Financing Arroyo's failures

A review of the Arroyo administration's fiscal policy[1]

The eight years of Mrs. Gloria Macapagal-Arroyo as the chief executive of the Republic has been tumultuous, to say the least. But on matters of fiscal policy, her administration has been characterized by an almost consistent zeal in a mission to trim the budget deficit – with the rhetoric persisting (albeit toned down) even during an economic crisis, when the public needed the money the most. Incidentally, her fiscal policy had also been a consistent failure – in achieving a balanced budget, in addressing poverty, hunger, and misery, and, in the context of the current international recession, in preparing our national defenses to fight off waves of global economic convulsions.

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BY **THE FREEDOM FROM DEBT COALITION**

SO MUCH is Arroyo's preoccupation with the subject of budget deficit, that during her first State of the National Address (SONA) in 2001, she could not help but highlight that "from a budget surplus in 1997 of more than a billion pesos under President Ramos, my government inherited [from Estrada] a deficit exceeding 140 billion pesos." She then took it upon her administration to trim this figure, employing aggressive rationalization, expenditure cuts, and taxation policy in the process – the primary strategies employed by government to reduce budget deficits.

For Arroyo, the problem is not the policy we have of unquestioningly paying our debts. Rather, it is the policy of living beyond our means, i.e. spending above our revenues and borrowing to cover our expenses. So consistent was she that seven years after her first SONA, she is still preaching the same sermon of the scourge

of deficit and deficit spending: "Deficit spending inevitably leads to large government debt that necessarily requires debt servicing which eats up the budget."

This, of course, comfortably ignores the context of a humongous stock of debts which we are paying year in and year out. As of end-November 2008, the NG outstanding debt was pegged at PhP4.236 trillion pesos. For 2009, this huge debt stock will cost us PhP631.42 billion, roughly four times the entire budget for the Department of Education. In this context, such a fanatical zeal for achieving "balanced budgets" shows a completely lopsided appreciation of the debt problem.

This paper aims to examine the fiscal strategies Arroyo employed during her presidency – basically in comparison to the administrations of her predecessors, but also and most importantly how they fit to her overall outlook, methods, and practices on public finance itself.

2008 Budget Proposal: (Almost) Living the (Balanced Budget) Dream

Arroyo's dream of a balanced budget was most pronounced in her 2008 proposed national government budget, where she counter-posed the problem of resolving the budget deficit by resolving the debt problem itself. To quote her: "The debt problem is over. The budget is balanced at last."

In her 2008 budget message, Arroyo claimed that the proposed 2008 National Government budget is a "balanced budget", the first time in ten years, and two years ahead of her own pre-set schedule. The PhP1.227-trillion proposed budget program for 2008 is to be funded by about PhP1.236-trillion of projected revenues. She declared this to be the ultimate solution to the debt problem, which she claims is rooted in the continued practice of borrowing for deficit spending.

The administration's definition of a balanced budget is controversial, to say the least, and has been attacked on all fronts by public finance and accounting experts. But even as the experts deal with the technicalities (such as whether principal payments for debts can be considered as expenses or not), the definition is challenged by a valid question: Can a budget which places utmost priority on debt payments at the cost of social spending – notwithstanding the fact that most of these payments are for illegitimate debts – be considered "balanced" in the truest sense of the word?

Eventually, Arroyo failed to reach this target of a balanced budget. In the end, she only managed to produce PhP1.202 trillion worth of revenues. And, with expenditures reaching PhP1,271 trillion (slightly larger than planned), her administration ended up with a PhP68 billion deficit for 2008, the highest since 2005. In her 2008 SONA, Arroyo unapologetically blamed exogenous forces: "*Malapit na sana tayo sa pagbalanse ng* budget. We were retiring debts in great amounts, reducing the drag on our country's development, *habang namumuhunan sa taong bayan. Biglang-bigla, nabaligtad ang ekonomiya ng mundo*... Whatever the reasons, we are on a roller coaster ride of oil price hikes, high food prices and looming economic recession in the US and other markets. Uncertainty has moved like a terrible tsunami around the globe, wiping away gains, erasing progress."

