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Political Transmission 15: Economics of the Transmission

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Political Transmission 15

AN ANALYSIS BY THE EDITORS

THE Communist Party of the Philippines occasionally releases to its membership official statements of doctrine or policy called "transmissions". One of the most important of these transmissions is No. 15, which came to public notice in the early part of 1959. The copy of the text which has reached us is mimeographed and consists of 87 closely printed legal-size pages. It is divided into three parts: "The State of the Philippine Economy" (pp. 1-32), "The Political Situation" (pp. 33-50), and "The International Situation" (pp. 51-87).

The language used is English. The style is standard Soviet groupthink: dogmatic, repetitious and relieved only by vituperative asides which however quickly pall because they are so predictable. In general, points are made not by rational argument but by apodictic and repetitive assertion, apparently on the well known principle that "what I say three times is true."

But in spite of its unattractive dress the document is not without interest. For one thing it gives us a fairly clear idea, by direct statement or implication, of what the Communist Party is trying to do in the Philippines; what it regards currently as its primary objectives. Secondly, it suggests, more by implication than by direct statement, what elements or developments in the contemporary economic and political situation it is trying to exploit in order to attain those objectives.

Thirdly, it provides a certain amount of information as to the present state of the Party itself. Finally, it gives us a sizable sampling of the way the communist mind works, and leads to some interesting speculations as to the general level of intelligence in the Party's membership.

In the following analysis the economic portion of the Transmission is given the lengthiest treatment. This is because the entire communist thesis regarding the Philippines stands or falls with the economic assumption on which it is based, namely, that foreigners (or more precisely Americans) exercise a stranglehold on the economy of this country and are using this stranglehold to keep Filipinos in a state of colonial serfdom while amassing enormous profits for themselves. Our analysis shows that this assertion is not only false, but is based on dishonest figures. To present and evaluate the evidence for the falsehood and the dishonesty involves a long and laborious process. It is easy to sow error, hard to get the truth. But it is the truth we want.

1. The Economics of the Transmission

The following four sentences, purporting to be a summary description of the Philippine economy, occur on page 32 of Political Transmission 15 of the Communist Party of the Philippines.

> We see a slowly growing, misdirected, misdeveloping, colonial economy, agrarian, feudal, mercantile and alien in content, planned by a government taking orders from various imperialist agencies, promulgating policies and regulations which are inherently contradictory. We see the picture of vast masses of peasants with a per capita income of ₱88 and workers with a slightly higher income submerged in an ocean of poverty and ignorance, silenced almost into submissiveness by the all powerful apparatus of imperialist suppression; a middle class, with slightly higher income and standard of living, rather smugly satisfied with being slightly above the level of the semistarving workers and peasants, with an intellectual elite which is just beginning to stir; a feudal group of absentee landlords serenely extracting from the peasants a large part of the value they (the peasants) created, critically alert to any peasant reawakening. A group of native junior partners of American carpetbaggers, sharing with the aliens the fruit of the

workers' toil, oblivious of the national interests as long as they are able to amass wealth; a handful of nationalist capitalists, convinced of nationalism and protectionism, hesitating, groping, confused as to identification of the real enemy, infected with sinophobia, fearful of being branded anti-American and easily intimidated and duped by the American imperialists and their agents in the army. And, on top of these, an "invisible" stratum of alien (mostly American with some Chinese) resident and non-resident owners of Philippine wealth, lording it over and dictating to the "natives", accumulating assets and profits by the billions from the sweat squeezed from Filipino laborers and employees; blaming the tropical heat and the indolence and immorality of Filipinos for the inability to industrialize rapidly, for the misdevelopment of the economy, and for the impoverishment of the people; an invisible force backed by a visible imperialist government which insures the freedom of the Filipino people to remain second class citizens in their own country, while simultaneously protecting the Filipinos from the virus of national survival.

These are conclusions supposedly based on an analysis of the economy sketched in the previous pages of the Transmission. Their tone cautions us against looking for sweet reasonableness in this document. It is opinionated rather than expository; passionately antipathetic to aliens, especially Americans; naively contemptuous of Filipinos, though the disdain varies in direct proportion to the wealth and power, social, political and military, of the "natives" who permit themselves to be lorded over and dictated to, squeezed, sweated and enslaved by a stratum which, while invisible, nonetheless seems to have two discernible colors, yellow and white.

This intemperate and malicious propaganda is so lacking in sense and subtlety as to be unworthy of serious attention were it not that the crude and extravagant opinions met here have been accepted and reechoed by many a Filipino in government, in business, in trade associations, in the press and in education not for the purpose of promoting communism but in the name of love of country. God help us.

The Transmission is a jungle of errors, garbled figures, deliberate misconceptions and bald, unsubstantiated assertions. It reminds me a little of Paul Blanshard's attacks upon the Catholic Faith. That devoted lover of the truth can invent enough in one paragraph about the bigotry, superstition and greed of the Church in Spain to require an encyclopedic refutation. Fortunately, we can afford to be somewhat selective.

First, I shall list the dogmas of Communist Party orthodoxy in the Philippines in the order in which these appear in the report, making only a brief comment on the most obvious absurdities. Then I shall single out for closer attention three of its chief themes: the vastness of foreign investment in the Philippines and its colossal profits; the needlessness of foreign investments and loans; and the economic imperialism of the United States toward the Philippines. There will be space in this issue only for first two.

II

Now for the weird catalog:

1. "Value is created only by labor in the process of production" (p. 6). Even Soviet economists now sneer at such outmoded folly. Apparently the local Party intelligentsia has not been informed of the news brought back recently from Moscow by Professor Wassily Leontieff of Harvard.

A highly imaginative statistic is invented and soberly presented as an arithmetical measure of man's inhumanity to man. It is the "rate of exploitation of the workers (that is, the ratio of the value pocketed by the entrepreneur-property owner to that given to the worker-employe in the form of wages and salaries)" (p. 8). It is calculated to be as high as 200%. This raises the psychopathic possibility of a rate of self-exploitation in the common case of the owner-operator of a small shop. Any carping commentator might notice that on page 6 "managers and similar personnel are included in labor" and are therefore creators of value, while on page 8 the manager of managers, the entrepreneur, is an exploiter of labor. But consistency can be dismissed as the virtue of small minds. Transmission writers think big.

2. "Imperialist domination" by the United States leaves us in the state of being a "colonial economy". These weary, old tags show an amazing endurance but it is consoling to note that they were greeted with derisive impatience at the Colombo Plan meetings in 1959.

3. Gross National Product is a wholly unreliable statistic, "a bourgeois notion intended to hide the true nature of value". Why should any one grow angry at so harmless an aggregate as Gross National Product? Here is the answer: "Actions may be useful, yet unproductive. On the other hand, the product of production may find no utility". He is only saying that people can turn out trash and, believe me, he ought to know.

4. Business taxes are paid to government "to protect the interest of profit making." One wonders how they would explain the motive behind tax exemptions.

5. The government officials concerned exhibit "brazen subservience" to the United States "by refusing to trade with the socialist countries, particularly China—a trade which definitely will be advantageous to the Filipino people not only in the sense that we can export more of our products at a good price to those countries and import our needed materials at low cost, but also in the sense that the Philippine trade and economy can be relieved of the stranglehold that U. S. imperialism has imposed." Poor, striving China: imagine the help it can afford to spare to us toward economic development and industrialization. About the advantages of communist trade we have no need to speculate. We know the relative contentment and prosperity of East Germany, Poland, Hungary and North Korea in comparison with West Germany, Japan and even tiny Puerto Rico.

