SELECT BOOK HIGHLIGHTS

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I

PRESENTING THE ELUSIVE IDEAL ECONOMIC SYSTEM THROUGH

INEQUALITY: ECONOMIC TYRANNY,

THE BOOK THAT REDEFINES ECONOMICS AND INTRODUCES THE IDEAL ECONOMIC SYSTEM CUSTOMIZED FOR ECONOMIC EQUALITY

DO BUSINESS SCHOOLS TEACH ECONOMICS THAT BREEDS INEQUALITY?

In 2014, the bulk of growth in gross domestic product (GDP) was lopsidedly in favor of the rich. *"The... country's 50 richest individuals... collectively earned $8.45 billion—that's equivalent to 51% of the GDP growth ($16.6 billion)."* (Paolo Taruc, "A tale of two economies: Exclusive growth in the Philippines," CNN Philippines, Sept. 21, 2015). As of 2023, the inequality remains. According to the organization Oxfam Pilipinas: ***"Nine richest Filipinos have more wealth than half of the country's population..."*** (Sheila Crisostomo, "9 Pinoys have more wealth than half of population," *Philippine Star,* January 17, 2023, p. 1).

Economic inequality is global in scale, bred by dominant pro-rich economic policies, under which, ***"since the turn of the century, the poorest half of the world's population have received just 1% of the total increase in global wealth, while the top 1% have received 50% of the increase."*** (October 2018 Report of Oxfam International).

The global economic inequality is the culmination of government economic policies and practices that are dependent, in turn, on the ***kind of economics and modes of thinking*** government economic managers learned from their ***alma maters.*** Such inequality would not exist if business schools produced economists solidly grounded in the objective of economics and the right and wrong ways of achieving it. ***Thus, the present global economic inequality suggests that local—nay, even top foreign—business schools may be churning out economists who were not fully educated on economic equality as a mandate under the constitutional political ideology Democracy, let alone on ways of attaining it.***

IS LACK OF EXPERTISE IN BOTH PLANNING AND MANAGEMENT THE ROOT OF FAILURE OF MEN AND SYSTEM TO PROMOTE ECONOMIC EQUALITY?

The framework of an ideal economic system customized to attain economic equality is treated at length in the book ***Inequality: Economic Tyranny*** and briefly presented in this paper. If properly implemented, the ideal economic system will help address one of the gravest ills of humanity**:** gross wealth and income inequality.

The book condemns today's intolerable economic inequality and provides ways of addressing it based on the author's insights, gathered from his education, foreign training, and experience—like his role in the past oil industry regulation, his conducted operational audits, his stint as planning and systems man, as well as his being part of the management team and participant for more than two decades in its regular performance review, problem-solving meetings, and strategic planning sessions.

The sovereign people cannot leave everything in the economy to economists. As presented right in the Introduction of the book, ***managing the economy requires the collective expertise of professionals representing varied disciplines—not just economics.*** For example, ***some of the solutions, reforms, or remedial measures presented in the book and in this paper are based on application of planning, management, operational audit, political science, accounting, and systems work knowledge and techniques.***

The Book was Written Based on Application of Disciplines Needed in the Attainment of Equality

The global economic inequality arose from dominant economists lording it over nations' free-market economies based solely on economic wisdoms—like trickle-down economics and maximization of shareholders' value under neoliberal capitalism—a monumental omission to consider all things that matter in our chosen economic system. The omission probably stemmed from lack of expertise by economic policy makers in both **PLANNING** and **MANAGEMENT**.

Planning is a discipline that takes a total-picture outlook and considers everything that matters in future operations. It starts with proper definition of organization objectives, then conducts studies, decides, and makes plans and programs based not economics alone but also on application of other disciplines needed in sound decision-making, such as political science, planning, systems, mathematics, and so on. **Management,** on the other hand, also starts with organization objectives or mission statement. In fact, there is a management tool, **management by objective (MBO),** that begins with proper objectives, then sets **key performance indicators (KPIs)** that will be used as monitoring guides in determining success or failure in attaining the objectives.

The foregoing planning and management practices or techniques are what prompted me to seek first the ultimate OBJECTIVE of ECONOMCIS, to serve as primary guide in determining what it should do vs. what it is doing that led to the global economic inequality. As presented herein later, I failed to find the objective of economics in popular definitions of economics in publications and economics textbooks. I found it later in a very brief form after years of searching in the Internet, in the posted definition of Canadian economics professor Richard G. Lipsey (Ph.D., London School of Economics), cited in the Introduction of the later edition of the subject book.

Following are select samples of ***how some relevant disciplines must be applied in coming up with the elusive ideal economic system*** designed to attain economic equality:

1. **POLITICAL SCIENCE delineates the primary functions of elected political leaders through the BIBLE of GOVERNANCE, the CONSTITUTION, that impliedly mandates them to promote economic equality.**

To begin with, elected political leaders must adhere to the political ideology enshrined in our Constitution, **Democracy.** It lives by ***majority rule*** and the tenet ***the greatest good for the greatest number,*** the capitalist response to the popular but impractical socialist slogan ***from each according to his ability, to each according to his needs.*** Under the Constitution, they must also preserve and promote the ***lives, liberty, general welfare,*** and, in effect, ***happiness*** of the people or society.

To preserve the people's ***lives*** and promote their ***general welfare*** and ***happiness,*** elected political leaders must work ***to satisfy the people's need for food and other needs and wants.*** The people broadly consist of the minority rich and majority poor. By **implications** of constitutional **Democracy** that equates to **majority rule** and the greatest good for the greatest number, ***elected political leaders must not only equally satisfy the needs and wants of both minority rich and majority poor, they must also give primacy to the needs of the majority.***

In essence, under POLITICAL SCIENCE as an art of governance or ways of governments, elected political leaders are impliedly mandated by Democracy enshrined in the Constitution—the BIBLE of GOVERNANCE—to promote EQUALITY and not neglect the needs of the MAJORITY poor, that attaining equality is a primary function of GOVERNANCE, and that all public officials must pursue GOVERNANCE geared toward EQUALITY.

2. **ECONOMICS is crucial, but it is merely a TOOL of GOVERNANCE in the performance of elected political leaders' obligation to preserve and promote the people's lives, general welfare, and happiness, to be done through satisfying their needs and wants; therefore, any economic wisdom, no matter how profound, that goes against this objective is untenable and must be discarded.**

From simple ***household management*** in providing the need for food and other necessities and wants of a family, economics evolved into a complex discipline employed by elected political leaders in providing the needs and wants of their constituent people or society.

Thus, under POLITICAL SCIENCE, economics is crucial, but it is simply a TOOL of GOVERNANCE and must not go against the previously cited constitutional governance objective—ECONOMIC EQUALITY. Improperly giving ECONOMICS an independent stature and equal importance with POLITICS, or GOVERNANCE, is the reason why ultra-free-market or neoliberal economists succeeded in promoting pro-rich economic doctrines—such as trickle-down economics, maximization of shareholders' value, and regressive taxation—

that promoted ECONOMIC INEQUALITY and worked against the EQUALITY mandate of the supreme law of the land, the Constitution, the BIBLE of GOVERNANCE, to which economists must adhere.

All of those cases of constitutional violations, in turn, are seemingly rooted in the age-old failure of the ACADEME to teach the ideal economic system together with the ways of attaining it, evident from its apparent lack in traditional economics textbooks used by local and foreign business schools.

An Economic Thought or Wisdom, No Matter How Profound, Must Be *Result-Oriented* and Judged Based on What it Does to Society, or What is Gained from it; Reject it if it Benefits the Minority Rich but Harms the Majority Poor

Oddly, classic case under s**ocialism** is the humane and profound Marxist slogan ***"from each according to his ability, to each according to his needs."*** It entails government ownership or control of means of production, as well as control of fruits of production as source of free social benefits to the people—thereby causing reduced productivity from workers' lack of motivation to produce more, as they will get only what they need. Their surplus yield will be given to free-service workers without production, as well as other non-producers like the old, young, sick, and disabled (pp. 15, 448 of book). China failed under socialism and progressed only when Deng Xiaoping adopted capitalist free enterprise.

Under **capitalism**, a company chairman and co-CEO wrote how the **ACADEME** unwittingly promoted pro-rich neoliberal capitalism:

Back when I was in business school in the 1980s, I was taught—as were generations of aspiring entrepreneurs and executives—that the business of business is business. "There is one and only one social responsibility of business," the economist Milton Friedman famously wrote in "Capitalism and Freedom": "to increase its profits." (Marc Benioff, "The Social Responsibility of Business," *The New York Times*, October 24, 2018).

I read somewhere that it took three decades before maximization of shareholders' value was questioned. Milton Friedman's fallacious economic doctrine is unacceptable because:

- **Firstly, it grants unwarranted economic freedom to capitalists. Alone without workers, consumer patronage, and government protection from lawless elements, corporate stockholders are helpless and cannot do business. Therefore, they have a debt of gratitude to society that they must pay through social responsibility to the people.**
- **Secondly, this anti-poor economic wisdom produces inequality and sabotages the efforts of political leaders to promote equality pursuant to constitutional democracy.**
- **Thirdly, economists and capitalists want unfettered free market, lack of government intervention, or complete economic freedom, but if they failed big time from their unmitigated greed and lack of self-regulation, they run to the government for salvation and bailout funds, as was the case in the 2008 global economic meltdown. If so, the government must oversee what they are doing to ensure that they will not bother it again to seek help out of scarce and precious public funds.**

3. PLANNING and MANAGEMENT both start with clear mission statement or definition of objective.

As first step in both planning and management work, there must be a clear organization mission statement or definition of objective that will guide planners in preparing—and managers in implementing—short-term and long-term plans, work programs, and strategies needed in accomplishing the given mission or objective.

Accordingly, from both PLANNING and MANAGEMENT standpoints, the OBJECTIVE of economics must be stated right in its definition. This way, as the objective is to EQUALLY satisfy the needs and wants of both rich and poor members of society, it will serve as a MISSION ORDER to government economic managers to promote EQUALITY. All economic policies and practices must conform to the objective, not contradict it as in the case of trickle-down economics, maximization of shareholders' value, improper regulation of public service monopolies, and regressive taxation.

However, popular textbook definitions of economics speak of economic processes, or what economics is doing, but are silent on its ultimate OBJECTIVE *of* ***equally satisfying the needs and wants of both rich and poor members of society.*** This lack of set OBJECTIVE, or cluelessness in attaining equality in the satisfaction of the people's needs and wants, resulted in governments condoning, nay promoting, the now dominant pro-rich economic policies that satisfy the minority RICH and dissatisfy the majority POOR members of society.

Therefore, the book provides a **goal-oriented** definition of economics that will serve as the elected political leaders' **mission order** to economists to equally satisfy the needs of both the minority RICH and the majority POOR (pages xxviii, xxxi, 14, and 445-446 of the book).

A sample popular definition of economics without its objective, as well as the modified goal-oriented definition, are shown in Part II, page 22, of this paper.

4. **SYSTEMS AND PROCEDURES shows that nothing in what are being done under the present pro-rich neoliberal capitalism with regressive taxation can produce economic equality.**

I also applied **SYSTEMS work** techniques in looking at economics and what economists are doing. Systems work includes ***cause*** and ***effect*** analysis**.** I found out that ***what economists have been doing (CAUSE) are at cross-purposes (EFFECT) with what elected political leaders are doing or must do.*** While political leaders are wittingly or unwittingly working for the constitutionally-mandated economic equality through fast economic growth, inadequately funded vital public services, and still incomplete and incoherent social welfare programs, mainstream free-market economists successfully caused the institution of pro-rich economic policies and practices—in the form of neoliberal capitalism with trickle-down economics, maximization of shareholders' value, and regressive taxation—that perpetuate economic inequality.

From the systems viewpoint, those neoliberal economic policies and practices that emanated from dominant free-market economists will not produce economic equality. There is no CAUSE in them that will produce the desired EFFECT. If perpetuated, annual economic growth being earned mainly by a few rich families will NEVER produce equality. On the contrary, it will worsen inequality.

5. **MATHEMATICS conclusively shows that higher taxes for he rich under constitutional PROGRESSIVE TAXATION is an indispensable feature of the ideal capitalist economic system in attaining equality.**

The **pie** or totality of annual economic growth—gobbled up by the 1% rich, with crumbs left to the 99% generally poor—is fixed for each particular year and insufficient for the needs of the poor because of maldistribution of the economic growth. With **mathematics** being an exact science that governs the **algebraic equation** of the unequal income sharing between the poor and the rich, political leaders and economists cannot increase the distributable **pie** out of thin air to fill in the huge deficiency in the share of the poor. ***Hence, under mathematics, to address the problem of the poor through reducing the equation imbalance, there is no source of what can be added to the deficient side of the poor except to get from the existing abundant side of the rich. To do this, there is no alternative to progressive taxation or higher taxes for the rich, none whatsoever.***

Consequently, political leaders, economists, and ACADEME officials must realize now that there is simply no way to attain economic equality without higher taxes for the rich. **If their hearts really bleed for the suffering poor who are not lacking even in supposed advanced and progressive nations, they must, once and for all, work for the institution of indispensable progressive taxation, mandated under Article VI, Section 28 (1) of the Philippine Constitution. Academe officials can do their share by having their business schools produce graduates properly educated on how to attain economic equality—which includes progressive taxation.**

DERIVING THE IDEAL ECONOMIC SYSTEM BY PROCESS OF ELIMINATION

DEBUNKING THE IDYLLIC PRO-PEOPLE MYTH OF COMMUNISM AND SOCIALISM—AND THEREBY ELIMINATING THEM FROM CONTENTION IN THE QUEST FOR THE IDEAL ECONOMIC SYSTEM

The War Against COMMUNISM Must be Waged In the Battlefields of the Minds—Through Books Against it

Instead of removing supposedly subversive and leftist books from school and public libraries as urged by the military, CHED should commission the writing of books which show that ***communism and socialism, though pro-people, are not doable.*** If the naked truth about them is widely known, their aura of mystery and attraction to the youth would diminish. The books must include China's failure without capitalism, its success with capitalism, and the ideal economic system.

