

PHILIPPINE BUDGETING — AN ASSESSMENT *

AVELINO B. LIM **

I have been asked to discourse on the strengths and weaknesses of Philippine budgeting. Ideally, this calls for a presentation where we first cite the advantages derived from budgeting and its desirable features consonant with its avowed objective — that is — the allocation of scarce financial resources in order to maximize social and economic ends. Then on the side of the ledger, neatly presented in the format of a balance sheet, would be a recital of the demerits, the specific drawbacks and unsavory practices which attend the system. Considering however, that my personal impression of the budgetary situation is that it is bleak, allow me to make an alteration in this neat sequence. Let me dwell initially on what may be deemed the salient propositions which cannot be dissociated from governmental budgeting, particularly in the Philippine setting. This I hope will place the discussion on a realistic plane. I will then come up with a bill of particulars listing the budgetary weaknesses and failings after which I will go into the merits of the budget system. I will conclude with suggested reform proposals which if resolutely pursued, stand to lift the budget system from its present morass.

Salient Propositions Re the Governmental Budget Process

To present the problems of Philippine budgeting in proper perspective, one must take note of certain propositions. The first relates to the fact that budgeting is merely a tool and as such its effectiveness would hinge on the honesty, integrity,

* Paper presented during the 1971 PSA Annual Conference held at the Philippine Columbian Clubhouse on 28 August 1971.

** Consultant, Asian Development Center

and proficiency of people who are involved in the budget process. As such, it can be sullied by human beings impelled by ulterior motivations and selfish particularistic interests. Accordingly, the level of efficiency of any budget system cannot transcend the dedication and performance of the men and women whose responsibility would be to attend to the various phases of budgeting. In the hands of a talented and dedicated group, the budget can be an instrument par excellence in the attainment of national objectives. Corollarily, if budgeting were to be left to the inept, the corrupt and the avaricious, it can very well lead us to national perdition.

Accomplishments in the budgetary field stand to be determined by the extent to which fiscal responsibility is subserved. Prudent handling of funds is an imperative requirement of sound budgeting, failing in which people — both government functionaries and members of the private sector — are wont to regard public money as being *resinullius* as money with no distinctive ownership, and as such can be considered as *ler-gesse* or fair game for the unscrupulous and the corrupt.

Proximately related to this warped concept is the impression of government as an eleemosynary institution. Thus, some politicians and administrators tend to treat government as a personal preserve. They are not averse to appointing misfits and nincompoops to the public service, enriching themselves at the expense of the public coffers, or dipping their dirty hands in the public till. This lack of compunction in despoiling the treasury leads to all kinds of malpractices and shenanigans at virtually all levels of the governmental hierarchy. At the subordinate levels, the stakes involved may be penny ante, but collectively, the losses sustained by government from such petty larceny stand to be substantial. At the top echelons, bureaucratic excesses cast a long shadow on governmental financial effectiveness and principally accounts for the fact that during the past decade, expenditures have outpaced revenues by an average of about half a billion pesos yearly. And in this connection, need we be reminded of the spending orgy during the last elections which caused money supply to go up by 19.38% over the previous year's level and

which precipitated the institution of the floating rate from the adverse effects of which the Filipino people is still reeling?

Then again, there exists a close linkage between taxation and public budgeting with tax revenues comprising the bulk of resources available for government spending, fiscal irresponsibility is apt to leave its mark on the shouldering of the tax burden. The fact that there are numerous flaws and deficiencies in substantive tax legislation and that we are saddled with a lackluster pattern of tax administration to boot makes it all too evident that the victims of wanton government spending are the assiduous taxpayers and not the "sacred cows" of Philippine taxation. Deficits move government to impose new taxes or increase existing tax rates and the ones called upon to assume the extra burden are usually those who in the first place are already carrying more than a proportionate share of the tax load. With the constricted revenue base, which is in large measure due to the spate of tax concession laws rashly enacted, not being able to satisfy burgeoning governmental requirements, there is impelled a need to take up the slack which again results in compounding the extant inequities in taxation. Borrowing, an expedient resorted to increasingly in recent years, may only serve as a palliative, and, can even exacerbate the country's ills, for we are only too aware that the same recklessness that attends for expenditure pattern features the use of borrowing proceeds.

