THE BELL REPORT—AN ANALYSIS

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THE 24-man Bell Mission, after more than a month's stay in Manila, has made a searching analysis of the economic as well as the social problems confronting the young Republic and has recommended a 7-point program. The first six recommendations represent the Mission's idea of the self-help measures which the Philippines can and should at this time undertake. The seventh recommendation indicates an initial figure of $250,000,000 which the Mission believes, should be America's material contribution to the overall program.

That the Mission explicitly conditions the aid on steps being-taken to achieve internal reform and the necessary sacrifice involved in a program of self-help, is not particularly important. The implementation of worthwhile reforms should be carried out, the withholding of American aid regardless. The willingness to correct fundamental maladjustments must not be bartered for dollars and an artificial balancing of dollar aid against reform seems irrelevant. Where, however, certain recommendations would appear to either involve the transfer of sovereign rights or the grant of commercial privileges hitherto found unacceptable, then if we must be realistic, an appraisal of the aid initially recommended must be made and placed in the proper perspective.

The proposed aid in loans and grants is $250.000.000 over a five-year period, or in the neighborhood of $50,000,000 per year. This represents approximately 8 percent of the total national dollar income in 1949 of $621.000,000. It must be remembered however, that of this dollar income, approximately $320,000,000 represents U.S. Governmental transfers and expenditures which would magnify the $50,000,000 yearly aid into a larger percentage if only earned dollar income were made the base. In other words, on the basis of approximately $300,000,000 earned last year on account of the exports of goods and services, the $50,000,000 aid represents an annual increase in dollar availability of 16 percent to the economy.

Although the figure then does not appear as large as ECA aid has proportionately for certain European countries, it assumes much more significance when related to the amount of capital goods importations both in 1949 and in 1950. During this period, importation of capital goods had been proceeding at approximately a $50.000.000 per year rate. Should the contemplated aid of $50,000,000 per year be earmarked purely for capital goods importation, it will be seen that a doubling of imported capital goods investments can be expected. In terms of aggregate domestic investment however, the size of the proposed aid is much less significant. In the postwar period, this has been estimated roughly by the Bell Missioners at one billion pesos per year. It will be seen that the contemplated aid will represent a 10 percent increase in aggregate investment. It must be remembered of course, that as has been pointed out in the Report, much of the postwar investments found its way into real estate, increased inventories and other forms of trading capital, with only a minimum portion having been channeled into productive activity.

It is well to keep these magnitudes in mind to have a realistic attitude on what the aid per so can or cannot accomplish.

It is evident immediately that permanent solutions to some of the more fundamental age-old problems cited by the Report ,namely, a more equitable distribution of land, higher productivity for agricultural workers, lack of skilled technicians, etc., will not be solved overnight, neither with $50,000,000 aid per year, nor with $150,000,000. The recommendations for the gradual solution of those problems were necessarily of a long range nature. A more direct approach was made, however, to the problems that were more or less of a postwar nature, namely, the balance of payments problems, the embarrassing financial position of the national government, and the deterioration of peace and order. The attack on the first two problems especially was direct .It was believed that much of the pressure on the balance of payments was due to the maintenance of money incomes through governmental deficit spending, so in no uncertain terms, the correction of the budget became the Mission's *sine qua non* for recovery. It is abundantly clear, however, that the Mission did not believe that the level of public spending was excessively high, for on the contrary, it recommends various increase to governmental spending indicated by its advocacy of increased agricultural services and health measures, as well as an increase in the salaries of those in government employ. The balancing of the budget was to be achieved by an increase in revenue and to this end, the lengthiest of the technical memoranda accompanying the re-

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admirable character: that he could fight even if he knew all the odds were against him. I did not realize then the handicaps he had to surmount. After the occupation, I was to taste from the same bitter cup that he had drank during the pre-war years. I like to remember Wenceslao Q. Vinzons as the young man who always kept faith with the youth. He was one who would easily and enthusiastically pick up a fight, whenever he knew that there was something worth fighting for. He did not care what the rest of the world thought about his ideas. And a great many did idolize him. He probably thought that the only causes worth fighting for are lost causes. As an oppositionist, I know how it feels to fight. Wenceslao Q. Vinzons was the idol of the youth: he was courageous, because he was young; he was uncompromising because he was young; he was ambitious because he was young. He died young, because he was to remain always the model for the young. But he would have always remained young, because he was of the stuff that patriots and heroes are made of. It is a tragedy that we do not have a Vinzons now — in the face of the current situation. Sometimes I wonder if Vinzons had not died in vain.

port was directed. Taxation then, appears to be the cornerstone of reform.

The very comprehensive tax program is designed for three purposes: (1) to raise additional revenues to balance the budget as soon as possible; (2) to shift the incidence of taxation from those less able to those in a better position to pay; and (3) to serve as a tool for directing investments away from the heretofore popular trade and real estate channels to pursuits of a more productive nature. At the same time, a definite effort is made to widen the tax base which statistics had proved to be distressingly small in relation to national income and population. On top of the long-range tax program, an immediate stop-gap measure is recommended. Realizing that revenue from proposed taxes will not be available immediately, a 25 percent tax on exchange is recommended, intended to raise approximately ₱60,000,000. This, together with the immediately realizable revenue from direct taxes envisioned in the tax program, is estimated to run into the ₱150,000,000 necessary to balance the proposed budget.

