

**THE 1989 PROGRAM OF  
GOVERNMENT EXPENDITURES  
IN PERSPECTIVE**

by

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THE 1989 PROGRAM OF GOVERNMENT  
EXPENDITURES IN PERSPECTIVE

by

Rosario G. Manasan\*

1. The purpose of this short paper is to provide a broad historical perspective against which to assess the 1989 program of government expenditures. A by-product of this exercise is a presentation of the "revealed differences" as contrasted with professed differences between the government expenditure policies of the Aquino and the Marcos administrations. Specifically, the study will review and qualitatively evaluate:
  - (1) the revenue target and implied fiscal deficit figures,
  - (2) sectoral distribution of government expenditures and
  - (3) other budget related issues.

The terms "total government budget" and "total programmed government expenditures" are used interchangeably in this paper and refer to the sum total of government expenditures covered by (1) the General Appropriations Act, (2) continuing appropriations and (3) special funds.

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2. Total government expenditures, on an obligation basis, rose sharply in 1986-1989 (Chart 1). In general, the Aquino years are characterized by an accelerated rate of growth. Average annual rate of increase in 1986-1989 was 26.8 per cent as against the 16.6 per cent average in 1975-1985. A slight deceleration is perceptible in the second period as rate of growth of nominal public expenditures declined from 35.8 per cent in 1987 to 20.0 per cent in 1989 (Chart 2). A similar trend is observable whether one looks at real, nominal per capita or real per capita government expenditures in the period.

Thus, programmed government expenditures in 1989 equals 25.6 per cent of GNP, its highest level in the last 15 years. The average figure for 1975 to 1985 is 15.5 per cent while that for 1986-1988 is 22.8 of GNP (Chart 3).

Government expenditures equal to 25 per cent of GNP is about average for most Asian countries. Viewed from this perspective, the Philippine budget for 1989 is not high. However, it appears to be so when compared with the historical revenue performance of the government. The ratio of government revenues to GNP averaged 13.5 per cent in 1975-1985 and reached 15 per cent in 1987. The 1989 expenditure level is backed by a revenue yield that is projected to equal 16.4 per cent of GNP (Chart 3). While it is true that revenue collections grew remarkably well in

1987 it is doubtful whether this feat could be duplicated in 1989 given the problems currently experienced with value added tax (VAT) as well as with the programmed disposition of government assets by the Asset Privatization Trust (APT) and the fact that 1987 revenues included amnesty taxes that are no longer available. Thus, a review of the government's revenue performance from a historical perspective suggests to us that a more reasonable revenue target for 1989 should be in the range of 14.5 to 15.5 percent of GNP. Thus, the 1989 fiscal deficit (assuming the same cash disbursement program as in the proposed 1989 budget) will then be between 3.4 and 4.4 percent of GNP rather than the administration's fiscal deficit projection equal to 2.5 percent of the GNP.

A backward glance at the Philippine experience in the last 15 years reveal that fiscal deficits in the vicinity of 4 percent of GNP is unsustainable. In particular, we note that the national government budget deficit was 4.0 and 4.3 percent of GNP, respectively, in 1981 and 1983. Numerous studies (de Dios, et. al. 1985, Manasan, 1988) have suggested that this development has contributed significantly to the economic crisis of 1983-1985.

Finally, even if we grant that the administration's revenue targets are met, it should be emphasized that there appears to be a shift in the cash management style of the Aquino administration relative to that of Marcos. While the

difference between the cash and the obligation budget rarely exceeded 1 percent of GNP in 1975-1985, this variable averages 5.2 percent of GNP in 1987 and 1988 and projected to equal 1.4 percent of GNP in 1989 (Table 1). Furthermore, closer scrutiny of the cash disbursement program in 1987-1989 show that (a) the retirement rate of previous years' unpaid obligation is lower in 1989 (70.8 per cent) than in 1988 (87 per cent), (b) the rate of increase of unpaid obligations in 1989 (47 per cent) is higher than that in 1988 (34.9 per cent) and (c) unpaid obligations constitute a bigger proportion of the expenditure program net of principal amortization in 1989 (13.5 per cent) than in 1988 (10.3 per cent) (Table 2). The implication is that while the cash deficit projection seems to be fairly conservative the government is actually just postponing facing up to its serious resource constraints. It will have to pay up one way or the other later, either through increased revenues, new expenditures cuts or new borrowings in the interim. This might be a good strategy if the government can improve revenue collection in the future but might not be so otherwise.

3. Debt service on account of both the national government and government owned and/or controlled corporations (GOCCs) (via the net lending category) has grown very rapidly since 1982. In 1989, debt service is equal to 11.2 per cent of GNP and

accounts for an astounding 43.9 per cent of the total government budget. Compare these figures with their 1975 levels of 0.8 per cent of GNP and 5.0 per cent of the budget. Debt service is so huge such that without it the fiscal balance would show a surplus rather than a deficit in 1984-1988 (Chart 3). What is even more alarming perhaps is the extent to which the debt burden hampers the government's capacity to provide much needed services to the people. Despite the substantial growth in 1986-1989 in the government's programmed outlays, real per capita government expenditures net of debt service of ₱252 in 1989 is still lower than the 1975 figure of ₱255 or the 1982 figure of ₱280. This highlights the need for the government to work out means by which our debt service requirements could be reduced (Chart 4).

4. In general, the social service sectors appear to be more favored than the economic sectors during the Aquino years in line with the administration's policy pronouncements. Between 1986 and 1989, the annual rate of growth of the former averaged at 18.7 per cent compared to the former's 7.9 per cent. Contrast this with 1975-1985 average growth of 15.9 per cent in total economic services and 13.7 percent in economic services (Chart 5). As a consequence, there has been a general reallocation of fiscal resources with the social sectors increasing its share of the total budget net

of debt service from 29.1 per cent in 1986 to 32.1 per cent in 1989 and the economic sectors' share declining from 48.7 per cent to 39.6 per cent (Chart 6). Note that if one looks at the total budget inclusive of debt service the proportional share of all sectors except debt service and general public administration contracted with the economic sectors suffering deeper cuts than the social sectors precisely because of the ballooning debt service payments discussed in Section 2 above.

5. Education expenditures in nominal, real and real per capita terms, exhibited a well defined upward trend during the Aquino years. During these years, its average annual rate of growth is almost twice that in 1975-1985 in nominal terms. In real per capita terms, it has grown by 22.4 per cent yearly on the averaged in the latter period. Compare this with the 2.9 per cent average growth in 1975-1983 and the negative - 11.7 per cent average rate of increase in 1983-1985 (Chart 7). Consequently, education's share in the total budget has increased to 13.0 per cent in 1989 from the 11.5 per cent average in 1975-1985 making it the single most important sector outside of debt service in terms of distribution. If one looks at the sector's share relative to the total budget net of debt service, then the picture looks even better with education's share in 1989 reaching 22.8 per cent from the 13.4 per cent average in 1975-1988



(Chart 8). Expressed as a proportion of GNP, government expenditures in education is programmed to reach 3.3 per cent in 1989 up from the 1.8 per cent average in 1975-1985 (Chart 9). Thus, this is one example where the government has put its money where its mouth is. This development is definitely in line with policy statements and the constitutional provision. On the other hand, this share is still slightly smaller than the allocation in some of its Asian neighbors. For example, government education expenditures in Thailand averaged 4 per cent of GNP in the 1975-1985 period.

6. The health sector is one of the professed priority sectors of the government. While nominal budgetary allocations on the health sector exhibited above average growth rate in 1988, the growth rate of the health budget in 1989 is just equal to that of the average sector. In 1986 and 1987, the sector was, in fact, growing below average (Chart 10). Thus, there is just some slight upward movement in health expenditures when expressed as a percentage of GNP (.8 per cent in 1989 against .56 per cent average in 1975-1985 (Chart 11), or in real per capita levels (P14 in 1989 against P12 before the crisis (Chart 12).
7. Both the social welfare and the housing sectors suffered severe reductions in budgetary allocations during the crisis years. While some slight improvement have been registered

by these sectors in 1987-1988, they have yet to experience full recovery (Chart 13).

8. In terms of share to total budget and as percentage of GNP, agriculture is the most important of the agriculture/ agrarian reform/ natural resource group in the Aquino as well as in the Marcos years (Chart 14). On the other hand, agrarian reform's budget garnered the biggest increments in 1986-1988 such that government expenditures in agrarian reform as a proportion of GNP increased from .09 percent average in 1975-1982, and .05 percent average in 1983-1985 to .9 percent in 1988 and 1989 (Chart 14).

However, the natural resource sector is the fastest growing sector in 1989 with a growth rate of 74.6 per cent. In general, planners view such big adjustments in expenditure levels warily because of questions relating to the absorptive capacity of the sector concerned.

9. The infrastructure/utilities sector was the hardest hit sector during the crisis years. Despite massive increases in expenditures in this sector in 1986, 1987 and 1989 (it is the second fastest growing sector in 1989) (Chart 15), this sector has not yet recovered from earlier cuts. Expressed as a proportion of GNP, government expenditures in the infrastructure/utilities sector stand at 3 per cent in 1989 as against the 5 per cent average in the pre-crisis years

(Chart 16). (Since the expenditures in this sector account for the bulk of capital outlays please refer to Section 12 for further discussion.)

10. Viewed any which way, defense expenditures exhibited a definite downtrend in 1975-1985. Between 1985 and 1989, it grew faster than average so that in the Aquino years the reverse trend is evident. These observations hold whether one includes expenditures in peace and order under the defense category or not (Chart 17). Despite this marked increase in defense expenditures in recent years, the Philippines' expenditures in this sector is lower than that of its Asian neighbors. For instance, defense expenditures in Thailand average 4 per cent of GNP in the last decade.
11. In nominal terms, government expenditures on personal services is projected to grow by 11 per cent in 1989 as against the 57.0 per cent increase in 1988. Even after adjusting for inflation, personal services expenses are expected to increase by 46.7 and 2.7 per cent in 1988 and 1989, respectively (Chart 18). Thus, the ratio of personal service expenditure to GNP in these two years is in the 6 per cent level in contrast to the 4 per cent average in 1975-1986. On one hand, this development is commendable given the findings of earlier studies that there is a wide disparity in the compensation scales of employees in the private and public sectors and the possibility that this may

adversely affect the quality of public services. On the other hand, it is not clear whether these increases are due to salary adjustments or to increases in personnel complement. The incidence of the adjustment in the personal services expenses is highly uneven across the various sectors. Significant increases in the salaries of government workers in the defense and education sectors are highly publicized and are generally perceived to be well deserved. We note that marked increases were also exhibited in government agencies in the health, housing, agriculture, agrarian reform, natural resources (particularly, in 1989), tourism, trade and industry sectors. There are some anecdotal stories of certain agencies increasing their personnel complement for turf-building reasons. This does not seem to be consistent with the avowed government goal of trimming the fat off the bureaucracy. At the same time, a general upgrading of government compensation is called for rather the piece-meal approach that has been implemented so far.

12. Maintenance and other operating expenditures exclusive of interest payments, transfers, and loan repayments suffered severe cuts in the crisis years. It has been pointed out that these reductions may result in the premature deterioration of the stock of government capital assets. The 1989 levels of maintenance and other operating

expenditures indicate that this problem has been licked. In nominal as well as in real terms, this expenditure item has caught up in the Aquino years such that as a proportion of GNP its 1989 level is now equal to the 3 per cent average in the pre-crisis years (Chart 19).

13. Capital outlays exclusive of net lending likewise experienced the brunt of the cost cutting measures instituted during the crisis years and as a consequence of the heavy debt burden that is particularly evident in the Aquino years. Thus, this expenditure category has contracted significantly in real terms since 1983. In fact, it has been reduced nominally in 1987 and 1988. As a proportion of GNP, it has decreased from an average of 5.3 per cent in 1975-1982 to a low of 2.1 per cent in 1988 (Chart 20). Its share in total government expenditure has also declined from its 34 per cent average in the years before 1982 to less than 9 per cent in 1988. This contraction in public investments is worrisome given the well established theoretical and empirical link between investment and growth. The programmed 87.5 per cent increase in capital outlays in 1989 is a step in the right direction. The 1989 outlay is still lower than the pre-crisis levels in real terms. In 1989, capital outlays exclusive of net lending is expected to reach 3.5 per cent of GNP and 13.6 per cent of total programmed expenditures.

