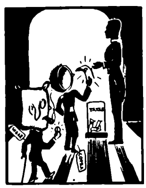
Tax Discrimination

- **Inquiries in the statistics indicate remedies that might aid recovery of the bulk of Commonwealth cash (export) crops.**

Unless something evades us, the statement is true that all Commonwealth products sold overseas pay the equivalent of the sales tax, 1½% of the invoice values, *sugar excepted.* Of sugar sold overseas, 58% pays no tax of this kind at all, and 42% pays a special lower rate of 1%; the 58% is reckoned as sales directly made by planters, it being their share of the sugar at the mills, and the 42% is the (average) mills' portion of the crop. Best able one year with another to sustain taxation, sugar is believed not to pay more taxes than other crops as is sometimes claimed, but certainly to pay the least tax of all.

Last year, from total consignment abroad, the Commonwealth collected ₱3,500,000 in ad valorem levies that in every way are equivalent to levies on exports. These levies continue this year, of course, and were the sales tax to be raised, they too would no doubt be raised to the same percentage. They handicap sale of Commonwealth products overseas, their abolition is therefore advised except in the case of sugar—whose sole market is the United States where it enjoys a favored position unquestionably to be long continued. Sugar has claims on universal support in the Commonwealth, but not, we surmise, precisely the claims usually asserted in its behalf. It has the claims of a good cash crop involving comparatively heavy tonnage into an assured market, whence possibly 70% of money from all sales of it comes back to the Commonwealth. One authority thinks 75% of the sugar money gets back into the country, and stays here, but this seems far too high an estimate.



Sugar believes it supports two million persons here. Copra certainly supports a much larger number, possibly even the more than four million that is often mentioned. Yet sugar pays much less tax than copra; and while sugar enjoys, as it should, a favored market, and will in all probability enjoy that market indefinitely, copra has no favored market and sells at the world price, even in the United States, where the tax in limitation of its use is 3 cents gold a lb. on its oil content. Yet copra yielded a crop value, from exports alone, of ₱79,000,000 last year, money that remained in the Commonwealth widely distributed among hundreds of thousands of producers, a sum estimated to equal the sugar money that came to the Commonwealth in the same period—all for a few mills and a few hundred planters aside from wages and production expense.

Let us say right here why we believe Commonwealth sugar will retain a favored position in the United States market.

First, *Cuban sugar must.* Sugar is the foundation of Cuba's economy, America can't let Cuba down economically because of her continuing responsibility under the Monroe doctrine, because of the practical importance of reciprocal trade with Cuba, and a peculiar historical responsibility America has there, and because of america's vital interests at Panama, in the Canal Zone and the Panama Canal itself, to say nothing of the Nicaraguan canal that must some time be built. Cuba then, will continue to hold an allotment in the American sugar market, at a duty rate lower than the maximum. Practically, it is her right, as well as an advantage to the United States. Second, American domestic sugar is strong enough to keep itself and Cuban sugar protected with a duty. Third, to the same degree that this duty is modified for Cuba, we think it a reasonable assumption it will also be modified for the Commonwealth. Special circumstances probably inescapable govern both situations.

The doomed crop here is Manila hemp, not sugar. Manila hemp's economic position will be covered elsewhere in this issue of the Journal, where the reader may see whether he agrees with us.

Sugar has been politically influential here, in great provinces such as Iloilo, Negros, and Pampanga as well as through planters of powerful position and influence in the general government; and it was also sensible enough, long ago, to found an association for its mills and another for its planters and to give both political and scientific attention to its vital problems. The result, naturally, is considerable dust in the public eye and commensurate advantages for sugar; but a serious economic approach, while it must recognize sugar's eminence, will not evaluate sugar as sacrosanct as a white elephant or a breviary. Sugar may still be touched, and the eloquent suggestion is that it may even be taxed as much as other products with reasonable impunity.

Now just what tax does sugar pay?

The 871,045 metric tons of Commonwealth sugar sold overseas (in the United States) last year paid ₱2 a ton wharfage charges, ₱1,742,090. The total invoice value was ₱115,412,307 of which 42% or the value of ₱48,473,169 paid the specially low ad valorem tax of 1% or a total of ₱484,732 which is somewhat less than half a million pesos. Laying aside charges incidental to all products shipments, last year's sugar paid taxes of ₱2,227,822, chiefly the wharfage charges of ₱1,742,090. It pays to advertise, and it pays even better to organize, a hardboiled remark not intended to be flippant.

