# A CLARION CALL TO THE

# ACADEME

## EVERY UNIVERSITY OR COLLEGE OFFICIAL MUST ASK THE SOUL-SEARCHING QUESTION:

## WHAT KIND OF ECONOMICS DOES OUR BUSINESS SCHOOL TEACH?

**Are some of our graduates among the proponents of *pro-rich neoliberal economic policies and practices* that spawned today's gross wealth and income inequality, such as fixation with economic growth in attaining equality, reckoning of 12% rate-of-return limit of monopolies using return on rate-base assets (RORB) instead of return on equity (ROE), and pro-rich regressive taxation? Do we teach business students corporate planning with DCF analysis, regulation of profit rates instead of selling prices per se, systems and procedures, and other disciplines needed in managing the economy?**

**The status of our economy depends on the instituted economic policies and practices that are dependent, in turn, mainly on the kind of economics and mode of thinking our public officials imbibed from their *alma maters*. Today, our economy is plagued by, among other problems, huge smuggling losses and anemic manufacturing sector. As shown in EXHIBIT 1, we can curb smuggling and promote manufacturing (crude oil refining) in the oil industry without spending public funds, mere legislation is needed, but our legislators and government economic managers seem clueless about it.**

**Another apparent example of lack of critical thinking or sound analysis and interpretation of data—right at the top level of government—is the way NEDA and the Department of Finance justified corporate income tax rate reduction under the CREATE Act that took effect on April 11, 2021. According to them, foreign investors are discouraged by our 30% corporate income tax rate that was not competitive with the 20% to 25% rates in our Asian neighbors. Their reasoning is unsound for the following reasons:**

1. **VERY IMPORTANT:** While local corporate income tax rate is high at 30%, our local **selling prices** and, in most probability, corporate **rates of return** on capital are also high. **Examples:**

- Our power or electricity rates are the second highest in the region (pp. 97, 149 of the book *Inequality: Economic Tyranny*).
- Since years ago, the prices of our agrochemicals in mango production were found to be as much as four times of those in Thailand and other mango-producing countries (page 313).
- The local prices of medicines were at least four times of those in India and other countries. The prices were halved under the Cheap Medicines Act of 2008, meaning, still two times of those in other countries (page 314).

Astoundingly high rates of return betray unduly high prices that produced those high returns. Based on audited financial statements, following are three privatized public-service monopolies with fantastic rates of return on equity (ROE) that equated to anti-poor high prices under existing neoliberal government economic policies:

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

Based on its annual report to the Securities and Exchange Commission (SEC), Meralco's after-tax net income was a huge ₱23 billion in 2018. In the case of NLEX Corporation, based on its annual report, its total Stockholders' Equity was ₱10.7 billion as of December 31, 2017. Its net income after tax in the ensuing 2018 was ₱5.8 billion or 54% of its equity at the beginning of that year. Despite its very high 46% return in 2017, the government unwarrantedly approved its toll-rate increase in 2018. ***This is how unsophisticated and unprotective of the public our economic system is, of which mainstream economists seem blissfully ignorant and awfully silent.***

2. If foreign investors will locate here and their production will be sold in the **local market,** there is no lack of competitiveness on their part due to high 30% income tax rate because their **local competitors** are also taxed at the same 30% high rate.

3. If foreign investors will locate here and their production will be sold in both local and foreign markets, for their **export sales** to be competitive in countries with 20% to 25% corporate income tax rates, the government can retain their VAT exemption on exports, then ***reduce their corporate income tax rate to 20% or even less but on their export net income only.***

One guide or technique in systems work is not to make rules with universal or general application based on just one or few **exceptions.** Needed are solutions with surgical precision that zero in only on the exceptions, such as the cited tax reduction only on export net income.

In the CREATE Act, just to attract a few foreign corporations through lower tax rate, the whole universe of corporations operating in the Philippines are unduly gifted with corporate income tax rate reduction, projected to aggregate **₱480 BILLION** from 2021 to 2024 alone, with annual average of **₱120 BILLION** (Elijah Felice Rosales, "Foregone revenue from CIT reduction may reach P480 B," *The Philippine Star,* October 3, 2021, page B3).

## Precious Public Funds Must be Spent for their Best Use

Scarce public fund that corresponded to the reduction in corporate income tax under the CREATE Act (RA 11534) was not devoted to its best use by the government. It was spread thinly as tax savings among benefiting corporations. **The government should have spent it instead on the badly needed big impact project—putting up of government-owned reserve power plants to solve our recurring power-supply-shortfall problem.** This problem arises whenever some power plants are on shutdown. Part of the foregone corporate income tax might have been spent for power plants, all right—but it was spent for power plants ABROAD, not in the Philippines, as presented herein later.

