GOVERNMENT OWNERSHIP AND MANAGEMENT OF BUSINESS ENTERPRISES IN THE PHILIPPINES

By

Agaton R. Yaranon, LL. B.

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AUTHOR'S PREFACE

Within the brief period of twenty-five years, the Philippine Islands have undergone a radical change. The old paths of development, alternating between subjection, coercion and corruption have been gloriously changed by a new theory of development, - the ownership and management of business enterprises by the Philippine Government.

This extension of governmental activities in business has aroused a veritable storm of criticism and condemnation. Governor General Wood and the administration at Washington condemn this course and want the Philippine Government to get out of business.

In the following pages the author has attempted to show (1) that government ownership and management of business enterprises is desirable inasmuch as there is no private capital to undertake them; (2) that in order to encourage the investment of private capital in the Islands the restrictive land laws should be liberalized and a suitable immigration law should be enacted by the Philippine Legislature; and (3) that the policy of public ownership and management should be continued until they can be disposed of with little or no loss to the Philippine Government.

The material for this thesis was obtained from numerous official reports, newspapers, magazines, interviews, messages and statutes.

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C O N T E N T S

CHAPTER I

INTRODUCTION: REASONS FOR GOVERNMENT OWNERSHIP AND MANAGEMENT

The question of ownership and management of business enterprises by the Philippine government must be considered from an entirely different standpoint than that of similar operation of government-owned enterprises in other countries.

The first point of consideration is the character of the people. In contrast with the United States and England, the Philippines has not, under the Spanish regime, developed any system whose key-idea is to give to the citizen free play to his individuality. The Filipino has been used to dictation and has grown up under the atmosphere of subserviency. There was no stimulus to production under the Spanish policy of "absolute sequestration."[1] The encomendero and gratuitous labor systems[2] of Spain, which impoverished the people and robbed them of their property and the fruits of their toil, had forcibly accustomed them to look up to the ruling classes or the government for guidance in their larger affairs. The individual has had no encouragement in bettering his social, political and

1 Under the "absolute sequestration," Spain prohibited the Philippines from contact with foreign countries, except, in a limited way, China, Japan and other neighboring Asiatic kingdoms. The idea was to keep the Islands in complete isolation.

2 The encomendero system was a scheme whereby the encomendero received tribute from their encomendados either in money or in kind. In addition to the tribute, the people were required to work 40 days each year on public works. This gratuitous labor, however, was often misused and applied to the personal benefits of the alcalde, the encomendero, or government official, by compelling the people to work upon his house or lands.

economic conditions. Individual business was unknown and there was no incentive to encourage corporate bodies. Therefore the idea of government ownership and management naturally appeals to the Filipino people, while in some countries, the people have been brought up under the spirit of self-direction and prefer to exercise their own initiative than to let the government do it for them.

In the second place, the industrial habits of the people are essential factors in determining the extent and nature of government ownership and management. As a rule, the people are agriculturists or fishermen. They have not in the past been active in commercial enterprises, except upon a small scale. Even today very few of the large industrial concerns in the Islands are owned by the natives. "Most of the retail stores, the import and export business, financial institutions and corporations are in the hands of Americans and foreigners, especially Chinese."[1] Centuries of Spanish tutelage over the Filipinos had not stimulated the material progress and economic development of the Islands. The means of attaining material development were not understood; the methods of acquiring wealth was merely of a predatory nature. Happily, however, the change of sovereignty from Spanish to American marked the beginning of a real material awakening. It afforded the people a chance to direct their energies toward industrial and economic

1 Wood-Forbes Special Mission Report to the Secretary of War, October 8, 1921, pp. 19.

development. Believing in the policy of America as enunciated by President McKinley that "the Philippines are ours not to exploit but to develop, to civilize, to educate, to train in the science of self-government," and confirmed by the immortal declaration of President Taft that "the Philippines are for the Filipinos," the people started upon their great task of national upbuilding. Unenterprising and lacking both initiative and capital as the people are, the Government has taken into its own hands the ownership and management of not only those which are strictly public service corporations but also of all important industrial undertakings which are usually left to private ownership and control. Despite the "laissez faire" policy inaugurated by Governor General Wood, the Government stands pat on its present policy of government ownership and management until the people can be trained through observation and gradually increasing experience to undertake them, or until they can be transferred to some private concerns without great loss to the government. It is not unlikely, of course, that, in many instances, the Government will be corrupt and that considerable profits may be pocketed by the dishonest officials. But this is also true to a certain extent of every country, and in the Philippines the evil is likely to be only temporary. The training and experience which the people will gain along industrial and political lines will in all probability enable them to get both the honest control of the sources of production and distribution and the economic benefit that results therefrom sooner than if the undertaking of the enterprises were delayed until among the people themselves were found men and women with the initiative and the capital to direct great industrial enterprises.

In the third place, native capital is inadequate and American or other foreign capital is timid about investing in the Islands. But forward we must go, and progress and development must be made, or we shall fail to attain that degree of economic buoyancy which is essential if not indispensable to political independence. Therefore, in the absence of native or American or other foreign volunteers, it is far better for the Government to be the pioneer in the enterprises, having the welfare of the whole people throughout the coming generations always in mind, rather than to adopt the let-alone policy - a policy which is harmful in that it stimulates lethargy and pessimism in the minds and hearts of the people.

Furthermore, the Philippines, unlike other countries, is practically undeveloped. Only an infinitisimal fraction of its abundant resources, fertile lands, and powerful unharnessed natural forces is explored. The bounteous resources of the Islands are practically undiscovered and unexploited. Native or American or other foreign capital has not stepped in to exploit and develop them, while in other countries, the natural resources have been discovered and exploited, the forces of nature have been harnessed to human use, and industrial development has reached large proportions. Capital, both national and foreign, is abundant. The policy of most of the other countries seems to be to own and operate what are strictly public service undertakings only, and to leave all business enterprises in the hands of private capitalists, who can undoubtedly operate them far more efficiently and economically. At this period of Philippine transition, the author ventures to think that Government ownership and management tends to hasten the material development of the Filipino people.

Of course the question of ownership and management of public utilities and other business enterprises usually handled by private individuals or concerns by the Philippine Government is not without difficulties and discouragements. While the principal conception of our Legislature is for the welfare of the whole people, and while politics may have a tendency to steadily improve in the Islands, these facts should not be used as the basis for tying the hands of the Government with the management and operation of industrial enterprises for all times, for these are mere possibilities which are not likely to happen. It is not at all improbable that the Government might, as it has already done in many instances, carry on its business in a wasteful and inefficient manner. The experiences of people in other countries prove conclusively that Government ownership and management of business is often more expensive and less efficient than that of a privately owned concern. It has also been proved that Government accounting is not always as clear and accurate as that of privately owned enterprises. Furthermore, the salaries paid by the Government are woefully inadequate in some cases, and in others excessive. The results are, first, that those occupying "cinch" jobs, I mean those political job seekers and favorites of the parties in power, receive much more than they can hope for in commercial lines, and, second, that the rank and file of government workers receive rates of pay much below the rates paid for the same grade of work in private employment. Not only is this true, but government employees are virtually denied all the opportunities for advancement that are open in industry, business, and the professions. The brainiest and most ambitious of government low salaried workers leave the service when they get a chance, knowing that if they remain the highest salaries they will ever get will barely keep the proverbial wolf from the door. The conditions of service and salaries are such that the best men can practically never be kept in the Government service.

It is the humble opinion of the writer, however, that the advantages of government ownership and management of business enterprises, as far as the Philippines is concerned, counterweigh the great and manifold disadvantages. This is true even if the enterprises are operated only at cost. The Government has resorted to its many pioneer business undertakings not for the primary purpose of raising revenues, for many of the enterprises are being operated at a loss, but for the higher and nobler purpose of educating the people, of encouraging private capital, and of developing the potential resources of the country. The training and experience which the people will gain, together with the development of the enormous resources of the Islands for all incoming generations, will more than justify the efforts and money which the Government has invested. It is the view of the writer that on the whole the Government should continue owning and managing its different undertakings until they can be safely transferred to private persons or concerns, with little or no loss to the government. But for all intents and purposes, while the government engages in business activities, a standard of excellence should be set in the quality of work done, in the efficiency of service rendered, in the conditions of labor, in strictness of accounting, and in upright management.

CHAPTER II

CAPITAL INVESTMENT IN THE PHILIPPINES

Since the establishment of American sovereignty in the Philippine Islands at the close of the Spanish-American war in 1898, there has been attained in the Philippines a degree of progress and enlightenment unexcelled in the colonial history of any nation. This splendid achievement has been made possible through the heroic efforts and characteristic pluck and endurance of both the American and native officials of the Philippine Government.

But despite the progress thus far attained in government, education, sanitation, commerce, communication and transportation, the development of Philippine natural resources and of manufacturing and industrial plants has hardly started. Like the "promised land" of the Israelites, the Philippines is endowed by nature with wonderful and limitless possibilities. The opportunities for capital investment in the leading products of the islands, hemp, copra, sugar and tobacco, in spite of the advantages offered by free trade with the United States, have only been half-heartedly embraced by native, American or other foreign capital. Capital investment has also hesitated over the mineral resources of the Archipelago. The development of the minor tropical products such as quinine, cutch, castor oil, kapok, coffee and tea is practically untouched. Paper, brick and tile, leather, and canning industries have never been developed. The production of rubber has not been conducted to any great extent. There are several other activities which might be profitably developed. The chief drawback, however, in the development of these possibilities has been the lack of capital. The government is doing everything possible to further the Islands' development, but due to the inadequacy of its financial resources, the investment of private capital is urgently needed.

It is generally recognized by both American and native officials of the Philippine Government that the one thing needed to carry on the development of the magnificent and extensive resources of the Islands is capital. The Philippine Commission, in its annual report[1] to the Secretary of War for 1914, said:

> "Perhaps the greatest need existing at the present time is the introduction of capital properly directed in the development of the agricultural resources of the Islands. The laying out of sugar and coconut plantations operated by up-to-date men with modern machinery would be of incalculable benefit to the people."