6. "The defect in our currency picture is basically one of concept. Since the peso was pegged to the dollar, the fundamental orientation of the whole government is towards the dollar. They are interested in accumulating plenty of dollars; they want dollar-earning industries (raw material producing industries such as copra, abaca, etc.); they plug for a dollar-oriented trade. Mere reduction in the dollar reserve becomes sufficient cause for a financial crisis or panic" (p. 14).

a. If the Philippines is to realize its aspiration to industrialize its economy, then it must accumulate plenty of *foreign exchange*. It happens that the dollar is a versatile form of foreign exchange, literally as good as gold. Being a hard money, it can be converted readily into the money of any country with which the Philippines desires to trade. Indeed, if the dollar is resented as the medium of account, it can be changed for gold on demand, though its conversion into gold would not be advantageous to the Philippines. The greater part of foreign exchange reserves is held not in the form of dollars, which are sterile, but in the form of securities and deposits which earn an income for the Philippine banks which own the foreign exchange. Gold earns no income.

b. Since September 1959 the foreign exchange reserve of the Philippines is no longer held exclusively in dollars. It now includes British pounds, West German marks, Canadian dollars and Swiss francs. This is of no significance whatever to the "orientation" of the Philippines. As long as currencies are freely convertible into one another for purposes of foreign trade, as these five are, it makes no difference whether the reserves be held entirely in any *one* of them. They are all as good as gold for purposes of foreign trade. The Philippines would have made a significant change in its foreign exchange policy if it had decided to hold, for example, Japanese yen. Japan still must pay in dollars for what it buys here and its dollars are scarce. This has limited Japan's trade with us, whereas payment in dollars has *never* limited Canada's and Switzerland's trade with us, nor would it limit Great Britain's and West Germany's now that the pound and the mark have been made freely convertible currencies for purposes of foreign trade. Moreover, if we transformed all our dollars into marks tomorrow, this of itself would not cause our trade with Germany to increase nor our trade with the United States to lessen.

c. "They" plugged for a dollar-oriented trade only in the sense that "they" required payments to be made in dollars—up until last September. But "they" did not espouse a policy of trading exclusively with the United States. Quite the contrary.

d. "Mere reduction of dollar reserves becomes sufficient cause for a financial crisis or panic." This is rather crude. Let me just ask whether it is meant that the monetary authority should sit by idly and without concern while our reserves of foreign exchange are drained off through spending abroad year after year much more than we receive from abroad—a highly pathological condition.

7. "The whole orientation (toward the dollar) is born of the Bell Act—Laurel-Langley Agreement; the International Monetary Fund membership (dominated by the United States); foreign investment mentality; the loan-and-aid colonial thinking." It is a bit hard to treat this kind of suppuration patiently, is it not? However, the role of foreign capital in the Philippines is a topic well worth discussing, and the temptation to get into the debate on the consequences of free trade with the United States is too strong to resist.

8. "Foreigners own an almost controlling portion of our national assets (excluding the untapped natural resources and virgin land)" (p. 15).

"The rate of profit (on American investments in the Philippines in 1957) will reach more than 100%" (p. 17).

"Foreign investments have not been intended nor used for industrialization" (p. 18).

9. "Foreign investments are . . . unnecessary" (p. 18).

10. "Increase in foreign investments . . . threatens to transform the Philippines into a country where the owners are foreigners and the laborers are Filipinos" (p. 18).

Yet page 19 attempts an involved explanation of why current American reluctance to invest in the Philippines does not weaken Lenin's thesis on imperialism, though it does make page 18 a bit silly. This reluctance does not mean that the United States

has ceased to look forward to investing more capital in order to rake in bigger profits . . . precisely the purpose of instituting in this country a puppet government; of controlling the militarist clique in the army; of suppressing all nationalist movements; of using the slogan of democracy and of freedom to dupe the Filipino people; of maintaining military bases in this country, etc., is to intimidate the Filipino people and to cow them into submission in order that she can safely invest a greater amount of capital which today gets a smaller rate of profit in her own country.

No doubt about it, the Party has a lot to explain away. The August 14th issue of the *Philippine Newsletter*, published weekly by the Philippine Association, carried the following item:

Only $17 millions in foreign capital entered the Philippines from 1950 through the middle of 1959, the *Manila Bulletin* notes, citing Central Bank figures as its source. The rate of entry has fallen off steadily, from $2.3 millions in 1950 to $850,000 in 1958. During the first half of 1959 only $53,000 came in . . . Withdrawals of capital by foreign investors during the same period (1950-1959) totalled $11.5 millions, according to the Central Bank statistics. This total does not include the remittances of profits, dividends and earnings.

Though these figures require interpretation, their message is clear. New foreign investment in the Philippines has shrunk to a trickle. Despite the "smaller rate of profit in their own country", Americans continue to make new investments at home at the rate of about $35 billions a year. Direct private American investment in Europe at the end of 1958 amounted to $4.5 billions, almost three times what it was in 1950. 47% of this is invested in Britain and 39% in the six Common Market countries—hardly for the purpose of feeding the United States' imperialist ambitions. In the first half of 1959, while so little was being newly invested by *all* foreigners in the Philippines, private American investors poured an additional $630 millions into Europe. It would surprise communists and capitalists alike to discover that American investors seem irresistibly drawn to where the profits are lower. What is important for us to discover is why foreign capital finds our unquestionably higher rates of profit unattractive.

I have finished the catalog and hope it has conveyed some impression of the cheapness and vulgarity of the contents of the Transmission. Our first chief theme is the extent and profitability of foreign investment in the Philippines, especially American investment, because proper identification of "The Enemy" is important. Permit me to mention the sentiment I seemed to detect in the Transmission that sinophobia is no longer fully fashionable among the comrades. It makes two telling points in favor of the Chinese: the Philippines is their home; many become Filipinos in name and in fact.

III

The Transmission indicates these "salient facts" regarding foreign investments here (p. 15); as facts, they are the outcroppings of a smashing bit of statistical reasoning. All parentheses are part of the text:

> Foreigners own an almost controlling portion of our national assets (excluding the untapped natural resources and virgin land). In 1948, of total assets (in seven industries only) of ₱2.5 billions, foreigners owned 48%. (If we project this to other industries, we can get about the same percentage.) Among the foreigners, Americans owned 36%; Chinese 30%; Spanish around 15%; and the rest is distributed among the English, Indians, etc.
>
> It is said that of the newly registered businesses, foreigners own only 34%. Even assuming this to be true, taking the mean of the original proportion with that of the newly registered businesses, we still obtain 41% for foreign-owned assets. (The figures on ownership are very confusing and misleading. U. S. statistics, for instance, do not include American property owned by resident Americans. They even exclude companies or enterprises below 25% controlled by non-resident Americans. Hence, their figure is liable to be very small in contrast with the true figures. Also, people like Soriano, Menzi, etc., who are or have been Filipinos for convenience—not by integration—are listed as Filipinos.)
>
> It is claimed that total U. S. investments here (1957) were $450 millions. This is probably only about half of the true figure.
>
> If the total assets in this country today amount to around ₱10 billions, foreign-owned assets must be about ₱4.1 billions. If the U. S. owns 36% of this, it will amount to ₱1.4 billions or $700 millions.

The Census of 1948 collected data, including the nationality of investors and proprietors, for seven industries: forestry, transportation, mines and quarry, electric light and power, fisheries, commerce and manufactures. 199,550 firms reported by completing a questionnaire mailed to an unspecified number. Only *total assets* were classified according to the nationality of the investors. The results are given in Table 1.

1. TOTAL ASSETS IN SEVEN INDUSTRIES IN THE PHILIPPINES BY NATIONALITY AND INDUSTRY, 1948
(Amounts in Million Pesos)

Industry	No. of Firms	Total	Filipinos	Non-Filipinos
All Industries	199,550	2,500	1,297	1,203
1. Commerce	135,494	1,210	558	652
2. Manufacturing	29,463	561	275	286
3. Transportation	3,159	335	255	80
4. Mining	67	128	54	74
5. Electricity	219	93	17	76
6. Fisheries	29,180	90	90	—
7. Forestry	1,968	83	48	35

SOURCE: **Postwar Foreign Investments in the Philippines** by Gabriel Y. Itchon, Manila, 1958, p. 10.

