

SPENDING PUBLIC RESOURCES FOR DEVELOPMENT*

By

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A development-oriented government has to be sure that all budgetary resources are aligned with public expenditure objectives in accordance with a broad and specific framework of action. The development plan is the principal determinant of the allocation of budgetary resources. The day-to-day aspects of government also take a great toll of budgetary resources wherein due recognition is made.

By and large, a government geared for the acceleration of development must make an effort (1) to render essential government services so that at least cost is recovered and said services must reach a large proportion of the citizenry and (2) to identify and pursue a program of public investments in order to enlarge the capacity of the government to provide these essential services.

Naturally, the success of this effort would depend on several major factors. The first of these is the size of the budgetary resources available to the government. The size of public resources is conditioned by the effectiveness of the tax system and the corresponding capability generated by tax resources to mobilize other sources of finance, mainly borrowings from domestic and external sources.

The second factor is the capability of the government machinery to organize itself for its major tasks. This can be as detailed as examining how particular sectors of the government undertake their functions. In broad terms, however, the reorganization of the government machinery, as undertaken in Presidential Decree No. 1, has been addressed towards this task. Government functional performance cannot simply be associated with formal reorganization. The most important is a psychological restructuring affecting the very root of the effort - a change in orientation of the individual public servant.

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A final but not less important factor is the development plan defining the priorities of government spending. Here, the critical distinction is dividing the line between feeding resources into on-going and current services the government has to render and building the capacity to enlarge certain critical services that are demanded by the development plan. The effective increases of all development services of the government upon which all of the development aspirations of the country are anchored depend on an expansion of the budgetary resources devoted to the latter - the capital development expenditures.

GOVERNMENT EXPENDITURES OVER THE YEARS

An increase in government expenditures has been registered on a year-to-year basis on a steady rise. This is true for national governmental expenditures as it is for the expenditure of local governments. Aside from the natural price increases over the years, there are important reasons for these increases, namely: the increase in population per year; the increase of urbanization which has correspondingly raised the levels of required services on the whole; the enlargement of the scope of government activities; and the natural increases of the average level of government expenditures as a consequence of economic development.

From a level of P563 million in 1951, total government expenditures went up to a level of P4,054 million by 1970. In 1969, the level was P1,469 million. This steady increase of government expenditures is better appreciated from pictorial charts presented accordingly.

The levels of spending for functional categories have essentially remained stable. In 1955, the expenditures for economic development accounted for 32.1 per cent; social development, 33 per cent; defense, 17.5 per cent; and general government, 11.1 per cent. In 1970, the corresponding percentages, respectively, are: 31.7, 34.8, 15.2 and 12.3 per cent. While these relative changes over a fifteen-year period are fairly minimal, the volume of spending (corrected for price inflation) was significantly larger.

Economic development expenditures were functionally charged in the agencies involving agriculture and natural resources, transport and communication, commerce and industry, and others related to development planning. However, social services came from the agencies attending to education, public health, labor, and social welfare.

One other feature of these expenses were the shares of capital expenditure to total expenditure of the national government. Official data would yield a revealing comparison, as shown by the numbers below:

(Million Pesos)

Years (FY)	Capital Expenditure	Total Expenditure	Percentage of Capital over Total (%)
1962	240	1,469	16.3
1965	233	2,076	11.2
1967	321	2,531	12.4
1970	726	4,054	17.9
1972	977	5,009	19.5

The relative share of capital expenditures to total government expenditures has risen over the years. More recently, the level has reached up to about 20 per cent of total governmental expenses.

Statistics reveal only a portion of any story. One of the major aspects of most governmental programs had been the general feature of the government taking on a more active part in employing more people than was needed, especially in the early years prior to the recent reorganization. The government had been a source of featherbedding of employment largely because it offered fairly favorable terms of employment for relatively unskilled and skilled personnel with the benefits of minimum wages, governmental pension plans and so on.

As a further result of the political system which depended on partitioning political spoils through elective offices, this phenomenon has tended, over the years, to weaken the whole machinery of government. Even in areas of public projects, the proportion of wages to activities and other expenses tended to be large. The whole governmental bill for wages tended to be in excess of one half of the whole budget and, in some cases, occupied as much as two-thirds of the budget, thus eroding a great portion of public resources away from actual activities.

