

It will, of course, be necessary to modify the laws and regulations covering the licensing of fire-arms in these areas because the arming of small groups of chosen volunteers in the various localities must necessarily be permitted. It would be murder to encourage men armed only with bolos and clubs to make a stand before armed outlaws. The best weapon for local patrol purposes probably would be double-barreled or repeating shot-gun.

Since the President outlined his plan, we have noted that various bureaucracies in the Government are preparing to take over the organization of the movement. This, we believe, is contrary to the President's original conception, the value of which lies precisely in the local, private, and voluntary nature of the proposed citizens' groups led by "their own trusted men." All that is necessary on the part of the national, provincial, and municipal officials is for them to adopt such enabling measures as may be required, always recognizing that the plan rests basically on the people's elemental right to organize for self-defense. Otherwise we will see a repetition of the same old story, —over-centralization and over-regulation killing the spirit of a promising development.

When a committee of the Philippine Association called on President Quirino one day last month, the President

The Philippine National Business is International

noted, with interest, that the committee included men of various nationalities,—Filipino, Spanish, Chinese, and American.

The international make-up of the Philippine Association is indeed considered one of the best features of the organization, perhaps its strongest feature.

Though the oldest chamber of commerce in Manila, the Manila Chamber of Commerce, was and remains international in its membership, national chambers were organized in later years,—the Philippine, the American, the Spanish, the Chinese, the French, etc., and this was for good and sufficient reasons since national interests play a not inconsiderable part in most business relations, affecting organization, agencies, sources of supply, principal markets, etc.

However, this division of Philippine business into national entities has to an extent tended toward a certain narrowness of view which has not always been conducive to an understanding of the fact that the interests of business as a whole are not so much national as communal. It has, in fact, at times tended to weaken the position of business and has made it possible to play one element against another when a united front was most desirable.

In this situation, the organization of the Philippine Association may serve as a very necessary corrective, and opportunities will no doubt arise in which the Association will be able to appear for Philippine business as a whole, because the national business of the Philippines is, in fact, international in make-up. In this fact, indeed, lies its greatest strength. Business nowhere is wholly native, parochial, or domestic. Everywhere business is strengthened by the foreign elements it absorbs.

The Philippine Association may assist in bringing about a keener realization of the fact that all of our present business is the national business, no element of which may be wantonly or deliberately injured without damaging the Philippine itself.

In the August, 1949, issue of this *Journal*, we published a letter from Secretary of Finance Pio Pedrosa in reply to a letter from the *Journal* requesting information as to what the qualifications were of those industries entitled to the benefits of Republic Act No. 35 which provides for tax exemption for four years of "new and necessary" industries.

The answer was helpful, although it was necessarily phrased in broad terms.

A more detailed answer to this question is now available in Executive Order No. 341, signed by President Quirino on August 9, which establishes the "rules and regulations for the qualification of industries for tax exemption under Republic Act No. 35".

It is published in full elsewhere in this number of the *Journal*.

Among the statements made by Secretary of Finance Pio Pedrosa at a luncheon meeting of the Philippine Chamber of Commerce late last month, there is one statement especially which, at least as it was reported in the press, cries for comment.

The following is taken from the *Manila Daily Bulletin*:

"Touching on the broader aspects of the Philippines' economic problems, he pointed out that the new tax rates were aimed not only at wiping out the Government's budgetary deficits, but at coping with the threat of inflation arising from controls and large investments by private enterprises as well as by the Government.

"These new taxes, he explained, would 'syphon off excess purchasing power, excess profits'."

If it is indeed true that the aim of the Government in increasing certain tax rates is what the Secretary said it was, that aim, and the rates, are all wrong.

Among the so-called agents of production, of which there are five (the entrepreneur, the landowner, the laborer, the capitalist, and the community), the remuneration of the community, as represented by the government, is paid in the form of taxes. Taxes constitute the rightful share of the government in the fruits of production as they are paid for the protection and the regulation which is the function of the government to supply in the productive process.

The entrepreneurs, who organize, direct, and bear the risks in production, earn their profits (if they succeed); the landowners, who furnish sites, raw material, and power, earn their rents; the laborers who perform the work, earn their wages; the capitalists, who furnish buildings and machinery, tools, implements, and materials for work (capital goods), earn their interest; and so also, the government, which protects and regulates, is entitled to taxes.

The proportionate amounts of these various forms of remuneration drawn by the five agents in the production process, are delicately balanced and are basically determined through the operation of the law of supply and demand as it applies in each case. The operation of this law automatically adjusts excesses if these temporarily occur for one cause or another. When profits are too high, they are soon reduced by increased competition; when rents are too high, lands are left idle; when wages are too high, unemployment sets in; when interest is too high, no loans are contracted.

If a government arbitrarily demands too large a share in the fruits of production, the other elements in the process suffer accordingly, as their shares must inevitably decrease. Arbitrary action by the government, however, can only go so far. It, too, is checked, the penalty being a general retardation of production; the final penalty, flight of capital from the country.

A tax program, therefore, aimed at "the threat of inflation" or at anything else than to obtain the funds to support the legitimate functions of government, is most unsound. Furthermore, inflation and deflation represent only the ebb and flow of an economy; they are temporary conditions. How unwise, therefore, it is to deal with in-

flation through a general increase in the tax rates which are all too often permanent!

