

Public Lives

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The Arroyo regime's nightmare

Never before has this conflict become as obvious as it has today – the clash between the interests of the government's creditors and the interests of its own citizens. The 2005 proposed national budget says it all. Of the P907.8 billion total budget for next year, the biggest chunk of P301.7 billion (33%) will go to interest payments. That is more than the P289.2 billion total salary bill for the country's 1.4 million government personnel.

Principal amortization of the national debt is another matter. For 2005, the amount needed is P445 billion, or almost half of the budget. Mercifully it's not part of the budget because the needed funds will be borrowed; otherwise total debt payments would take up 82% of the nation's budget. Of the remaining amount, P176.8 billion will go to local government units, P67.8 billion is set aside for maintenance and other operating expenses, and the princely sum of P72.1 billion is allotted to capital outlay.

This is the budget, but where the money will come from is not yet certain at this point. Not one new tax measure aimed at raising additional revenue has been signed into law. Next year looms as another deficit year, and additional borrowings are inevitable. Our hope is that the interest on new borrowings will not be much higher than what is charged our more stable neighbors. This is the reason for the frantic efforts to persuade credit rating firms like Moody's Investor Service, Fitch Ratings, and Standard & Poor's not to downgrade the nation's credit standing.

To assure the creditors that the government would be able to pay all its obligations, President Arroyo affirmed the seriousness of the fiscal crisis in August and forthwith announced new tax measures. But to reassure the citizens that the burden will not be all that heavy, she declared in November that the crisis has passed. This is the desperate balancing act of a financially-strapped government that is struggling to survive politically.

The conflict would not have arisen if the government had not been so dependent on borrowings. Moreover, it would not have become serious if the people believed that the proceeds from all past debts had been properly utilized. The issue on both counts is the competence and integrity of the nation's leaders.

Independent economists have said that the country cannot expect to grow itself out of this debt hole. The hole has to be plugged first of all. We either pay up or we ask for debt relief. A request for debt relief is a confession of failure that signals danger all around. The only other option is to increase our ability to pay our debts. We have to stop the suicidal habit of borrowing just to finance interest payments. This means cutting costs and raising revenues, both of which are bound to hit the ordinary citizen in the form of higher utility costs, reduced social services, and higher taxes. How a regime that is still trying to legitimize its rule will allocate this pain is going to be a political nightmare.

Even as the government is trying to avoid the ripening of the fiscal crisis into an economic crisis, it is also worried that the clash of constituencies could develop into a full-blown class conflict. At this point, there is no way blood can be further squeezed from an impoverished population that is already reeling from the effects of joblessness, high prices, and natural calamities. The poor are not exactly in awe of the president or of the regime she represents. The middle classes have little flexibility left. They are also the most resentful of the costs of bad government.

It is not surprising that President Arroyo is unable to persuade her allies in Congress to pass the new tax measures and give up their pork barrel. They are answerable to their own constituencies as well as to their political patrons. But not a few are also convinced that the answer to the budget deficit is better tax collection rather than the imposition of new taxes. Rep. Herminio G. Teves, Senior Vice-Chairman of the House Committee on Ways and Means, has been a sensible voice in this debate.

There is a huge gap, he says, between potential tax collection and actual taxes paid. The figures Teves cites are astounding. The

National Statistics Office shows a Philippine population of about 13 million families. Four million of these live below the poverty line, 5 million have no taxable income, and only 4 million have taxable income from which roughly P180 billion in taxes could be collected. The Bureau of Internal Revenue records paint a different picture. Instead of 4 million families with taxable income, less than 700,000 families actually paid their income tax in 2003. Of the P76.7 billion yield in income taxes, 87.8 percent was paid by workers and employees through automatically withheld taxes!

The situation in the corporate sector is worse. A total of 451,309 corporations are registered with the SEC, but only 113,145 firms have filed their corporate income tax, and of these only 10,833 actually paid taxes. The total yield from the corporations is only P100.8 billion.

Teves admonishes the well-off to pay their tax obligations in full. He argues for full transparency in tax payments so that the public may know if the lifestyle a person keeps is consistent with the taxes he pays. It all comes back to good governance and responsible citizenship. New taxes are a shortcut solution to what is basically a systemic problem. They promise not more revenue but only more evasion.

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