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Draft Discussion Paper

TAXING SOLUTIONS TO A LOOMING FISCAL CRISIS

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Summary

Most everybody agree that the fiscal problem is turning into a crisis. The government wishes to arrest the fiscal problem and avert fiscal crisis by, among others, raising taxes and other revenues as well as lowering expenditures. At the same time it seeks to addresses the specific problem of poverty and the general problem of development.

The fiscal problem turns into a crisis when the sum of accumulated government budget deficits becomes unmanageable.

An ordinary budget deficit may at times be necessary as when pump priming the economy, and occurs when government spends (expenditures) more than it earns (revenues).

The problem of budget deficits turns into a fiscal crisis when deficits are large and chronic, that is, year-in and year-out revenues are much less than expenditures, until it reaches a point when government defaults on its payment of IOUs.

Bad governance compounds the problem, as when tax leakages and smuggling drain revenues, and when expenditures are riddled with graft and corruption.

Government revenues generally come from: **taxes** collected by the Bureau of Internal Revenue (BIR) from businesses and individuals; **fees** paid by, or **charges** levied on, the public for certain government services; **earnings** of government from the Bureau of Treasury (BTr), and from government-owned-and-control-led corporations (GOCCs); **tariffs** collected from imports by the Bureau of Customs (BoC); proceeds of **loans** and indebtedness from Official Development Assistance (ODA) and commercial loans from the global financial markets as well as from local sources; and **sales** of certain public assets (privatization).

The General Appropriations Act (GAA) passed yearly by Congress from the national budget proposed by the Executive Branch of Government sums up the government's expenditures.

The looming fiscal crisis is a problem equally of revenue and expenditure as well as governance. From the revenue side, it is a problem of (1) taxation and (2) tariffication; From the expenditures side, the problems are (3) debt servicing and payment, including those incurred by GOCCs and (4) a bloated, inefficient politically gridlocked government bureaucracy. As a bad governance problem, the looming fiscal crisis is equally due to (5) tax leakages, (6) smuggling and graft and corruption.

Indirectly, it is also a problem of economic growth and the lack of jobs. Economic growth has not led to creating more jobs as needed. Consequently, the more the jobless and underemployed, the less there are tax payers. Economic growth requires macro-economic stability, which is gained by balancing the budget.

Remotely, it is a problem of social, economic and political engineering. The fiscal problem is linked to the operational development model, the type and form of state and government, the institutions of governance, and the national as well as global dynamics of its causes and effects.

What is a fiscal crisis?

A condition in which gov't can no longer manage its debts due to a huge budget deficit, an imbalance between revenues and expenditures.

A widening budget deficit means that the bulk of gov't revenues, mainly from taxes is used to pay debts, instead of going to basic services and infrastructure, which are important for economic growth.

When the deficit grows while expenditures for basic services and infrastructure shrink, the confidence of creditors in gov't goes down, and their interest rates go up.

Last year, nearly half of gov't revenue from taxes went to interest payments.

What happens during a fiscal crisis?

- Political instability
- Drop in average incomes
- High inflation
- High unemployment
- Currency depreciation

Source: PDI Research in PDI 8/24.04

"A crisis is when a country is in default, its deficit is not manageable, and it has no access to foreign capital markets. (DTI Secretary Cesar Purissima, citing IMF)

Introduction

It is commonly agreed that a fiscal crisis has disastrous consequences on everybody but most particularly on the poor, marginalized and vulnerable sectors. Most employed and self-employed workers as well as the underemployed and unemployed belong to this category.

While the damage of a fiscal crisis can be undone in the long run - the international community motivated by free trade and investment and anti-terrorism as much as by human development would usually come to the aid of collapsing national economies – there is no point in waiting for the worst to happen before appropriate action is taken.

It is also the opinion of most experts that the looming fiscal crisis is due to neglect of the past which consequences has accumulated to bring us to a point where we are now – about to burst - and where solutions to the looming crisis has become more painful than ever. “Biting the bullet” or “taking the bitter pill” has become oft-repeated phrases.