Note that public investments in other Asian countries account for more than 5 per cent GNP. However, some reports indicate that some agencies responsible for undertaking government investment activities are not adequately prepared to efficiently absorb the huge increase in capital outlays in 1989.

14. National government transfers to government owned and/or controlled corporations used to be rather high in the Marcos years when it averaged 3.4 percent of GNP. In fact, earlier studies (Amatong 1986, Manasan 1986) have shown that this was a serious cause of leakage in the government budget in 1975-1985. The present government appears to have been successful in trimming down this expenditure item to 1.2 percent of GNP reflective of its efforts to rationalize the government corporate sector (Chart 21).
15. Finally, we like to point out that the national government budget given present conventions does not account for tax expenditures like Board of Investment tax exemptions/deductions/credits, and other tax exemptions to specific private or government corporations. Table 3 reveal that these tax expenditures are not insignificant. These amounts reflect revenues foregone (and by implication, expended) by the government. The question is should they be allowed to bypass the budgetary allocation process?

Chart 1

# Nominal National Government Expenditures on an Obligation Basis

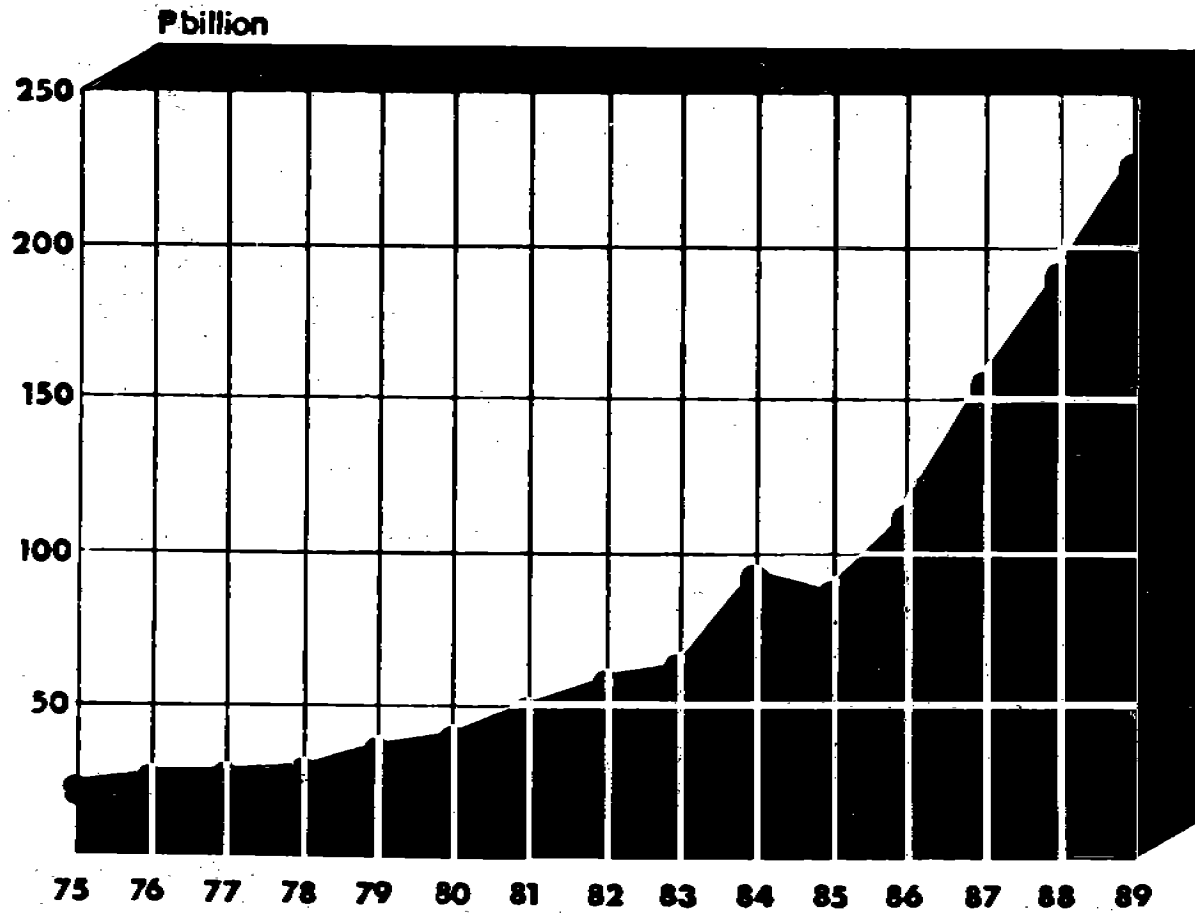


Chart 2

# Rate of Growth of Nominal National Government Expenditures

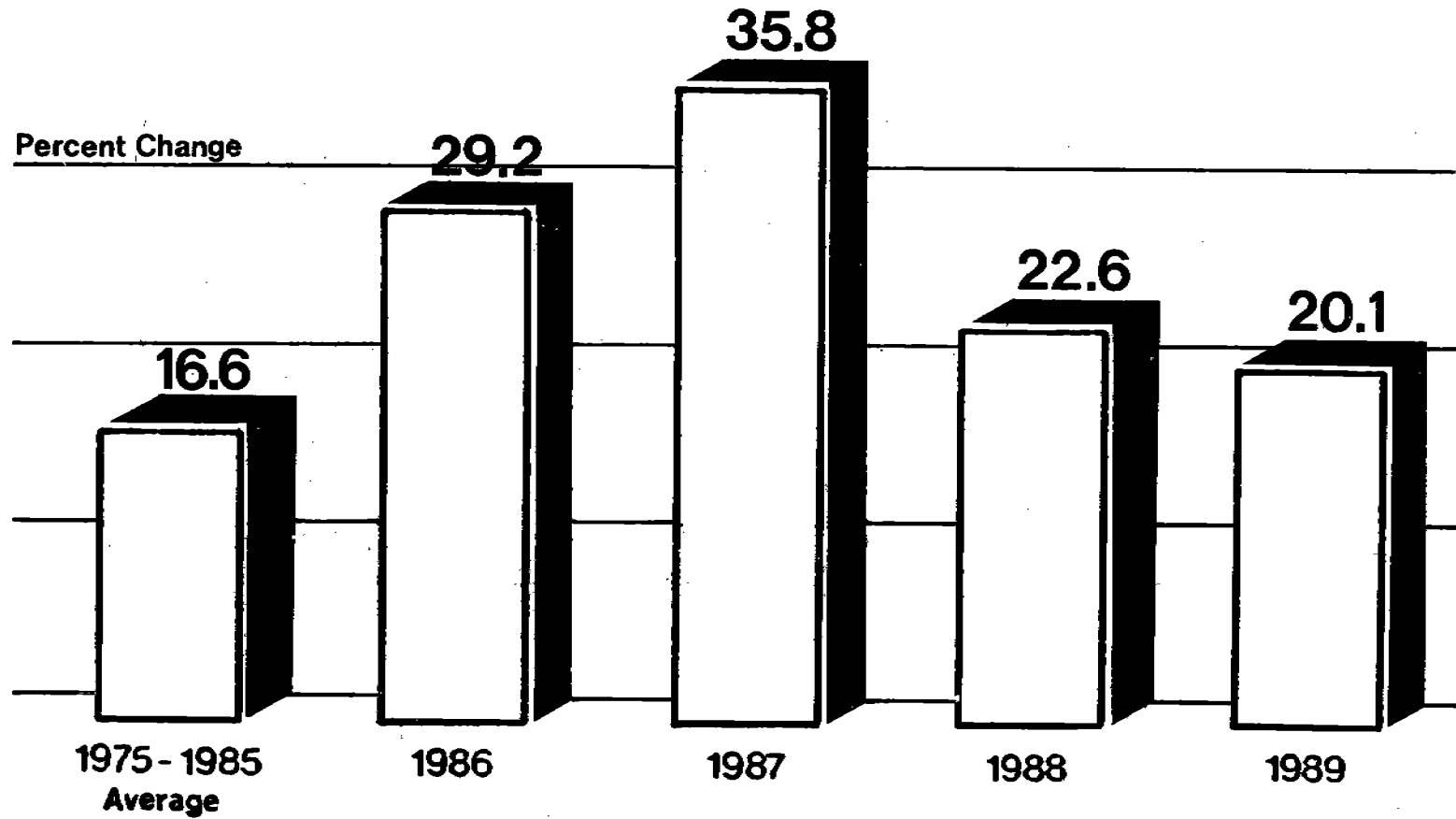




Chart 3

# Nominal Government Expenditure and Revenues as a Percentage of GNP

LEGEND:

- Total Expenditures
  - Total Expenditures Net of Debt Service
  - ▨ Revenues
- PERCENT OF GNP