One of the major qualitative effects of martial law programs is to restore a proper balance in these proportions -- reducing personnel components and enlarging those portions of the budget which go into the actual completion of work, especially in projects. The other aspect is to create a new motivation in those receiving government wages so as to raise their general productivity in relation to the work expected of them. This qualitative change has been observed all over the government as in the theme already stressed in an earlier chapter.

RESTORING BALANCE: PRIVATE AS AGAINST PUBLIC EXPENDITURE

In general, a fairly poor balance of expenditure exists between the public and the private sector. In an essentially private enterprise economy, it would be expected that the private sector should play a meaningfully larger role than the government. The proper place of the government is to serve as a catalytic force in crystallizing private sector action. Thus, on the surface, a balance of 10 per cent government-90 per cent private sector sharing of total final expenditure in the whole economy would not be surprising to find.

But indeed, if there is any major imbalance that should be redressed in the Philippine economy, it can be addressed towards changing these proportions. Such an effort will assist meaningfully in restructuring Philippine society in accordance with the goals of the New Society in social welfare and income and opportunity equalizing terms. In short, there can stand a greater redistribution of expenditures in favor of the public sector at the same time that the volume of such spending is increasing. This redistribution can be undertaken in the improvement of economic and social development services so as to raise the total level of performance of the whole economy.

This is not paradoxical. Over the years, the demand for greater and more efficient volume of social and development services had not kept pace with the level of development. In fact, it had created a bigger wedge of new demands.

Studies of public finance have sharpened the focus. For instance, an increase of one peso in the total output of the economy (the gross national product) had generated a propensity of 11.4 centavos of new government expenditure. And yet, a straining of various resources available to the government has been witnessed over the years.

All these demands have been witnessed in the straining of all facilities like schoolhouses, hospitals and clinical services, to mention only the obvious social needs. In the area of development, the requirements for sea and air ports, highways, irrigation, sewerage and water systems, electrical power generation and distribution, and telecommunications of course are growing. To begin with, this has necessitated the expenditure of more than what the government can afford from tax money and has led to long term borrowings based on the future capability of the economy to repay.

In the past, part of the additional facilities that the government should have expanded have been indirectly financed through government subsidies to the private sector. This is the essence of the accomplishments of many tax exemptions laws which encouraged the private industry to set up industries and ventures in all phases of the economy. The tax exemptions enabled the companies, thus benefiting, to enjoy an expansion of their individual resources to improve whatever facilities they needed most for their activities. In the case of logging and mining companies, they opened up enormous new tracts of land through the roads they built. In the case of industry, they put up their requisite ports to enlarge their infrastructure capability. But other cases, utter neglect of important social needs also developed: for instance, the neglect of pollution control in major waterways. Thus, the Pasig River today is badly polluted and requires enormous government financing to approximate the return to its earlier and more original qualities as a clean and natural waterway of the City of Manila.

Firms benefited much from private subsidies. In any case, for those that led to new public facilities such as roads, the maintenance, expansion and upgrading of the facilities certainly opened up new demands for governmental roles.

Thus, all of these factors have enlarged the physical demands on government and the pressure especially to socialize all facilities to citizens so that there is a wider enjoyment of public benefits. These are in the area of providing, in the social development field, more schoolhouses, more health and care services, more nutrition programs (especially in lower grades of schools), better and wide family planning advice and increased resources for reducing the impact of natural and social calamities. In the field of development, the expansion of economic infrastructure projects is much needed, most specifically in the field of development, especially in the areas where agriculture, industry, trade and commerce depend heavily on.

All these improvements should represent a tilting of the 10-90 per cent share of expenditures between public and private sectors. In a growing economy, all the increments in new expenditure potential will have to be shifted so that in the succeeding years, the balance can approach a 20-80 per cent proportion. Since the increments in income, output and expenditure are those that are being redressed in favor of public services. Naturally, no private party suffers in the process. On the contrary, the greater social good is promoted in accordance with the more egalitarian precepts of the New Society.

DIRECTIONS OF GOVERNMENT SPENDING

The capital development program and new social and economic programs which enlarge the base of governmental services cover many areas. While attending to the current levels of social and economic services the government has to make an impressive increase at all levels of social and economic services in the next few years.

