

tions may well develop between the Philippines and Indonesia which are but hazily foreseen at the present time.

A new people's freedom anywhere is a good and blessed thing. Long live the United States of Indonesia and long, also, may the present wise relationship with the Netherlands, once the sovereign power, now an associate and ally, continue.

On behalf of the American Chamber of Commerce of the Philippines, this *Journal* heartily welcomes the delegation from the Seattle Chamber of Commerce which, on a tour of the Far East, will visit Manila for a week this month. The reception to be accorded the party is jointly sponsored by the Philippine, the Chinese, and the American chambers of commerce here.

It will interest our readers to know that the Seattle Chamber of Commerce is 67 years old,—as against our Chamber's 29 years, the Philippine Chamber's 46, and the Chinese Chamber's 41. Still another chamber here, the Manila Chamber of Commerce, now principally British in membership, was formed in 1900.

The Seattle Chamber of Commerce was founded some years before Rudyard Kipling, in the late 80's, traveling for a British publication in India, wrote as follows about Seattle (in his "American Notes"):

"Have I told you anything about Seattle—the town that was burned out a few weeks ago when the insurance men at San Francisco took their losses with a grin? In the ghostly twilight, just as the forest fires were beginning to glare from the unthrifty islands, we struck it—struck it heavily for the wharves had all been burned down, and we tied up where we could, crashing into the rotten foundations of a boat house as a pig roots in high grass. The town, like Tacoma, is built upon a hill. In the heart of the business quarters there was a horrible black smudge, as though a Hand had come down and rubbed the place smooth. I know now what being wiped out means. The smudge seemed to be about a mile long, and its blackness was relieved by tents in which men were doing business with the wreck of the stock they had saved. There were shouts and counter-shouts from the steamer to the temporary wharf, which was laden with shingles for roofing, chairs, trunks, provision boxes, and all the lath and string arrangements out of which a western town is made. This is the way the shouts ran:

"Oh, George! What's the best with you?"

"'Nawthin'. Got the old safe out. She's burned to a crisp. Books all gone.'

"Save anythin'?"

"'Bar'l o' crackers and my wife's bonnet. Goin' to start a store on them though.'

"'Bully for you. Where's that Emporium? I'll drop in.'

"'Corner what used to be Fourth and Main—little brown tent close to a militia picket. Sa-ay! We're under martial law, an' all the saloons are shut down.'

"'Best for you, George. . .'"

The fire Kipling referred to was in 1889 when Seattle was a little-known lumbering town with a population of around 40,000. It was founded in 1852 by a score of settlers and was named after a friendly Indian chief. The city was incorporated in 1869, just after the Civil War, with an area of around 11 square miles and a population of 1000. The first railroad, the Northern Pacific, reached Seattle in 1884. The arrival of the first steamer from the Orient in 1896 marked the beginning of a considerable foreign trade, and the discovery of gold in Alaska and the Yukon Territory the following year changed the city almost overnight into an important commercial center.

Today it is described as the "largest city of its age in the world" and as the "leading commercial, industrial, and financial center of the Pacific Northwest". It is the nearest United States port to the Orient and the nearest large city of the United States to Alaska. The present area is around 80 square miles and the population is close to the 400,000 mark.

In all this progress, the Seattle Chamber of Commerce has played a leading part. And the Chamber has not narrowly confined its interests and activities to Seattle itself. The Chamber maintains an "Alaska Committee" which

instituted a 5-point legislative program for the settlement and development of the Territory of Alaska, securing approval and support for the program from all chambers of commerce of Alaska and of the eleven western states, as well as from many congressmen, senators, and governors. It fought Alaska's battles in securing the Nome Breakwater, the Haines Highway improvement, more adequate ship service, and many other basic projects. Since 1947 the Chamber has also had a "Hawaii Committee" organized for the purpose of trade promotion and the development of closer relations between the Islands and the Pacific Northwest.

Recently the Chamber proposed and helped to establish a Columbia Basin Development Committee composed of members from each State and province (Canadian) within the Columbia drainage basin. This Committee is working with all state and federal agencies concerned for the "early, proper, and full development of the land, water, and other resources of the area".

In addition to such broad measures for regional development, the Chamber aided in the promotion in the year 1947 of some \$78,000,000 of new investment in the city itself.

It is a far cry from the burned-down lumber town of Kipling's description to the rich and beautiful port-city which Seattle has become, and it is broad-minded, far-seeing private enterprise that has made it so.

