The Observation Post

By Eric Staight

There are two topics paramount in business and economic circles—gold and taxation. In different ways these two subjects are universally important but there is no question that the United States is in the spotlight.

It is possible to hark back four thousand years in history in the matter of currency manipulation. There is merely a variation in degree and not in principle. Cause and effect are always clearly defined-the former being debt and the latter debasement or inflation. For whatever reason, from wars to plain extravagance, debt has always invoked a tendency to seek the easiest way out, and, where nations have been concerned, effect has only too frequently been the creation of new money out of whole cloth. History redounds in such instances, one of the earliest being the decree of Solon of Athens in 594 B.C. when, specifically in order to reduce all debts by one quarter, that predecessor of modern devaluationists reduced the metallic contents of Athenian coins by twenty-five per cent and decreed that all creditors must accept payment in the new and lighter coins at face value.

As the world progressed, and international commerce increased, the system of banking credits gradually evolved. But here again the difference was only one of degree. Wars, pestilence, unwise spending and other factors periodically took their toll and, through the ages, country after country joined the ranks of the inflators. The lesson was always the same but the years have not changed human nature, and if this be doubted one has only to consider the record in the United States since 1933.

Yet, in one sense, the picture has altered, and that is that no one nation, let alone the richest, can play ducks and drakes with its own monetary structure without vitally affecting the rest of the civilized world. Furthermore, such actions are in the nature of a two-edged sword, for, by the same token, in our present system no ne nation can be commercially aloof and independent. The recent price decline in the United States was almost certainly responsible for price declines elsewhere, and now, particularly in commodities, falling prices outside American boundaries are one of the most serious menaces to her internal economic structure.

In the last sixty days we have seen recognition of this fact but there is a difference between recognizing a condition's existence and facing the issue squarely. In previous articles the writer has discussed the artificiality of the American price structure and the basis on which that structure was built but he believes that the time is rapidly approaching, if it has not already arrived, when a vital decision must be made. Sooner or later the functioning of any system, biological or economic, must depend on the free flow of its blood-stream, and in the economic system as it stands today, and has stood for hundreds of years, there is no substitute for gold. Gold is still the standard of value throughout the world and is, in the last analysis, the regulator of the values of paper currencies. The latter are promises to pay by governments and central banks. The further removed they are from gold the less confidence they command. Let there be threats of war or an ebbing of the business tide due to any circumstance and the individual today, whenever permitted, rushes to the acquisition of the mental itself, as he has done through the centuries. That urge is fundamental, for it is inspired by the one universal standard by which it is alone possible to judge the value of this world's goods.

In the early days of the New Deal certain eminent gentlemen built a new theory around this ancient fact. They decided that gold could be successfully relegated to a mere symbol; that its possession, or at least the free-dom to possess it by individuals meant less than its existence in large quantities and endeavoured to create a new and permanent price level by a stroke of the pen. The fate of this price level has already been decided, and the answer to its collapse is, in a word, lack of confidence. In the background was the constant thought that, should the business tide turn downward again for any reason, the old refuge, gold, was no longer available to the individual. The brakes provided by a free flow of the precious metal had been removed and in their place was an untried and doubtful theory.

The actual amount of gold obtainable with a unit of currency is not as important. The old gold dollar contained 23.22 grains of fine gold; its present content (if (Please turn to page 26)

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it were available) is only 13.7 grains, and if the full legal limit of devaluation were imposed the content would be exactly half the old figure, but the main point is that, at the present time, the Government holds all the gold, regardless of official dollar content. It is only necessary to add the fact that, due to spending policies, government credit is steadily becoming more in question, to find the explanation for lack of confidence.

As this article is written there is talk of an early devaluation to the full legal limit; in other words, of increasing the dollar value of gold to \$41.34 per ounce. It is held in some quarters that such additional devaluation would serve as a fresh spur to the general price level by again cheapening the dollar in terms of tangible things. It is quite possible that such a move would find markets, both security and commodity, in technical shape to show a temporary response, but it seems far more. true that the gesture would be fruitless in the broader sense, unless accompanied by assurances that the end of monetary manipulation had been reached and that a return, even under abridged conditions, to orthodox principles was in sight. On the other hand, if such assurances were forthcoming, and if some measure of a free gold market was established, it seems a fair assumption than an important reversal, not only of the domestic, but of the world price level, would result.

