Taxation of Distressed Crops

Commonwealth Cash Crops (Exports) Compared at Five-Year Periods

COMMONWEALTH CASH CROPS (EXPORTS) COMPARED AT FIVE-YEAR PERIODS

Period	Compro and Coco Oil	SUGAR	Manila Hemp	TOBACCO
	Pesos	Pesos	Pesos	Pesos
1909	15,345,730	11,216,574	33,792,000	6,640,008
1914	15,960,540	22,119,186	38,389,630	8,355,064
1919	82,558,880	30,415,701	53,703,052	31,390,084
1924	68,325,826	83,736,173	59,900,916	19,725,718
1929	89,501,524	106,488,298	56,841,100	17,579,888
1934	20,799,991	130,909,161	17,323,136	10,387,532

The table above brings out the distressed crops of the Commonwealth, Manila hemp, copra, and tobacco—hemp and copra mainly grown south of Manila and tobacco mainly grown on the Isabela-Cagayan valley far in the northern part of Luzon. From a high value of ₱89,501,524 in 1929 at the end of the next five years copra (including coconut oil exports) dropped to a total of ₱20,799,991 or more than 75%. From a high value of ₱56,841,100 in 1929, with 1924 a little higher, Manila hemp dropped in 1934 to the sum of ₱17,323,136 only, or nearly 75%. From a high value of ₱31,390,084 in 1919, fifteen years later, in 1934, tobacco and tobacco manufactures including exported cigars dropped to the total value of only ₱10.387,532.

The current position of all these cash crops will be noted by the reader in the commodity reviews at the back of this magazine. Always in the instance of sugar, deduct some 35% for proceeds from the crop that remain abroad. The current reviews will show that hemp, copra, and tobacco are still distressed and that they therefore comprise the major marketing problem the Commonwealth confronts. But though hemp, for example, is abundant and low-priced, the Commonwealth's practical monopoly of its production is envied and nothing is left undone that might tend to destroy it.

The Commonwealth's Fiber Inspection Service lists eighteen locales of Manila hemp in the archipelago.

Albay is credited with 143,344 bales last year, Camarines Sur with 60,429, Camarines Norte with 8,914, Sorsogon with 113,282, Catanduanes with 60,199. This is the total for the Bicol region, southeastern Luzon, 386,178 bales most of which pertained to a subsistence economy among the peasants although there are some large hemp holdings here.

Leyte grew 218,815 bales last year, Samar 71,821, North Mindanao 103,241, Mindoro 7,591, Marinduque 785, Bohol 59, Capiz 3,835, Cebu 2,890, Iloilo 942, Oriental Negros 6,774, Romblon 203. This Bisayas total is 416,656 bales attributable with general accuracy to a subsistence economy among poor and small holders of land and sharecroppers.

Jolo's production of 23,279 bales falls in the same category.

South Mindanao is left, with 461,210 bales chiefly from Davao but increasingly from Cotabato because of new roads and recent homesteading as well as the maturity of a few plantations with general stores as market centers. Japanese grow the major portion of South Mindanao's hemp, by no means all—perhaps a total of 300,000 bales in a grand total as stated above.

The United States has for thirty years tried to transplant Manila hemp to the Canal Zone and make it yield commercially in that soil and climate. It was perhaps ten years ago that the Dutch got plantations going in Sumatra, where secrecy surrounds the enterprise. A British syndicate now bids for capital to cross Commonwealth hemp with wild varieties discovered in a certain fertile region of Jahore, the syndicate alleging: (1) That Japanese produce most of the Commonwealth output, comprising a monopoly; (2) that the Admiralty complains about the *empire* substitute fibers it has been obliged to utilize in marine cordage and says nothing but Manila hemp will fill requirements; and (3) that Manila hemp is badly prepared in the Commonwealth for use in cordage, and *too high priced.*

The syndicate proposes to grow hemp in Jahore with coolie labor.

Then there are the new Borneo plantations, that in our judgment are quite likely to turn the trick and afford both Britain and Holland good sources of Manila hemp outside the Commonwealth at coolie-labor prices in a time comparatively brief.

Now there is not a consumer of Manila hemp, outside the small cordage factories here, who is not unceasingly concerned to discover new sources for the fiber or to establish such sources. This is entirely natural. They utilize Manila hemp together with some softer fiber inferior in tensile strength, and naturally, they play off one fiber against the other; cheap hemp bears sisal, cheap sisal bears hemp, and so with maguey and henequin. It takes no extensive exposition of the fundamentals in the market, to demonstrate the avidity with which all buyers fasten upon possible new sources of Manila Hemp regardless of the low prices the fiber may actually command. It is an essential raw product in all prime cordage, and therefore is never bought cheap enough to suit the buyers. But the main point is, it is always an effective club over softer fibers—all quite as effective in their turn in the hemp market.