But copra, a poor-man's crop widely throughout the Commonwealth, including Iloilo, Negros, and Cebu, was taxed much more—notwithstanding it had to be sold at world prices and that it brought the Commonwealth, up to the end of 1938, no less than ₱114,000,000, or the whole worth of a year's sugar crop, and much more than the value that actually comes to the Commonwealth—in proceeds from the 3-cent excise collected in the United States on the oil content and returned to the Commonwealth treasury; and also notwithstanding that here this sum of windfall revenue from copra may be used, with presidential consent at Washington procured, for everything, even for sugar, *except everything benefiting copra either directly or indirectly.*

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Tax Discrimination

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Besides, if sugar should be in the future a small but valuable pillar of support to the independent Commonwealth, copra is certain to be a much larger and stronger one; and if it may not yield much tax, yet it will keep body and soul together in literally millions of peasants who without their everbearing palms would be all but sure to break the peace. Observe how salutary to public order copra is, wherever produced; no mass disturbances are ever heard of in the copra regions, and there is therefore even that factor in its favor.

Copra pays, of course, the regular 1½% ad valorem levy on the invoice value. So do coconut oil, meal, and cake. Wharfage of ₱2 a ton on 509,841 tons of copra, oil, meal, and cake sold overseas last year was ₱1,019,680. Copra reaches shippers and local refiners through dealers who pay the merchants sales tax of 1½%. A like tax is paid again on it, either as a sales tax or an ad valorem on exports. A conservative valuation of the 236,544 metric tons of copra sold overseas last year and the quantity that yielded the 162,768 metric tons of coconut oil sold overseas last year would be ₱60,000,000, and sales and ad valorem taxes were at least 3 centavos in the peso, a total of ₱1,800,000. Other exports deriving from copra are manufactures, *Purico* the cooking compound being an example, and it is astonishing that they too must pay the ad valorem tax of 1½%.

Including wharfage, ₱1,019,680, copra certainly paid the Commonwealth treasury more than ₱3,000,000 last year on total invoices abroad summing just under ₱79,000,000. Sugar paid ₱2,227,822 that was chiefly the wharfage charges of ₱1,742,080. Copra's payment in relation to the invoice total was as 1 to 30, nearly, sugar's 1 to 50; or copra's tax approached 4% of the invoice value while sugar's fell short of 2%. We have already suggested there is no comparison of the distribution of the proceeds, distribution of the proceeds from copra is much the broader. Our data from the customs report will be rechecked by Kenneth B. Day, of the Philippine Refining Corporation, an expert and one of the larger copra buyers, for conservatism, since the assumption that copra including oil will have paid 3 centavos in the peso before leaving the Commonwealth does not appear in the customs report and requires experienced confirmation.

There should also be remembered, ₱13,000,000 worth of desiccated coconut prepared here last year and sold chiefly in the United States against Ceylon's product; and though there is a duty, Ceylon's costs and freights are lower. This manufacture stood the enormous tax of ₱270,000 at the ad valorem rate of 1-½%, and paid ₱82,000 wharfage tax besides.

It seems clear to us that the good position of the Commonwealth's sugar in the American market could be utilized by the Commonwealth to advantage sales of other surplus products abroad, and also that this should be done. Since it has been legally possible to fix the ad valorem for sugar at 1%, it should be equally easy to raise this to a bracket absorbing all ad valorems now paid by products equally or even more basic in importance and yet much harder to sell: Manila hemp, copra, and tobacco in the leaf. All these are products that obviously should be relieved from tax levies on their sale abroad. If the Commonwealth cared to effect this without going far afield to make up the loss of revenue somewhere else, it is apparent that sugar could carry the burden easily. It may be really fortunate, rather than unfortunate, that the ad valorem possibilities are so flexible.

Sugar, we take it, would be very much strengthened by such legislation. It would no longer keep bobbing up that sugar was specially privileged in the tax laws and not chipping in its full share of the revenues. This also seems to be a matter limited to the Commonwealth's jurisdiction, therefore something that may be done for the distressed crops without approval at Washington; or if the Commonwealth would not go quite so far, it certainly could wisely go as far as copra and coconut oil. A million pesos thrown on sugar in behalf of copra would hardly be material, and another million pesos a year in behalf of the remaining distressed crops could be very lightly borne. The better repute this would give sugar with the whole public of the Commonwealth together with the eloquence it would give its case in the United States is all worth careful consideration—aside from the imperative relief the distressed crops require.