This need is further illustrated by the following quotations from men whose opinions, because of their first hand knowledge of conditions in the Islands and of their past or present official positions, may be regarded as authoritative:

> "x x x What is needed here is capital x x It is true that it might be possible in the course of several generations to develop the latent resources of the Philippine Islands without the

1 Annual Report of the Philippine Commission to the Secretary of War, 1914,

> assistance of outside capital and finally to accumulate enough to develop the domestic business from within. But why wait? We had better attract for our use the accumulations of wealth already made in other countries, sure that the advantages which flow from them will far more than offset any possible disadvantage due to the fact that some of the profits will leave the country x x x"[1]
>
> "There is nothing which Americans can bring -- I do not even except education or a free form of government - which can do more for the civilization and elevation of the Filipinos than the investment of American capital in the development of the Islands."[2]
>
> "x x x There is need of American capital, American brains and American machinery."[3]
>
> "The most urgent need of the Philippines is capital x x x". [4]

Realizing, therefore, that only capital could remove the stone of economic paralysis which had bound the Philippines in a tomb of darkness and misery for so long and which had up to the American regime prevented it from development, the Philippine Government has done and is still doing everything that is humanly possible to encourage the investment of capital in the Islands.

The organic act of July 1, 1902,[5] provides, among other things, that the Philippine government may grant franchises, privileges and concessions with right to exercise the law of eminent domain to construct and operate

1 Inaugural Address of Gov-Gen. W. Cameron Forbes, Nov. 24, 1909
2 Speech, Ex-President Wm. H. Taft, October 16, 1913.
3 Dean C. Worcester, in the N. Y. Tribune, Nov. 22, 1913.
4 Annual Report of Gen.F.McIntyre to the SecWar, 1920, pp.12.
5 Public No. 235, July 1, 1902, Sections 74-75.

works of public utility and may cross public property of the United States, including streets, reservations, etc. and that of the insular government or of a province or municipality. This provision is again embodied in the new organic act, approved on August 29, 1916, known as the Jones Law.[1]

The Act of February 6, 1905[2] amended the act of July 1, 1902 by guaranteeing to any company building railroads in the Philippine Islands interest at a rate not to exceed four per cent per annum on actual cash invested.

The tariff laws of 1909,[3] 1913,[4] and 1922,[5] which opened freely the American market to Philippine products, offer inducements to the investment of enterprising capital, in the Islands. Under the organic law of the Philippines no duties may be levied on exports from the Islands. Past experience, however, clearly demonstrates that no advantage has been taken of these privileges.

In his message[6] at the opening of the Legislature in 1911, Governor General Forbes recommended -

> "That the Governor General be authorized to purchase bonds of companies organized by propriators of sugar estates in provinces where there are considerable numbers of sugar haciendas, for the purpose of assisting the owners thereof in building sugar centralls x x x."

1 Public No. 240, August 29, 1916, Section 28.
2 Public No. 43, February 6, 1905, Section 4.
3 Public No. 5, August 5, 1909.
4 Public No. 16, October 3, 1913.
5 Public No. 318, September 21, 1922.
6 Message of Gov-Gen. to the Phil. Leg., October 16, 1911.

Ex-Governor General Francis Burton Harrison in his message[1] to the Philippine Legislature on October 16, 1913, said:

> "Every legitimate business enterprise should and will receive the protection of the insular government x x x The duty of government is to see that every business man receives an equal opportunity before the law x x"

Again, in his letter[2] to the Editor, The Far Eastern Bureau, September 9, 1915, he said:

> "I take pleasure in saying to you personally that I am desirous of aiding legitimate business in the Philippines in every possible way. Last year, by depositing government funds in local banks, I made available ₱2,000,000 for loans at 8% per annum to the sugar growers of the south, and this year I have made available ₱2,700,000. To aid the tobacco growers of the north, ₱1,000,000 was likewise made available. The Mindoro Sugar Estate Company has been aided in a similar way, by depositing ₱900,000 of government funds in local banks, and aid has also been given to other agriculturists and business concerns in various ways."

Governor General Wood in his letter[3] to all Chambers of Commerce in Manila, said, among other things:

> "I am sure that you all realize the great desirability of encouraging the investment of outside capital in the development of out national resources x x x The policy of the government x x x is to encourage such investment in every way practicable, along lines of development rather than of exploitation x x x".

In almost every report of the Philippine Commission prior to the passage of the Organic Act of 1916 there were

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1 Message of the Gov-Gen. to the Phil. Leg., October 16, 1913.
2 Published in the Far Eastern Fortnightly, Sept. 9, 1915.
3 Published in the Manila Times, June 16, 1923.

recommendations that the United States Congress should make certain changes in the land laws of the Philippine Islands. The Philippine Legislature being authorized by the organic act to legislate on this subject, passed the Public Land Act.[1] The Public Land Act continued, with slight modifications, the restrictive features contained in the organic act of 1902. The maximum area of homestead was increased from 16 to 24 hectares, but the limitations on leasing and purchasing public lands were continued; that is, an individual may purchase not to exceed 100 hectares, a corporation not to exceed 1,024 hectares, and an individual or corporation may lease 1,024 hectares.

The Act[2] creating the National Development Company contains, among others, the following provision:

> "Section 1. If, for the proper attainment of its purposes, the National Development Company should find it necessary to acquire, hold and manage, alienate or encumber lands, mines, or mining claims in excess of the limit as to area established by law, said company is hereby authorized to acquire, hold, manage, alienate, and encumber such lands, mines, or mining claims during a period of ten years from and after the date of their acquisition, possession, or administration, in order to prepare and facilitate the alienation or other disposal of the same. The Governor General may, however, extend this time from year to year, whenever necessary in order to facilitate the sale or disposal of such agricultural lands, mines, or mining claims, provided the total of such extensions shall not exceed ten years."

This act has the effect, among other things, of granting,

1 Act No. 2874, 4th Phil. Legislature, Special Session, 1919.
2 Act No. 2849, 4th Phil. Legislature, Special Session, 1919.

by lease or by sale, more tracts of land to the National Development Company than that allowed in the general land act. This power is without reservation or restriction. It is the view of the writer that the restrictive provision of the Public Land Act which fixes the limit as to area of alienable lands which may be acquired and held by an individual or corporation can be taken advantage of by individual or corporate purchaser or lessor through the National Development Company.

By Act No. 2932[1] the eligibility to explore public lands containing petroleum or other mineral oils and gas is limited to citizens of the United States or the Philippine Islands and to duly constituted corporations or associations wholly composed of citizens of the United States or of the Philippine Islands, but at the instance of the State Department, the act has been amended by Act No. 3054[2] to include citizens of countries which extend similar privileges to citizens of the United States or of the Philippine Islands.

Act No. 2596[3] which was passed in 1916 guaranteed five per cent dividends upon the stock of certain classes of new industries for a period of five years from the time of organization, but no advantage has been taken of this law.

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1 Act No. 2932, 5th Phil. Leg., 1st Session, Aug. 31, 1920.
2 Act No. 3054, 5th Phil. Leg., Special " May 22, 1922.
3 Act No. 2596, 3rd Phil. Leg., 4th Session, Feb. 4, 1916.

In his report[1] to the Secretary of War for 1920, General Frank McIntyre, said:

> "The Philippine Commission, until it was as a legislative body replaced by the Philippine Legislature, and the legislature since, have done everything possible to induce the investment in the islands of American capital. The result remains discouraging."

The United States Revenue Act of 1918[2] while it does not apply to the Philippine Islands, applies to American citizens resident in the Philippine Islands or earning income in the Philippine Islands. The effect of this is to place citizens of the United States residing in the Philippine Islands in practically the same position as citizens of the United States resident in foreign countries.[3]

American business men resident in the Philippine Islands have complained of the tax imposed by the Revenue Act of 1918. The claim is that it places them at a disadvantage in competing with citizens of the Philippine Islands and with citizens of foreign countries resident in the Philippine Islands, in that citizens of the United States resident in the Philippine Islands are required to pay the income tax imposed by the Philippine laws[4], and in addition to that, to pay the taxes imposed by United States laws on American citizens.

Viewed from the standpoint of the interest of American

1 Annual Report of the Chief, Bur.of Ins. Affairs to the Secretary of War for 1920.
2 U. S. Revenue Act of 1918, Pub. No.254, 65th Cong.,H.R.12863.
3 See Regulations No. 45, U.S. Internal Revenue.
4.Act No. 2833, Phil. Leg., 3rd Session, March 7, 1919.

business men and corporations in the Philippines, it would seem obvious that American citizens should not be handicapped by the United States Government in their competition with others engaged in like trade in the Philippine Islands, and, therefore, they, as foreigners, should be subjected in the Philippine Islands only to those taxes imposed by the Philippine Government. Surely, foreign governments in their eagerness to secure trade outside of their country will relieve their citizens of the direct taxes, by way of income taxes, etc., on such business. Similarly, the Filipino citizen is subjected only to the tax of the Philippine Government on his earnings and income derived from sources in the Philippine Islands.

Viewed from the standpoint of the interests of the Philippines, the Philippine Government, in order to develop its idle resources, is anxious for the investment of American capital, and to encourage such capital it is disposed to levy lighter income taxes than that imposed by the United States Government. This effort, however, will be futile if the United States Government in the case of its own citizens supplements the taxes imposed by the Philippine Government so they shall be at least equal the taxes imposed in the United States.

However viewed - whether in the interest of American citisens doing business in the Philippine Islands or in the interest of the efforts of the Philippine Government to secure capital for development in the islands - the conclusion is clear that there is an imperative need for the laws[1] to be so amended that American capital invested in the Philippine Islands should pay only the income or profit taxes imposed by the Philippine Government.

