

Address on the State of the Nation

BY PRESIDENT ELPIDIO QUIRINO

MR. PRESIDENT, MR. SPEAKER, AND GENTLEMEN OF THE CONGRESS:

CIRCUMSTANCES beyond my control make me forego the pleasure of appearing in person to deliver this message following a beautiful tradition established many years ago and adhered to most punctiliously by my predecessors in office. Although during your short period of special session coincident with my inauguration I had an opportunity to thank you informally for your prompt response on the measures that I recommended, I reiterate my deep appreciation for your fine spirit of co-operation from the start of this administration. I wish to assure you of the same cooperation in your legislative labors.

It gives me great satisfaction to be able to report to you that, in spite of the unfavorable conditions under which we labored during the past year due to the intense and bitter political controversies which raged throughout the nation, we have achieved notable progress in our constructive endeavors.

THERE is relative peace and order in the entire country today. The sporadic activities of outlaws in isolated and widely dispersed localities are under control. There is no organized movement of any consequence that can be considered a threat to the stability of our Government. The recent attempt to challenge the authority of this Government by a few disgruntled elements has definitely ended with the surrender and offer of cooperation of these elements, and the amnesty granted by the Government. We can now say that, generally, our farms and our countryside are only awaiting the hand that would till the soil to contribute in proper measure to our productive efforts.

Our social amelioration program has shed its beneficent blessings on the people inhabiting even the remotest confines of the archipelago. It has given a relief to small independent farmers within and beyond the once-called troubled areas. It has so spread the gospel of peace and so inspired the people with faith in their Government, that it is well nigh impossible for the subversive elements to indoctrinate them now with their pernicious theories and ideas.

We have continued to give accommodation to every child of school age in our public schools. At the opening of the present school year, some 4,500,000 pupils were enrolled, almost one quarter of our entire population. Besides, we have extended adult education to over 160,000 people and have maintained all over the country a goodly number of vocational schools, including trade schools, agricultural and rural schools, and farm settlement schools. The farm and animal products alone coming from these schools have reached in 1949 the value of ₱36,000,000, in itself a substantial contribution to our national wealth.

Our health services have continued to expand with increasing efficiency. The general health condition all over the country has been excellent, and the death rate has materially diminished, while the birth rate has substantially increased. In my travels all over the country, I have seen the people and children better dressed and looking more healthy. The rehabilitation of small homes has made rapid strides, and the Government has not slackened in its efforts to remove the slums still in evidence in the thickly populated centers. The price index of essential commodities reached a new low during the month of October 1949, raising the goods exchange value of the peso to 45.58 centavos, the highest since liberation.

While we have not as yet discovered a fully satisfactory formula for settling or preventing industrial

disputes, every effort is being exerted to minimize stoppage or dislocation of industries because of unnecessary strikes. To foster mutual understanding and minimize the cause of industrial conflicts, we are encouraging and assisting labor and management to enter into free and voluntary collective bargaining contracts. We settled during the past year 87 out of 187 labor cases submitted for conciliation, and 77 out of 83 labor conflicts involving strikes. With the creation of the Bureau of Industrial Safety, we hope to promote further the safety and welfare of the laboring class. Various pieces of legislation are under study, all of them designed to improve industrial relations and ultimately achieve industrial peace. I cannot overestimate the necessity of evolving some satisfactory solution to this problem, for only through it may we have our efforts in production continue to progress unhampered, attract capital to further investments, and increase opportunities for employment.

We have continued to give impetus to the rehabilitation and reconstruction of public buildings, especially the schools, and have materially increased our means of transportation and communication throughout the country. Besides, we have, during the last year, added 1,370 kilometers of new roads to our highway system, 34 concrete and steel permanent bridges, and have constructed, reconstructed, or repaired a total of 1,212 school buildings. We have also put in serviceable condition no less than twenty outlying ports besides the port of Manila; and, in order to aid our productive efforts, we have maintained and operated 14 irrigation systems, constructed and placed in operation 3 additional ones, and we have now in process of construction 5 major irrigation projects, all of them sufficient to furnish water to some 110,000 hectares of agricultural land.

As to our public finances, it is gratifying to note that although our tax collection system is still far from perfect, our internal revenue collections alone reached the sum of ₱320,076,759.88 for the fiscal year ending June 30, 1949, an all time high for the country, as compared to ₱263,023,100.88 for the preceding year. In 1947, our national tax collection totalled only ₱191,000,000 and, in 1946, ₱67,000,000. Withal, we must not relax in our efforts. A drastic reorganization of our tax-collecting agencies is now under way.

