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Editorials

" . . . to promote the general welfare"

The American Chamber of Commerce recently received from the Philippine American Chamber in New York, the text of President Truman's statement concerning the extension of the effectivity of the Philippine Exchange Tax to December 31, 1953.

President Truman's Agreement to Extension of the Exchange Tax

This statement was dated October 20 but has not, in so far as we know, been released in Manila. *Journal* readers will recall that Republic Act 601, known as the Foreign Exchange Tax Law, which imposed a 17% tax on the value in Philippine pesos of foreign exchange sold by the Central Bank, was to be effective for a period of two years from the date it went into effect on March 28, 1951, and would therefore have expired in March, 1953. They will also recall that Republic Act No. 814, passed during this year's session of the Philippine Congress, slightly amended the basic act and extended its effectivity for nine more months up to the end of 1953; it reduced the tax to 12½% during the latter half of 1953.

The original Act required the approval of the President of the United States under Article 5 of the Executive Agreement of July 4, 1946, and the extension of the effectivity of the law for nine more months was approved by President Truman, as stated, on October 20. The President said (italics ours):

> "In accordance with Article V of the Executive Agreement of July 4, 1946, between the United States and the Republic of the Philippines, my agreement has been requested by the Secretary of Foreign Affairs of the Republic of the Philippines, to an Act of the Philippine Congress, approved by the President of the Republic of the Philippines on July 14, 1952. This enactment, Republic Act 814, amends and extends for an additional nine months the tax on sales of foreign exchange for certain purposes imposed by Republic Act 601 and thus comes within the purview of Article V of the Executive Agreement. I hereby agree to the adoption of this enactment by the Philippine Government.
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> "This action on the extension of the exchange tax and my previous action of April 6, 1951, on the initial enactment of the exchange tax legislation evidence the desire of the United States to cooperate in matters affecting the well-being of the Philippines. *It is my understanding that the tax was intended from its inception solely as a temporary measure, and it is my sincere hope that the progress which has been made by the Philippines in developing a sound system of taxation and in achieving a greater degree of financial stability will continue and make it unnecessary to extend the tax beyond December 31, 1953, the terminal date of Republic Act 814.*"

Article V of the Executive Agreement between the President of the Philippines and the President of the United States (authorized by an Act of the 79th United States Congress, Public Law 371, approved April 30, 1946, and accepted by the Philippine Congress through Commonwealth Act No. 733 approved July 3, 1946, the day before the inauguration of the Republic of the Philippines), reads:

> "The value of Philippine currency in relation to the United States dollar shall not be changed, the convertibility of Philippine pesos into United States dollars shall not be suspended, and no restrictions shall be imposed on the transfer of funds from the Philippines to the United States *except by agreement with the President of the United States.*"

In view of the serious nature of the whole matter and the continuing deleterious effects of the exchange tax, it is well to remind ourselves from time to time of the facts in the case and to recall that this type of tax was especially singled out in the Executive Agreement as not to be imposed except under the rather extraordinary procedure specified.

It is often stated in defense of the exchange tax that it was recommended by the Bell Mission, but this is not exactly true. What the Bell Mission recommended was the following:

> "*To reduce the present excessive demand for imports,* which is in part due to the high level of national income and home prices relative to those in the United States, *a special emergency import levy of 25% should be imposed on all imports except a limited number of most essential goods. This special levy would be for a period not to exceed two years* and would be coordinated with a new trade agreement to be negotiated with the United States. If such a special levy is not possible because of legal limitations, it would be desirable to secure some reduction in the demand for imports by *heavy excise taxes on luxury imports, or through a tax on exchange remittances,* although such a measure could lead to serious speculation."

It will be noted that the Mission recommended, first, an emergency tax on imports, or, in lieu thereof, heavy taxes on luxuries, or, third, and lastly, a tax on exchange remittances,—but all only as possible emergency measures, and only to reduce imports, not to raise revenue. There was no suggestion that a tax should be levied on virtually all remittances.

The present tax does directly affect the "convertibility of Philippine pesos into United States dollars" and "the transfer of funds from the Philippines to the United

States". The tax greatly increases prices and living costs and discourages outside capital investment.

As the Managing Director of the International Monetary Fund, Mr. Ivar Rooth, said at the annual meeting of the Fund and the International Bank in Mexico City last September:

"One point above all, is clear. The payments problem can not be solved by retreating behind a network of restrictions and discriminations. At best, they are a necessary evil; at worst, that are a costly burden both to the countries that use them and to the world economy. In accordance with the Fund Agreement, we are now consulting with members that retain restrictions under the provisions for a transitional period... Of course, we are not asking members to imperil their payments position by a premature removal of restrictions. We do ask them to shape their policies toward greater freedom in trade and payments."

Let us hope that the nine months' extension provided by the recent act will constitute such a transitional period as Mr. Rooth referred to.