Arroyo's appreciation of the need to respond to abrupt waves of global economic turmoil via deficit spending ignores the fact that in the first place, much of our expenditures are for debt servicing and not for social investments. If Arroyo's fiscal logic is pushed to its conclusion, we can even say that her policy is to increase debts (by way of increasing deficit spending) in order to pay for obligations and mandates we can pay for because we need to pay our debts. Let us look further into Arroyo's logic.

Debt servicing and borrowings

In her 2006 SONA, GMA confidently declared that because of her good fiscal management, "now, we have the money to pay down our debt and to build up our country." But it seems that of the two [debt or social investments], debt servicing remains her administration's top priority. For her last full year in office, what is

supposed to receive the highest budgetary allocation – education – is merely a third of what the Arroyo government will be spending on debt (PhP158.21 billion compared to PhP631.42 billion). The situation for health is much more horrendous – it's only 4% of what we will be spending on debt (PhP27.88 billion). Even if you add up the total proposed spending on education, health and agriculture , this will still be less than interest payments alone by as much as

TABLE 1. BICAMERAL CONFERENCE COMMITTEE – PROPOSED SPENDING FOR 2009 (IN BILLION PESOS)

Debt Service	**631.42**	**Department of Education**	**158.21**
Interest Payments Principal	**252.55**	**Department of Health**	**27.88**
Amortization	**378.87**	**Department of Agriculture**	**3.62**

Note: Breakdown of totals may not sum up due to rounding of digits.

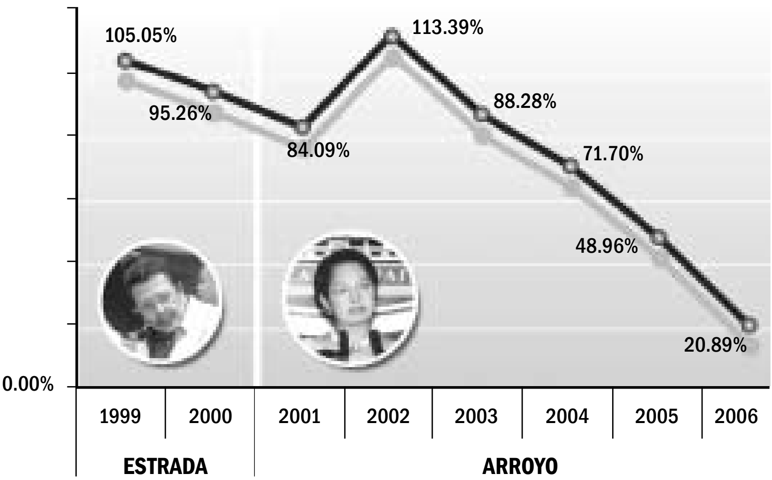
Proposed 2009 National Budget. Source: Budget of Expenditures and Sources of Financing (BESF) Fiscal Year 2009. Department of Budget and Management (DBM).

PhP62.84 billion.

It was not enough that debt got the lion's share of the budget. There have been allegations of *over-prioritizing* debt service, as revealed by even the most fiscally conservative of politicians. Former Senator Ralph Recto, for example, criticized the overstating of foreign exchange assumptions as a means of padding debt service. Before the bicameral committee decided on the 2007 budget, he revealed that interest payments may have been padded by at least PhP6.6 billion since it had been computed at the exchange rate of \$1=PhP53 instead of the more realistic \$1=PhP50.

Where does the Arroyo government get the money to pay for these debts? Former NEDA Director Felipe Medalla [2007] observed that until 2003, servicing the public debt did not completely compromise non-interest expenditures of government because interest payments were largely refinanced. However, from 2003 onwards, the government increasingly serviced interest payments out of its own revenues. The effect of using tax revenues for debt servicing is to compress non-interest spending.