Accordingly, the danger may be that many people choose to act like ostriches in face of the dangers portended by the unmanageable public indebtedness – the most proximate cause of the crisis - that will result into a fiscal crisis if nothing is done to avert it and fix it. Yet others would put the blame on everybody else except on themselves.

The fact of the matter is that whether one has been part or not of its making, the point in time of finger-pointing is well past due. Maybe we should take the attitude of fixing the problems now and shooting the ones responsible for the problems later, when the danger has passed. Otherwise we may as well start the shooting war now.

Understanding the magnitude of the problem and accepting its urgency may be the first rational step to solving it. Having done so, accepting the shared burden should follow. Yet repeated experiences teach that sharing the burden now will not automatically result in sharing the gains later. Such being the case, the next best and more realistic attitude would be to ensure that both process and objective will gain positive results for specific sectors and interest. There is always the “win-win” solution to fall back to, where all the values in the negotiating table are taken by the players as suit their interests, not their positions.

In the end, everybody is in the same ship sailing the turbulent seas of globalization. Survival is the first order of the day. Collective action or “rowing the boat together” in the same direction is the better means to achieving common ends..

Fact and Figures: What they say

The facts and figures cited under may not tally or may not even be consistent because different authors wrote them , and their data sources and computations may have been different. These facts and figures are also incomplete. Gaps remain which can be filled later.

The purpose of these facts and figures as presented is to show the magnitude of the problem and their probable causes and effects. Likewise it aims to underline the urgency of fixing the problems both in the short term and in the long run if only to avert the more disastrous consequences but equally to gain time and space within which to provide more permanent or more lasting solutions to the problems at hand.

No claim is laid on the insights provided. The market of ideas must remain free even as many of us would rather regulate the functioning of the original “invisible hand”.

Facts and Figures	<i>Description / Annotation</i>
Budget Deficit	

4.7 %	<p><i>Deficit-to-GDP ratio in 2003</i>, down from 5.3% in 2002 the year that registered the highest deficit-to-GDP ratio, but up from 1.9% in 1998 and 4.1% in 2000.¹ Since 1970 or in the span of 34 years, a budget surplus occurred only 6 times.²</p> <p>In 2004, the ratio is targeted to be at 4.2%. By 2005, it is targeted to be reduced further to 3.6%³</p> <p>Benchmarked against ASEAN countries, while this ratio is “not the highest in the region in the period after the Asian financial crisis, the country had always outranked the other countries in terms of the size of its national government debt.”, making the Philippines more vulnerable “to fluctuations in the interest rate and the foreign exchange rate.”⁴</p>
5.6%	<p><i>Ratio to GDP of the consolidated public sector deficit (CPSD) in 2003. This is expected to rise to 6.7% in 2004.</i>⁵ The CPSD includes the deficits of GOCCs.</p>
Php 197.8 Billion	<p><i>The estimated amount of budget deficit in 2004.</i> In 2003, the budget deficit registered at Php 199.9 billion⁶ down from Php 210 billion in 2002. Next year (2005) the targeted amount is variously estimated at more than Php 200 billion. The draft MTPDP gives a lower estimate of P184.5B en route to practically zero by 2009</p> <p>Government hopes to balance the budget by 2009, something that is hard to attain. In the first half of 2004, the deficit is already off-target, registering at</p>
Debt	

¹ Manasan, Rosario G., “Fiscal Reform Agenda: getting ready for the bumpy road ride ahead”, PIDS Discussion Paper Series No. 2004-26, August 2004

² De Ocampo, Roberto F., “The Philippines in 2004: A post election view”, speech delivered at the Asia Society Meeting, Hong Kong (June 2004). De Ocampo is President of AIM and former DoF Secretary during the term of President Fidel V. Ramos.

³ draft MTPDP (2004-2010): work in progress as of August 31, 2004 circulated to the various technical meetings coordinated by the NEDA).

⁴ Manasan, op.cit.

⁵ draft MTPDP, op.cit.

⁶ ibid.