Another point to consider is the growing complexity of government. Government has not only broadened its responsibilities and the scope of its functions. Innovations, technological and other advances have led to intricate patterns of performance. The economic framework has also changed considerably in dimension and depth, with the challenges posed by our aspirations for a spurred rate of economic growth. The role of the budget, understandably, had to undergo signal transformation in coping with present day requirements. It is noteworthy that in 1939, the country was operating on a budget of only ₱69 million. In a span of 32 years, the budget has increased sixty-six fold, the magnitude of the proposed budget for FY 1972 being ₱4.754 million, ₱869 million can only fin-

ance 6.3% of 1/16 of the requirements of the Department of Education today. Also, there are functions which government now engages in which were undreamed of before a decade or two ago. This increase in both the magnitude and complexity of the budget must be taken into account in assessing the problems which presently permeate the budgetary process.

WEAKNESSES

1. We have only the facade, not the substance of performance budgeting. The President submits a performance budget which covers the whole spectrum of governmental functions. Defects inherent in budget presentation relate to:

a) performance measurements used by agencies need to be re-examined as some agencies persist in using units of work measurements for functions which do not lend themselves to such measurement; b) legislative insistence on the line-item budget, necessitating double work, and of course, expense in coming up first with a performance budget and then a line-item one. Over the years, the drawing up of performance budget has degenerated into an exercise in futility, with some budget officers taking the path of least resistance by adopting the previous year's figures and resorting to extrapolation.

2. Revenue estimating and expenditure forecasting. There is a wide divergence between revenues as estimated and that actually realized during the fiscal year. Our revenue estimating techniques are anachronistic and can be conditioned on the administration's predilections.

Based on the records of the last three fiscal years, there has been an underestimate of both estimated income and expected expenditures.

For revenues:

	<u>Original Estimates</u>	<u>Actual Receipts</u>
	(In Millions)	
FY 1970	P3,502	P4,053
FY 1969	3,156	3,210
FY 1968	2,754	2,902

For expenditures:

	<u>Requested by the President</u>	<u>Actual Expenditures</u>
FY 1970	P3,197	P4,053
FY 1969	3,013	3,611
FY 1968	2,688	2,944

The inevitable consequence of underestimated expenditures is a deficit which seems to be chronic in character in the Philippine scene. The Auditor General, in his latest annual report, placed the deficit for FY 1970 at P952 million.

3. Faulty budget review. Under existing budgetary practices, several echelons of review are provided for. Thus, agency heads are expected to review budget proposals emanating from the different constituent units of their respective organizations. The signal importance of review is indicated by the fact that unit heads are prone to over-estimate their requirements on account of their close involvement with projects pertaining to their level of operations which in turn leads to undue emphasis on what may be considered their pet projects. The task of review is shared in actual practice with the agency budget officer who with the agency head are expected to integrate the different projects falling within the scope of agency functions and responsibilities. Another level of review is provided with the interposition of budget examiners acting for and on behalf of the Budget Commissioner whose task it is to take a second look of budget proposals for integration in the national budget which under the fundamental law is submitted annually to Congress.

Some problems relative to budget review are as follows — fraternization between those whose budget proposals are subject to review and those who pass upon such proposals; lack of systematic review on account of dearth of tools with which to conduct a meticulous and searching examination of the intrinsic merit of budgetary measures; lack of lead time with which to do justice to budget review work.

4. Aberrations in legislative authorization. Fundamentally, the budget can be used as the instrument to efficiently allocate financial resources. Oftentimes, however, this ideal has to yield to pragmatic considerations as legislators train their sights on specific positions which is quite understandable considering the use of the budget as a patronage device. Political expediency and particularistic interests as a rule reign supreme in the course of legislative authorization.

5. Appropriation authorization. Congress decidedly has a penchant for enacting laws providing for the release and expenditure of public funds but for which the possibility of actual funding is remote.

To cite, as of FY 1969, the grand total of appropriations authorizations amounted to ₱12.469 billion. As of FY 1970, the total came up to ₱18,009 billion. Thus, within a single fiscal year's span, there was a 44.4% increase, or more dramatically, in absolute amount, an increase of ₱5.6 billion.

