



MR = MC

Nonoy Oplas
September 8, 2008

Last Friday, September 5, I was one of 2 speakers in the session, “Public Service in and out of Government”, Alternative Choices in Life after Economics (ACLaE) program of the University of the Philippines School of Economics (UPSE). It is part of the UP Centennial celebration series.

My co-presenter that day was a friend and batchmate from AB Economics degree 24 years ago, Ms. Gladys Cruz-Sta Rita. Gladys is a fantastic lady: she was the longest-serving Provincial Administrator in the country, having served Bulacan province’s 2 past Governors and the current Governor, though she resigned only 3 months ago to become an independent consultant on local government affairs. And she recently wrote and published a thick book, “Running a Bureaucracy”, about 500 pages long including references.

She gave me a complimentary copy of her book, with a warm and friendly dedication. I kidded her to wait for my own book, “Stopping a Bureaucracy”, she laughed.

The UPSE Faculty member who gave the introduction about ACLAe was another former batchmate in the undergrad, Dr. Aleli dela Paz-Kraft, who is now an Assistant Professor at the School. An officer of the UPSE Student Council acted as MC and forum Moderator.

Gladys presented first, she briefly narrated her life and work after graduating from the School, some lessons in her life and she emphasized the most important lesson to the nearly 100 Economics students who attended our session: the need for personal and professional responsibility in everything that we do.

My turn to speak, I presented the following short powerpoint paper, below.

Alternative Choices in Life after Big Government *

Bienvenido "Nonoy" Oplas, Jr.
Minimal Government Thinkers, Inc.

* A presentation at "Alternative Choices in Life after Economics" (ACLaE), UPSE, September 5, 2008

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ACLaE Purpose

- "To introduce to the current Econ students some of the School's alumni who have pursued non-traditional but nonetheless productive careers after college."
- Great! We didn't have this kind of program 24 years ago!
- Maybe 24 years more, "...School's alumni who made 'non-traditional' careers become traditional"?

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ACLaBG Purpose (1)

- To explain to the current students what is "**BIG** Government"...
- And why it needs **HIGH** taxes and fees, Employs **HUGE** bureaucracies, Creates **BURDENSOME** regulations, Puts **VAST** barriers to competition and innovation

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ACLaBG Purpose (2)

- To introduce to Econ students what is Minimal Government Thinkers, Inc.
- Discuss Alternative Choices in Life after BIG Government has *SHrank*
- Where *Individual and Parental Responsibility* is paramount
- And only the lazy, irresponsible, dictators and tax-hungry people demand and applaud, "*More government responsibility please!*"

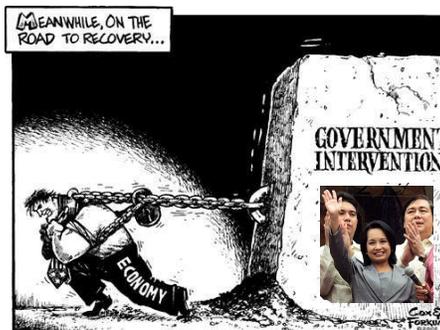
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Some known Economists say...

- "Every individual neither intends to promote public interest... intends only his own gain and he is... led by an invisible hand to promote an end which was no part of his intention." – **Adam Smith**
- "People who intend only to serve public interest are led by invisible hand to serve private interest which was no part of their intention." – **Milton Friedman**

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So, what is BIG Government?



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MG Thinkers is non-traditional

- Four core advocacies: small government, small taxes, free market, individual responsibility
- The **only** explicitly free market-oriented think tank in the Philippines, fully registered – and fully burdened – with various government agencies: SEC, BIR, SSS, PhilHealth, Pag-IBIG, barangay and City government

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MG Thinkers is not alone

- Friend of other free market-oriented think tanks and institutes around the world:
 - International Policy Network, London
 - Atlas Economic Research Foundation, Virginia
 - Americans for Tax Reforms, Washington, DC
 - Alternate Solutions Institute, Lahore
 - Cathay Institute for Public Affairs, Beijing
 - Center for Free Enterprise, Seoul
 - Japanese for Tax Reforms, Tokyo
 - Liberty Institute, Delhi
 - Limited Government Nepal, Kathmandu
 - Lion Rock Institute, Hong Kong
 - Malaysia Think Tank, London and Kuala Lumpur
 - IMANI Center for Education, Accra
 - many others