With the buyers, legitimately using both Manila hemp and the softer fibers, and even hemp for binding twine in harvesting machines if it is cheap enough, it is always a game of both ends against the middle. Major production of the softer fibers such as sisal centers in Yucatan and neighboring Central American states, while Manila hemp is here, so the factor of sheer distance is decisive against any possible collusion between sisal and hemp affecting the American market. Japan relies heavily, ordinarily, on Manila hemp, but she too experiments with softer fibers while Holland and Britain derive supplies from colonial sources.

Ersatz keeps Germany from being a very great buyer of Manila hemp while reconstructing her marine and naval power, she goes in for substitutes. But no doubt, she, like Italy, finds the cellulose in Manila hemp handy for powerful explosives (*Ken*, current issue, July); and both Italy and Germany leading the category of the have-nots are interested in cheap hemp, the very cheapest possible. We will soon show how the Commonwealth can produce this cheap hemp, after a fashion, but meantime we would take up one more marketing point.

The cordage industry is the main customer for Manila hemp, more for rope and cables than for binder twines. Britain and the continent like to do a good deal of the processing of the fiber themselves, employing a good deal of labor in so doing, so they go in for the lower coarser grades, J-2 and below. Japan, who in recent years bought nearly half the output, goes in for all grades, even the tow, the bulk of her buying being the American grades above J-2 because her merchants in the industry sell in all markets and have reached the rank of leading Manila exporters. Cordage factories buy fiber in large quantities, large shipments at

(*Please turn to page* 15)

ing distressed crops could be very lightly borne. The better repute this would give sugar with the whole public of the Commonwealth together with the eloquence it would give its case in the United States is all worth careful consideration—aside from the imperative relief the distressed crops require.

The theme of this paper is unbiased. It is simply that taxation of exports is economically unsound unless the exports in question have an assured and favored market and are easily sold at material profit. In this theme, sugar, in the Commonwealth, is the export that is the exception to the rule. If therefore you can by any means strike a bargain with Congress, make the logical and feasible adjustment of your export levies. Even so, you will be but making up for past indulgence.

Taxation of . . .

(*continued from page 9*)

a time, according to the market, and there is a great deal of market hedging in the game—a game entirely fascinating for the man whose natural bent it suits.

It is the buying in bulk that makes the ad valorem of 1-½% on Manila hemp exports a vital factor often standing in the way of sales. Bear in mind that big buyers for cordage interests are in constant telegraphic touch with the big markets, New York, London, and lesser centers such as Marseilles. A hemp exporter tells us that the ordinary sale comprises 100 to 250 bales, 13 or 13 to 35 tons of 2,240 kilos, the long ton of commerce, in which there are 8 bales. We can see from this whether the ad valorem of 1-½% is an appreciable item. It would not necessarily follow, were this item removed, that use of Manila hemp would be upped because sales at lower prices could be made: there is always sisal as well as maguey. Nevertheless, hemp trading position would be better, and it might generally be the case that the grower received more for his crop.

Let us see what the tax figures:

Last year's Manila hemp sold overseas comprised 165,339.4 tons of 2,240 lbs. each, or 1,322,715.2 bales the invoice value of which shown by the customs report was ₱43,279,373. (As a whole, the year was unusually good for hemp, contrasting with the unusually bad year current). The crop last year reported by the Fiber Inspection Service that okays the baling and classifying was 1,304,483 bales; exports somewhat exceeded the year's crop, and it is seen that domestic consumption is negligible and without effect on prices. The ad valorem tax of 1-½% on last year's exports of Manila hemp summed approximately ₱200,000 more than the 1% ad valorem on sugar exports and was a total of ₱649,191.

In a commodity such as Manila hemp selling in bulk lots, a cost item of ₱3.93 per ton is a substantial quite large enough to make or break sales hinging on a close margin. On a shipment of 100 bales or 12-½ tons, no large one, it is ₱48.13; on a shipment of 31-¼ tons or 250 bales, still mere everyday trading, being 250 bales, it is ₱122.81, leaving no doubt that Manila hemp could be traded with more facility were this tax not charged. Very glaringly, too, here is a substantial charge, turning up every day in export invoices, that the fiber world can see adds to the cost of Commonwealth hemp; and this, of course, is the worst sort of advertising.