Appreciating the disadvantageous position of American citizens in the Philippine Islands, the Philippine Legislature passed the following resolution[2] on this subject:

> "Be it resolved by the Senate, the House of Representatives of the Philippines concurring, That the Resident Commissioners be, and they hereby are, instructed to ask Congress for the amendment of the United States Internal Revenue Act of 1918, in the sense that American citizens who are bona fide residents of the Philippine Islands shall not be subject to any income tax greater than that required of the other residents of said Islands."

The great injustice of the Revenue Act of 1918 has been removed by the passage of the Revenue Act of 1921[3] which places American business men and corporations in the Philippines on the same footing as their foreign or Filipino competitors. Relieved of the handicap created by the iniquitous revenue act of 1918, and protected by the Act of 1921, we may now hope that American capital shall henceforth gravitate toward the development of the virgin resources of the Philippine Islands.

1 The Revenue Act of 1918, Public No.254, 65th Congress, H. R. 12863.

2 Concurrent Resolution #13, Phil. Leg., 1st Session, February 9, 1920.

3 Public No. 98, 67th Congress, Section 262, November 23, 1921.

The Philippine government, despite its persistent and continuous efforts, has failed to attract to any great extent the investment of native, American or other foreign capital, which is most essential to the development and progress of the Islands and people. The native capital is inadequate and American or other foreign capital is hesitant about investing in the Islands. The experiences of unsafe and dubious investments during the Spanish regime have so prejudiced most of the native capitalists that they hesitate to engage in large financial enterprises. Material upbuilding through the investment of capital by the people is negligible. Economic and industrial developments, considering the fact that the people are handicapped by the lack of both initiative and capital, must, therefore, be necessarily slow. And to the American or other foreign investor, the Philippines does not seem an attractive field for investment.

The commonest excuse of American or other foreign capital for not investing in the Islands has been the political uncertainty. It is most unfortunate that this particular objection can not be removed. It is an incontestible fact, however, that American or other foreign capital has invested in places quite as remote as the Philippine Islands and in territories the status of which is quite as uncertain as that of the Philippines.

Following closely the political uncertainty there were given two other reasons why capital could not venture into the Islands. They are, first, the unsatisfactory land laws, and, second, the impossibility of securing satisfactory labor in sufficient quantity without proper immigration laws.

These two matters had been constantly deliberated upon by the Philippine Commission since its organization in 1900. Efforts had time and again been made to secure from Congress legislation which would, in whole or in part, meet these objections. However, these efforts had not only failed, but had demonstrated rather clearly that from Congress no remedial legislation could be hoped for. Such being the case, by the organic act of 1916 the Philippine Legislature was given full authority to legislate on these matters, i. e., public lands and immigration, subject to the approval of acts of these subjects by the President of the United States.[1]

The result to date is disappointing. The Philippine Legislature has not handled these subjects in a way to accomplish the desired object. It is true, a land law (Public Land Act No. 2874) has been passed which is an improvement on the old land law, but it falls far short of recognizing the great need of the Islands and of the fact which is becoming more and more clearly established in the world, that the only title to land, or, in fact, to territory, is the beneficial use of it. Perhaps the

1 Public No. 240, August 29, 1916, Sections 9-10.

failure to pass a proper immigration law, as well as a more liberal land law, has been due to the timidity of certain members of the legislature who fear competition. It would be well for those members who are moved by such reasoning to think of a plan by which they can in future keep their neighbors out of the Islands. The real question is whether immigrants are to be received now under purely Philippine regulation and control, backed up by the United States Government, or will receive them later when the Philippine position will perhaps be too weak to maintain control or to impose restrictions. God forbid the advent of the day when the Filipino claim to the idle and unoccupied lands of his country will be scorned as against the claim of those who are prepared to occupy and use it! The case of China furnishes a formidable example. Her weakness has reluctantly permitted economic and political penetration of foreign nations, resulting in the slashing of China into territories, concessions and spheres of influence.

The Legislature has done nothing to meet the need of immigrants and laborers for these unused and unoccupied lands. It is believed that every one who is interested in keeping "the Philippines for the Filipinos" should be interested in urging that unless used the Philippines will not be for the present or future Filipinos; that it is only by placing in beneficial use as rapidly as it can be done with due regard to the interests of the people the territory which God has given to them that they may hope to benefit by it now, or hold it as their own in future.

It is true the investment of capital must precede the supply of immigrant labor, but it is equally true that the opportunity of securing the outside labor must be provided as an inducement to capital. Every cautious investor must know that he will have an available labor supply before he makes the investment. It is for this reason that the immigration question is more pressing than at first appears.

It is the view of the writer that the Philippines should be opened to immigration, under suitable restrictions. The government should control this immigration so that immigrants would be brought in as needed and to localities where needed, and the immigrants should be of a class readily absorbed by the Filipinos so as to strengthen the Filipino people numerically and in those respects in which they are weakest.

CHAPTER III

GOVERNMENT-OWNED-AND-MANAGED ENTERPRISES

In the absence of private capital to assist in the development of the Islands, the Philippine Government has itself undertaken this pioneer work. The government has launched upon the path of government ownership not for the primary purpose of raising revenue, but to lead and educate public opinion in promoting the general economic welfare of the country. Thus the Philippine Government has become the owner and manager of various corporate enterprises, either as a majority stockholder or as an owner of all the stock. These are the Division of Cold Storage and Ice Plant, the Manila Railroad Company, the Philippine National Bank, the National Coal Company, the National Development Company, the National Cement Company, the Investments of the Philippine National Bank in Cocoanut Oil, and the Philippine National Bank Sugar Centrals.

The Division of Cold Storage and the Manila Railroad Company are tax-exempt. All the rest are governed by the corporation laws of the Islands and are subject to taxation by the insular government. With the exception of the Philippine National Bank, all the above mentioned enterprises are not operated under a dividend-paying basis.

THE DIVISION OF COLD STORAGE AND ICE PLANT

By direction of the Secretary of War, this plant was erected with insular funds for the primary purpose of furnishing ice to the Army and Navy in the Philippine Islands, and upon completion was placed under the administration of the Insular Government in pursuance of Act 315[1] of the Philippine Commission, creating the "Bureau of the Cold Storage and Ice Plant."

In its report[2] for 1902, the Philippine Commission says:

> "The total cost of the construction and equipment of the plant down to the 1st day of September, 1902, including some new erections now in process of construction, is $689,336.38 (₱1,378,672.76)."

The value of the land occupied by the plant is not included in the cost above mentioned. Neither was there any duty paid on the material for construction and equipment, and, much of it being transported upon the Army transports, the freight charges were very light. Under the circumstances, it would have been impossible for a private individual or corporation to duplicate it for the same amount.

The report continues:

> "If the property were owned by a private individual or corporation, it would doubtless enter into competition with the existing establishments for the supply of ice and cold storage to the general public and could be made to earn a larger revenue than at present accrues. x x x At present there are no practical difficulties in the way of the existing system of administration by the Government. The objections to it are mainly theoretical, on the ground that the Government is engaging in a business that ordinarily is conducted by private enterprise."

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1 Act No. 315, Philippine Commission, December 10, 1901.
2 Annual Report of the Philippine Commission for 1902.

In 1907, by Act No. 1609[1] of the Philippine Commission, the Bureau of Cold Storage was converted into a Division of the Bureau of Supply. The report[2] of the Philippine Commission for 1902 says, among other things:

> "Ice is sold and delivered to officers of the Army and Navy, civilian employees of the United States and insular governments, and school teachers at the rate of one-half cent United States currency per pound. Persons not in the employ of the government, desiring to purchase ice from this plant, may do so by paying two cents local currency (or .085 U.S. currency) per pound and accepting delivery at the plant. In this manner the plant does not compete with the local ice manufacturers who sell ice at 2 cents local currency per pound but deliver it at the residence of the purchaser."

Upon his assumption of the administration of the cold storage and ice plant, the purchasing agent made a strong plea for the sale of ice to the general public, principally as a health measure, but also for the further reason that by this time many of the military posts have established their own ice plants and the full capacity of the Insular plant is no longer required to supply the needs of the government. He says in his annual report:

> "Pure ice and water are a necessity in Manila and the manufacture and sale thereof is of such supreme importance that it becomes a subject deserving governmental supervision.
>
> "We are spending millions in education, improvements and sanitation in these Islands, while one of the greatest instruments for the improvement of health conditions, and for the improvement of the physical condition of the inhabitants by lessening the debilitating diseases that are so weakening and even fatal in the tropics lies within our grasp almost

1 Act 1609, Philippine Commission, 1907.
2 Annual Report of the Philippine Commission for 1902.

> unused. Worse, we are even using this great agent for the benefit of the employees of the civil and military governments, and excluding from the use thereof the people we have come to help and aid."

The report continues:

> "The plant is a large modern one and, x x x could easily supply all the ice needed by the public in Manila. So far as is known there is only one private concern making ice in Manila. This ice is sold to the general public at 2 centavos per pound. Were it not for the necessity of avoiding competition x x x the division of cold storage could furnish ice to the public and make a resonable profit thereon, at 1-1/2 centavo per pound. The large wastage would be greatly diminished x x x the public would receive cheaper ice and the unit cost of production of the entire government plant would be considerably reduced."