<p>Php 3.459 Trillion</p>	<p><i>Amount of outstanding debt of the national government as of end-2003, (which increased by 18.6% from the year before). This amount is “split almost equally between foreign and domestic liabilities.”⁷</i></p> <p>27% of the country’s foreign debt is short term (less than 5 years in maturity); 48% are medium term (5-10 years); 20-25% are long term (11-19 years) which can indicate that we are not yet approaching the fiscal crisis and economic breakdown that Argentina has experienced.⁸</p> <p>With 82 million Filipinos, the per capita debt runs to Php 41,585,00.</p> <p>The outstanding debt could go up to Php 3.5 trillion by end-of-2004 and to a whopping Php 7 trillion by end-of-2010, if nothing is done sooner.⁹</p> <p>The amount of outstanding debt of the national government constitutes 90% of the Gross Domestic Product (GDP) of the country as of September, 2004,¹⁰ increasing from 78% of the GDP in 2003.¹¹ The amount is about 5 times greater than government revenues.¹²</p> <p>The Php 2.01 trillion increase in the national government’s debt between 1997 (Php 1.35 trillion) and 2003 (Php 3.36 trillion) was due to: national government deficits (42.6%); exchange-rate change (18.8%); non-budgetary accounts (16.0%); liabilities and lending to GOCCs assumed by the national government (21.3%); and increase in cash (1.4%).¹³</p>
<p>Php 5.39 Trillion</p>	<p><i>Total public sector debt (national government + government corporation by September, 2003).</i> This amount is about 120% of GDP, which is two times bigger compared to what IMF calls a “prudent” debt ceiling for developing countries.¹⁴</p>
<p>Php 540 Billion</p>	<p><i>Amount in the 2004 national budget that is automatically appropriated by the Automatic Appropriations Act to meet maturing obligations and interest payments.¹⁵</i></p> <p>31.4% of the 2004 national budget is automatically appropriated for debt servicing (interest payments only). Over the years, this ratio has been increasing.</p> <p>In 2005, this amount is projected to increase to Php 645.9 billion or</p>

⁷ De Dios, E. S., et. al., “The Deepening Crisis: the real score on deficits and the public debt”, UPSE 2004 as downloaded from www.econ.upd.edu.ph. ADB estimate that 52% of the total P3.5 trillion total debt of the national government is domestic (see ADB 2004 Economic Outlook for the Philippines)

⁸ According to Sergio Luis Ortiz, President of the PCCI , Philippine Star, Setember 8, 2004, p B3

⁹ de Ocampo, op.cit.

¹⁰ ibid

¹¹ De Dios, E. S., et. al., op. cit.

¹² draft MTPDP, op.cit.

¹³ ibid., Taken together with an analysis on primary and total surpluses and deficits, the figures purport to show that the ballooning government debt are equally due to (1) inadequate tax revenues or tax effort, (2) “extravagant’ government budgets, (3) dismal performance of GOCCs, and (4) disastrous policies of all previous administrations. To emphasize the impact of GOCCs “dismal performance” on the budget deficit, the study cites the case of NAPOCOR’s 5-year (1999 –2003) debt that was assumed by government to the tune of Php 44.5 billion, and warns of more liabilities that may have to be taken over by government in the cases of SSS, GSIS and RSBS. Manasan (op.cit) also claims that while the deteriorating fiscal position from 1996-199 was “largely on account of the national government”, the “GOCCs are the primary culprit in the deteriorating fiscal position “ from 2000-2004 (page 6), and that “the combined deficit of the GOCC sector is projected to rise to 2.4 percent of GDP in 2003 and 2.5 percent of the GDP in 2004”, from its level of 1.2% in 2002 (page 7). Finally, Manasan estimates that the bulk of the deficits coming from GOCCs is attributable to NPC (77%-78%) in 2003-2004.

¹⁴ ADB 2004 Economic Outlook for the Philippines. Figures from the UPSE study estimates the ratio of consolidated public sector deficit to GDP at 130% by end-2003. Both ADB and UPSE studies point out that the ratio to GDP of the outstanding debt of the national government and the consolidated public sector deficit have been increasing overtime since 1996.