The expenditures of government are to be governed by the objectives of the Four-Year Development Plan, namely:

- (1) to promote social development;
- (2) to expand employment opportunities;
- (3) to attain a more equitable distribution of income and wealth;
- (4) to promote regional development and industrialization;
- (5) to accelerate economic growth; and
- (6) to maintain price stability.

The requirements of these programs in terms of building social and economic facilities as well as sustaining on-going programs in various agencies of government are manifold.

EDUCATION AND MANPOWER

The social development program constitutes the biggest claim on current resources and demands a great proportion of the new capital resources. Under this program comes the claims of the education program which is the biggest single object of government spending.

The universal free elementary educational system is reconfirmed as a program under the new Constitution. The new principle enlarges the claims of this social program by giving free education as allowed by resources.

More important is the need to attend to the expansion of classroom facilities in these levels. The program of restructuring the educational system which requires the establishment and upgrading of agricultural schools and high schools, regional manpower training centers, and science teaching centers should be attended to. These do not yet include the much awaited expansion and improvement of universities supported by the national government. In terms of schoolhouses alone, the development plan seeks an expansion of classrooms from an actual level of 177,682 to 252,013 classrooms or an increase of 42 per cent.

Another dimension of educational services is the manpower development program, including the services for out-of-school youth and adult members of the labor force. This phase of social services has long been recognized but it is a relatively new program in the government. Tied up to both problems is the physical fitness program which is related to the national sports program. Much can be done in this area which can put the Filipino more prominently in many sports than what presently exists. Part of the effort has to be related to an improvement of the expenditure on these programs.

HEALTH, FAMILY AND MEDICARE

Other areas in the social development services are in the field of health, family planning, nutrition, and medicare. These are a set of programs that have increased in volume significantly. They would have to be given direct attention in view of the relative inability of these services (except family planning which has considerably been well-funded) to keep up with their demand. Foremost in this problem is the expansion of community hospitals and health centers not only in the urban centers where provincial hospitals have in effect become neglected in the past, but also the extension of such services in the more remote areas of the country. New programs are being devised which link all these services together. In fact, bilateral and multilateral programs of development assistance, including potential borrowings from financial institutions, have assisted in enlarging the scope of these services with government counterpart financing.

ECONOMIC INFRASTRUCTURE

Many critical economic infrastructure sorely need immediate enlargement in order to raise the level of productive activity and the enjoyment of living among citizens.

Those directly related to the productive programs of the government immediately point towards roadbuilding, port construction, power generation and transmission, irrigation extensions and water supply expansion.

Roads

The governmental road building program is a network of national trunklines that connect major areas of the country. The foremost of these trunklines is the Pan-Philippine Highway program, a 1,420 kilometer-road stretching from the province of Cagayan in Northern Luzon to Davao City in Mindanao. This project is moving towards the completion target of 1976 and should be able to create a modern linkage of the islands through a modern thoroughfare. Some significant segments are already finished, the most important of which is the bridge over the San Juanico Straits.

Within Mindanao, various road networks designed to connect major cities and agricultural areas by land will complement the Pan Philippine highway even as projects for the upgrading and improvement of road networks in Luzon, Mindanao and in the Visayas are under study. The road projects require long term development financing not only from domestic but also world sources. The four year plan target for roads is a total of about 25,000 kilometers, 2,326 kilometers of which are concrete roads, 2,212 kilometers are asphalt and about 20,000 kilometers are gravel roads. Together with these, some 20,245 lineal meters of bridges are also targeted. A large proportion of the gravel roads, of course, are feeder roads which are essential linkages to all the major road systems.

Railway

The once hopeless Philippine National Railway was resuscitated by the New Society programs. Now, its rehabilitation and expansion is one highlight of future development. Rolling stock and railtracks are being rehabilitated and expanded.

Ports

Roads must link with ports - whether sea or air. Therefore, the road networks have been knit with the road programs and attuned to regional development programs in industry, commerce, agriculture and tourism. This will link sea and air commerce with land.

Portworks improvement have pinpointed Manila, Davao, Iligan, Cotabato, Cagayan de Oro, General Santos and a central fisheries port in Navotas, Rizal as priority ports. For these, various financing have been arranged.