Not many flattering things have been written about the 1948 Census. This little portion of it, if used to estimate the extent of foreign investment in the Philippines, will be especially misleading. It is full of faults and imperfections.

First, only total assets were classified according to the nationality of the investors; *net worth* was not reported. Gabriel Y. Itchon, who has written one of the only two systematic studies of contemporary foreign investment in the Philippines, has this to say:

> The Census did not collect data on the value of non-Filipino investments in the Philippinees. Data on assets cannot be used, except as a very rough approximation, for analyzing the direction of non-Filipino investments to the seven industry groups. A serious conceptual error may have been committed in allocating *total assets* to investors grouped by nationality, proportionate to their contribution to the capital of the firm. The value of assets owned by investors in the capital of a firm is not equal to the value of total assets; it is equal to the value of total assets less creditors' claims on these assets.[1]

The point is obvious. Besides assets, a firm has liabilities, some to insiders - its stockholders, some to outsiders. The

[1] Gabriel Y. Itchon's book deserves to be published. It is his Master's thesis in Statistics at the University of the Philippines entitled: A STATISTICAL INQUIRY INTO POSTWAR FOREIGN INVESTMENTS IN THE PHILIPPINES. It was submitted in 1958.

accountant cannot calculate what the net worth of the firm is to its shareholders until he has examined its liabilities and deducted the claims of outsiders.

Second, how representative of the Philippine economy are these seven industries? What has been left out? 71% of the ₱2.5 billions of assets reported were concentrated in commerce (48.4%) and manufacturing (22.5%). Transportation accounted for an additional 13.4%. Are we justified in concluding that in 1948 the Philippines was 70% a trading and manufacturing economy, well provided with transport facilities but showing no evidence of agriculture? Something like Hong Kong?

In 1948 the 199,550 firms employed 871,000 persons, less than 12% of the total labor force of 7.415 millions, and only 14% of the total number employed, 6.311 millions. That is to say, the reporting firms employed fewer than one worker out of seven, though five out of seven were engaged in agriculture, 4.5 millions. These data are taken from the same Census. Putting agriculture back into the 1948 economy changes decidedly the part played by foreign capital, despite the wild extrapolation of the Transmission. In 1948 over 4 million hectares of land were devoted to five big agricultural crops alone: rice, corn, coconuts, sugar and abaca. The net worth of that land is an enormous portion of Philippine investments and, even allowing generously for foreign equity in the planting of sugar and coconuts, well over 90% of it was in the hands of Filipinos. Considerably more than half the 4 million hectares was planted to rice, a line in which foreigners do not engage at all. It may be worth mentioning here that foreigners, apart from Americans, are not permitted to own land in the Philippines.

Third, notice that the reporting firms account for only one half the workers employed outside agriculture. Yet a complete enumeration was intended, not a sample. None of the care was taken which makes a good sample a small scale representation of the whole, possessed of the same qualities and proportions. What we are given is an unselected, distorted lump of figures which overrate the American share and underrate the shares of both Filipinos and Chinese. American enterprises in the

Philippines tend to be organized as corporations. Out of 437 American firms included in the 199,550, all but 24 were corporations; only 37% of the responding Filipino firms were so organized, and only 20% of the Chinese firms. Among Filipinos and Chinese, the single proprietorship and the partnership are still the accustomed forms. These smaller firms are the ones which will find little time and inclination to complete a questionnaire received in the mail—small shops, bazaars, market stalls and the like. I am thinking of the plethora of small trading booths in Central Market or Quiapo. Their net worth may not be much but their assets in inventories are considerable. It is likely that the unreported half of those employed outside agriculture were in these uncounted little businssses with their uncounted total assets.

Fourth, one category is positively mendacious. 219 firms are reported in "electric light and power", with assets of ₱93 millions: ₱17 millions Filipino, ₱76.5 million foreign, ₱76.4 of this American. The huge bulk of Meralco looms large in this last statistic. All by itself its total assets at the end of 1957 were ₱152 millions. This category gives the reader the impression that it meant to report total assets employed in the generation and distribution of electric power. But, in the Philippines, this activity divides itself into two classes: the central station power plants, which generate or at least distribute electricity to the public, and the private power plants, which supply a particular mine, mill or factory. In 1941 there were 217 electric utility companies in the first class. Their total capacity was 72,500 kilowatts. Of this, Meralco controlled 45,000 kilowatts (61%), 114 utilities on Luzon, including Meralco, controlled 61,800 kilowatts (83.2%), leaving less than 17% of central station power for the rest of the archipelago. This first class of central power plants is all that the Census covers. But it is far from the whole story about electric power in the country. Mines and mills and factories outside Manila typically provided their own power; they had to. Already in 1936 these private power plants had a total capacity of 200,000 kilowatts, almost triple the capacity of then existing utility companies. Sugar Centrals had 60,000 kilowatts; mines, 45,000 kilowatts; rice mills, 50,000 kilowatts. The rest was used for cement, copra and so forth. The picture of alien control of electricity presented in the Census is grossly distorted. At the present time, in the generation of electric power for public consumption, Meralco already trails and will soon be far behind the National Power Corporation, whose installations have become a large source of supply for the Manila company. Apart from Meralco, there is only one other electric utility company in the Philippines in which American investment is substantial, and that is owned jointly by Americans and Filipinos: The Tuguegarao Electric Plant Company. In Iligan there is growing up a center of electric power generation and distribution, thanks to Maria Cristina, in which Americans have no equity.

It is plain that a set of figures which reports gross assets, omits enterprises which engage six-sevenths of the employed labor force, leaves out all agricultural ventures and accounts for firms which employ only half the people who work in the seven industries supposedly covered, can convey no idea at all of the extent of foreign investment in 1948, let alone serve as a basis for the astonishing statement that here and now "foreigners own a controlling portion of our national assets". We must seek our enlightenment otherwhere than in the 1948 Census.

IV

Happily, we can draw information from the decennial census and annual estimates of United States investment abroad made by the United States Department of Commerce, and can check its findings with Philippine records kept by the Securities and Exchange Commission, the Bureau of Commerce and the Central Bank of the Philippines. Though these estimates, whether made from the Philippine side or the American side, are highly consistent with one another, the United States Department of Commerce is aware that its reporting procedure results in an underestimate of total United States investment in the Philippines. There are two reasons for this. First, the U.S. Department of Commerce reports only investment by Americans resident in the United States. By and large this works pretty well in the rest of the world but in the Philippines it leads to a sizeable underrating of United States investment. Second, the U.S. Department of Commerce data are restricted to foreign enterprises in which U. S. investors have an important role in managerial control. It is doubtful, however, whether this has greatly affected the reporting of non-resident U.S. investment in the Philippines; the following pages will show a strong tendency on the part of non-resident U. S. investors here to combine their capital with a high degree of managerial control. Moreover, since the U.S. Department of Commerce adds to direct investment of non-residents also their creditor interest in the liabilities of the enterprise, some offsetting compensation is offered for the amounts of minor investment made by non-resident Americans. An unofficial estimate appearing in the U. S. Department of Commerce booklet, INVESTMENT IN THE PHILIPPINES, gave $350 millions as the approximate magnitude of *total* U. S. private investment in the Philippines at the end of 1954.[2] The estimates which appear in the following pages are all considerably lower than this one. Nonetheless, I shall report them just as they have appeared. They are useful in indicating the growth of U. S. investment in this country since 1948, even though the level from which they start measuring growth is judged to be too low.

