

Philippines: Next administration urged to improve spending, tax the rich

Thursday 2 June 2022, by [IBAÑEZ Jenina P.](#) (Date first published: 28 February 2022).

Analysts are pushing for targeted spending and a tax on the wealthy as the government prepares a fiscal consolidation plan to address the Philippines' growing debt.

"In general, a fiscal consolidation plan should involve raising more taxes and cutting government spending. Both, however, can cause economic recovery to decelerate," University of Asia and the Pacific Senior Economist Cid L. Terosa said.

The Department of Finance (DoF) is preparing a fiscal consolidation plan to manage debt as it transitions to the next administration which will take over on June 30.

The government recorded P11.73 trillion in outstanding debt as of end-2021, growing nearly 20% year on year. This pushed the debt-to-GDP ratio to 60.5%, higher than the 60% threshold considered as manageable by multilateral lenders for developing economies.

Finance Secretary Carlos G. Dominguez III has hinted at proposing new and higher taxes to pay for debt incurred during the coronavirus disease 2019 (COVID-19) pandemic.

According to Mr. Terosa, the government should continue to roll out tax reforms instead of imposing higher taxes.

"In addition, the imposition of taxes that are less distortionary such as the wealth tax have to be diligently studied. In the short term, the government can issue bonds to raise money," he said in an e-mail. "Also, the next government can keep interest rates low to stimulate the economy and generate more tax revenues."

Rene E. Ofreneo, president of the Freedom from Debt Coalition, said in an interview by telephone that the next president should use his or her influence to call on the richest Filipinos to support a wealth tax.

House Bill No. 10253 or the proposed Super-Rich Tax Act of 2021 seeks to impose a tax of 1-3% for wealth starting at P1 billion and beyond.

Under the bill filed by a minority bloc at the House of Representatives, the tax would be used to fund medical assistance, education, employment, social protection and housing for the poor.

Mr. Dominguez has spoken against such plans that he said would lead to aggressive tax avoidance schemes and drive investment from the country.

"Dominguez's framework is traditional," Mr. Ofreneo said in a mix of English and Filipino.

"Indirect taxation keeps increasing through excise tax on gas, which affects jeepney drivers. But for

big players, the government strategy is to lower import duties and give them incentives. In other words, secure their profits. That's supply-side economics. But for me, which is more important? Survival of the economy as a whole? Or securing the profits of the few, which can be eroded by a crumbling economy?"

TARGETED SPENDING

The other side of fiscal consolidation is managing the government's spending.

To spend well, the government should avoid wasteful expenditures and instead focus on funding pandemic-response measures, Institute for Leadership, Empowerment, and Democracy Executive Director Zy-za Nadine Suzara said.

As of mid-January, the DoF has raised \$25.8 billion in financing for the government's pandemic response from multilateral lenders, development partners, and foreign currency denominated global bonds.

But Ms. Suzara said that the country's fiscal woes are not mainly driven by this pandemic-related borrowing.

"While there may be an increase in the health allocations in the 2022 national budget, the truth is, priority was unfairly given to infrastructure projects which includes some P292 billion worth of patronage-driven projects," she said in a Viber message.

"These are the projects that eat up our sources of financing, not the P120 billion worth of pandemic response expenditures which are parked in the unprogrammed appropriations."

Unprogrammed appropriations can only be funded if the government makes excess or new revenue.

The government likely wants to raise taxes due to the resulting "fiscal conundrum," Ms. Suzara said. The next administration needs to fund P250 billion in projects for education, health, and social services under the unprogrammed appropriations.

With poor government spending, raising taxes would not necessarily solve the country's fiscal problems, Ms. Suzara said.

"Debt will inevitably settle at a higher level because of the pandemic. But to keep it from going higher, the first order of business should be to properly allocate the fiscal space and trim the excess fat in the national budget," she added.

Similarly, Mr. Ofreneo said that the government should tweak infrastructure spending by cutting big-ticket projects that benefit only a few in favor of community-based programs that help protect citizens against the pandemic and climate change.

However, UA&P's Mr. Terosa said it is difficult to reduce spending because economic recovery will require it.

"I think a fiscal consolidation plan should prioritize targeted spending," he said.

"This will entail identifying spending programs and projects that will yield relatively greater output, income, and employment multiplier effects on the economy. Also, spending for the most vulnerable sectors must be safeguarded."

Economic managers are targeting 7-9% gross domestic product (GDP) growth this year, after GDP expanded by 5.6% in 2021.

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