While the President of the United States, with obvious reluctance, has agreed the extension, let us realize just what this tax means with respect to other considerations than convenience in increasing government revenues, and analyze the effects of this on both present and long-run economic programs.

The Philippine Role In American Policy

We wish to commend the "Sunday Feature Editorial" of the November 23 *Philippines Herald*, entitled, "The Philippines and the New American Policy in Asia."

The writer of the editorial, having concluded that certain facts as to the incoming Eisenhower Administration are clearly indicative of a greater emphasis to be placed on the importance of Asia in American global policy, advocated that the Philippines aid in the implementation of the new American policy and at the same time take the fullest advantage of it as an "inevitable beneficiary."

Concretely, he proposed (a) "increased use of the Philippines as a base of operations in the psychological and propaganda war"; (b) "increased attention to the country's economic needs to strengthen it for greater service to the common defense of the free world: encouragement of increased private capital investment, a continuing and possibly an enlarged American market for Philippine produce, and increased economic and financial and technical assistance in the form of MSA aid"; (c) "wider use of Philippine institutions and establishments in the promotion of educational, scientific, and medical training for peoples of Asia as well as more extensive employment of locally available facilities and resources,—human, material, and spiritual, for the job that has to be done in Asia"; (d) "development of bases of supply and possibly production centers for materials such as those that may be needed to facilitate energetic fulfillment of America's commitments"; and (e) stepped-up assistance to the Philippine armed forces and general strengthening of U. S. military bases within Philippine territory to prepare them for any eventuality."

While, frankly, in our opinion, these proposals lean somewhat to the side of the Philippines as a beneficiary, they are all constructive, and practical, too, and stand out in refreshing contrast to the timid neutralist policies advocated in some of the other East Asian countries which are still free.

The *Herald*'s proposals would, however, be even more satisfactory if a little more stress were laid on (a) the country's possible economic contributions as well as on its economic needs; (b) on a continuing and possible enlarged Philippine market for American goods as well as on such an American market for Philippine produce; (c) on the possibility of decreasing MSA aid by seriously providing greater incentives to private American capital, and so on.

But, unquestionably, the *Herald*'s thinking is in the right direction of at least some degree of reciprocity.

Foreign Investments in 1951—Less than the Withdrawals

A brief paragraph of only four lines stands out in the "Third Annual (1951) Report of the Central Bank of the Philippines" which came to hand during the month. It is to be found on page 105 in Chapter IX on the "Balance of Payments". It reads:

"New foreign investments during 1951 were small, amounting only to $891,000, of which $291,000 came in the form of machinery and $600,000 in liquid funds. Total amount of foreign investments withdrawn reached $2,300,000."

This, of course, as stated, refers to foreign investments, new investments,—not to profits made in the Philippines by foreign business entities and then reinvested here.

We do not have the comparable figures for the present year, but it is certainly to be hoped that they are not so bad as for last year, which showed an overall loss of ₱1,-409,000. And if it were not for the control being exercised over the transfer of profits and dividends abroad, the loss would no doubt have been greater.

With this fact in mind, take the statement, recently published in the *New York Times* (November 2), that American private investment in less-developed foreign countries "will probably set a new record this year and amounted to almost $1,000,000,000 in the 18 months ended last June 30."

The subsequent statement of the *Times* is even more biting to a reader in the Philippines:

"This is obviously good news. The volume of private capital investment abroad is clearly one of our most sensitive indices regarding the confidence of Americans in the stability and good faith of countries in which such investment is made. The recent increase in this investment is therefore an important affirmation of confidence, made possible in large part by the actions of various under-developed countries in improving their domestic climates so that foreign investors feel welcome and have greater assurance about the security of their investments... Many under-developed countries do realize the importance of encouraging private foreign investment and are receiving the benefits thereof. Those who have been misled by false propaganda that such investment means 'enslavement' and 'loss of national sovereignty' are, in the last analysis, the chief losers from their own illusions."

If there should still be those among us who recognize the general facts in the situation, but are unaware of the underlying causes, we once again refer them to the article by Mr. Parrish, "Deterrents to Foreign Investment", published in the *Journal* just a year ago,—the issue of December, 1951.

To those political and business leaders who are aware of the facts and also of the causes, we would address the question: Isn't it time that we stop the hopeless task of trying to lift ourselves by our own bootstraps? Both internal and external dangers press the Philippines, and it would seem that we have little time at best for the exertion of every possible and sincere effort to strengthen the economy.

The New Philippine Tourist and Travel Association

The Chamber had a communication recently from the Philippine Tourist and Travel Association, Inc., the "National Civic Organization and Official Government Agency for the Promotion of Tourism and Travel in the Philippines," which told of some really constructive measures which have been taken to promote the tourist trade,—and what this can be is suggested by the fact that American tourists spend around $60,000,000 annually in Hawaii, largely because it has been made a pleasant place to visit.