WE have expanded in our foreign relations, especially with the peoples of neighboring countries. We set up during the last year a legation in Bangkok, a consulate-general in Calcutta, and consulates in Karachi and Batavia. For Latin America, we established a legation in Buenos Aires, and accredited Ambassador Joaquin M. Elizalde as Minister to Cuba in addition to his duties as ambassador to the United States.

We concluded treaties of friendship with the Kingdom of Thailand and with the Republic of Turkey; cultural agreements with the Spanish State; and air service agreements with the Government of Pakistan and with the Kingdom of Greece.

Our contribution to world peace reached its peak when, with the election of Ambassador Carlos P. Romulo as President of the United Nations Assembly, the Philippines had the opportunity to preside over the deliberations of that world organization.

But in the rapid developments taking place in the Far East today, we should not be unmindful of our own national security—territorial, political and economic. At long last the eyes of the world are turned to this new area of portentous possibilities. We must find our just

and constructive place inspired by and fortified with all prudence, foresight and firmness in the face of the changing scenes unfolding before our eyes. As the first Republic to be established in the Far East, our responsibility is great. Our mission is to broaden and expand our freedom and enrich our democratic institutions and secure for our people and our neighbors higher standards of creative living.

INTERNALLY, the most important problem facing us is the stabilization of our national economy.

In my annual message to the last Congress, I laid special emphasis on the urgent need for total economic mobilization. In line with this program, we have used all available means at our command in order to accelerate our development plans, rehabilitate our war-torn industries, and increase to the highest degree the production of export crops.

We have established priorities in the various projects that must be undertaken. The Central Bank which began to function at the beginning of 1949, implemented these plans with funds which it advanced to the national government under the provisions of section 137 of its charter.

Out of the total P200,000,000 of direct advances which the Central Bank is authorized to make, about P117,332,003 has been allocated by the National Economic Council, P52,126,450 of which has been released by the Central Bank for the past year mostly for the following projects: P7,925,000 for the rice and corn project of the National Development Company; P1,843,170 for the abaca rehabilitation project; P1,000,000 for power development projects; P11,000,000 for irrigation projects; and P20,000,000 for the Rehabilitation Finance Corporation.

In aid of the rehabilitation and reconstruction program, the Government has also disbursed from the general funds huge amounts which, in effect, constitute capital expenditures of the Government out of its ordinary revenues. For the reconstruction of 7,395 school buildings alone, the national government spent P53,306,172.74 from 1946 to 1949. For other permanent public works projects, the Government likewise disbursed, until May 31, 1949, a total of P123,451,687.16, over and above those made by the United States Government through the War Damage Commission and the United States Public Roads Administration. Other capital expenditures for which funds had been made available by the Government were as follows: P31,495,400 from 1946 to 1949 to various government corporations for rehabilitating and expanding their activities; P54,423,079 to the RFC as contribution to its capital; P9,999,179 for the purchase of preferred shares of banks to assist in their rehabilitation; and P3,600,000 to domestic insurance companies for the same purpose.

In addition to direct government financing as above indicated, our program of rehabilitation and development has been aided and continues to be aided through loans granted by the Philippine National Bank and the Rehabilitation Finance Corporation. Industrial loans granted by the Philippine National Bank from 1946 to June 1949 amounted roughly to P108,800,000.

The Rehabilitation Finance Corporation, from its opening on January 2, 1947, to June 30, 1949, granted a total of 12,195 loans aggregating P228,626,374.

The impetus given by both direct government financing and financing by government lending agencies and private institutions in the Philippines to our program of economic mobilization has borne fruit. During the last three years, we have achieved definite progress in the rehabilitation of our major food and export industries. The record shows:

Production of palay, which was only 36,893,940 cavans in 1945-1946, was around 56,000,000 cavans in 1948-1949, or slightly higher than the production in 1940. And 1949 is the second year in which we had no rice crisis.

Corn production is slightly higher than the pre-war production.

The production of fruits and nuts, beans and vegetables has improved over the pre-war record.

The fishing industry has not only recuperated rapidly since liberation, but has surpassed its pre-war output. In 1948, we produced 195,078 tons of fish, as against 170,000 in 1940, and the industry is now almost exclusively in Filipino hands.

Production of copra is in excess of pre-war. Oil production is below pre-war, but desiccated coconut output in 1948 exceeded the 1940 level.