2. UNITED STATES DIRECT INVESTMENT IN THE PHILIPPINES, 1940, 1950, AND 1953
(Value in Millions of Dollars)

Industry	1940		1950		1953	
	Value	Percent distribution	Value	Percent distribution	Value	Percent distribution
Agriculture	22.5	24.8	15.3	10.3	17	9
Manufacturing	6.9	7.6	23.3	15.6	25	13
Public utilities	35.9	39.6	47.1	31.6	53	28
Trade	13.2	14.5	29.6	19.8	33	18
Other industries ...	12.2	13.5	33.9	22.7	60	32
TOTAL	90.7	100.0	149.2	100.0	188	100

[2] INVESTMENT IN THE PHILIPPINES, U. S. Department of Commerce, Washington, February 1955, p. 7.

These data include only those investments in which the controlling American interest is resident in the United States. The figures represent the book value of investments rather than the market value. The 1940 and 1950 figures are each based on a census of direct American investments abroad; the 1953 figure is based upon the 1950 census with the addition of estimates for the succeeding years.

SOURCE: Office of Business Economics, U. S. Department of Commerce.

The large investment in Public Utilities represents American ownership or substantial interest in the Manila Electric Company, the Philippine Long Distance Telephone Company and the Manila Gas Corporation, though since January 1951 the Philippine Government has been the controlling shareholder (50%) of the gas company. Radio, shipping and other transport are also included in this category.

Trade was the second most important field for American investment. The following table reports petroleum as a separate sub-heading of trade because of its significance.

3. U. S. DIRECT INVESTMENT IN THE PHILIPPINES BY INDUSTRY GROUP, 1950
(Value in Million Pesos)

Industry Groups	Value	Per cent of Total
Total	298.4	100.0
1. Trade	114.0	38.2
a. Petroleum Products	54.8	18.4
b. Others	59.2	19.8
2. Public Utilities	94.2	31.6
3. Manufacturing	46.6	15.6
4. Agriculture	30.6	10.3
5. Others	13.0	4.3

SOURCE: U. S. Department of Commerce, "Foreign Investments of the United States, Supplement to the Survey on Current Business" (Washington).

The other large items under trade include chemicals and pharmaceuticals, machinery and equipment, rubber products and hardware. This specification is by way of being an apologia for trade, which is often sneered at as a kind of parasitical activity, doing nothing to develop the economy agriculturally or industrially—as if foreign trade handled chiefly cosmetics.

Investment in agriculture, which was mainly in sugar, has been declining, while investment in manufacturing has been growing.

Between 1949 and 1956, U. S. investment in the Philippines increased by ₱268 millions ($134 millions), from ₱264 millions ($132 millions) to ₱532 millions ($266 millions). ₱152 millions originated in undistributed earnings ploughed back into operation, and ₱110 millions ($55 millions) came from net capital inflow. The source of the residual ₱6 millions is not given.

4. CHANGES IN VALUE OF U. S. DIRECT INVESTMENTS IN THE PHILIPPINES BY SOURCE, 1949-56
(Million Pesos)

Year	Total	Net Capital Inflow	Undistributed Earnings	Others
Total	268	110	152	6
1949-50	34	12	22	—
1950-51	28	10	18	—
1951-52	30	18	12	—
1952-53	20	10	10	—
1953-54	58	38	16	4
1954-55	24	(8)	28	4
1955-56[p]	74	30	46	(2)

SOURCE: U. S. Department of Commerce, "Survey of Current Business", Washington.

[p] Preliminary estimate.

During the 1950-1956 period, the rate of return on U. S. investment in the Philippines averaged 19.1%, compared with a 16.2% rate of return on foreign U. S. investments in the world as a whole. In 1956, U. S. investment in the Philippines was reported by the U.S. Department of Commerce to amount to 1% of total U.S. private investments abroad.

5. VALUE AND RETURN OF U. S. DIRECT INVESTMENTS IN THE PHILIPPINES COMPARED WITH TOTAL FOREIGN U. S. INVESTMENTS, 1950-56.
(Amounts in Million Pesos)

	Volume		Earnings		Rate of Return %	
	Total	Phil.	Total	Phil.	Total	Phil.
1950	23,576	298	3,538	78	——	——
1951	26,178	326	4,488	70	19.0	23.5
1952	29,638	356	4,590	66	17.5	20.2
1953	32,572	376	4,348	58	14.7	16.3
1954	35,252	432	4,738	68	14.5	18.1
1955	38,626	458	5,622	76	15.9	17.6
1956	44,236	532	6,268	90	16.2	19.7
TOTALS						
1950-55	185,842	2,246				
1951-56			30,054	428	16.2	19.1
1950-56	230,078	2,678	33,592	506		

SOURCE: U. S. Department of Commerce, "Survey of Current Business", Washington.

V

It is interesting to check the estimates of the U.S. Department of Commerce, especially of growth and profitability of U. S. investment in the Philippines, against those statistics which can be derived from sources here in the Philippines. The following data are drawn from the Securities and Exchange Commission and the Bureau of Commerce. They were compiled by the research staff of the Central Bank and by the authors of JOINT INTERNATIONAL BUSINESS VENTURES IN THE PHILIPPINES, a Research Project of Columbia University, some copies of which were distributed in November, 1958, though the work is not published. I have relied heavily on the dissertation of Mr. Gabriel Y. Itchon, who was a member of the Central Bank research team.

Between 1949 and 1956, investment in the paid-up capital of firms *newly* registered with the Securities and Exchange Commission totaled ₱1.3 billions. During the same interval of time, previously registered partnership and corporate firms added ₱140 millions to their paid-up capital. No data are available on previously existing single proprietorships, a defect which will tend to yield figures underrating Filipino and Chinese shares in the increment of investment. The known ₱1,268,400,000 of new investments are distributed as follows:

6. INVESTMENT IN THE PAID-UP CAPITAL OF REGISTERED FIRMS IN THE PHILIPPINES, 1949-56*
(Amounts in Million Pesos)

Year	Total Investment (2) + (3)	Net Capital Increments	Investment in New Firms	Per Cent of (3) Filipino Capitalists	Non-Filipino Capitalists	Difference in Shares (4) — (5)
	(1)	(2)	(3)	(4)	(5)	(6)
TOTAL	1,268.40	141.74	1,126.66	66.0	34.0	32.0
1949	99.13	27.43	71.70	55.1	44.9	10.2
1950	201.27	46.46	154.81	73.6	26.4	47.2
1951	176.89	5.17	171.72	53.1	46.9	6.2
1952	156.44	3.60	152.84	59.0	41.0	18.0
1953	192.62	17.71	174.91	72.1	27.9	44.2
1954	168.84	14.67	154.17	63.5	36.5	27.0
1955	113.31	2.61	110.70	69.2	30.8	38.4
1956	159.90	24.09	135.81	79.4	20.6	58.8

* Registered with the Securities & Exchange Commission and the Bureau of Commerce. Column (2) represents net additions to the paid-up capital of registered partnership and corporate firms, and column (3) represents the paid-up capital of newly registered single proprietorship, partnership and corporate firms.

SOURCE: Itchon, **Postwar Foreign Investments in the Philippines**, p. 22.

Of the ₱1,126.66 millions invested in *new firms*, ₱383 millions came from non-Filipino capitalists. Of this ₱383, only 10.9% is American investment: about ₱42 millions. No breakdown is given of the ₱141.74 millions ploughed back into old firms. Nevertheless, the Securities and Exchange Commission figures for the growth of U.S. investment in the Philippines are much lower than those of the U.S. Department of Commerce, which add up to ₱268 millions. The U.S. Department of Commerce figures include loans made to an affiliate by a parent company, and during this period several large loans were thus made, for example, to Caltex and to Meralco.

Allow me at this point to make an allusion to the quality of statistical reasoning found in the Transmission. You will notice that the Securities and Exchange Commission sources show that aliens' share in investment in *new firms* amounted to 34%. The Transmission averages this with the meaningless 48% taken from the 1948 Census, arrives at 41% as the measure of foreign ownership of Philippine assets in general and, armed with this ratio, tosses realism to the winds.