Pure COMMUNISM—without private ownership of means of production—was a disaster in China

How **communism**—without individual property ownership because the State owns the means of production and all other property—failed and failed big time was concretely demonstrated in China's great famine during the catastrophic communist experiment by Chairman Mao Zedong. In his book, *Tombstone: The Great China Famine, 1958-1962,* that came out in 2013, the author Yang Jisheng, born in 1940, a Communist Party member himself who joined it in 1964 and worked for the Xinhua News Agency until his retirement in 2001, chronicled what was not talked about for years in China, ***the great famine that allegedly cost the lives of some 30 to 40 million people.***

The tragic episode in China's history—reversed by Deng Xiaoping with capitalism in his time—showed the great risks of having the government, manned by officials who do not own the means of production, manage the economy. They do not have the expertise, dedication, and concern of capitalists whose huge funds are at stake in their own professionally managed industries. If as a rule government bureaucrats cannot successfully manage a single State-owned large corporation, how much more in the case of an entire economy?

SOCIALISM with collective but not *individual* ownership of means of production is counterproductive; it will succeed if blended with crucial *individual* property ownership—as done in China—which makes it Capitalism

Under **socialism**, the government also assumes the nightmarish burden of satisfying the needs of the whole population. To do it, ***individual*** property ownership is abolished to form a classless society. The government owns some means of production and workers ***collectively*** own other industries, but the State controls the fruits of production, shared under the popular Marxist slogan ***"from each according to his ability, to each according to his needs." Unfortunately, Karl Marx, who called for worker ownership of industries to free them from capitalist exploitation, might have overlooked the heavy burden under socialism of providing the needs and wants of countless non-producers:***

1. Workers in numerous non-revenue free-service industries, like hospitals, nursing homes, schools, public utilities, etc..
2. Workers in non-revenue infrastructure construction projects.
3. Workers in government offices; police and military personnel.
4. Non-workers, such as the old, young, sick, and disabled.

Workers collectively own the means but not the **fruits** of production. ***The State merely uses them as workhorses in feeding or sustaining the non-producing members of society.*** Out of their production from their ability, workers get only what they need. Their surplus is given to non-producers. Without surplus or savings, the workers cannot dream of becoming rich and retiring early. They have to work for as long as they are able to. In the process, the ***Marxist slogan*** is what else if not ***confiscatory taxation*** that makes worker ownership of industries a **sham.**

Thus, workers lack the motivation to produce more because of **self-interest.** Why work hard if one does not get his surplus production? As a result, production suffers and cannot satisfy the unlimited needs and wants of producers and non-producers, especially ***if the ratio of non-producers to producers is quite high.*** With production shortfall, there is simply no equitable distribution system of produce that can satisfy all. The inescapable discontent constrained China's **Deng Xiaoping** to try **capitalism** that made China one of today's economic and military powers.

Aside from China, Denmark is another example of perceived socialist but actually capitalist countries. 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... but it is also a successful market economy...."* (p. 18).

From SYSTEMS WORK Viewpoint: SOCIALISM Must be Rejected Because There is a No-Sweat Alternative to Impractical Socialist State Ownership or Control of Means and Fruits of Production That Can Also Achieve the Socialist Objective: CAPITALISM, Under Which Private Capitalists Own the Means of Production and the State Shares in Their Fruits Through Progressive Taxation

From the systems viewpoint, progressive taxation is the incredibly easy method of "nationalizing" industries under capitalism, not socialism. It is a nationalization not of the hard-to-manage means of production but only of their easy-to-pick fruits or **net income**, something overlooked by socialists. The State can then use the increase in taxes in social and economic programs for the people.

Socialist nationalization of industries, with State ownership and control of the means and fruits of production, is an administrative nightmare due to usual insufficient aggregate production and difficulty of enforcing an equitable system of distributing the limited fruits of production to the people. ***The more the free social services are expanded with more non-producer workers, the greater the burden of worker-producers who have to feed and provide the other needs of the more numerous non-producers.***

The State can "nationalize" instead the net income of industries via progressive taxation. ***Having a top individual income tax rate of say 70% on cash dividends to stockholders—net of reinvested earnings—is, in effect, making the government a 70% passive co-owner of industries, with big-time private investors still motivated to do the hard work because their after-tax net income still yields high per capita earnings in absolute amounts, especially if they will expand their businesses or invest in other industries.***

Before the advent of trickle-down economics (with drastically reduced income tax rates) during the Reagan and Thatcher years, with the US having 70% top marginal income tax rate, it was the undisputed top economic and military power. Before the Marcos regime, when the Philippines had similar 70% top marginal income tax rate, we had the recognized second best economy in Asia.

DEMOCRATIC CAPITALISM
WITH SOCIAL SPENDING, INDIVIDUAL PRIVATE PROPERTY OWNERSHIP, AND MODERATED CAPITALIST GREED IS THE IDEAL ECONOMIC SYSTEM

The book has further presentations on the following topics:

"In every living thing, there is a spirit to be free," and that spirit DEMOCRATIC CAPITALISM nurtures by letting the sovereign people own both the means and fruits of production and live the way they wish to live.
(Page 449)

COMPARISON OF SOCIALISM, NEOLIBERAL CAPITALISM, AND DEMOCRATIC CAPITALISM
(Page 20)

WHY DEMOCRATIC CAPITALISM—NOT SOCIALISM—IS THE IDEAL ECONOMIC SYSTEM
(Page 19)

Why PROGRESSIVE TAXATION With Higher Taxes for the Rich is an Indispensable Feature of Democratic Capitalism in the Attainment of Economic Equality

As the pie of annual economic growth shared between the rich and the poor is fixed for each particular year and insufficient for the needs of all (because the big chunk is gobbled up by the few rich), yet it cannot be increased out of thin air to fill in the huge deficiency in the share of the poor, and with mathematics being an exact science that governs the **algebraic equation** of their income sharing, ***to attain equality in the equation, there is no source of what can be mathematically added to the deficient side of the poor except to get from the abundant side of the rich through progressive taxation*.**

(If so, **trickle-down economics** supposedly for inclusive growth—with huge tax cuts for the rich that reduced tax revenue for social spending—as well as **maximization of shareholders' value** with maximized profits to rich capitalists at the expense of overcharged poor consumers, are patently WRONG because they make the rich richer and the poor poorer—thereby promoting inequality and working against the economic-equality objective of economics.)

Progressive taxation, with higher taxes for the minority rich to be used for the majority poor, is founded on **Democracy** enshrined in our Constitution. It equates to majority rule**, *the greatest good for the greatest number*,** and a ***"government of the people, by the people, and for the people,"*** where the greater interest of the majority poor must be paramount over the private interest of the minority rich, especially on taxation and pricing of basic necessities imbued with public interest.

ON EQUITABLE PROFIT SHARING BY FACTORS OF PRODUCTION

(Chapter 3)

WHAT MIGHT HAVE ESCAPED THE ATTENTION OF THE ACADEME AND ITS MANY BUSINESS GRADUATES: THE NEED TO ADDRESS THE HERETOFORE INEQUITABLE PROFIT SHARING BETWEEN THE TWO CO-EQUAL FACTORS OF PRODUCTION—CAPITAL AND LABOR

We were taught in high school economics that the three factors of production were land, labor, and capital, and that rent was the share of land in the revenue from production. Today, "entrepreneur" is added as fourth factor of production. However, in substance, the role of the entrepreneur as manager of his business may be considered labor while his investment may be treated as capital. Consequently, in addressing the pervading global inequality, some economists have simplified and broadly categorized further the factors of production, as follows:

1. Those who do things, or labor, the working class, and

2. Those who own things, the capitalists, owners of land and capital, now lumped simply as capital owned by capitalists.

As can be seen, under the two broad groupings, labor represents the majority poor who do things, while affluent owners of land and capital are the minority-rich capitalists or passive investors who receive corporate net profits in the form of dividends.

Why Labor and Capital Must be Treated as Co-equal Factors of Production

Private capitalists and workers as factors of production are equal in importance because both are needed in the production of goods and services. They also need each other. Neither can produce without the other. However, if desired by the government, there are cases where workers are more important than private capitalists—as in the case of government corporations like the Philippine National Oil Company, the National Power Corporation, and Land Bank of the Philippines—where private capitalists are not needed because the government was the one that provided the capital funds.

In all cases, private capitalists of big businesses cannot operate without numerous workers. But workers—with professional managers among them—can operate without private capitalists if the government will provide capital or help workers obtain financing. In effect, the need for workers in production is absolute, but the need for private capitalists is optional, as the government can take their place and provide capital, financing, or sovereign guarantee on workers' loans for corporate capital. Thus, it is just fair for capitalists to give workers their equitable share of profits through an appropriate profit-sharing method.

THE ROOT OF CLASS STRUGGLES AND VALID GRIEVANCES OF THE WORKING CLASS: INEQUITABLE PROFIT SHARING BY FACTORS OF PRODUCTION THAT GIVES HUGE NET PROFITS SOLELY TO MINORITY-RICH CAPITALISTS

Communism was Rooted in the Struggle and Valid Grievances of the Majority Working Class Who Earn Subsistence Wages and Lead Miserable Lives, While Minority Rich Capitalists Reap Huge Net Profits from Production and Enjoy Life as Passive Rentiers

Karl Marx and many others before and after him had lamented the miserable conditions of the working class earning subsistence wages. Underpaying workers was a product of rich capitalists taking undue advantage of surplus labor supply—so that just to have jobs and survive they were willing to accept compensation way below the real value of their contribution to production and business profits.

To address the problem, socialism with worker ownership of industries was born, a mild form of communism. Unfortunately, as previously presented, socialism has a hidden "factory defect" and did not turn out to be the elusive solution to the workers' plight (page 448 of book).

To this Day,
the Unfair Treatment of Workers Remains:
Some Capitalists Earn Fantastically High Rates of Return On their Investments But their Workers Do Not Share Proportionately In their Fantastic Profits

Classic examples of the rich earning excessively high returns on investments—equated to plain overpricing—are the stockholders of Philippine corporations dealing with basic necessities and essential services. Following are their after-tax rates of **return on equity (ROE)** or capital based on their audited financial statements, submitted to stockholders and the Securities and Exchange Commission (SEC):

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 submitted to its stockholders and SEC, Meralco's after-tax net income was a huge **₱23 billion** in 2018.

In the case of NLEX Corporation, based on its similar annual report, its total capital or Stockholders' Equity was **₱10.7 billion** as of December 31, 2017, while its net income after tax in the ensuing 2018 was **₱5.8 billion** or 54% of its equity at the start of the year (Introduction, p. xxv).

IN A REVOLT AGAINST THE TRADITION OF MEEK ACCEPTANCE OF FALLACIOUS ECONOMIC WISDOM, IT IS TIME TO ASK THE FOOLISH QUESTION OF THE DAY:

JUST WHICH "AUTHORITY" DISCRIMINATED AGAINST LABOR AND MANDATED THAT ONLY CAPITALISTS WILL EARN THE HUGE INCREASE IN PROFITS EVEN BEYOND REASONABLE INDUSTRY EARNINGS RATE, AND WHY?

Under the existing economic system, all profits of high-earning corporations above the 12% reasonable level accrue to the corporate owners. For example, in 2008 alone, Maynilad stockholder-capitalists earned 247% ROE, or more than double their invested capital, yet none of it was shared with the second factor of production—their workers. They received the same fixed monthly or daily wage rates despite the fantastic excess profits earned by the corporate stockholders. Why?

To this day, why do we obey that "authority" who originated the inequitable sharing of profits between capitalists and workers? Do we have slave mentality that we meekly follow this age-old system without hesitation despite the evil inflicted on many of us? To begin with, who were the persons in authority who decided and decreed that only the minority-rich capitalists can reap the surplus fruits of production? From the dark years of feudalism when it was quite doable, how did it last up to our supposed age of enlightenment? Who were the dominant economic thinkers that perpetuated this blatantly unfair economic system? These are some of the questions that the book has to grapple with.

Full Implementation of Democratic Capitalism— With Reduced Workers' Living Expenses—Will Address Inability to Raise at Will the Workers' Minimum Wage

While wages cannot be increased anytime as demanded by workers because not all employers can afford higher wages, to address the contrasting cases of some companies earning huge profits while others do not, the book advocates these imperative major reforms:

- ***Profit-sharing between very-high-earning capitalists and their workers where applicable*** (Chapter 3 of book).
- ***Social spending for basic needs under democratic capitalism, mainly funded by progressive taxation, that will somehow lessen the workers' need for the raising of minimum wage that cannot be done at will because many small and struggling businesses cannot afford it.***
- ***Reversal of present regressive taxation, as well as reduction of unduly high prices of basic necessities like power and water,*** treated at length in the book.

II
HOW TO PROMOTE
ECONOMIC EQUALITY:
ADDRESS THE ROOTS OF INEQUALITY

The elusive solutions to economic inequality are summarized right at the back cover of the subject book. The solutions include democratic capitalism with moderated greed of capitalists and social spending for the poor, progressive taxation, equitable sharing of profits between capitalists and workers as factors of production, all-out anti-corruption war, best management practices, and political will in the implementation of solutions to inequality.

TO ATTAIN EQUALITY, THE GOVERNMENT MUST ADDRESS THE ROOTS OF INEQUALITY

AS FAILURE OF SYSTEM:

DEFICIENT DEFINITIONS OF ECONOMICS, POOR GOVERNANCE, DEFECTIVE GLOBALIZATION TOOLS, AND PRO-RICH NEOLIBERAL ECONOMIC POLICIES COLLECTIVELY PRODUCE WEALTH AND INCOME INEQUALITY

AS FAILURE OF MEN:

ELECTED POLITICAL LEADERS AND APPOINTED ECONOMIC MANAGERS HAVE FAILED TO COME UP WITH THE NEEDED PRO-PEOPLE DEMOCRATIC CAPITALISM THAT MUST REPLACE THE PRESENT PRO-RICH NEOLIBERAL CAPITALISM

1. **Failure to come up with the goal-oriented definition of economics that will serve as mission order to government economic managers to satisfy the needs of both minority rich and majority poor and thereby promote equality.**

As a crucial tool of governance and part of the government's preservation of the lives of the people and pursuit of their happiness as members of society, ECONOMICS came into being because of the need to feed society and satisfy its other needs and wants. However, popular textbook definitions of economics speak of economic processes, or what economics is doing, but are silent on its objective—**to satisfy the needs and wants of society—** as exemplified by Nobel Laureate Paul Samuelson's definition:

"Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society."