The airport improvement program is an ongoing effort. It is critical not only for domestic travel and commerce but also for linking the nation more closely for security and other reasons. The airport program pinpoints the improvement of 47 airports, the improvement of runways, taxiways and other aspects of airports covering 1.2 million square meters of cement and 376,000 square meters of asphalt. Together with the physical improvements of airports are improvements of navigational aids and the rehabilitation of the Manila International Airport which was destroyed by fire in 1971.

Irrigation

Irrigation systems cover only about one million hectares, leaving about two million of the three million hectares devoted to ricelands unirrigated. Thus, the expansion of potential agricultural production rests on a proper expansion of irrigation. The irrigation systems are mostly run by natural gravity systems (400,000 hectares) and by pump systems (480,000 hectares). About 200,000 hectares are served by communal systems.

Large and small irrigation systems are under investigation and planned construction. The government program of expanding irrigation facilities rests on several efforts - efforts in large-scale irrigation systems such as the Upper Pampanga River Project and the Angat River Project, which are essentially multipurpose but which have substantial irrigation components, medium-scale irrigation systems such as the ones in Cotabato (Marbel, Banga and M'lang irrigation systems); the encouragement of pump irrigation systems; and the continuous search for groundwater. At the same time, studies of large-scale multipurpose river basin projects are on hand, such as the

Angat-Magat system and the Aurora and Casecan Trans-basin projects, all in Luzon.

The irrigation targets on a four year period up to 1977 total 574,300 hectares, an average increment of 143,000 hectares per year. Of these, 265,100 hectares are national gravity systems, 131,000 hectares communal, and 178,200 hectares pump irrigation systems.

Waterworks and Sewerage

Next to irrigation would be the enlargement of waterworks and sewerage systems as well as flood control and drainage.

The problem of waterworks and sewerage, if only confined to greater Manila, would already amount to a sizeable effort. Manila's system had been overextended over a fairly old and limited water supply system. The efforts for sewerage and improvement system for Manila is one which requires extensive world financing, as in the case of large-scale, multipurpose irrigation systems.

The problem of Metropolitan Manila, however, is not unique although by far the most demanding. Almost all major cities in the country are faced by inadequate and inefficient sewerage and water supply systems. This major problem has recently been more directly tackled by the effort to set up a water utilities systems agency while the agency which was supposed to take care of waterworks and sewerage system on a national scale has been restructured to attend to its prime problem: Metropolitan Manila.

The magnitude of flood control problems was greatly demonstrated by the floods of 1972 in Central Luzon. The damage could have been well controlled in some areas with adequate flood control structures. A less of that magnitude simply demonstrates the enormous investments that are needed to prevent social and economic damage to areas by natural calamities such as excessive rainfall.

Power and Electrification

The engine of industry and agriculture is electricity. Thus, power generation is a major component of infrastructure.

The government has a long term plan to generate more power based on a diversity of fuel base. On the first instance is the

continuous tapping of hydroelectric potentials. Next is the expansion of petroleum-based thermal power plants. The other energy which still has to be tapped but with great promise is geothermal energy, which will spout natural steam to generate electricity. The third base could be atomic. The efforts here would expand the total electricity-generating base not only in Manila but in other population centers and to generate wide networks of transmission lines to bring about the electrification of the rural areas.

The four year power plan is designed to increase by almost 500 megawatts, the country's power generating capability, through the installation of a large thermal plant in Bataan, a pilot geothermal plant in Albay, hydroelectric units tapping the mighty Agus river of Lanao and another thermal plant in Cebu. The transmission lines to be constructed are over 1,324 kilometers in Luzon and 1,150 kilometers in Mindanao.

The rural electrification movement is to be propelled by a rural electric cooperative movement, an institutional innovation which has, so far, shown very promising results in the area where it has been tried. The institution building component is as much an investment as the expansion of transmission lines.

Communications

So wide are the areas of coverage of economic infrastructure. Communications expansion is an important component of unifying the nation economically. The efforts here are complementary to all the transport and other activities in essential infrastructure.

The telecommunications program is designed to increase the availability of telephone from 1 for every 100 persons to at least 1 for every 50 or 70 persons in the next few years. The network of radio stations having a wider area of coverage also have to expand.

