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A Pro-People Response to the Fiscal Crisis

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After the declaration of a "fiscal crisis" failed to rally support for government's proposed eight-measure revenue package, the administration of President Gloria Macapagal-Arroyo is now using the threat of a ratings downgrade to pressure legislators to pass at least four of the measures.

Government officials have warned that a lower credit rating would make it more expensive for the country to borrow money abroad and to service its debts.

These scare tactics seem to be working as Senate ways and means committee chair Ralph Recto recently said that at least four of the tax bills would likely pass Congress: the "sin" taxes on cigarettes and liquor, the tax amnesty bill, the rationalization of fiscal incentives and the lateral attrition law.

But even President Arroyo's allies have warned that the new revenue measures could be bad medicine that would kill, rather than cure, the patient. Pro-administration Senator Manuel Roxas said that passing the proposed revenue measures at the same time "would have a contradictory impact on the economy by reducing its ability to produce incomes and livelihood."

His remarks were in marked contrast to those of the International Monetary Fund (IMF), who would prefer that the Arroyo administration "front-load" new revenue measures early in its term in order to boost investor confidence and effect an early reduction of borrowing costs.

During a review by an IMF mission of the government's economic and fiscal policies conducted last July, the Fund had warned that raising the revenue effort was critical "to begin the process of bringing the public sector fiscal deficit and debt down to more sustainable levels while creating room for needed development expenditures."

The mission had recommended "raising and indexing excise taxes on alcohol, tobacco and petroleum products, in addition to other possible steps."

But these developments merely focus the issue of the fiscal crisis on the government's inability to generate sufficient resources to service its debts, and divert attention from what should be the heart of the debate: what are the roots of the crisis and how can these be addressed, rather than prescribing measures that merely alleviate the crisis's symptoms.

The root cause of the fiscal crisis lies in the economic liberalization policies implemented as part of structural adjustment programs mandated by the country's multilateral creditors, the IMF and the World Bank.

These policies have retarded the development of the country's domestic industries, as well as robbing government of valuable revenues generated by tariffs. They have resulted in widespread poverty, thus eroding the potential tax base, as well as fostering growing income inequality. This income inequality also creates opportunities for graft among tax collection agencies.

Unjust laws mandating automatic appropriation in the national budget for debt servicing also divert valuable resources that should rightly be used by government to provide vital social services and develop infrastructure.

The ultimate beneficiaries of these policies are transnational corporations from developed countries; and the lending institutions themselves, as well as foreign banks, which are guaranteed repayment of the debts incurred from them.

Thus, any proposals to address the fiscal crisis must acknowledge this context. They must also consider not just the amount of revenues that can be raised, but also issues of social justice and equity.

"Burden sharing" to address the financial crisis should not further affect ordinary Filipinos, who are already unduly burdened by skyrocketing prices of basic goods and services, and wages that are not enough to meet their needs.

The various sharing schemes such as asking people for one-peso donations and policemen to give up one month's salary only illustrate how government is passing on the cost of its policy mistakes to the people.

It is unfair to ask the poor to suffer further when, as a 2003 nutrition survey conducted by the Food and Nutrition Research Institute revealed, as many as 80% of Filipino households can afford to eat only instant noodles and canned sardines.

In this light, we recommend the following pro-people policies in dealing with the fiscal crisis:

1. Reform the tax collection system.

Government must address tax leakages that cost billions in lost revenues. A five-year study conducted by the National Tax Research Center (NTRC) revealed that at least P127 million in tax revenues was lost due to evasion from individual and corporate taxpayers and leakages from value-added tax (VAT) collections.

If the Bureau of Internal Revenue (BIR) could collect just half of this amount, it would already amount to P64 billion or 80% of the estimated earnings from the eight new tax measures.

In addition, government must demonstrate its political will to go after big-time tax evaders. The Supreme Court recently revived the tax evasion case against Fortune Tobacco owner Lucio Tan, which the BIR had decided not to pursue in 1998. Fortune Tobacco allegedly failed to pay taxes for 1990 to 1992 worth P25 billion.