As a result, governments condone, nay promote, the now dominant pro-rich economic policies that satisfy the minority RICH and dissatisfy the majority POOR members of society. Therefore, the book provides a **goal-oriented** definition of economics that will serve as the elected political leaders' **mission order** to economists to equally satisfy the needs of both the minority RICH and the majority POOR (pages xxviii, xxxi, 14, and 445-446 of the book), as follows:

Long form, a take-off from Professor Samuelson's definition:
Economics is the study of how to satisfy society's needs and wants through the production and distribution of sufficient commodities at the least cost and with the most efficient use of scarce or costly-to-harness resources.

Short form: ***Economics is the study of how to satisfy society's needs and wants through the use of scarce or costly-to-harness resources.***

2. **Failure to see that our economic system enshrined under Article II, Section 20 of the Constitution—private enterprise or capitalism, with individual ownership of means of production and other assets—includes, as a basic integral feature, the institution of social welfare programs toward the satisfaction of the needs and wants of the majority poor under the imperative goal-oriented definition of economics.**

Unknown to many, capitalism includes social spending, a great capitalist innovation in history wrongly attributed solely to socialism. In the 1880s, the staunch anti-socialist German Chancellor **Otto von Bismarck** 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 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 of waging two world wars after his time.

Otto von Bismarck's successful economic system was capitalist—not socialist—model because under it industries were privately owned.

Capitalism includes social spending for the following reasons:

- Under the goal-oriented definition of economics, its objective is to satisfy society's needs and wants. To satisfy the needs of the poor members of society, social spending is needed under capitalism.

- Under Sections 25 and 26 of the United Nations' Universal Declaration of Human Rights, the right to food, clothing, housing, social security, health care, and education are inalienable human rights under capitalism and any other economic systems.

- Under democratic governance, elected political leaders must give primacy not to the economic-ideology free market but to the constitutional political-ideology democracy. Under its tenet ***the greatest good for the greatest number,*** satisfying the needs of the majority poor through capitalist social spending is basic.

3. Failure to discern that fixation with fast economic growth without fair share to the poor perpetuates inequality.

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 produce equality. While the RICH corner bulk of growth that yields them high per capita income, ***the POOR's per capita compensation from growth-created jobs is not even enough for their basic needs.***

4. Failure to pursue the constitutional mandate to promote equitable distribution of income and wealth, to be done through, among other measures, progressive taxation.

Under Article XII, Section 1 of the Constitution, the first cited goal of the national economy is "a more equitable distribution of opportunities, income, and wealth." In brief, this means the government should reduce the existing huge gap between the rich and the poor by helping the poor, one way of which is through social welfare program for the poor in the form of cash aid, food stamps, health care, and education, as well as low-cost housing and house rental. On the other hand, under Article VI, Section 28 (1) of the Constitution, progressive taxation is our mandated taxation system. It will serve as the major source of funding for the government's social spending for the poor and other vital public services.

5. Failure to give primacy to the political-ideology democracy over the economic-ideology free market.

Elected political leaders must give primacy not to the economic-ideology free market but to the constitutional political-ideology democracy. It operates on the ***majority rule*** **or** ***the greatest good for the greatest number***. Under existing conditions of widespread poverty, this goal is not attained. Thus, to prioritize the greatest good for the majority poor under democracy, political leaders must exercise strong political will in addressing inequality.

I am not alone in this conviction on the role of democracy. In his June 25, 2019 article "Neoliberalism: Political Success, Economic Failure" in *The American Prospect* magazine, Robert Kuttner postulated: ***"The antidote to the resurrected neoliberal fable is the resurrection of democracy—strong enough to tame the market in a way that makes it for keeps."*** (p. 446 of book).

6. **Failure by the Head of State and the Chairman of the Commission on Audit (COA) to curb rampant corruption in the government.**

Continuing big-time corruption in government sucks the lifeblood of the nation. The mind-boggling media-reported **₱700-BILLION** annual corruption losses, disclosed by Deputy Ombudsman Cyril Ramos in 2019, means foregone precious funding for social spending for the poor, essential public services, and economic development programs. The government's poverty reduction program, to succeed, must be complemented by an all-out anti-corruption war (Chapter 21 of the book).

7. **Failure to follow certain best management practices, as well as inability to show political will in governance, that could have helped the majority poor and reduced economic inequality.**

In addressing the inequality problem, best management practices and political will in the implementation of solutions to our grave national problems are also indispensable. A reading of Chapter 24 will show that some of even the most basic best management practices were not religiously followed, like total coverage of functions with contingency planning, as well as observance of hierarchy of needs in the budgeting, funding, and implementation of government projects. Strong political will through higher taxation for the rich was not displayed either in the raising of funds for social spending and poverty eradication.

8. **Failure to follow sound privatization schemes on government assets and operations that resulted in higher rates or inflation and reduced purchasing power of the poor, such as in the monumentally flawed privatization of Mt. Apo geothermal power distribution in Mindanao.**

HIGH RATE OF MT. APO GEOTHERMAL POWER IN MINDANAO FROM UNLAWFUL AND DEFECTIVE PRIVATIZATION

(Chapter 12)

The Aquino administration's privatization of the 108-MW Mt. Apo geothermal power distribution in **Mindanao,** done in 2014, is an incontrovertible proof of how EPIRA-dictated privatization of government assets and operations in the power industry actually raised— not reduced—electricity rates. This absurdity has to stop.

BEFORE PRIVATIZATION

Rate Per kWh

Energy charge when the power complex was still with the National Power Corporation (Kristianne Fusilero, "Hike in Mt. Apo power rates a result of privatization: exec," *Mindanao Times* Online, April 24, 2015) .... **₱ 3.00**

AFTER PRIVATIZATION

Energy charge …………..………………..……….,…..,….. ₱ 3.034

Add: New charges under privatization scheme

Winning bidder's administration fee: **₱105.17** million per year …………………................................... ₱ 0.1377

Winning bidder's illegal recovery of highest premium bid: ₱128-million monthly or ₱1.5-billion annual payment to the government, passed on 100% to consumers; thus, nothing comes from bidder ……………. ₱ 2.011

Total power generation charge as increased by evil privatization

[as authorized by the Energy Regulatory Commission (ERC) under its order dated May 11, 2015, on ERC Case No. 2015-035 RC, posted to ERC's website] .... **₱ 5.1827**

It is quite probable that the above faulty and unlawful privatization scheme was followed in similar cases, like the privatization of **Angat hydroelectric power plant operations in Angat, Bulacan.** This probability must be looked into by the Department of Energy, energy committees in Congress, and Bulacan legislators and officials.

9. **Failure to reduce unduly high rates of basic necessities like power, water, and tollway services, the rate reduction of which can promote economic growth and relief to businesses and households.**

To this day, the government has failed to reduce our unduly high rates of public services—especially our second highest power rates in the region—that serve as a major disincentive to the growth of our manufacturing industries. This particular problem can be addressed through proper government intervention or role in the privatization of public service companies, to be done without the usual problem of government inefficiencies and corruption.

The government can do it by reversing the total lack of government role in privatized power companies under EPIRA (RA 9136), the law that betrays the dominant economists' lack of expertise on the beauty of proper regulation where it is needed, that is, in captive markets for basic necessities only, in which the government has imperative missionary roles to play.

Owing to its limited resources, and on top of having power companies earn a maximum return of 12% as ruled by the Supreme Court (ERB vs. Meralco, G.R. No. 141314 dated November 15, 2002, affirmed on April 9, 2003), the government can initially target the reduction of power supply to export processing zones and other industrial sites in the country.

To own a power plant with, say, 300 MW capacity for a particular industrial zone, the government can form a corporation that will put up a 620-MW power plant (the capacity of the Bataan nuclear power plant), to be majority-owned by private investors with at least 51% controlling ownership. The government will own at most 49% minority interest, equivalent to the targeted ownership of about 300 MW capacity out of the 620 total MW plant capacity.

The government can use its 12% annual return on its minority equity in the joint venture corporation as follows: 6 percentage points or less for interest cost on borrowed capital and the remaining 6 percentage points for subsidized power rates to manufacturing companies in the industrial zone.

If it is hard to find private joint venture partners, *the government can sweeten the pot for them* by having them earn, say, 14% return, while it earns a reduced 10% or slightly less—but the corporation's composite return will be 12% as ruled by the Supreme Court.

Under the foregoing scheme, the government, with representatives in the corporation's Board of Directors and Finance Group, will ride on the efficiency and honesty of professional managers appointed by the private investors, who have genuine interest in the corporation's success as their investment on it is huge enough in absolute amount.

III

PROGRESSIVE TAXATION:

AS SOURCE OF FUNDING FOR SOCIAL SPENDING AND ECONOMIC DEVELOPMENT PROGRAMS, IT TEMPERS THE INCREASE IN WEALTH OF THE RICH AND NARROWS THE GAP BETWEEN THE RICH AND THE POOR

(Chapter 2)

"Economists like **(Joseph) Stiglitz** and **(Thomas) Piketty...** predicted that we live in a world where the rich will get richer faster, which has proved true, and that ***we ought to develop tax policies that prevent the poor from becoming ever poorer."*** [1]

Just why are we helpless in minimizing the globally lamented problem of lack of inclusive growth, gross wealth and income inequality, or the rich getting richer and the poor poorer?

If there is a problem, it is man-made. It is the Heads of State's lack of political will to institute the legal, moral, equitable, and expeditious way to do it: progressive taxation, which charges the rich higher tax or premium as the price for their greater wealth and comfort under government protection, a classic case of the greater the benefit the greater the payment.

We can wait 'til kingdom come but the RICH will not share their surplus wealth (some probably derived from their overpriced goods and services) to the POOR on a sustained basis. Thus, there is no alternative to having the RICH compulsorily do it through progressive taxation, which entails taking more taxes from the abundant annual income of the RICH and spending the increase in taxes for economic development, poverty reduction, and vital public services. If still needed, a surtax on wealth may also be imposed.

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[1] Jan Svejnar, "Billionaires vs the people," *Philippine Daily Inquirer*, July 18, 2015, p. A1.

In effect, **instituting appropriate tax policies is a key reform to prevent the poor from becoming ever poorer.** It is the first and foremost solution to the problem lamented worldwide—even by Pope Francis himself—lack of inclusive growth, gross wealth and income inequality, or the rich getting richer and the poor poorer. It can be eventually solved if the rich would share a bigger part of their disposable income with the poor. Unfortunately, the rich would not voluntarily do it. They would not willingly share their increase in wealth (or annual income) with the poor on a sustained basis.

Therefore, to reduce poverty, because the rich will not voluntarily share to the poor their good fortune—which may be emanating from their overpriced goods and services to hapless consumers—they must be compelled to do it on a compulsory basis.

There is no alternative to the legal, moral, and expeditious way of doing it—**progressive taxation**—the taxation system and doable solution mandated under Article VI, Section 28 (1) of the **Constitution**. Progressive taxation involves taking some more taxes from the huge income of the rich and spending the increase in tax collection for the poor's poverty reduction.

SUMMARY OF JUSTIFICATIONS FOR PROGRESSIVE TAXATION

Based on taxation principles under public finance and the realities on the ground, following are some compelling justifications for progressive taxation:

1. First and foremost, progressive taxation is the rational and equitable taxation system that, if properly crafted, will be affordable by the rich, bearable by the middle class, and endurable by the poor.

Progressive taxation is aimed at making taxation rational and equitable to all taxpayers. It is the alternative to the government's improper penchant for increased taxation that is not based on ability to pay, like increases in VAT, real estate tax, and regulatory fees. Such tax increases are unbearable to the poor and unemployed because, as these are not exacted from income increases, these diminish the poor taxpayers' already meager assets.

2. The rich who can pay more taxes should pay more because they have a greater stake in a peaceful and prosperous society.

The rich who can pay more for the attainment of a prosperous and peaceful society should pay more—because they have more to gain and enjoy from such an ideal society, and more wealth and happiness to lose in a society that, for lack of adequate funding for the government that protects it, is beset by mass poverty and crimes against persons and property, like kidnapping of the rich and robbery.

Moreover, the rich can very well afford the extra tax payment without losing their wealth and sacrificing their existing luxurious lifestyle. ***By shouldering higher taxes, the rich are merely paying an extra fee or premium for their greater benefit from the government and society.*** In effect, higher taxes for the rich is simply a logical application of the two **standards of fairness**—the **benefit** and **ability-to-pay** principles of taxation under public finance.

3. Subjecting the poor to increased taxation under regressive taxation worsens poverty—this is basic; therefore, doing so is definitely not right under existing economic conditions because it will sabotage the government's poverty alleviation program.

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In funding government budget deficit, loan repayments, and infrastructure and other essential projects and services, subjecting the poor to higher taxation will leave many of them with funds insufficient to meet even their basic necessities, like food, clothing, shelter, utilities, medical and educational expenses, etc. Therefore, the better alternative is progressive taxation that relies more on the financially capable rich.

4. Nordic countries have shown that higher taxation properly spent leads to happy and prosperous people.

The model Nordic countries, such as Denmark and Sweden (p. 18), have used higher taxes as the people's forced savings and premium for social insurance that go back to them as free education, hospitalization, etc.

5. Subjecting the rich to increased taxation is doable—and it should be done as a matter of necessity.

In war, patriotism alone will not produce enough volunteers to fight for the country, which is why compulsory drafting of able-bodied citizens is done. In economics, patriotism alone of those with ability to pay will not generate enough taxes that can be spent on good governance and economic growth, which is why those who can afford to pay more, the affluent, should be constrained to pay more.

6. The rich prosper from public patronage of their businesses, so why not constrain them to give something in return to the source of their wealth?

The affluent—like owners of super malls, telecom companies, and utility monopolies—and their businesses thrive and benefit from public patronage, therefore they have a debt of gratitude to the people. At this time of great need for revenues by the government that serves the people, the affluent can repay the people by shouldering higher taxes to finance government projects intended for the common good of all. Their higher taxes will also redound to their benefit by way of an increase in consumer purchasing power and consequent greater patronage of their businesses.