¹⁵ ADB 2004 Economic Outlook for the Philippines

Php 148.2 Billion	<i>The amount of accounts payable or unpaid obligations to domestic suppliers and public works contractors as of January 2004. Of the proposed budget for 2005, government will be able to pay these obligations up to one-third or Php 48 billion.. “On top of the unpaid obligations, government will again accumulate debts of about Php 35 billion, so that by end-2004, accounts payable are projected to reach Php135 billion.”</i> ¹⁶
500%	<i>Philippine debt as percent of total revenue, the highest in Asia. Compared to Thailand, for example, which registered at 150%, the Philippine ratio is much too high. This makes the country vulnerable to event risk, which means we may no longer be able to tap the international capital markets when needed.</i> ¹⁷
42.1%	<i>Debt service payments as percent of tax revenues in 2003, increasing from 37.4% in 2002</i>
23%	<i>Average annual growth of debts in the last two decades, which is more than twice the nominal annual growth rate of the economy in the same period.</i> ¹⁸
Revenues	
14.6%	<i>Revenues as percent of GDP in 2003, also called the tax-effort, down from a high 19.4% in 1997, but slightly recovering from 14.3 in 2002.</i> ¹⁹ “About two-thirds of the contraction is due to the reduction in BIR tax effort while the remainder is attributable to the reduction in BoC tax effort” ²⁰ The contraction in the BIR’s tax effort is attributed to problems “both of tax policy (i.e. decline in the effective income tax rates and non-indexation of sin and petroleum product taxes) and tax administration.” ²¹
2.8%	<i>Percent of GDP from total customs collection (of tariff) in 2002, which declined from 5.6% in the mid 1990’s.</i> ²² “The severe deterioration of fiscal performance from the mid-1990s could be attributed to aggressive tariff reduction”, ²³ the amount of which is estimated to have been more than enough to cover the Php 210 billion budget deficit in 2002. ²⁴ Consequently, the unilateral liberalization pursued beginning in the mid-1990s “made it more difficult for succeeding administration to balance the budget.” ²⁵
Expenditures	
2.0%	<i>National government spending as percent of GDP which is targeted to double to about 4.6% in 2010</i> ²⁶

¹⁶ PDI, “RP debt service is Php 646 B says Recto” , 8/27/04

¹⁷ de Ocampo, op.cit.

¹⁸ According to Senator Ralph Recto , Chair of the Senate Ways and Means committee, the fiscal management went wrong when “we failed to see that our debt was growing at an average 23 percent in the last two decades, and that the economy was *growing at an average rate of 10 percent nominally in the last two decades.*” PDI 8/24/04

¹⁹ DoF fiscal update. The UPSE Study also indicates the same trend but estimates the tax-effort to have declined from a high of 17% in 1997 to 12.3% in 2003.

²⁰ Manasan, op.cit. However, Manasan uses a slightly lower figure on the tax effort than other authors: from a peak of 17.0% of the GDP in 1997 to 13.9% in 2000 and 12.3% in 2002.

²¹ Ibid.. In her footnote, Manasan explains further: “In particular, 46 percent of the 2.3 percentage point decline in BIR tax effort between 1997-2001 is attributable to changes in tax policy (notably the reduction in effective tax rates for the income tax and the excise tax due to nonindexation), another 46 percent to increased evasion and only 7 percent to changes in economic structure

²² Walden Bello, Nacpil & Nemenzo, “The UP School of Economics Report: overdue, selective, not daring enough”, in Business World 8/27/04. Manasan, using different figures, nuances Bello’s claim as follows: “While the fall in BOC revenue from 3.9 percent of GDP in 1997 to 2.9 percent in 2000 and 2.6 percent in 2001 may be attributed largely to the tariff reduction program, its further decline to 2.4 percent of GDP in 2002 and 2003 appears to be due to problems with smuggling.”

²³ Quotation attributed to former DoF Secretary Isidro Camacho in Walden Bello, *ibid.*

²⁴ *ibid.*

²⁵ *ibid.*

²⁶ draft MTPDP, op.cit.