Many difficulties may be encountered with respect to the 25 percent tax on the sales of exchange for imports. It appears quite possible that such a tax may be interpreted as a 25 percent tariff on imports and if so interpreted, will be in contravention of the Bell Trade Act of 1946 which provides for free trade between the two nations . Aware of this difficulty, the Mission suggested one alternative, that of imposing a 25 percent tax on all sales of exchange. This of course, is equivalent to a temporary one way devaluation and it is quite possible that permission from the IMF will be required. The third alternative in the event that the first two proposals are unacceptable, is a heavy domestic excise tax of 25 percent which would have approximately the same effect, that is, to increase the Peso landed cost of imports for the purpose of raising additional revenue for the government. As a method for collecting revenue surely and simply, the tax on sales of exchange is without question the most desirable. Assuming a level of imports at ₱600,000,000 this coming year, with one-half of the imports falling under the exempt list, this tax alone will still yield revenues amounting to ₱75,000,000 yearly.

Who shall bear this tax? Just as in many other forms of taxation, it is not at this time possible to pinpoint precisely who shall bear the burden. Undoubtedly, the Mission took into account the possibility that such a tax might be borne by the ultimate consumer which would, of course, lower standards of living that are already low, and directly conflict with their expressed desire to shift the incidence of taxation from the great mass of low income recipients, to a small minority of high-income, high-savings people at the top. The pressing financial needs of the government had to be weighed against any further tax inequities and it appears reasonable that their recommendation of this stop-gap measure was founded on two premises. The first of these is that in view of the already inflated margins available between landed costs and ultimate retail prices to consumers of many imported articles, and in view of increasing consumer resistance to high priced imported articles with a very apparent shift to domestic substitutes in many cases, much of the 25 percent exchange tax would in fact be borne by the importer. In other words, the na-

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tional government would merely share in the windfall profits that have accrued to importers as a result of controls. The second fundamental premise would appear to be that the increase in prices to consumers of some items regardless, the necessity of putting government finances in order outweighs this oeher consideration and it is hoped that ehe longer range tax program may be the instrument to ultimately solve any tax inequities already existing or liable to arise because of the 25 percent exchange tax.

On the other hand, the dangers to such a tax must be already presented. Apart from its possible shift to consumers in the case of certain articles, it muse become readily apparent to anyone that the very virtue of simplicity and ease of collection which it involves, may lead to its adoption by the government as a permanent revenue-raising measure. Through its use, the government gets used to making profits on exchange, making successive devaluations politically desirable and an easy escape mechanism from budgetary difficulties. At the same time, it is not difficult to see that such a procedure may encourage governmental subsidy of exports since exports become so profitable to the national government. It can lead to the opening of marginal mines, of uneconomic industries and to permanently higher cost structures of economic establishments as government subsidies weaken the constant pressure for lower costs in a freely competitive situation. Finally of course, if prolonged indefinitely, it must lead to permanent devaluation. The third inherent danger in such a tax is that it normally leads to the adoption of multiple rate and discriminatory exchange practices. It is a starting wedge in the direction. Certain importers will find themselves unable to operate profitably under such an imposition and will seek preferred rates and various planners will begin to device various categories of essentiality, seeking varying rates for each, and in this conflict between using either profitability or esentiality as the standard for setting differing exchange taxes, it is not difficult to see another "wilderness of restriceions, discriminations and arbitrariness" that has been seen to result in other countries that started along this path with the best possible motives.

To prevent the tragedy of such an occurrence, it would seem that from the very start, the purpose, the emergency nature, and the time limit for the imposition of this tax be clearly understood. It must be clearly stated at the outset, that this tax is purely an emergency revenue-raising device, and that exchange authorities definitely intend to return to the normal rates after a very definite period. To prevent any upward pressure on living costs, a very careful study of items to be exempted from the tax should be made, the determining policy being to exclude wherever possible, items directly entering into the basic consumption needs of the law-income groups. It is only under such considerations that this proposed remedy may not bring in its wake greater and more difficult problems.

Together with the adoption of the fiscal measures above mentioned aimed ae diminishing inflationary pressures which in turn are responsible for balance of payments difficulties the Report leans towards a conservative investment policy as indispensable to the attack against inflation. It lays aside for the time being over-ambitious and too rapid development. It would gear such development directly to the rate of domestic savings and to whatever aid in the form of loans and grants the country can obtain from abroad. The rate of investment of course is to be increased as savings is stimulated and many concrete recommendations for the stimulation of savings are made. Specifically, the nature and types of governmental securities suitable for investment at different levels are recommended and explicit encouragement towards the formation of lending institutions that may absorb otherwise idle savings in rural communities and channel such into productive loans is given. It must be remembered, however, that the fiscal policy embodied in the tax program will undoubtedly result in diminished savings among the present high-income group, and it must be assumed that an equivalent amount of saving in the great masses whose present income is so low as to permit them no savings at all, must be achieved if gross aggregate savings are not to decline. This assumption is speculative at most, as there is no quantitative evidence of the actual percentage of savings in various income groups. Insofar as the direction of investment is concerned, the Report also uses fiscal measures to deter the continued absorption of capital into real estate and trading activity by imposing heavier taxes on such forms of capital.

It is obvious that the Mission believes that the control of inflation is paramount at this time and that increases in national productivity will be best achieved under a situation where price levels and the value of the currency domestically, as well as internationally, are stable. In this regard, it may be well to note that the theoretically sound concept that credit creation for development purposes is not fundamentally inflationary but only temporarily so, is felt by the Mission to be "specious reasoning" where no regard is made for the conditions already existing, since even the temporary pressure it exerts at a time of great stress may result in harm of a permanent nature.

Wreaths or Coronets, Which?

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V

We flew to the sun,
bright red in the dawnlight.
We dropped blossoms
of roses, violets and marigold
and black flowers beneath us.

We flew to the sun
spilling the fresh roses of our blood
upon the fields of cloud.
We crashed into the sun,
the winds howling through
the battered fuselage of our bodies.

VI

This is the dream's ending:
wreaths, not coronets,
laid on the newly turned
scorched earth.

(We who went marching
stayed up in the night,
too tired to sleep,
too tired to sleep.)