Sharpening the budgetary tool

HERE are parts of the background briefing which Dr. Jaime Laya, the acting Commissioner of the Budget, delivered to budget officers of various agencies on December 2 to launch the Commission's Budgetary Review of Programs and Projects.

OUR BUDGET this year is about 24 billion pesos, which is something like 15 percent of the gross national product. It has been estimated that the current program of government expenditures will result in a deficit of around five billion pesos. In his concern about this financial picture, the President has directed the various government agencies to produce savings that hopefully will reduce this deficit and result in a realignment of government expenditures.

This review of projects and programs is being done at the time the 1976 budget is being completed. We are trying to ask ourselves: Does the program and project structure need some modification so that the budget for 1977 financial year will be more consistent with our developmental programs? All of us of course have heard about the budget being the tool of development and development being the primary form of government activity, and so on. But apparently we have not really sat down and figured out exactly how the budget fits into the whole concept and approach to development.

This past year, many of you have probably participated in, or at least have been aware of, a series of what was called sectoral planning enterprises conducted by NEDA, the Central Bank, the Budget Commission, the Development Academy of the Philippines and other government agencies.

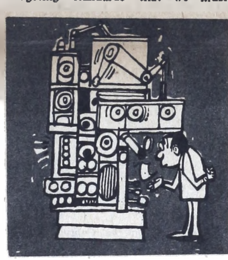
The planning requirements of the following sectors were looked into: food, agriculture, industry, housing, education, health, social welfare, tourism, foreign trade, and infrastructure in the villages. Representatives of government agencies and of the private sector sat down and tried to assess the needs of the population in each of those sectors.

The whole idea, of course, is to try to ensure that the more than 100 government agencies are really working together and not at cross purposes in their different activities.

Really, the government has just a few tools at its command. The national government budget is only something like 15 percent of the GNP. Therefore the remaining 85 percent is in the hands of the private sector. The whole idea is: What can the government do with this 15 percent that will both adequately satisfy and support the needs of the private sector in the remaining 85 percent? How can the 15 percent help the 85 percent to do a much better job?

We begin by an assessment of the programs and projects which are contained in the government budget document. It consists of a listing of expenditure outlets, a listing of programs, some special provisions which sometimes read rather funny. This is what we would like to review—the listing of programs and projects contained in the budget document.

Do these make sense in the light of the objectives of the New Society? Do these make sense in the light of what we want to do in national government as well as sectoral and regional planning? Do these make sense? Are there any redundant, duplicative or unnecessary programs? Are some of these programs already superseded? Is the performance type of budget really in operation? Is the language used in the budget document suitable? Is there any delay in implementation of the budget process? Are there any new performance budgeting standards that we must look at?



This is the purpose of the series of meetings conducted between agencies and the Budget Commission throughout the month of December.

The different programs and projects in the budget document have been with us for quite some time. I do not know when some of them were first promulgated. However, at the time some of these programs and projects were first designed, they were probably the most appropriate approach possible.

However, times of course have changed.

Foremost, of course, are the objectives of the New Society in terms of uplifting the welfare of the common man. Does the budget in fact result in such a program? A second major approach concerns the reorganization plan. This was one of the first thrusts of the New Society. Is the budget fully consistent with the spirit of the reorganization plan? Probably not, because one of the major innovations of the reorganization plan is the concept of regionalization. To be honest, the budget document does not dwell much on regional aspects.

In November, we in the Budget Commission had limited discussions with some regional directors. The feedback we got is rather disappointing. It seems the needs of the regions are forgotten not only in budget formulations but also in the budget operational process. Perhaps we might look at our structure of programs and projects to ensure the regional component.

One measure of development which we may have taken for granted is the expanding role of government corporations and the agencies of government which have been outside the civil service. We have at present something like 125 government corporations doing one thing or another. And these affect really the whole range of activities. Things crop up in these corporations that consistently indicate that there might be some deficiency—some areas that we could look at and improve in the budgetary process. □

Budget backgrounder

UNTIL 1954 the Philippine government's established financial policy had been to hold expenditures to a minimum, to cover expenditures by current taxation and to retire debt as rapidly as possible. This simple approach required little knowledge of the theory of taxation, expenditure policy or debt management.

As in most emerging nations, the national government in the Philippines is the only entity large enough to exert any considerable influence on the entire economy. A general awareness of the significance of this fact developed some time prior to the enactment of the Revised Budget Act in 1954 and is reflected in the Act's progressive budgetary provisions.

These in fact recognized that the government can, by means of fiscal policy, set the country on the road to economic development much as the more advanced nations utilize this instrument to maintain economic stability and full employment.