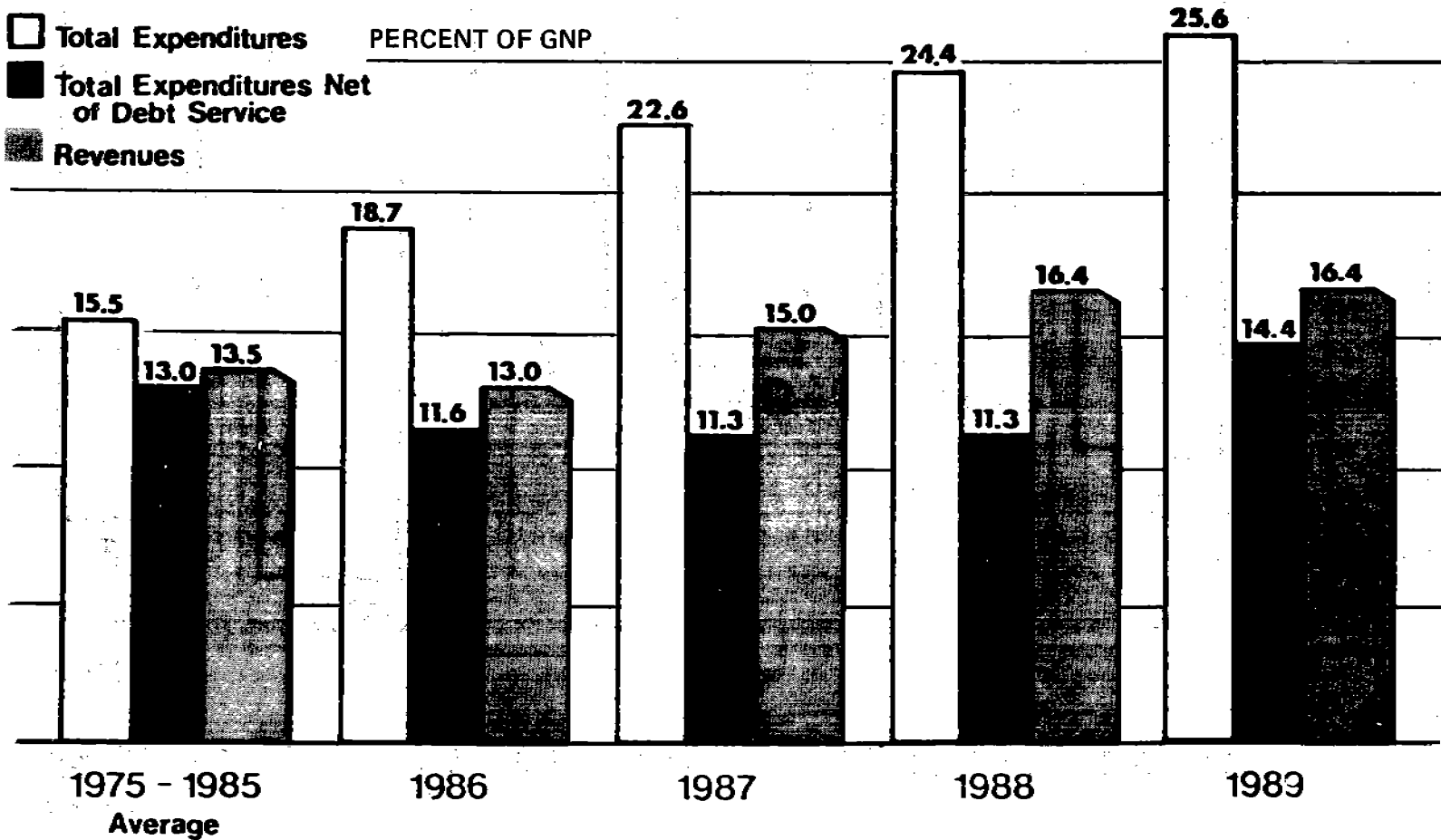


Chart 4

# Real Per Capita Expenditures Net of Debt Service

IN '72 PESOS  
300

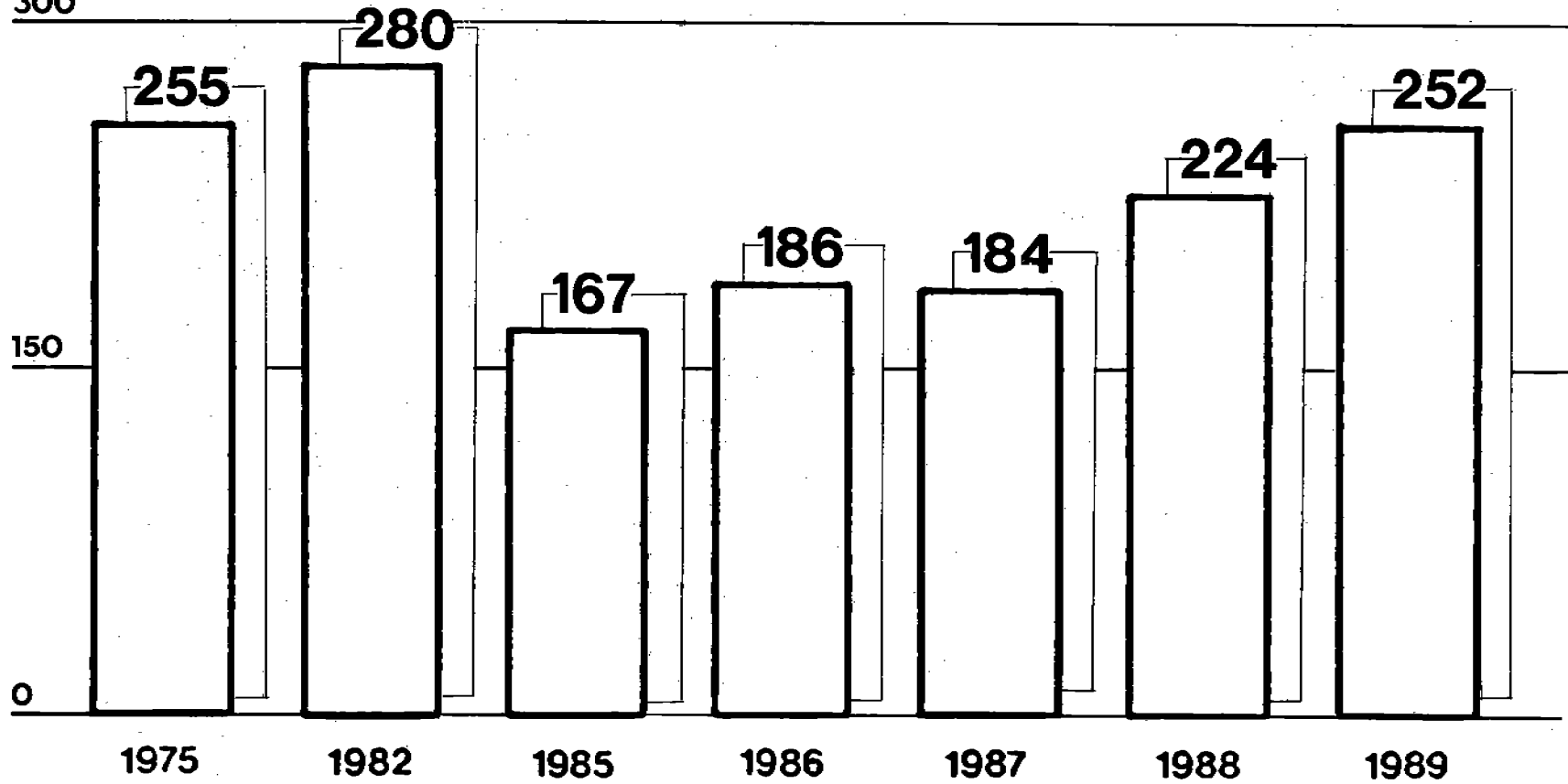


Chart 5

# Rate of Growth of Economic and Social Services ( % change )

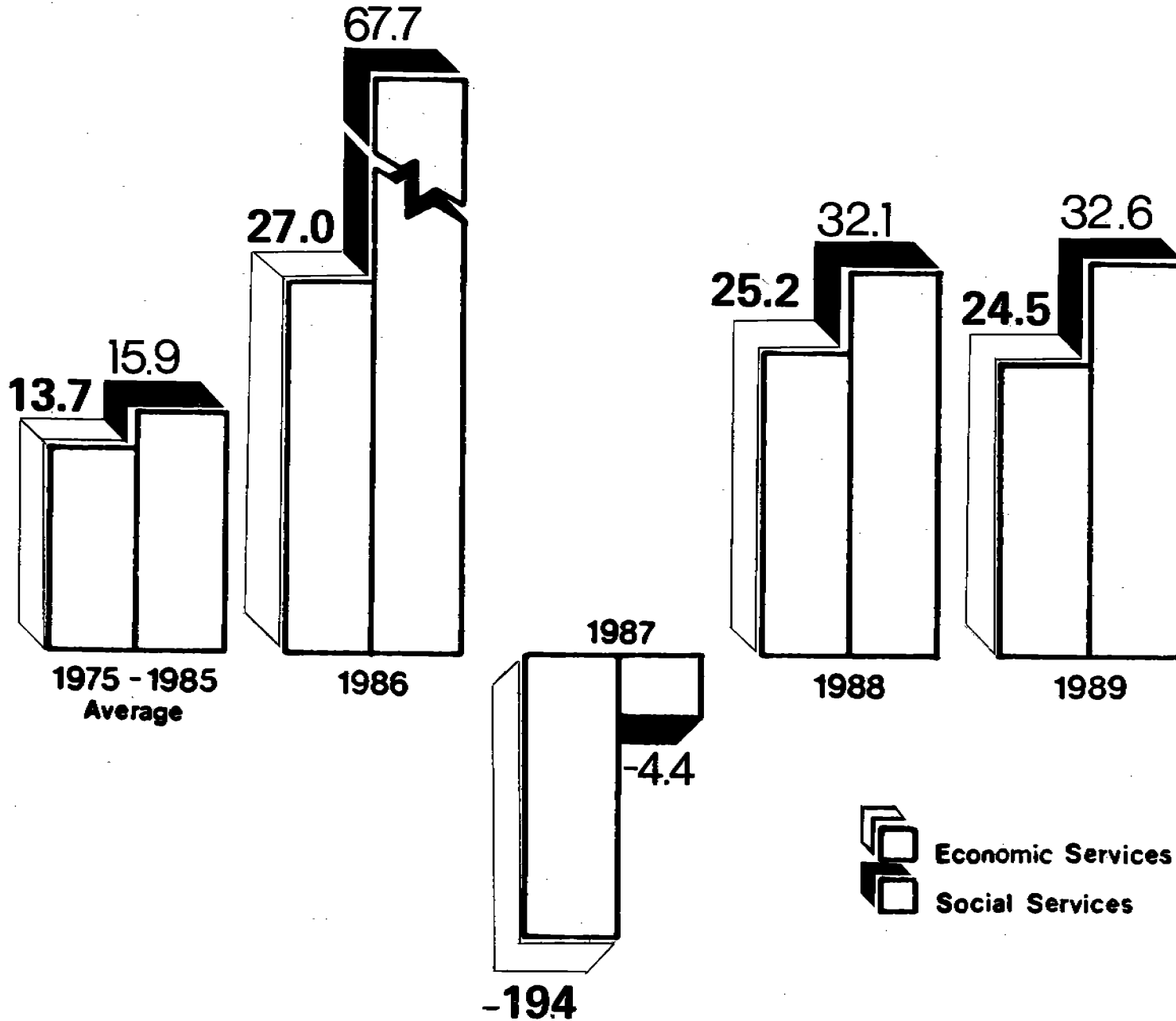
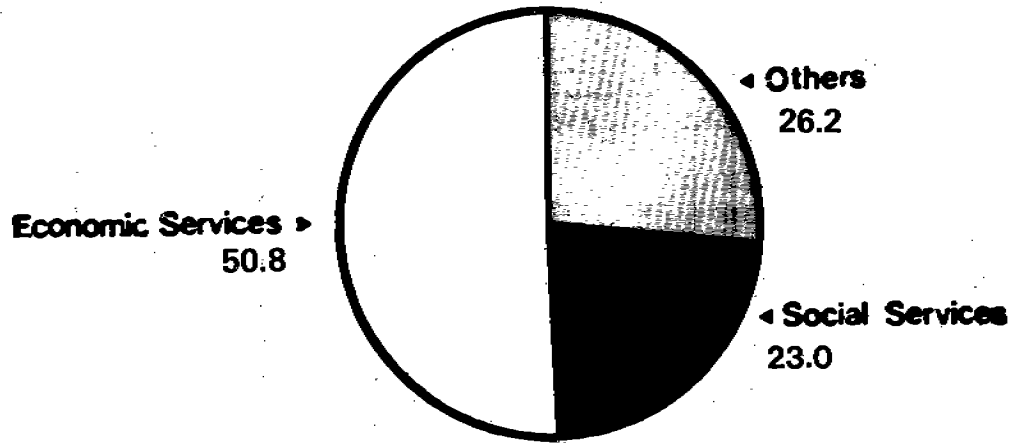
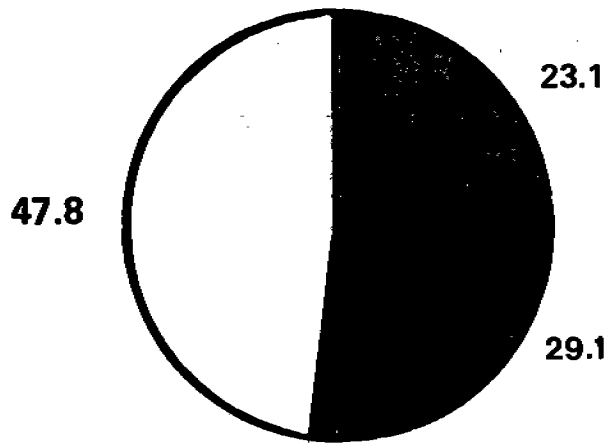


Chart 6

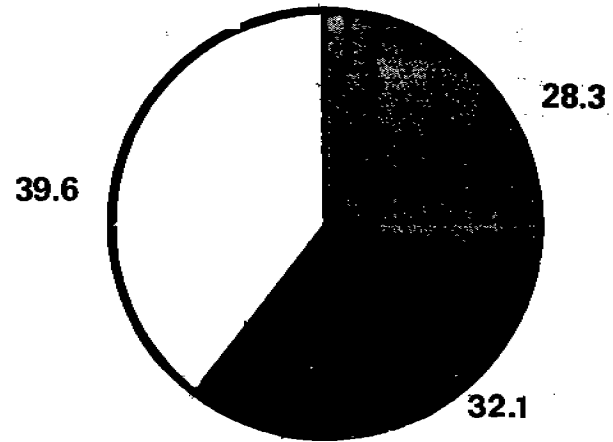
# Percentage Distribution of Total Government Expenditures Net of Debt Service