Only less important than the matter of the world's economic bloodstream is the question of taxation. A levy upon the income of its citizens is the only means by which a government can exist and function properly. This levy must of necessity be either high or low in pro-

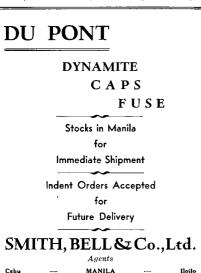
portion to existing conditions. Just as for many centuries governments have had it in their power to arbitrarily create money by currency debasement, or inflation so they have been in a position to range from the intelligent enforcement of reasonable contributions to the national income to downright confiscation. The power of taxation backed by government forces is a great one, and the temptation to misuse that power has time and time again led to national disaster. The old adage of killing the goose that lays the golden egg is as true now as when it first saw the light of day, yet governments continue along shortsighted paths, encouraged in the last two decades by the incursion of communism, and the falacious principle of redistribution of wealth.

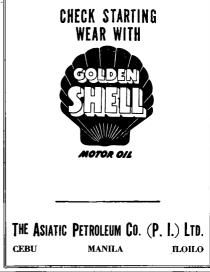
Taxation, on a basis of "ability to pay" is a reasonable principle, but only when that taxation extends throughout the social structure. No better example of this can be found than in Great Britain's public expenditures, aside from the matter of re-armament, are today the greatest in her history. Per capita taxes are highest since the darkest periods of the Great War, yet the Government is solvent. This is due to one thing, and one thing only—that is the true application of the principle, "tax on ability to pay" as opposed

to confiscation of wealth.

Failure to realise this principle can only result, as it has already resulted in the United States, in stifling of private enterprise. Fortunately, there is a growing realisation of this matter in America, and this was clearly brought to light in the recent battle over the revised tax bill. In that bill, which was only passed after a bitter Administration fight, certain important modifications were made which, while far from satisfactory from the standpoint of the practical economist, nevertheless show

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strung like a chain of emeralds along a coral coast. Towns brush by at intervals. brown thatched towns with old Roman red brick churches and whitewashed conventos. and high detached campaniles that were once, no doubt, fortifications against marauding Moros and the depredations of wild tribes from the hills. In folds of the hills, watchtowers are occasionally seen. towers with turret tops where fire might be kept burning, whence torch signals could be flashed, and cannons fired upon fleets of More vintas endeavoring a landing in an adjacent cove-where forbidding coral reefs give way to shelving sandy slopes.

It is an old country, old and picturesque. with great edifices of the missionary church, the pride in bygone times of the devoted priests who built them, crumbling now. many of them, beneath the burden of the encroaching jungle-soon to be one with the forgotten glories of a great and gallant age; and were we to search in their old records, though many of these disappeared during the sanguinary 90's, we should see where more than one missionary expedition left this little port, or that one, for

the missions in old Japan.

Old pictures in the repaired churches and convents frequently depict martyrdom suffered by the early fathers. The arts they taught the people, the industries they established, remain after their memories are forgotten. Father Juan Davila introduces cacao from Mexico. Another introduces coffee, still another makes a device for stripping hemp which persists in common use to this day. One in the country we are traversing instructs in the retting of fibers in running water. All are builders-churches, convents, roads. The road to Bangui from Manila embraces many sections of old Spanish roads and causeways, and many old Spanish bridges, centuries old and still as good as when first constructed. It is, this entire trip, not only highly diverting as an excursion into the provinces, but an interesting study of past and present, and how the new has been imposed upon the best of the old under Spanish rule.

Beyond Burgos, at the precipitous crest roadway of unsurpassed beauty, is Bojeador tighthouse, which should be visited for the magnificent view afforded from the tower -where on the one hand the coast sweeps ruggedly away to the eastward and on the other the eve ranges out to sea and a limitless horizon.

The best plan for the trip is that of easy stages: the charm of motor travel in the Philippines is half lost if trips are made hurriedly. Start from Manila at a comfortable hour and reach George Stewart's hotel at Bauang in the afternoon. Tell George you want fried chicken and stewed apples for supper. Your bed will be clean and comfortable, the soundness of your sleep enhanced by the muffled rumble of the sea some hundreds of vards away. Make Vigan the next day, lunching by the roadside any place. Here you will make pleasant arrangements for the stay at Lacag the next night, and the day following this, motor on to Bangui and back through Lacag to Vigan, again having roadside lunches. Now double back to Manila, with your choice of numerous side trips including one to Baguio over the Naguilian road.

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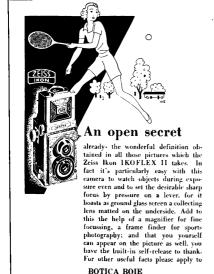
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an encouraging trend of thought.

Not the least of these modifications related to the matter of capital gains and losses. The whole principle of a tax on capital gains has long been in dispute. Once again citing Great Britain as an example, in that country no such tax exists because it is realised that any blanketing of investment or speculative capital must eventually do more harm than good.

However, the elimination of this form of taxation at this time in the United States is too much to expect, and it is sufficiently gratifying to witness some loosening of the prohibitory penalties against the creation of capital gains. Such gains are (Please turn to page 41)



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