A high priority was therefore placed on the task of transforming the national budget from a mere list of receipts and expenditures into a major instrument of fiscal policy—to become a basic tool for managing the nation's economy

THIS modern thinking was crystallized in the nation's first five-year fiscal plan, covering 1957 and 1961, based on the following fiscal guidelines:

First, the government would maintain a balanced budget for general operations and would make every effort to obtain revenues sufficient to meet planned obligations. Deficit financing for current operations was not to be resorted to; instead, commitments were to be reduced accordingly.

Second, a policy of judicious public borrowing would be observed in order to finance economic development without causing price disruptions. Proceeds from borrowing would be used exclusively for income-creating or other productive capital expenditures having industrial and agricultural potential. Further, the use of the national credit was to be reduced as rapidly as development needs were met or other resources became available.

Third, every proposed expenditure of public funds would be tested against the touchstone of national interest.

Fourth, taxation would be geared to the essential financial requirement of government for general operations and development purposes. The tax structure would emphasize the progressive factor of ability-to-pay without impairing legitimate business incentives.

Fifth, public debt would not be allowed to exceed a level consistent with the country's economic growth. Amortization and interest payments against the public debt were to be kept on schedule and the necessary sinking funds for their ultimate retirement would continue to be established.

Sixth, tariffs would be employed to provide reasonable protection to domestic producers where such measures appeared economically sound and in the national interest. The primary function of tariffs would, however, continue to be the production of revenue to finance government programs.

FISCAL planning was predicated on a careful appraisal of all available resources in which the sequence of decisions ran from available revenues and other resources to expenditures, instead of from expenditures to resources.

Not only were the usual revenues and public borrowings considered, but also estimated income from reparations and other sources which could be applied to the financing of government-sponsored development projects.

After the maximum feasible resources had been ascertained, they were allocated to the numerous government activities on the basis of a scrupulous application of priority standards. These particularly included a system of industrial priorities which governed the allocation of foreign exchange, the administration of the government's fiscal operations and the extension of credit.

The entire governmental establishment was embraced in this planning. It covered not only the usual general budget, but also public works for all purposes, subscriptions to capital stock of government corporations, financial investments, loans and other obligations of the government.

The plans embodied in the five-year fiscal plan were comprehensive both in their expenditures and their financing aspects.

The ultimate goal was to achieve broader employment, greater production and higher standards of living for the Filipino people generally.

Throughout the attendant planning operation, the fiscal, monetary and economic planning agencies of the national government worked in close collaboration to produce a plan in which the overall level of government spending and the utilization of financial resources were appropriately balanced in terms of:

Effect on money supply; relation to national income; foreign exchange requirements; programs for capital formation; future tax resources; effect on price levels.

The first five-year fiscal plan thus not only presented a long-range financial plan but integrated within fiscal planning the monetary and economic implications of and policies governing authorized programs and projects. □

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tiveness;

Re-examine the validity, both in terms of actual output/services being delivered and, for purposes of estimation of future requirements, the units of work measurements for each Program and Project or both;

Establish the new performance standards, the concepts underlying them, their validity as measures of output/services delivered, and their integrity and internal consistency.

During the talks, the Commission is stressing that it is not conducting budget hearings or a reorganization. Exclusive emphasis is on the program/project listings in the budget document, and how these are consistent with the priorities of the President and the New Society.

The task forces will make recommendations to a Review Board which must take a final stand on all recommendations. These will be embodied in a terminal report to the Commissioner of the Budget who will report to the President.

While the Budget Commission emphasizes it is not engaged in a reorganization, agencies have noted that reorientation would have to come if excessive duplication or redundancy were found among the wide array of government services.

In the early days of the hearings, the task forces started coming across line items in the budget allocating funds for projects that had obviously ceased or that had changed their nature, such as research into long-solved problems. One result may be to bring the wording of the budget into line with what those particular funds are being used for now.

BUT perhaps the greatest long-term impact will come from the renewed emphasis on the long-existing concept of Performance Budget. In ordering the current review, President Marcos said the information thus gathered should be "made the basis of a genuine performance budget".

The concept of performance budgeting was introduced in the Philippines in the early 1950s, incorporated in the Revised Budget Act (RA 992) of 1954 and spelled out in great detail in Budget Circular 41 dated August 1, 1956. However, almost no government agency is operating fully on a Peformance Budget, and high officials are disappointed at how little is understood of the concept.

While emphasis on the word performance is not new in Philippine government circles, it is clear that it will gain extra prominence in the coming year. □