1985



1986



1989

Chart 7

# Rate of Growth of Education Expenditures, 1975-89

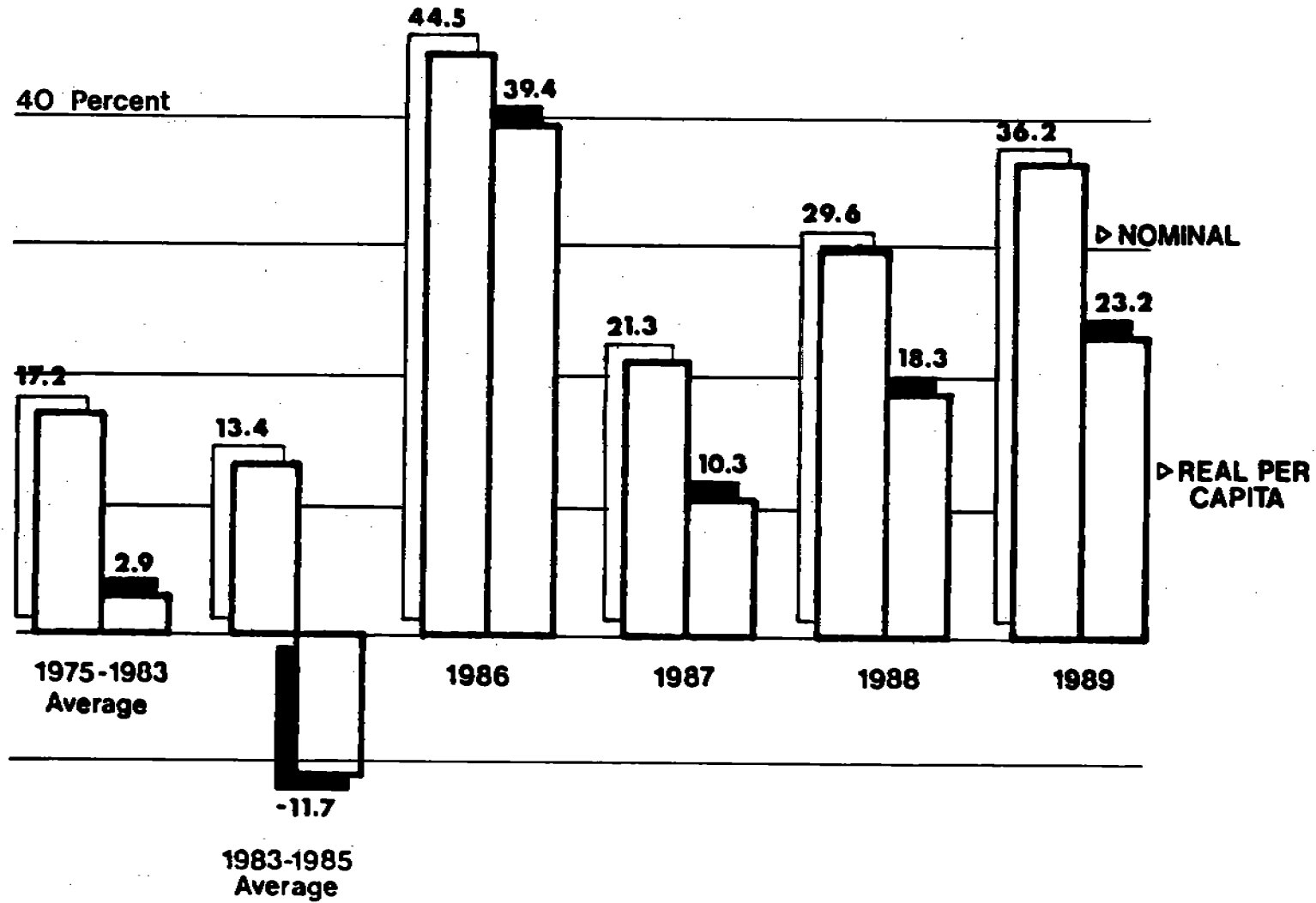


Chart 8

# Share of Education Expenditures in the Government Budget

**LEGEND:**



Share in Total Budget



Share in Total Budget  
Net of Debt Service

PERCENT SHARE IN BUDGET

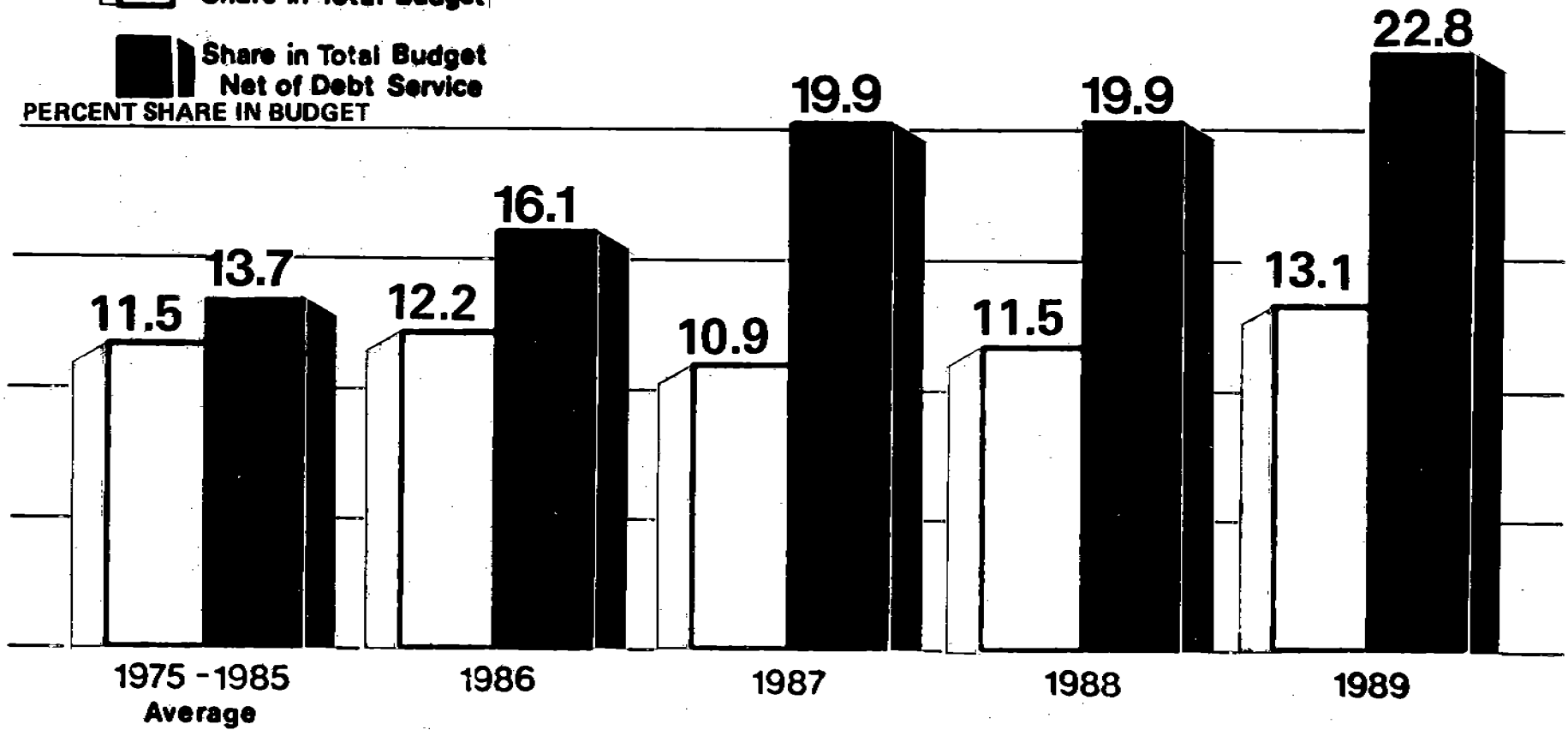


Chart 9