In 1908 and previously, the purchasing agent earnestly sought to purchase the one private ice plant[1] of any importance in Manila, in order to operate it in conjunction with the Insular plant and to furnish the general public with ice at reasonable rates but this plan failed. In 1910 he abandoned his previous position and advocated the sale of the Insular plant, but this plan also failed. The reason for the change of the viewsof the purchasing agent is not known, unless it be that he had come to regard the interpretation put upon Act 315 by the higher officials, as stated in his 1910 report, to be a hardship upon the people in general, in that it enables the private dealers to maintain prices at an exhorbitant, and in most cases a prohibitive figure. Justly holding that, in a

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1 The Fabrica de Hielo de Manila.

warm place like the Philippines, ice is not a luxury, but a necessity for health and comfort, and in some cases life, the purchasing agent felt it incumbent upon him in his official capacity to do his share toward bringing it within the reach of the poorer people whose need was greatest. So in his report for 1908, the purchasing agent strongly pleaded for allowing the general public to participate in the benefits offered by the government ice plant and suggested that the government buy all the rights and interests of the one private ice concern in Manila, and sell ice at one-half the existing price. He says:

> "Your attention is respectfully called to my recommendation of last year that the government purchase the Fabrica de Hielo de Manila and supply ice and water to the entire population at a greatly reduced rate, making the division of cold storage a great public utility.
>
> x x x
>
> "The ice plant is a revenue producer, and if the plant is put in perfect repair, all claims of the Fabrica de Hielo de Manila be satisfied x x x the net earnings now amounting to 340,000 pesos per annum can be greatly increased and ice supplied to the public generally at 1 centavo per pound.
>
> "This department is satisfied that the acquisition by government of the Fabrica de Hielo de Manila at a reasonable valuation would be of most direct benefit to the government revenues x x x and of immense advantage to the public through the reduction of the price of ice to 1 centavo per pound."

In 1910, the purchasing agent reported as follows;

> "Act No. 315 provides that the ice plant shall not engage in competition etc., and under the interpretation heretofore made of this law, the price of ice in the islands has been kept

ex

exorbitantly high. Several private establishments in Manila furnish ice, cold storage and distilled water, although in nothing like sufficient quantities to supply the demand; and it seems to have been understood that the division of cold sotrage must fix its prices higher than theirs, regardless of what theirs were, otherwise it would be entering into competition.

"The undersigned differently interprets this provision. I think the law means that the division of cold storage must sell its product so cheaply that private parties cannot manufacture and sell theirs, with a reasonable profit upon their investment, at the same or a somewhat lower price. It hardly seems that it was intended that the government should aid private owners in exacting from the people unreasonable prices for these necessary commodities. Therefore, the price of ice at the government ice plant was recently reduced, the scale of prices being lowered to practically 75 per cent of what it had formerly been. At these prices the division of cold storage continues to show a large profit, and there is no question that a privately organized business could sell its product at smaller figures and still show a handsome profit upon a fair capitalization."

The following shows the revenues, expenditures and profits or loss of the plant since 1902 up to the present:[1]

Year	Revenues	Expenditures	Profits	Loss
1901-02	₱626,484.70	₱398,384.42	₱ 238,100.28	
1903	664,388.34	396,677.66	267,510.68	
1904	602,948.81	395,622.18	207,326.63	
1905	706,356.37	308,385.11	397,971.26	
1906	713,047.92	271,791.82	441,256.10	
1907	632,565.37	264,402.13	368,163.24	
1908	616,673.09	276,211.06	340,462.03	
1909	698,235.57	297,588.27	400,647.30	
1910	667,283.64	331,220.52	336,063.12	
1911	570,733.14	330,079.55	240,653.59	
1912	591,486.26	438,191.24	153,294.84	
1913	633,663.91	596,504.29	37,159.62	
1914	508,007.39	508,281.53		₱ 274.14

1 These figures are taken from the reports of the Philippine Commission and the Governor General of the P. I.

Year	Revenues	Expenditures	Profits	Loss
1915	₱ 436,324.69	₱298,418.32	₱137,906.37	
1916	467,070.26	306,616.97	160,453.29	
1917	489,908.79	419,662.02	70,246.77	
1918	575,921.84	435,413.64	140,508.20	
1919	723,117.31	486,946.11	236,171.20	
1920	923,036.28	859,472.81	63,563.47	
1921	957,259.90	612,405.39	344,854.51	
1922	726,479.16	499,726.34	226,752.82	

A glance at the foregoing leads us to the conclusion first, that Act No. 315, which prohibits the insular cold storage and ice plant from competing with private enterprises, is unfair because it discriminates against the general public and taxpayers in favor of civil and military employees, who are non-taxpayers; second, that since ice is not a luxury but a necessity the manufacture of it can be justifiably monopolized by the Philippine Government; third, that if the manufacture of ice is made a government monopoly, it will not only greatly increase the net earnings of the ice plant per annum, but will also be able to supply the general public with ice at a much lower rate; and, fourth, that although the government ice plant has reduced the price of ice "to practically 75 per cent of what it had formerly been x x x the division of cold storage continues to show a large profit, and there is no question that a privately organized business could sell it s product at smaller figures and still show a handsome profit upon a fair capitalization."

THE MANILA RAILROAD COMPANY

In 1887 the Spanish government granted to an English Company a concession[1] for a railroad from Manila to Dagupan in the Island of Luzon. The Spanish government guaranteed to the concessionaire annual net earnings equal to eight per cent of the capital to be employed. The concession was granted for ninety-nine years. The road began its operations in 1892. The revolution and the Philippine-American war impeded the building of the road. Construction was resumed only after peace was declared.

The change from Spanish to American sovereignty meant the discontinuance of the Spanish government's guaranteed interest which was paid every year until August, 1898. The company waived its claim for interest after 1898 in contemplation of a new concession which was granted to it and its successor in ownership by the Philippine Government in 1906.[2]

The acquisition of the Manila Railroad Company by the Philippine Government was inevitable for the safety and well-being of the Islands. In urging upon the Legislature its approval of the agreement[3] between the Manila Railroad Company, the Manila Railway Company, and the Governor-General, Francis Burton Harrison said:[4]

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1 Spanish Concession was published in the "Gaceta de Madrid," July 17, 1886.
2 Act No. 1510, Philippine Commission, July 7, 1906.
3 Memo. of Agreement between the M. R. R. Co., the Manila Railway Co., (1906) Ltd., and the Philippine Government, Dec. 18, 1915.
4 Message of the Gov.-Gen., Jan. 10, 1916.

"I advocate the adoption by you of the terms of the agreement primarily because I believe that the people of the Philippine Islands should own their greatest public utility - the Manila Railroad Company; this railroad is a public highway and should be operated for the benefit of those served thereby rather than for the financial benefit of private stockholders. A railroad is, in the very nature of things, a monopoly, and experience throughout the world affords convincing arguments in favor of the ownership and control of such monopoly by the people themselves. Even if it be suggested that the management of a railroad company may perhaps be more profitably conducted by private enterprise, which is by no means certain, considerations of the highest public policy offset this. This railroad discharges a public function; namely, the transportation of persons and of freight from place to place within the Philippine Islands, and the exercise of this function should be subject to the control of the public itself. The conduct and operation of the Manila Railroad Company enters, in one way or another, into almost every detail of your economic growth, and thus directly or indirectly affects and will continue indefinitely to affect the daily lives of the people of these Islands.

"Without entering into a discussion of the general subject of the benefits of Government ownership of railroads as opposed to private ownership, I submit this matter to your attention as of especial importance in the economic future and development of the Philippine Islands. The gift to a private company of a perpetual franchise for the operation of a transportation system was imprudent and unwise, and I earnestly advise that the people of the Philippines should take this, the first reasonable opportunity of securing the return of this franchise.

"It is true that in the United States the railroads generally have been built and maintained by private enterprises, although even there public assistance has been given by way of land grants, and guarantee of interest in many of the States, and the courts have been frequently called upon through reorganization to sustain the operation of many of these systems. However, the United States Government has recently authorized Government construction and ownership of a railroad line for the development of the territory of Alaska.

"Moreover, the Government of the United States, through the ownership of the capital stock, operates the Panama Railroad as an incident to the building and operation of the Panama Canal. Outside of the United States the greater portion of the railroad mileage of the world is owned by the several states and governments. The figures for the year 1913 show that of the railroad mileage outside the United States 197,491 miles were state-owned as compared with 136,327 miles privately owned. Here in the Orient it is especially noticeable that within recent years the Japanese Government has taken over and is maintaining in successful operation more than two-thirds of the railways of the Japanese Empire and in the Dutch East Indies almost the entire railway mileage is owned by the Government. It is in British India, however, that we have the most striking precedent. There, as in the Philippines, it was found to be almost impossible to induce private capital to engage in the construction of the railways without Government guarantee of some sort; that guarantee was finally and somewhat reluctantly given and carried with it such supervision as was necessary for the proper protection of the government under its guarantees x x x

"In addition, however, to the general reasons in favor of government ownership of this railroad, a special reason exists of great and compelling interest to the Filipino people. For the purpose of expediting the construction of the Southern Lines of the Manila Railroad, the Philippine Government has by legislative authority lent to the Manila Railroad Company from time to time from the resources of the gold standard fund the sum of ₱5,675,000 and has authorized further loans so that the total will eventually reach the sum of ₱7,127,000. These sums of money have been re-lent by the Manila Railroad Company to the sole stockholder, the Manila Railway Company (1906), Ltd., which is the English construction company, in order to enable the latter to comply with its contract to construct the Manila South Lines. This English company is now unable by reason of the financial condition brought about by the European War to obtain capital for further construction work in the Philippines except as this Government may make to it further advances from time to time. The situation is one, therefore, in my

> opinion, which requires the Philippine Government, for the protection of its own investments in the Manila Railroad Company, to assume the ownership of the road. Moreover, it may be stated that the Government has practically financed the construction work for the Manila Railroad Company since January 22, 1912, during which time the final control of that construction and the operation of the line so constructed has been in private hands x x x."

The following history of the Manila Railroad Company's concessions will afford a clearer understanding of the reasons which led to its purchase by the Philippine government. By an Act of Congress approved February 6, 1905,[1] the Philippine government was authorized inter alia to guarantee the interest on bonds issued by railroad companies which might be authorized by that government to construct, equip, operate and maintain railway lines in the Islands. The Philippine Commission by an Act (No. 1510) passed on July 7, 1906[2] granted the Manila Railroad Company concessions in perpetuity, without guarantee of interest by the government, for certain lines of railway on the Island of Luzon, including the then existing lines of the Manila Railway Company, Limited, which had been granted a concession by the Spanish Government in 1887. In 1909 the Philippine government, by Act No. 1905[3], granted the company concessions for further lines which it earnestly desired constructed, and under this supplemental concession the lines of the company were divided into two systems designated as the northern lines and the south-

1 Public No. 43, February 6, 1905, Section 4.
2 Act No. 1510, Philippine Commission, July 7, 1906.
3 Act No. 1905, 1st Phil. Legislature, May 19, 1909.

ern lines. On the latter, including all lines south of Manila and a branch line to Baguio, the government agreed to guarantee interest on the bonds at the rate of 4% per annum.[1]

The Manila Railroad Company, in order to carry on the new construction required by the last mentioned concession, entered into a construction contract[2] with the old Manila Railway Company, Limited. Under the terms of this agreement the construction company accepted the 4% guaranteed bonds issued by the railroad company, at par, and in turn the construction company was required to find the money to carry on the new construction.

