This is, of course, another matter, but deficit financing for any purpose piles debt upon debt and these debts must be serviced,—that is, interest payment and amortization has to be provided for, so that deficit financing offers no real solution unless it results in the establishment of public works and enterprises from which an almost immediate return can be had.

The only true solution to the country's financial problems is not to enlarge them and thereby make them more difficult of solution, but to exercise the greatest caution in assuming further obligations and to turn, instead, to more determined efforts to obtain the assistance of private capital.

In his advocacy of industrial development, the President indeed declared that he could not over-emphasize the need for measures to encourage and facilitate the entry of foreign capital, but his rather light-hearted statements later on in his address with respect to continued government borrowing even if it would be for economic development, weakens this point.

It would seem that if the Philippine Government is to act wisely, there is really no alternative between public financing on any great scale of further economic development, and the private financing of such development. The only wise course is to rely chiefly, if not entirely, on private financing and to make the decision to that effect absolutely clear, further taking measures to make this financing economically possible by definitely providing the necessary inducements and protection.

On the one side there is the prospect of a piling of debt on debt by an already debt-ridden government, and, on the other, the prospect of more directly and more rapidly achieving the desired result,—economic development, at no cost to the government and, indeed, to its great and immediate profit.

It is strange that there should ever be the slightest hesitation in determining upon such a course of action, but "socialistic" and "planned economy" notions still continue to pervert much of our economic thinking. Let us have our national economic councils and planning boards, but let them plan principally on getting government back to governing and turning business over to business.

The Importation of Raw Materials in Industry

The fact, given in another editorial in this issue of the *Journal*, that the United States, Western Europe, and Canada, comprising the most highly industrialized countries in the world, are dependent on outside areas for no less than 50% of their combined imports of industrial raw materials (exclusive of raw foodstuffs), and that the demand for these foreign raw materials is rapidly increasing, gives emphasis to the principle that industrialization anywhere is largely based on the importation of raw materials.

If the Philippines is further to industrialize the economy, no restrictions whatever should be placed on the importation of the necessary raw materials.

That this principle is not so well understood as it should be, is indicated by a recent move in Congress to deny foreign investors the right to establish any industrial or manufacturing activity which would require raw materials more than 30% of which would have to be imported.

Such a provision, incidentally, conflicts with the provision in the New Industries Tax-Exemption Law (Republic Act No. 35 as amended by Republic Act No. 901), which specifies that no industry is eligible for tax exemption in which the required imported raw materials represent a value of more than 60% of the manufacturing cost plus reasonable selling and manufacturing expense. And this Law covers only the eligibility for tax exemption; it does not actually forbid, as a Bill recently introduced would, the establishment of a new industry by foreign investors which would require a proportionately greater foreign importation of raw materials than the 30% specified.

It is true that there has been a certain disappointment in the Philippines over the fact that some of the so-called new industries started here in recent years are little more than packaging plants whose establishment was more or less forced by the import and exchange controls. As this *Journal* has pointed out, such forced "industrialization" has little to commend it, as, often, the ventures may be basically uneconomic.

But limiting the proportionate amount of foreign raw materials required, is certainly no way to encourage a more genuine industrialization.

Whether all or a large part of an industry's raw materials would have to be imported, is not the principal criterion by which the possibilities and value of an industry is to be tested or measured.

From the point of view, both of the interests of the country and the interests of the investors, there are other important factors. From the point of view of the country, any new industrial investment, if successful, means enlarged trade, increased production, more employment, larger tax revenues, a greater economic dynamism.

From the point of view of the investor, granted that the local availability of all or part of the raw materials required is a factor, there are other important factors which may offset the importation handicap: the industrial facilities present (labor, transportation, power), and, especially, the present and future market possibilities, as well as such factors as property security, freedom of management, level of taxation, transferability of funds, etc.

A very important consideration in connection with the Philippines as an industrial investment area, is the country's geographic situation with respect not only to the mainland of Asia, but its distance from other industrial centers. The Philippines' relative security, its relatively high cultural advancement, its form of government, and its international political associations, are still others.

The exact percentage of the imported raw materials required by a projected industry, may, in many cases, be a relatively minor consideration which should be left to the business judgment of the investors and entrepreneurs whom the Philippines wishes to attract.

Let us be careful in the framing of any legislation covering foreign investment that it will actually be a law to promote it and not to restrain it.

The Economics of Foreign Aid

It is worthy of note that President Eisenhower used the words "foreign *economic* program" rather than "foreign *aid* program", both in the title and in the body of his message to Congress on this subject, delivered last month, and that he again pointed out that American self-interest is concerned.

In outlining the need for a continuation of a foreign economic program which "will stimulate economic growth in the free world through enlarging opportunities for the fuller operation of the forces of free enterprise and competitive markets", he declared that our self-interest requires such a program because (1) the economic strength of our allies is essential to our security, (2) economic growth of the underdeveloped countries is necessary as a bulwark against Communism, and (3) greater trade will help our growth and rising standards of living.

UNITED States post-war aid to the rest of the free world during the period from July 1, 1945, to the end of