Perhaps the visit of the Seattle Chamber's delegation to Manila will result in the creation in Seattle of a "Philippine Committee", and perhaps some similar inter-chamber committee could be organized in Manila to work with it.

With the issuance of the Central Bank's Exchange Control Order on December 9,¹ and its causes and effects, a vicious circle has come, or has about come, to full-turn.

The dictionary definition of the term, "vicious circle", is in itself illuminating as applied to the present economic situation of the country:

"A train of circumstances constituting a situation in which the process of solving one difficulty creates a new problem involving increased difficulty in the original situation."

The definition of "vicious circle" used as a medical term is also, metaphorically, applicable:

"A chain of morbid processes in which a primary disorder leads to a second which in turn aggravates the first one."

The Central Bank's Exchange Control Order was issued in an attempt to stop what amounted to a flight of capital from the Philippines, including even Filipino-owned capital, which began many months ago but which was recently augmented as one of the results of (a) the new Import Control Order, effective December 1,² which greatly increases the scope of the control and more than doubles the average percentage cuts up to that time in effect, and (b) of the Central Bank's Selective Credit Control Order of November 17³ which holds down many imports virtually to cash purchases only.

Import control was resorted to in the first place, beginning January 1,⁴ 1949, because of the considerable excess of imports over exports which, despite the large influx of dollars since the war in the form of war-damage payments and other assistance to the Philippines, was threatening an ultimate dollar-shortage.

That imbalance of exports and imports, of course, had its causes, the most obvious being that our export industries were not being developed as rapidly as they should

¹ Circular No. 20.

² Executive Order No. 295.

³ Circular No. 19.

⁴ Executive Order No. 193 (December 28, 1948); amended by Executive Order No. 209 (March 30, 1949); amended by Executive Order No. 231 (June 28, 1949).

have been and *could* have been. This was largely because of the reluctance shown by private foreign capital (under present world circumstances practically exclusively American capital) to enter the country for investment.

↳ This reluctance was due very largely if not entirely to earlier government "controls" imposed on capitalistic enterprise in the form of laws, executive policies, and even court decisions restricting the ownership and development of lands and other natural resources, corporative organization, and employment of labor and of foreign technicians; also to such discriminatory legislation as the so-called "Flag-Law" under which goods may be produced in the Philippines of Philippine raw materials and by Filipino labor, yet be penalized 15% in sales to the Government because the manufacturing company is not Filipino-owned. ↳ Absence of peace and order in extensive areas in the country, and remains another discouraging factor in investment, this continuing state of disorder being largely due to government weakness, due to insufficient revenues, which, in turn, is also due to the retarded economic recovery.

Now we have come full-turn because under the present controls, especially the exchange control, all hope of any substantial influx of new capital must be abandoned and, together with that, all hope of any rapid development of our export industries.

Thus we are back where we started, but the weaker for this worse than futile circle we have traced.

While this editorial was being written, the newspapers carried a statement made in Washington by Philip D. Reed, Chairman of the Board of the General Electric Company, in a USIS dispatch which ran, in part, as follows:

"An increase in U. S. private investments and in the supplying of 'know-how' abroad depends largely upon creation of a 'proper climate' for such activities by the foreign countries concerned, according to a prominent U. S. industrialist...

"Reed asserted that foreign countries must display a 'real desire' for U. S. private capital and technical knowledge, and must also show a willingness 'to give the necessary assurances with respect to *convertibility, non-discrimination, non-expropriation, freedom from double taxation, and so on*'."

"Convertibility", with the Exchange Control Order, has now gone down the drain. The Philippines today can not meet a single one of the requirements mentioned by Mr. Reed. And only the double-taxation requirement is one over which the Philippine Government has no control; that is for the United States Congress to rectify.

Some of the restrictive laws and policies referred to date from before the war, but the nationalistic spirit of those times was greatly intensified after the war as one of the direct results of the terror and misery of the enemy occupation. Understanding this may bring sympathy, but not dollars,—except as gifts; not dollars for investment.

This *Journal* has from the first been outspoken in pointing to the dangerous consequences of excessively nationalistic government policies, and, we say it humbly, without either arrogance or malice, had the law-makers and executive officials of the Government given heed to the information, the criticism, and the counsel published in this *Journal* since the Liberation, then, we firmly believe, we would have escaped the crisis, bordering on catastrophe, in which the country is now involved. We say, without any self-satisfaction whatever, that we have over and over again predicted in these columns that just such a situation as now exists would be brought about by the policies so unwisely pursued and so stubbornly maintained.

