THE AMERICAN CHAMBER OF COMMERCE
JOURNAL

# Editorials

*" . . . to promote the general welfare"*

Senate Bill No. 329, just introduced into Congress by Senators Primicias and Magalona, is entitled, "An Act recognizing and making effective the rights of the Filipino laborer as an industrial partner," and would entitle "Filipino" laborers, in addition to their wages, to a "fair and equitable share" in the annual net profits of their employers in an amount not to exceed 25%.

**Employees as "Industrial Partners" Sharing in Profits**

For any legislation thus to disregard the distinction between a laborer and industrial partner and to "recognize" one to be the other can be compared to "recognizing" *x* to be not *x*, but *y*.

As everyone knows, partnerships are formed between two or more men with the greatest caution; the liability of each partner, in the matter of debts, for example, being unlimited, any one of the partners being liable for the full amount of the debt, partners are chosen with the utmost care for their ability and trustworthiness. The selection of a partner in business is one of the most important acts in the life of any business or professional man. Although, most often, the partners contribute an equal amount of capital to the partnership, there are various types of partners; there are managing partners and silent partners and there are also *industrial partners*. An industrial partner often does not put in any capital, but in lieu of that brings into a partnership something accepted as its full equivalent,—perhaps some special knowledge or skill, some rare ability, or sometimes, say, a high reputation. Now this partnership may employ an office staff, skilled workers of various kinds, ordinary laborers, and so on, but can any of such people, hired from among many others more or less casually and sometimes only on a temporary basis, be considered, as "industrial partners", like the member of the firm who is justly entitled to that distinction? Granted that all employees do needful work, that most of them do it well, and that they are entitled to a fair compensation; but the truth is that very few, if any of them, contribute anything to the enterprise that could not be done as well by many others who could be employed. They take no risks, they labor under no grave liabilities, in so far as the business is concerned, they do little if any planning, they make no important decisions on which the success of the whole enterprise may depend, they are paid for the work they actually do and their pay is secure as long as the business prospers and their work is satisfactory. They are employees, and no legislation can do anything but *pretend* to convert them into "industrial partners." If any worker wants to become an industrial partner, he is free to make the effort; let him be ready to make the necessary valuable contribution to some possible partnership and be accepted by the others as being able to do so. It is up to him.

THE foregoing is only the *a*, *b*, *c* of one branch of economics,—in fact, it is only common sense. There is a little more excuse for the conception of the capital factor in production "sharing profits" with the labor factor, erroneous though this conception is. There is such a thing as a business enterprise taking a part of what would otherwise be profits and distributing this among the employees, but as soon as this is done, the amount becomes merely an added expense to the employer and a bonus to the employees. It is a gift, which, while not a wage, must be added to the cost of labor. Profits can go only to an entrepreneur as a reward of his enterprise; simultaneously with his turning over any part of his profits to the workers, he is handicapped by just so much in his competition with other employers.

As we stated in these columns some month ago,* such "extra wages" are usually spent by the workers (and very excusably so) in consumption and are thus eliminated from, and do not take part in the process of capital formation, as do the profits of the entrepreneur who uses them in extending his business or in capitalizing some new venture. No wage-earner can make any real profits unless he saves enough to become an entrepreneur or an investor himself, even if in only a small way, by risking his money in the purchase of a few shares of stock in some enterprise which he hopes will make or continue to make profits in which he will then, and only then, share.

*See the editorials, "The Wage and the Worth of a Man" and "Wages and the 'Ability-to-Pay' Fallacy," in the issues of this *Journal* for May and June, 1952.

the World Federation of United Nations Associations also had an observer at the conference. Austria sent two "distinguished visitors".

This roster alone indicates how the ECAFE has grown and how greatly the interest in the trade of this region has increased. As Secretary Balmaceda said in his closing statement, the Conference stands out as one of the most widely attended conferences ever held for the promotion of international commerce.

The Conference took up four main subjects: (1) Marketing research as an aid to trade, and (2) Methods of improving trade promotion machinery, both subjects being assigned to a committee called Committee A; (3) Methods of increasing exports, taken up by Committee B, and (4) Import needs and export availabilities, taken up by Committee C. Though these three separate committees were set up, all delegates and observers were invited to send representatives to the committee meetings.

Since the closing date of the Conference was so near to the "copy dead-line" for the February issue of this *Journal*, it is not possible now even to summarize the conclusions and recommendations of these various committees, but we hope to do so in the April issue.

We join Secretary Balmaceda in saying that the Conference was a most successful one and that it "fully achieved its announced objective of giving the participating nations an opportunity for a full discussion and free exchange of views on the problems of international trade."

