

# THE NEW BUDGET SYSTEM FOR THE PHILIPPINE GOVERNMENT: ITS SIGNIFICANCE †

*By*

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## 1. Introduction

For the fiscal year ending June 30, 1955, Congress enacted its annual premier bill — the general appropriation bill — carrying an outlay of P550 million designed to provide the National Government with the required goods and services. Except for the items and provisions for the Games and Amusements Board, the bill became R.A. No. 1150 on June 17, 1954. Compared to the Eisenhower budget for the same period, the Magsaysay budgetary outlay is just a drop in the bucket; it is one-fourth the size of Governor Dewey's budget for the Empire State. But to every Filipino the amount involved is a record-breaker. The staggering figure will undoubtedly provoke an interested citizen to ponder and ask these questions: Is such a big amount necessary? And if it is, what benefits, direct or indirect, will I and my family get?

Just like any previous general appropriation act of the past years, R.A. 1150, was based on an executive budget document of the line-item type as provided for in the Budget Act of 1937. Again, like the budget documents submitted by the past Presidents, the budget for fiscal year 1955 fails to satisfy the principles and objectives of current needs and requirements in fiscal planning and programming under modern public administration.

The fiscal planners of this new administration claim however, that the current budget, submitted on February 9, 1954, unlike previous budgets, contains new features which make the document simple and understandable at least to those who will

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work on it. But that is not enough. What is needed is a responsive and a comprehensive budget that not only solons, administrators, and the people in the government service but also the men in the streets can understand. With a budget of this type, the Filipino citizen can easily find the answers to his queries.

Realizing the defects of the line-item budget and aware of its responsibilities to the people, the First Congress on the last hour of the adjournment of its regular session voted the Revised Budget Act or R.A. 992. So far, this counts as one of the greatest, if not the greatest, achievement of the nation in the field of fiscal legislation. Indeed, it is a milestone that will revolutionize our fiscal thinking giving more importance to programming, planning, management and organization.

The Revised Budget Act has for its central theme the performance-type of budget replacing the line-item type budget. The main emphasis of the new style budget is deceptively simple. The performance budget rests on the theory that "when we budget and authorize funds we are providing for things to be done rather than for things to be bought. Moneys are furnished for activities and functions rather than for purchases and payments."<sup>1</sup> It is this kind of a budget that a dynamic economy like the Philippines should adopt.

## 2. The 1955 Appropriation Act is still a Line-item Type

To begin with, since the prewar days, the budgetary process in the Philippines has essentially been one of organization and object breakdown. It is a line-item type, described thus:

"The appropriations for salaries and wages shall specify the positions, the number of each class, the respective designations, the salary rates authorized for the current year and those proposed for the ensuing year, and the items shall be grouped by bureaus and offices. The items of appropriations for each class of sundry expenses, furniture and equipment, and those for special purposes for the different bureaus and offices shall be consolidated for each corresponding departments."<sup>2</sup>

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One of the criticisms against this approach is that as a basis for Congressional authorization and Executive performance, the budget is not clear, concise and intelligible. One is lost in a maze of details and itemizations, thus depriving the planners of the State of a vehicle for economic analysis and fiscal control.

Other major defects of the current budget which favor the change to program budgeting are as follows:<sup>3</sup>

1. The program or performance approach in the National Budget is subordinated and obscured in a welter of appropriation items, which are maintained annually.

2. The primary emphasis is upon objects or appropriations items submerging the purposes of expenditures under an ocean of meaningless detail.

3. A corresponding emphasis is placed upon organizational units, making it virtually impossible to correlate appropriations with functions and program costs.

4. The intermingling of subsidies and contributions, of capital outlays with current operating expenses, and the existence of numerous special and general provisions add to the confusion in budgetary considerations.

### **3. The 1955 Budget Carries Some Features of Program Budgeting**

Perhaps the immediate reason for shifting to program budgeting in this country is the acceptance by our Administrators and Congressmen of the universal concept that as the functions of the government grow more complicated, it becomes essential to devise ways in which the relative merits of competing programs can be assessed, and in which the merits of the government's program as a whole can be compared with its cost.