In 1911 and thereafter the Government to hasten construction found it necessary to make large loans[3] to the railroad company. In 1914 the World War broke out and the construction company, an English concern, found itself unable to raise funds with which to carry on construction work. It was under the necessity either of disposing of its property in such a way as to meet its indebtedness, or of being placed in the hands of a receiver. Its relations with the Manila Railroad Company were such and the indebtedness of the Manila Railroad Company to the construction company was such that such action on the part of the construction company would inevitably be followed by a receivership for the Manila Railroad Company. The Philippine government therefore had to face the problem

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1 Public No. 43, Feb. 6, 1905, Section 4.
2 Construction Contract between the Manila R.R.Co.and the Manila Railway Co.(1906) Ltd., Jan. 28, 1910.
3 Act No. 2083, Phil.Leg., Dec.8, 1911 and Act #2088, Phil.Com'n Dec. 11, 1911.

of whether it would be more advantageous to it to take over the railroad company at a fair valuation or to permit it to go into the handsof a receiver with the possible indirect losses to the Islands arising therefrom and a possible direct loss of a considerable part of the indebtedness of the railroad company to the government which would certainly have ensued if the bonds of the railroad company had had to be disposed of under such circumstances.

After mature consideration and extended negotiations between the Governor General of the Islands and the railroad company, an agreement[1] for the purchase of the stock of the railroad company was entered into on December 18, 1915. This agreement was subject to authorization by the Philippine Legislature, which was granted by an act (No. 2574) passed on February 4, 1916.

The agreement[2] provides in substance that the government shall acquire all the capital stock of the railroad company for the sum of ₱8,000,000, 51% payable in cash on the date of sale, and the balance within eighteen months with interest at 5%. It further provides that with the consent of Congress the maturity of the outstanding guaranteed bonds of the company may be extended twenty years, or until May 1, 1959; provides a sinking fund for their retirement which shall be met from such funds, if any, of the company as may be available for such purposes, and to be

1 Act No. 2574, Phil. Leg., Feb. 4, 1916, authorized the Gov-Gen., to execute memorandum of agreement for the purchase of the Manila Railroad Company.
2 Memorandum of Agreement, December 18, 1915.

supplemented so far as necessary by continuing annual appropriations by the government. The indebtedness of the railroad to the construction company is to be paid in bonds of the railroad company. The railroad company is also required to retire certain outstanding 6% and 7% bonds, for which purpose it is authorized to issue 5% bonds of equal face value to be secured by first mortgage on the northern lines and a second mortgage on the southern lines, the latter to be subject to the mortgage securing the 4% guaranteed bonds.

Such is the brief history of the acquisition of the Manila Railroad Company by the Philippine government. During 29 years of English ownership, the Manila Railroad Company continued to sustain heavy losses until its purchase by the government.

As stated above, the purchase of the capital stock of the Manila Railroad Company is ₱8,000,000. In 1920 the Philippine Government invested ₱12,127,000 and ₱2,000,000 more in 1921, making a total investment of the government in the capital stock of the Manila Railroad Company of ₱22,127,000.

To secure the ₱22,127,000 invested in the road, the Philippine government issued its bonds to the amount of ₱8,000,000, and drew the balance of ₱14,127,000 largely from the Gold Standard Fund of the government.

To replace this Gold Standard Fund, the Government has been forced to issue its bonds.

So today the Government owns ₱22,127,000 of capital stock of the railroad company, and it has outstanding in the hands of the American public ₱8,000,000 of 4 per cent gold bonds and ₱14,127,000 of 4-1/2 per cent gold bonds. That is, the government is paying interest on these ₱22,127,000 of gold bonds, and receives nothing from the Manila Railroad Company.

To protect the government, the directors of the railroad should be required to pay a dividend on the stock sufficient to meet the interest on these outstanding bonds, plus the sinking fund charges. This would prevent the making of false reports and would also put the government in a position to dispose of the company under reasonable terms if it should so elect.

The Manila Railroad Company is a success under government control and ownership. It may be fairly stated that although a government-owned-and-managed enterprise, the minimum of politics is observable in the conduct of its business. That the government can successfully and profitably run the road is beyond the shadow of doubt.

According to the statements[1] of the General Manager, the balance sheet of the company before its acquisition by the Philippine government, from 1914 to 1916, gives

1 Annual Reports of the General Manager for 1914 to 1916.

the following figures:

1914	net deficit	₱ 116,887.00
1915	" "	823,564.00
1916	" "	432,490.00

The purchase of the company by the Philippine Government in 1916 marked the beginning of converting a great loss into a great profit. The results of six years of government ownership and management of the railroad company are enlightening and tend to prove that this government-owned-and-managed public utility can be operated as economically and efficiently as it might be under private management. The following is a table[1] of the net profits of the company since 1917:

1917	net profit	₱ 816,639.00
1918	" "	248,742.00
1919	" "	385,458.00
1920	" "	23,983.69
1921	" "	297,156.07
1922	" "	2,281,318.70

The report for 1923 was not ready when this was written. But a healthy net profit is expected.

In his article[2] entitled "Philippine Railways and their Rivals," A. E. Gilmount, said:

> "The Manila Railroad Company, a British corporation operating in Luzon until 1916, was on the verge of failure when the Government took it over x x x
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> "In 1916 the Philippine government was severely criticized for its purchase of the Manila Railroad. However, in the face of the financial results obtained by its administration, placing the road on its feet financially, all opposition to Government

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1 Annual Reports of the General Manager for 1917 to 1922.
2 Published in the Far Eastern Fortnightly, Mardh 28, 1921.

ownership has ceased. Another important factor favoring public ownership is lack of private capital. While private capital may be secured for industrial enterprises, none is forthcoming for public utilities subject to Government supervision."

In the opinion of the writer it is sound policy for the government, having palpably demonstrated the feasibility of running the road at a profit, to relieve itself of the heavy burdens of operation and management. This may be done without giving up ownership and responsibility. To place the management of the Road under a suitable management corporation is to avoid some, if not all, of the errors of government ownership and management.

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THE PHILIPPINE NATIONAL BANK

The Philippine Government organized the Philippine National Bank[1] during the war as a depository for government funds and to perform the functions of an agricultural[2] and commercial bank.

During the trying days of its inception there was a large element very antagonistic to the bank. The opposition was probably due to the fact that it was to enter into competition with other banking corporations in the Islands. But the result of its first year of existence showed marked beneficial effects upon the community and the opposition began to disappear.

1 Organized by Act 2612, 3rd Phil. Leg., 4th Session.
2 Upon the establishment of the Philippine National Bank, the Agricultural Bank, created by Act No.1865, 1st Phil.Leg., Special Session, ceased to exist.

Commercial developments were greater than ever in the history of the Islands, business stability was very noted, and those who were the greatest knockers in the beginning had only words of praise for the wonderful work that had been accomplished through the organization and operation of this banking institution. Contrary to the general belief, the Philippine National Bank did not injure the other banks, as their business expanded also.

The Bank established branches[1] not only in various parts of the Islands but also in New York and Shanghai. The idea of organizing the branches throughout the Islands was not only to give proper banking facilities to the people in the remote districts, who had heretofore had none and who had long been urgently requesting them but also to assist in the development of the remote parts of the Philippines, which would have been left undeveloped had it not been for the establishment of the Bank.

Encouraged by its rapid growth in the first three years of its existence, the Bank went into a field that the other banks had failed to develop and assisted materially in developing the interests which had laid dormant in the Philippine Islands for many years. Under the stimulus of enormous deposits of government

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1 The Philippine National Bank established agencies in New York City, Shanghai, Cebu, Iloilo, Davao, Cabanatuan, Legaspi, Dagupan, Lucena, Aparri and Naga.

funds[1] the Bank became a powerful factor in inaugurating and fostering many Filipino enterprises both commercial, agricultural and industrial. Unaware perhaps of the fact that the wave of prosperity and business might recede at any time following the closing of the war, the Bank through its inefficient and inexperienced officials, made loans in excess of its resources to speculative concerns, advanced money on quedans[2] of hemp, tobacco, oil and sugar, and invested enormous sums for developing hazardous undertakings.[3] Many of these were made in utter violation of the bank's charter. This act of the bank is described by the report of Haskins and Sells as "a violation of every principle which prudence, intelligence or even honesty could dictate."

This lead to the inevitable result of great loss to the Bank. The acknowledged loss of the Bank as of December 31, 1922 is ₱21,673,908.28.[4] The precise losses, however, can not be determined for years unless the bank is closed and liquidated as Governor General Wood has repeatedly urged.

One of the reasons why some insist upon the closing and liquidating of the Bank is because it competes with tobacco men, oil men, and sugar men. Under its present management, the Bank is willing to dispose of any

1 Act No.2612, 3rd Phil. Leg., Feb. 4, 1916, making all provincial and municipal governments to deposit all their funds in the Bank.
2 Quedans means warehouse receipts.
3 Report of Haskins and Sells, June 2, 1922.
4 Annual Report of the Board of Directors to the Stockholders, March 6, 1923.

or all of its enterprises. But the interest of the government demands that this not be done until there are customers for them. The best policy seems to be to continue running these enterprises until they can be safely turned over to private ownership and management without too great loss to the government. The complaint of competition with private business seems to be only theoritical. For example, the Bank through the Sugar Centrals Agency controls the operation of certain sugar mills. It is not seen how the operation of these sugar mills is in any way an injurious competition to other sugar mills. The same is true of the oil factories and, as a matter of fact, of the cigar factories. The products of these enterprises are staple articles sold in the world's market and produced in such quantities in the Philippine Islands as to have no effect on the world's prices.