Government must now prosecute this case and others earnestly, if only to show that it is serious about improving revenue collection.

It must also address corruption in government agencies. In its 2004 Common Country Assessment, the United Nations Development Program (UNDP) said that 13% of the P781-billion national budget in 2001, or about P100 billion, went to the pockets of corrupt officials.

Citing figures from the Office of the Ombudsman, the UNDP said a total of $48 billion (P2.7 billion at P56:$1) was lost to graft over the last 20 years, and only 60% of the budget was spent on government programs and projects.

Although the BIR and the Bureau of Customs, being tax collection agencies, are natural magnets for corruption, other government agencies are also hotbeds of graft. In particular, the UNDP named the Public Works, Environment, Health, Education, Interior and Local Governments and Agriculture departments as among the most graft-prone.

2. Reduce incentives given to investors.

No less than Finance Secretary Juanita Amatong admitted that government gave businesses tax incentives worth P229.4 billion last year, more than enough to cover this year's budget deficit. If government could reduce this by just 50% it would already cover more than the estimated earnings from the new tax measures.

Thus, government needs to examine investment incentives given by investment promotion agencies such as the Philippine Economic Zone Authority and the Board of Investments. At the same time, it should also grant incentives to local entrepreneurs in order to mobilize domestic capital.

3. Increase tariffs.

Due to the country's tariff reduction commitments under the World Trade Organization (WTO) and regional trade agreements, the country has already lost some P100 billion annually, according to an NTRC estimate.

Under the WTO regime the average nominal tariff in the country's industry sector fell from 26% in 1990 to 8% in 2000. But our commitments to the WTO would actually allow us to maintain a higher tariff rate. For example, in 2001, the WTO allowed the country to raise average tariffs up to 27.5% but only a 6.7% average tariff was maintained.

Thus, we should raise tariffs in order to generate more income. But more importantly, higher tariffs would provide some protection to local industries and the agriculture sector against an influx of cheap imports.

4. Scrap onerous debts.

It is not necessarily dishonorable not to pay all the country's debts, especially if it can be proven that these were wasted or lost to graft and corruption. During the Marcos administration alone, millions of dollars in debt were diverted to cronies' bank accounts or wasted in subsidizing bankrupt crony corporations and financing unnecessary government projects.

Up to now, the people are still shouldering the cost of these debts. One notorious example is the Bataan Nuclear Power Plant (BNPP). The BNPP's cost ballooned from $800 million in 1974 to $2.3 billion by the time it was completed in 1984.

At present, Filipino taxpayers continue to pay $155,000 (P8.7 million) a day in interest for a plant that has never produced even a single watt of electricity.

Thus, government should open its books to an independent review panel who would examine its debts and decide which should be honored and which are onerous and should not be paid. This panel should also look into other government contracts such as the ones the National Power Corporation (Napocor) entered into with independent power producers, which have contributed to government's increasing indebtedness and deteriorating financial position.

5. Reform the government's debt management policies.

Delivering vital services, not paying government debt, should be the first priority of government. Thus, PD 1177 and EO 292, which mandate automatic appropriation for debt servicing from the budget, should be repealed so that government could reorient its budget priorities.

But apart from the repeal of these two laws, government should also implement a debt cap policy. This policy should apply, not just to future borrowings, but also to current debt payments.

Aside from these policy prescriptions, the long-term solution to the fiscal crisis lies in the implementation of a government-led national industrialization program that would build an industrial base that would create jobs. This would enable people not only to live decent lives, but also pay taxes.

Implementation of a true agrarian reform program that redistributes land to landless farmers and provides them with financial support would also help raise incomes in the countryside. Newly prosperous farmers could then pay the government income taxes.

But the first move must be for government to begin reversing its liberalization policies. Imports must be restricted through tariff and non-tariff measures in order to strengthen local industries. Increased tariffs would also generate revenues for the government.

It is only through the implementation of national industrialization that the roots of the fiscal crisis can truly be addressed and permanently solved. ■