7. ***If for national interest (or security) the government sacrificed the one and only one priceless and irreplaceable life of every Filipino soldier who died in combat against terrorists in Marawi, why does it refuse to similarly sacrifice a bigger but dispensable part of the abundant, surplus, and clearly replaceable multi-million-peso—or billion-peso—money of the ultra rich through increased income taxation for the same national interest?***

The government should not discriminate against the majority poor by asking some of them, such as uniformed personnel n the military and police, to make the supreme sacrifice of offering their irreplaceable priceless lives for national interest—without asking the rich to pay at least 50% top personal income tax rate out of their abundant annual increase in wealth (net income) for the same national interest.

WHY THE GOVERNMENT SHOULD NOT FEAR TAXING MORE THE RICH

Some economists believe that the raising of value-added tax (VAT) from 10% to 12% had helped save the economy during the Arroyo administration. In reality, it was the ever-growing dollar remittances by OFWs that did so. What the 12% VAT achieved was to subtly enable the Arroyo administration to avoid running after perpetrators of big-time corruption in government—because ***government losses from corruption were made up for by the increase in VAT to 12%.***

Political leaders have to enforce the constitutional source of government revenue—progressive taxation with higher taxes for the rich, not increased VAT, a form of consumption tax that should be minimized if not discarded. Under democratic capitalism with progressive taxation, the rich will still stay in business because they have no better choice. The alternative is worse—socialism without private property and with confiscatory taxation (pp. 15, 39, 94, 448). The rich prospered from mass patronage of their probably overpriced products, so why not tax them more to fund government social spending and economic development projects?

The Rich Cannot Just Abandon their Local Businesses: If they Would, Others Less Greedy for High Profits Would Fill the Void they Would Leave

The government should not hesitate to raise taxes on the rich for fear that they will abandon their businesses, or stop investing here and do so abroad instead. That fear is unfounded. For as long as the businesses of the rich are making money in the Philippines, they will not close shop, then invest overseas. It is not easy to start businesses anew in other countries already saturated with competition, where management is more difficult and the rate of return may even be lower than that being earned here.

Moreover, the imperative higher taxation for the rich is for **individuals, not corporations** or businesses. The proposed further increase in the top individual income tax rate to at least 50% will have no adverse effect on the profitability of domestic corporations for as long as corporate income tax is not raised. The government has not announced any such increase. On the contrary, after the coming out of the original edition of this book, It even had the corporate income tax rate reduced under the new law CREATE, approved on March 26, 2021 (p. 42).

The rich cannot simply abandon their businesses either and take a total loss. They would have to find other investors to buy them out—which means their businesses will go on operating without a negative impact on the economy.

Subject to the Rule Against Double Taxation, A Resident Citizen is Taxed on His Business Income from both Local and FOREIGN Sources, Therefore Moving Local Businesses to Other Countries With Lower Personal Income Tax Rate Will Not Result in Income Tax Savings to the Rich

There is no advantage to the rich in pulling out their investments from the local economy just to invest abroad on the ground that the Philippine top individual income tax rate is higher than those in other countries. Except for overseas Filipino workers (OFWs) earning salaries and wages abroad and have already stayed there for at least six months, the foreign earnings of Filipino citizens are also subject to Philippine income tax, less foreign income tax as tax credit. The same rule applies in the United States to US citizens, that is why Filipino-Americans are required to report to the US Internal Revenue Service their income from the Philippines. If the government wants to discourage resident citizens from investing abroad, it can set higher income tax rate on foreign earnings and/or make less liberal its central bank regulations on dollar outflow for foreign investments.

CONCLUSION:
Progressive Taxation—Not Regressive Taxation—Is the Path Toward Economic Equality, As Borne by Past Significant but Forgotten Events in Economic History

Here are some quotes from, and review of, an article on how to address inequality, written on September 3, 2017 by Ricky Sobreviñas, an alumnus of Ateneo de Manila University and Wharton Business School (University of Pennsylvania) in the US. He worked on Wall St., with one of his clients a certain Mr. Donald Trump.

According to Mr. Sobreviñas: "Apologists for the ruling elite would say you've got to lower taxes for (the ruling oligarchs and their corporations), but we all know what has happened when tax rates were lowered in the developed world most notably the US. Look at the US in particular. Before (imposition of) income taxes in the US, for most of the Industrial Revolution days of the 19th Century, when there were no income taxes, the robber barons reigned supreme with tremendous inequality creating a very unstable society that resulted in five economic depressions and Great Recessions up to the first decade of the 20th Century. When the permanent income tax was ushered in by Woodrow Wilson in 1913, with top marginal tax rates in excess of 50%, it not only won the first World War but also unleashed the booming Roaring 20s.

"In the 20s, three successive Republican Presidents—Harding, Coolidge, and Hoover—slashed the top rates. (The tax cuts) created so much income inequality that in turn caused market speculation from all the super incomes that it collapsed the market, destabilized the economy, and caused the... **Great Depression. Entered Franklin Delano Roosevelt (FDR) who proceeded to raise the top marginal tax rate back to over 50% and as much as 92%.** Rather than economic collapse as the elites predicted, this unleashed the greatest boom in economic growth that won the second World War and formed the economic basis of the unprecedented 'New Deal' that resulted in the development of the great middle classes in the history of mankind."

As Mr. Sobreviñas explained: "The high marginal tax rates allowed the basically honest government of the developed world—including Japan with top marginal tax rates of around 70% and over—high government revenues that led to the transfers of these funds in cash or in-kind to the middle classes in the form of government jobs, infrastructure development, education, social security, unemployment insurance, scholarships, and research, that led to the growth of the economy, development of the middle classes, prosperity to all, and at the same time, massively reducing inequality.

"But the New Deal lasted only until Reagan's tax cuts for the wealthy, reducing the top marginal tax rates from 70%... to 28% that resulted in Reagan causing record massive government budget deficits in his eight years, greater than... the deficits of... previous US Presidents.... Predictably, he unleashed instability still with us today that obliterated the middle classes...."

The contention of Mr. Sobreviñas on beneficial higher taxation for the rich is corroborated by the case of progressive Nordic countries. Denmark, Iceland, Norway, and Sweden have tax burdens on total income ranging from 36.4% to 45.9%, much higher than that of the US which is at 26% (p. 18).

[NOTE: When the Philippine economy was recognized as the second best in Asia next to that of Japan before martial law, our top marginal income tax rate was 70% like that in the United States. The top tax rate was reduced to 60% in 1982 under Batas Pambansa Bilang 135. then brought down further to 35%after EDSA I in 1986 under Executive Order No. 37. After some changes, it now stands at the same 35% under the TRAIN Law (RA 10963)**].**

Mr. Sobreviñas added: "Even (economist Thomas) Piketty's prescription to fix the inequality was to increase the relative income of the 99% as opposed to the 1% and there is no more effective way to do that than relatively high tax rates for the very wealthy—none! Just look at the two... developed countries with some of the highest per capita incomes in the world—Singapore and Hong Kong. You scratch behind the appearance of high GDP per capita for the two countries and you see a third world GINI index at 41% (the Philippines is 45%)."

He concluded: "**No permanent egalitarian, low inequality society can be possible without the relatively high tax rates for the very wealthy, none whatsoever."**

IV

PROPER REGULATION:

THE WAY TO REDUCE PRICES OF BASIC NECESSITIES IN CAPTIVE MARKETS CLOTHED WITH PUBLIC INTEREST, LIKE POWER, WATER, TOLLWAY, AND TELECOM SERVICES— TO BE DONE AS PART OF PRO-POOR PROGRAMS AND COST REDUCTION MEASURES FOR ALL INDUSTRIES BURDENED BY HIGH POWER AND OTHER PUBLIC SERVICE RATES

(Chapter 6)

To begin with, the aim of regulation is to promote adequate and stable supply of goods and services by, among other things, having a fair pricing system that allows capitalists to set prices that yield a reasonable return on their invested capital, which prices equate to reasonable rates to consumers. The prices automatically become the no-alternative reasonable rates to consumers as these are what would yield capitalists their hurdle rate or needed minimum rate of return, without which they would not produce products.

1. Resolve the issue of business regulation vs. deregulation

Deregulated or free market yields the highest selling prices at which buyers will still buy, while regulated market mandates the lowest selling prices at which sellers will still sell. Up to now, our government economic managers and regulators have not mastered the fine art of regulation and deregulation, as betrayed by improper regulation of power, water, and tollway monopolies, as well as ill-advised deregulation of power-generation oligopoly companies.

Simplified Conclusion on Regulation vs. Deregulation

a. Deregulation should remain the general rule for ordinary products, whether in free market or captive market (p. 104)

Regulation is not needed on luxury, ornamental, or non-essential ordinary products even if there is lack of free market because these satisfy human wants or caprices, not human basic needs, therefore, majority poor consumers on their own can harmlessly dispense with them or resort to cheap substitutes to avoid overpricing.

b. Regulation is imperative in captive market for basic necessities imbued with public interest, otherwise consumers forced by necessity to patronize the products can be exploited through overpricing

As a valid exception to free-market deregulation, regulation has to be instituted in markets for basic necessities clothed with public interest—like power, water, tollway, rail transit, other public transport, telecom services, and so on—because, whether served by monopoly or oligopoly companies, these lack the requisites of competition, therefore, these are captive markets (pp. 105-106).

For example, **following are the prerequisites to competition that are lacking in the deregulated power generation industry (**pp. xxvi, 167-172**):**

(1) Ample power supply, the lack of which enables the power generated by both high-cost oil-fired power plants and low-cost geothermal and hydro plants to be sold at unduly high rates just to meet total demand.

(2) Free choice on the part of buyers and sellers, which applies to products that are not basic necessities and have elastic demand (demand decreases as price increases and vice versa), therefore buyers can harmlessly shift to cheap substitutes or forego purchase altogether.

(3) Competitive bidding system that prevents bid-rigging and ensures the integrity of the bidding process in determining winning bid prices.

(4) Numerous sellers and buyers, none of whom can control or unduly influence market price or supply. (In contrast, Meralco is a monopsony buyer and a monopoly seller in its large franchise area.)

(5) Facility of entry of new competitors and **exit** of existing market players.

(6) Inclusion of government in free-market competition as price setter and cartel breaker. Based on its lower prices, the government can spot cartelized high prices. It can act as a price setter at reasonable rates, which in turn can serve as benchmark prices to private market players—in the process fostering real competition and preventing cartels in the market.

Therefore, the gratuitous conclusion that introducing the economic stimulus ***deregulated private oligopoly***—instead of regulated government monopoly—will produce genuine competition in the power generation industry is fallacious. This stimulus is not enough to overcome the opposite impact of the foregoing lack of requisites of perfect competition in a free market. Such lack resulted in absence of free-market competition in the power generation oligopoly, with concomitant high power rates.

c. Regulation has right and wrong ways or schemes of implementation—wrong implementation means unduly high prices just the same to countless poor consumers—something seemingly not clearly taught in local and foreign business schools based on how regulated public service monopolies in the Philippines overprice basic necessities, as betrayed by their return on equity (ROE) way beyond the Supreme Court-ruled 12% reasonable return limit.

There are right and wrong ways of implementing economic solutions. If improperly done, the solutions will not attain the objective, as shown by past events.

For example, as shown in the Petron financial highlights culled from PNOC annual reports, under oil industry regulation, Petron Corporation's return on equity (ROE) was **10%** in **1985.** Then, under the same regulation but without the abolished Department of Energy, which used to calculate the appropriate price adjustments under the direction of then Bureau of Energy Utilization Director **Orlando Galang,** Petron's return on equity (ROE) jumped to **30%** right in **1986** under the sole authority of the Board of Energy (BOE), now Energy Regulatory Commission (ERC). ***In effect, when the Department of Energy was abolished in 1986, genuine pro-people oil regulation stopped*** (pages 266-267).

Based on heretofore Meralco's breach of the 12% reasonable return limit ruled by the Supreme Court (ERB vs. Meralco, G.R. No. 141314 dated November 15, 2002, affirmed on April 9, 2003), BOE's lack of expertise in price regulation is carried forward to the present ERC.

PETRON CORPORATION

Financial Highlights (Amounts in Million Pesos)

	Revenue	Net Income	Equity	Return on Equity	Return on Sales
After EDSA I					
1989	19,103.4	859.6	3,284.2	27.7%	4.5%
1988	18,604.5	758.4	2,925.2	29.8%	4.1%
1987	17,470.2	460.6	2,168.1	23.8%	2.6%
1986	14,319.4	449.8	1,709.7	**30.3%**	3.1%
Before EDSA I					
1985	18,992.2	123.5	1,262.1	**10.3%**	.7%
1984	19,098.5	94.1	1,138.5	9 %	.5%

The perceived graft-ridden Department of Energy was abolished after EDSA I to stop the supposed plunder of public funds in it—but such abolition stopped instead the unappreciated pre-EDSA I ***protection of oil consumers*** from high oil prices under ***proper regulation.*** The lack of such consumer protection under DOE abolition produced in turn a post-EDSA I ***"plunder" of consumer funds*** from unduly high oil prices, as betrayed by the trebled rate of return of market leader Petron Corporation—with 42% market share—from 10% ROE in 1985 to a whopping 30% in 1986, or right after DOE abolition in post-EDSA I.

Clearly, the clamor for ***DOE's abolition*** was understandable as even Filipinos managing foreign oil companies did not want to be regulated because they could not price oil products at what the market could bear.

Contrary to the wrong notion after EDSA I that the Philippine National Oil Company (PNOC) conglomerate under the Department of Energy was plundered and rendered bankrupt, it was quite ***solvent and profitable, with valuable assets*** in crude oil refining and marketing, shipping and shipyard, geothermal development, and other energy projects that yielded huge cash to the government when it unwisely privatized PNOC's money-making subsidiaries after EDSA I—Petron Corporation, the country's largest oil company then and now, and the PNOC Energy Development Corporation (PNOC EDC), the energy company that helped catapult the country to the then position as ***second largest geothermal power producer in the world***, next only to the United States.