But this is not the whole tax paid by Manila hemp sold overseas. When exporters at Davao buy hemp at the auctions, sales are by the growers and no tax applies in the transactions. But even in Davao, substantial lots go to dealers, and from them at last to exporters, and to dealers' sales to exporters the tax of 1-½% applies. In other regions there are no auctions, dealers paying 1-½% on sales handle the whole output. The table boxed on the first page of this article helps the reader make his own deductions, but ours is that a minimum tax of 2-½% can be estimated to be paid by all Manila hemp exported, as an average, and that last year this summed ₱1,081,984 in invoices summing the grand total of ₱43,279,373. *It is ₱6.54 per ton.*

Here is considerable slack that, presumably, the Commonwealth could take up at any time in behalf of hemp. The suggestion rises that the market should be studied carefully, and that the tax ought to be suppressed in favor of some better one if it be found burdensome to sales or discouraging to the industry. If data already exist at Washington, these should be studied. Should be Brookings Institute find interest in the problem, it should be encouraged to ascertain the facts and bring them out. We now know merely that exported hemp is heavily taxed, and the *prima facie* evidence is that this should not be the case.

Such a tax adds materially to costs, and will certainly tend to drive plantation hemp production into Borneo.

A related matter is the levy made on exported cordage, rope and cables, a further illustration of how ready the country has been during the past to tax enterprise and pile up intermediate charges annoying to the curt transaction of business. Here is an actual—

Shipment Ex ss "Empress of Japan" May 23 450 packages Manila Rope, 19 772 Kilos to Messrs. (Blank) Honolulu.

Amount of Invoice		₱ 8,422.44
Charges—		
Freight	₱1,293.99	
Insurance	25.26	
Lighterage	49.43	
Wharfage	39.54	
Customs stamps ...	3.30	
Bank exchange	42.11	
Sales Tax	105.27	1,558.90
		₱ 6,863.54

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Direct Taxes Above:

Wharfage	₱ 39.54
Customs stamps	3.30
Sales Tax	105.27
Indirect	21.16
Total	₱169.27

Indirect Government Tax:

Freight	₱1,293.99	
Insurance	25.25	
Lighterage	49.43	
Bank Exchange	42.11	
1-½% on	₱1,410.79 or	₱21.16

This too makes an interesting study to all who may be concerned for the welfare of overseas commerce, since it is probable that a sales tax of ₱105.27 on rope valued otherwise at ₱6,758.27 is an actual handicap to sales. Please remark the freight rate, summing ₱65.60 approximately per metric ton; in no comparison with the rate *away* from United States ports on rope, we have observed in an earlier number that such a rate has the practical effect of nullifying, to a considerable degree, an act of Congress admitting duty free into the American market six million pounds of Commonwealth cordage a year. Rope is a good cargo with which to trim a ship, and in practice is scattered about and so used, yet here is a freight charge of nearly 20% or 1/5 of its f. o. b. value, no doubt an agreed conference rate.

Here is a condition to be rectified in favor of the basic commodity, Manila hemp; but rectification would entail negotiations, while the tax on exports is a matter merely for the legislature's attention. A government indifferent to its own levies on basic exports will hardly be at all times well treated by freighters: if it sets the rule of all the traffic will bear, freighters will follow it gladly. We have always taken it for granted that in any market and for at least some profit, our hemp would always sell, but with the new potentialities of Borneo this may not remain a sound assumption; and as a matter of honest fact, it never was—there never was a time in our studied experience when levies on hemp and cordage exports should have been imposed.

Now let us see how, with no more large plantations, Manila hemp will manage in future (say after ten years) with or without the export levies imposed.

Hemp will remain a cash crop, a cash crop of many poor squatters and homesteaders on the public domain, notably in Mindanao where new roads and interlocking highways will make the wilderness accessible to pioneers. There will probably be little money one year with another in growing it, yet it will be grown for much the same reason that a desperate levee worker joins a dice game, because baby needs a new pair of shoes. An illustration of this type of economy is well remembered among a settlement of Dunkards—they go unshaven, and wash each other's feet—in the Cherokee Strip during the first winter or two after *the opening*.

Ragged, indeed almost naked, and unable to grain their teams or even provide more than the scantiest fodder, these faithful pioneers hauled stovewood more than forty miles to market at Enid for the price of a sack of flour and a few potatoes and a little salt for them and their livestock. It took the better part of the week; we know this because they often made camp at our place near Enid, where there was a well and where they could muster one of their beloved religious meetings. (They would bring along a branch of oak, or something to throw off for us, in payment of courtesies extended them). Now they couldn't afford these long trips, for never more than a dollar—yet they couldn't afford not to afford them, for it was either make the trips or starve.