It is inadvisable to close or liquidate the Bank for obvious reasons. In spite of its errors and shortcomings the Bank has come to occupy a very prominent part in the mind of the Filipino people and is considered essential to the peculiar interests of the people. Whether justified or not, the feeling must be reckoned with in considering the closing of the Bank. The people strongly believe that the closing of the Bank would mean a setback to all business in the Islands, closing of other banks and some mercantile concerns, permanent reduction of commerce between the United States and the Philippines, wrecking of various oil properties and business, and large loss to the Philippine Government. As stated by the Second Parliamentary Mission to the United States, "The Philippine people have always regarded the bank as a necessary means for the economic development of the Islands, and therefore they desire to increase, or at least maintain, the institution to carry out the purposes for which it was originally organized."[1]

About two years ago, the Wood-Forbes mission report said that "x x x the affairs of the bank are in a fair way to be put on a sound footing."[2] The present state of affairs of the Bank seems to be fairly well. Governor-General Wood, in his message[3] to the Philippine Legislature, said:

> "The Bank is in a far better condition today than at any time in the past four years. It is being well and carefully managed, and every effort is being made to keep its activities on sound business lines and to eliminate political and other improper influences in the handling of its affairs and resources."

1 H.R.Document No.511, 67th Cong., 4th Session, pp.74.
2 Wood-Forbes Mission Report to the SecWar, Oct. 8, 1921.
3 Message of the Gov-Gen. to the Phil. Leg., Feb. 16, 1923.

The total investment of the Philippine Government in the Philippine National Bank as of December 31, 1922, is ₱30,753,400. The amounts invested each year since the organization of the Bank are as follows:

Year	Amount
1916	₱ 2,575,800
1917	3,575,760
1918	5,171,720
1919	6,767,680
1920	7,837,440
1921	30,753,400
1922	30,753,400

It is the view of the writer that if the Bank is judiciously handled, in the course of a few years it will still be a large and valuable factor in the development of the Philippine Islands. The benefits that have already been accomplished by the Bank are now even greater than was expected in the beginning by the most sanguine. Under conservative management in the future, it will weather the storm and stand out in a few years as one of the largest and safest banking institutions in the Orient.

The best policy then is to let the bank continue under efficient management. Its salvation lies in its immediate rehabilitation, not in its closing or liquidation. Being the organizer and operator of the Bank, and the owner of 92% of its stock, the Philippine Government is the real party in interest and will necessarily have to meet all the losses. Therefore, for its own interest, for the commercial, industrial and agricultural interests of the people, the Government should immediately undertake to rehabilitate the Philippine National Bank, for postponement or delay in its rehabilitation will only increase losses and cripple the credit of the government.

THE NATIONAL COAL COMPANY

Geological surveys[1] have proved the existence of vast deposits of coal in different parts of the Philippine Islands. However, all previous efforts to develop coal in the Philippines resulted in a loss. This brought the development of coal in the Islands to a standstill.

Before the commencement of the European war, imported coal sold in Manila at ₱9.00 per ton. Owing to the great war, which increased the demand for coal, as well as the lack of transportation facilities, the price of coal rapidly increased until in 1918 the retail price reached about ₱60.00 per ton.

As private capital is hesitant to exploit the coal fields of the Islands, and as prices of coal

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1 Annual Report of the Bureau of Science, June 30, 1913.

were tremendously high during the war, the Philippine government was forced to engage in the development of its coal fields. It organized the National Coal Company[1] with a total capital of ₱ 5,000,000. The amounts invested each year by the government since the organization of the Company are as follows:

Year	Amount
1917	₱ 153,000
1918	₱ 1,071,000
1919	2,980,900
1920	2,980,900
1921	2,980,900
1922	2,997,600
1923	2,002,400

In his report[2] on the Philippine National Bank, Ben F. Wright claims that the National Coal Company is a total failure. This is approximately correct. There is one thing, however, that must not be overlooked in connection with the alleged failure of the company. It is this: the National Coal Company spent most of its funds in the exploration of two coal fields which, according to the American Manager of the Company, can now be operated with commercial success.

In his annual report[3] the President of the National Coal Company says, among other things:

> "Note that the National Coal Company, whose expenditures still exceed their income, is the only Philippine Company that

1 Organized by Act 2705, 4th Phil. Leg., 1st Session.
2 Report of B. F. Wright on the examination of the P.N.B., June 22, 1922.
3 Annual Report of the President, N. Coal Co., f.y.1921-22.

> is producing more coal this year than in previous years. The other companies, of which only three of any importance are in existence, mined less coal in 1921 than in 1920 and less in 1920 than in 1919, which was about the peak year as to prices. Also we have on record several instances of failures of Spanish Coal companies during the Spanish Administration. The principal cause is the present inability of local labor to compete with cheap, skilled labor in the other Oriental coal fields although lack of capital has been a contributory factor in the decline of production. If a suitable law were enacted, placing a small duty on imported coal and expending the revenue so derived in subsidizing home production, labor would be protected and ample capital would be forthcoming to develop the industry."

The total loss[1] suffered by the Company during the last fiscal year was ₱ 44,465.31.

In order to prevent the closing of the National Coal Company and in order further to induce the investment of private capital in the exploitation of coal in the Islands, the President in his report[2] to the stockholders recommended to the Government -

> 1 - To place a tariff, somewhat higher than the present one, on imported coals and use the revenue so derived in paying a subsidy to companies producing Philippine coal;
>
> 2 - To provide some additional funds for further development in the coal fields in Mindanao,"

the reason being that "it will be impossible for any

1 Balance Sheet prepared by V.Fabella & Co., C.P.A., Oct. October 23, 1922.

2 Annual Report of the President to the Stockholders, f. y. 1921-22.

company, either governmental or private, to mine coal in the Philippine Islands with commercial success unless the industry is given such assistance as is suggested above."

The writer concurs in this view for with a tariff to protect the miner and a subsidy to stimulate production, private capital will be induced to invest in coal mining, and should the government desire to dispose of its properties in the National Coal Company either by sale or lease, it would offer an attractive field to interested concerns.

THE NATIONAL DEVELOPMENT COMPANY

This company was created under an act[1] of the Philippine Legislature to exist for a period of fifty years, with a capitalization of ₱ 50,000,000, for the purpose of "x x organizing the production of the Islands, developing its natural resources, establishing new industries, and, in general, estabilizing prices and making a fair market for the raw and manufactured products of the Archipelago x x x"[2] Broadly speaking, the National Development Company was organized to promote, assist and coordinate the development of the agricultural and other resources of the Islands.

1 Act No. 2849, 4th Phil. Leg., Special Session of 1919.
2 P. I. Acting Governor General's cable to the Secretary of War, February 10, 1919.

By an act[1] of the Philippine Legislature, the National Development Company is empowered to acquire, hold and manage, alienate or encumber lands, mines or mining claims in excess of the limit as to area fixed by the Public Land Act.[2] This power given to the Development Company is without reservation or restriction. The Public Land Act (No. 2874) which fixes a limit as to the area of alienable lands which may be acquired and held by a person or corporation, may be taken advantage of by individual or corporate investors through the National Development Company.

To accomplish the purposes for which it was organized, the National Development Company made loans to the National Coal Company and Ed. Andre, now Capstan Rope and Twine Works, Inc., purchased the Sabani Estate, and furnished capital for the organization of the Cebu Portland Cement Company.

The amounts invested each year in the Company by the government are as follows:

Year	Amount
1920	₱ 1,550,000
1921	3,600,000
1922	4,950,000

The total amount actually loaned to the National Coal Company as of February 15, 1921, was ₱ 1,797,471.74.

1 Act No. 2873, 4th Phil. Legislature, Special Session of 1919.

2 Act No. 2874, 4th Phil. Legislature, Special Session of 1919.

This loan earns interest at the rate of seven per cent per annum, and is secured by a first mortgage on its properties.[1]

The amount loaned to Capstan Rope and Twine Works, Incl, up to February 28, 1921, was ₱ 350,000, with interest at eight per cent per annum, and secured by a first mortgage on its properties. The company having failed to comply with the terms of the deed of mortgage with reference to the payment of interest on the loan and to the payment of the real property taxes, has been foreclosed.[2]

The government's investment in the Sabani Estate was ₱ 368,976.46, ₱288,338.90 of which was for the purchase price and ₱80,637.58 for improvements.[3] The government has been endeavoring to dispose of the whole estate. In his annual report, the President of the National Development Company has recommended the subdivision of the estate for the purpose of selling the same by lots. The action taken on this recommendation was not known at the time of the present writing.

The total amount of the Company's investment up to February 15, 1922, in the Cebu Portland Cement Company was ₱ 1,057,904.50. [4] The prospects of this

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1 Annual Report of the President, Nat'l Development Co., February 15, 1922.
2 Id.
3 Id.
4 Id.

company are discussed under the heading - NATIONAL CEMENT COMPANY.

The net profit of the National Development Company on December 31, 1920, was ₱43,952.76. In 1921, the net profit amounted to ₱109,536.65.[1]

THE NATIONAL CEMENT COMPANY

By Act No. 2855[2] of the Philippine Legislature, approved March 12, 1919, the Philippine government organized the National Cement Company, with a capital stock of ₱500,000.

The Philippine government was tempted to undertake this enterprise because it had urged in previous years the creation of a cement factory in the Islands, had had most careful tests[3] made in the Bureau of Science showing the practicability of the enterprise, and was wholly unable to interest private capital in the undertaking which properly belongs to private initiative.