PNOC EDC's Arturo Alcaraz became a Ramon Magsaysay awardee as father of the geothermal power industry in the country. PNOC, a government corporation, and DOE, a line government agency, were managed then by seconded Petron Corporation officers receiving compensation packages competitive within the oil industry. **They debunked the myth, or defied the norm, that government corporations are incompetent and corrupt** (page 425).

PNOC and SUBSIDIARIES
Financial Highlights (Amounts in Million Pesos)

	Net **Income**	**Assets**	**Equity**	**Return on Equity**
1989	1,583	33,968	10,774	15.7%
1988	1,277	27,206	9,351	14.9%
1987	749	27,757	7.785	10.7%
1986	423	20,831	6,251	7.0%
1985	850	22,764	5,827	15.4%
1984	709	28,586	5,219	14.5%
1983	526	25,382	4,571	12.6%
1982	454	19,445	3,668	12.9%
1981	358	17,091	3,062	12.3%
1980	323	12,671	2,429	13.8%
1979	267	8,929	1,933	15.3%
1978	241	4,995	1,655	16.9%
1977	280	5,662	1,190	26.5%
1976	154	4,351	918	20.4%
1975	(58)	4,087	592	(13.3%)
1974	20	2,075	286	7.0%

2. **Eliminate the taken-for-granted major obstacle to our fast industrialization and economic growth that government economists have failed to solve since EPIRA inception 20 years ago—our unduly high power rates, with recurring power outages as coup de grace in turning off local and foreign investors** (Chapter 11).

a. Solution to power outages that need EPIRA overhaul

Recurring power supply disruptions occur because electricity cannot be stockpiled for future use. Thus, there is a shortfall in power supply whenever some power plants are on shutdown and there are no reserve power plants. Power generation companies privatized under EPIRA (RA 9136) in 2001 did not invest in needed but financially losing idle reserve power plant capacity.

If profit-motive private investors do not want to invest in loss-incurring reserve plants, the service-motive government should be the one to invest.

To do it once and for all and solve the long pestering problem of recurring power outages without incurring subsidies, the government must also own low-cost geothermal and hydro power plants, profits from which will recoup the losses in the reserve plants.

b. Solution to high power rates: government regulators can validly reduce unduly high power and other public service rates, therefore, they must do it.

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). This ruling should be similarly applied to other public service monopolies, like tollway operators. Following are some examples of public service monopolies with rates of return on equity (ROE) in breach of the Supreme Court ruling:

Meralco	**Maynilad**	**NLEX Corporation**
(Power)	(Water)	(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 breach of the Supreme Court-ruled 12% profit-rate limit. The performance-based regulation (PBR) with rate increases, followed by Meralco and Maynilad, is merely a rate-setting method and cannot override the Supreme Court-ruled 12% profit-rate limit. ***Thus, their service rates must be reduced and their past overpricing refunded to consumers.***

3. **Restore the PRO-CONSUMER FEATURES of past oil industry regulation that were lost under the present pro-business deregulation—which can be done today if our President, as Head of State, will put the interest of the vast number of direct and indirect oil consumers above that of the relatively few oil company stockholders.**

(1) As conceptualized by the PNOC technocrat **Orlando L. Galang**, the then Petron Corporation Vice President and seconded Director of the now defunct Bureau of Energy Utilization, the most basic feature of past oil industry regulation was ***to limit not the selling prices per se but the peso profit margin on sales.*** **The oil industry was allowed the *barest minimum peso margin per liter* of oil products sold.**

This way, there was no problem in the recovery of actual cost increases. Prices were adjusted to fully recover whatever were valid cost increases while the peso margin per liter remained the same. ***The increase in net income of each oil company came from the increase in sales volume, so fierce competition was on how to increase market share.***

(2) To minimize frequent oil price changes and institute a more precise mode of providing relief to oil companies with varying effectivity dates and amounts of crude oil cost increases—without overpricing or any cost over-recovery from consumers, and without underpricing or cost under-recovery by any oil company, the regulation scheme used Oil Price Stabilization Fund (OPSF) in minimizing oil price fluctuations.

The OPSF was operated for years ***without any subsidy from the national government, and without any Commission on Audit (COA) disallowances*** on the more than **₱11-BILLION** OPSF utilization, processed by the Financial and Management Service group I headed as an on-loan Petron Corporation officer. As of January 1, 1986 or shortly before EDSA I, OPSF had unused balance of **₱1.4 billion** placed in Treasury bills.

(3) The basis of regulated price increase was ***the cheapest price at which a similar type of crude oil can be purchased from the international oil market,*** or actual price whichever is lower. This crucial feature is lost in deregulation.

(4) Unlike today's deregulation where an oil price increase is immediately effected once oil posted prices rose abroad even if not yet actually incurred by local oil companies, under the regulated regime, ***the oil industry could raise its prices only after exhaustion of its 45-day low-cost crude oil and product inventories.*** This fair, pro-people, and common-sense regulation pricing scheme should be restored as follows:

Allow oil companies to raise prices only after exhaustion of their low-cost oil inventories and, conversely, require them to promptly reduce prices after exhaustion of high-cost inventories.

Alternatively, they should be allowed to raise prices upon rise in oil prices abroad as is their present practice, but they must be also required to promptly reduce their prices upon drop in prices abroad. The price adjustments should be based on actual increase or decrease in world oil prices.

(5) Under regulation, crude oil refining (manufacturing) is competitive to finished product importations. Under deregulation, the advantage of oil refining is lost, so finished product importation has been significantly resorted to. Our imported oil products include labor, taxes, and other refining costs incurred abroad. Caltex had to close its oil refinery in Batangas, and with its closing, our economy lost business, real estate, and income taxes; employment of refinery personnel; maintenance contracts of refinery contractors; insurance of refinery assets and employees; sales of equipment, materials and supplies, etc.

Oil product importations are prone to multi-billion-peso oil **smuggling,** a risk not present in mainly crude oil importations under past regulation because crude oil as oil refinery raw material has no local market.

International prices of petroleum products are more volatile or fluctuating compared to relatively stable crude oil prices. We will have more stable or less fluctuating oil product prices under the crude oil refining scheme compared to the present heavy reliance on finished product importation.

Oil industry deregulation has been lopsidedly tilted in favor of the oil industry. Even if oil companies are deregulated, the Department of Energy should maintain not only data on actual **annual ROE** of oil companies but also **suggested retail price (SRP) for each oil product** as a moral deterrent to overpricing. This way, all concerned will know if the oil industry is already pricing its products too high and, if so, remedial measures should be taken. I recommended this measure to DOE but it did nothing on it because it seems it is not up to its job of protecting oil consumers.

DOE should follow the example of the Department of Trade and Industry (DTI), which, as shown in TV newscasts, comes up with SRP for deregulated key commodities in the market, with possible imposition of sanctions against those who will overprice consumers. DOE should regularly update its SRP whenever there are major changes in the cost of imported oil.

In the end, there are ways of reducing oil prices but it seems we do not have government energy officials who can do what was already done years ago. This is probably because we have regulatory officials who are ignorant of the industry that they regulate as they did not come from the industry. They rely mainly on what the existing regulatory staff told them and on what they learned by accident. They have only superficial, not in-depth, knowledge of the industry. Under the situation, as usual, the winners are the minority-rich private capitalists and the losers are the majority-poor public. In this respect, the present Administration and Congress have not made any difference in the lives of the people. They are still waiting for the economic messiah who will free them from the bondage of avoidable but not avoided high prices of oil and other basic necessities.

4. **Institute a safety net against overpricing through setting a profit-rate ceiling, with service rate limited to what yields the maximum profit-rate; this system equates to *cost-plus pricing in construction projects* customized for industry regulation.**

With the help of **planning experts**, government regulators should properly enforce the 12% ROE ceiling on public service companies. Using actual and projected industry data under the normal operating capacity of each regulated industry, they should set the regulated service rates based on the **cost-plus pricing method** in some construction contracts (p. 262), as shown hereafter.

Prepare projected annualized **Industry Income Statement** under normal industry operating capacity and at present cost levels:

a. Indicate the estimated annual costs and expenses at current levels using normal industry "production/sales" volume. .

b. Calculate the net income that will yield 12% ROE to the industry based on the present industry Stockholders' Equity. .

c. Add the total costs and expenses to the targeted net income to derive the needed sales at 12% ROE, a process shown on page 108:

Sales	₱ ?
Less: Costs and Expenses	1,000
Net Income at 12% ROE	₱ 12

.

d. Divide the revenue by the annual "sales" volume to arrive at the regulated price or service rate at 12% ROE ceiling.

5. **Activate a CONSUMER PROTECTION OFFICE that will work for the enforcement of 12% rate-of-return limit not only for power, water, and tollway monopolies but also for other basic necessities affected with public interest and provided by oligopoly companies, like telecom services and power generation—as well as perform other roles defined in Section 10 of the book.**

The list of regulated basic necessities should be expanded to include other basic needs served by monopoly or oligopoly distributors. There are just about ten items of them—power, water, telecom services, public transport, tollways, medicines, rice, petroleum products (LPG and diesel), and maybe one or two more—that must be regulated out of thousands of products in the market (pp. 105-106) Otherwise, monopoly and oligopoly suppliers can overcharge no-choice buyers through cartels or market misbehavior, such as in WESM (Chapter 13).

THE UNDISCERNED WAY OF THE MARKET, THE ECONOMIC "LAW" (OR TRUISM) OF NO FREE-MARKET PRICE COMPETITION ON DEREGULATED HOMOGENOUS PRODUCTS: IT EXPLAINS WHY FREE-MARKET IMPORTATIONS OF RICE AND OTHER ESSENTIAL PRODUCTS DO NOT REDUCE RETAIL PRICES

The unwritten code of no price competition among sellers of homogenous products—or those produced by different manufacturers or suppliers but without discernible difference in quality, so that product substitution is possible and price is the main basis of the buy decision—squarely applies to rice importation under the Rice Tariffication Law, hence this topic is included in the separate part of this paper on the subject Appeal for Amendment of th Rice Tariffication Law.

V

EXTREMELY IMPORTANT:
RECKON THE RATE-OF-RETURN LIMIT BASED ON THE CORRECT MEASURE—ROE, NOT RORB—OTHERWISE, THE PROFIT-RATE LIMIT IS TOO HIGH AND USELESS AS SAFETY NET AGAINST OVERPRICING

BACKGROUNDER:
HOW POWER, WATER, AND TOLLWAY RATES HAVE BEEN UNLAWFULLY RAISED—THROUGH A MODUS OPERANDI EUPHEMISTICALLY CALLED PERFORMANCE-BASED REGULATION (PBR), WHICH INVOLVES INCLUSION OF DREAMS OF FUTURE CAPITAL EXPENDITURES IN PRESENT SERVICE RATES

As previously presented, the Supreme Court has ruled that 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), where EQUITY constitutes the CAPITAL invested by business owners. The 12% profit-rate ceiling is competitive with the less than 5% normal interest rate of foreign and local bank deposits as well as local Treasury bill rates.

As the 12% profit-rate limit ruled by the Supreme Court is merely a reiteration of its earlier 1966 decision on Meralco vs. Public Service Commission (p. 161 of book), the MWSS Charter (RA 6234) approved on June 19, 1971 already adopted this reasonable return limit. Its Section 12 provides as follows: "The… **rate of net return** shall not exceed **twelve per centum (12%),** on a **rate base** composed of… **assets in operation** as revalued from time to time plus two months' operating capital." In practice, this profit-rate formula is referred to as return on rate base (**RORB**), with **assets in operation** as rate base.

The initial rates of Meralco, Maynilad, and other privatized public service providers, like NLEX Corporation, would yield them profit rates way below the allowable 12% maximum return, the calculation or reckoning of which is described under the cited Section 12 of the available reference law, the MWSS Charter or RA 6234. After the huge exchange losses suffered by public service providers on their unhedged foreign loans during the 1997-1998 Asian crisis, there were no dramatic or earthshaking rise in costs that warranted their substantial periodic rate increases. Hence, they thought of something that would enable them to increase their prices and earn rates of return close to the allowable maximum 12%.

For example, in the case of Maynilad, it petitioned for and got astronomical water rate increases every 5-year rate rebasing, each of which was double the original rate in 1997, resulting in the rise of Maynilad's winning bid rate of ₱4.96 (per cubic meter) in 1997 to ₱37.82 as early as January 1, 2009, after which it petitioned for further rate increases. Without the conduct of needed public hearings or consultations, following were the tariff rate increases granted to Maynilad, as shown on the pages of the December 29, 2014 first arbitral decision on Maynilad's complaint vs. MWSS:

(a) Page 21: Effective January 1, 2003, average increase of **₱10.34** per cubic meter up to a basic rate of ₱17.52 per cu. m.

(b) Page 59: Effective January 1, 2005, increase in rate from ₱19.92 per cu. m. to ₱30.19 per cu. m., or an increment of **₱10.27** per cu. m.

(c) Page 27: Effective January 1, 2009: increase of **₱10.20** per cu. m., thus raising the average *all-in* tariff to a whopping **₱37.82** per cu. m.

Exposing the Enabler of Rate Increases Without Corresponding Cost Increases: PERFORMANCE-BASED REGULATION, the Main Feature of which Consists of Recovering Unspent Future Capital Expenditures from Present Service Rates Through Unwarranted Rate Increases

To visualize just what is wrong and abnormal in performance-based regulation or PBR, shown below with hypothetical numbers is a simplified comparison of Income Statements under two schemes—PBR as an unorthodox method **with** inclusion of unspent future capital expenditures in public service rates, and the **conventional** method **without** inclusion of unspent future expenditures in its pricing method.

	Conventional	PBR
REVENUE:		
Sales	₱100	₱100
Recovery of unspent future investments	__	20
Total	100	120
COSTS and EXPENSES	80	80
NET INCOME	₱ 20	₱ 40

The comparison clearly shows that without any extra effort, additional cost, and efficient operations on their part, public service providers like Meralco, Maynilad, and NLEX Corporation can earn undeserved higher revenue and net income under PBR, through the simple expediency of including in their service rates their future capital expenditures even if these are just dreams or figments of their imagination.

The Case Against PERFORMANCE-BASED REGULATION: It is Utterly Fallacious as Basis of Present Rate Increases and its Implementation Does Not Speak Well of Top Universities in the Philippines

1. Under the cited Supreme Court decision, public utility companies are entitled to 12% reasonable **return on their investments**. Future capital expenditures that serve as basis of rate increases under PBR are not yet investments for rate-of-return reckoning.