> If the total assets in this country today amount to around ₱10 billions, foreign owned assets must be about ₱4.1 billions. If the U. S. owns 36% of this (observe that this is the old, unrevised 1948 Census proportion)[3] it will amount to ₱1.4 billions or $700 millions.

The figure of ₱10 billions is pulled clean out of the air, of course. And it is much too conservative for a leftist document. The value of exploited land alone, agricultural, fishpond and urban, is worth considerably more than ₱10 billions, not counting business or residential structures. Residential structures are an outlet for investment, as any insurance company knows. But is this not a curious way of estimating the value of foreign ownership? Given some magic ratio, say 41%, one can make foreign investment out to be any amount he pleases, simply by choosing the fitting postulate about the aggregate value of Philippine assets. I can propose a reason why they may be worth ₱25 billions or more.[4] At this level 41% results in a very handsome sum of foreign investment. Would that we had so much of it!

The Securities and Exchange Commission data have not provided reliable indicators of the growth of foreign investment in the Philippines. We pass on now to consider information collected by the Central Bank of the Philippines on the finan-

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[3] My parenthesis.

[4] Using the familiar capital-employment ratio in a working paper prepared under the direction of Messrs. Arturo R. Tanco, Jr., and Armand Fabella for the First Educators-Management Congress in Baguio, February 1959, it was estimated that from 1948 to 1957 it required ₱3,969 of investment to put to work each additional person employed in the Philippines. The level of current employment is about eight millions. Even dropping the ratio to about ₱3,000, investment per worker will yield a total investment figure of ₱24 billions.

cial structure and operations of firms which were granted foreign exchange allocations for imports in 1954.

7. PAID-UP CAPITAL OF FIRMS GRANTED 1954 IMPORT DOLLAR ALLOCATIONS BY THE CENTRAL BANK OF THE PHILIPPINES AS OF THE FISCAL YEAR ENDED IN 1954

(Million Pesos)

Industry Group	Total	Firms Controlled by				
		Filipino	American	British	Chinese	Others
No. of Firms ..	4,792	3,576	197	12	905	102
Extractive ...	39	36	3[b]	—	—	—
Manufacturing	1,516	1,061	63	2	370	20
Trade[a]	3,151	2,406	122	10	535	78
Public Utilities	53	46	7	[b]	—	—
Others	33	27	2	—	—	4
Total Paid-Up Capital.	1,568.8	793.7	441.5	16.9	212.8	103.9
Extractive ...	75.7	48.6	27.1	—	—	—
Manufacturing.	689.1	375.7	164.8	4.3	96.2	48.1
Trade[a]	620.4	319.1	139.9	12.6	116.6	32.2
Public Utilities	143.2	33.8	108.6	—	—	.8
Others	40.4	16.5	1.1	—	—	22.8
Average Capital.	0.3	0.2	2.2	1.4	0.2	1.0
Extractive ...	1.9	1.4	9.0	—	—	—
Manufacturing.	0.5	0.4	2.6	2.2	0.3	2.4
Trade	0.2	0.1	1.1	1.3	0.2	0.4
Public Utilities	2.7	0.7	15.5	—	—	—
Others	1.2	0.6	0.6	—	—	5.7

SOURCE: Central Bank of the Philippines, "Report on Importers and Producers Quota Revision," (Manila: September 30, 1956 and November 15, 1956), Itchon, **Postwar Foreign Investments**, p. 37.

[a] Excluding 59 branches of foreign enterprises.
[b] One firm each without data on paid-up capital was not included.

It is seen that the Central Bank's figure of ₱441 millions for U. S. resident and non-resident investment in these 197 firms (plus one American trading firm's unreported paid-up capital) is not inconsistent with the U. S. Department of Commerce figure ₱434 for the investment of non-resident Americans, considering the differences in their coverage.

Data were also presented on net profits from operations, but only for the producer firms, not for trading firms. Net profits, when expressed as a percentage, measure the ratio of profits to *sales;* net return on investment, expressed as a percentage, expresses the ratio of profits to *capital invested.* Data on wages paid are presented for the entertainment of those readers who may care to work out the appropriate rates of exploitation.

8. RESULTS OF OPERATIONS OF FIRMS GRANTED 1954 IMPORT DOLLAR ALLOCATIONS BY THE CENTRAL BANK OF THE PHILIPPINES FISCAL YEAR 1954
(Million Pesos)

Items	Total	Firms Controlled by				
		Filipino	American	British	Chinese	Others
Sales	3,323.8	1,453.8	848.6	150.1	663.0	208.3
Extractive	92.6	55.6	37.0	—	—	—
Manufacturing	1,416.5	627.3	382.3	9.6	307.7	89.6
Trade	1,632.7	674.0	347.3	139.4	355.2	116.8
Public Utilities	158.3	76.2	80.8	1.1	—	.2
Others	23.7	20.7	1.2	—	.1	1.7
Wages	275.0	143.6	75.8	2.1	29.1	24.4
Extractive	18.9	5.3	10.8	—	—	3.4
Manufacturing	198.1	107.4	43.6	1.8	28.6	15.6
Public Utilities	46.1	24.8	21.0	.3	—	—
Others	11.9	6.1	.4	—	—	5.4
Net Profits	128.4	57.2	50.1	.5	12.3	8.3
Extractive	4.9	2.4	2.5	—	—	—
Manufacturing	101.4	50.4	30.4	.1	12.3	8.2
Public Utilities	20.0	2.4	17.1	.4	—	.1
Others	2.1	2.0	.1	—	—	—

SOURCE: Central Bank of the Philippines, "Report on Importers and Producers Quota Revision," (Manila: September 30, 1956 and November 15, 1956). Itchon, **Postwar Foreign Investments**, p. 41.

U. S. producer firms showed profits of some ₱50 millions on sales of some ₱500 millions. The average return on U. S. investments in producer firms—₱50.1 profits on an investment of ₱301.6 millions—is close to 17%.

The number of Filipinos and aliens working in firms granted import dollar allocations was also reported.

9. EMPLOYMENT IN FIRMS GRANTED 1954 IMPORT DOLLAR ALLOCATIONS BY THE CENTRAL BANK OF THE PHILIPPINES
FISCAL YEAR 1954
(Million Pesos)

Items	Total	Firms Controlled By				
		Filipino	American	British	Chinese	Others
No. of Employed	169,579	100,882	32,421	1,640	21,077	13,559
Filipino	165,328	99,560	31,896	1,592	18,823	13,457
Alien	4,251	1,322	525	48	2,254	102
Extractive	21,322	10,979	8,236	—	—	2,107
Filipino	21,228	10,963	8,175	—	—	2,090
Alien	94	16	61	—	—	17
Manufacturing .	121,967	72,789	18,443	1,557	21,063	8,115
Filipino	117,945	71,513	18,065	1,511	18,810	8,046
Alien	4,022	1,276	378	46	2,253	69
Public Utilities .	20,822	13,599	5,450	83	—	1,690
Filipino	20,710	13,581	5,366	81	—	1,682
Alien	112	18	84	2	—	8
Others	5,468	3,515	292	—	14	1,647
Filipino	5,445	3,503	290	—	13	1,639
Alien	23	12	2	—	1	8

SOURCE: Central Bank of the Philippines, "Report on Importers and Producers Quota Revision," (Manila: September 30, 1956 and November 15, 1956). Itchon, **Postwar Foreign Investments**, p. 43.

Of 31,896 employed by U. S. firms, 525 were aliens—about 16%. Of 99,560 employed by Filipino firms, 1,322 were aliens —about 13%. The difference in proportions is not very marked.

In its annual reports of Balance of Payments Accounts, 1952-1956, the Central Bank reveals an interesting feature of private long-term capital movements into and out of the Philippines.