The recovery of the sugar industry is one of the most encouraging signs in our postwar economic landscape. In 1945-1946, only 4 out of the 41 sugar mills in operation before the war were in operation. These 4 mills produced only 12,913.55 short tons. In 1947, production rose to 84,548.08 short tons and, in 1948, it went up to 398,113.10 short tons. During the milling season of 1948-1949, the industry produced a total of 719,324 short tons, and, for 1949-1950, estimates are that 800,000 short tons will be produced. There are now in operation 28 centrifugal sugar mills and 2 refineries.

Lumber is another industry which has recovered from the effects of war in a very striking manner. Of the 163 sawmills in operation before the war, 138 were destroyed, damaged or looted. Production of timber dropped from over one billion board feet in 1940 to 91,058,500 board feet in 1945-1946. It jumped in 1946-1947 to 438,784,500 board feet. Timber production for the year ending June 30, 1949, totalled again over a billion board feet. The production of sawn lumber has followed the phenomenal recovery in timber production.

WITH extraordinary effort and expense, we have no doubt attained a goodly part of our goals in the field of economic rehabilitation and development since independence in 1946; but much remains to be done to maintain our economy in a balanced state.

We have these past years since liberation seemingly enjoyed a life of plenty and even a luxury, not so much as a result of our productive energies as because of the temporary flow of money into our economy. Presently there is the large gap that has developed between the value of the products that we sell abroad and the cost of the products that we buy and bring into our country. We must realize that this state of affairs cannot continue without causing such a disequilibrium in our economy as would eventually engulf us in the tremendous difficulties which other countries have experienced. It is because of this realization that we have taken immediate corrective measures to prevent a situation that would undermine the international stability and the internal value of our currency. This, we must maintain at all costs.

But we must not be unduly alarmed. We have taken such measures and we are taking other measures which, if carried out strictly and expeditiously, with the cooperation of one and all, should greatly improve our present economic situation. This country, with its vast resources, is as sound as any that there is on the face of the earth. I am confident that our people, trained as they have been, to undergo the extreme sacrifices that they have seen during the last war, will respond to the little inconveniences that the measures we are now taking might cause. These measures are none other than what any prudent man would take to correct a trend toward disaster if allowed unchecked.

But we are faced not only with the task of reducing import outlays and selecting which of our foreign purchases should be curtailed and which unrestricted in the interest of maintaining present standards of living. Ours is also the greater task of increasing our export receipts. This can be attained by carrying to full execution our rehabilitation and development as rapidly as possible. Projects that are promising of immediate results should be given

preference over those that must of necessity, on account of their nature, take a long time to produce tangible returns.

THUS, our most serious concern for the next four years should be: immediate increased production through rapid rehabilitation and development; decreased public and external expenditures; Government reorganization to achieve efficiency, economy and effective rendition of public service responsive to the needs and welfare of our

people; vigorous and honest enforcement of the tax laws; preservation of our national integrity and continued friendly relations with our neighbors and the entire world.

Let us exert every effort and employ every ounce of our energy to implement these high objectives. Let us pool the enthusiasm, the labors, and the patriotism of a united people and honestly pull together for the promotion of the common good to make secure, for all time, our national structure.

The Exchange Control*

BY MIGUEL CUADERNO, SR.
Governor, Central Bank of the Philippines

I WELCOME this opportunity to discuss with you the circumstances which forced the Government to the reluctant conclusion that exchange controls—disagreeable to the Government and business alike—must be imposed, and to tell you in a general way the principles in accordance with which we hope to administer these controls.

At the outset, I should like to make clear that exchange controls were not imposed by the Philippine Government because of any misgivings as to the fundamental soundness of our economic position. On the contrary, it is my firm belief that our economic situation is basically strong. We have products which we can easily and profitably sell in the dollar markets of the world. Philippine exports have not faced the competitive disadvantages which forced the nations of Western Europe and other countries to devalue their currencies. An intensification of our productive efforts can result in greatly increased dollar exports. Moreover, our foreign exchange reserves are proportionately higher than those of almost any other country in the world. The Philippines in reality occupy a particularly favored economic position in the world today.

It is unfortunate, however, that we have been abusing our privileges and undermining our prospects for future prosperity. We have been importing luxury and non-essential commodities in such quantities as to dissipate unwisely a part of the foreign exchange reserves which are the basis of the stability of our international economic position. The Government, acting in the interest of the future well-being of every segment of the population, including foreign business located here, obviously could not permit this situation to continue unchecked.

I am sure that as intelligent, far-seeing businessmen, you will realize that the imposition of exchange controls in the Philippines was an act of prudence and common sense. You should realize that if the foreign exchange reserves of the Philippines were to be dissipated by reckless expenditure for non-essentials and by unreasonable export of capital, the stability of the currency would be undermined and the conditions for carrying on profitable business would be destroyed.