# Education Expenditures as a Proportion of GNP

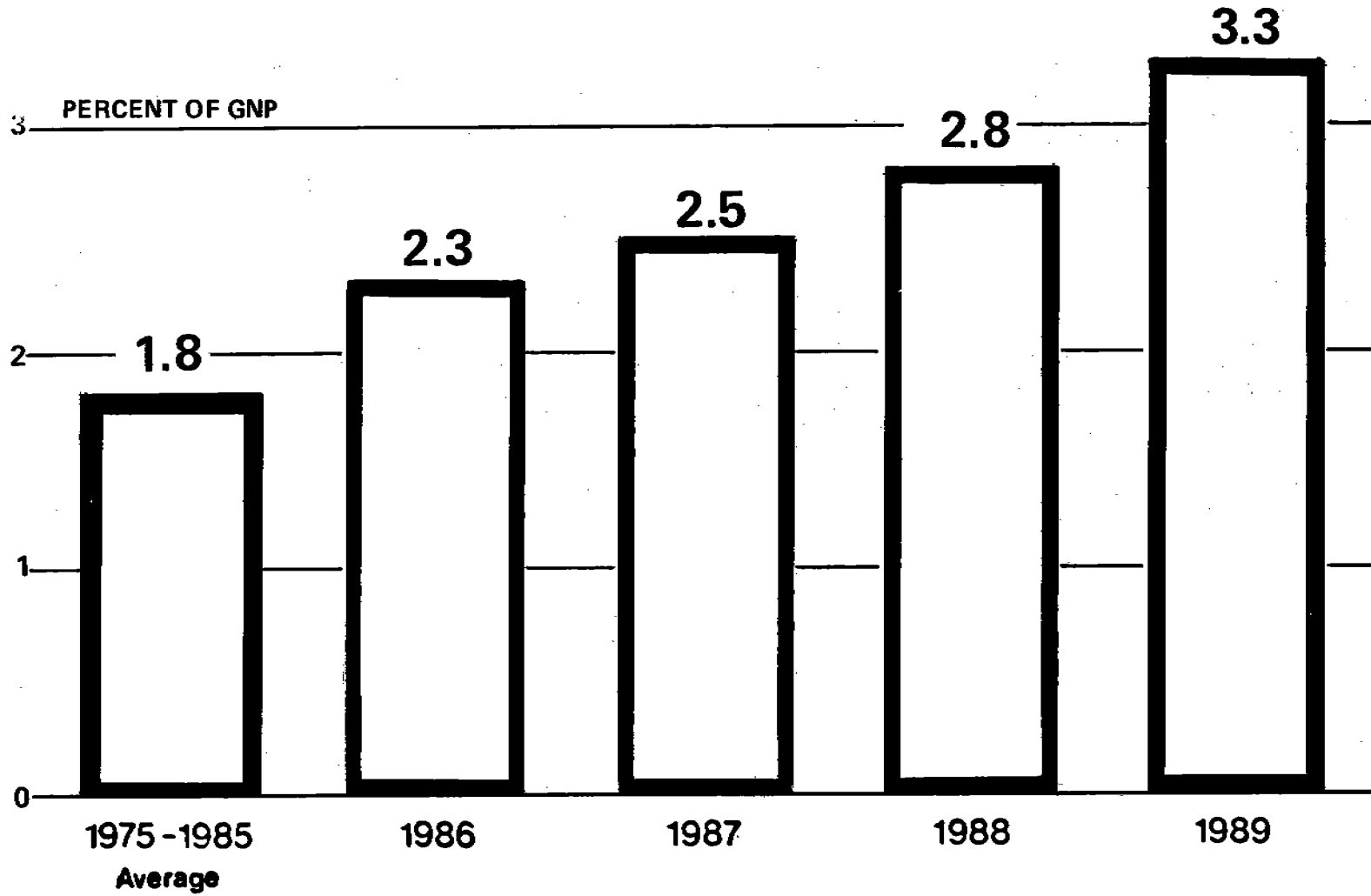


Chart 10

# Rate of Growth of Health Expenditures (percent)

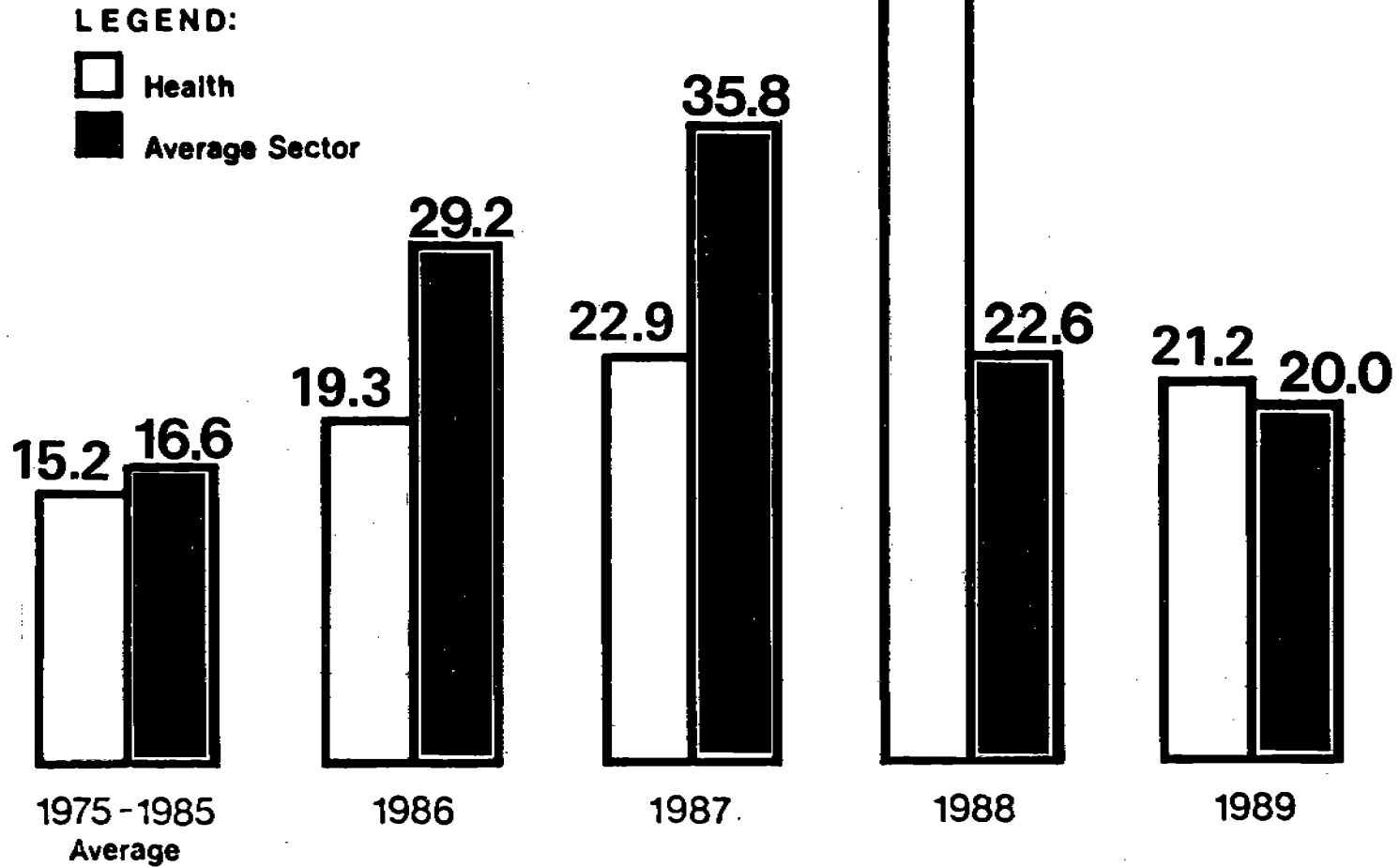




Chart 11

# Health Expenditures as a Proportion of GNP

1.0 Percent

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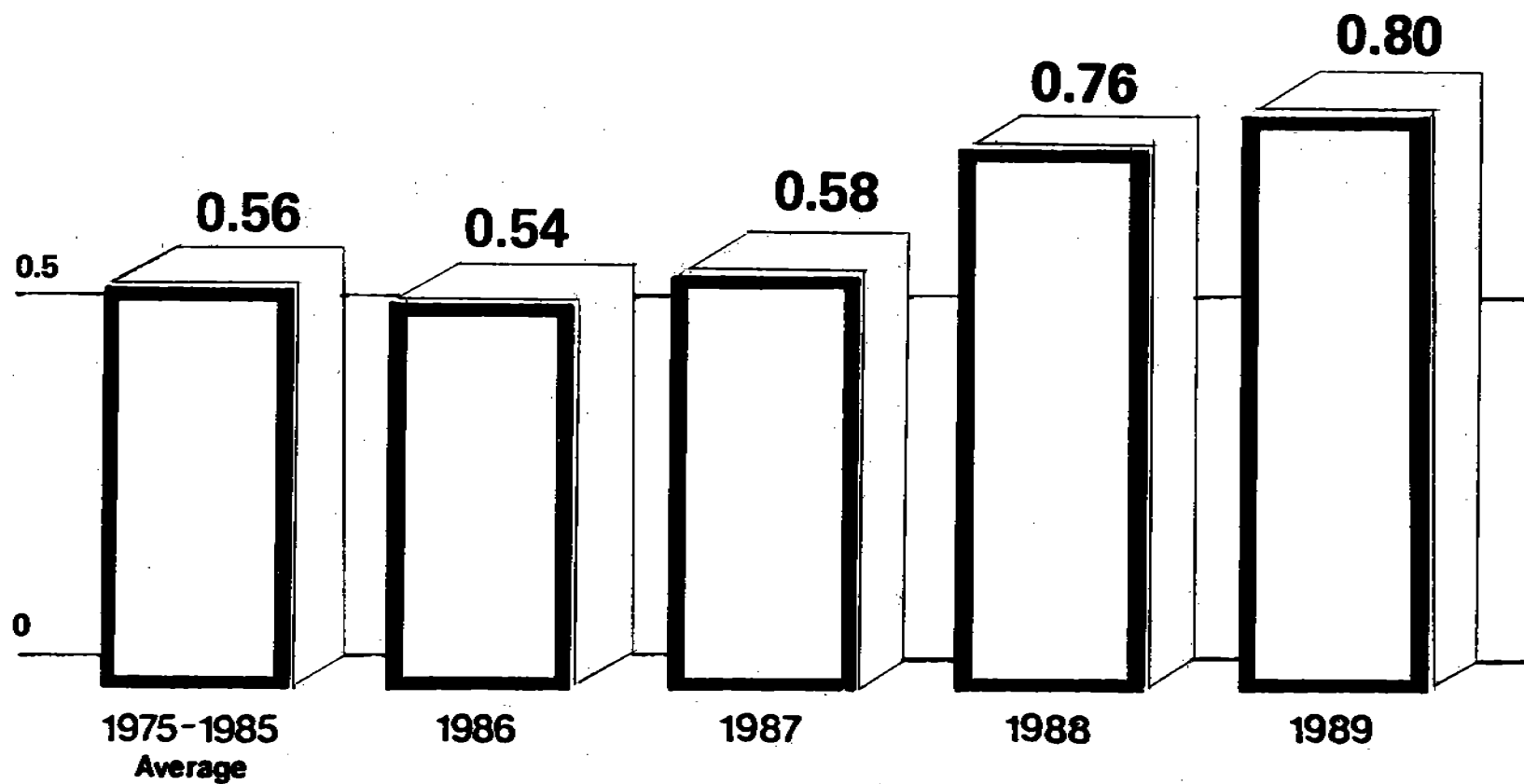