10. BALANCE OF PAYMENTS ACCOUNTS PRIVATE LONG-TERM CAPITAL MOVEMENTS
(Million Pesos)

Item	1952	1953	1954	1955	1956	Total
Total	43.0	85.8	87.6	117.6	115.7	449.7
A. Direct Investments	43.0	43.8	75.2	98.1	109.1	369.2
1. Reinvested earnings	43.6	48.6	78.4	101.2	110.0	381.8
2. Net capital inflow	(.6)	(4.8)	(3.2)	(3.1)	(.9)	(12.6)
a) New foreign investment	1.2	2.8	.4	—	6.2	10.6
b) Capital withdrawal	(1.8)	(7.6)	(3.6)	(3.1)	(7.1)	(23.2)
B. Others	—	42.0	12.4	19.5	6.6	80.5
3. No-dollar imports.	—	39.7	7.5	14.8	—	62.0
4. Deferred payments	—	—	—	—	4.8	4.8
5. Others	—	2.3	4.9	4.7	1.8	13.7

SOURCE: Central Bank of the Philippines.
Itchon, **Postwar Foreign Investments**, p. 44.

In this five-year period, it is estimated that almost ₱450 millions of long-term investment moved into the Philippines. The bulk of this was in the form of reinvested earnings—₱381.8 millions. ₱62 millions came into the country as no-dollar imports, ₱47.2 millions of it in 1953 and 1954 when the Caltex refinery was being built in Batangas. The net capital inflow in the form of dollars, which might build up reserves of foreign exchange, was negative: that is, $11.6 millions of capital was withdrawn from the Philippines, while only $5.3 millions flowed in. No account is taken in these figures of the inestimable amount of capital "salted away" abroad through illegal trade and exchange movements.

Mr. Itchon makes this observation:

The data on investments in the Philippines indicated no substantial inflow of foreign capital into this country during the eight-year period 1949-1956. The increase in value of foreign investments was mostly generated within this country, originating from reinvested or ploughed-back earnings.[5]

Why foreign investment has not flowed into the Philippines more freely is not a simple question to answer. It has become an embarrassment even to the Communist Party of the Philippines that so little cause is given to rant about imperialism.

VII

Once again we find ourselves indebted to Mr. Itchon for a study which he made of 140 firms based on financial and operating statements submitted to the Central Bank in support of their applications for licenses to remit to non-resident investors their share in net profits in 1956. The study is of value to us for the idea it conveys of the profitability of investments by non-residents in this economy and of the amounts which flow out in remitted profits.

These 140 firms in 1956 realized an average return on net worth of just over 20%. Mining firms led in profitability, yielding returns of 37% on investment. Non-residents owned 61% of the net worth of these 140 firms.

11. NON-RESIDENTS' SHARE IN NET WORTH AND NET PROFITS OF FIRMS THAT REMITTED PART OF THEIR FY 1956 PROFITS
(Million Pesos)

Industry Group	Non-Residents' Share in	
	Net Worth	Net Profits
TOTAL	480.3	98.5
A. Financial (Banks)	30.6	8.2
B. Non-Financial	449.7	90.3
1. Agricultural	10.6	2.1
2. Forestry	9.2	1.5
3. Mining	15.2	4.2
4. Manufacturing	163.2	38.0
5. Trading	164.5	28.6
6. Public Utilities	87.0	15.9

SOURCE: Financial reports of firms submitted to the Central Bank of the Philippines.
Itchon, **Postwar Foreign Investments**, p. 60.

[5] POSTWAR FOREIGN INVESTMENT, p. 50.

Non-residents' investments in the eight banks yielded a return of 27%, while the rate of return in the 132 non-financial firms was 20%. Non-residents' return on investments in mining—27½%—was considerably lower than average earnings in all the mining firms put together—37%.

Non-residents tended to concentrate their investments in firms in which they controlled a majority interest. Almost 77% of their investment was in firms where it constituted from 96% to 100% of net worth. Indeed, the only exceptional industry is mining, where no firm is under *non-resident* control.[6]

12. DISTRIBUTION OF NON-RESIDENTS' SHARE IN NET WORTH BY DEGREE OF CONTROL AND INDUSTRY GROUP, END OF *FY* 1956[a]
(Per Cent)

Industry Group	Total	Minority Holdings	Majority Holdings		
			Total	100%	96-99%
TOTAL	100.0	15.1	84.9	51.7	25.2
Agriculture	100.0	5.0	95.0	58.7	6.7
Forestry	100.0	12.9	87.1	87.1	—
Mining	100.0	100.0	—	—	—
Manufacturing	100.0	16.9	83.1	64.2	4.8
Trade	100.0	3.3	96.7	65.4	23.6
Public Utilities	100.0	16.0	84.0	—	84.0
Banks	100.0	29.1	70.9	70.9	—

SOURCE: Financial reports of firms submitted to the Central Bank of the Philippines.
Itchon, **Postwar Foreign Investments**, p. 64.

[a] Degree of control expressed in terms of the non-resident investors' share in the net worth of the firms (per cent); majority holding representing a share of more than 50 per cent.

The Central Bank imposes limits on investment remittances abroad whether of capital or of net profits. In 1956 the

[6] In connection with firms granted import dollar allocations in 1954, Mr. Itchon had written: "Filipino controlled firms dominated the investments in . . . three industrial groups—extractive, manufacturing and trading. *Their investments in the extractive industries constituted* 64% of the total capital of the industry group. . . .The remaining 36% of total investments in extractive industries was contributed by American controlled firms." The control was evidently that of resident Americans.

allowable profit remittance of the 140 firms studied came to about ₱41 millions, equal to 42% of the non-residents' share in net returns.[7] From this sum of ₱41 millions was deducted the tax imposed by the Philippine Government at the rate of 24% in case the investor was a non-resident corporation, and 12% if an individual investor. Consequently, non-residents were permitted to receive $17.418 millions from their share in 1956 profits, equal to 7.3% of the net worth of their investments. The allowances were as follows:

13. ESTIMATED PROFIT REMITTANCES OF THE FIRMS THAT REMITTED PART OF THEIR FY 1956 EARNINGS
(Thousand Pesos)

Industry Group	Allowable Remittance[a]	Income Tax	Dollar Remittance
TOTAL	41,134	6,297	34,837
A. Financial (Banks)	3,283	62	3,221
B. Non-Financial	37,851	6,235	31,616
1. Manufacturing	17,425	3,434	13,991
2. Trading	9,656	800	8,856
3. Public Utilities	6,376	1,530	4,846
4. Mining	1,937	233	1,704
5. Agriculture	1,511	208	1,303
6. Forestry	946	30	916

SOURCE: Financial reports of firms submitted to the Central Bank of the Philippines.
Itchon, **Postwar Foreign Investments**, p. 69.

[a] Gross of tax on distributed profits.

VIII

For the purpose of simply gathering basic data on foreign investment in the Philippines in 1956, including its amount, its profitability and how much was held by non-residents, Mr. Itchon studied 1,054 firms which engaged in legal foreign exchange transactions of any kind—importation, exportation and profit remittance. The break down is given in Table 14.

[7] Every firm applying for a license to remit investors' profits abroad is required to submit to the Central Bank a financial and operating statement. All the firms which remitted part of their non-residents' share in profits during 1956 whose financial statements were available from the Central Bank's file are covered in this study.

14. DISTRIBUTION OF THE NUMBER OF ALIEN FIRMS BY TYPE OF BUSINESS ORGANIZATION AND CONTROLLING NATIONALITY, FY 1956

Controlling Nationality	Type of Business Organization				
	Total	Single Prop.	Partn.	Corp.	Branches
TOTAL	1,054	284	297	439	34
1. Chinese	558	266	210	82	—
2. Filipino	244	—	63	181	—
3. American	164	7	1	128	28
4. British	15	—	—	10	5
5. Spanish	11	1	3	7	—
6. Others	34	10	10	13	1
7. None Controlling	28	—	10	18	—

SOURCE: Cooperating firms.
Itchon, **Postwar Foreign Investments**, p. 80.