2. Under Section 12 of RA 6234, the 12% profit-rate limit is based on **assets in operation.** Unspent future capital expenditures are not yet assets in operation and are not entitled to a rate of return.

3. There is double or even multiple billing to consumers under PBR. First, the consumers are billed for future capital expenditures. Second, when the advance collections are spent on infrastructures that are recorded as owned by the public service companies— not by consumers who paid for them— the consumers will be billed again for depreciation recovery plus 12% return on the assets they previously paid for.

4. The case of consumers paying in advance to finance future capital investments goes against the spirit and intent of PRIVATIZATION: ***shift the financing burden to private investors*** who will benefit from privatization; they professed during pre-bidding prequalification of bidders that they are financially capable of performing the obligations of a franchise grantee, therefore, hold them to their commitment.

5. The ***rate increase*** for future capital expenditures that will ***increase production capacity*** is **erroneous**—because the cost of completed capital projects that raised production capacity will be recovered from the ***increase in sales volume to new customers*** that will increase total ***sales amount*** even without an increase in selling price per unit. Raising the rates for consumers serviced by the old production capacity results in overbilling to them.

6. The Supreme Court already voided the use of revalued assets that will result in rate increase in Meralco's determination of asset base for rate-of-return reckoning (page 212 of the subject book). The Supreme Court-disallowed **future** increase in replacement cost of revalued assets is analogous to unspent **future** capital expenditures that do not warrant a **present** rate increase either.

WHAT ELUDED ECONOMISTS IN AND OUT OF ACADEME: ENFORCEMENT OF 12% PROFIT-RATE LIMIT FOR PUBLIC SERVICE MONOPOLIES WILL NOT CURE OVERPRICING UNDER PERFORMANCE-BASED REGULATION

Enforcement of the Supreme Court-ruled 12% reasonable return limit is imperative, but *it alone will not solve the problem. It alone cannot reduce 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)* (Ref: Chapter 9)

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 there is double reckoning of return on assets financed by creditors—**first,** as interest expense on creditors' loans used to acquire 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. Chapter 9 of the book presents the RIGHT and WRONG formulas.

To illustrate the excessive return to stockholders, let us assume the following data, an example of the grievous impact of the wrong use of RORB (page 124):

Assets financed by creditors	₱ 99
Assets financed by stockholders	1
Total Assets	100
Liabilities	99
Equity (Capital invested by stockholders)	1
Total Liabilities and Capital	100

Interest expense (at 65% interest rate on ₱99 loans)	64
Net income at 12% RORB (12% of ₱100 total assets)	12

The respective returns to creditors and stockholders:

Rate of return to creditors:

Interest paid to creditors (₱64 interest over ₱99 loans) 65%

Rates of return to stockholders under two methods:

RORB: (₱12 net income over ₱100 assets) 12%

ROE: (₱12 net income over ₱1 equity) 1,200%

Clearly, the RORB pricing system under RA 6234 is absurd and must be replaced by ROE through amending the law.

ACTUAL EXAMPLE OF USELESSNESS OF 12% RORB CEILING: MAYNILAD'S EXCESSIVE RETURN TO STOCKHOLDERS (ROE) NOT REINED IN BY RORB LIMIT

A. ACTUAL MAYNILAD FINANCIAL DATA From 2008 to 2009

With the search term *Maynilad Annual Reports 2007–2012*, the Internet showed comparative actual Maynilad financial data up to 2011. Except for Interest Expense, page 14 of the displayed annual report presented the water concessionaire's actual financial performance, as follows:

Maynilad Financial Performance (In Billion Pesos)

	2008	2009
Assets	34.75	38.18
Liabilities	33.81	34.42
Equity	0.94	3.76
Core Net Income	2.32	3.46
Interest expense	1.54	2.37

B. MAYNILAD'S ACTUAL RATES OF RETURN

Based on Above Financial Data (Amounts in Billion Pesos)

(1) RETURN ON EQUITY (ROE):

(Core Net Income to EQUITY)
2008: 2.32 over 0.94 = 247% of Year-end Equity
2009: 3.46 over 2.35 = 147% of Average Equity (0.94 + 3.76 ÷ 2)

(2) RETURN ON RATE BASE (RORB):

(Core Net Income to Year-end ASSETS)
2008: 2.32 over 34.75 = 7%
2009: 3.46 over 38.18 = 9%

NOTE: As shown above, despite the already abnormally high ROE for each year, the 12% RORB ceiling was not yet breached.

Reason: RORB is hard to breach because its limit is too high due to return entitlement given to stockholders to which they are not entitled. Based on the 2008 financial data, the corporate owners' invested capital (stockholders' equity) was only a measly ₱0.94 billion or roughly 3% out of the ₱34.75 billion total assets in operation. The rest of the assets, ₱33.81 billion, were financed by creditors in their acquisition and had been given their corresponding return in the form of ₱1.54 billion interest expense paid to creditors. Illogically, that same ₱33.81-billion creditor-financed assets were given again another 12% return as entitlement of corporate stockholders—even if they did not shell out a single centavo for their acquisition.

VI

PREVENTION OF BIG-TIME CORRUPTION IN GOVERNMENT MUST BE DONE BECAUSE IT IS DOABLE—IT IS A MATTER OF COMMISSION ON AUDIT (COA) COMMISSIONERS RESTORING PRE-AUDIT

IF COA DOES NOT WANT TO DO IT, TRANSFER PART OF ITS BUDGET TO THE OMBUDSMAN OR THE ANTI-CORRUPTION CZAR AND HAVE ONE OF THEM DO THE IMPERATIVE PRE-AUDIT EVEN ON A HIGHLY SELECTIVE BASIS ONLY

(Chapter 21)

Problem: Bulk of government funds used in solving national problems is lost to corruption—currently at the rate of **₱700 billion** losses a year—hence, the solutions fail to solve poverty and inequality.

Solution: Waging of the still unwaged half of the anti-corruption war—the preventive aspect—in addition to the present waging of the other half only: punitive measures.

There is rampant big-time government corruption because the heretofore anti-corruption war consists of PUNITIVE actions only or punishing the corrupt after corruption is committed. It is without PREVENTIVE measures, which consist of identifying the modus operandi employed in each major corruption, then instituting what is taught in college to auditing students: the off-the-shelf fraud-prevention audit procedures applicable to each method of corruption.

Internal check against corruption ceases to function once there is hard-to-fight management fraud, where the protector is the attacker, such as when the agency head, the official primarily in charge of safeguarding agency funds under the law,[2] is the one corrupt and can ride roughshod over honest subordinates performing anti-corruption role, like the Chief Accountant who signs disbursement vouchers. Thus, independent COA pre-audit is needed. Unfortunately, COA does not do it while the act of corruption is in progress. COA does it after consummation of corruption or when it is too late.

[2] Section 102, Chapter 5 of PD 1445, the Government Auditing Code of the Philippines.

The Magnitude of Repeated Corruption Betrays COA's Lack of Competence in Preventing Preventable But Not Prevented Irregularities in the Government, as Exemplified by the ₱728-Million Fertilizer Scam in 2004, Repeated in Much Bigger ₱10-Billion Pork Barrel Scam

Preventive audit procedures against the ₱728-million fertilizer scam—a case of management fraud—were known, but these were not undertaken before consummation due to the fault of COA Commissioners. They abolished selective COA pre-audit, the one and only one kind of audit that could have prevented the scam because it is done before payment of transactions.

Worse, not learning from the fertilizer scam, COA neither prevented in pre-audit nor detected in post-audit a similar but much bigger scam committed over 10 years, exposed in 2013 by a whistleblower, not by COA—the notorious ***₱10-billion pork barrel scam.*** Not prevented because without pre-audit, fine, but for the scam to grow to ₱10 billion in 10 years without discovery by COA in post-audit, is that not COA audit malpractice or sheer incompetence?

The orchestrators of the notorious ***₱728-million fertilizer scam*** did not resort to any ingenious or sophisticated corruption scheme. Therefore, the scam was readily detectable and preventable before execution because the modes of corruption employed were so simple and primitive. The scam could have been detected and prevented before its consummation had COA been conducting preventive audit procedures under selective pre-audit. The audit procedures are embodied right in antique COA audit rules on disbursements. These procedures were learned in college auditing subjects by those who are now Certified Public Accountants (CPAs) or audit professionals.

Following are the unused standard COA pre-audit procedures against the primitive modus operandi employed in the ₱728-million fertilizer scam—repeated for years in the more embarrassing ₱10-billion pork barrel scam—that could have prevented this corruption:

1. Diversion of funds, which could have been easily discovered in pre-audit through COA's checking before fund disbursement if the intended fund utilization was in line with the legal purpose of the funding source and will be disbursed by proper government units.

2. Gross overpricing, which could have been avoided in pre-audit through COA's strict enforcement of compliance to required public bidding before the actual purchase of fertilizer, as well as through COA's own price canvassing or checking in the open market before payment. **This usual mode of big-time corruption is preventable. COA can prevent it if it has the right kind of COA commissioners.**

3. Ghost deliveries, which could have been readily detected in pre-audit, with the scam prevented, through COA's physical inspection of allegedly delivered fertilizer before payment. This is a no-brainer..

4. Adulteration of liquid fertilizer, mixed with 90% water, which could have been discovered through the required laboratory analysis of purchased articles with quality not determinable through the naked eye.

Field COA auditors were there in the Department of Agriculture during the unhampered execution of the fertilizer scam. Also, there were ready-made preventive solutions or audit procedures for the easy detection and prevention of the unsophisticated modes of corruption employed. By their faulty 100% COA post-audit, **COA commissioners foolishly postponed and held back COA audit while corruption was still in progress,** and ridiculously had COA auditors **wait first** until payment of transactions or consummation of corruption before allowing COA audit. COA Commissioners must stop this **audit malpractice.**

The COA Commission Proper may, at the start, require ***highly selective COA pre-audit of only the largest 100 government transactions or disbursements for the year,*** to be determined based on the approved annual budget, then expand the coverage later. The high-value transactions are normally procurement and infrastructure projects. As was done decades ago, only the first payment on big-time contracts with progress payments may be pre-audited. This will be enough to determine the compliance of contracts with government rules on disbursements.

VERY IMPORTANT:
Activate an ANTI-CORRUPTION CZAR under the Office of the President as the Executive Branch's Internal Auditor—Who Will Help Ensure the Undertaking of Both the Preventive and Punitive Aspects of the All-Out Anti-Corruption War

As COA is an independent constitutional body, the President must designate a separate Anti-Corruption Czar for fraud prevention who will serve as the Executive Branch's **Internal Auditor** with line functions. He will coordinate with COA, legislators, and government agency officials on the restoration of partial COA pre-audit, creation of a special fraud prevention unit in COA, sponsorship of legislation that may be needed, and other aspects of the government's anti-graft campaign.

a. To begin his job, the Anti-Corruption Czar should know and size up the problem—by way of taking a comprehensive inventory of all past, present, and potential graft cases together with corresponding remedial measures, to be done on a national scale.

b. Before waging the all-out anti-corruption war, the Anti-Corruption Czar should prepare his battle plan or complete roadmap against corruption in government.

c. Also, the Anti-Corruption Czar should conduct a special review of *vulnerabilities* to corruption in government regulations, procedures, and internal control systems, coupled with the institution of prompt reforms where necessary, to be handled by an ad hoc high-caliber task force.

d. The Anti-Corruption Czar should regularly coordinate with Department of Justice and Office of the Ombudsman officials on the expeditious investigation and prosecution of corruption cases.

e. The Anti-Corruption Czar should perform his designated role in the prevention of substandard government infrastructure projects.

f. The Anti-Corruption Czar should review all COA audit reports on corruption and other adverse findings in audited government agencies and entities under the Executive Branch, determine the methods employed in corruption and plug the vulnerabilities to their repetition by instituting preventive measures, and ensure that valid COA recommendations are followed or implemented by the audited government agencies and entities.

VII
VERY IMPORTANT:
HOW NOT TO RUN THE GOVERNMENT ON A HIT-AND-MISS BASIS: FOLLOW BEST MANAGEMENT PRACTICES WITH CONTINGENCY PLANNING

(Chapter 24, Part I)

Our Executive Branch government officials cannot afford to manage the government on a hit-and-miss basis. They have to ensure total coverage or 100% handling of their functions at all times. Otherwise, any major omissions can be disgraceful to them, fatal to their careers, expensive or wasteful to the government, and disastrous to their constituents.

Because of past monumental omissions and mismanagement in government, a classic example of which was the failure to anticipate and minimize havoc from typhoon *Ondoy* in September 2009 despite lessons from past natural and man-made calamities, some of the most basic ***best management practices*** are presented here as guides in preventing the repetition of past tragic disasters.

1. Total coverage of functions with contingency planning

Government officials must ensure total or 100% coverage—or zero omission—of their properly defined legal mandates, missions, or functions. They cannot afford to miss or overlook some of the responsibilities of their offices because the time of inevitable reckoning will come. The nation's President, cabinet secretaries, governors, mayors, barangay chairmen, and other heads of government offices, should prepare comprehensive and detailed lists of their mandated functions and to-do things, as well as natural and man-made disasters that can occur in their respective areas of responsibilities. They must ask ***what are the worst things that can happen*** in their jurisdictions and prepare for those contingencies.

The President must instruct the DILG Secretary to require governors, mayors, and barangay officials to conduct a detailed survey of areas and activities vulnerable to **natural and man-made calamities or disasters** in each of our 42,000 barangays nationwide.

Possible causes of disasters include tsunamis in low lying villages along seashores; typhoons with death, destruction, and floods in low lying inland areas; floods from delayed releases of water from overflowing dams during the rainy season; sinking of ships during bad weather; **oil spill from oil tankers;** landslides in areas with denuded mountains or steep terrain; fires, earthquakes, and volcanic eruptions; breach in reservoir dams; famines from drought; epidemic or plague; acts of terrorism such as bombing of oil refineries, oil storage depots, and power plants; civil commotion; disruption in rice and oil importations due to international political upheaval; and so on (page 426 of book).