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MG Thinkers is affiliated with

- International Property Rights Index coalition (IPRI, www.internationalpropertyrightsindex.org) – for promoting private property rights
- Civil Society Coalition on Climate Change (CSCCC, www.cscoc.info) – for adaptation, not more environmental regulations
- World Taxpayers Association (WTA, www.worldtaxpayers.org) – for lower, flat tax

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MG Thinkers is active in the campaign for

- Tax cut: advocates flat 10 percent income tax, ultimately leading to zero income tax, shift revenues to consumption-based taxes
- Small government: privatization of most, if not all, government corporations, banks, universities; abolition and/or consolidation of certain agencies
- Free trade: advocates unilateral trade liberalization, like HK, Dubai, Georgia
- Intellectual property rights: supports IPR law to encourage pharmaceutical and medical innovation

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More freedom and choices in a Minimal Government Society

- A society of entrepreneurs, investors, hard-working employees – due to less taxes, less bureaucracies, less monopolies, less subsidies, less dictators
- Responsible individuals who care for their less-fortunate brothers through voluntary charity with their voluntary, private organizations
- Little space and respect for lazy, irresponsible and subsidy-addicted people, tax-hungry politicians, bureaucrats, consultants and lobby groups

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And why UP should be a private university someday

- Because UP has been fiscally dependent to the President, Congressmen, Senators, CHED and DBM Secretaries, other politicians, for its annual budget for 100 years
- Because UP Administrators and Faculty's energy is partly siphoned off listening to these politicians' and bureaucrats' requests and idiosyncracies every year
- Because UP needs to exercise administrative and academic freedom and responsibility for its finances, programs, constituent welfare, without asking taxpayers to pay for those expenses and concerns
- Because there are a dozen other reasons more...

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(Note: last two less important slides omitted here)

The open forum began. The students evenly asked questions to both Gladys and me. For this paper's purpose, I will only discuss the questions and issues directed to me. Among the more important questions that day that I could remember were the following:

1. If the state will abdicate providing welfare and safety nets to irresponsible people, what about those who are poor due to circumstances beyond their control (disaster, accidents, etc.)?
2. How "minimal" is the government that you envision? What are those state functions?
3. How will the various market failures be addressed if there will be less function for the government?
4. What are the job and career prospects for us (Economics majors) after graduation?
5. If we reduce income taxes to zero, even at 10 percent that you advocate, don't you think there will be some chaos as the government will have less money to provide safety nets to the poor?
6. You said to shrink the bureaucracy, what are the (Philippine) agencies that you think should be abolished or consolidated?

My respective answers to those questions, briefly for this paper, below:

1. Responsible people care not only for themselves and their families, but also for their less-fortunate fellowmen who became poor due to reasons beyond their control, like calamities, born as "special children" and the parents are poor, etc. Currently there are plenty of civic-oriented clubs, charity organizations, that do their share for their poorer fellowmen, like Rotary clubs, Lion clubs, Jaycees, Gawad Kalinga, various church groups, neighborhood associations, etc.
2. Main function of the State is to protect the citizens' right to life, right to private property, right to liberty and dignity. The "right" to housing, health care education, pension, credit, etc., are secondary if not unnecessary functions of the state. It is not good when people are lazy or will drink and party every night then demand that they have the "right" to decent housing, good quality education, etc.
3. "Market failure" is among the most abused concepts when "Government failure" is a more sinister problem. We hear government corruptions and scandals almost everywhere, yet we don't call them "government failure". Market failure almost always creates opportunity for market solutions, whereas government failure almost always creates opportunity to expand the bureaucracy further or expand government wastes further.
4. After 10 years or more, many of you will be working on career not directly related to Economics. What the School teaches us are mainly tools, academic and

philosophical tools that we can use in whatever career we pursue someday. Among my friends who were fellow Econ graduates from this School, after 20 years or more, only about 20 percent were doing Economics-related profession (Econ professors, working at ADB, UN, WB, private bank economist, etc.). Majority went to IT, law, and business.

A few years ago, in one of our get-together and mini-reunions with fellow Econ alumni, one asked, “Do you still remember or use the economics concepts that we studied in undergrad?” Two replied, “No, none at all now!” I said “You’re both wrong. You practice $MR = MC$ ”

(The audience lighted up and smiled when I mentioned $MR = MC$, so I continued).

