the adequate support of men of experience under him who are well qualified to give advice on special technical matters, and, of course, there should be a direct responsibility to the President.

Were such an organization developed here, the various difficulties expressed in your letter would, it seems to me, have the kind of study which they all require, and those studies would result in recommendations for all of the changes which you suggest.

You have, of course, been advised that some little work in this direction has already been inaugurated. The subject was approached originally because of various monetary problems which were pressing for attention both in Porto Rico and the Virgin Islands. In the case of the latter, just to indicate the need for specialization, the currency of those islands is still the Danish currency, issued by a Danish Bank, which, in turn, is owned in Denmark and which has never been brought under the monetary system of this country.

It may be that the studies these gentlemen are now making (men principally drawn from the various Departments of the Government) will result in some recommendations along the line of your letter. I am proposing to take the first opportunity to have a talk with them, and will write you the results. My own difficulty is to find exactly the means of approaching the subject in order to get something done. And I shall first have a talk with Frank McCoy, who is now in Washington, and whom I expect to see this week.

I have one or two men in mind who might be useful to you in positions related more especially to monetary and financial matters, but of course the difficulty always arises about families, the long distance from the United States, and the problem of young children, their schooling, climate, etc.

After a talk with McCoy I shall probably have opportunity for a word with Mr. Mellon, either this week, or on my next visit to Washington.

I very much appreciate your writing me so fully, and you may certainly count upon my using every opportunity for keeping this subject alive among some of my friends in Washington.

Later I may be able to carry out the plan I have long had to make a visit to Manila.

With warmest regards and good wishes, I am

Very sincerely yours,

Major General Leonard Wood,
Governor General of the Philippines,
Manila, Philippine Islands.

[From B Strong to Wood]

January 4, 1926.

This letter carries warmest greetings and best wishes for the New Year.

My dear General:

I beg to remain,

As you will see by the date on the accompanying letter, it was written over a month ago, and has been held only until I could have a talk with McCoy and possibly with Bob Bacon, as well as to make some further inquiry as to a man who might be sent to Manila, in case that developed to be desirable.

Unfortunately I have been continually invaded by visitors from Europe on important matters having to do with the bank, ever since my return from Europe. It has delayed many things, including the opportunity for these talks. I have had one or two talks with McCoy, and only last week arranged with Bob Bacon to have him meet me the next time he is in New York or I am in Washington. Also, as you doubtless know, my friends in the Treasury are continuing activities looking to further study and a better understanding of all insular matters.

Mr. Winston, the Under Secretary of the Treasury, has asked me if we could spare a man to go to Manila, who would be competent to give you some assistance both in connection with the budget and with the Philippine National Bank. I had in mind one of our men who is now doing a somewhat similar piece of work in Chile, having been a member of Professor Kemmerer's Commission and being kept there in order to round out the work. But his stay has been extended in response to urgent representations from the Chilian Government, and I fear we cannot get him back in time for your purpose. Also I am not quite sure that he is just the man you need.

We were considering the possibility of sending our Mr. Rounds, who would be in every way just the man for your purpose. Unfortunately, due to the very active banking situation in New York, we have had a heavy draft on our staff, no less than four of our best men having accepted positions with commercial banks within the last few months, and another one is now considering an offer which may take him away from us. This, therefore, is simply a report that the matter is being given attention and that we are doing what we can to find just the right person.

You doubtless by now have received McCoy's cable about my son Philip. He is a fine fellow, has had quite a little banking experience, and he is interested in some form of public service. The suggestion was in response to his own desire to do something of this sort, brought out, I believe, as a result of some talks we had about the Philippines, and in no small part inspired by his admiration for you and the work you are doing there.

This letter carries warmest greetings and best wishes for the New Year.

I beg to remain,

Sincerely yours,

Major General Leonard Wood,
Governor General of the Philippines,
Manila, Philippine Islands.

Enc.
BS.LS