Recommendations *re* the Controls*

By Ramon J. Araneta

WHEN the Bell Trade Agreement was being discussed in the Philippines, my brothers and I, but especially my brother, Salvador, campaigned vigorously against it. Many of you who were members of this Club then will remember that he spoke on one occasion against the Bell Act, not because he was anti-American, but because he maintained that a free trade agreement with the United States would make it impossible for us to industrialize. Our leaders, on the other hand, stated that as soon as we granted parity, American capital would flow in to industrialize this country, and a great period of bonanza would follow.

Three and a half years have passed since then, but we have failed to see that promised inflow of capital into the Philippines; we have failed to see new industries established, and as a last resort have had to impose import and exchange controls to conserve our dwindling reserve of precious American dollars.

My brother, Salvador, did not have to be a prophet when he said that free trade with the United States would keep us from industrialization. Our forty-odd years under American rule, marked by the enjoyment of free trade relations, had proved that under those conditions we could not industrialize this country. The history of the expansion of American industry into foreign countries shows that American capital showed interest in establishing industries in foreign countries only after those countries had placed prohibitive barriers against American manufactured goods. When Canada imposed prohibitive duties on American automobiles, Mr. Henry Ford made a statement that he preferred to lose the Canadian market rather than establish a Ford factory in Canada. It did not take that great industrialist long to change his mind, and for many years now, Ford factories have been doing a flourishing business in Canada. And again, it was only after the Mexican Government had confiscated oil fields and placed prohibitive barriers on American products that American capital started investing in industries in Mexico.

After the Bell Act had been approved, the United States, in trying to help us solve our economic problems sent a commission to the Philippines, in order to study jointly with a commission of Filipinos, our economic problems. The American delegates soon realized that with the free trade agreement with the United States, we would not industrialize this country and that the only salvation would be the imposition of import controls. In the year 1949, by an act of Congress, the President of the Philippines was authorized to impose import controls. In October of 1949, Governor Cuaderno warned the Cabinet that controls, as then in force, had not achieved their objectives since they had neither cut our total importation nor helped the industrialization of this country. Due to the fact that our dollar reserves were diminishing at an alarming rate, the Government saw fit to adopt the following measures: on November 17, 1949, it adopted the Selective Credit Control; on December 3, 1949, it issued rules and regulations on the control of imports of non-essential and luxury articles; on December 9, 1949, Circular No. 20 of the Central Bank was issued, dealing with restrictions in gold and foreign exchange transactions.

IF I have made these preliminary remarks, it was to point out to you that I am not against import and exchange controls, but on the contrary, I am very much in favor of them. If I proposed the establishment of a Committee on Import and Exchange Controls in Rotary, it is not with the purpose of bucking them, but it is with the purpose of offering to the officials concerned the help of members of Rotary in trying to solve the Government's many problems in connection with controls. Businessmen have proved many a time that they are willing to help the Government. It was the Board of Directors of the Chamber of Commerce of the Philippines, the majority of whom were Rotarians, who suggested to members of Congress that part of the sales tax should be collected on the entry of goods into the Philippines, in order to counteract, in part, the rampant evasion of sales taxes. It was another Rotarian — Dinny Gunn — who suggested to the Import Control Committee that before approving import quotas, the Committee should satisfy itself that merchants soliciting quotas had paid taxes in the past year commensurate with the amounts of goods imported and sold by them. These are only a few proofs that businessmen, and especially Rotarians, who are imbued with the spirit of service to the community, are always willing to help the Government in solving the problems facing it. I have been encouraged to make this offer because Secretary Pedrosa, in appointing prominent business and professional men outside the Government to study ways and means to minimize tax evasion, has shown that he realizes that men outside the Government can help materially in solving these problems. Secretary Pedrosa is to be congratulated for taking the initiative.

When a Government agency has to deal with business, it should try to be businesslike and expedite matters in the manner to which businessmen are accustomed. I have been to the Import Control Office several times, and, frankly speaking, it is a mess. While there were about 40 employees in that office last year, when only a few items were under control, we find that now there are less men employed today due to the many dismissals of employees for supposed irregularities that have been committed by them. Papers are piling up in this office with nobody to attend to them. I have submitted all pertinent papers to have the quota of our company for 1950 determined, but up to now, I have been informed that nobody has yet been assigned in that office to compute quotas. The piers are piling up with merchandise and perishables are rotting. We do not conserve our dollar reserves by allowing merchandise to rot or be pilfered at the piers. The Government itself is bound to suffer tremendous losses in both sales and income taxes due to great losses merchants are now suffering as a result of the great delay in getting merchandise from the piers.