FIGURE 1. REFINANCED INTEREST PAYMENTS



Refinanced Debt. Source: The Philippine Economy: Recent and Future Trends by former NEDA Director Felipe Medalla. Note: To get the refinanced interest payments, you first obtain the primary surplus by subtracting the non-interest payment expenditures with the revenue. You then take the ratio of primary surplus and the interest payments.

From 2002, when the government depended entirely on financing to pay off its interest expenditures, refinanced interest payments dropped to merely 20.89% (2006). This means that only one-fifth of the interest expenditures was financed through new debts. The rest of the interest payments, therefore, the Arroyo government paid from its revenues.

In deciding whether to pay for debt service or to allocate for social services, the Arroyo administration unhesitatingly chose the former. In order to maximize the appreciating peso due to the massive inflows of foreign currency, the government prepaid at least US$220 million of debt owed to the International Monetary Fund (IMF) – allowing it to save about $50-100 million in the process – and US$72 million to the Asian Development Bank (ADB). Clearly, the Arroyo administration is striking while the iron is hot; it is paying and pre-paying debts while the peso is strong and the country is awash with dollars. This strategy is commonly employed by countries which want to gain independence from IFIs and other foreign creditors, but we know that this is not the case with the Arroyo government.

There is an ongoing phenomenon in government policy of allocating the majority of the country's revenues to debt service, causing the government to finance its deficit through loans. President Ramos allocated a yearly average of 61.99% of the country's revenues to debt payments, while President Estrada allocated 70.22%. Arroyo, on the other hand, allocated 97.69%.

But if there is a case of over-spending on debt, there is likewise a practice of over-borrowing. Borrowing during the Arroyo administration always exceeded the budget deficit. The Philippine government is so dependent on debt that financing the deficit has just been one reason for borrowing. Another reason for borrowing is to repay existing debt. The Arroyo government, its loudmouthed claims notwithstanding, is borrowing even more than to simply cover principal payments.

TABLE 2. DEFICIT FINANCING

Deficit Financing from 2001-2008 (in billion pesos)

	2001	2002	2003	2004	2005	2006	2007	2008
Deficit	-147.0	-210.7	-199.9	-187.1	-146.8	-64.8	-7.4	0.0
Net Financing	175.2	264.2	286.8	242.5	236.0	110.1	84.5	17.8
Variance	**28.2**	**53.4**	**87.0**	**55.5**	**89.2**	**45.3**	**77.1**	**17.8**

Sources: National Government Fiscal Position CY 1999-2006, Bureau of Treasury, for 2001 to 2006 values; Budget of Expenditures and Sources of Financing (BESF), Fiscal Year 2008, Department of Budget and Management (DBM) for 2007 and 2008 data.

The practice of borrowing more than what is needed increases the country's debt stock, and with it the debt-servicing requirement. This should be clearer to Mrs. Arroyo than to other post-dictatorship presidents. After all, she holds the record of being the biggest borrower and biggest debt payer among presidents since Marcos. In fact, her borrowings and payments are bigger than the combined borrowings and combined payments of her predecessors. This is true whether the amount is nominal or adjusted for GDP growth.

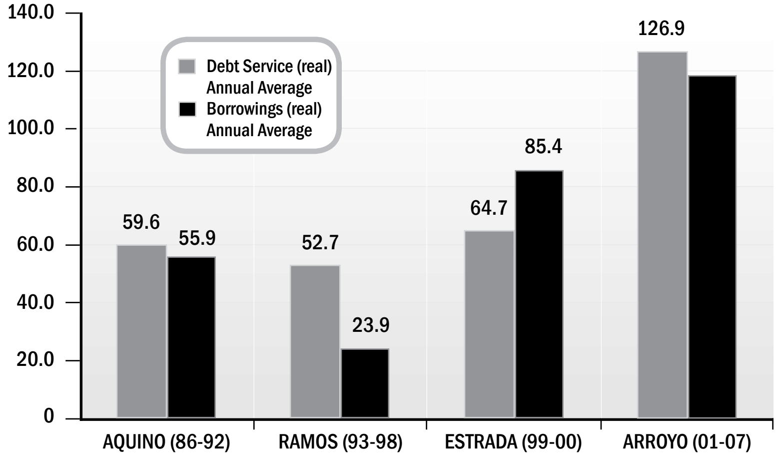
Expenditures: Reneging on the budget's

TABLE 3. DEBT SERVICE AND GROSS BORROWINGS, 86-06

	Aquino (86-92)	Ramos (93-98)	Estrada (99-00)	Arroyo (00-06)
Debt Service (Interest + Principal)	596.069	776.420	433.239	3,465.228
Gross Borrowings (Domestic + Foreign)	565.659	372.339	571.568	3,385.101

