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## **Two Conflicting Views on Philippines Economy: Reply to Mr. Wilkinson**

Salvador Araneta

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barter on subsidy. An exchange tax also tends to raise prices to consumers by increasing the cost of imports. It bears heavily on outward remittances of dividends and profits to foreign investors. On the other hand, an exchange tax is easy to collect. For all its shortcomings it may therefore be a more practical measure, if combined with abolition of capital gains tax, than any increase in personal or corporate income taxes which seem simply to stimulate tax-evasion, and put the honest businessman to disadvantage.

I hope that in this paper I have not infringed on the courtesy that the Philippines so warmly extends to its residents and friends. If I have infringed, please blame my head, but not my heart.

In the tremendous demands that the future is going to make, don't discourage any of your friends from working for the Philippines. The future is at hand, and the future will dwarf today.<sup>1</sup>

GERALD H. WILKINSON

## II. REPLY TO MR. WILKINSON

**B**ECAUSE Mr. Gerald Wilkinson is an esteemed member of the community, his recent Rotary speech merits more than "a temporary pause." It calls for a considered and dispassionate reply. If my personal regard for him were less than what it is, I would have simply dismissed his speech with silence. But I have a high regard for his sincere desire to cooperate in our economic development with due regard for the general welfare. In taking public exception to some of his views and recommendations we would clarify many of the issues before the public today, including the so-called "irritants."

Mr. Wilkinson's speech came after I had the opportunity of reading the speech of Mr. H. F. Prioleau, President of Standard Vacuum Oil Co., at the Eleventh Annual Far East Conference, entitled "The Economic Challenge in Asia", which was presented to me by an American friend who attended the recent Educators-

<sup>1</sup> The foregoing is the substance of a speech delivered before the Manila Rotary Club, 19 February 1959.

Management Congress in Baguio. This is a study in comparison of these two speeches, touching on the same problem.

Mr. Wilkinson very appropriately based his talk for a new perspective on the need to anticipate, rather I should say to keep abreast of, the already existing high rate of acceleration of population. He dramatized the problem by quoting from Mr. Huxley who points out that the world growth in population in the last twenty-seven years has been more than three times the population growth of the sixteen centuries following the Birth of Christ and the present world population which is nearly three billion people will double to nearly six billion in less than fifty years from now. And Mr. Wilkinson very properly propounded these questions: "Has any of us begun to imagine what this is going to mean?" "What are we really doing in the Philippines to meet this avalanche?"

The formula to anticipate the avalanche offered by Mr. Wilkinson which I surmise from one of his leading questions is "to gird ourselves to a much broader outlook and a much clearer practice of encouragement and combination than exist today." I have no quarrel with this general outlook and with this general wishful thinking. But in all frankness, I am afraid that the realities of an already existing avalanche cannot be effectively met with wishful admonitions for encouragement and combinations. What are needed are wise economic policies, in the monetary, credit and fiscal, and trade fields. Moreover, it would seem that some of his specific recommendations are not based on a new perspective but on a lack of understanding of the *really new* perspective that has brought about recent government policies including the Filipino-First Policy which Mr. Wilkinson does not support, quite understandably.

More specifically, to meet the avalanche of increased population, Mr. Wilkinson recommends the following: (1) a reduction in dissensions and divisions; (2) more constructive efforts by the press; (3) a truce on what he calls shotgun weddings of compulsory stock-participations; (4) full encouragement to foreign technicians; (5) not to take the U.S. for granted and to realize what the country gains with our sugar exports to the U.S.; (6) full encouragement to mineral development; (7) full encouragement to foreign capital; and (8) abolition of the capital gains tax. It seems to me that Mr. Wilkinson forgets the fact that most of his recommendations, which he himself admits are not new, were in

line with the thinking that prevailed in the country since the American regime at the turn of the century up to the time of the Commonwealth government and the recent past and were generally accepted by our leaders including President Quezon, President Roxas, President Quirino perhaps in a lesser degree, and by President Magsaysay, with a tendency to a swing to the past. It was this thinking that brought about economic policies that did not anticipate and prepare the country for the real economic development needed to meet the avalanche. Rather than to a new perspective, Mr. Wilkinson would invite the country to retrogress to the old perspective that has been found wanting.