“How many employees do you have?” I asked. One said “I got five”. I explained, “See, you didn’t hire 6 employees because your marginal cost (MC) will be larger than your marginal revenue (MR), you lose money. And you didn’t stop at 4 employees because your MR is greater than your MC, and there is room for greater income and profit. Theory says profit is maximum when $MR = MC$.

(Again, the audience lighted up 😊)

5. If income taxes in this country, both personal and corporate, is down to 10 percent flat or less, and bureaucracies in business registration and compliance requirement are cut, I think thousands of companies from other countries, especially from high-taxes countries like Europe, Japan and North America, will swoop down on the Philippines and put up thousands of branches or new offices and shops here. Even thousands of Filipinos now working abroad will be encouraged to come back and put up their own enterprises. These will create hundreds of thousands, even millions of new jobs. When people have jobs and they are ambitious enough, they can say “goodbye to poverty”.

Besides, as I mentioned earlier, there are a dozen-plus different types of consumption-based taxes and fees that can be retained. Like value added tax (VAT), excise tax, travel tax, entertainment tax, vehicle registration tax, real property tax, import tax, and so on. Revenues from these various taxes and fees are huge, and we are not advocating abolishing or shrinking those taxes. We only advocate cutting or abolishing income tax because having high income tax and high and multiple consumption-based taxes constitute multiple robbery from the pockets and savings of citizens.

Some chaos can be expected when the lazy and irresponsible people are cut off from endless subsidies. But if individual and parental responsibility are not asserted, and everything is “government responsibility”, then everything can be taken away from us by the government.

6. I think NEDA (National Economic and Development Authority) and DBM (Department of Budget and Management) can be abolished. Their functions can be merged and consolidated with the DOF (Department of Finance). In a number of

countries, the Ministry of Finance do the economic planning and budget disbursement function, along with revenue planning and collection function.

DAR (Department of Agrarian Reform) can also be abolished. From the current 21 different Departments, I think the national government can function as its current performance or under-performance with just half of those departments. I have worked in the House of Representatives in the 90s for several years, and I think it is a very wasteful institution, it can function with its current performance or under-performance with just half of all Committees, Bureaus and other offices, officials and employees.

Over lunch after the open forum hosted by the School, we continued discussing some applications of $MR = MC$. Foremost of which in my observation is the P1 or P10 fare charged by budget airline Cebu Pacific. It's regular fare from Manila to Bacolod or Iloilo or Roxas or Cebu one-way is around P799 plus different taxes (fuel surcharge + aviation security fee + VAT) while a competing airline is charging nearly P2,000 for a one-way fare on those destinations. So how could an airline operate and still make profit on P1 or P10 promo fare on a number of seats per flight?

The bigger cost for an airline are its fixed cost – salaries and benefits of their personnel (pilots, stewardess, ground crew, office staff, etc.), airplane depreciation, landing fee, cargo handling fee, fuel, etc. The marginal cost (MC) of adding an extra passenger is small, technically only the additional fuel as more passengers and cargo means more fuel consumption for the plane. With a small MC per additional passenger, it is better to fly on full or near-full capacity (90 to 100 percent of seats taken) with low average fare per passenger, than fly on half-empty flights with high average fare per passenger.

For every additional passenger, there is additional probability that some of them will exceed their baggage weight limit, so they pay excess baggage fee, about P100 per kilo. If some passengers will change their flight schedule, there is an extra surcharge for such flight rebooking. And being a budget airline, it does not serve free food and drinks, but sell those food and some souvenir items on flight. More passengers would mean more revenues on consumer sales while on the air. These plus other revenues which I do not know, the airline should be realizing higher MR per passenger.

One lesson and policy consideration from this, is for the government to keep the airline industry, well ALL industries in fact, to be competitive and have plenty of players. To approach a “contestable market” situation where the cost of entry and exit of players is zero or near-zero. Very often, it is government's bureaucratic procedures, high taxes and fees, and extortionary behavior that limit the number of players and competitors per sector or industry in the economy. Less competition means less choices and options for the public and the consumers. The extreme is a monopolistic condition – zero competition means zero choice for the consumers.

And this further proves the position, “less government is better government”. More market competition is good for the citizens.