

# Eight-Point Memo to Address the Economic Crisis

Thursday 31 July 2008, by [CHAVEZ Jenina Joy](#), [DOCENA Herbert](#) (Date first published: 29 July 2008).

Despite Malacanang's attempts to give a positive spin to the crisis, the government's own data unambiguously attest to how Filipinos are reeling from an economic downturn made worse by increases in the price of basic commodities. A previous *Focus report* documented the grim signs: The 7.3% GDP growth of a year ago dipped to 5.2% in the first quarter of 2008. About 9.5 million of the country's 33.5 million workers are either unemployed or underemployed. Inflation in June breached double-digit at 11.4%, compared to 2.3% last year. Prices soared high in the fuel, light and water commodity group, registering a doubling of inflation from 3.8% to 7.6% in June on a year-on-year basis. Even more staggering was the inflation in food, beverages and tobacco which shot up to 16.5% in June from 2.6% last year. Little wonder that 2.8 million families, or 15.7% of total, experienced hunger.

A more visionary leadership would have implemented an emergency response while laying the ground for long-term measures. Instead, the crisis has been used as an excuse to gain political points. Government's answer is an elaborate package of dole-outs that are palliatives at best. (See related article.)

The crisis is caused by fundamental weaknesses in the economy. These include the government's perennial lack of funds, the inability of the majority of the population to contribute to and gain from the economy due to their lack of incomes or assets, and the power of a few to dominate the economy in ways that promote their interests over the larger public's.

We put forward an eight-point agenda that address - instead of evade - these problems.

## **1. End corruption and wasteful spending.**

When President Arroyo and her delegation went to the US recently, they reportedly spent P66 million - enough to buy 4.4 million kilos of NFA rice. Banning junkets and other frivolous expenses will bring considerable savings which can instead be spent for more essential and urgent expenditures. Corruption sucks our already limited resources dry, effectively shrinking government budget by about one-fifth annually, according to the World Bank. This translates to about P250 billion out of this year's budget of P1.12 trillion. That's 14 billion kilos of rice - enough to assure 170 kilos of rice for every single Filipino. For starters, we can work to recover those P700 million in fertilizer funds. And no more P100,000 goodie bags. At the end of the day, however, no anti-corruption drive will work unless change begins at the top.

## **2. Ease the tax burden on the poor and rationalize the tax system to make it more progressive.**

The current crisis is debilitating and calls for immediate relief, and what better way than to target VAT which cuts across all classes. To avoid a deep fissure in revenue projections, a minimum immediate action can be the restoration of VAT rates from 12% to the original 10%. The 2% add-on was put in place in 2006 to respond to what President Arroyo considered the most urgent problem at

the time, the burgeoning public sector deficit. A strong peso and two years of the 12% VAT have addressed this problem. Meanwhile, the government has raked in a windfall from VAT collections due to the rapid increase in the prices of oil and other products. Said windfall amounts to as much as P73.1 billion from oil alone (based on government estimate of revenue losses if VAT on oil is scrapped). Instead of funneling the windfall to a dubious Katas ng VAT dole-out program, it would be better to slash the VAT rate and let more people and the entire economy enjoy the benefit.

It goes without saying that steps to correct the institutional weaknesses of our tax system and to improve tax administration should be put in place. The system should be designed to rely more on taxes on wealth and profit.

### **3. Spend more on social services and social investments.**

The largest portion of next year's budget should go to social services and investments – health, education, housing, social welfare, land reform, investments in agriculture, etc – up from only 10% today. This re-allocation of spending will not only help Filipinos cope with the crisis – by decreasing what they have to pay for school or hospital bills – but will also spur demand and production, thereby boosting mid-term and long-term growth prospects.

Social Watch Philippines' Alternative Budget presents concrete recommendations for spending an additional P20 billion but an even larger increase is needed. Meeting the international ideal of spending 6% of GNP on education by increasing the budget of the Department of Education from P140 billion to P440 billion could lead not only to the construction of more school buildings, thereby boosting the construction industry, but also to more productive workers, better-paid teachers, more research and development and, thus, to more innovations. Mass housing projects will not only put roofs above people's heads; they will also boost consumption. Wiping out TB and other communicable but preventable diseases is not just good in itself; it will also enhance the country's social capital in the long-term.

### **4. Reduce debt service. To ensure that there are enough resources for social services and investments, government must reduce debt service.**

Total debt service this year will gobble up 37% of total government spending of P1.6 trillion. At close to P600 billion, it will be 170 times larger than what the national government will spend on housing, 120 times bigger than that for social welfare, 30 times that for health, and four times larger than for education. GMA's much-trumpeted P2 billion cash subsidy for small power users, or the National Food Authority's budget of P2 billion, is only 0.3% of debt service. (See graph.) At a time when one in six Filipino families is going hungry, this spending priority is not only scandalous, it makes no economic sense. It is like being forced to donate blood while one is also already hemorrhaging.

Part of the debts we have incurred are anomalous. Freedom from Debt Coalition strongly advocates stopping payment of these anomalous debts. They also call for an official debt audit to find out which debts were fraudulently incurred and should be cancelled. All these will of course be opposed by creditors and their local underwriters who will expectedly threaten to withdraw funds from and withhold lending to the Philippines in the future. But as Argentina – which refused to pay part of its debts in 2002 and has since been growing 9% annually – has shown, this reallocation from debt to productive spending may be the only “win-win” solution both for the country and the creditors in the long-term.

