APPEAL

FOR THE PURSUIT OF ECONOMIC EQUALITY UNDER THE IDEAL ECONOMIC SYSTEM THAT EVOLVED FROM THE NORDIC MODEL—INTRODUCED IN THE BOOK

INEQUALITY: ECONOMIC TYRANNY

- **TO THE PRESIDENT, LEGISLATORS, OTHER OFFICIALS:**
  To institute the set of valid and doable solutions toward economic equality that, as packaged into a coherent whole, becomes the elusive ideal economic system presented in the book. Elected political leaders must realize that the acute global inequality—**with 1% rich** and **99% generally poor**—is in gross violation of the Bible of Governance—the Constitution, which calls for **Democracy,** or the **greatest good** for the **greatest number**. What we have today is the opposite: the **greatest good** for the **smallest number**—the 1% rich. This gross failure of governance needs the political leaders' decisive remedial action under the ideal economic system.

- **TO ACADEME OFFICIALS:**
  To have their schools teach the ideal economic system that can promote equality—to address the global inequality rooted in pro-rich economics government economic managers probably learned from their *alma maters*. Academe officials must ensure that their schools' teachings do not breed inequality. ***Business schools are duty-bound to provide—because students are entitled to receive—education on how to attain the constitutionally-mandated economic equality under the needed ideal economic system.*** Thus, academe officials must have their business schools take a second look at economic systems—and come up with each one's own ideal economic system. They may find, then, that there is NO substantially different ALTERNATIVE to the ideal economic system introduced in the book—because, in reality, it is the already tested **Nordic model** that, when given detailed features customized for economic equality, becomes the ideal economic system.

WHY CAPITALISM IS THE BASIS
OF THE IDEAL ECONOMIC SYSTEM DESPITE
ITS FAILURE TO PRODUCE ECONOMIC EQUALITY

The Failure of Capitalism is Not a Failure of Capitalism Per Se; It is a Failure of Economists—Including the Critics of Capitalism Among them—to Have it Clothed With Auxiliary Features Designed to Promote Equality

WHAT SOCIALISM REALLY IS

As PRINCIPAL feature of SOCIALISM, the government abolished INDIVIDUAL property ownership to form a classless society. The government owns most, and the workers collectively own some, of the MEANS of production. The government controls all FRUITS of production, including those from industries collectively owned by workers. The workers get only what they need. The surplus fruits of their labor are given to others in need under the Marxist slogan *from each according to his ability, to each according to his needs.* RESULT: Reduced productivity from the LACK of MOTIVATION to work hard and produce more because of the instinct SELF-INTEREST. If the surplus fruits of the workers' labor will be taken from them and given to others without enough production, why work hard and produce more?

WHAT CAPITALISM REALLY IS

As PRINCIPAL feature of CAPITALISM, and as its name implies, it allows INDIVIDUAL CAPITALISTS to own both the MEANS and FRUITS of production, over which they have economic freedom. The government may wholly or partly own some corporations for GOVERNANCE FUNCTIONS, such as to serve as check-and-balance or SAFETY NET against business profiteering in markets for a few basic necessities imbued with public interest. RESULT: Increased productivity because there is MOTIVATION to innovate, work hard, and produce more owing to the instinct SELF-INTEREST. The surplus FRUITS of one's hard work, he will own. He can save, invest, prosper or get rich, and retire early to enjoy life.

Having individual ownership of property under capitalism and lack of it under socialism are the PRINCIPAL features that define and differentiate them as economic systems. In the case of SOCIALISM, its major defect—reduced productivity from lack of motivation to produce more, rooted in lack of individual property ownership—is INCURABLE as curing it is up against the instinct SELF-INTEREST. Adding attractive AUXILIARY features to it, like SOCIAL SPENDING, cannot make it succeed because of its defective PRINCIPAL feature.

Under CAPITALISM, true enough, capable individual capitalists worked hard and succeeded, some become oligarchs even. However, gross wealth and income inequality developed over time. Capitalism is a failure as it bred inequality and discontent, not equality. To make CAPITALISM the ideal economic system that can promote equality, its productive PRINCIPAL feature—individual ownership of property—must be supplemented by the following imperative AUXILIARY features presented in the book:

- **Social spending (or social welfare program) for the poor.**
- **Progressive taxation, or higher taxes for the rich, in funding social spending and economic development programs.**
- **Equitable sharing of profits between capitalists and workers.**
- **Consumer protection against business profiteering in captive markets for basic necessities clothed with public interest.**
- **Anti-corruption program and best governance practices for best use of public funds in social spending and vital public services.**

CAPITALISM FAILED DUE TO FAULTY IMPLEMENTATION BY ECONOMISTS

CAPITALISM failed because our government economic managers, despite my repeated recommendations since years ago, failed to move heaven and earth to infuse into its PRINCIPAL feature the needed AUXILIARY features—like progressive taxation—that will make it promote equality. Had they done it, capitalism could have at least minimized the present severe inequality. The need of the hour then is for them to do it, as explained in my book. Switching to SOCIALISM is not the solution as the incurable major defect of its PRINCIPAL feature—LACK of MOTIVATION to produce more under lack of individual property ownership—causes its failure.

