Commissioner McNutt's Case for Philippines

High Commissioner Paul V. McNutt's message to the National Foreign Trade Council (printed below, in full) has been excellently received here and is likely to be widely distributed in America.

I am happy to send a brief message to the National Foreign Trade Conference. That this message shall have to do with the Philippine Islands goes without saying. First, it is my work; second, it isn't a trite subject —Americans know too little about these Islands; and, in the third place, I wish to qualify some misconceptions concerning American-Philippine trade—misconceptions which have been widely accepted in spite of their inaccuracies.

Men have looked at the gross statistics of American-Philippine trade, for example for the year 1937, and have said, "$126,057,000 worth of goods imported from the Philippines (exclusive of gold); sales to the Philippines of $85,028,000—ergo $41,029,000 lost."

I have had many, even trade experts, tell me that this situation is a calamity. That the United States would gain if it ceased trading with the Philippines altogether. It seems to me that such persons mistake arithmetic for economics. While the United States has long been able to report a favorable balance in her overseas trade with all nations, there never has been a year when the trade with certain countries did not result in a negative balance. United States trade figures for 1937 show: Balance with Brazil, negative in amount of $52,000,000 or 28 per cent of total trade—reason, coffee; Balance with Chile, negative $22,000,000 or 31 per cent of total trade—reason, nitrates; Balance with Cuba, negative $56,000,000 or 23 per cent of total trade—reason, sugar. Coming to this part of the world: Balance with British India, negative $60,000,000 or 40 per cent of total trade; Balance with the British East Indies (Malaya) negative 226,000,000 or 92 per cent of total trade—reason, rubber and tin; Balance with the Dutch East Indies, negative $90,000,000 or 64 per cent of total trade—reason, vegetable oil and rubber; Balance with our own East Indies, the Philippines, negative $41,000,000, or 19 per cent of total trade--reason, vegetable oils and sugar. Thus it seems that the critics of negative balances might find a dozen examples more "horrible" than the Philippines. Follow the theory of these critics, stop trading wherever we have repeated negative balances and what will have been accomplished? This much we do know would happen: not a few American factories would shut down for want of raw materials; not a few workmen would join the relief rolls for want of employment; we would do without tea, or coffee; we would use iron tires on our automobiles; we would cut down on the use of soap and sugar.

In a country whose trade is so great and so dispersed as that of the United States, negative balances with some countries are as normal as favorable balances with other countries.

Then there is another school of theorists that looks at free trade between the United States and the Philippines from the viewpoint of the amounts of tariffs not collected on each side. They point out that if Philippine goods paid full tariffs in the United States the sum would be very much greater than if United States goods paid full tariffs in the Philippines. They seldom mention that their calculations of the amount not paid by Philippine goods is based on the super-rates of the Hawley-Smoot Tariff of 1930 and that the amount not paid by United States goods is based on the moderate rates of the Philippine Tariff enacted for the Philippines by Congress in 1909 and not generally revised since that time. Now, it is apparent that a mere legislative enactment revising the Philippine tariff far enough upward could, without changing trade trends and values, result in the Philippines foregoing more revenue on United States goods than the United States on Philippine goods. I certainly would not attempt to defend the Hawley-Smoot Tariff—its rates were far too high for the good of American trade. Nor have I any attachment to the Philippine Tariff—its rates are too low to afford United States goods due protection in this market and it can be changed by action of Congress when and if Congress so desires. I merely wish to show the fallacy in the arguments of some of our trade theorists.

But let us return to United States-Philippine trade in 1937, and, using the figures of the United States department of commerce subject it to a more discriminating study.

First from the $126,057,000 of purchases there should be subtracted $7,620,000, the value of Manila hemp imported from the Philippines. This is on the United States free list and has never received any preference or protection in the United States market. It is needed by American producers of rope. There are other minor free-list items which for the present may be disregarded. Eliminating Manila hemp, the United States purchases are reduced to $118,437,000 and the sales remaining at their same figure, the balance favorable to the Philippines is reduced to $33,409,000.

Now let us consider the exchange of certain specific commodities under the existing free-trade provisions between the United States and the Philippines as these are shown in the statistics for 1937:

Of tobacco products the United States purchased $3,418,000 worth from the Philippines, mostly cigars, but sold to the Philippines $5,615,000 of tobacco, mostly cigarettes.