It is interesting on the other hand to read in the speech of Mr. Prioleau what I consider a new American perspective to the new economic challenge in Asia. Here we have the head of a great and powerful American company pointing out that pessimists ten years ago "predicted that Asian revolt against colonialism and *exploitation* might rapidly collapse in chaos or Communism. Yet, today, outside of Communist China, we can congratulate our Asian friends for their accomplishments in preserving their freedom and resisting subversive pressures." In the economic field, Mr. Prioleau adds "that many doubted ten years ago that the relatively few available Asian leaders and trained people could build new nations and sustain economic growth. Yet the latest annual reports of the Colombo Plan and ECAFE both indicated continuing economic expansion throughout Asia but warned against the adverse financial shortages and deficiencies I have mentioned." Mr. Prioleau does not mince words in proclaiming that during the past decade the Asian nations have made remarkable progress and adds "we honor and respect the Asian spirit of freedom and integrity..." and would "warn Americans... to Asian sensitivity to alien rule or to any semblance of *foreign interference, whether political or economic.*" (Italics added.) Mr. Prioleau shows a broader understanding of Asia's problems than many of our friends in the Philippines when he continues:

As we look back over the past decade, we can also see that the struggle for nationalism, for independence was only part of the struggle in Asia. We find that modernization is the equally vocal twin of nationalism. All the free nations of Asia have shown a determination to seek a new destiny, a new kind of life, without oppression, poverty or misery. The leaders and peoples of Asia have been driving hard to modernize their whole way of living and producing... And we

would agree that most of Asia is still chiefly rural and agricultural. But the difference today is that the leaders and people in this great continent feel a new dynamic impulse, a "boom town" urge to move ahead in a hurry, a restless impatience to catch up with the twentieth century overnight. They have plans, programs and projects for all sorts of reconstruction and development...

Mr. Prioleau like Mr. Wilkinson starts by emphasizing the "explosive expansion of the population, a postwar phenomenon of most of the world." Mr. Prioleau gives a vivid description of conditions in Asia today when he continues as follows:

Cities in Asia are mushrooming with families and young people living in sub-standard conditions, requiring more and more of the bare necessities of life, and thus engendering unfortunate social discontent and dislocation. We might even have to remark that the 'revolution of rising expectations' may be giving way in some places to a 'revolution of increasing frustrations.' Mr. Simpson [an imaginary friend who is asking advice about investing in Asia] would look puzzled and concerned, and he should. While there have been advances, the progress of agricultural and industrial development may not be keeping pace with the growth in population and the demands for more goods and services.

Mr. Prioleau shows a keener understanding of the problems of Asia in general and of the Philippines in particular when he points out that some people are wondering whether Asia's economic resources and external credits (i.e. foreign exchange earned by the country and foreign investments, including foreign aid) are being geared together in large enough volume to meet these growing demands in time. He is also more realistic when he points that one of the problems facing Asian countries is the fact that "both prices and demand for their primary export products are in a decline," which brought about the "need to impose arbitrary and artificial controls on the economy."

Mr. Prioleau is also very realistic when he says that "the outlook for private investment (in Asian countries) seems to be somewhat contradictory. On the one hand, many governments seem to favor foreign capital more than was apparent several years ago. On the other hand, Mr. Simpson would encounter skepticism about foreign investors and private enterprise expressed in various ways: public operation or direction of industries; *official preference for national ownership and local government of profitable business*; extensive regulations and procedure, and difficulties concerning taxes, import licenses, prices and remittances." (Italics added.)

Note well: all throughout Asia there is an official preference for national ownership and local management of profitable business. This brings me to the Filipino-First Policy recently enunciated by the National Economic Council which is criticized by Mr. Wilkinson when he recommends:

A truce on attempts to take things away from each other, such as those *little* import quotas of long-established, law-abiding, tax-paying foreign firms, simply because they lack the umbrellas of Philippine or American citizenship... Is this really the time to cast their goodwill and their old employees aside?

If this is not the time, when will there be a propitious time? But the fact is, now that the import business must depend on foreign exchange provided by the Central Bank, importations have ceased to be a matter of right of any established firms. Importations are today a privilege made possible not by the ingenuity of the importer, but by the hard labor of the producers of export commodities who are mainly Filipinos. For the highly competitive markets of Europe, we need exporters, not importers. What is happening today is that not "little" things but big slices of foreign exchange are being commandeered from Filipino producers at less than its true value and being given to foreign importers again at less than its true value. If this situation must continue, we Filipinos would rather see our foreign exchange taken away from us to be distributed to other Filipino importers.

Again, Mr. Wilkinson recommends—

"A truce on compulsory percentages of ownership, and instead, a warmhearted and generous encouragement of joint ventures in whatever participations the Philippine enterprisers and their foreign friends may wish... Can shotgun weddings of compulsory stock-participations ever be as fruitful as alliances of free men joining together on a voluntary basis?"

Certainly, we do not want shotgun weddings of compulsory stock-participations and we do not know of any such weddings. And Mr. Wilkinson will not deny that what he calls the splendid post-war joint venture between Filipinos and foreigners has been stimulated by government policies and by more determined demands from Filipino entrepreneurs. All of these have been possible because of political independence, which we now realize had to precede our economic development. Real economic development of the country was not possible while our government was in foreign hands, when

our economic issues were decided by those who had in mind the best interests of the metropolitan country and their nationals.