THE question remains as to why these policies have been pursued and maintained in the face of approaching disaster, and the answer is that those responsible for them could not be convinced that they were unwise.

Many of our officials evidently believe that economic laws (that is, natural economic tendencies and trends) can

be deflected, blocked, and reversed by political means; that these natural laws can be nullified by act of legislature or executive edict! (King Canute commanding the waves.)

Basic in the whole human economy is the law of supply and demand and its numerous corollaries. As a matter of fact, expressions of that law are easily traced to a beginning in life itself,—in biology and physiology. An animal or plant lives or dies according to whether or not *supply* (food, water, air) meets its physical needs, *demand*. If all the canniest drafters of human laws and ordinances could be brought together, could they, with their phrases and clauses, alter these natural laws, these "iron laws", even in the slightest?

To come to particulars, the Philippine demand is for capital, but, unfortunately, the word *demand* in economics does not mean quite what it means in ordinary language,—that is, to ordain, order, or command. In the field of economics, demand, to an extent, develops supply, but is also limited by it. And, so far in world development, the demand for capital exceeds the supply. Capital enjoys a "sellers' market". A country that wants capital, must please the capitalist. It is not the other way around. It would be very nice to have capitalists come to us, hat in hand, and to have them say, "Here's my capital. Take all you want. Do what you like with it." Alas! it is not that way. But some of our government officials seem to think so!

AND as to government controls, what could ever convince a capitalist, or any businessman, or any human being, for that matter, that a government functionary, or a whole board of them, is as competent as he is to run his business? Multiply that man's opinion to the contrary by the number of all the producers and traders in a country, in all the intricacies of their multifarious affairs, and one obtains some conception of the immense distrust of government control. And as for the consumers, as numerous as the whole number of the population, what one man among them all, sane or even insane, could be convinced that a government official would more wisely and more satisfactorily control the spending of his own hard-earned money than he could manage that himself?

It is true that in this matter of distrust and dislike of government control, we are under a handicap in the Philippines. In those countries where democracy has proceeded through long evolutionary development, there is always a wholesome distrust of government, a fear of too much government and too powerful a government. Checks and balances to the growth of government both in scope and power are determinedly maintained.

In countries like the Philippines, which, after perhaps centuries of "colonial" government now have their own government, the people are disposed to take a great pride in their government and to trust it over-far. The officials of such a government not only share in this national pride, but, furthermore, take a more than ordinary personal pride in their positions and powers, which, often, they are determined to unmistakably establish and exercise to the full, with or without sufficient reason. This psychology leads officials of different departments of the government to seek to out-do each other in the exercise of their powers. And, generally, the only answer of a bureaucracy against protests of abuse of power, is a multiplication of edicts.

It is all somewhat like a man who for the first time becomes owner and driver of an automobile. He quickly adds every obtainable accessory and gadget useful or useless. He busily operates all the levers and pedals, and not a handle or switch or push-button escapes him. He pays very little attention to the manufacturer's book of instructions and starts out, in sheer joy disregarding all traffic regulations and road-warnings. He cuts corners, weaves in and out of the traffic-lanes, makes U-turns, drives at top speed for the most distant objectives, often forgetting that he does not have enough gas and that he failed to get his

battery recharged. Sometimes he overlooks the fact that he has his brakes set. Generally he is ignorant of how far his car will hurl itself before it can be brought to a stop by applying his brakes. If he is lucky he is only arrested a few times and fined. If he is unlucky, he finds himself in jail. If he is unluckier still, others find him smashed in a ditch.

WE will not end on such a calamitous note. Let us have faith in this country and the people. But let us pray.

Let us pray that the Exchange Control,—the most damaging form of control of all, will be lifted as soon as some degree of confidence has been gained through an immediate modification of the unnecessarily severe import control, with such control remaining only over true luxuries and non-essentials (certainly not foodstuffs), and changing from direct control to luxury taxes. Let us pray that unwise land and corporation laws and all other discriminatory legislation will be wiped off the board so as to offer outside capital real opportunity to develop both our export industries and such industries as will efficiently supply many of our local needs.

Let us pray that our financial and economic officials will not persist in attempting to gloss over the situation,—as they are doing, to make it appear other than the catastrophe that it is.

Let us pray that a lesson has been learned through the near-bankruptcy to which this fair land has been brought by wrong-headed policies persisted in until we have reached the very edge of the abyss of national failure.