It is imperative, therefore, that a well-conceived budget system which can improve the efficiency of the government setup and bring issues before the President and the Congress for wise decision be applied. The 1955 Budget in a way has opened the path for the partial adoption of the performance budget. From the time the new Administration took over the reins of this government, in the field of budgeting, the

“theme song” has been the adoption of the performance budget. Its melody echoed through the floors of Congress. Although the innovation was not cordially received by Congress, it prepared the way for the inception of a new approach in public budgeting. The most visible changes in the document are the following:<sup>4</sup>

1. It separated the general fund from the special and fiduciary funds. With this presentation the total proposed expenditures of the Government for each fund can easily be determined.
2. It segregated expenditures by bureaus or offices and not by departments so that the total appropriation for each bureau or office can be readily seen.
3. Positions of the same title and salary rate have been combined. The grouping into divisions and sections has been eliminated as much as possible to make the budget simpler and less bulky, to provide flexibility in the assignment of personnel, and to conform to changing conditions.

The President expressed the trend towards the new type of budget in his budget message in the following paragraph printed in bold letters:

“We propose to adopt in the end a performance budget which is based upon functions, activities and projects. With this, Congress will be able to better determine the appropriations that it will authorize based on work accomplished, work expected, and goals to be achieved. Under our present system of line-item budget, emphasis is focused on the number and salaries of personnel to be employed, the cost of supplies, materials, furniture and equipment to be acquired, and the amount and nature of sundry expenses to be incurred, rather than on the end-results or purposes to be accomplished. Under the performance type budget, the citizen will readily see what his Government is doing and intends to do for him.”<sup>5</sup>

The numerous “sales appeals” of the Budget Commissioner, students of public budgeting, and the people in the Executive Branch on the advantages and merits of the program approach partly influenced the mood of thinking among the members of the Committee on Appropriations of the House of Repre-

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sentatives so that this body, during its Executive Session held aboard the yacht "Pagasa" on March 8 to 11, 1954 sustained the "new look" in budgeting in its general appropriation bill for 1955. In some cases, the Committee abandoned its traditional practice of strict itemization by providing lump sum appropriations for offices like the Tariff Commission, Social Welfare Administration, Cooperatives Administration Office, National Intelligence Coordinating Offices and the Counterpart fund.<sup>6</sup>

Although appropriation by lump sum was not fulfilled, it is worthwhile to mention that attempts were made to effect lump sum reductions in the budgets of the Department of Education and the Department of National Defense and of bureaus, like the Customs and the Internal Revenue. The idea was to give the heads of these units the opportunity to make their own cuts inasmuch as these officers are more fully familiar with their operations and programs.

Attempts were also made to consolidate the various widely scattered items which are similar in character; For example, all items carrying aids for the Non-Christians were placed under one lump sum item under the Office of the President.

To exercise the power of controlling the purse-strings and to fill in the deficiencies of the line-item budget, written budget justifications correlating activities, projects and programs in relation to expected costs were required by the Committee on Appropriations for submission before the start of the scheduled budget hearings.

Even the types of questions asked from the executive people during the budget hearings reflected the direction toward programs, activities and accomplishments of offices rather than matters involving pet items of the members of the Committee. The three-hour-long budget defense of the Chairman included impressive discussions on the feasibility of this type of budget-making for this government.

The above instances and number of discussions held outside the halls of Congress were responsible for the smooth sailing in the passage of the Revised Budget Act.

#### 4. The Revised Budget Act

In the Philippines, it was Ex-Congressman Ramon A. Arnaldo, former Chairman of the House Committee on Appropriations, who introduced Performance Budgeting as a different and improved method of national budgeting. Budget Commissioner Dominador Aytona and some participants under the technical training program in the field of Public Administration lent sales appeal to public administrators and Congress. So, in the last session of Congress, two bills entitled the "Budget Act of 1954" and the "Revised Budget Act" were drafted by the Technical Staffs of the House Appropriations Committee and the Senate Finance Committee to replace the old law. The House version had for its sponsors Congressmen Tobias Fornier (Antique) and Ramon P. Mitra (Mountain Province). Senator Gil Puyat authored the approved budget act. It was signed by President Magsaysay on June 4, 1954 as R.A. No. 992.