Chart 12

# Real Per Capita Expenditures on Health, 1975-1985

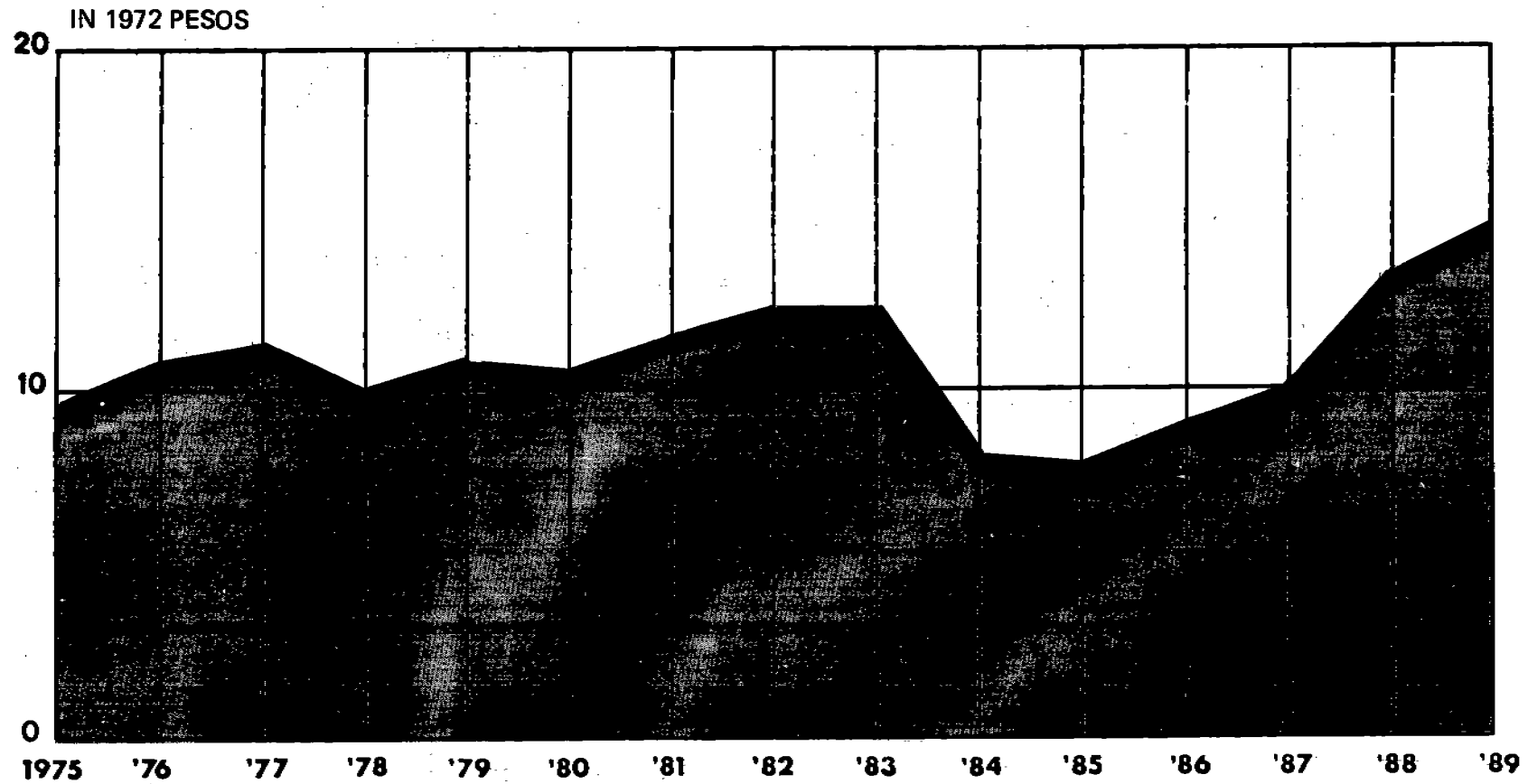


Chart 13

SOCIAL SERVICE, LABOR AND EMPLOYMENT, HOUSING AND  
COMMUNITY DEVELOPMENT AS A PROPORTION OF GNP

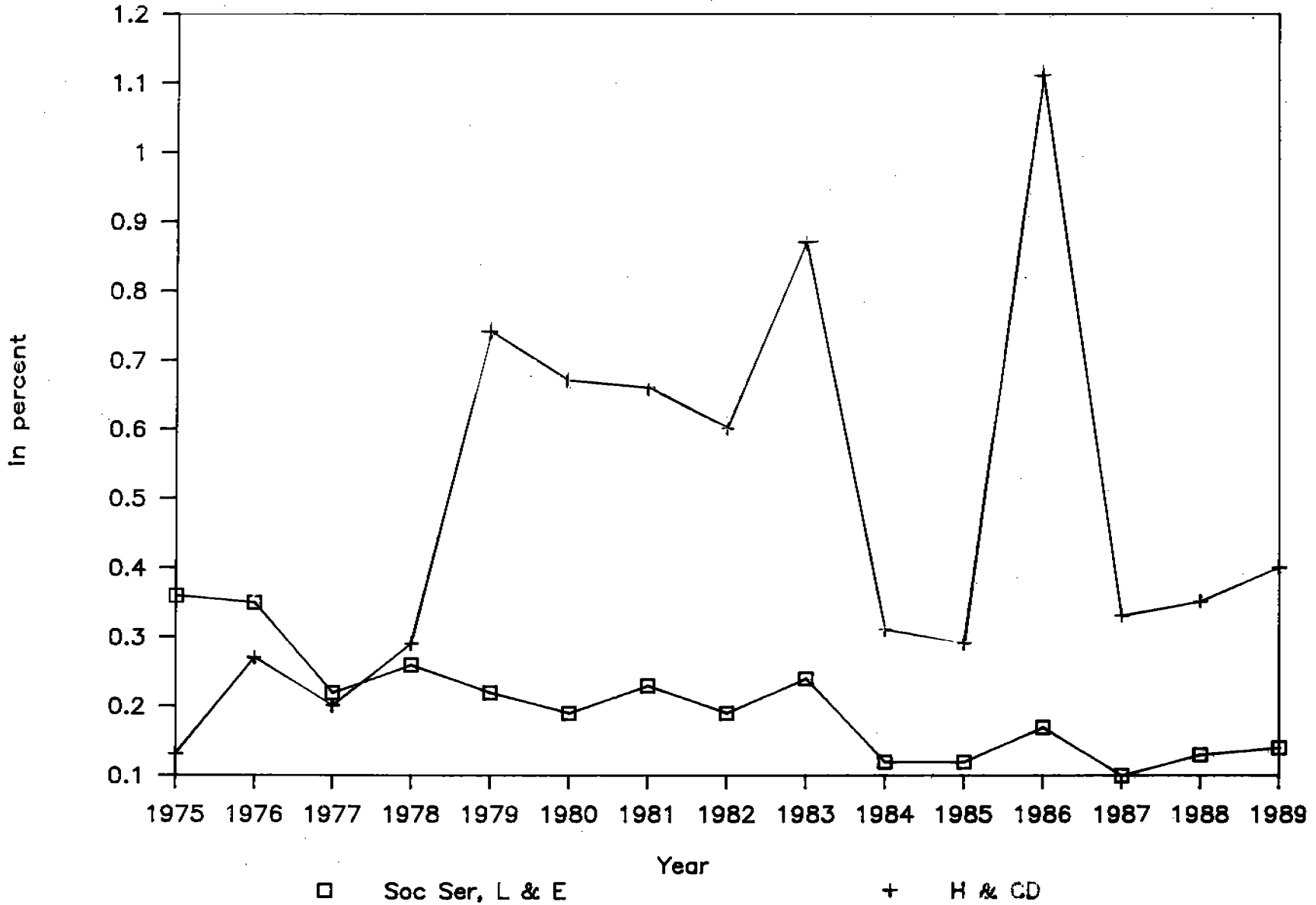


CHART 14

AGRICULTURE, AGRARIAN REFORM, AND NATURAL RESOURCES  
EXPENDITURES AS A PROPORTION OF GNP

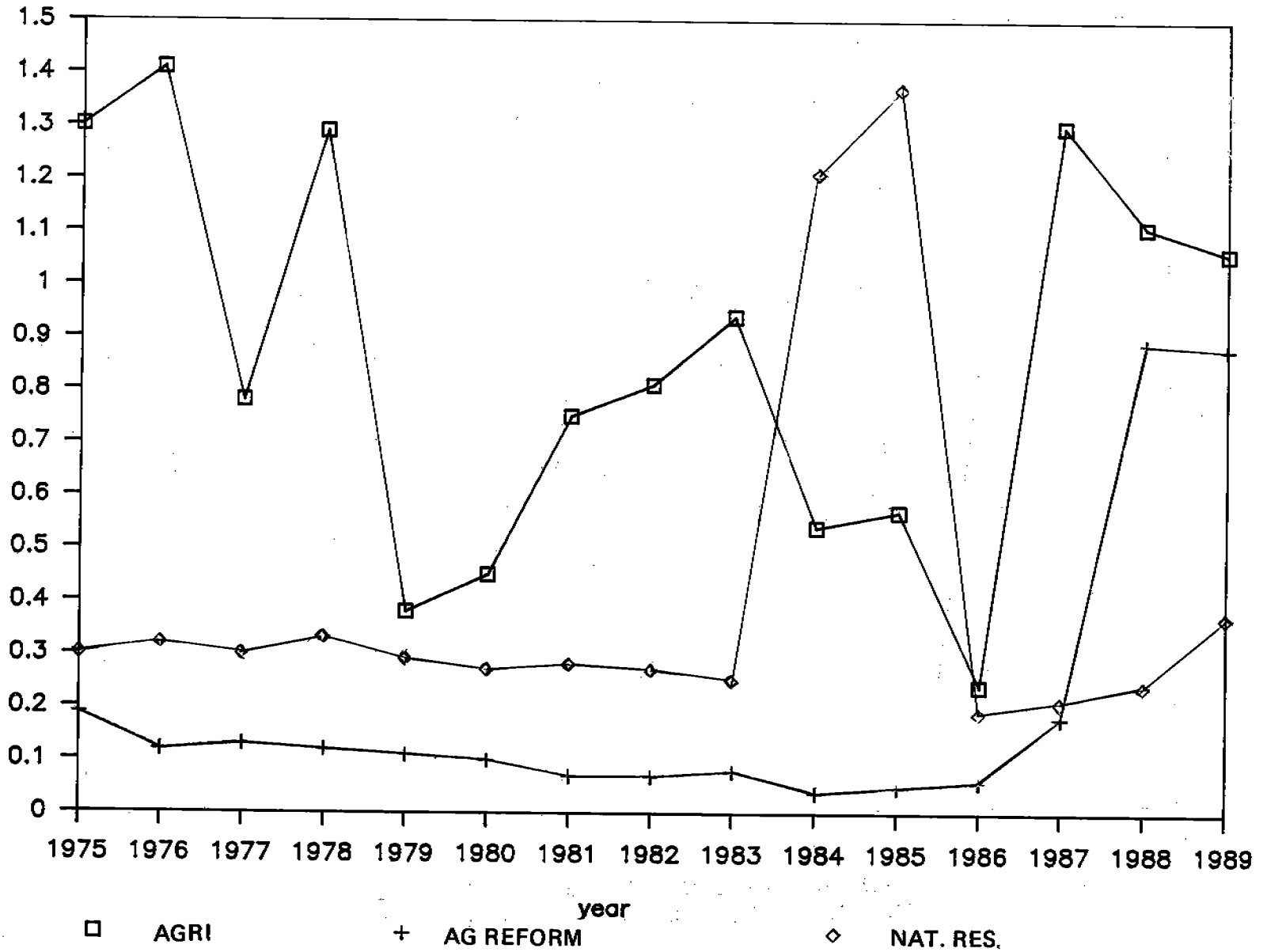


CHART 15

# Rate of Growth of Expenditures on Infrastructure/Utilities Sector

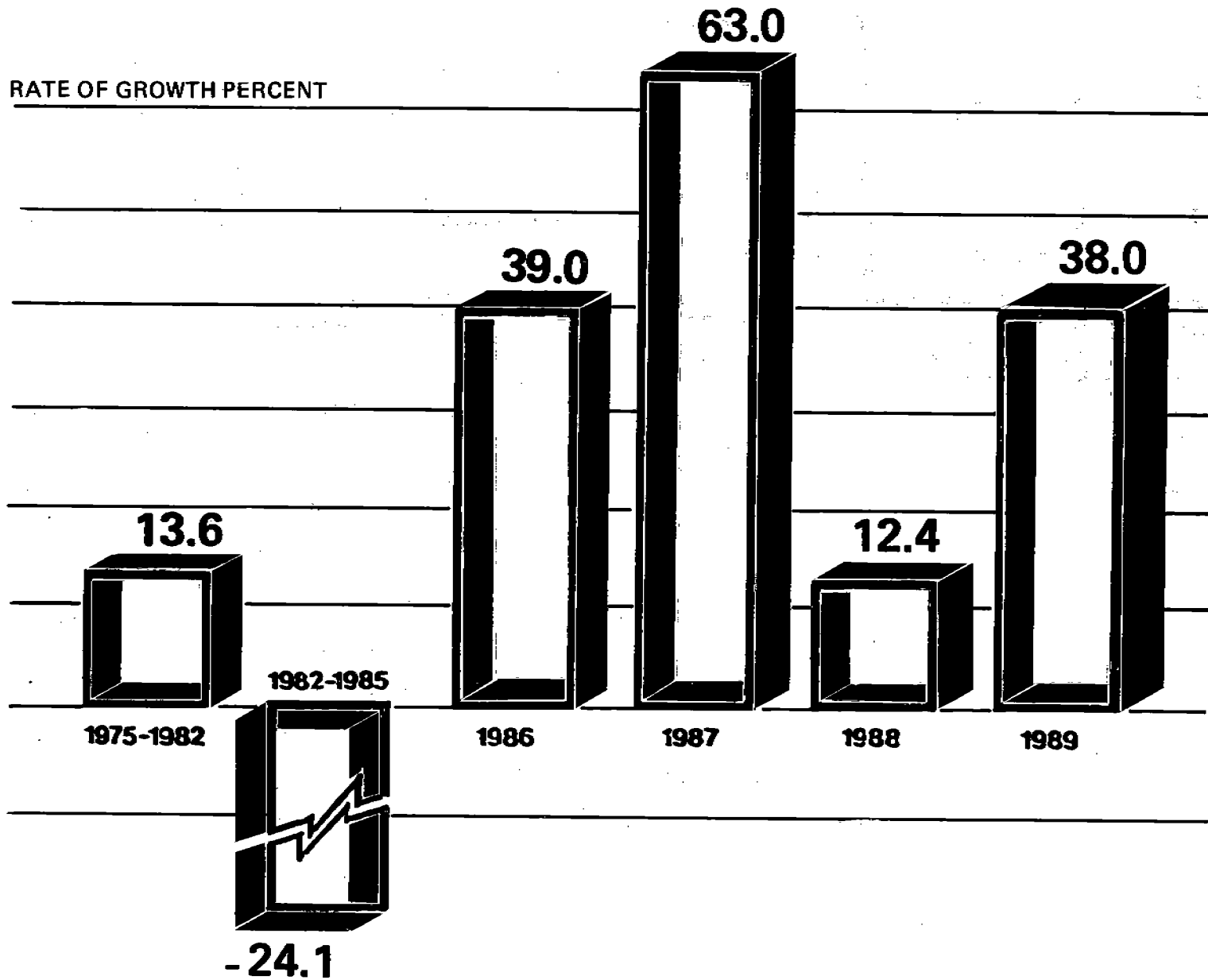


CHART 16

# Infrastructure/Utilities Expenditure as a Proportion of GNP

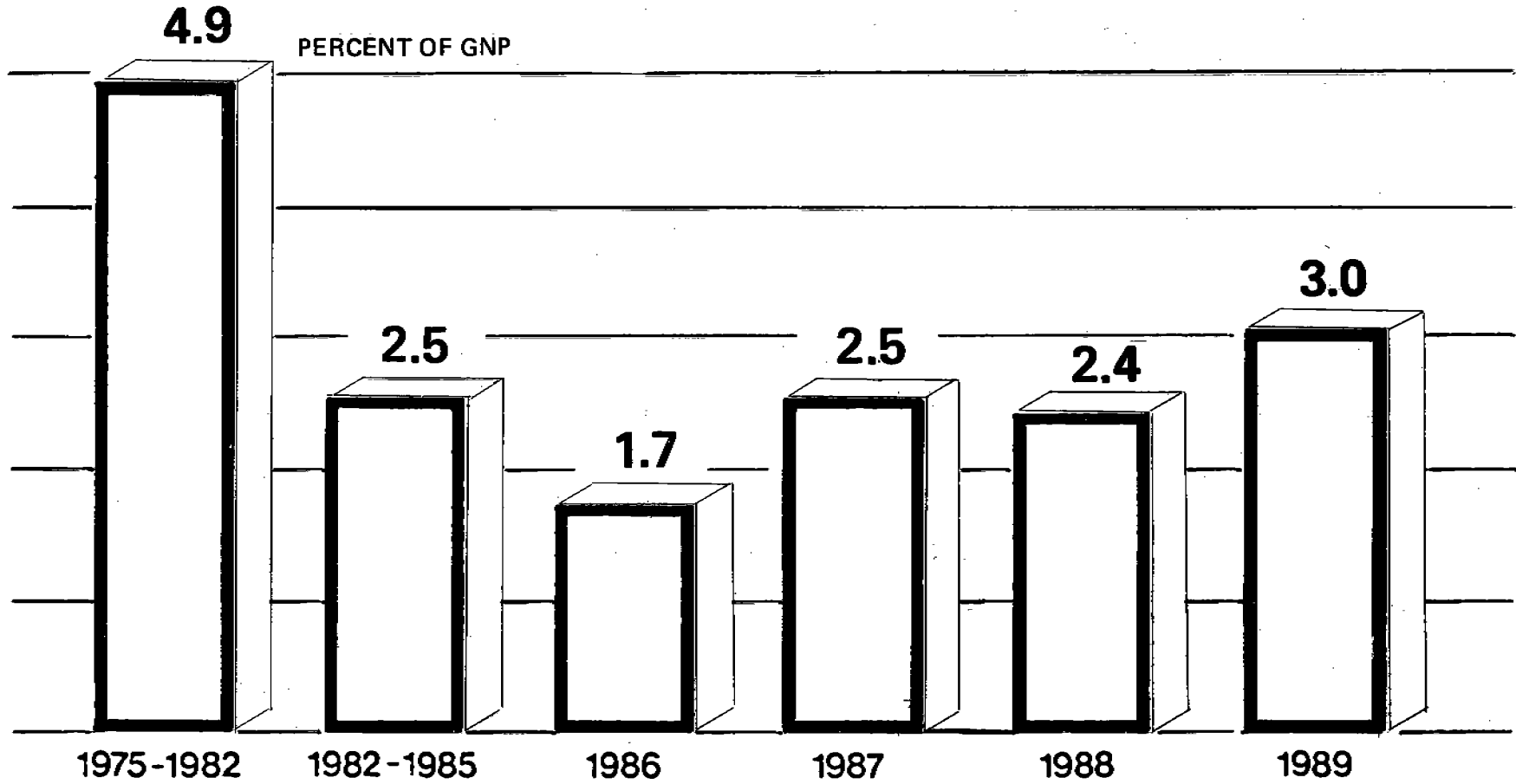


Chart 17

# Defense and Peace and Order Expenditures as a Proportion of GNP

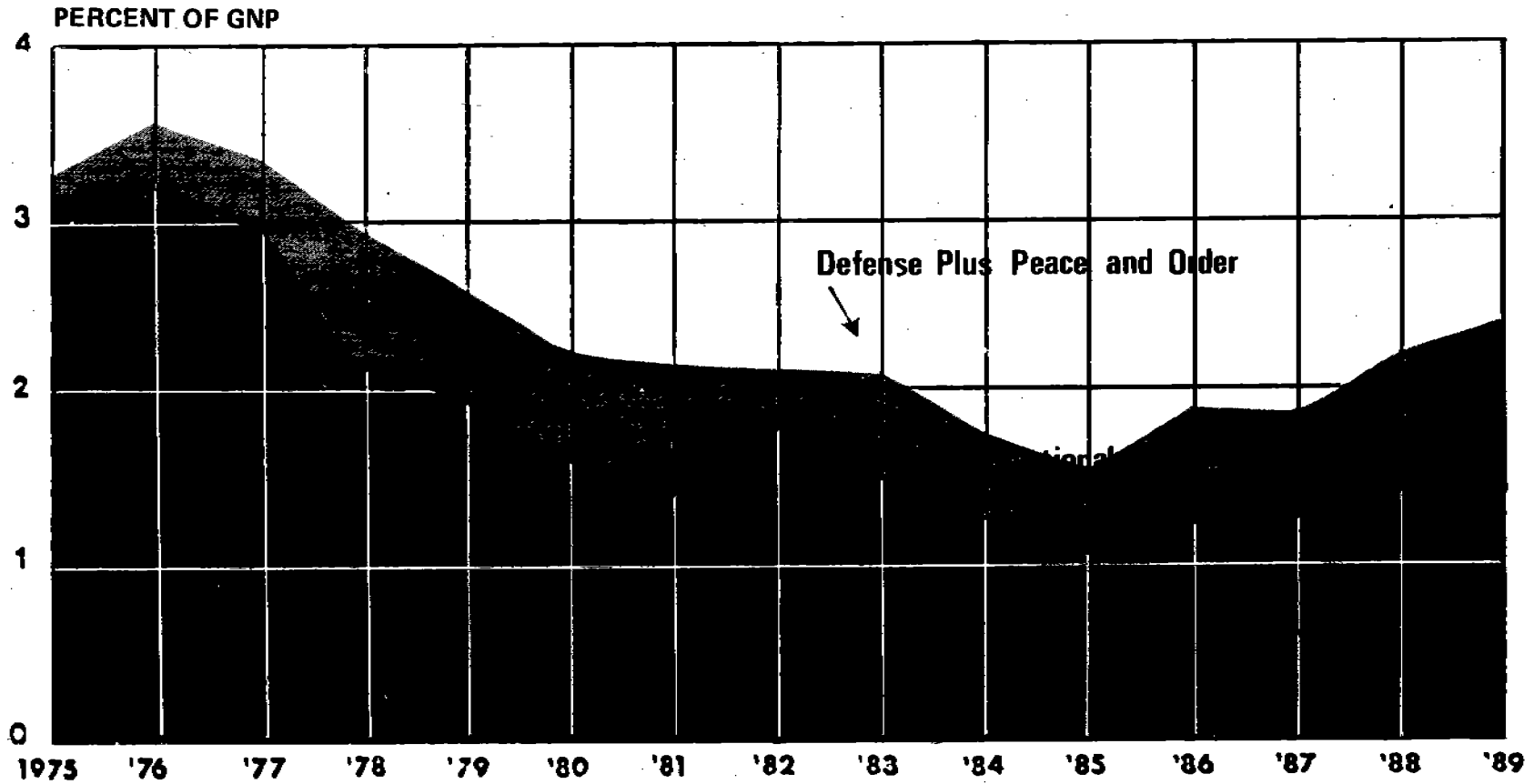


CHART 18

# Rate of Growth of Expenditures on Personal Services

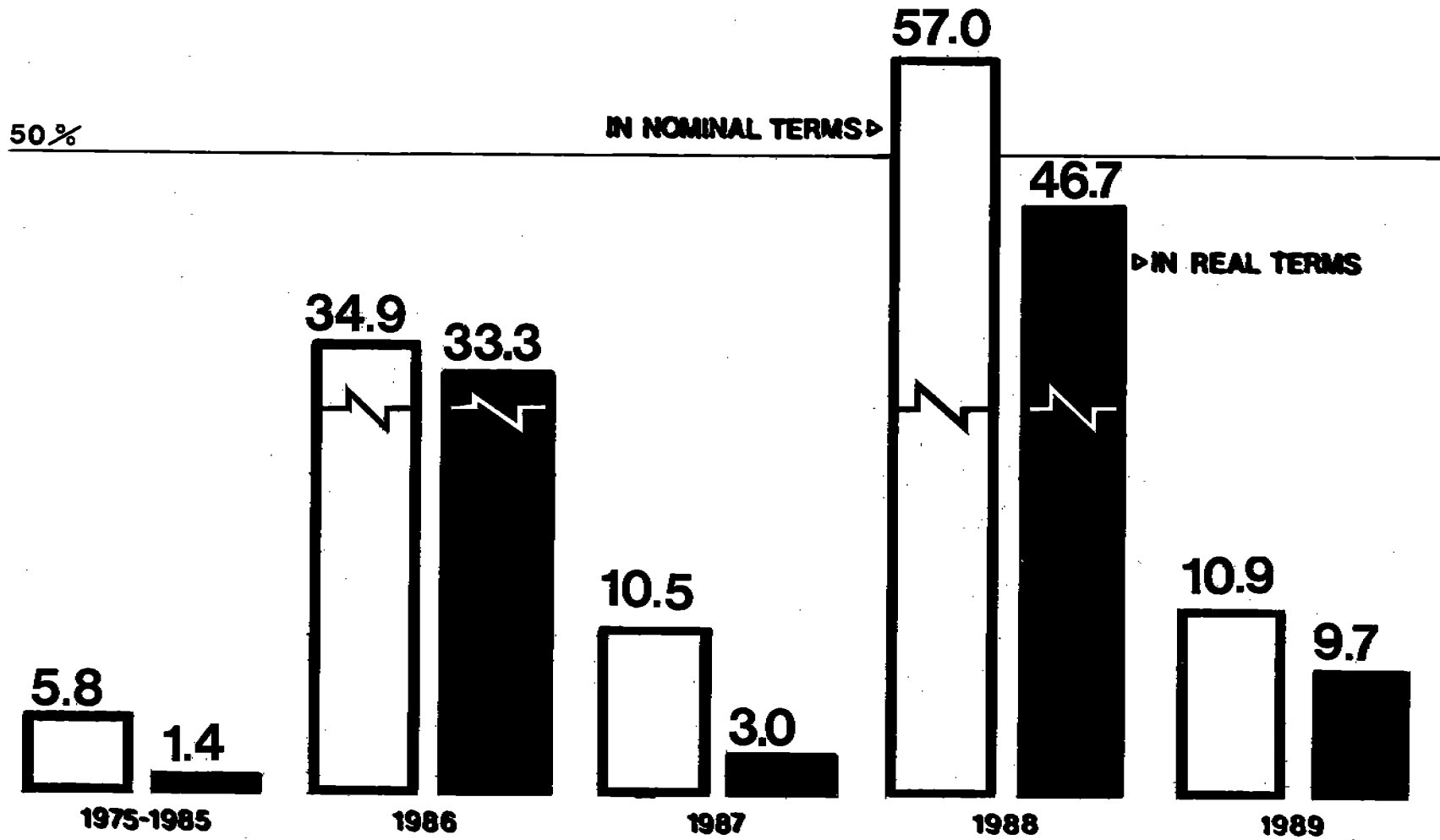




CHART 19

# Maintenance and Other Operating Expenditures as a Proportion of GNP

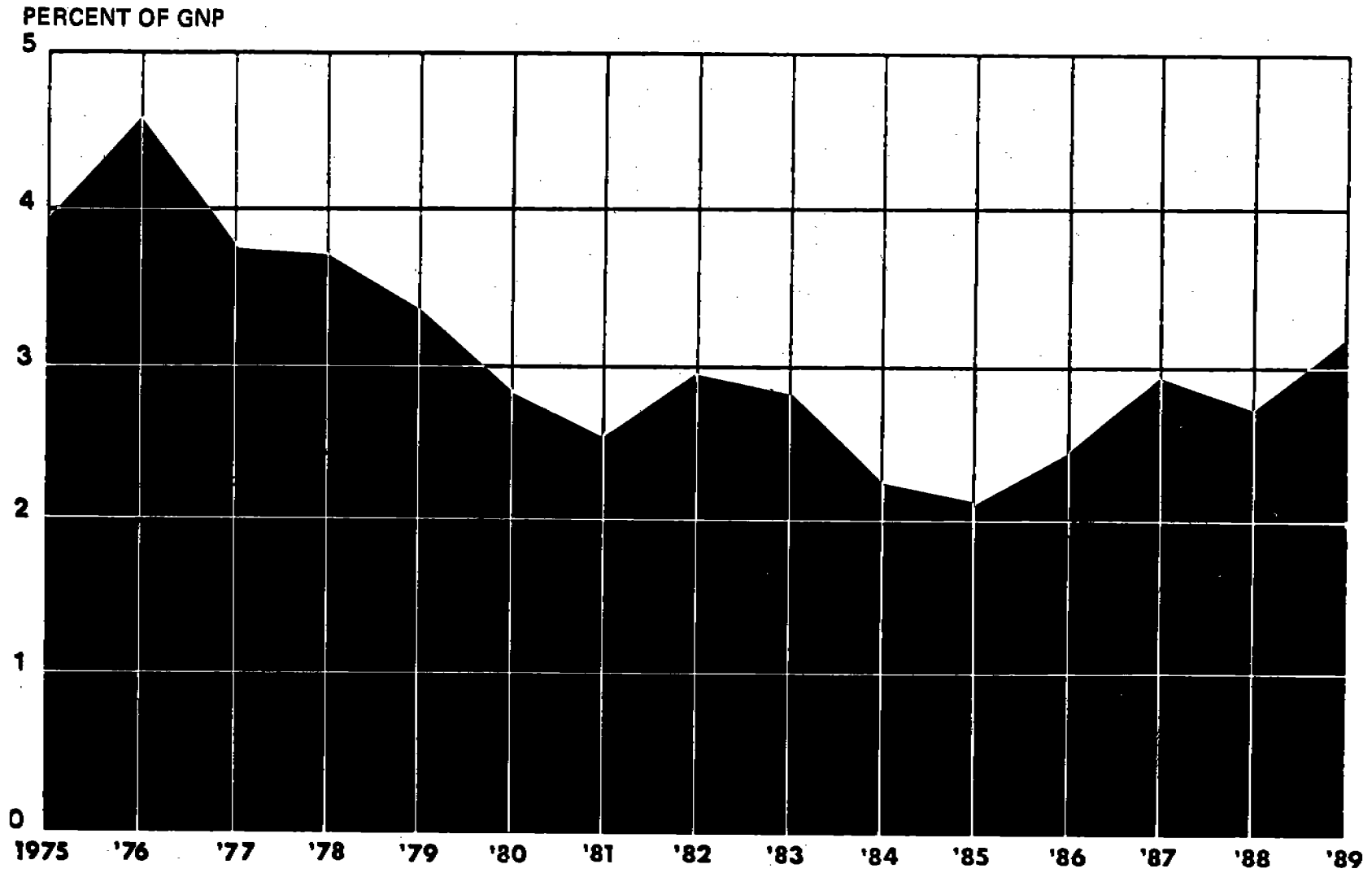


Chart 20

# Capital Outlays Exclusive of Net Lending as a Proportion of GNP

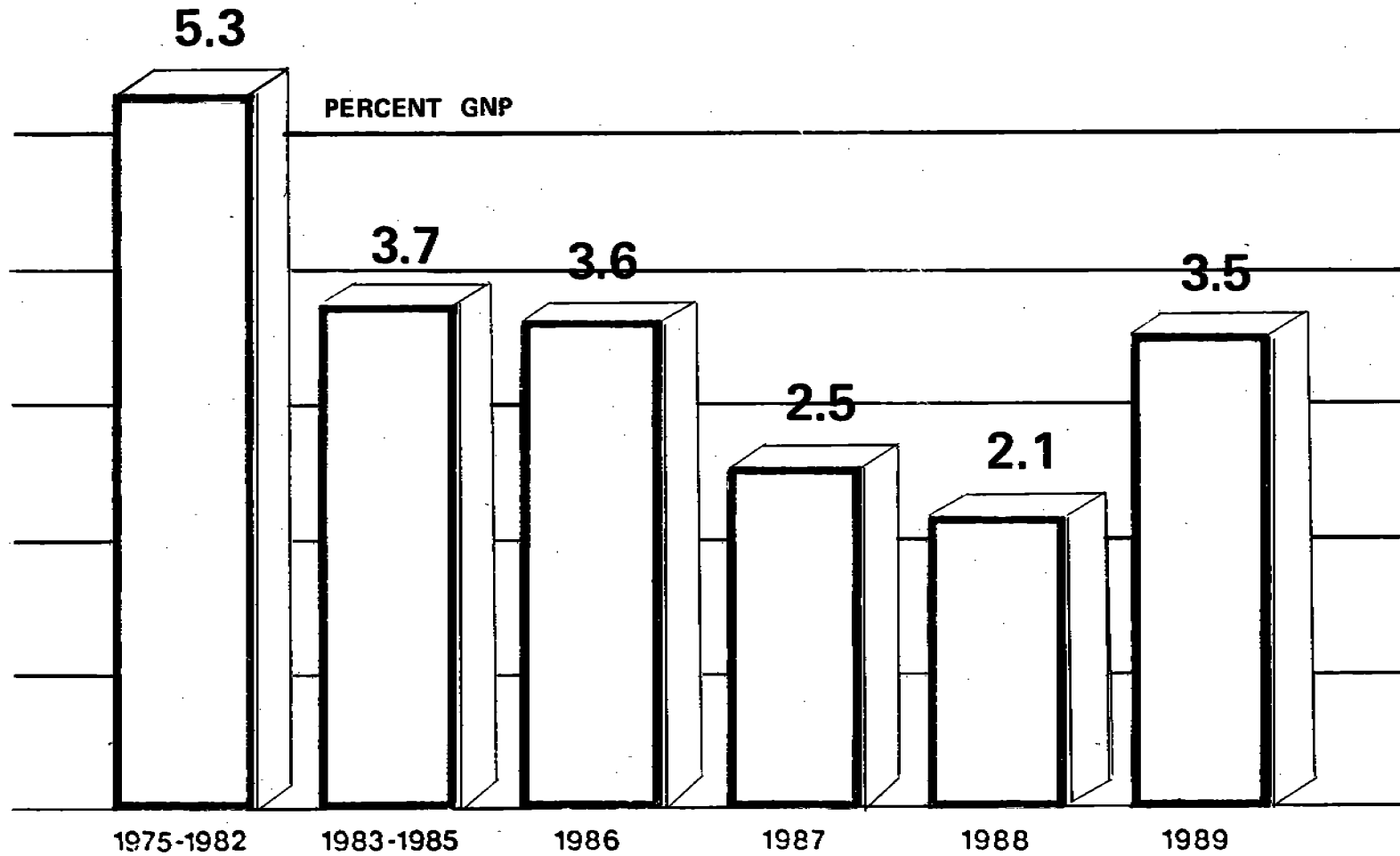


CHART 21

TRANSFERS TO GOVERNMENT CORPORATIONS AS A PROPORTION OF GNP

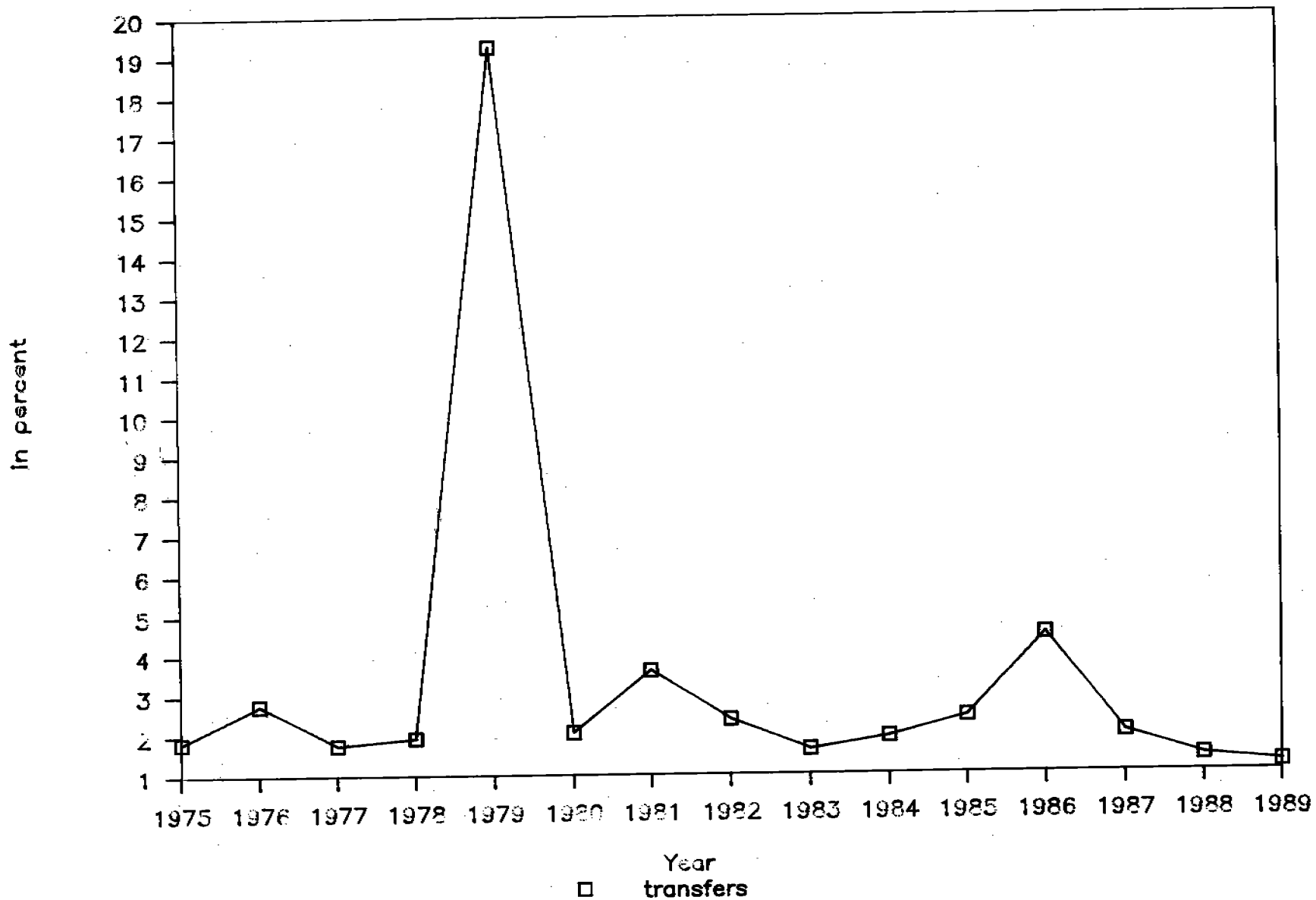


Table 1

GOVERNMENT EXPENDITURES ON A CASH AND ON AN OBLIGATION BASIS  
AS A PROPORTION OF GNP, 1975-1989

Year	Obligation Basis	Obligation Basis	Difference
1975	16.0	16.30	-0.30
1976	15.2	16.30	-1.10