If we are to compare the extent of appropriation authorizations of FY 1970 with that ten years ago (FY 1960), we can discern a meteoric rise from ₱2,946 to ₱18,009 million, representing a 511.2% increase.

Considering the limited government revenues being generated yearly, this prodigious sum of proposed public expenditure, is to say the least, unrealistic. It poses a formidable problem as it not only detracts from the traditional legislative power of the purse but is conducive to irresponsible spending, e.g., funding of projects virtually devoid of any developmental objective but replete with political and other considerations extraneous to the public weal. Indeed, the practice of allowing

the President to decide which past appropriation authorizations to be funded has led to a *de facto* surrender of a legislative prerogative to Malacañang.

6. Unprogrammed Appropriations. The practice of including unprogrammed outlays in the national budget has rendered virtually impossible the determinateness of government spending via the budget device. Unprogrammed appropriations which is the former Budget "B" does not conduce to responsible fiscal management, in this wise:

Theoretically, unprogrammed outlays cover those projects and items which can only be funded when actual revenues exceed anticipated levels. Thus, authorization of unprogrammed appropriations is conditioned on the existence of a revenue surplus. Again, we can deduce from their very inclusion in the unprogrammed category that these proposed outlays are of secondary importance. In actual practice, however, the government's financial record bears out the fact that instead of surpluses, we have perennial deficits. To cite, last fiscal year, the General Auditing Office recently came out with its report that the deficit for the last fiscal year came up to close to a billion pesos. Also, in line with the fiscal chicanery of the administration, unprogrammed outlays sometimes get precedence in funding over programmed ones.

This duality of budget outlays tends to corrode the legislative power of the purse inasmuch as it gives the President a wide latitude of discretion and untrammelled power in the release of funds. The situation has so degenerated that financial authorization has become a frenzied scramble for as big a portion of the budget pie as can be wangled.

Unprogrammed appropriations are now considerable in magnitude, constituting about a fifth of the total budget. The probability of having the requisite resources to fund them in the Philippine setting of revenue inadequacy is very remote, if not altogether nil. They interpose a substantial danger in that through this scheme, the Chief Executive is able to consolidate his fiscal powers in derogation of the traditional legislative power of the purse.

Only a few entities, the already gargantuan at that, really benefit from this insidious scheme. While there is a long listing of government departments and agencies with unprogrammed appropriations, the principal beneficiaries are the Department of National Defense, the Department of Education and the Office of the President.

7. Transfer of funds. There is an underlying rationale for the President's power to transfer funds to augment the financial resources of particular government entities. This is to infuse the element of flexibility in financial operations and not stymie management. This has been the justification for the inclusion in previous year's appropriation acts of provisions enabling this prerogative. In actual practice, this particular power can operate as a two-edged sword. Applied judiciously, it can conduce to effective fiscal management. Irresponsibility wielded, it can detract from fiscal prudence in government management, as the transferring authority can suppress socially and economically worthwhile projects and fund those devoid of an utilitarian base.

The unsavory effects of the President's exercise of his legally delegated power to transfer funds have been underscored by the Aquino exposé. This proves that the power is being exercised in a manner as to juggle already scarce resources available for public spending.

8. Lump-sum appropriations. Basically, the budget should be the instrument to assure the efficient allocation of scarce financial resources. It is from this perspective that lump-sum appropriations, unless there is exigent need for this type of *carte blanche* financial authorization, should not be given due course. More often than not, lump-sum appropriations are political expedients rather than a vehicle for economic growth. Of these, the most abused are the discretionary funds of the executive and legislative departments. In the FY 1972 budget, there is the ₱13 million Calamity Fund, the ₱5 million Contingent Fund, the ₱2.5 million Consultant's Fund. Last year there was provision in the budget for a Rural Improvement and Community Development Projects Fund to the tune

of ₱68,000,000. Verily, the people's money can perpetuate any administration in political power, despite its barren record of performance.

Public funds should not be treated as a largesse. Only by adhering to this prescription can we ensure optimal use of limited government funds. Lump-sum appropriations make difficult the avoidance of waste in essential government expenditures.