Source: Bangko Sentral ng Pilipinas

FIGURE 2. DEBT SERVICE AND BORROWINGS, IN REAL (1985) PRICES, ANNUAL AVERAGE (IN BILLION PESOS)



promises

In Arroyo's 2007 SONA, it was clear that one of the primary purposes of imposing "fiscal discipline" is for "investing hundreds of billions in human and physical infrastructure." So let us take a look at the other non-debt expenditures. While debt expenditures are being padded, other expenses are being cut. Looking at the half-year expenditure performance of the government in January to June of 2007, there had been an under-spending of about PhP37.9 billion. Most of the under-spending was in the *Others* item which includes allocations for education, health, social welfare and infrastructure. It registered a PhP24.8 billion difference between the actual and programmed allocation.

As of September 2007, programmed non-interest expenditures

TABLE 4. JANUARY-JUNE 2007 SPENDING PERFORMANCE (IN BILLION PESOS)

	Program	Actual	Variance
All Expenditures, of which:	589.2	551.3	–37.9
IRA	97.1	99.8	2.7
Subsidy	3.2	10.6	7.4
Others	333.3	308.5	–24.8

Spending Performance 2007. Source: Department of Finance.

exceed the actual non-interest expenditures by as much as PhP14.78 billion (PhP644.358 programmed versus PhP629.578 actual). In other words, in order to keep her promise of managing the deficit, Mrs. Arroyo is cutting down on non-debt spending.

Non-debt expenditures have consistently been under the knife with the Arroyo administration. The 2006 spending performance, for example, reveals that actual total expenditures were PhP54.6 billion lower than what was programmed. The variance was actually caused by an underspending of PhP68.4-billion in “Other” expenditures. Non-debt spending in 2005 also suffered a PhP50.3-billion cut. What meager amount the Arroyo government allocates in the budget for genuine social needs is still being pared down in order to make the deficit numbers look good.

As the table below shows, the 2005 and 2006 savings on interest expense generated by the Arroyo government did not go to basic social services and social justice. The latter in fact were slashed more radically than the savings on interest expense. In 2005, a peso saved on interest expense was accompanied by a cut of PhP2.72 in “Other” spending (non-interest spending such as basic social services). In 2006, the cuts in social spending amounted to PhP1.87 for every peso saved on interest expense.

Notice that Internal Revenue Allotment (IRA) is always beefed-up; so

TABLE 5. 2005-2006 SPENDING PERFORMANCE (IN BILLION PESOS)

	2005			2006		
	Program	Actual	Variance	Program	Actual	Variance
All Expenditures	963.2	942.2	–21.0	1,099.0	1,044.4	–54.6
Interest and Net Lending	320.3	301.8	–18.5	348.3	310.2	–38.1
IRA	120.2	160.6	40.4	134.1	174.7	40.6
Subsidy and Equity	517.8	467.5	–50.3	610.5	542.1	–68.4
Others	4.9	12.4	7.3	6.1	17.4	11.3

Spending Performance 2005 and 2006. Source: Department of Finance.

are subsidy and equity. This, one speculates, is to ensure support of local politicos and the economic elite. Interest payments may have gone down, but this was mainly because of, as Recto pointed out, inaccurate estimation of the currency exchange rate.

The Arroyo administration has been spending much less on Social Services than her predecessor, former President Joseph Estrada, in terms of percentage of NG spending. The share of her economic services allocation dropped considerably compared to that during the last years of the Marcos regime. In contrast, the percentage of her debt service interest is very high, second only to that of former President Corazon Aquino who took it as a policy to honor and repay all debts of the Marcos dictatorship.