Our economic and financial control officials have been quoted in the newspapers as asking the public and the

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business community not to be alarmed about the import and the exchange controls inasmuch as there are large stocks on hand of most goods under control,—enough for months and in some cases, they say, for two years(!)—and if any real needs develop, the goods will be allowed to come in; and inasmuch as dollars, too, will always be available to pay for what is allowed to come in.

In view of the continuing trade imbalance,—admittedly bad, this seems superficially sweet and reasonable, but do these good intentions of the control officials meet the situation which is being created and do they offset the basic objections to all government control of trade?

As to the first half of the question, government statistical services are inadequate, and dependable information as to trade details, distribution, turn-over, consumption, etc., is almost wholly lacking. Shortages therefore are very likely to become apparent suddenly and unexpectedly, and it might be months before the need (which in many cases could be dire) could be met, even if it is assumed that the importers looked to had not meanwhile been forced out of business.

Let it be understood that the government controllers are now, today, virtually wrecking our established import set-up.

This relates to the second half of the question. Under normal business conditions, hundreds and thousands of businessmen and business organizations, experienced in their fields and sufficiently capitalized, study the market constantly, and cautiously but adequately keep it supplied, while also slowly building up reserves to meet unforeseen contingencies.

To believe that a number of government officials, no matter how able, or even a large board of genuine government experts, can assume the role of these hundreds and thousands of practical businessmen, pooling as much knowledge and exercising as wise a judgment as all of them together, is to believe the impossible.

The control officials, by the way, evidently mean to have the present reserves of stocks used up, leaving the

people at the mercy of any untoward circumstances which may arise.

MERELY to require the licensing of orders for so many classes of imports, even if it is assumed that a license would nearly always be granted, places businessmen at a serious disadvantage because it forces them to submit their judgment to government functionaries who are bound to be much less experienced in their own fields of enterprise than the businessmen are and because it exposes to others their expert calculations and plans and makes impossible that promptness of action upon which success in competitive private business enterprise depends.

That is all apart from the practical difficulty, indeed the impossibility, of channeling a trade that in the aggregate runs to tens of thousands of transactions involving hundreds of millions of pesos, all through one small government office. Even if such an organization employed numerous section chiefs and thousands of clerks, it would still constitute the worst possible *bottleneck*.

Any such government control straps business in a straight-jacket, hampering every move. It reduced the ablest and most far-sighted business executive to the level of the most mediocre. All alike must "ask permission" and the permission can always and at any time be denied. Real business management becomes impossible. The business manager becomes the errand boy of the government functionary. The technical waste is obvious.

Mere friendly "kibitzing" is intolerable even in only a parlor game. What then is the forcing of government control on the conduct of a man's daily business?

The whole spirit and practice of individual free enterprise is outraged and vitiated by government control. There never could be any such fatal "restraint of trade" as that exercised by government control. It makes business as this is understood in democratic countries absolutely impossible.

With business under government control, the whole people are under control. Freedom and self-determination depart; citizens become subjects; stagnation and retrogression sets in; poverty takes the place of prosperity.

There is totalitarianism, where the State is total and the people count for nothing.

For the recent amendments to Executive Order No. 295, the reader is referred to Executive Order No. 297 which appears on page 32 of this *Journal*. The changes chiefly affect certain foodstuffs and are commented upon by Mr. C. G. Herdman in his column, "Food Products", page 28.

Among other things, the exchange control is causing business executives here worry about their credit standing with export firms in the United States and other countries. One business house received the following letter from one of its suppliers with whom its credit in the past has been practically unlimited:

"... Concerning future shipments, you can well understand that we, as well as practically all exporters to the Philippines, are quite concerned with the new Exchange Control and its repercussions on our future dealings. There is doubt in export circles about the future, and many believe that the trend of Philippine regulations would seem to emphasize letter-of-credit terms because until the present uncertainty is dispelled, few exporters would be likely to consent to draft terms.

"As far as we are concerned, we do not wish to make any decisions until we know more about the new regulations, how they will work out, and how long a delay there will be from the time the customer pays the draft in local currency until dollar remittance is authorized by the Central Bank. We would also like to know how quotas are to be assigned and whether there will be priorities in accordance with the type of merchandise.

"We are somewhat upset by the Exchange Control, which we fear is bound to curtail our sales in that market after the fine work you have been doing to improve our volume of sales, which has steadily increased during the last several months. . .

"We are quite certain that there will not be any delays on the part of the . . . [deleted] . . . Company in paying our drafts in local currency, but the question is how long the Central Bank would take