## War Claims Commission Recommends Compensation for Sequestered Bank Accounts

We reported, in the October, 1952, issue of the *Journal* that Mr. Allison J. Gibbs, Manila attorney, had informed us that, with respect to the sequestration of the banks accounts and other credits of American nationals and firms in the Philippines by the Japanese during the enemy occupation, Mr. A. S. Hyman, General Counsel of the U. S. War Claims Commission, had recommended the inclusion of a statement in the Commission's recommendations to the United States Congress that these nationals and firms should be compensated for their losses.

Mr. Gibbs has now informed us that the Supplementary Report of the Commission, just received in Manila, does contain a recommendation to this effect. A typewritten copy of the statement of the Commission on the subject runs to 9 pages and was received too late for publication in this issue of the *Journal*. In a letter accompanying the excerpt, Mr. Gibbs wrote:

"You will recall that the Chamber sponsored the efforts made by this (Mr. Gibbs') office to approach the War Claims Commission on this subject with a view to eventually securing remedial U. S. Congressional legislation. I consider the enclosed recommendation of the War Claims Commission as the first major step toward the successful prosecution of its effort.

"Now that the War Claims Commission has submitted its favorable recommendation, every effort should be made by the different claimants to contact their respective U. S. Congressman with a view to prevailing on them to endorse the War Claims Commission's recommendation."

The total amount involved, according to the Commission, is approximately $7,500,000.

---

# End of the Three-Ply Taxation

FOR once the Americans in the Philippines have won a little victory,—or perhaps not so little.

Over a year and a half ago, in the August, 1951, issue, this *Journal* said:

"Increasing protest is being voiced against the imposition by the Philippine Government, since the enactment in March of this year of Republic Act 601, of the 17% exchange tax on the remittances by Americans here of their income tax payments to the United States Government.

"As is well-known, Americans abroad pay a double income tax,—one to the government of the country in which they reside, and the other to the United States Government. This has always constituted a serious handicap to Americans and American corporations in foreign countries where they must compete with others who bear no such double burden. The burden is lessened only in part by the fact that the United States tax is paid only on so-called 'unearned' income,—that derived from earnings on investments, and not on 'earned' income (below a certain maximum), and by the fact that the amount paid in income taxes to the foreign government may be deducted from the United States tax.

"But now injury has been added to injury by the additional imposition of the 17% foreign exchange tax on these income tax remittances to the United States. Act No. 601 provides for certain exemptions, such as on remittances for a few staple foodstuffs and fertilizer, certain types of insurance payments, etc., but the drafters of the law seem not to have thought of the need of exempting these tax remittances (or did they?), although it is clear enough that such remittances fall outside the type of remittances it is the avowed purpose of the law to lessen,—remittances for imports.

"Appeals for relief have been addressed to the Central Bank, but the Bank's reply has been:

"'As Republic Act No. 601 does not provide for an exemption of this nature, the said remittance is subject to the payment of the exchange tax.'

"Yet while the interpretation of the law has been so strict in this connection, the Bank appears readily to have agreed to certain other exemptions such as, for instance, in the case of the purchase of foreign exchange by foreign embasies, legations, and consulates.

"But this latter concession would seem to offer a way out, as has already been suggested by Mr. E. A. Perkins in a letter to Ambassador Cowen. The American Embassy in Manila could be authorized by the United States Government to collect the tax locally from Americans here, on the lawfully established and supposedly guaranteed basis of 2 pesos to 1 dollar, which Act No. 601 has in effect converted into a ratio of 2.34 to 1. . .

"We have pointed out in the past that what is, in effect, a one-sided devaluation of the peso, constitutes a most serious drain on every one in the Philippines because everyone has to pay around one-fifth more for everything that is imported from abroad; but for Americans the exchange tax additionally means the piling up of government taxes on them three-deep, contrary to all reason and equity."

Thanks largely to Mr. Perkins' intelligent proposal and the indefatigable efforts of Mr. Amos G. Bellis and a number of others, and also to the interest taken in this matter by Ambassador Spruance, this inequity has now been corrected.

The Central Bank of the Philippines issued a "Memorandum to Authorized Agents," dated February 17, 1953, stating in part:

"Subject to the conditions stated below, Authorized Agents may accept from the U. S. Embassy in the Philippines and forward to the Exchange Control Department applications for exchange license to cover payment to the appropriate United States Director of Internal Revenue of U. S. income tax due from Philippine resident American citizens, for the purpose of effecting remittances thereof free from the 17% exchange tax. . ."