It has been pointed out that the government investment in the cement business is problematical.[4] This is probably correct. However, a cement factory[5] has been constructed, and the result of its operations will be the test. Therefore, no definite estimate of the

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1 Annual Report of the President, Nat'l Development Co., February 15, 1922.
2 Act No. 2855, Phil. Leg., March 12, 1919.
3 1913 Annual Report of the Director of Science, pp. 12, 37-38.
4 Report on the examination of the Phil.National Bank by B. F. Wright, June 22, 1922.
5 The Cebu Portland Cement Co.organized to assume all the activities heretofore carried out by the Nat'l Cement Co.

company's failure or success can be given until the factory has had a fair chance to demonstrate itself.

It is now reported in the Manila papers[1] that C. F. Massey, Manager of the Cebu Portland Cement Company, has offered to buy the Cebu Portland Cement Company. If the sale is consummated it would convert the company into a purely private corporation. The Manila Daily Bulletin of October 11, 1923[2] states that "according to x x statement of ex-Secretary of Finance Barretto, president of the National Development Company, the terms are very favorable to the government and no loss of funds invested in the cement company would be incurred. He believes the sale will be beneficial to the government and the people and considers it a practical realization of the aims of the insular government in the organization of the National Development Company, among which is the organization of industries which private initiative alone cannot undertake." This view is concurred in by Governor-General Wood who said that the sale is"x x for the best interests of the government and people."[3] The Bulletin adds that "the cement company, being now on its feet, the former secretary points out it is time to place it in private hands so long as its continued success in a way that would aid the islands' progress is assured."

1 Manila Daily Bulletin, July 31 and Sept. 21, 1923.
2 Manila Daily Bulletin, October 11, 1923.
3 Manila Times, September 19, 1923.

This clearly demonstrates that the test which the government has undertaken in the development of the cement business in the Islands is not unpromising. It stands to reason that the deal was consummated as a result of the government's successful operation of the cement company.

INVESTMENTS OF THE BANK IN COCOANUT OIL

The various cocoanut oil companies partially financed by the Philippine National Bank and their outstanding debts[1] as of February, 1922 to the Bank are as follows:

Philippine Vegetable Oil Company....	₱17,251,000
Philippine Manufacturing Company....	2,736,000
Cristobal Oil Company...............	1,690,000
Copra Products, Inc.,...............	612,000
Philippine Oil Products Co..........	385,000
Philippine American Oil Co..........	320,000
Manila Cocoanut Oil Co..............	208,000
Manila Oil Refining & By-Products Co.	187,000
Central Oil Corporation.............	143,000
Laguna Cocoanut Oil Company.........	90,000
Insular Philippine Cocoanut Oil Co..	47,000
National Cocoanut Oil Co............	41,000

1 Report of Examination of the Philippine National Bank by Haskins and Sells, June 2, 1922.

The liabilities of the companies to the Bank are secured by real and chattel mortgages on their properties. The companies have suffered heavy losses and many have been compelled either to liquidate or to stop operation. The result is that the Philippine National Bank was forced to become the owner of several oil mills either by transfer to it by deed or by foreclosure of mortgages.

The Philippine National Bank interested itself in the amount of money recoverable from these investments. On the other hand, the Philippine government, which is the owner and operator of the Bank, is more interested in the future of the oil business than that of mere monetary recovery. The reason for this is obvious. The Government for years has urged the planters of the Islands to plant cocoanut trees. So today the oil and copra business affects more people than any other one industry. It is therefore important and necessary both to the Bank and to the Government to make permanent and stable the manufacture of cocoanut oil in the Islands.

It has been the general belief that the value of these companies to the Bank and the worth of the cocoanut industry to the Philippine Islands could be greatly enhanced by combining and holding them under one organization that will make for economy in management, and provide for more continuous operation of plants. It would also greatly enlarge the field for marketing the oil and by-products, and stabilize and permanently locate the industry in Manila.

The funds of the government being inadequate, the insular authorities have been anxious to get an organization, preferably American, to finance the mills and thus relieve the Bank of its burden. So, during his visit to America, General Frank R. McCoy was authorized[1] to enter into negotiations with parties in the United States for the purpose of securing propositions to purchase the mills. The result of the negotiations had not been made public at the time of this writing.

THE SUGAR CENTRALS

On the establishment of civil government in the Philippine Islands, it was generally accepted that the possibilities in sugar production were greater than existed anywhere else on earth.

The actual production was small; the agricultural methods, as well as the methods of manufacture, were antiquated. The resulting sugar was of low grade, which limited the market principally to China.

The outstanding impediments in the development of the sugar industry in the Islands have been, first, the backward methods of agriculture and manufacture and,

1 Cable from the P. I. Governor-General, June 9, 1923.

second, the impossibility of securing from the public lands a sufficient quantity of land to justify the establishment of modern centrals.

Efforts were made to secure the necessary laws from Congress, first, to admit Philippine sugar into the American market free of duty, or with a sufficient rebate of duty to encourage production; second, to secure modification of the land laws.

The first of these was gradually accomplished.[1] The second has not as yet been attained, but the land tributary to the Bank centrals is generally under private ownership and change in the land laws is not necessary to solve their problem.

Meantime, the government used every resource available to encourage better methods of production and to induce the establishment in the Islands of modern sugar mills.

It may be broadly stated that up to date the result of all these efforts has been discouraging. Such hope as exists for reasonable accomplishment in the near future rests almost entirely on the relation that was established by the Philippine National Bank with the sugar industry in the Islands.

Briefly, the Philippine National Bank undertook in 1917 and the following years to advance to sugar corporat-

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1 The tariff laws of August 5, 1909, October 3, 1913, and September 21, 1922.

ions formed of planters in the various sections of the Islands where the growing of sugar was an established industry the necessary funds to erect modern centrals, to purchase agricultural equipment, and to care for growing the crops. It may be stated also in this connection that the advances thus made were knowingly made in violation of the law.[1] The charter of the Philippine National Bank limited the loans that could be made for agricultural purposes to one-half the capital stock and surplus. From the records of the sugar loans made by the Bank it is clear that these amounts were knowingly exceeded and is reasonably clear that this fact was known to every one connected with the Bank.

A review of the efforts that had previously been made, such as acts[2] authorizing the government to purchase the bonds of sugar centrals built in the Islands, would partially explain the state of mind of those who pushed through the loans outlined. A number of centrals[3] (Bacolod, Isabela, Ma-o, Pampanga, Binalbagan and Talisay), with an approximate investment of ₱40,000,000, were built exclusively with funds of the Bank. They were built at a time when machinery, freight and every item that enters into the cost of such establishments were at a maximum price.

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1 Act No. 2612, 3rd Phil. Legislature, Feb. 4, 1916.
2 Act No. 2067, Phil. Commission, July 24, 1911; Act No.2479, Philippine Legislature, February 5, 1915.
3 Report of Examination on the Philippine National Bank by Haskins and Sells, June 2, 1922.

Generally speaking, the centrals were wisely located, are now completed and are in all respects modern. The advantages of such centrals to the sugar industry of the Islands are obvious. Under the old methods not more than sixty per cent of the sugar in the cane was recovered[1] and the price of the resulting sugar was far less per pound than of the centrifugal sugar from the centrals. Not only was the price less, but the market was restricted. Omitting from consideration the far greater quantity of sugar recovered, the Philippine sugar was sold in the fiscal year 1922 for twenty millions dollars more than an equal quantity of sugar produced under the old methods.

It is not easy to state accurately the condition of the Bank's sugar investments. If we eliminate from consideration the long announced public policy of the Philippine government to secure the construction of these centrals even at a considerable cost to the public, then the investment of government funds has been improvident, because investments were made not with the idea of building up in the sugar-producing regions an industry owned by the existing owners of the land, but to avoid the possibility of having a factory owned independently of the agriculturist and exploiting the owner of the land.

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1 Report of Governor General Forbes to the Secretary of War, August 30, 1910, pp. 55.

It is exceedingly difficult to estimate accurately the possibilities of the Bank's investments in these sugar centrals. Ridding the mind of every unfavorable incident connected with the investments; such, for example, as the violation of the law by the Bank, possibly poor supervision in construction, high price of materials and labor at the time, considering only the fact that the centrals have been constructed and are up to date, well situated, that the Philippine government has long desired such centrals and had been willing for a great number of years to invest such capital as it had to encourage their construction, offering the capital on terms that meant an assured loss to the government - with this view of investment, as favorable as one can assume, the estimate[1] for the period from November 1, 1922, to October 31, 1923, inclusive, is very encouraging in that the profit to the centrals to meet depreciation and to reduce the principal debt will be 2,806,680 pesos. Under the terms of the contracts by which the planters will use one-fourth of their net sugar to purchase stock in the centrals, 1,416,312 pesos additional will be available to reduce the debt of the centrals to the Bank.

The estimate[2] by the representatives of Haskins and Sells for the two items above would be 2,474,000

1 Report of the Sugar Centrals Agency for 1922.
2 Report of Haskins and Sells, June 2, 1922.

pesos and 1,113,500 pesos, respectively.

If actual accomplishments justify the least favorable of these estimates, the Philippine government will have obtained these centrals on terms which it would have gladly met at any time during the last twenty years. The outlook is not such as to appeal to an investor desirous of securing the maximum return on his money, but the Philippine government had an interest in this development which overshadowed the question of a return on its investment.

Haskins and Sells[1] in reporting on these investments assume that the Bank has in these properties ₱40,000,000 at eight per cent interest and estimate that not more than 25,000,000 will be recovered. The estimate, therefore, is that the government has a 25,000,000 pesos investment earning 8% interest.

The Philippine government, however, is on record since 1911[2] as being willing to invest in the bonds of sugar companies returning to the government 4% interest running for a period not exceeding thirty years. It is readily shown that the government, to get the same return, would have been forced to purchase 45,000,000 pesos of these 4% thirty year bonds, or 35,000,000 pesos of 5% twenty-year bonds under the Act of 1915[3] creat-

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1 Report of Haskins and Sells, June 2, 1922.
2 Act No. 2067, Phil. Commission, July 24, 1911.
3 Act No. 2479, Phil. Legislature, February 5, 1915.

ing the Sugar Centrals Board. In other words, the investment of the government, even as rated by Haskins and Sells, is not materially different from the investments which the government has been anxious, to the limit of its means, to make at any time in the past thirteen years.

