

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 fact, given in another editorial in this issue of the *Journal*, that the United States, Western Europe, and Canada, comprising the most

The Importation of Raw Materials in Industry

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.

It is worthy of note that President Eisenhower used the words "foreign economic program" rather than "foreign aid program", both in the

The Economics of Foreign Aid

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

1953, amounted to over \$44,000,000,000, of which \$33,000,000,000 was in grants and \$11,000,000,000 in credits. During the fiscal year ending June 30 last, total foreign expenditures were still above \$5,000,000,000.

This burden was willingly assumed and continues willingly to be borne by the majority of the American people, but there have not been lacking critics who have condemned this "give-way" program as economically unsound.

The question no doubt has arisen in many minds, How can any national economy bear such a burden? And even if it is able to, why should it?

Unprecedented as the program of American aid to the other countries of the free world has been and remains, there is no great mystery as to what made it physically possible. Of course, no \$50,000,000,000 in gold has gone out of the country. The total largely represents grants and credits to the various countries against which they obtained the products of American industry for which the American Government paid the producers out of revenues raised by taxation and from the proceeds of government bond issues.

What made and makes this possible is the titanic production system of the country built up under its free enterprise economy. Though there were serious shortages for some years after the close of the war, and the foreign aid program was therefore all the more a national exercise in self-denial, the products of American industry sent abroad were actually and necessarily surplus over what was consumed at home. And even so, the standard of living of the American people remained the highest in the world.

It can be said that, comparatively speaking, America has for itself solved the problem of production. It has virtually escaped from the age-old economy of scarcity that still enmeshes most of the rest of the world and has entered upon an economy of abundance which has hitherto been envisaged only in an utopia.

Can American aid to other countries be considered as "uneconomic"? The old economists recognized in the purely economic no other motive than that of interest, eliminating from economics everything that was not concerned with the desire for gain. But these old conceptions have had to be broadened, if not abandoned. There never was such a being as the theoretically projected "economic man" for no man is governed solely by his most selfish interests but also by his feelings and convictions. He supports, besides himself, his children and the aged, he supports schools and hospitals and charitable institutions, he makes gifts and donations. As one economist has said, altruism as well as egoism has to be taken into consideration in economic questions, and—

"personal interest expands progressively, and becomes family interest, corporate interest, class interest, national interest, and even reaching its last limit, the interest of humanity."

THE American foreign aid program was first adopted mainly to assist European recovery and to strengthen our allies against the growing threat of Russian communist domination which was being facilitated by the state of disorganization which existed. Later, the foreign aid program was gradually extended to the less developed countries outside Europe, especially as the communist threat spread to those regions.

But the communist threat, actually, served only as a spur toward the shaping of a policy which would have been adopted sooner or later anyway for more fundamental and strictly economic reasons.

As Eugene Staley says in his notable book, "The Future of Underdeveloped Countries" (Council of Foreign Relations, Harper & Brothers, 1954):

"The type of program symbolized by Point Four is by all odds the most affirmative concept that has been introduced into American foreign policy in this generation. If it is adequately supported—by public funds, by the growth of private investment and trade, and by

the related actions that demonstrate America's sincere interest in the progress of all peoples toward self-government and toward cooperation based on mutual respect—then it will also prove the most effective defense against the Communist threat."

It will be noted that Staley refers to the Communist threat only as an "also". He stresses the progress of all peoples toward self-government and toward cooperation based on mutual respect. Elsewhere in his book, he says:

"...extreme contrasts between the modernized West and the rest of the world in food, clothing, housing, health, education, personal freedom, and political participation can not continue indefinitely. Under the world conditions of today, either the human benefits that we like to think of as characteristic of Western civilization will also become available to the rest of the world, or they will be lost also even to the West."

Economically as well as politically and strategically, we are today being forced to consider the one-world concept, one-world organization, the equalization of economic capacity everywhere. This is in accordance with the economic "Theory of Growth" to which President Eisenhower referred in his message. He spoke of economic growth in the underdeveloped countries as being necessary not only to themselves, but necessary for the continued growth of the American economy, for even a highly advanced economy must continue to grow if it is to maintain its dynamism. And fundamental is the fact that an expanding economy requires an expanding foreign trade, which, in turn, can be based only on an expanding production abroad as well as at home. In this matter, the Communist threat, in so far as it is economic, can play only an incidental or secondary part, for no slave economy can ever match a free enterprise economy in productivity.

THE importance to Western economy of the underdeveloped countries is even today much greater than many people realize. As Stacy May points out in a recent article in *Foreign Affairs* (January, 1955):

"Quite apart from such imperatives of Western defensive strategy [as dictated by Soviet strategy], there has arisen in addition an increasing awareness that the economic dynamism of the highly industrialized nations of the free world is genuinely dependent upon the achievement of a comparable dynamism in the underdeveloped economies. In 1952, one-third of the combined exports of the United States, Western Europe, and Canada found outlets in the markets of the underdeveloped countries. Something like 40% of their total exports of manufactured goods were also marketed in these areas. No business interest can afford to be complacent about future prospects in such an important segment of its markets.

"The degree of interdependence is shown even more conclusively by the amount of supplies the industrialized nations draw from these regions. The records show (also as of 1952) that the United States, Western Europe, and Canada are dependent upon the underdeveloped areas for 50% of their combined imports of industrial raw materials and 48% of crude foodstuffs. Since these import needs of the industrialized nations have been steadily expanding, and promise to increase at an accelerated pace, *growth in the underdeveloped economies is obviously to the interest of the West.*

"These three imperatives—the strategic considerations,—the quest for access to expanding export markets, and the need to assure an increasing source of primary products, impel the industrialized West to forward the development in the backward sectors of the world.

"Clearly, there are non-material motivations as well,—humanitarian and moral, which have an important weight in the traditional attitude toward other people..."

But strictly in economic terms, any American aid used to promote the economic development of other countries can be considered as a wise and indeed a necessary investment in *national* and *world* economic growth; the two are not to be separated.

At the thirty-first* annual meeting of the American Chamber of Commerce of the Philippines, Inc., held, by Elks Club courtesy, in the Club's **The New Chamber Assembly Hall**, on January 28, the election of the Board of Directors resulted in the re-election of all seven of the members of the 1953 Board who had been nominated for re-election,