### **5. Bring down the price of oil and electricity.**

One way to reduce the costs of electricity is to review the expensive contracts with Independent

Power Producers (IPPs). Government gives them generous guarantees which make us pay even for power we don't consume. As of December 2007, we still have an oversupply of electricity, with 15,937 megawatts of total installed generation capacity for peak demand of only 8,993 megawatts. A technical audit of these IPPs will give government a clear basis to renegotiate the terms of their contracts, and save us billions of pesos.

The Energy Regulatory Commission (ERC) should also start examining the cost structure of distribution utilities like Meralco. ERC should look behind the submissions of electric distributors, and in particular, check whether the purchases of the distributors are competitively priced. For the ERC to act decisively, there should be a revamp of its officials, with only bureaucrats of proven integrity appointed.

The VAT on oil should be scrapped, and in its stead a specific tax lower than what the VAT now yields should be reinstituted. This way, oil will still be taxed high enough to pay for its environmental costs, to discourage wasteful use, and to replace some of the revenues lost from the removal of VAT. The government should also reclaim its role in the energy sector. The Oil Industry Deregulation Law and the Electric Power Industry Reform Law should be revisited. Plans to privatize the Philippine National Oil Company (PNOC) and its remaining 40% stake in Petron should be abandoned. Energy is a strategic industry where government presence is desirable. Government needs to have a direct stake in the industry to be able to exercise price leadership and better monitoring, and to serve strategic concerns beyond profits (e.g. development of renewable and clean energy).

## **6. Revive industry, create more jobs, and increase workers' and farmers' incomes.**

We are concerned about the plight of Filipinos as consumers, but it is important to emphasize that they are also producers and workers. The goal of development should not be narrowly defined by low consumer prices, a goal which has been used to justify a myriad of policies from trade liberalization to the freezing of wages. Cheap prices have come at the expense of income and employment, particularly in agriculture, promoted the restructuring of the economy towards services, and undermined our productive capacities in both agriculture and industry.

For starters, the current minimum wage must be raised. Government estimates that a family of six must have at least P894 everyday to afford a minimum standard of living in Metro Manila but the current minimum wage is only P382.

The predilection of government to sign trade and economic agreements left and right should be checked. The government should refuse to sign the Doha Round agreement in the World Trade Organization which seeks to further open up our markets. Opening up has led to jobless growth, de-industrialization and the implosion of agriculture. Contrary to the promises of its proponents, it has failed to raise income and employment, as has been conceded by UP School of Economics Professor Ramon Clarete.

This must be reversed by a review of the tariff structure, adjusting it upwards to protect domestic employment and incomes – not to coddle and enrich local capitalists as in old-style protectionism but to foster sustainable industrialization and development the gains from which must be more broadly shared.

## **7. Extend and reform the Comprehensive Agrarian Reform Program.**

Increasing trade protection is not enough for the farm sector, characterized as it is by a highly skewed asset distribution and landlessness, low investments, low technology, high production costs and low productivity. To address the asset distribution issue, government must undertake to extend

the Comprehensive Agrarian Reform Program (CARP) with reforms. CARP still has 1.9 million hectares of land to redistribute to more than half a million potential beneficiaries. Beyond land redistribution, CARP needs to step up on the support services necessary to sustain existing as well as assist new farmer beneficiaries, and help stem reversals in the program. [1]

## **8. Provide the poor jobs and services, not dole-outs.**

The dole-out programs now in vogue with government are only appropriate as an immediate response in the wake of a disaster or calamity. The poorest lack the means to buy basic essentials, but they do not lack talent or the will to work. They deserve to be treated with more dignity and not be subject to a near-mendicant, dependent existence.

That said, targeted intervention is necessary for the poorest, because they are the least able to manage the impact of a crisis, even as they are the last to share in the benefits of growth. To be sustainable and respectful of the dignity of the poorest of the poor, however, the intervention must be employment-based rather than dole-outs. For this, appropriate social mobilization is necessary involving both the state and the community. For example, employment-based intervention can involve public works at the local government units or the public school system. Everyone has the right to employment and services and it is the duty of government to ensure that these rights are respected – not as a matter of charity but as an obligation. Fulfilling these obligations is not just good in itself, however, but it is also a prerequisite for progress.

Taken together, this 8-point package of interventions will allow the majority of Filipinos to cope with the crisis. To get by for another day should not be our only goal, however. These policies should be seen as initial efforts to break free from the dominant economic paradigm that has guided policy-making in the country for the last few decades and which have resulted in stagnation and immiseration.

In the medium-term, the government should aim to rebuild its capacity to act in the economy so as to promote the welfare of the most number of people by assuming leadership in strategic economic sectors, pursuing an industrial policy to rebuild our manufacturing capacity, and abandoning trade agreements and arrangements that disallow the government from upholding the interests of the larger population. Bondage from debt must be finally broken. The government should also continue to prioritize policies to democratize economic power – through land reform, progressive taxation, and other redistributive measures – in order to widen the economic base required for long-term sustainable growth. At the same time, the government should, in cooperation with other developing countries, play its role in transforming the international environment to make it more conducive for attaining sustainable and equitable development.

---

## **P.S.**

\* From Focus on the Philippines — July 2008 SONA EDITION.

\* A graph is not reproduced here.

---

## **Footnotes**

[1] For more on our recommendations regarding land reform, see:

<http://www.focusweb.org/philippines/content/view/159/4/>. Reproduced on ESSF: [Controversies in the left on the land reform issue \(part III\)](#)