While major urban areas like Manila still made telecommunications improvements, the problems in the rural areas are much more acute. This situation typifies the need for installing municipal telecommunications systems that link integrally with the nationwide projects summed up to P4.46 billion (or U.S. \$666 million converted at P6.70 per U.S. \$) and the domestic cost, up to P7.9 billion. Thus, conservatively, the immense requirements of the infrastructure program is P12.9 billion over a four year period.

The program of government infrastructure includes the construction effort that has to go into government buildings as even these have to be improved not only in the national capital area but in the administrative regions that have been chosen where regional government centers have to be set up in accordance with reorganization.

These costs exclude the costs of services that the government has to provide as a complement to the facilities that are proposed to be constructed, but which are critical in enabling an effective delivery to the general public of all the inputs of government services.

When these are added up to the infrastructure costs and without even changing them as current costs, the total estimates of government spending for infrastructure of about P12.9 billion would still be inadequate.

OTHER GOVERNMENT EXPENDITURE

The big sources of expenditure are the administrations of government and defense. Traditionally, government administration and defense, taken together, account for about 25 per cent of total government expenditure.

The share of defense and police, in general, had been relatively low in the Philippines compared, in any case, with other countries. The relatively low share of defense has been linked, in part, to the added benefits of allowing American bases to operate in the country. This has shifted part of the burden of police keeping from foreign aggression to the U.S. government. The other reason is the relatively social and development orientation of government programs in general.

The reality of increasing the defense burden has been, however, demonstrated by recent events in which the armed forces have been of great assistance to the government in maintaining internal political stability, which is the keystone of the martial law situation. However, all the conscious allocation problems imaginable are taken into account so as not to lose the major directions that the government faces in relation to development.

Thus, the domineering expenditure has to be principally development-oriented.

A MATTER OF ACCOUNTING

One cannot leave the subject of government spending without touching on the question of accounting. The government has been spending much more than current tax resources often indicate and this has caused a claim of various questions on how the expenditures are financed. While the answer to this will be naturally found in the succeeding chapters it is wise to state at this point that even the statistics of national government expenditures as used in this chapter are deficient in one important respect.

The budget of all local governments and government agencies are summed up, but especially in the case of the infrastructure program a lot of the activities of government are not reflected in the budgets. For instance, the expenses of irrigation, power-generating, water services supplying and railway agencies are not reflected in the government budget for infrastructure and capital development directly because they are part of public corporate budgets. Only those expenditures which are charged to agencies are thereby incorporated and the public corporations are sort of left out in the national government expenditure accounting.

This accounting problem is being attended to by the government so that a better presentation of functional expenditures of the government for various services do not get understated.

Another aspect of the budget is the integration of all special funds with the general fund. This problem stems from the fact that the general fund status is never complete as a number of special funds are not integrated with the total budgetary resources. For instance, loan funds (from financial institutions and other countries) which often add to the general resources of the government are not included in the total general fund. Thus, there is a problem of total government resources available for all expenditure programs being understated.

One example of this is the recent decision to integrate all funds for accounting purposes. Upon comparison with the targets and figures put in the development program for development purposes, the integrated funds and the total expenditures they could allow substantially exceeded the stated infrastructure program based on traditional government "general fund" accounting.

PUBLIC EXPENDITURES AND INCOME REDISTRIBUTION

In essence, the expenditure programs of the government have now

been indicated in broad outline. Surely, while taxes redistribute incomes from the taxed segments of society, expenditure redistributes incomes from the government and the taxed segments to those who benefit from the expenditures.

In essence, most of the efforts into which public expenditures are made are for "public" goods - goods that everyone shares without partiality. However, it can be said that the greater balance of these expenditure programs tends to enlarge the public goods available to rural citizens as against urban, to farmers as against other segments, to the poor (e.g., universal education) as against the rich (e.g., those who decide not to avail themselves of the public school system).

The general theme of the development program is to raise as much resources as possible in order to redirect priorities and programs to social and economic-oriented activities which serve to lift the general welfare of the citizenry.

The effort at redirecting agricultural investment in the rural areas as well as in other new regions indicates the greater effort at dispersing the distribution of benefits to more citizens. This improvement of economic conditions in areas not so well-favored before tends to bring up the general level of welfare of the entire population. Moreover, it opens greater opportunities (in agriculture, education, family planning and health) for advancement for those in the relatively lower income strata.

Thus, a beneficial income redistribution proceeds from the priorities of the expenditure program.