A few days ago, the Import Control Office issued a statement that it had made arrangements to use additional bodegas in the pier area. Frankly speaking, businessmen are not interested in keeping their merchandise in these warehouses. They are interested in getting quick delivery of their goods. They can not stand additional expenses. With the prospect of diminishing business as the result of Import Control, with the burden of import license fees, they can not afford to have to pay extra storage fees because they can not take delivery of merchandise through no fault of theirs.

One of the main objects of Import Control is to industrialize this country. Many businessmen, after recovering from the shock they had received from the new Import Control regulations, started studying the new situation confronting them, and realized that in order to continue business, they would have to start thinking of producing locally, rather than importing some of articles they have been dealing in. Just among members of Rotary, in my casual conversations with some of them, I have been informed that many are contemplating to start new industries here in the Philippines. Jack Horton, of Philippine Electronic Industries, has announced through the newspapers that his company is considering putting up a plant for the assembly of radios in the Philippines. Aleco Adamson informed me that he is drawing up plans for the erection of a battery plant. Peg Green of E. R. Squibb & Sons International Corporation, also informed me that his company is proceeding with plans of bringing in penicillin and streptomycin in bulk and putting them in small vials in the Philippines, as well as producing some ethical pharmaceuticals. H. E. Heacock Company, headed by Dinny Gunn, is contemplating the assembly of radios, refrigerators, and watches. Philippine American Drug Company, headed by Charlie Holmes, has made arrangements for the manufacture of quite a few well-known brands of American patent medicines. These are but a few of the companies that are contemplating going into manufacturing in these Islands, if given proper encouragement. The new regulation of the Central Bank, allowing only the importation of 6% per month of the total importation of last year on uncontrolled items is disturbing many of the plans for industrialization.

If imports of raw materials are to be cut by 28% of the importations of last year, how will it be possible for local industries to expand? How will it be possible to substitute imported finished goods with locally manufactured goods, if the importation of the raw materials needed for these locally manufactured goods is curtailed? How is it possible in this manner to establish new industries? I only hope that this new provision in the rules of the Central Bank has been misinterpreted, but in order to dispel any doubts about this matter, we shall ask Governor Cuaderno later to explain to us how this new provision works out.

It is an accepted fact that local capital is very shy of investing in new and untried industries. In order to encourage local capital to invest in industries, the Government must offer plenty of encouragement. Due to the fact that local capital is limited, we shall have to invite foreign capital. In order to induce foreign capital to invest in industries here, we must assure it that we shall allow the withdrawal from these Islands of its profits. Restrictions on the remittance of dividends of local companies to stockholders outside the Islands will most surely discourage investment in industries in the future. Because of this, the Central Bank should study this matter very carefully and be more liberal in allowing withdrawal of dividends from the Islands. I do not believe that we should penalize foreigners who have shown faith in this

*Address before the Manila Rotary Club, January 27.

country by investing in business or industries. In accordance with the provisions of the Bell Act, we could not have imposed Exchange Controls without the consent of the President of the United States. In this matter again the United States has demonstrated its altruistic principles and as a sign of gratitude we should make good use of this privilege granted us, but we should not and must not abuse it.

This is getting to be a very long introductory address, but before concluding, I would like to make a few suggestions to the authorities concerned.

First with regard to Import Controls:

1. The Import Control Office should set up machinery to expedite the issuance of licenses without unnecessary delay. In this respect, it should study the advisability of using statistical accounting machines, such as those of the International Business System, to facilitate its work. A sub-committee of the Import and Exchange Controls Committee of Rotary has been created to study a system for the Import Control Office and the members of this committee are willing to give their time to help the Government establish an efficient Import Control Office. I have also been informed that the Philippine Institute of Accountants has offered its help, and I, for one, believe that this offer should be accepted.

2. In view of the tremendous accumulation of merchandise at the piers at present, it is probably preferable to authorize the delivery of this merchandise without prejudice to charging merchandise shipped after December 1, 1949, from the United States, or other ports of origin, against 1950 quotas. Most of this merchandise concerned has been paid for and dollars to pay for it have already gone out of the country, and it is better to expedite delivery of merchandise to avoid further losses in deterioration and pilferage.

3. In cases of irregularities that have been committed with regard to 1949 quotas, any excesses should be charged to 1950 quotas if it can be proved that these quotas were not obtained through fraud. Otherwise criminal prosecution should be instituted at once. But irregularities committed on account of last year's quotas should not constitute sufficient reason for holding up the delivery of merchandise belonging to honest merchants.

4. It has also been suggested that once quotas are determined, a list of the merchants and their respective quotas should be published in the local newspapers, with the idea of serving as a deterrent to granting quotas to those who are not entitled to them.