Mr. Wilkinson speaks of the great benefits derived by the country from our sugar export quotas in the high-priced United States market. But for this privilege the country has had to pay the very high price of free trade for American finished products. We should know by now that free trade is always to the advantage of the most industrialized countries. Moreover, we should remember that a great portion of the benefits derived from our sugar exports to America have been channeled back to America by the equity held by American nationals in sugar centrals which grew even larger when an American Governor-General decided on a formula of sugar export quotas based on many years of production, thus benefitting long established American sugar centrals to the detriment of newer Filipino sugar centrals.

I am afraid Mr. Wilkinson overstresses the importance of foreign capital and foreign technicians in the development of the Philippines. Foreign capital and technicians were free to come without a single limitation during the forty odd years of American government in the Philippines, and what kind of development have they accomplished? We do appreciate that anyone who invests in a country has a right to repatriate his investments with reasonable profits, but what we want to avoid is the existence of enterprises mostly if not entirely built with wealth created in the Philippines, repatriating millions and millions of dollars every year to the detriment of our economic development.

Neither can I subscribe to the proposal of abolishing the capital gains tax allegedly as a means to enlarge Filipino ownership in industry. Filipinos should be patriotic enough to be willing to pay a capital tax on the sale of our lands specially if thereby we can raise new capital to invest in new profitable industries.

In closing this article, I want to come back to Mr. Prioleau. His imaginary friend Mr. Simpson finally asked him this last important question in connection with his plans to invest in Asia: "What about communism in that part of the world?" I accept as a correct statement of conditions and of issues the following reply of Mr. Prioleau's:

We could reply that recently the true nationalists in Asia have held the upper hand and have maneuvered the Communists on to open

ground and forced a shift in their tactics. We reach this conclusion as we look back over the last few years and recall the unsuccessful efforts of the Communists, directed from Moscow and Peiping, to conquer Korea and Viet Nam, weaken Japan, disrupt India and take over Singapore, Malaya, the Philippines and Indonesia. However, we would have to point out that the new struggle of the Communists in parliaments and polling booths, together with the overall political offensive of the Russian and Chinese Communists in Asia, should not be minimized. *The outcome of this political struggle would depend on how much confidence the people would continue to place in the message and performance of Asian nationalism. If it continues to produce the same kind of constructive leadership which has emerged during the past decade, and if it succeeds in satisfying the emotions and aspirations of the masses of the people, then its future will be fairly certain.*

So the answer to communism in Asia is nationalism, a dynamic and enlightened nationalism that will insist in retaining for the country and its nationals as much as possible the benefits of economic development.

In conclusion, if we have to start keeping abreast of the avalanche of population growth and possible growth of communism in this part of the world, the new perspective that is in keeping with the demands of the age is not the old one of trying to maintain the old order of things; policies that have been found wanting. We must accept the new dynamic nationalism of Asia to work with new economic tools, if the death control era brought about by modern antibiotics is not to engulf Asia with a human tide of poverty and frustration into the bottom of a communistic ocean.

The status quo mentality has advised us in the past against political independence, against protecting industries with high tariffs, against industrializing our country, against import controls, against a realistic foreign exchange policy, against rapid economic development.

But we now generally realize that this advice was ill-considered. Mr. Wilkinson himself in private admitted to me that he was wrong and I was right in my views on the need of revising our foreign exchange policy more than a year ago. And I must also admit that I myself was wrong once, and this was the only time when I advocated something like a status quo. For I did advocate a few years before the Second World War a real Commonwealth government, Canadian type, for our country rather than complete independence, in the wrong belief that it would insure us against Ja-



panese aggression. I overestimated then the value of the military umbrella of the U.S. and underestimated the striking military power of Japan. Today, the issue of the American bases in the Philippines should be a matter of serious concern to all of us. I cannot be positive and dogmatic on this issue. That American bases will attract a third world war to the country, if it comes, is sure. But on the other hand will not the enemy swallow the Philippines, more easily, without a war, if there are no American bases? This is indeed the difficult dilemma we are in. The answer, is to make the Philippines a strong economic Christian democracy, a country with full employment, with property well divided, with every laborer the owner and master of his home, with every farmer the owner and master of his land. Only then can we face communism across the ocean fearlessly, confident in ourselves and in the loyalty of our citizenry, for then we shall be convinced that democracy can meet the challenge of this age, and that democracy in peace will win over communism. This is the great challenge that we all have to face in the Philippines.

SALVADOR ARANETA