The United States purchased $679,000 worth of hemp yarn, twine and cordage from the Philippines, but sold to the Philippines $792,000 worth of cotton thread, twine and cordage.

The United States purchased from the Philippines $1,669,000 worth of wood products, but on the other hand sold to the Philippines $3,101,000 worth of wood and paper products.

The United States purchased from the Philippines $35,438,000 worth of coconut oil and copra of which approximately a third, or $11,813,000 worth, went into the manufacture of margarine and other edible products said to be in competition with the American farmers' animal fats and cottonseed oil. Against this may be set sales to the Philippines of American farm products to the amount of $11,942,000 worth of animal and vegetable products other than tobacco and rubber goods—principally meat, milk, wheat flour, fresh and preserved vegetables, fruits and nuts, and leather goods. In this connection it should be noted that in 1937 the United States imported from countries other than the Philippines $30,000,000 worth of edible oils including nearly $12,000,000 worth of cottonseed oil.

Two thirds of the coconut oil and copra which the United States purchased from the Philippines, or $23,625,000 worth, went into the manufacture of non-edible industrial products, principally soap. Against this amount may be placed $25,076,000 representing the value of United States sales to the Philippines of mineral oils, chemical products and textile products, principally cotton goods. Concerning this exchange, it is interesting that in 1937 the United States imported from countries other than the Philippines over $61,000,000 worth of industrial vegetable oils not including essential oils.

The United States purchased from the Philippines $18,035,000 worth of all other commodities except sugar, against which may be balanced sales to the Philippines of $19,095,000 worth of machinery and vehicles including automobiles, typewriters, sewing machines, radios, etc.

There is left of United States purchases the $59,198,000 worth of sugar. This may be partly offset by charging against it the gains in trade in the foregoing commodity exchanges amounting to $6,382,000 plus sales of iron and steel goods, hardware and rubber goods totalling $19,407,000.

Thus it may be reasonably said that United States-Philippine trade in 1937 was offsetting or reciprocal, except for $33,409,000 worth of sugar.

Is this sugar in competition with United States cane and beet sugar? The annual sugar consumption in the United States is about 7,000,000 short tons. About 4,000,000 short tons are produced on the mainland, in Hawaii, Puerto Rico, and the Virgin Islands combined. The deficit of 3,000,000 short tons is made up by importing slightly over 2,000,000 tons from Cuba, about 970,000 tons from the Philippines, and the balance from foreign countries other than Cuba. One is forced to conclude that up to the present time Philippine sugar has not replaced mainland sugar. I feel certain that if, in the future, Philippine sugar should come into direct competition with mainland sugar, the Philippines would be willing to share with Cuba and foreign countries appropriate reductions in their quota.

I am not arguing for letting down the bars. I realize that Philippine sugar, coconut oil and cordage, under the careless statesmanship of the Twenties increased with such alarming rapidity that they threatened to come into unsupportable competition with homeside productions. But since 1934 the situation has been rationalized both by duty-free limits and fixed quotas. With the experience of the past, good statesmanship on both sides will prevent the recurrence of the threat of harmful competition.

There are characteristics of trading in the Philippines which in these times should interest every farmer and manufacturer of the United States. The Philippines is a peaceful place, with a currency backed one hundred per cent by dollar reserves. There are no blocked pesos, there are no restrictions on the purchase and sale of exchange, there are no quotas against incoming goods.

In conclusion, if we accept the only common sense interpretation of trade between two countries, "purchasing what you need but have not, and selling what you have but do not need," the trade between the United States and the Philippines as it has developed under the free-trade provisions can be shown to be wholly normal and mutually advantageous. In this day, when the United States seeks a market for surplus goods, this trade should be maintained. It can be maintained through appropriate legislative action.

With best wishes for a most successful meeting, I am

Cordially yours,
Paul V. McNutt.

REAL ESTATE

By P. D. Carman
BOULEVARD HEIGHTS

This is the largest total for October on record and, with the exception of May 1937, the maximum for any month. An exceptionally large sale in Santa Mesa had much effect on this record business but, even without it, the October total would have exceeded that of any similar month with the single exception of October 1936. January to November totals for the past five years were as follows:

1934	₱11,225,746
1935	13,593,685
1936	15,449,039
1937	20,510,579
1938	17,008,758

Sales City of Manila 1938

	September	October
Sta. Cruz	₱ 217,921	₱ 385,178
Sampaloc	139,453	183,392
Tondo	175,146	295,504

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