1977	14.9	14.10	0.80
1978	14.8	14.93	-0.13
1979	13.7	14.61	-0.91
1980	14.4	13.48	0.92
1981	15.8	15.41	0.39
1982	15.7	15.14	0.56
1983	14.0	14.69	-0.69
1984	12.6	13.31	-0.71
1985	13.4	11.53	1.87
1986	18.0	17.69	0.31
1987	17.4	22.60	-5.20
1988	19.2**	24.38**	-5.18
1989	19.0**	20.41**	-1.41

\*  
does not include loan repayment.

\*\*  
projected values.

Table 2  
CASH DISBURSEMENT PROGRAM, 1987-1989

P A R T I C U L A R S	L E V E L S (In billion pesos)			G R O W T H R A T E	
	1987	1988	1989	1987-88	1988-89
Expenditure Program	155.5	190.7	228.9	22.6	20.0
Less: Principal Amortization	32.8	34.4	46.3	4.9	34.6
Net Expenditure Program	122.7	156.3	182.6	27.4	16.8
Less: Unpaid Obligations	12.5	16.8	24.7	34.4	47.0
Add : Payments of Prior Years' Accounts	9.7	10.9	11.9	12.4	9.2
Cash Disbursement Program	119.9	150.4	169.8	25.4	12.9
	=====	=====	=====	=====	=====

Source: Department of Budget and Management

Table 3. INCENTIVE AVAILMENTS BY TYPE OF INCENTIVE  
(Millions of pesos)

	1978	1979	1980	1981	1982	1983	1984	1985
<b>Total</b>	<b>1,136</b>	<b>1,043</b>	<b>1,539</b>	<b>1,475</b>	<b>2,066</b>	<b>1,918</b>	<b>3,553</b>	<b>4,581</b>
<b>Tax Deductions</b>	<b>754</b>	<b>456</b>	<b>734</b>	<b>548</b>	<b>675</b>	<b>599</b>	<b>1,078</b>	<b>2,433</b>
Organizational expenses	34	0	0	0	0	0	0	0
Accelerated depreciation	153	0	0	0	0	0	0	0
Loss carryover a/	62	35	100	98	119	7	298	375
Expansion investment allowance	153	90	175	84	149	172	236	649