The detailed list of functions and potential disasters are needed for normal and contingency planning purposes, for the formulation of proactive measures, for forced ranking of projects and prioritization in budget allocation, for the setting of physical targets and timelines, for checking of preparedness against calamities, and for monitoring government performance vs. goals or targets.

2. Observance of hierarchy of needs in the BUDGETING, funding, and implementation of government projects—this is a *must* owing to the Covid-19 pandemic and natural calamities that provoked the unprecedented need for mostly borrowed public funds that have to be spent wisely and judiciously

In the preparation, review, and legislation of the annual national and local government budgets, as well as their subsequent funding and implementation, both executive and legislative government officials should follow a forced ranking or hierarchy of needs. Government projects should be prioritized in the following order of importance:

a. Those for safety nets in the protection of human lives against natural and man-made calamities.

b. Those designed for the protection of public and private property against natural and man-made disasters.

c. Those for the rendering of vital public services for medical and health, education, poverty alleviation, irrigation, roads and bridges, etc..

d. Those that, while not absolutely necessary in the people's lives and survival, are nevertheless vital to their well-being and happiness, like public parks and cultural, ornamental, aesthetic, and other non-utilitarian projects.

The Pork Barrel System is Not Only Prone to Corruption, it is Also Discriminatory to those Who Do Not Benefit from it Because it Violates Proper Hierarchy of Needs in the Spending of Precious Taxpayers' Money

Executive and legislative government officials failed in a big way to apply a proper hierarchy of needs in the uses of multi-billion-peso pork barrel funds. The pork barrel method of budgeting and spending precious taxpayers' money is a classic case of favoritism or "palakasan" system, under which those who know the system and have a connection with lawmakers can get the most favored, arbitrary, and capricious treatment—such as that in the ₱10-billion pork barrel scam—while others get nothing. What's more, ***the pork barrel system is a usurpation by lawmakers of local government officials' functions.***

To Avoid Errors and Omissions, Determination and Prioritization or Forced Ranking of Needs Should Originate from Grassroots Level

For budgeting, funding, and implementation purposes, instead of designating government projects at random through influence or "palakasan" system, without regard to other more important and urgently needed projects—as was done under the pork barrel system—the President should have responsible national and local government officials determine and prioritize or force rank needed government projects on a nationwide basis at each level of government unit. By forced ranking, there will be only one first priority, only one second priority, only one third priority, and so on, for the projects being consolidated and prioritize. Each higher unit will consolidate and force rank the submission of lower-level units under it, as shown below:

a. Each barangay of the roughly 42,000 barangays nationwide shall prepare a forced ranking of projects proposed for inclusion in the city/municipal, provincial, and national government budgets.

b. Each city or municipality shall consolidate and force rank the submission by all barangays under it, for submission of those that cannot be funded by the city or municipality to the DILG Secretary or provincial governor, respectively.

c. Each province shall consolidate and force rank the submission by municipalities under it, for submission of those that cannot be funded by the province to the DILG Secretary, for review and endorsement to the DPWH Secretary and other cabinet secretaries concerned.

d. The DILG Secretary shall consolidate and force rank the submission to it by provincial governments and cities under it, for submission to DPWH or other responsible departments of those that cannot be funded by DILG.

The proposed budget should include preventive measures against potential risks and disasters required to be ascertained and listed under the very first best management practice—total or 100% coverage of functions **This way, there will be a conscious budgeting—systematic and without omissions—of the most urgently needed and beneficial projects to the greatest number of Filipinos on a countrywide basis,** not just of select projects in select areas depending on closeness to executive and legislative government officials.

Past Losses in Human Lives from Natural Calamities that Should Not be Repeated

The highly wasteful allocation of public funds stemming from failure to strictly follow a proper hierarchy of needs is exemplified by the ZTE-NBN deal. Without whistleblowers, it could have pushed through. The government had already entered into a whopping $329 million contract with ZTE Corporation. Even without the alleged gross overprice, it was very costly primarily because the intention was to communicate with the 42,000 barangays nationwide. However, we already have alternative means of communication—cellphones, emails, city mayors, and municipal mayors in some 1,500 municipalities.

What earthshaking and urgent information that cannot be communicated regularly through the foregoing alternatives have to be transmitted to our lowest levels of government officials—barangay chairmen and councilmen—that the government attempted to spend a humongous $329 million for the purpose, instead of spending it on much more important life- and property-saving projects that had been neglected and never funded for so long?

In stark contrast, the government did not bother to plan and spend for the most basic need—protection of human lives against recurring natural calamities nationwide. As a result, when the inevitable reckoning from typhoon *Ondoy* came, the government could not hide its negligence and helplessness. The same government which committed earlier to spend on the ZTE contract the staggering sum of $329 million, or roughly ₱15 billion at the time—which was not even about a matter of life and death for Filipinos—was then exposed as having failed to spend even a measly ₱1 million for motorboats or safety equipment for potential life-and-death hazards, such as killer floods from recurring typhoons of varying intensities like *Ondoy.* This omission, together with the disastrous delayed water releases from La Mesa Dam, San Roque Dam, and other dams during the heights of typhoons *Ondoy* and *Pepeng,* constituted monumental poor governance that cost precious human lives and gargantuan losses in public and private property. Today, what has the present Administration done to avoid repetition of losses in human lives from *Ondoy*-type typhoons in the areas hit by *Ondoy* as well as other flood-prone areas?

3. Management control over operations: ensuring that actual performance does not deviate from targets requires monitoring and review by a special group

After ensuring that the mandated missions and functions of all government agencies and entities are completely defined and listed, properly prioritized, and handled on a total basis to the extent practicable subject to availability of funds, comes the periodic performance monitoring—a management control aimed at ensuring the attainment of annual plans and programs within budget.

The tests of performance, in the form of periodic written reports on actual **accomplishments vs. targets** and other **compliance matters** (pp. 382-384, 426-427), shall form part of the government's management information systems, to be handled principally by respective officials of government agencies and entities, to be submitted to and reviewed by the head and staff of the **Presidential Management Staff (PMS)** in Malacañang as management specialists. They will focus on the review of actual performance vs. work programs subject of funding under the legislated annual national government budget. They may seek assistance from technical experts from other government agencies and entities—such as NEDA—as the need arises. Their major adverse findings shall be reported to the President and cabinet secretaries concerned and tackled during periodic cabinet meetings.

The envisioned setup provides for periodic monitoring and performance review by PMS of all important projects. This will avoid the President's reliance solely on what cabinet secretaries report during cabinet meetings, a practice prone to omissions. Had periodic review been done by PMS on MWSS, the 24-year failure to construct or rehabilitate reservoir dams, as well as water overpricing over the years, could have been detected early enough and promptly remedied.

4. Compliance matters that shall serve as performance standards in the monitoring and evaluation of actual performance by government agencies and entities

As an operation of a **management information and control system** (p. 382), the Presidential Management Staff (**PMS)**—together with **NEDA** officials whenever needed—must conduct periodic reviews of each government agency and entity to ensure compliance with the following performance standards:

- In general, compliance by each government agency (including DILG local government units) and entity with its mission or legal mandate, like proper enforcement of laws and regulations it is mandated to administer. For this purpose, at the outset, each agency or entity should prepare a ***100% list of its detailed missions or functions,*** for review by PMS for completeness.

The Office of the Executive Secretary should refer to the particular cabinet secretaries and other concerned Executive Branch officials all newly enacted laws for their proper implementation. They should be required to submit after six months a written report to the Office of the President on the action taken and will be taken on the new laws.

As ***contingency planning***, the government agency or entity should also prepare a ***100% list of potential risks of natural, force majeure, or man-made calamities and disasters*** that it has to guard against and prepare for. In other words, ***what are the worst things that can happen*** in its jurisdiction?

The potential calamities and disasters include tsunamis in low lying villages along seashores; typhoons like *Ondoy* in Marikina and *Yolanda* in Leyte with death, destruction, and floods in low lying areas; floods from delayed releases of water from overflowing dams during the rainy season; sinking of ships during bad weather; oil spill from oil tankers; landslides in areas with denuded mountains or steep terrain; fires, earthquakes, and volcanic eruptions; breach in reservoir dams; famines from drought; epidemic or plague; acts of terrorism such as bombing of oil refineries, oil storage depots, and power plants; civil commotion; disruption in rice and oil importations due to international political upheaval; and so on.

Based on its 100% list of functions and potential risks, the government unit or entity should prepare its preset logical, coherent, and comprehensive ***standards of performance***. The performance standards should be reviewed and approved by the head of the government agency or entity. Thereafter, there should be monitoring of performance vs. standards internally within the government office, which can be preparatory to the review by PMS (p. 424) and management audit by COA (pp. 382-384).

- **Compliance with quality of work, as shown in contract specifications and standards of professional practice, aimed at preventing cheating and inefficiencies, typified by the use of inferior or incomplete materials and poor workmanship, as in the NAIA 3 airport terminal part of which collapsed even before actual use, or in newly constructed concrete roads that promptly developed cracks within one year or a few years of use. For multi-lane highways and expressways, design and construct for heavy loads (with more and bigger steel bars) one lane in each direction, to be assigned for use by heavy cargo trucks. This will minimize road cracks without spending heavily on all lanes.**

- **Compliance with risk management, protection of human lives and property, and other internal and external requirements, like insurance coverage of assets and exchange rate hedging on foreign loans where applicable; determination of soundness and adequacy of advanced preparation for the previously prepared list of worst things or natural and man-made calamities and disasters that may happen under the jurisdiction of each head of government unit or corporate entity. The government unit or entity should prepare regular reports on the status of plans and programs implemented to address the listed contingencies.**

NOTE: The book also presents five other important compliance matters that will help elected political leaders avoid running the government on a hit-and-miss basis.

VIII

POLITICAL WILL:

THE LITMUS TEST OF STATESMANSHIP AND SINCERITY TO SERVE THE PEOPLE

Political will means serving public interest first rather than one's selfish interest by doing what needs to be done in public service—such as applying our laws uniformly, consistently, impartially, and fairly—regardless of who gets hurt. It is imperative in the implementation of solutions to economic inequality. (Chapter 24)

Political will is indispensable in addressing inequality because some of the solutions are against the private interest of government officials responsible for approving and implementing them. It takes statesmanship rarely found today in government officials to decide against own interest.

As the Problem is in Our Government Officials, Then the Solution is Also in Them

The problem in economic inequality is not the lack of solutions—because there are some key solutions that are highly doable as their implementation does not need scarce public funds. ***All that is needed is the proper use of government authority.***

The problem in inequality is not the profit-maximizing private capitalists, some of whom may be underpaying their workers and overpricing consumers. ***Even profit-hungry capitalists cannot misbehave if the government will not allow them.***

Oddly, the real problem in inequality has been our elected highest government officials' lack of protection to the majority poor against the pro-minority-rich bias of the government's neoliberal economic policies—which enabled the country's 50 richest individuals to earn more than 50% of the nation's economic growth (p. 2). Our past economist Presidents did not address the problem forcefully, while non-economist Presidents might not have fully known the problem let alone the solutions.

As the problem is in our leaders, the solution is also in them. Therefore, if our present government officials are for real change and improvement of the lives of the now 108 million Filipinos, they have to really look at the problem of economic inequality and promptly act to reverse it through doable steps to equality, such as those recommended in this book.

REVERSING THE PRESENT
REGRESSIVE TAXATION—
TO SHIFT TO CONSTITUTIONALLY MANDATED
PROGRESSIVE TAXATION—
IS THE IMMEDIATE BIGGEST CHALLENGE TO THE PRESENT HEAD OF STATE AND CONGRESS THAT REQUIRES STRONG
POLITICAL WILL

Progressive taxation has to be instituted because it is the alternative to confiscatory taxation of socialism and constitutes the indispensable first major step toward economic equality. To attain the objective of economics—to satisfy the needs and wants of society composed of both the minority rich and majority poor—progressive taxation is indispensable because it is needed in funding social spending for the poor, vital public services, and poverty eradication programs needed in satisfying the needs and wants of the majority poor. As progressive taxation or much higher taxes for the rich is against the self-interest of many elected political leaders, it requires their strongest political will.

To Reduce the Gross Inequality in the Lopsided Sharing of Wealth Between the Rich and the Poor, there is NO ALTERNATIVE to Getting at Least a Part of the Annual Income, or Increase in Wealth, of the Rich Through Constitutional PROGRESSIVE TAXATION—Because the Rich is the Only Source of What Can Reduce the Inequality, Economists Cannot Source it Out of Thin Air; Anyway, the Minority Rich Become Rich Because of the Patronage of their Usually Overpriced Goods and Services by the Majority Poor

The **pie** or totality of annual economic growth—gobbled up by the 1% rich, with crumbs left to the 99% generally poor—is fixed for each particular year and insufficient for the needs of the poor because of maldistribution of the economic growth. With **mathematics** being an exact science that governs the **algebraic equation** of the unequal income sharing between the poor and the rich, political leaders and economists cannot increase the distributable **pie** out of thin air to fill in the huge deficiency in the share of the poor.

Hence, under mathematics, to address the problem of the poor through reducing the equation imbalance, there is no source of what can be added to the deficient side of the poor except to get from the existing abundant side of the rich. To do this, there is no alternative to progressive taxation or higher taxes for the rich, none whatsoever.

Consequently, political leaders, economists, and ACADEME officials must realize now that there is simply no way to attain economic equality without higher taxes for the rich. **If their hearts really bleed for the suffering poor who are not lacking even in supposed advanced and progressive nations, they must, once and for all, work for the institution of indispensable progressive taxation, mandated under Article VI, Section 28 (1) of the Philippine Constitution. Academe officials can do their share by having their business schools produce graduates properly educated on how to attain economic equality—which includes progressive taxation.**

THE FUNDAMENTAL DEFECT OF PRESENT REGRESSIVE TAXATION

(Chapter 2, page 33)

It t overtaxes the poor on insufficient income and undertaxes the rich on surplus earnings, thereby promoting inequality through making the rich richer and the poor poorer

Regressive taxation coddles the rich, suppresses the rise of a strong middle class, overburdens the poor, hampers economic growth, and, in the Philippines, violates Section 28 (1), Article VI of the Constitution, which mandates progressive taxation.