The ACADEME—specifically colleges and universities, especially the government-owned ones—must help dispel the present misconceptions or seeming ignorance of economic systems that helped in the failure to come up with the ideal economic system. Even government economic managers apparently failed to see the need for the AUXILIARY features that will make capitalism succeed. As a result, economic philosophies that bred the opposite of equality—like trickle-down economics and maximization of shareholders' value—became dominant and spawned inequality. Following are examples of such misconceptions or ignorance:

1. **Cluelessness on the implications of Democracy enshrined in the Constitution—the Bible of Governance—in determining the role of economics in the scheme of things, as well as what the ideal economic system should be. The role of economics is as a vital tool of governance in attaining economic equality under Democracy. This political ideology equates to *majority rule or the greatest good for the greatest number. It translates to promotion of economic equality because, in effect, it mandates the greatest good for the majority poor,* with consequent reduction in the gap between the poor and the rich. Therefore, it requires the reversal of the present pro-rich neoliberal capitalism. The government economic managers' cluelessness on the significance of Democracy results in perpetuation of inequality. Because of it, they exert no conscious effort to promote the greatest good for the majority poor in their pro-rich economic policies, like regressive taxation.**

2. **Confusion on economic systems, or on what constitutes capitalism and socialism and their distinguishing features or configuration, discernible from the following news report by Matthew Yglesias: "Denmark's prime minister says Bernie Sanders is wrong to call his country socialist," vox.com, October 31, 2015. Local example: red-tagging as communists of those helping the poor, apparently caused by *lack of adequate education on economic systems from the academe.***

Lack of awareness that both capitalism and socialism must have **social spending** prevents the evolution of capitalism into the **ideal economic system—DEMOCRATIC CAPITALISM—** that the cited book introduces. Here are its **basic features:**

a. **Individual property ownership** of both the means and fruits of production—the fundamental feature that motivates individuals to innovate, work hard, and produce more.

b. **Social spending,** the main **selling point** of **socialism,** is a CAPITALIST innovation introduced by German Chancellor Otto von Bismarck in the 1880s (**ANNEX 1**). Thus, **social spending** is capitalism ***copied later by socialism***.

c. **Progressive taxation,** or higher taxes for the rich, the indispensable source of funding for the attractive feature of capitalism that helps produce equality—SOCIAL SPENDING.

d. **Equitable sharing of profits** by factors of production.

DEMOCRATIC CAPITALISM AS THE IDEAL ECONOMIC SYSTEM IS NOT A NEW IDEA—IT CONSTITUTES THE SOLUTIONS TO INEQUALITY THAT, WHEN CONSOLIDATED, TURNED OUT TO BE THE NORDIC MODEL AS CUSTOMIZED FOR EQUALITY

Democratic capitalism is not a concept that free-market economists may scoff at. In reality, it is the Nordic model but with detailed features tailor-made for economic equality. Its foregoing first three fundamental features are essentially the same as those of the economic system of Nordic countries, mistaken as socialist but actually capitalist as it has the feature that socialism lacks—**private ownership of both means and fruits of production. Once this element is present in an economic system, it becomes capitalism.** However, while the Nordic model is praised, it is also wrongly demonized as evil SOCIALISM (with lack of economic freedom from State control of fruits of production)—because the powerful minority rich do not want it to be really known, appreciated, and adopted. REASON: It has indispensable higher taxes for the rich in funding social spending **(ANNEX 2).**

3. **Misconception on the thrust of economic system that can produce equality**, or fixation with **economic growth** that perpetuates inequality because it benefits mainly the minority rich. Obsession with economic growth is not enough to attain equality. Economic equality is about equitable sharing of economic growth or income between the RICH and the POOR, which translates to equitably shared wealth. Whether the growth is one percent or ten percent is of no moment, what matters is the proportionate share of the POOR in it. Economic growth that creates jobs for the POOR does not result in equality. While the few RICH corner bulk of growth that yields them very high per capita income, the POOR's per capita compensation from growth-created jobs is not even enough for their basic necessities.