9. The budget does not serve as an effective instrument for social and economic development. Despite the big shares of outlays claimed to enhance social objectives and promote economic growth, the effectiveness of the budget in this regards is below par. Education, for which the staggering sum of ₱1.261 billion is proposed, is still substandard and not geared to the requirements of economic growth. For public school repeaters alone, we spend ₱70 million annually. Nothing short of an episodic streamlining of the educational system can bring about efficiency and economy. A mere pittance is allocated to social welfare needs, resulting in the fact that the Department of Social Welfare in 1969 was able to extend direct financial assistance to only about 500 destitute families.

The 30.5% for economic development, accounting for an unprecedented amount of ₱1.393 billion in the FY 1972 budget is at first blush impressive. However, when one considers the extent of lack of planning, the full play of political and particularistic forces, mismanagement and wanton wastage of funds, and infrastructures which are commenced and left uncompleted to the mercy of the elements, the significance of these outlays in terms of tangible returns to the economy pales. Add to these factors the phenomenal administrative and personnel overhead and the ineptitude and graft so characteristic of the present administration and it evinces no little surprise if only a bare 30% of expenditure supposedly for economic development has lasting benefits in terms of additions to the nation's capital formation.

STRENGTHS

Any budget system derives its vitality from its operational workings. The rationale of public budgeting, after all, is the institution of a system designed to enhance the planning function. Budgeting, as a planning tool, might have its flaws and imperfections such as those obtaining in the Philippine setting. One however, should not be too rash and advocate that we do away completely with budgeting. In the absence of a government budget, we have to fall back on the rules of thumbs; on hunch or intuition, any of which on account of the lack of scientific basis, leads to inefficiency and wastage. Sans the budget, a situation may develop wherein administrators would be scrambling frenziedly for as big a portion of the financial pie as they can wangle.

Even with the constraints on expenditures placed by budgetary system, we still witness dissipation of resources. Dispensing with the budget device can only serve to bring about chaos in the financial sphere.

Last year, the Budget Commission instituted a system of cash budgeting. This is primarily designed to control the outflow of cash from the national treasury thereby ensuring the availability of cash for governmental operations and priority development projects. Rigorously implemented, this device stands to curb somewhat the propensity to overspend.

Recently, also, there was established a Presidential Development Budget Committee to introduce salient reforms in budgeting through resolving conflicts between budgetary plans and programs, fulfilling the requirements of fiscal reporting and recommending needed legislation in the budgetary field.

These are in a manner of speaking, the fresh winds in the horizon. Also to be noted is the increasing interest in budgeting by fiscalizers in Congress, the press and citizens. Your very presence here is an indication of that concern.

RECOMMENDATIONS

1. Make the Auditor General the official responsible for estimating revenues.

2. Repeal all the appropriation authorizations as a maximum position or going over these authorizations with a fine-tooth comb to ascertain which of these should be deleted from our statute books.

3. Eliminate unprogrammed outlays in the budget. It would be well for Congress to take a determined stance against the unprogrammed outlays as these constitute a source of untrammelled discretion of the Chief Executive in fiscal matters.

4. Limit the President's power to transfer funds. While we are not doing away with the President's power, still it should be curtailed. The Chief Executive enjoys this power presently to the extent of 25% of the original appropriations provided. By reducing the percentage of 10%, the President would have less latitude and less funds to play with in invoking this particular power.

5. Break down all lump-sum appropriations.

6. Budgetary reforms and improved techniques to strengthen the system and enhance its effectiveness in the economic development effort.

CONCLUSION

A thorough overhaul of the budgetary system is definitely in order. Republic Act No. 992, the basic act governing the budget process was enacted seventeen years ago. Through the years, we have plodded along, mainly through sheer momentum using an anachronous vehicle in allocating financial resources with the result that in the fiscal field, our performance has been far from satisfactory.

Public funds which otherwise could have been used to attain a spurred rate of social betterment and economic development have been dissipated without tangible gains to the nation. The budget has been quite ineffectual in serving as a sieve to filter proposals entailing expenditure commitments which go down the drain of economic disutility.

For the administration to continue with the reckless spending spree is to court national self-destruction; for even advanced nations can ill afford to be profligate with their financial resources. The time is now opportune to resolutely come to grips with the problems in the budgetary sphere.