The equity of aliens in these firms was valued at ₱918 million.

15. DISTRIBUTION OF ALIEN INVESTMENTS IN ALL FIRMS BY NATIONALITY & RESIDENCE OF INVESTORS, FY 1956-END (Million Pesos)

Investors' Nationality	Investors' Residence		
	Total	Philippines	Abroad
TOTAL	917.7	316.4	601.3
1. American	555.6	78.2	477.4
2. Chinese	176.3	163.9	12.4
3. British	71.3	14.3	57.0
4. Spanish	55.5	34.7	20.8
5. Others	59.0	25.3	33.7

SOURCE: Cooperating firms.
Itchon, **Postwar Foreign Investments**, p. 82.

Of the 1,054 firms, 164 were controlled by Americans, whose ownership was valued at ₱555.6 millions. Of this amount, ₱78.2 millions belongs to resident Americans, ₱477.4 to non-resident Americans. Once again, considering the differences in procedure, this latter figure is not inconsistent with the U. S. Department of Commerce estimate of the worth of non-resident American investments at ₱532 millions.

There has already been noted the decided tendency of non-resident investors to put their capital in firms which are under their control. Resident aliens, on the other hand, except the Chinese, invest readily in firms which they do not control. In 1956 the net earnings of resident Americans amounted to ₱12.15 millions before income taxes; this came about 50-50 from firms in which they held minority and majority equities.

16. DISTRIBUTION OF ALIEN NON-FINANCIAL INVESTMENTS BY CONTROL ON THE FIRM AND BY INVESTORS' NATIONALITY AND RESIDENCE FY 1956-END[a]
(Million Pesos)

Investors' Nationality & Residence	Control on the Firm		
	Total	Majority	Minority
TOTAL	859.1	673.1	186.0
Residents	305.7	196.3	109.4
Non-Residents	553.4	476.8	76.6
1. American	540.7	458.3	82.4
Residents	76.2	47.1	29.1
Non-Residents	464.5	411.2	53.3
2. Chinese	162.3	127.1	35.2
Residents	157.2	122.9	34.3
Non-Residents	5.1	4.2	.9
3. Spanish	54.2	30.2	24.0
Residents	34.2	12.8	21.4
Non-Residents	20.0	17.4	2.6
4. British	43.0	38.7	4.3
Residents	12.9	10.0	2.9
Non-Residents	30.1	28.7	1.4
5. Others	58.9	18.8	40.1
Residents	25.2	3.5	21.7
Non Residents	33.7	15.3	18.4

SOURCE: Cooperating firms.
Itchon, **Postwar Foreign Investments**, p. 85.

[a] Control of firm represents the proportion of equity contributed by the nationality group as a whole: majority when more than 50 per cent, and minority when less than 50 per cent.

Foreign investors in these 1,054 firms earned ₱156 millions as their share of 1956 profits, after corporation taxes had been met. This came to a 17% return on their investment. Non-resident foreigners earned 18.3%, resident foreigners 14.7%.

17. ALIEN INVESTORS' SHARE IN NET PROFITS OF ALL FIRMS BY NATIONALITY AND RESIDENCE OF INVESTORS, FY 1956
(Million Pesos)

Investors' Nationality	Investors' Residence		
	Total	Philippines	Abroad
TOTAL	156.6	46.4	110.2
1. American	106.0	12.3	93.7
2. Chinese	23.1	21.5	1.6
3. British	7.3	1.5	5.8
4. Spanish	6.9	5.0	1.9
5. Others	13.3	6.1	7.2

SOURCE: Cooperating firms.
Itchon, **Postwar Foreign Investments**, p. 87.

IX

It is worth while comparing the results of the investigation of these 1,054 firms, which engaged in any kind of foreign exchange transaction in 1956, with the results of the study of the 140 firms which applied for licenses to remit profits in the same year. In the smaller study non-residents' net worth was calculated to be ₱480.3 millions. in the larger study, ₱601.3 millions. The 140 firms are included among the 1,054, along with others whose non-resident alien investment adds ₱121 millions to the smaller figure. Taking it for granted that non-resident investors will ordinarily seek to repatriate their profits, one may conclude that the financial and operating statements of these added firms just happened not to be in the Central Bank's files when the data on the 140 firms were assembled. Mr. Itchon got his information from them by means of a mailed questionnaire.

Though ₱121 millions are thus added to non-residents' capital, only ₱11.7 millions are added to their profits, yielding less than a 10% return on this block of non-resident investment, the lowest average thus far encountered. If about the same percentage of this profit was allowed repatriation—about 35% —we can add to previous allowable dollar remittances—$17.418 millions—approximately $2.0 millions more. Rounding this figure off to take care of possible oversights, one can say that in 1956 non-resident investors in the Philippines were allowed to send about $20 millions of their profits out of the country. The rest would have to remain behind for reinvestment or the building up of blocked peso accounts.

By and large the studies undertaken have shown that the *average* rate of return on foreign investments in the Philippines runs up to 20%.

Now, what was the level of total foreign investment here at the close of 1956? Mr. Itchon's figure of ₱917 millions invested by aliens in the 1,054 firms which engaged in foreign exchange transaction offers the most promising point of departure. Sizeable foreign investments here will presumably involve the investor, regardless of nationality, in some kind of foreign exchange transaction, even though he be a resident and ineligible to remit any part of his profits abroad. Resident Americans, for example, export ores, lumber, sugar, copra and abaca; thus they are involved in foreign exchange transactions through exports. Similarly, on the side of imports, many will require raw materials, equipment, spare parts and the like.

This is not equally true of the small investments of resident foreigners, chiefly Chinese, whose entire dealings may well be domestic. I find myself without any yardstick for measuring how much should be added to the ₱917 millions to cover the aggregate of these small investments. Surely foreign investment at the end of 1956 was of the order of ₱1 billion.

There is one estimate, however, which casts doubt on this and leaves the mind disturbed. Unofficially, the U. S. Department of Commerce statisticians put the total of U. S. investment in the Philippines at the close of 1954 at about ₱700 millions ($350). The Department's annual surveys show an increment of ₱100 millions ($50 millions) over the course of the two following years, 1955 and 1956. If U. S. investment alone aggregated ₱800 millions, total foreign investment was surely well in excess of ₱1 billion, perhaps as much as ₱1.3 billions. On the other hand, if U. S. investment was truly as much as ₱800 millions at the close of 1956, then it would appear that rates of profit have ordinarily been overstated. Amounts of profit earned cannot be concealed from the Central Bank except under penalty of a reduced allowance for repatriation of earnings. U. S. investment is predominantly non-resident and eager to take its gains in dollars. Moreover, any dollar which could be purchased from the Central Bank for ₱2 in 1956 was a bargain with a strong appeal to profit-minded investors.

One can do little better than conclude that, at the close of 1956, foreign investment in the Philippines was between ₱1 billion and ₱1.3 billions. U. S. investment was certainly no less than ₱555.6 millions and was perhaps as much as ₱800 millions.

X

In the light of what we now know, let us glance once again at the communists' ready answer to puzzling questions about foreign investment in the Philippines. These occur on pages 16 to 20 of the Transmission.

1. Foreigners own an almost controlling portion of our national assets.

2. Foreigners, especially Americans and Chinese, have squeezed billions of pesos of profit from Filipinos during the ten-year period, 1948-1957.