- ## TO GOV'T ECONOMISTS AND REGULATORS

REDUCING HIGH PUBLIC SERVICE RATES IS DOABLE, THEREFORE, IT MUST BE DONE

As ruled by the Supreme Court, the reasonable return limit for Meralco and other public utilities is 12% return on investments (Energy Regulatory Board vs. Meralco, G.R. No. 141314, November 15, 2002, affirmed on April 9, 2003), which should be interpreted as 12% return on equity (ROE). This ruling should be similarly applied to other public service monopolies, like tollway operators. Following are some examples of public service monopolies with ROE (after tax) in breach of the Supreme Court ruling:

Meralco (Power)	Maynilad (Water)	NLEX Corporation (Tollway)
2016: 26%	2008: 247%	2016: 46%
2017: 28%	2009: 147%	2017: 46%
2018: 28%	2010: 82%	2018: 39%

There is simply no valid legal justification for the foregoing blatant breach of the Supreme Court-ruled 12% profit-rate limit. ***The performance-based regulation* (PBR) *scheme that allows rate increases even for mere programmed future and still unspent capital expenditures***—followed by Meralco and Maynilad and serves as the main root of their unduly high return on equity—***is merely a rate-setting method*** and cannot override the Supreme Court-ruled 12% reasonable return limit. Hence, ***their rates must be reduced and their past overpricing refunded to consumers.***

EXTREMELY IMPORTANT:
RECKON THE RATE-OF-RETURN LIMIT BASED ON ROE, NOT RORB, OTHERWISE, THE PROFIT-RATE LIMIT WILL BE USELESS IN PREVENTING OVERPRICING

Enforcement of the Supreme Court-ruled 12% rate-of-return limit is imperative, but ***it alone will not solve the problem. It alone cannot reduce unduly high public service rates.*** For example, the 12% return-on-rate-base (RORB) limit is already applied to NLEX Corporation, and yet ***it is still in compliance with the 12% RORB ceiling*** even if already excessive at **46%** return on equity (ROE).

Reason: The model profit-rate limit used in practice is the wrong formula under a law, Section 12 of the MWSS Charter (RA 6234). Its 12% RORB limit based on assets in operation is wrong because **it has double reckoning of return on assets financed by creditors.**

First, as interest cost on creditors' loans used to acquire the assets, and, **second,** as 12% return on the same assets financed by creditors, to be given this time to corporate stockholders as their entitlement to reasonable return even if they did not finance the assets. As expounded on in **Chapter 9** of the book on this subject, **ROE** is the correct measure.

- **TO THE COA CHAIRMAN AND COMMISSIONERS:**

To restore the Commission on Audit's crucial *selective PRE-AUDIT—the one and only one kind of COA audit that can prevent corruption in the spending of the government's now multi-trillion-peso annual budget*— to end COA's shameful failure to prevent even the clearly easy-to-prevent big-time corruption in the government's big-ticket procurement contracts and infrastructure projects.

For example, the gross overpricing and ghost deliveries reportedly employed in the ₱728-million fertilizer scam, the ₱10-BILLION pork barrel scam, and the latest multi-billion-peso Pharmally procurement irregularities, could have been easily detected and prevented as follows:

- **GROSS OVERPRICING, which could have been avoided in pre-audit through COA's strict enforcement of compliance to required PUBLIC BIDDING before purchase of fertilizer or merchandise, through COA's role in every stage of the bidding process to protect its integrity, as well as checking before payment of each high-value procurement if public bidding was done as required under existing laws and COA circulars.**

- **GHOST DELIVERIES, that could have been readily detected in simple COA pre-audit, with the scam prevented, through COA's PHYSICAL INSPECTION of the allegedly delivered fertilizer or merchandise before payment. As this COA pre-audit procedure is a no-brainer and may be applied to just, say, the 100 biggest procurement and infrastructure construction transactions per year—or an average of just eight transactions per month—to be handled by some 7,000 COA field auditors, COA must do it.**

  If COA Commissioners would still stubbornly refuse to have it done, the result may be the following cases:

(1) Pursuit of the line of least resistance under 100% COA post-audit (among other easy things for COA, there is no pressing deadline in doing it), tantamount to LAZINESS;

(2) A WASTE of available thousands of COA field auditors who could do it if ordered to do so;

(3) A DERELICTION of DUTY by COA Commissioners; and

(4) The weakness in internal control, or vulnerability to GHOST DELIVERIES in big-time government procurement contracts, would be perpetuated. *Certainly, this mode of plunder of public funds must end.*

If the COA Commissioners would not restore COA's PHYSICAL INSPECTION of big-ticket government procurements before payment, their continuing failure to have it done may cost suffering Filipino taxpayers further MULTI-BILLION-PESO losses from this mode of corruption that is so easy to prevent—so that if a licensed CPA could repeatedly not prevent it despite the huge amounts involved and the ease in preventing it, he may be considered a DISGRACE to the auditing profession.

As part of the people in whom sovereignty resides under the Constitution, I respectfully urge appropriate action by responsible public and academe officials on my appeals.