Now with regard to Exchange Control:

1. With the present provisions of Exchange Control, I believe that the provisions of Selective Credit Control, whereby merchants are obliged to deposit in the banks 80% of the letters of credit opened for their account, should be abolished. The Exchange Controls already take care of regulating withdrawals of dollars from the Philippines, and this regulation of requiring 80% deposit of letters of credit only serves as an additional burden on business. The ones who suffer most are those with limited capital and in proportion, those falling in this category are Filipino businessmen.

2. With reference to quotas under control it should be so arranged that once a merchant has been given a quota, he should be assured that the Central Bank will grant him enough exchange to pay for his importations within this quota. Merchants ought not to be made to have to go through all the trouble of securing their import quotas and then find out that they have to go through similar or more trouble to secure the necessary exchange quotas.

3. With quotas of many luxury goods reduced to 5, 10, and 20% of the importations of 1948, it will not pay merchants to bring in these limited amounts of products. They should, however, be allowed to accumulate these small amounts to be charged against quotas of other items which they have imported during the years 1948 and 1949. It will be a losing proposition for merchants to carry very small stocks of some items, but if these quotas could be accumulated for the importation of other items, it is possible that this could reduce the necessity of dismissing part of their sales force and personnel. The acute labor problem which import control will naturally cause in the beginning should be diminished as much as possible by allowing merchants to import within their total quotas, products on which they believe they can make a profit.

4. The provisions allowing merchants to import only 6% per month of the total importation of uncontrolled items for the year 1949 should be studied very carefully. Cutting our importation of essential goods which cannot be produced locally will create a black market for these products. Immediately after the imposition of import controls on luxuries and other non-essentials, even necessities and uncontrolled items increased in price to the detriment of the public in general and the laboring classes in particular. Cutting the importation of these essential commodities would still increase prices, which would redound to great suffering on the part of the public. In the main body of my speech, I have already discussed the effects of these regulations with reference to raw materials required for the manufacture of goods in the Philippines.

5. I again wish to emphasize the necessity of being a little liberal with regard to remittances to investors outside the Philippines of dividends derived from business and industry in the Philippines. Unless investors are guaranteed this right, it will be extremely difficult to induce foreign capital to invest in Philippine industries. Other nations, in order to invite foreign capital have made it very attractive for them to do so by granting them tax exemption for an initial period. Mexico, while imposing import control, has no exchange controls; hence, investors are free to take out any profits derived from their business or industries when they see fit to do so.

Before concluding, I wish to state that everything should be done so that the Government and Business may be able to work together for the solution of this problem. Nothing could be more disastrous than having Government and Business working at cross purposes. The success of the Import and Exchange Controls will depend to a large extent upon the wholehearted cooperation which the authorities will receive from the business community. That cooperation will in turn be affected by whether the community is expected to cooperate blindly or cooperate intelligently and knowingly with the various requirements.

Obviously greater cooperation can be secured from an enlightened business community; a business community called into frequent, frank, and objective consultative meetings by government officials and agencies; a business community whose views and recommendations will be given a fair hearing by the authorities whose duty it is to promulgate the rules and regulations of these controls; a business community working hand in hand with the Government in the establishment of an economically stable Philippines.

For only when such a relationship between Private Enterprise and Government, based on mutual trust and confidence, is achieved, can we hope to achieve success.

Let us pray that God will that it be so!

"When you boil it all down, however, and try to eliminate mythology from the discussion, the principal argument for restoring the circulation of gold coin in this country (the United States) seems to be distrust of the money manager and of the fiscal policies of the government. The impelling desire is for something automatic and impersonal which will curb government spending and throw the money managers out of the temple, as were the money changers before them. To overcome the inherent weakness of human beings confronted with the necessity of making hard decisions, the gold coin standard is offered as an impersonal and automatic solution. Through this mechanism *the public is to regain control over government spending and bank credit expansion.* It is claimed that whenever the public sensed dangerous developments, the reaction of many individuals would be to demand gold in exchange for their currency or bank deposits. With the monetary reserve being depleted this way, the government would be restrained from deficit financing through drawing upon new bank credit; banks would become reluctant to expand credit to their customers because of the drain on their reserves; and the Federal Reserve system would be given a signal to exert a restraining influence upon the money supply. In this way, Congress, the Treasury, and the Federal Reserve system would be forced by indirection to accept policies which they would not otherwise adopt. In effect, under a gold standard, therefore, the initiative for over-all monetary control would, through the device of free public withdrawal of gold from the monetary reserve, be lodged in the instinctive or speculative reactions of the people."—Allan Sproul, *President of the Federal Reserve Bank of New York.*