#### 5. Features of the Act

The Revised Budget Act completely overhauled the entire budget process of the National Government. It consolidated pertinent provisions of the old law, executive orders and previous appropriation acts into one package besides incorporating some provisions contained in the Budget and Accounting Procedures Act of 1950 of the U.S. Federal Government.

Among others, five general features of the Revised Budget Act are as follows:

1. The Revised Budget Act created an office to be known as the Budget Commission under the executive control and supervision of the President. The Budget Commissioner and a Deputy Budget Commissioner are appointed by the President with the consent of the Commission on Appointments. In most States in the United States, the New York State for one, the budget head is usually appointed without the necessity of confirmation and fired at the pleasure of the Governor. This is in accord with the accepted theory that the budget head as chief fiscal adviser must at all times win the confidence of the Chief of the State.

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Besides the preparation and administration of the budget, the Budget Commission is responsible for the improvement of government organization and management, analysis and coordination of legislation, and coordination and improvement of Philippine statistics.

2. The budget document shall separate the current operating expenditures from the capital outlays, making it easy to locate the cost of running the government proper and the cost of all capital improvements.

To make the budget less bulky and more informative and a real tool for Congressional scrutiny and review, the appropriation text and budget estimates will be supported by personnel schedules showing in summary form the proposed employment of personnel grouped by salary grade, without regard to job-title or designations except for key positions. A brief narrative description of the nature of work to be done showing work-loads, unit costs and total costs is also included.

3. The budget shall embody as appendices, the proposed general appropriation act, the public works act, revenue bills proposing additional sources of funds, and other appropriation acts to cover the budget proposals. Perhaps, as we gain experience and as the budget is translated completely into the program basis, an appendix showing obligations by objects and detail of personnel services would be added.

4. For the first time in office management, the head of a department or agency shall designate a budget officer. The screening powers of the department head are further strengthened by requiring his prior approval on all legislative proposals of units under him before such proposals are submitted to the Budget Commissioner or to the President.

5. Safeguards against overspending of appropriated funds are provided for in several sections which call for a balanced budget, an allotment system, and the creation of appropriation reserves.

### 6. Some Reforms in the Budget System

(1) "The National Budget in Brief" — One laudable accomplishment of the Budget Commission is the publication of

a 50-page monograph entitled "The National Budget in Brief." Patterned after that of the United States of the same title, this budget resume is designed to provide the interested intelligent layman with a summary of where the money comes from and where it will go. It sets forth the President's program with a minimum of technical text. As a summary of the 1000-page budget document, understanding is facilitated by providing the reader with generously illustrated financial plan for the ensuing fiscal year.

**(2) Partial reorganization of the Budget Commission.—**

This Office, upon the initiative of Budget Commissioner Aytona and Mr. Frank Lenders,<sup>7</sup> Budget Director for the State of Michigan, acting as consultant, has shifted to a functional or clientele form of organization — a type of specialization by functions or activities rather than by processes. Thus, while it used to require two or more divisions of the Commission to conduct business with a certain agency, relationship with agencies are now confined to a team composed of people assigned exclusively to that agency or agencies.

Also, a unit was formed within the Commission to study and evaluate all factors which may affect the national budget so that annually the Commissioner would be able to lay before the President a thoroughly studied budget policy.

**(3) Simplification of expense accounts.<sup>8</sup>** — Effective July 1, 1954, the Auditor General has instructed all operating or line agencies to adopt a set of simplified expense accounts which reduced the symbols from twenty-seven to ten. (Below are the expense accounts and symbols).