## The Best Use of the Income Tax Foregone Under the CREATE Act was to Finance The Solution to Our Recurring Power Outages that Discourage Investments

If the CREATE Act were not enacted, the best use right now of the foregone corporate income tax under it would have been the recommended but ignored government-owned reserve power plants, designed to solve, once and for all, our age-old problem

**and major OBSTACLE to fast INDUSTRIALIZATION that our government economists have failed to address: unduly high manufacturing costs from our second highest power rates in the region, caused partly by the resulting sellers' market from tight power supply, aggravated by recurring disruptions in existing manufacturing operations due to power outages from shutdown of some power plants.**

## How the Government Can Provide Loss-Incurring Idle Reserve Power Plants Without Incurring Annual Losses or Subsidies

**The problem of unwarrantedly high power rates, worsened by recurring power outages from insufficient national power generation capacity, has served as a major disincentive to both local and foreign investments in domestic manufacturing. The government has to provide the SOLUTION—the lacking reserve power plant capacity—as public service, or governance function. The government must do it because the profit-oriented private investors in the power generation industry, privatized pursuant to EPIRA (RA 9136) in 2001, have not—and will not—invest in such loss-incurring reserve power plants.**

**To avoid annual subsidies on the government-owned reserve power plants, the government must also own offsetting profitable low-cost hydro and geothermal power plants. These power plants are not prone to corruption because these do not use large volumes of expensive coal or fuel oil as feedstock. Induced emergency purchases of coal or fuel oil are susceptible to overpricing and kickbacks.**

**In the foregoing scheme, *there is no power rate increase to consumers on the usually idle reserve power plants because their losses are recovered from profitable plants. Under the old TAKE-OR-PAY CONTRACTS for reserve power plants by private power generators, the consumers pay for unused reserve capacity while on idle time.* Moreover, the old take-or-pay scheme was prone to overpricing from witting or unwitting erroneous calculations of power rates during idle time—which are hard to verify. I based this suspicion on how the Energy Regulatory Commission was unable to properly verify Meralco's petition for refund on its prior years' overbilling to consumers.**

## Private Corporations Use Some of the Foregone Corporate Income Tax under the CREATE Act in Similarly Needed Power Generation ABROAD

**Under the CREATE Act, *the corporate sector, revitalized by their tax rate reduction, invested in businesses that included the needed power generation—but ABROAD!* (Danessa Rivera, "Ayalas enter US energy market, clinch deal to acquire 8 Texas wind farms, *Philippine Star,* March 17, 2023, p. B1).**

**That is just one glaring example of foreign investments by local conglomerates, already being done since years ago and will continue to be done, especially with the increased taxed income under the CREATE Act.**

**"Based on a 2017 survey conducted by (the auditing firm) PwC/Isla Lipana for Management Association of the Philippines, 45% of chief executive officers (CEOs) in the Philippines said they were keen on expanding to overseas markets, particularly in Southeast Asia…."**

**Among 33 Philippine companies with foreign investments featured by the *Philippine Daily Inquirer* during its 33rd anniversary were: SM Prime Holdings, Jollibee Foods Corp., Universal Robina Corp., San Miguel Food and Beverage, International Container Terminal Services Inc., Del Monte Pacific Ltd., United Laboratories, Integrated Micro-Electronics Inc., Metro Pacific Investments Corp., Manila Water Company, Petron Corporation, AC Energy, Aboitiz Equity Ventures, Ayala Land, Energy Development Corporation, Robinsons Land Corp., Eton/Lucio Tan Group, Max's Group Inc., Phinma Education…. (Doris Dumlao-Abadilla, "Globalizing corporate Philippines," *Philippine Daily Inquirer* Online, December 3, 2018).**

**While the government easily gave up a huge ₱120-BILLION annual corporate income tax under the CREATE Act, when there was an outcry for government aid and removal of increased VAT on diesel oil under the TRAIN Law, the government allocated a measly ₱500-million fuel subsidy to countless jeepney drivers nationwide.**

**The government also stood pat on its high diesel oil tax even if high diesel price is inflationary because diesel is used extensively in manufacturing industries; rice mills; land passenger and cargo transport; sea passenger and cargo transport; mechanized equipment for agriculture such as motorized tractors, tillers,**

planters, or rice threshers; farmers' irrigation pumps and hand tractors; heavy equipment for construction like bulldozers, backhoes, payloaders, dump trucks, and so on.

With our regressive taxation and other pro-rich economic policies, it is not surprising that today, despite our respectable economic growth, government economic managers have failed to achieve the goal of economics—***to satisfy the needs and wants of all members of society.*** While the minority rich are satisfied, the majority poor are dissatisfied, with the poorest of the poor miserable, hungry, sick, or dying without health care.

**Why? How come? What kind of economics did business schools teach to our government officials that made some of them seemingly ignorant of economic systems, or of what economic systems must do—promote equality, not inequality—as well as what differentiates capitalism from socialism? Their apparent ignorance is betrayed by their red-tagging of those helping the poor as COMMUNISTS, a case also of cluelessness on the government itself helping the poor greatly through SOCIAL SPENDING—like 4Ps and Philhealth subsidies—under CAPITALISM.**

**What's more, why do we have apostles of pro-rich economic policies, like trickle-down economics with regressive taxation, as well as maximization of shareholders' value with unbridled free market? Were they not educated by the ACADEME on the primacy of the constitutional political ideology DEMOCRACY, with pro-majority-poor equality, over the economic ideology FREE MARKET, with pro-rich product pricing to the extent the market can bear? Were they not taught that such free-market highest pricing may be right for luxury and non-essential items, but not for basic necessities in crucial markets clothed with public interest, like power and water?**

**Those soul-searching questions, ACADEME officials must strive to answer as moral obligation to parents and students who patronize their schools. They have to see if their own business schools are contributory to the economic inequality we have today. They have to know what kind of economics their schools teach on the major causes of economic inequality treated at length in the book. They must know if their alumni help promote equality or inequality. They must be active part of the solution, not of the problem, by producing business graduates educated on how to attain equality.**

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