Labor training	2	1	1	4	4	2	3	3
Labor and material cost	172	0	0	0	0	0	0	0
Investment allowance	78	160	51	39	27	82	8	100
Reduced Income tax	4	170	407	322	376	286	532	1,299
Export trader	4	0	0	0	0	0	0	0
Service exporter	90	0	0	0	0	0	0	0
New brand name	0	0	0	0	0	0	0	0
Water treatment	0	0	0	0	0	0	0	0
National dev. fund allowance	0	0	0	0	0	50	1	0
1% of incremental sales	0	0	0	0	0	0	1	7
Other deductions	1	0	0	0	0	0	0	0
<b>Tax Exemptions</b>	<b>286</b>	<b>441</b>	<b>637</b>	<b>750</b>	<b>1,150</b>	<b>1,189</b>	<b>2,192</b>	<b>1,542</b>
Duty and tax on machinery a/	142	301	508	546	841	622	1,482	1,391
Sales tax a/	111	98	103	164	203	523	598	41
Capital gains tax	33	5	26	38	97	33	77	75
Breeding stocks a/	0	37	1	1	9	11	32	0
Percentage tax	0	0	0	0	0	0	3	34
Export tax a/	0	0	0	0	0	0	0	0
Other exemptions	0	0	0	0	0	0	0	0
<b>Tax Credits</b>	<b>95</b>	<b>146</b>	<b>168</b>	<b>178</b>	<b>241</b>	<b>130</b>	<b>282</b>	<b>606</b>
Sales tax on raw materials a/	57	82	51	86	101	58	85	216
Domestic equipment a/	8	38	43	58	108	49	78	67
Infrastructure works	1	0	0	0	0	0	0	0
Withholding tax on interest a/	29	25	44	33	32	23	26	15
New value earned a/	0	0	0	0	0	0	44	133
Net local content a/	0	0	0	0	0	0	49	174

a/

Available under PD 1789 as amended by BP 391 and EO 1945.

Note: Data shown are for availments approved by BOI. Not all approved incentives are actually used.

Source: BOI.



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