It is not enough, however, to show that the present investments would have been welcome in the past. Many of the investments of the past have been unfortunate.

The history of the government's efforts to develop agriculture and other interests in the Philippine Islands discourages optimism. The danger of investment in sugar centrals results principally from the difficulty of keeping up production in the cane fields. Normally, these centrals would more than treble the production of cane in five years, but any hope that this will so result in the Philippines is without a basis of experience. The sugar regions of the Philippine Islands are exposed to droughts, typhoons, locusts, renderpests, and all of those visitations of the tropics.

The problems of the Sugar Centrals are twofold: How may the production of caneland tributary to these centrals be materially increased? There is believed to be but one answer: the introduction into these regions of labor from outside of the Islands, preferably, viewing the field, Chinese labor. It is evident, in view of past experiences that to increase the production in the staple articles produced in the Philippines the government should add to the population and must be careful to add from a source that is laborious and that can be easily assimilated. The planters in the Islands have recognized this and have urged for years some legislation in this direction.[1] It is the one way to assure the success of these sugar centrals.

The second problem is to insure efficient management in the centrals. This will require constant vigilance upon the part of the Bank Manager.

The problem of the centrals, therefore, is the problem of practically every industry in the Philippine Islands - the problem of increasing production. The solution of this, in the opinion of the writer, is in the proper handling of the immigration question in the Islands, and Congress has placed the solution of this question, within limits, in the hands of the Philippine Legislature.[2]

There is a disposition to criticize this investment of the Philippine government on the theory that the government is in a business which should be left to private initiative, and having adopted this theory, it is proposed to let the government get out by disposing

1 The Chicago Post, Sept. 5, 1917; The Washington Star, Sept. 6, 1920; The Washington Post, Nov. 14, 1920.
2 Public No. 240, 64th Congress, Section 10, Aug.29, 1916.

of its interest in the centrals to private parties at a great loss.

A review of Philippine legislation on this subject will show that the government is not more in this central business now than it was proposed to go into it in 1911[1] and again in 1915[2]; and, indeed, the government is getting out of this as rapidly as it can recover its money under its plan of operation. It is the view of the writer that it is very doubtful if it could recover more rapidly by a deal with private parties. Even if its holdings should be turned over to private parties, there is no assurance that they would not within a very short time be knocking at the Philippine treasury for assistance in operating their plant. This, unfortunately, has been the history of many of the larger developments in the Philippine Islands heretofore.

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1 Act No. 2067, Philippine Commission, July 24, 1911.
2 Act No. 2479, Philippine Legislature, February 5, 1915.

CHAPTER IV

GOVERNMENT DOES NOT COMPETE WITH PRIVATE CAPITAL

Secretary of War Weeks and Governor General Wood caution the Filipino people against continuing the government's unusual investments in undertakings which are usually handled by private individuals or concerns. Their words of warning are entitled to our serious and thoughtful consideration, but should not influence us to such an extent that the investments will be abandoned at enormous loss to the government. There are two ways by which the policy of Secretary of War Weeks and Governor General Wood can be carried out. First, by allowing investments transferred to the highest responsible bidder or bidders with great loss to the government, or, second by abandoning them at a total loss to the government of all the capital and labor expended thereon. The second appears so impractical as to merit no further discussion. The first seems doubtful and unpopular for so far no private individual or capital has been interested to make bids. The reason for this may, perhaps, be due to the fact that many of the undertakings are operated only at cost, some at a loss, and some require great outlay of capital with remote prospect of return. Enterprises of this kind, in the absence of abundant private capital, should rightfully be handled by the government in order that the resources of the country could be tapped by taxation to undertake them.

Apparently the best course for the government is to continue operating and developing the enterprises for the benefit of the people as a whole. The government has already spent enormous sums of money on these enterprises and has adopted the policy that it will continue owning and running them until the people are ready to undertake them, or until they can be transferred to private concerns with little or no loss to the government.

It should be borne in mind that the government in establishing these businesses is not destroying any property owned by private individuals or corporations. Neither does it ruin any business legitimately established under existing laws, for the government has itself undertaken the development of the enterprises because no private individual or capital has ever attempted to engage in them, or because private indivudual or capital has totally failed to develop them.

The Philippine Government has been severely criticized on the ground that it has sought to identify itself with many branches of trade which has discouraged and prevented the investment of foreign capital. This criticism is without basis as evidenced by past experience. In his report[1] to the Secretary of War for 1919, the Governor General said:

> " x x x As an indication, however, of the attitude of the Government toward private b.siness, mention may be made of the official Sugar Central Board, which abandoned the policy of constructing sugar centrals when it became evident that private capital was in the field. In general, it may be positively stated that all members of the Government, Americans and Filipinos alike, welcome the investment of American capital, do not desire to compete with such investments, and are prepared to protect and encourage it in every legitimate manner."

In his report[2] to the Secretary of War for 1920, Major General Frank McIntyre, Chief of the Bureau of Insular Affairs, said:

> "It should be made clear that the government investments x x x were only undertaken after prolonged efforts to induce the investment of private capital. x x x It should be observed that in no one of these fields is the investment of the government intended to exclude private investment. On the contrary, the object has been to show what can be accomplished and to encourage private investments. The Government has elected to be the pioneer in the absence of volunteers. Nowhere has American investment received such sympathetic consideration from the government and people as in the Philippines."

The "El Ideal", a widely read daily newspaper in Manila published the following statement[3] by a prominent leader

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1 Annual Report of the Gov-Gen. of the P.I. to the Secretary of War for 1919, pp. 12.

2 Annual Report of the Chief, Bur. of Insular Affairs to the Secretary of War, September 30, 1920.

3 El Ideal, Manila, July 15, 1921.

and official of the Philippine government:

> "The government never has entered or attempted to enter into mercantile competition. If it has attempted anything so far it has been for the promotion of the operation of the national resources of the country. The National Development Company was created for the purpose of developing those activities, commercial or industrial, not undertaken by private capital, or where they were not developed sufficiently to render any general benefit to the community at large. The premordial interest of the government is to see and always secure the greatest good for the people in general.
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> "It is true that the National Bank was created b the government. But it is well to remember that it was a question of a need felt and it was even prayed for by the heads of a certain important commercial house when some years prior thereto it was tried to found an Agricultural Bank; At that time it was considered advisable for the government to found not only an agricultural bank, but a commercial bank.
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> x x x
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> "I would like to emphasize the fact that the formation of the Development Co. possibly caused discouragement; but that
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> the government does not propose to enter into any mercantile competition, much less prevent the investment of foreign capital."

In its report[1] to the Secretary of War, the Wood-Forbes Special Mission on Investigation of the Philippine Islands laid down a general principle which was approved by the Secretary of War, that the United States government, or at least the present administration, wishes to get the Islands out of business. It must be understood that there is nothing in the said report nor in the

1 Report to the Secretary of War by the Wood-Forbes Special Mission, October 8, 1921.

instructions of Secretary of War Weeks to the Governor General that would indicate a desire for, or that would warrant, wrecking a railroad company, bank, or government, in order that it might be gotten out of business. The fact is that there has been no evidence so far of available private capital to relieve the government of its investments, and the continued insistence on this point, in the absence of investors, native, American or other foreigners, has the unfortunate effect of cheapening the government's investments and injuring its credit.

CHAPTER V

CONCLUSION

In the foregoing chapters it has been stated that ownership and management of business enterprises by the Philippine Government is justified because of lack of enterprise, initiative and self-direction of the people; because of the absence of private capital available for investing in the Islands; and because of the desire on the part of the government to exploit the untouched resources of the country. For these reasons the Philippine Government is strongly opposed to giving up its corporate undertakings until the people are ready to undertake them or until they can be transferred to private concerns with little or no loss to the government.

There are three reasons commonly given by Americans and other foreign capitalists for not investing in the Islands. These are political uncertainty, unsatisfactory land laws, and impossibility of securing satisfactory labor in sufficient quantity without proper immigration laws.

The criticism made against the Philippine Government that its ownership and management of business undertakings has discouraged and prevented the investment of foreign capital is without basis as evidenced by past experience. The fact is that there has been no evidence or desire on the part of foreign capital to relieve the government of its investments. Therefore, to insist upon getting the government out of its enterprises, in the absence of native, American or other foreign investors, cheapens the government's investments and injures its credit.

The various corporate enterprises of which the Philippine Government is the ownerx and manager, either as a majority stockholder or entire owner of all the stocks are: The Division of Cold Storage and Ice Plant; the Manila Railroad Company; the Philippine National Bank; the National Coal Company; the National Development Company; the National Cement Company; the Bank's investments in cocoanut oil, and the Philippine National Bank Sugar Centrals.

It is unfortunate that the Philippine National Bank has suffered through mismanagement. While it has accomplished many of the purposes for which it was created, it has accomplished these at an unnecessary cost which, of necessity, was borne by the government. The misuse of the currency reserve fund by the bank is wholly without excuse. The mismanagement, however, serves as a valuable lesson to the government officials and the Filipino people in guarding the National Bank in the future against political interference and inefficient or dishonest management.

It is the view of the writer that if the corporate investments of the government are well managed, they create no particular difficulty, as, in general, by such investments only could the government have determined the value of the development undertaken. So that, even though there should be a loss in some of them, it would be a good investment for the government, provided the loss is not the result of incompetent or dishonest management.

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The author of this thesis was born in Aringay, La Union, Philippine Islands, on December 7, 1893.

He received his elementary education in the Aringay Primary School, Philippine Normal School, and Philippine School of Commerce. He was graduated from the La Union High School on March 31, 1917. LL.B. Georgetown University, Washington, D. C.