This decrease in allocation by the Arroyo government

TABLE 6. SECTORAL SHARES OF NATIONAL GOVERNMENT SPENDING (IN PERCENTAGE)

	Marcos (1981-85)	Aquino (1986-92)	Ramos (1993-98)	Estrada (1999-00)	Arroyo (2001-04)
Economic Services	36.2	23.1	25.5	24.2	20.6
Social Services	21.9	22.2	28.0	32.2	29.8
Defense	9.9	7.1	6.8	5.5	5.5
General Public Services	16.1	13.7	18.3	18.1	17.1
Net Lending	4.3	4.4	0.5	0.5	0.6
Debt Service Interest	11.6	29.5	20.7	19.5	26.8

Sectoral distribution of national government spending. Source: Prof. Benjamin Diokno's data on per capita spending, titled "Two Decades of Suffering", used in his presentation, "The Real State of the Nation".

for social services is more evidently seen in the per capita and per student spending of various administrations for health and education, respectively. As the tables below show, the Arroyo government is outdone by the government of Joseph Estrada in terms of per capita spending on health and per pupil spending.

This is in direct violation of the spirit of the Philippine laws. The

TABLE 7. CONSOLIDATED PER CAPITA HEALTH SPENDING, BY ADMINISTRATION, 1981-2004 (IN 2000 PRICES)

	Marcos (1981-85)	Aquino (1986-92)	Ramos (1993-98)	Estrada (1999-00)	Arroyo (2001-04)
National Government	240	278	321	360	303
Local Government	203	247	160	159	119
Total	**37**	**31**	**161**	**201**	**184**

Consolidated per capita health spending in 2000 prices. Source: Prof. Benjamin Diokno's data on per capita spending, titled "Two Decades of Suffering", used in his presentation, "The Real State of the Nation".

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TABLE 8. AVERAGE NATIONAL GOVERNMENT SPENDING FOR BASIC EDUCATION1981-2004 (IN 2000 PRICES)

	Marcos (1981-85)	Aquino (1986-92)	Ramos (1993-98)	Estrada (1999-00)	Arroyo (2001-04)
Per pupil spending, 2000 prices	3,027	4,478	4,959	5,830	5,467

Average National Government Spending for Basic Education. Source: Prof. Benjamin Diokno's data on per capita spending, titled "Two Decades of Suffering", used in his presentation, "The Real State of the Nation".

Philippine Constitution puts prime on education above all spending. According to Article XIV, Section 5.5 of the Constitution, education is supposed to receive the highest budgetary allocation:

> *Section 5.5. The State shall assign the highest budgetary priority to education and ensure that teaching will attract and retain its rightful share of the best available talents through adequate remuneration and other means of job satisfaction and fulfillment.*

The table below shows that since 2003, the growth rate of revenues for each year has outpaced the growth rate of non-interest expenditures, except for 2007. This means that the increase in revenues does not necessarily translate to an expansion of government spending for the public except in 2007 when economists and credit rating agencies began to publicly criticize this practice. This trend is upheld in the proposed 2008 budget, with the planned growth of revenues registering at 9.67% while the proposed growth of non-interest expenditure is lower at 6.24%.

Clearly, the primary strategy to "balance" the budget is, virtually, by

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Photos by TRACY PABICO

TABLE 9. GROWTH RATES OF NON-INTEREST EXPENDITURES AND REVENUES (IN PERCENT)

	2003	2004	2005	2006	2007*	2008
Non-interest Expenditure	1.64%	3.21%	4.78%	10.74%	21.21%	6.24%
Revenues	10.60%	10.47%	15.49%	20.03%	18.34%	9.67%
Variance	-8.96%	-7.26%	-10.71%	-9.29%	2.87%	-3.43%