A good deal of just this sort of economy may be relied upon in the Commonwealth, we imagine, from now on out; and certainly it may be anticipated of hemp, a crop for which it is already the general rule except on the large plantations. Remarks on tobacco will be reserved to a later time, since it is a northern crop, but most of all that

(*Please turn to page* 37)

ingly and endangers the commerce.

Buyers will set the requirements in every case, and to add something to forestry charges in behalf of official grading would be merely to provide more public employment and saddle every unit of logs and lumber with a higher total cost in order to do it. Buyers would still lay down their particular requirements, and pay accordingly, and come back on mills and loggers as they do now with complaints against everything not to their liking. The industry says official grading would be superflouous. This seems fully evident.

There comes up the sales tax on lumber consignments abroad. Last year it must have summed below ₱70,000 or 1-½% of a total of some ₱4,200,000. It is not much, but it is a tax on an export enjoying no favored market. We make it about ₱1.15 on every 1000 board feet, logs of course excluded. We think the industry should be consulted, and if this tax is sometimes a barrier in closing sales at a net profit, or is otherwise objectionable, it amounts to almost nothing by way revenue and therefore should be crossed off, the tax on domestic sales continuing as it is. This would be in line with the practice of charging lumber exports no wharfage. We believe the industry would tell the government frankly whether the 1-½% ad valorem on its export invoices is a factor of any importance in quoting for sales. Were we the government, we would abide by what the industry said. It is an industry that right along has been ready to lay its cards on the table. Of late we have seen the term Philippine mahogany flashing out as casual allusions in periodical literature, as in *Notes & Comment* in the *New Yorker* a week or two ago, as casual as a mention of Brooklyn, the Garden, or Hester Street would be. We take this as most encouraging on the main point; in a lit le while it should be worth the half-million it has cost the industry, because then it will be intruding regularly into building specifications and will be the guaranteed trade term that the lumber behind it deserves.

Taxation of...

(*continued from page 16*)

has been said about hemp applies as well to coconuts, and copra, the other distressed crop in the south that is the subject of this month's researches. Both productions will come to be more the means of the poorest subsistance of many small farmers and to a much lesser extent the occupation of capital on large estates. We discuss in another paper the inadvisability of the export levies on copra.

REAL ESTATE

By P. D. Carman
BOULEVARD HEIGHTS

July real estate transfers greatly exceeded any similar month on record (with the one exception of July 1935) the total being swelled heavily by one very large transfer in Sampaloc to the Government and sales exceeding ₱50,000 in the following districts; three in Binondo, two in San Miguel and one in Malate. Even without the large transfer to the Government, the total would exceed that of any July since 1918 except in 1926, 1931 and 1935.

Sales City of Manila 1938

	June	July
Sta. Cruz	₱ 585,657	₱ 141,529
Sampaloc	155,367	1,633,840
Tondo	105,932	104,897
Binondo	25,000	538,011
San Nicolas	29,000	132,467
Ermita	570	12,538
Malate	239,128	268,835
Paco	76,978	85,807
Sta. Ana	65,735	27,284
Quiapo	132,648	39,690
San Miguel	18,000	236,987
Intramuros	—	61,656
Sta. Mesa	15,000	16,601
Pandacan	5,398	2,537
	₱1,454,413	₱3,302,679

MANILA HEMP

By H. P. STRICKLER
Manila Cordage Company

The short-lived period of foreign demand experienced the latter part of June resulted in a dull and weak market for the first eighteen days of July. At this point both London and New York buyers became interested and prices advanced with a fair volume of sales being reported. The market remained strong until July 22, when New York showed signs of weakening and London followed the trend on the next day. The market remained quiet and dull for the balance of the month with closing prices of Manila grade up slightly over the opening, while Davao grades closed at fifty centavos under the opening price.

Nominal Prices of Loose Fiber in Manila Per Picul

July 1st.		*July 31st*	
F	₱12.00	F	₱12.75
I	8.00	I	8.50
J1	6.75	J1	7.00
G	6.75	G	6.50
H	6.50	H	6.50
K	6.25	K	6.25

Nominal Prices of Loose Fiber in Davao Per Picul

F	₱10.00
I	8.00
J1	7.00
G	6.75
F	₱ 9.50
I	7.50
J1	6.50
G	6.25