I cannot, of course, give you an exact blueprint of the detailed application of exchange controls to all individual cases. That can only be determined by practical experience and continuous study. I am sure that you appreciate the serious practical problems involved in setting up and administering any system of exchange controls, and that you realize the administrative difficulties which will be encountered at the outset. I can promise you, however, that we are working unremittently to develop a control system which will be as simple, uncomplicated, and as practical as possible.

With regard to the effect of exchange controls on foreign capital invested in the Philippines, I wish to state that it continues to be the firm policy of the Philippine Government to encourage the development of the country by private business interests, whether they be domestic or foreign. The Government appreciates the constructive efforts in this regard which have heretofore been made by private foreign investors. It will continue to welcome foreign capital concerned with the sound development of Philippine resources. And everything possible will be done to create conditions under which foreign capital may profitably operate in this country.

Under the present exchange control regulations, remittances of scheduled amortizations and interest on foreign loans, of dividends due to stockholders of Philippine corporations residing abroad, and of profits of foreign enterprises operating in this country are allowed. A plan to allow the withdrawal of foreign capital along the lines followed in some other countries is under study.

In this connection, I cannot but view with deep concern the attitude of the American Chamber of Commerce *Journal* on our control measures. It is not only placing the Philippines in a very poor light abroad but it is actually making it difficult for the Government to place the nation's economy on a sound basis. I consider unfair the editorial

which appeared in the American Chamber of Commerce *Journal* for January which takes the view that because the Government has been constrained to institute these controls, we are adopting nationalistic policies that will keep foreign capital away from this country. If the Philippine Government, as alleged by the *Journal*, is remiss in creating a favorable climate for foreign investments in the Philippines, with more reason can it be said that the American Chamber of Commerce *Journal* is responsible for creating abroad an unfavorable climate for such investments here.

The editorial in question complains that "many of our officials evidently believe that economic laws... can be deflected, blocked, and reversed by political means, that these natural laws can be nullified by act of legislative or executive edict." This reminds us of Adam Smith, who contended that the dabbling of legislators in the problems of business did more harm than good. The writer of the editorial either forgets or refuses to be reconciled to the fact that events of the last thirty years have called these assumptions into question. Recurring depressions and the continuing paradox of poverty in the midst of plenty are evidence that economic activity cannot regulate itself, that there is no automatic force organizing and directing business interests for the common good. Governments the world over of necessity found themselves constrained to intervene in the economic life of their people. The social and economic planning of the United Kingdom and the American "New Deal" are concrete examples of intervention in the economic life of the people.

The policy of "no control" which the American Chamber of Commerce would want the Government to follow is not only unsound but is the very thing which has been hampering our efforts to secure a foreign loan. While, on the one hand, the World Bank and the Government authorities in Washington are blaming the Philippine Government for not effectively controlling the "misuse" in luxury and non-essential imports of the large amount of dollar windfall which the Philippines has been receiving in the form of war-damage payments, United States Army and Government expenditures, etc., the American Chamber of Commerce *Journal* considers that "with the issuance of the Central Bank's exchange control order on December 9, and its causes and effects, a vicious circle has come, or has about to come, to full turn." This puts the Government between the Scylla of omission and the Charybdis of commission.

I cannot believe that the editorial of the American Chamber of Commerce *Journal* represents the collective opinion of the American business community in this country. I know that the Washington authorities are not unsympathetic to the needs which prompted the adoption of these control measures. While we are fully aware of their short-run effects on American business, we hope that American businessmen will likewise appreciate our concern for maintaining economic stability.

The Government wishes to do everything in its power to meet the legitimate foreign exchange requirements of the country. Government cooperation in meeting foreign exchange needs of business can properly be asked by business, and the Government will make every reasonable effort to meet such needs. Although the present exchange controls in this country are more liberal than those existing in other countries, I hope that circumstances will permit a still more liberal licensing policy to be followed, but business in its own self-interest must exercise restraint.

I am confident that wholehearted cooperation between the Government and businessmen will make it possible to administer the exchange control in a fair and equitable manner. These measures are designed to safeguard the future well-being of all of us. It is for our common interest to have them succeed.

At the moment, it may appear to require an undue amount of belittling from all of us. However, these temporary sacrifices on our part will, I am certain, be more than fully compensated by the achievement of a more stable economy which will pave the way to a rising level of production, employment and real income.

*Address delivered before the Manila Rotary Club, January 27.