Growth rates of non-interest expenditures and revenues. Sources: Public Finance and Fiscal Indicators, Bangko Sentral ng Pilipinas for 2003 to 2006 data; General Appropriations Act of 2007 (Republic Act 9401) for 2007 data; Budget of Expenditures and Sources of Financing (BESF), Fiscal Year 2008, Department of Budget and Management (DBM) for 2008 data. *January to November 2007.

cutting back on non-debt expenditures, not pumping up revenues. Clearly, non-debt expenditures such as infrastructure, social spending, agrarian reform and the like are taking a back seat to debt service under the Arroyo administration. This becomes obvious when we look at the revenue growth rate. The targeted revenue for this year, which is pegged at PhP1.23 trillion, is only 9.67% higher than last year's revenue. This is the lowest since 2003.

Revenues: All that it takes

But while cutting on expenditures is the key to her fiscal austerity, she must also address where the money should come from. In her 2007 SONA, Arroyo said: "With the tax reforms of the last Congress, and I thank the last Congress, we have turned around our macroeconomic condition through fiscal discipline, toward a balanced budget."

This brings us to the revenue generation strategy of the administration. Since the fiscal crisis of 2004, the Arroyo administration has made it a point to increase uncompromisingly both its tax and non-tax revenues. From 2006 to 2007, revenues went up by as much as PhP139 billion, with revenue effort rising from 14.91% to 14.92%2 over the same period. The projected revenue for 2008 is PhP117 billion more than programmed for 2007.

To accomplish this, the Arroyo government used an aggressive

TABLE 10. NATIONAL GOVERNMENT REVENUE PROGRAM, BY SOURCE, 2006-2008 (IN MILLION PESOS)

	2006	2007	2008
Tax Revenues	859,856	973,576	1,108,889
Taxes on Net Income and Profits	376,992	419,633	477,552
Taxes on Property	1,114	1,276	1,471
Taxes on Domestic Goods and Services	283,143	328,913	374,817
Taxes on International Trade and Transactions	198,607	223,754	255,049
Non-Tax Revenues	119,781	145,185	127,339
Fees and Charges	30,979	34,904	40,502
BTr Income	74,446	55,089	57,275
Privatization	5,815	55,192	29,562
Total Revenues	979,637	1,118,761	1,236,228

Revenue Program, Including New Measures, By Source, FY 2006-2008. Source: Table C.1. Budget of Expenditures and Sources of Financing, Fiscal Year 2008.

taxation measure, focusing on consumption taxes (R-VAT, or Republic Act 9337), in order to beef up revenues. The Department of Finance itself admitted that 70% of the revenues generated from R-VAT would go to debt service in the first six months of implementation, with only 30% going to social services and infrastructure programs [Hizon, 2006].

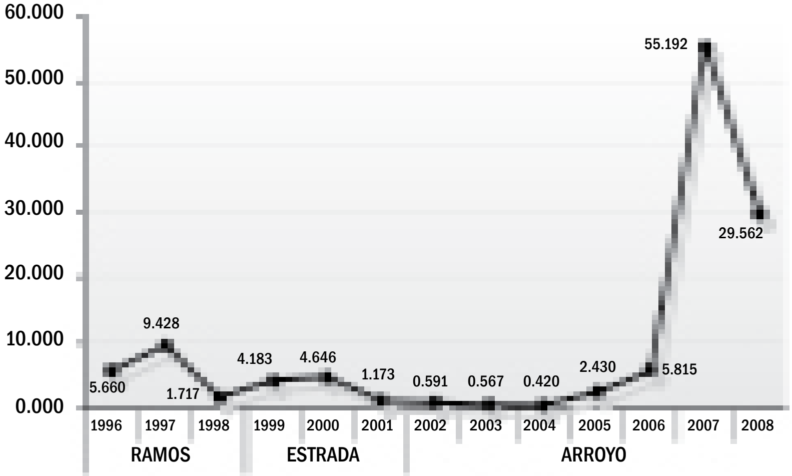
The administration also undertook aggressive privatization measures, including the 120-hectare Food Terminal Inc. (FTI) in Taguig City, estimated at about PhP15 billion; state-owned assets such as the Philippine Telecommunications Investment Corp. (PhP25.2 billion); the 20 percent stake in Philippine National Oil Company-Energy Development Corp. (PhP16.6 billion); the remaining stake in PNOC-EDC (PhP32 to PhP36 billion); the 4.6 percent stake in Philippine National Bank (PhP998 million); and the stakes in San Miguel Corp. (PhP50 billion) and Manila Electric Co. (PhP10 billion). The government also sold a 54-hectare property at the old Iloilo Airport, valued at PhP1.2 billion.