MARCELO L. TECSON
A CPA and Concerned Citizen

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Bonifacio Global City and San Miguel, Bulacan
September 6, 2023

ANNEX 1

SOCIAL SPENDING ORIGINATED FROM CAPITALISM

In the 1880s, the German Chancellor Otto von Bismarck, an anti-socialist, created what History Channel described as "Europe's first modern welfare state, establishing national healthcare (1883), accident insurance (1884), and old-age pensions (1889)." Germany's social insurance system became complete when unemployment insurance followed in 1927. To prevent the shift of labor groups to rising socialist political parties, he introduced social insurance to satisfy or motivate workers and have the German economy operating at the utmost efficiency. According to Social Security History (ssa.gov), "participation (in the social insurance system) was mandatory and contributions were taken from the employee, the employer, and the government." In the process, Bismarck, transformed Germany into an industrial and military power, capable later of waging two world wars.

Bismarck's economic system was capitalism—not socialism. Under it, the means of production were privately owned.

"Bismarck's model was the greatest capitalist innovation in its history, way, way before socialism was first adopted systematically by any country. In fact, by the October 1917 Russian Revolution, those great capitalist innovations had already spread throughout Northern Europe and to a certain degree in the UK, as well as France, Belgium, and other Nordic countries. Sweden was truly a full-blown socialist economy in the 1980s but fell flat, returned to capitalism, and succeeded until today. Sweden and other Nordic countries are perceived as socialist countries but in reality are thriving under capitalism with Bismarck's social-security innovations." (By Rick Sobreviñas, an Atenean with MBA-Wharton, from his email on May 30, 2020).

ANNEX 2

MISCONCEPTION ON THE NORDIC MODEL OF ECONOMIC SYSTEM

The Nordic Countries are NOT Models of Successful SOCIALISM—Their Economic System is the Enduring Legacy of Otto Von Bismarck's Innovative CAPITALISM, with Social Insurance that Keeps People Happy and Worry-Free from Basic Needs and Old-Age Expenses

At Harvard Kennedy School of Government, **Danish Prime Minister** Lars Løkke Rasmussen spoke: "I know that some people in the US associate the Nordic model with some sort of socialism. Therefore, I would like to make one thing clear. Denmark is far from a socialist planned economy. **Denmark is a market economy.** The Nordic model is an expanded welfare state that provides a high level of security to its citizens, but it is also a successful market economy with much freedom to pursue your dreams and live your life as you wish." (Matthew Yglesias, **"Denmark's prime minister says Bernie Sanders is wrong to call his country socialist,"** vox.com, October 31, 2015).

As a welfare state with free market economy, the Nordic countries have progressive taxation or higher taxes for the rich, as can be deduced from their **tax burden on total income** that are higher than that of the United States, as shown in the August 2, 2019 article "Looking Backward On Socialism: A False Appeal To Nordic Countries," by Stanford University alumnus David John Marotta, president of Marotta Wealth Management. For research purposes, presented below is a consolidation of his statistics:

	2019 Index of Economic Freedom	Top Single Tax Bracket (USD)	**Tax Burden on Total Income**
United States	76.8	$500,000	26.0%
Denmark	76.1	$ 97,732	45.9%
Iceland	77.1	$ 86,000	36.4%
Norway	73.0	$111,046	38.0%
Sweden	75.2	$ 70,243	44.1%

Government economic managers, as well as economists from the academe—especially in government universities—should research and independently determine how the Nordic countries can make their peoples happy and worry-free through social insurance for food, health care, education, unemployment, and so on. As shown in the foregoing taxation statistics, one obvious means is higher taxes, imposed under capitalism in pursuit of economics that satisfies society's needs and wants.

ANNEX 3

SOCIAL SPENDING IN THE UNITED STATES

The United States was Wittingly or Unwittingly Practicing Pro-Poor Social Spending under Capitalism, Though Probably Not in a Coherent and Complete Way, but it was Overshadowed Later by Neoliberalism that Gave Primacy to Pro-Rich Economic Policies—Because Social Spending was Apparently Viewed As a Favor to the Poor Rather than an Obligation Under DEMOCRACY Enshrined in the Constitution

To quote from an old book on ***Public Finance*** edited by Harvard University economics professor Otto Eckstein:

"Ours is a capitalist economy. We rely on private enterprise to supply most of our economic wants. Yet government has grown enormously in size and in variety of its activities. (Among other things), **the government has taken responsibility for the welfare of those unable to provide for themselves**. In earlier times, each family had to care for its own aged, disabled, widowed; those helpless souls without families were forced to live on pitifully small doles amid miserable conditions…. Today, social security, public assistance, and other income maintenance programs cost over $125 billion a year." [Otto Eckstein, Harvard University, *Public Finance,* 4th ed., first printed in 1964 (New Jersey: Prentice Hall, Inc., 1979), p. 1].