Account	Symbol
<b>I. Personal Services</b>	
Salaries and Wages	a
<b>II. Maintenance and other Operating Expenses</b>	
Travel Expenses of Personnel	b
Supplies and Materials	c
Aid to Local Governments	d
Fixed Charges	e
Public Works Repair and Maintenance	f
Sundry Expenses	g



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	Account	Symbol
III.	<b>Capital Outlays</b>	
	Acquisition of Fixed Assets	h
	Public Works Construction Outlay	i
	Investment Outlay	j
IV.	<b>Special Purposes</b>	
V.	<b>Summary</b>	
VI.	<b>Special Provisions</b>	

Under the old system, the first three accounts were "salaries and wages", "furniture and equipment" and "sundry expenses." This is the first concrete step taken to simplify the accounting portion in budget-making.

(4) **Conference on budget administration.**—Fifteen days after the Revised Budget Act became a law, at the request of the Budget Commissioner, the Government Advisory Board for In-service Training announced a two-week conference for all budget people in the Government. The purpose was to prepare these budget officers for and acquaint them on the mechanics of performance or program budgeting.

Around two hundred budget people attended the lectures of budget experts and worked industriously together in nine areas of study which cover organization for budgeting, budget preparation, graphic presentation in budget process, budget operating procedures and problems, budget review, budget execution, work measurement and work simplification, work standards and unit costs, and budget and accounting relationships.

Standard thinking among these people can therefore be expected along this line of fiscal administration.

(5) **Manual for Budget officers and budget instructions.**—The budget officers, as specialists, must be provided with a Budget Manual to guide them from time to time in the execution of their tasks. The reports and materials gathered by the nine study groups during the Conference on Budget Administration should be made available to a team of top budget experts assigned to prepare the manual.

A clear and simple pamphlet on Budget Instructions goes hand in hand with the Budget Manual, the latter serving as the basis for the preparation of the former. Information of this kind is extremely valuable, even essential, to budget officers and line officials if they are to present uniform budgetary proposals.

As we progress in this field, it is possible that this country would be the training ground for officials and participants from other countries undergoing technical training and observation.

#### 7. Conclusion:

We cannot strongly claim that the Revised Budget Act and all the improvements we have achieved so far are the cure-all for our defective fiscal and budgetary system. Budget-making is a continuous process; it is a day-to-day fiscal cycle. But the Performance budget system is one we have been searching for — a system commensurate to a progressive and democratic government. Quoting Professor Daniel Brown, FOA Consultant on In-service Training, he said: "You have something to be proud about — you have here the makings of the best budget system in this part of the world."

The performance budget act will be fully operative by fiscal year 1957 and as far as practicable we may yet witness its partial implementation in next year's budget.

We should accept the fact right now, before it is too late, that the performance budget system is not as easy as it sounds. Its simplicity is a delusion. Since the time we developed our budget system we have conceived of financial management in the accounting terms of items to be incurred rather than of programs to be accomplished. Perhaps the reason why the program approach was neglected in the past is that it is easier to budget funds simply on the basis of object and organization. The new scheme does not replace this. In addition to keeping of accounts, it makes payments and maintains accountability in terms of organization and object. The change-over to a performance system, as many of my friends have testified, is

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an enormous job which would involve many problems and several years before its full implementation in all branches of the government.

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### REFERENCES

<sup>1</sup> Mosher, Frederick C. 1953 Program Budgeting: Theory and Practice; Public Administration Service, p. 81.

<sup>2</sup> 1937. Section 3, Commonwealth Act No. 246, as amended.

<sup>3</sup> The same defects in the U.S. Budget were noticed by my Professor in Public Budgeting, Dr. Frederick Mosher, in his book entitled, Program Budgeting: Theory and Practice, p. 79.

<sup>4</sup> 1954. Budget for the fiscal year 1955, Manila: Bureau of Printing, p. 9-a.

<sup>5</sup> Ibid, p. 9-a.

<sup>6</sup> The Senate returned (in R. A. 1150) the itemizations for these offices until a new budget act is passed.

<sup>7</sup> Landers, Frank, 1954. How can we Improve Government Financial Administration, Lecture No. 10, Institute of Public Administration.

<sup>8</sup> See General Circular No. 29 of March 25, 1954, issued by the Auditor General.