This only expresses the administration's commitment to trim the government, as it believes that too much government is not

“prudent” and “crowds out” private initiative. We need only look at the data on privatization proceeds to confirm this.

The Arroyo government is selling off whatever it can in order to pick up the slack in its tax revenues – the targets of which it has

FIGURE 3. PRIVATIZATION PROCEEDS (IN BILLION PESOS)



Privatization Proceeds (1996-2008). Sources: National Government Revenues, Bureau of Treasury for 1996-2006 data. Revenue Program, Including New Measures, By Source, FY 2006-2008 (Table C.1. of Budget of Expenditures and Sources of Financing, Fiscal Year 2008) for 2007-2008 data.

not been able to meet. The problem here, however, is that one can only sell one’s asset once. Privatization is clearly not a sustainable way of generating revenues. The only way to sustain revenues is by collecting taxes from those who earn more and have more, by reducing corruption and smuggling, and by improving tax administration.

Relying on privatization is essentially an attempt of the Arroyo government to mask its failure to reach its tax targets. The January-September 2007 revenue performance, for example, shows that the government is PhP24.72 billion away from its January-September target, with tax shortfall reaching as high as PhP56.02 billion.

No wonder Bureau of Internal Revenue Commissioner Jose Mario Buñag was sacked in early 2007 for failing to meet the BIR’s

TABLE 11. REVENUE PERFORMANCE (JANUARY-SEPTEMBER

	Program	Actual	Variance
Revenues	836,978	812,257	-24,721
Tax Revenues	738,995	682,975	-56,020
BIR	566,902	521,920	-44,982
BOC	164,988	152,957	-12,031
Other Offices	7,105	8,098	993
Non-Tax Revenues	97,983	129,282	31,299
BTr Income	43,656	57,201	13,545
Fees & Charges	29,034	29,560	526
Privatization	25,293	42,393	17,100
Grants	0	128	128
Expenditures	890,953	852,267	-38,686
o.w. Interest Payments	246,595	222,689	-23,906
Surplus/Deficit	-53,975	-40,010	13,965

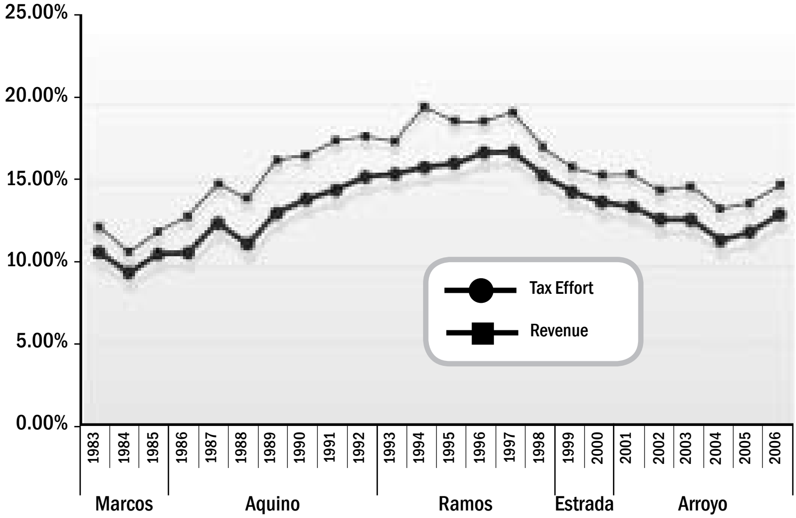
National Government Revenue Performance (January to September 2007). Source: Department of Finance.

collection targets. If we will remember, this is not the first time Buñag failed in his target. Revenue data for 2006 show that the BIR had a shortfall of at least PhP23.42 billion (see revenue performance table below).