Regressive taxation is pro-RICH because they benefit from the proportionately lower tax as their income rises. It is anti-POOR as they suffer from the proportionately higher tax on insufficient earnings. It disregards the weak financial capacity of POOR taxpayers. As a result, the tax burden can be already so heavy on the POOR yet still so light on the RICH.

HISTORICAL BACKGROUND:

THE CONFLUENCE OF TAX MEASURES AND LEGISLATIVE INACTION THAT PRODUCED REGRESSIVE TAXATION AND WORSENED INEQUALITY IN THE PHILIPPINES

(Chapter 2, pages 34-37)

It is quite disappointing that despite our country's having economists in and out of government who are alumni of top local and foreign business schools, the Philippines currently operates a regressive taxation system.

Regressive taxation started more than three decades ago—after EDSA I—when the top marginal income tax rate was reduced from 60% to 32%, when the old sales tax system with graduated rates of 2% to 100% was replaced by the single-rate 10% (now 12%) value-added tax (VAT), and when the **top income bracket of ₱500,000** that became effective on January 1, 1959 persisted without change for more than half-century, or up to December 31, 2017. As a result, for many years, the **top marginal income tax rate of 32%** had applied not only to the rich but also to the middle class, thus undertaxing the rich and overtaxing the middle class.

Here is how the Philippine taxation evolved into a regressive system:

1. The classic example of outdated, inequitable, and regressive income taxation: the over ₱500,000 top individual income bracket, designed for the rich more than half-century ago but had hit more the middle-income earners and ordinary call center workers—not the rich taxpayers—because it was unchanged for 59 years, or up to December 31, 2017.

The taxation inequity was only partly addressed when The Tax Reform for Acceleration and Inclusion (TRAIN) Act (RA No. 10963) was enacted and took effect on January 1, 2018.

2. The top income tax rate for the RICH was drastically reduced after EDSA I, a shift to trickle-down economics.

The 60% top individual income tax rate shown in the old Individual Income Tax Return (BIR Form 17.01-A) in my files, as well as on Page 8 of the amended Tax Code as of 1964, was raised to 70% effective January 1, 1968 under RA No. 5325; then reduced to 60% in 1982 under BP Blg.135; drastically cut down further to 35% under EO 37 in July 1986, or five months after EDSA I; brought down some more to 33% by January 1, 1999, down further to 32% effective January 1, 2000 under the Tax Reform Act of 1997 (RA No. 8424), and finally up again to 35% effective January 1, 2018 under the TRAIN Law (RA 10963).

3. Low business taxes for ordinary and essential products were substantially raised, while high business taxes for non-essential and luxury goods were drastically reduced, when value-added tax (VAT) was introduced in 1988—thus overtaxing essential goods and undertaxing luxury items.

The VAT system was hailed as a major innovation that taxes only the value added to the product by each seller, aimed at avoiding double taxation on the original value previously taxed. The same result, however, is attained under the old sales tax system by deducting from the taxable selling prices the purchases previously taxed to avoid double taxation on the purchases (p. 41). VAT started in 1988 at the rate of 10%. It replaced the privilege fixed taxes, select excise taxes, and the taxes on sales of goods and services that were set then at 2%, 3%, 7%, 25%, 30%, 50%, 75%, and even at 100% depending on whether essential, ordinary, semi-essential, or luxury items.

The issue against the old percentage sales tax system was its susceptibility to corruption due to the wide discretion of taxmen in classifying items and setting tax rates. Some but not all semi-essential and luxury items subject to 25% to 100% tax rates were misclassified as say essential and ordinary goods subject to 2% to 7% rates. To address the misclassification of some semi-essential and luxury goods subject to 25% to 100% tax rates, all of these items (except for non-VATable annual sales below a threshold amount) are lumped as ordinary goods subject to drastically reduced 10% VAT.

In other words, **to address the misclassification of some items at low rates, all or 100% of them were later legally "misclassified" and subjected to low VAT rate, 10% effective in 1988 and 12% some years later. Worse, essential and ordinary goods subject to 2% to 7% sales tax were in turn taxed at higher 10% VAT, now 12%.**

Hardest hit of this oversimplified single VAT rate with double taxation are the poor Filipinos. ***It overtaxes essential goods and undertaxes luxury items*. This lack of sense in taxation needs remedial legislation.**

4. The currently pervading regressive business taxation: expanded and increased VAT, raised from 10% to 12% to wittingly or unwittingly make up for staggering corruption losses during the Arroyo administration.

The raising of VAT from 10% to 12%, done during the Arroyo administration—aimed primarily at addressing the then ₱300-billion annual budget deficit—was highly improper and misdirected. In the first place, the Arroyo administration itself had worsened the deficit—through its witting or unwitting promotion and tolerance of rampant corruption in government during her term, about **$25-billion** during the years 2001-2005 as reported by media. In sum, corruption drastically cut government revenues and bloated government expenditures, causing a staggering ₱300-billion annual national budget deficit. **The raising of VAT from 10% to 12% enabled the Arroyo Administration to survive, without the need to run all-out after corrupt government officials.**

VERY IMPORTANT:
WORSE THAN REGRESSIVE TAXATION,
WE HAVE DISCRIMINATORY DOUBLE OR MULTIPLE
VAT TAXATION TO BUYERS—BUT NOT TO SELLERS—
IN THE FORM OF VALUE-ADDED TAXATION TO SELLERS
AND CUMULATIVE-VALUE TAXATION TO BUYERS (Pages 40-41)

The concept of value-added taxation that originated abroad was adopted in the Philippines in 1988, allegedly at the instance of an economist, now a high government official. To attain value-added taxation under this system, sellers can deduct from the output VAT shown on sales invoices the input VAT paid by previous sellers.

To show why the VAT system is not a really bright idea, here is an example with assumed sales and purchases:

	As Done	Should Be
Manufacturer's sales (assume no prior purchases):	₱100.00	₱100.00
Add: Output VAT on value added (100 x 12% = 12.00)	12.00	12.00
VAT-inclusive sales (VAT shown separately on invoices)	**112.00**	112.00
VAT payment to BIR (assume no input VAT)	12.00	12.00
Wholesaler's sales: **112.00** purchases + 10.00 value-added	122.00	122.00
Add: Output VAT (122.00 x 12% = 14.64)	14.64	1.20
VAT-inclusive sales	**136.64**	23.20
VAT payment to BIR: output VAT 14.64 – 12.00 input VAT	2.64	1.20
Retailer's sales: **136.64** purchases + 5.00 value added	141.64	128.20
Add: Output VAT (141.64 x 12% = 17.00)	17.00	0.60
VAT-inclusive sales	158.64	128.80
VAT payment to BIR: output VAT 17.00 – 14.64 input VAT	2.36	0.60
SUMMARY:		
Cumulative value added: 100.00 + 10.00 + 5.00 =	115.00	115.00
Cumulative output VAT collected from buyers:		
As done: 12.00 + 14.64 + 17.00 =	43.64	
Should be: 12.00 + 1.20 + 0.60 =		13.80
Cumulative VAT payments to BIR: 12.00 + 2.64 + 2.36 =	17.00	13.80
Overcollection of VAT retained by sellers, not paid to BIR: collected 43.64 – 17.00 paid to BIR: =	26.64	
Effective VAT rate to buyers:		
As done: 43.64 ÷ 115 value added =	**38%**	
Should be: 13.80 ÷ 115 value added =		**12%**

As can be observed above, the original ₱100.00 value-added amount subjected to 12% VAT as manufacturer's sales was included again in the wholesaler's and retailer's respective invoice prices of P122.00 and P141.64, both taxed anew at 12% VAT, **an incontrovertible case of abominable multiple taxation,** ***on which government economists seem clueless.***

Flawed BIR Rule Caused by Lack of Needed Value-Added Data is the Root of Multiple Taxation

The BIR required that the 12% VAT be shown separately on sales invoices. This way, the 12% VAT will be excluded from the invoice price subject to VAT. As shown in the example of how VAT taxation should be done, to tax value-added only, the VAT that should be shown separately on the sales invoices should be 12% of new value-added, not 12% of cumulative invoice price.

However, the amounts of old and new value-added of each of numerous products being sold in numerous transactions are not readily available. It is tedious and impractical to generate them for the VAT system. Consequently, under BIR rules, the 12% VAT is applied to the invoice prices of manufacturers, wholesalers, and retailers, thereby resulting in back-breaking multiple taxation.

The touted VAT system is not a reinvention of the wheel. It is just a complicated oversimplification of the old sales tax system with similar tax due. The old sales tax system was also a form of value-added taxation—done through the ***expense deduction method, not tax credit scheme*** like output VAT less input VAT in the present VAT taxation. Probably unknown to VAT proponents, laymen on taxation, ***under the old sales tax system, purchases previously taxed were deducted from taxable sales, thus there was no double taxation either on those purchases.***

Page 41 of the book illustrates what I mean—that the two methods, VAT scheme and sales tax system—will result in similar taxes due, as shown below with hypothetical amounts:

1. Taxes Under the Present VAT System:

Manufacturer's VAT invoiced to retailer per BIR rules, ₱600 x 12% =	₱ 72
Retailer's VAT invoiced to customers per BIR rules, ₱1,000 x 12% =	120
Total VAT invoiced to customers, all at 100% prices per BIR rules	**192**
Manufacturer's VAT payment to BIR, assuming there is no input VAT	₱ 72
Retailer's VAT payment to BIR: ₱120 output VAT less ₱72 input VAT	48
Total VAT payments by manufacturer (₱72) and retailer (₱**48)** =	₱120

2. Taxes Under the Old Sales Tax System:

Manufacturer's sales tax, ₱600 x 12% =	₱ 72
Retailer's sales tax, ₱1,000 less ₱600 purchases previously subjected to 12% sales tax = ₱400 x 12% =	48
Total sales tax payable by manufacturer and retailer to BIR	₱120

To do justice to victimized consumers, the government must shift to a new simple sales tax system. To make it really simple, It should be **gross sales taxation without expense deduction,** but the 12% VAT may be reduced to, say, 10% to approximate the BIR;s present net VAT collection (output VAT less input VAT). To help address the present acute need for public funds, and for common sense, non-essential and luxury items may be taxed at higher rates.

5. Enactment of The Tax Reform for Acceleration and Inclusion Act (TRAIN, RA 10963) on December 19, 2017 serves to perpetuate the long-existing regressive Philippine taxation system.

This TRAIN Law that took effect on January 1, 2018 instituted some significant changes in personal income tax, estate tax, donor's tax, VAT, documentary stamp tax, and excise taxes on petroleum, automobiles, etc.. Its major features consist of exempting the first ₱250,000 income from income taxation; restructuring of graduated income brackets and tax rates, with the top income bracket increased from ₱500,000 to ₱8,000,000 and the top income tax rate raised from 32% to 35%; as well as increased consumption taxes, such as fuel tax. Income-earning taxpayers benefited from this law but not the more numerous non-taxpayers, who did not benefit from income tax reduction but are now subject to higher consumption taxes and more products subject to VAT.

6. The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (RA 11534) that reduced the corporate income tax rate of all corporations is another clear case of regressive taxation.

The CREATE Act, approved on March 26, 2021 and took effect on July 1, 2020, reduced the corporate income tax rate from 30% to 25% for large corporations, and to 20% for corporations with net income not exceeding ₱5 million and total assets (excluding land) not exceeding ₱100 million.

Under 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 fom CIT reduction may reach P480 B," *The Philippine Star,* October 3, 2021, page B3).

As explained in the earlier paper on soul-searching questions for university and college presidents, a solution with surgical precision that zeroes in only on exports would have sufficed: business tax exemption on export sales and reduced corporate income tax rate on export net income only.

WITH AVAILABLE DOABLE SOLUTIONS TO ECONOMIC INEQUALITY, INITIATION OF ACTION IS NOW WITH THE HEAD OF STATE WHERE THE BUCK STOPS

"The Destiny of a Nation Depends Upon the Quality of its Leaders"

Addressing economic inequality as a grave national problem includes providing the people with basic social services like health care and education; correcting overpricing in power, water, telecom services, and other basic necessities; as well as minimizing our annual multi-hundred-billion-peso corruption losses to avoid making up for such losses through intensified consumption taxation, as was subtly done under the TRAIN Law. Fortunately, there are common-sense solutions to economic inequality, treated at length in this book. However, there are right and wrong ways of implementing solutions. If improperly done, the solutions will not attain the objective, as shown by past events.

As seen, Keynesian economics was unfairly blamed for huge public debts and inflation that resulted from drastic cuts in income taxes accompanied by rising government military and other non-revenue expenditures. Under oil industry regulation, Petron Corporation's return on equity (ROE) was 10% in 1985. Then, under the same regulation but without the abolished Department of Energy, Petron's ROE jumped to 30% right in 1986 under sole Board of Energy authority (p. 266).

In addressing inequality, coming up with doable solutions is just the first step. The second step is to have champions who will espouse them. The solutions will not be instituted if these will adversely affect the ruling class, such as the many rich among our government officials who would not want higher income taxation for the rich as a funding source of social spending for the poor.

At any rate, through copies of this book that will be transmitted to them, I respectfully endorse to the country's President, Senate President, Speaker of the House of Representatives, and Chairman of the Commission on Audit, my recommendations on how to address economic inequality. In the past, if MWSS officials were to blame for our unlawfully high water rates, after this endorsement, our highest government officials shall bear the responsibility—not only for high water rates but also for other causes of economic inequality.

As **“the fate of the people is decided by the will of their leaders,”** I humbly urge our President and other national leaders to earn their exalted place in history as champions of equality and public interest—by having the political will to free the people from the bondage of economic inequality.

* * *

As one of the vanishing breed of Filipinos who witnessed the dark years of martial law, I have to tell the bitter lesson we must learn from it—that if wrong economic policies, culture of corruption, and abuse of power were practiced for years, it is so difficult later on to undo their evil impact on the ravaged economy and damaged character of the people.

We have to rise from the ashes of the martial law regime and the lasting culture of corruption and related governance problems that it spawned. Through the book, for whatever these are worth, I leave to Filipinos my insights on how to address our grave national problems and march toward economic progress and equality.

May God heal our land and bless us all.

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San Miguel, Bulacan
May 1, 2023

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