

preference over those that must of necessity, on account of their nature, take a long time to produce tangible returns.

THUS, our most serious concern for the next four years should be: immediate increased production through rapid rehabilitation and development; decreased public and external expenditures; Government reorganization to achieve efficiency, economy and effective rendition of public service responsive to the needs and welfare of our

people; vigorous and honest enforcement of the tax laws; preservation of our national integrity and continued friendly relations with our neighbors and the entire world.

Let us exert every effort and employ every ounce of our energy to implement these high objectives. Let us pool the enthusiasm, the labors, and the patriotism of a united people and honestly pull together for the promotion of the common good to make secure, for all time, our national structure.

## The Exchange Control\*

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I WELCOME this opportunity to discuss with you the circumstances which forced the Government to the reluctant conclusion that exchange controls—disagreeable to the Government and business alike—must be imposed, and to tell you in a general way the principles in accordance with which we hope to administer these controls.

At the outset, I should like to make clear that exchange controls were not imposed by the Philippine Government because of any misgivings as to the fundamental soundness of our economic position. On the contrary, it is my firm belief that our economic situation is basically strong. We have products which we can easily and profitably sell in the dollar markets of the world. Philippine exports have not faced the competitive disadvantages which forced the nations of Western Europe and other countries to devalue their currencies. An intensification of our productive efforts can result in greatly increased dollar exports. Moreover, our foreign exchange reserves are proportionately higher than those of almost any other country in the world. The Philippines in reality occupy a particularly favored economic position in the world today.

It is unfortunate, however, that we have been abusing our privileges and undermining our prospects for future prosperity. We have been importing luxury and non-essential commodities in such quantities as to dissipate unwisely a part of the foreign exchange reserves which are the basis of the stability of our international economic position. The Government, acting in the interest of the future well-being of every segment of the population, including foreign business located here, obviously could not permit this situation to continue unchecked.

I am sure that as intelligent, far-seeing businessmen, you will realize that the imposition of exchange controls in the Philippines was an act of prudence and common sense. You should realize that if the foreign exchange reserves of the Philippines were to be dissipated by reckless expenditure for non-essentials and by unreasonable export of capital, the stability of the currency would be undermined and the conditions for carrying on profitable business would be destroyed.

I cannot, of course, give you an exact blueprint of the detailed application of exchange controls to all individual cases. That can only be determined by practical experience and continuous study. I am sure that you appreciate the serious practical problems involved in setting up and administering any system of exchange controls, and that you realize the administrative difficulties which will be encountered at the outset. I can promise you, however, that we are working unremittently to develop a control system which will be as simple, uncomplicated, and as practical as possible.

With regard to the effect of exchange controls on foreign capital invested in the Philippines, I wish to state that it continues to be the firm policy of the Philippine Government to encourage the development of the country by private business interests, whether they be domestic or foreign. The Government appreciates the constructive efforts in this regard which have heretofore been made by private foreign investors. It will continue to welcome foreign capital concerned with the sound development of Philippine resources. And everything possible will be done to create conditions under which foreign capital may profitably operate in this country.

Under the present exchange control regulations, remittances of scheduled amortizations and interest on foreign loans, of dividends due to stockholders of Philippine corporations residing abroad, and of profits of foreign enterprises operating in this country are allowed. A plan to allow the withdrawal of foreign capital along the lines followed in some other countries is under study.

In this connection, I cannot but view with deep concern the attitude of the American Chamber of Commerce *Journal* on our control measures. It is not only placing the Philippines in a very poor light abroad but it is actually making it difficult for the Government to place the nation's economy on a sound basis. I consider unfair the editorial

which appeared in the American Chamber of Commerce *Journal* for January which takes the view that because the Government has been constrained to institute these controls, we are adopting nationalistic policies that will keep foreign capital away from this country. If the Philippine Government, as alleged by the *Journal*, is remiss in creating a favorable climate for foreign investments in the Philippines, with more reason can it be said that the American Chamber of Commerce *Journal* is responsible for creating abroad an unfavorable climate for such investments here.

The editorial in question complains that "many of our officials evidently believe that economic laws... can be deflected, blocked, and reversed by political means, that these natural laws can be nullified by act of legislative or executive edict." This reminds us of Adam Smith, who contended that the dabbling of legislators in the problems of business did more harm than good. The writer of the editorial either forgets or refuses to be reconciled to the fact that events of the last thirty years have called these assumptions into question. Recurring depressions and the continuing paradox of poverty in the midst of plenty are evidence that economic activity cannot regulate itself, that there is no automatic force organizing and directing business interests for the common good. Governments the world over of necessity found themselves constrained to intervene in the economic life of their people. The social and economic planning of the United Kingdom and the American "New Deal" are concrete examples of intervention in the economic life of the people.

The policy of "no control" which the American Chamber of Commerce would want the Government to follow is not only unsound but is the very thing which has been hampering our efforts to secure a foreign loan. While, on the one hand, the World Bank and the Government authorities in Washington are blaming the Philippine Government for not effectively controlling the "misuse" in luxury and non-essential imports of the large amount of dollar windfall which the Philippines has been receiving in the form of war-damage payments, United States Army and Government expenditures, etc., the American Chamber of Commerce *Journal* considers that "with the issuance of the Central Bank's exchange control order on December 9, and its causes and effects, a vicious circle has come, or has about to come, to full turn." This puts the Government between the Scylla of omission and the Charybdis of commission.

I cannot believe that the editorial of the American Chamber of Commerce *Journal* represents the collective opinion of the American business community in this country. I know that the Washington authorities are not unsympathetic to the needs which prompted the adoption of these control measures. While we are fully aware of their short-run effects on American business, we hope that American businessmen will likewise appreciate our concern for maintaining economic stability.

The Government wishes to do everything in its power to meet the legitimate foreign exchange requirements of the country. Government cooperation in meeting foreign exchange needs of business can properly be asked by business, and the Government will make every reasonable effort to meet such needs. Although the present exchange controls in this country are more liberal than those existing in other countries, I hope that circumstances will permit a still more liberal licensing policy to be followed, but business in its own self-interest must exercise restraint.

I am confident that wholehearted cooperation between the Government and businessmen will make it possible to administer the exchange control in a fair and equitable manner. These measures are designed to safeguard the future well-being of all of us. It is for our common interest to have them succeed.

At the moment, it may appear to require an undue amount of belittling from all of us. However, these temporary sacrifices on our part will, I am certain, be more than fully compensated by the achievement of a more stable economy which will pave the way to a rising level of production, employment and real income.

\*Address delivered before the Manila Rotary Club, January 27.