This is only evident of the lackluster tax performance of the Arroyo administration, which actually registered the lowest tax effort since 1988 (a mere 11.53% in 2004). Revenue effort was also low that year, pegged at 13.47%. This has since risen to 15.00% as projected in 2008, but is nowhere near the revenue effort during 1994, pegged at 19.86%. Compared with neighbors like Thailand, Malaysia and Indonesia, with average revenue efforts from 2001 to 2005 ranging from 17.1% to 22.8%, the Philippines rates very poorly indeed.

Arroyo's imbalanced priorities

FIGURE 4. TAX AND REVENUE EFFORT (83-06)



Tax and Revenue Effort. Source: NSCB for GDP, BSP for Tax and Revenue proceeds. Note: To get Tax and Revenue Effort, divide Tax and Revenue proceeds with GDP.

The main impetus for having a balanced budget is clearly the implicit recognition of the problem of debt. By avoiding deficit spending, the administration would be able to lessen its reliance on borrowing – the primary root of the debt problem according to the existing government paradigm. However, since only interest payment on the debt is in the budget, the government would still have to borrow to pay for principal amortization.

A balanced budget would necessarily mean that we have to raise more revenues. But with the government's poor performance when it comes to collecting tax revenues, it will most likely rely on (a) consumption taxes which are easiest to collect, (b) privatization, and (c) raising revenues by the Bureau of Treasury, more likely than not through padding or getting interest from borrowing its own treasury bills. Failing to meet revenue targets would thus mean cutting back on expenditures, since payment for debts is automatically appropriated. As we have shown, there has been a deceleration of growth in non-interest spending.

The government, pushed by its own self-imposed administrative constraints towards a contractionary economic policy and a conservative fiscal policy, does not recognize the problem of automatic payments as the primary cause of budget deficit. No wonder it proposes instead an austere spending program which cuts social spending. This solution, while it may satisfy creditor standards of correct fiscal governance, will have serious developmental ramifications due to lack of government investment in physical and social infrastructure. FDC insists on solving the debt problem, not through palliative measures of expenditure compression or through cannibalistic measures of selling public assets, as in privatization, or eating up people's purchasing power, as in aggressive imposition of consumption taxes. Rather, we must attack the source of the whole debt quandary itself.

And as proven by the experiences of the Arroyo administration, such a dream in the face of a policy to automatically pay huge debt service will never be realized. In fact, for the proposed 2009 budget, National Economic Development Authority (NEDA) Secretary Ralph Recto himself said that the country's budget deficit this year could range from P200 billion to P257 billion if tax collections and revenues from privatization proceeds fall short of target. Given limited revenues, the only feasible way to raise money is through debt.

Clearly, the root of the problem is the government's policy of relying heavily on creditors to finance social projects highly susceptible to corrupt practices – a policy which, ironically, would have been unnecessary had the government chosen to allocate more to social services than debt payments. In fact, there is no shortage of cases of loan-financed projects going to waste due to inefficiency or corruption.

The solution would be to stop this policy at once. It is true that especially in times of crises, we should allocate more to building our socio-economic infrastructure. But this should be undertaken with drastic reductions in debt servicing by 1) knowing what we should pay and not pay through a Congressional Debt Audit which will be able to screen out illegitimate debts, 2) paying ourselves

first, investing in social welfare and in the domestic/local economy through the repeal of the Automatic Appropriations Law on debt service, 3) immediately discontinuing the elitist practice of shouldering private sector debts through sovereign guarantees, and 4) and putting debt-creating activities such as bilateral loan agreements with export credit agencies under full public scrutiny and participation.

NOTES

1. The article is largely derived from and a rewritten version of FDC's "Sustaining the Momentum of Debt and Underdevelopment: Debt and the Proposed 2008 National Government Budget" (December, 2007).

2. Using projected nominal GDP (low) as contained in the BESF 2008 and the programmed revenues for 2007