The theme of this paper is unbiased. It is simply that taxation of exports is economically unsound unless the exports in question have an assured and favored market and are easily sold at material profit. In this theme, sugar, in the Commonwealth, is the export that is the exception to the rule. If therefore you can by any means strike a bargain with Congress, make the logical and feasible adjustment of your export levies. Even so, you will be but making up for past indulgence.

Taxation of . . .

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a time, according to the market, and there is a great deal of market hedging in the game—a game entirely fascinating for the man whose natural bent it suits.

It is the buying in bulk that makes the ad valorem of 1-½% on Manila hemp exports a vital factor often standing in the way of sales. Bear in mind that big buyers for cordage interests are in constant telegraphic touch with the big markets, New York, London, and lesser centers such as Marseilles. A hemp exporter tells us that the ordinary sale comprises 100 to 250 bales, 13 or 13 to 35 tons of 2,240 kilos, the long ton of commerce, in which there are 8 bales. We can see from this whether the ad valorem of 1-½% is an appreciable item. It would not necessarily follow, were this item removed, that use of Manila hemp would be upped because sales at lower prices could be made: there is always sisal as well as maguey. Nevertheless, hemp trading position would be better, and it might generally be the case that the grower received more for his crop.

Let us see what the tax figures:

Last year's Manila hemp sold overseas comprised 165,339.4 tons of 2,240 lbs. each, or 1,322,715.2 bales the invoice value of which shown by the customs report was ₱43,279,373. (As a whole, the year was unusually good for hemp, contrasting with the unusually bad year current). The crop last year reported by the Fiber Inspection Service that okays the baling and classifying was 1,304,483 bales; exports somewhat exceeded the year's crop, and it is seen that domestic consumption is negligible and without effect on prices. The ad valorem tax of 1-½% on last year's exports of Manila hemp summed approximately ₱200,000 more than the 1% ad valorem on sugar exports and was a total of ₱649,191.

In a commodity such as Manila hemp selling in bulk lots, a cost item of ₱3.93 per ton is a substantial quite large enough to make or break sales hinging on a close margin. On a shipment of 100 bales or 12-½ tons, no large one, it is ₱48.13; on a shipment of 31-¼ tons or 250 bales, still mere everyday trading, being 250 bales, it is ₱122.81, leaving no doubt that Manila hemp could be traded with more facility were this tax not charged. Very glaringly, too, here is a substantial charge, turning up every day in export invoices, that the fiber world can see adds to the cost of Commonwealth hemp; and this, of course, is the worst sort of advertising.

But this is not the whole tax paid by Manila hemp sold overseas. When exporters at Davao buy hemp at the auctions, sales are by the growers and no tax applies in the transactions. But even in Davao, substantial lots go to dealers, and from them at last to exporters, and to dealers' sales to exporters the tax of 1-½% applies. In other regions there are no auctions, dealers paying 1-½% on sales handle the whole output. The table boxed on the first page of this article helps the reader make his own deductions, but ours is that a minimum tax of 2-½% can be estimated to be paid by all Manila hemp exported, as an average, and that last year this summed ₱1,081,984 in invoices summing the grand total of ₱43,279,373. *It is ₱6.54 per ton.*

Here is considerable slack that, presumably, the Commonwealth could take up at any time in behalf of hemp. The suggestion rises that the market should be studied carefully, and that the tax ought to be suppressed in favor of some better one if it be found burdensome to sales or discouraging to the industry. If data already exist at Washington, these should be studied. Should be Brookings Institute find interest in the problem, it should be encouraged to ascertain the facts and bring them out. We now know merely that exported hemp is heavily taxed, and the *prima facie* evidence is that this should not be the case.

Such a tax adds materially to costs, and will certainly tend to drive plantation hemp production into Borneo.

A related matter is the levy made on exported cordage, rope and cables, a further illustration of how ready the country has been during the past to tax enterprise and pile up intermediate charges annoying to the curt transaction of business. Here is an actual—

Shipment Ex ss "Empress of Japan" May 23 450 packages Manila Rope, 19 772 Kilos to Messrs. (Blank) Honolulu.

Amount of Invoice		₱ 8,422.44
Charges—		
Freight	₱1,293.99	
Insurance	25.26	
Lighterage	49.43	
Wharfage	39.54	
Customs stamps ...	3.30	
Bank exchange	42.11	
Sales Tax	105.27	1,558.90
		₱ 6,863.54

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