3. Distributed profits squeezed by foreigners out of Filipinos in 1957 amount to ₱1.9 billions.

4. Total profits, including undistributed profits, obtained by foreigners here equaled ₱3.3 billions in 1957 alone.

5. In the eleven years from 1946 to 1957, they realized no less than ₱20 billions.

6. Americans alone received distributed earnings of ₱685 millions in 1957; if undistributed earnings be added to this, their total profit swells to around ₱1.3 billions. In the first eleven

years after "independence", they amassed perhaps ₱6 billions of profit.

7. The rate of profit on U. S. foreign investment for 1957 was around 76%. If we include undistributed profits, the rate will exceed 100%.

8. Foreign assets in the Philippines are rather the product of Filipinos' labor than of foreign wealth brought into this country.

9. The main exploiter is American imperialism.

10. The Chinese own assets worth around ₱900 millions.

11. Philippine misrepresentation of the statistics is intended to hide American domination and exploitation.

12. Foreign investments have not been used for industrialization. But when they have been, it was only for tremendous profits.

13. Foreign investments are not only unnecessary but a double form of exploitation.

14. Increase in foreign investment threatens to transform the Philippines into a country where the owners are foreigners and the laborers are Filipinos.

15. These very revealing findings are incontrovertible.

Thereupon is uttered one thin, small tone but discordant and piercing, continuing to be heard after the hollow booming has died away: "There are reasons why the export of American capital into the Philippines has been relatively small. American reluctance to export huge capital to this country is a result of conditions beyond the control of American imperialism."

XI

The role of foreign capital is the second principal topic to engage our attention. The Philippines has settled upon the policy of economic development and industrialization, for the purpose of increasing the per capita product and income of its people, and thus of starting them toward prosperity. This is a most worthy social goal.

Since economic development cannot be gotten costlessly, it makes sense to try to keep the costs as light and socially tolerable as possible. The cost of economic development lies in the formation of capital. The means to pay for plant and equipment, tools, roads and power, as well as for advanced technical skill and executive talent must be produced, saved rather than consumed, and finally applied to investment. Moreover, a sufficient proportion of the means of payment must be in the form of the foreign exchange required to purchase abroad the equipment, materials and skills which are not available at home.

In the case of a young country like the Philippines, the bulk of whose people is poor, if their savings are to be depended upon exclusively to finance economic growth, two conclusions emerge very harshly: first, the cost which saving will impose upon them in the form of a reduced level of living will be heavy and burdensome; second, the rate of economic development will be perilously slow.

Contrast this with the case of an enterpriser who succeeds in getting from foreign sources a loan big enough to set him up in business. First, the cost of forming the capital has been borne by outsiders prosperous enough to save and willing to lend foreign exchange. Second, the successful enterprise will generate enough earnings to carry the interest and repayment charges and at the same time earn a profit for its founders. One of the striking features of economic development in a growing country is this—and it cannot be broadcast loudly enough: every successful new enterprise is a seed bed of further growth. It becomes a source for the formation of new capital. The business grows because it forms its own organ of growth. Profits are ploughed back into expansion. We have already seen this in the case of foreign investments in the Philippines; it has been a subject of scandal to the communists. It happens to be the rule of advancing economic life. One could point to the example of Henry Ford, or of Gonzalo Puyat, José

Marcelo, Vicente Madrigal, Toribio Teodoro, Aurelio Montinola; or of younger men: Ramón del Rosario, Francisco Delgado, Leonides Virata. One needs to get hold first of the goose that will lay golden eggs. If a foreign loan will put the goose in your hands, you will not disdain to accept it simply because some fool has said: We do not need foreign loans. No generator for forming capital has ever proved more fecund than the firm itself, once successfully established. I believe that no lesson in economic history is clearer than this one. One need merely to look about himself to find confirmation of it in the Philippines.

We have not yet finished the tale of the beneficent effects of applying foreign capital. Third, the new firm raises the output of the country. Suppose it to be a food producing and packing undertaking in a land where food is scarce and dear. It contributes to raising the level of living by raising the country's product; indeed, there is no other way. Fourth, it increases employment, thus providing incomes not only for its owners but for many besides, whose heightened spending can, by stimulating trade, have a multiplied effect upon the creation of new jobs. The Investment Multiplier is as familiar as Supply and Demand to the collegian of today. Fifth, it becomes a seminary for executives and technicians. Thus we learn to do new and hard things without foreigners.

Do foreigners make a gain who lend or invest their capital abroad? Of course. But to single out this fact while overlooking all the others is to miss the significance of the role foreign capital can play in accelerating the pace of economic progress.

One senses behind the aversion of some toward foreign investment a profound misconception of economic realities. They seem to believe that the number of profitable opportunities is a datum, a defined, exhaustible series such that what I get leaves everyone else eternally one chance poorer, what the foreigner gets is gotten at the expense of the citizen. Exactly the reverse is true. Every enterprise opens up the way for additional enterprises. That is what one sees in developed countries. That is why they are not only each others' best customers but each others' most attractive fields for investment. Europeans invest in the United States; Americans invest in Europe, indeed, in the most advanced European economies—Great Britain, West Germany, France. In this country Meralco has exhausted one opportunity for investment and, in doing so, has provided power for thousands. The Manila Railroad, financed originally by the British, is the same kind of case. Are we to wait until we can ourselves amass all the savings and capital this country needs to develop its capacity to produce? Or shall we acknowledge that outside help is useful, and extend a ready welcome to it? Tiny Puerto Rico can teach us much, a land no bigger than Negros in size and with about the same population as Negros. Yet it now has a per capita income two and a half times that of the Philippines. We know how keenly we suffer from a shortage of foreign exchange, how tightfistedly we dole it out, yet how little we do to increase our annual earnings of it. Puerto Rico, one-thirtieth the size of the Philippines and not very richly endowed, currently earns $550 millions a year from its exports. We fall $100 millions short of that level. This is a national disgrace. If 2.3 millions of smart, advanced Swedes were that much better than we are, we could attribute it to a head start. But 2.3 million of backward Puerto Ricans are doing it. They call it Operation Bootstrap, a jolly misnomer; they have done it with the help of foreign capital and enterprise.

We need not only foreign capital but also foreign enterprise. Meralco, for example, brings to this country capital, and sets up a firm which dynamizes others. But it does much more. A young economy needs enterprisers and preceptors. It needs people who know how to run a large-scale electric utility business and, confident in their knowledge, are not afraid to risk their capital in it. Ours has been an agricultural country. We have had little experience in industry. We can learn, provided we have the teachers in our midst—learn the techniques and learn in time to replace foreign executives. I have no doubt that Meralco could make a good go of it now without the presence of American managers. But that was not true a generation ago. The full story of Meralco's impact on the city of Manila is not told in terms of economic imperialism and exploitative earnings.

The cases might be multiplied without making the point clearer. There is no untruth so emphatically refuted by economic history here and abroad as the fallacy which you will hear repeated again and again in the coming years: "Only we can help ourselves." In the mouths of primitive Papuans this would be patent absurdity. It does not become wisdom just because we say it.

MICHAEL MCPHELIN

2. The Transmission on National Politics

A recent development on the political scene is the entry into the political arena of men who make no secret of the fact that they are Catholics and that they mean to conduct themselves in public office in accordance with Catholic principles of morality. Some of them, like Senator Rodrigo, were active in Catholic Action work before they took up politics. At the same time the Philippine hierarchy in several pre-election statements has reminded Filipino Catholics that they are also citizens, and as citizens have a duty to use their votes to elect officials who will govern honestly and justly according to the democratic constitution of the country.

All this is bad news for the communists, since communism and Christian democracy are irreconcilable. What countermove should they adopt? If the Philippines were a country generally indifferent to religion, with Catholics in the minority, it would be simple. Catholicism itself as a religion would be the object of attack. Their front men and fellow travelers would doubtless now be parroting from platform, press and radio the old familiar slogans of "religion the opium of the people" and "pie in the sky when you die."

But the Philippines is a Catholic country, and so a somewhat more devious tactic is indicated. Transmission 15 makes