It is true enough that the Philippines has since the war been in the stage of inflation. The currency in circulation is still approximately four times what it was before the war and prices are, partly as a consequence, three times as high.

The government controls have checked the people in spending their money for imported goods, but this result (we will not say benefit) has been largely offset by a further rise in prices not caused chiefly by too much money, but by too few goods.

There are other and more proper ways to deal with this situation, and a general and sharp increase in taxators, increasing the burden on the economy and the people, is not one of them.

As for the "large investments by private enterprises as well as by the Government", which Secretary Pedrosa spoke of, what are the large private investments? We know of only a few local investments since the liberation which could properly be called large. The Government has made large investments of the people's money and these have been largely unproductive.

As to "syphoning off excess purchasing power and excess profits", we ask also, why, if there can be such a thing as "excess purchasing power", which we doubt, what sound reason and, in fact, what right has the Government to "syphon it off"? This is just a fancy phrase for *taking* the people's money. They don't want their purchasing power syphoned off; they want to buy the many things they need with it, and perhaps save some of it for their old age.

And excess profits! Normally there can be no excess profits. It is an economic fact that most new enterprises fail and that only a minor fraction of them succeed. If good profits are possible in some line of industry or commerce, that should be a matter of great satisfaction, not only to the entrepreneur concerned, but to the community and the government. It should not be anything the government should frown at. It is not only that the possibility that a profit will be made, is the principal incentive to economic enterprise, but that only profits enter into the vitally important process known as *capital formation*. Without new capital being formed all the time, without, in other words, saved profits, the economic system could not develop or expand. For a government to set about "syphoning off" profits is to do about the worst thing economically as well as morally that a government could do. What would it do with the profits? Let the bureaucracy spend it. And, under such conditions, how long would profits continue to be made by the entrepreneurs who only can make them? Profits should be left in the hands of those with the courage and foresight and ability to make them, so that they may build up capital for necessary expansion and new investments.

Heaven protect us from a government bent on "syphoning off" both the spending money of the people and their savings!

Private advices received from the United States by an important agricultural machinery importing firm in the Philippines point to the possibility of the development of critical shortages here in certain very essential types of equipment. And what is said of this equipment holds true for other machinery, spare parts, etc., as well.

Government "planners" may well consider the following excerpts from the message received:

"... The warfare in Korea has had its effect upon our business in a notable way these last few weeks... First and sharpest effect has

been the rush to buy our products,—all of them, by all kinds of customers... As a result, July sales will show the second highest dollar-volume in the Company's history... A great deal of the buying has been for cash... Orders being placed for next year's delivery are large. Customers continue to clamor for goods. Indications are that we may be able to sell every possible machine that we are able to build for the next several months.

"... The rush to buy repair parts has been so great in many lines that we have had to resort to the careful screening of orders simply to prevent our entire supply being sold out to a few large users, thereby penalizing the customer whose machine might go down for lack of a single part. The outlines of many of the old allocation headaches have begun to reappear, with customers pleading for special attention and consideration.

"A difficult new condition has arisen in the shortage of sufficient railway freight cars to move finished machines from our plants. The demand for flat cars, which are used primarily in the shipment of tractors... is so great... that we have had great trouble in moving these machines... It is even difficult to obtain box cars in the required numbers.

"Heavy demands have resulted in many price increases on the materials and parts we use in building our machines..."

We should remember that great machines, whole factories may be brought to a stand-still for the lack of one or two small irreplaceable parts which, if they could be obtained, would cost only a few pesos!

Concern is being expressed that the United States economy may not be able to bear the extra burden imposed on it by the cost of the mounting conflict. The Cost of Summer H. Slickter of Harvard University, a leading economist, was recently quoted as saying that "the net effect of the rearmament effort upon the standard of consumption in the United States will be much less than the increased expenditures on defense and foreign aid seem to indicate".

His reasons are that (1) the greater demand for goods will accelerate the expansion of production; (2) the strong demand for labor will help increase the labor force,—retirement of older men will be postponed and more women will engage in work outside the home; (3) the demand for labor will result in a more productive distribution of the labor force—from the less productive areas and industries to the more productive; (4) the rearmament will greatly stimulate technological research, and the expansion of the productive capacity both for military and civilian purposes will thereby be accelerated.

Professor Slickter comes to the conclusion that the Russian policy is not making the United States weaker, but is making it stronger. "All in all, it looks as if the Russians, by their policy of hostility, may, over the next decade, actually help to raise the standard of living in the United States".

We have only an abbreviated news report to go on, and we do not know whether Professor Slickter took an actual total war into consideration and whether he holds any opinion as to the possibly immense physical destruction and loss of life which might be suffered in such a case and the effect of this on the standard of living, indeed the chances of bare survival.

This matter involves so many uncertainties that probably no man could formulate an answer.

If another world war can be averted, Professor Slickter is probably,—almost certainly, right. The historian, Arnold Toynbee, quoted in another editorial in this issue of the *Journal*, has pointed out the important role of what he calls "challenge and response" in human history and the stimulating effect of "blows" and "pressures", as well as of "hard countries" and "new ground", and, in the case of classes of individuals, "penalizations" such as have been inflicted on the Jews, to name a familiar example.

And the great hope of the world is that the Korean conflict will not turn out to be the overture to another