Php 907.569 Billion	<i>Proposed national budget for 2005, increasing by 5.3 percent or Php 46 billion over last year's budget of Php 861.6 Billion., which was a re-enactment of the 2003 budget. Net of IRA and automatic debt appropriation, the remaining budget goes to social services sector (44.4%), economic sector (23.7%), general public services including public order and safety (22%), defense (9.9%).²⁷</i>
P0.40 out of every P1.00 or a total of Php 151 Billion in 2005	<i>The share that goes to Internal Revenue Allotment (IRA) for every peso of tax collected by the national government, of which the national government expects to cut down up to 25% or Php 37.75 billion. The President's declaration of a fiscal crisis was "meant to allow the (national) government to get a slice " of the IRA."²⁸</i>
Php 289.25 Billion	The amount allocated in the 2005 national budget to pay the salaries of some 1.5 million government personnel. Salaries of government personnel and MOOE is estimated to be about 50% of the national budget. ²⁹
Php 645.9 Billion	<i>The real amount automatically appropriated for debt servicing in 2005, also sometimes referred to as the debt burden. Of this amount, Php 301.7 billion or 33..2% is appropriated for interest payments, while the remainder in the amount of Php 344.2 billion is considered an "off-budget" item to pay for amortizing the principal.</i>
Php 20 Billion	<i>The total amount of Congressional pork barrel, The "pork barrel" for is officially referred to as the Priority Development Assistance Fund (PDAF.). Each of the 236 Congresspersons receive Php 65 million annually as pork barrel while each of the 23 Senators receive Php 200 million yearly. The House is eying to cut its pork by 30% while the Senate hangs on to a 50%. The proposed national budget, however, cuts deeper into pork: at Php 25 million less for each Congressman and Php 80 million less for each Senator. If approved, the total cut will save some Php 9.7 Billion.⁴</i>
Php 1 Billion	The amount of the President's discretionary fund: Php 500 million is allocated for intelligence fund and the other half goes to the President's Social Fund.
Php 600 billion	Projected total debts of NAPOCOR in 2004, up 15% from Php 523 billion in 2003, "unless government implements stop-gap measures, among them the continued sale of power plants and an increase in the tariff on power rates". NAPOCOR expects to lose Php 113 billion this year. Of the total debts, the national government plans to absorb Php 500 billion, higher than the P200 billion allowed under the Electric Power Industry Reform Act (EPIRA). The Power Sector Assets and Liabilities Management Corp.(PSALM) is "committed to fast track the sale of some 70% of the power generating capacity in Luzon and the Visayas by end-2005" NAPOCOR also proposes to increase its generation charges by an average ranging from Php1.87/kwh to P4.09/kwh across the country. This proposal will increase the generation charge to Php 4.56/kwh in Luzon, Php 4.59.kwh in Visayas, and Php 3.13/kwh in Mindanao. ³⁰
Governance	
Php150B to Php200B	The amount stolen by smugglers annually "from government by evading the payment of import duties, VAT, income tax, excise tax and other local taxes. This amount us almost equal to the annual government deficit!" ³¹
Php 127B	The amount lost annually from uncollected income taxes and VAT between 1998 and 2002, or a total loss of Php 635B over those five years. ³²

²⁷ PDI, 8/27/04

²⁸ *ibid.*

²⁹ If about half the national budget goes to salaries and MOOE, about 31% is automatically appropriated for debt serving, and 6% goes to capital outlay, only the remainder actually goes to spending for public services and welfare.

³⁰ Philippine Star report, "Napocor debts projected to balloon to P600B this year", 8/27/04

³¹ Fair Trade Alliance, "To build a strong republic, declare smuggling a heinous crime!", paid advertisement appearing in PDI on 8/24/04, page A15.

Php 20-25 Billion	<i>Alleged unpaid taxes of taipan Lucio Tan</i>
29.8%	<i>VAT evasion rate. Cielito Habito cites the NTRC study which “estimated Php85.4B or two thirds of the yearly leakages have come from income tax non-payment, while Php416B or one third were lost from uncollected VAT”.</i> ³³
69%	<i>Leakage rate in the tax payment of professionals, from a collectible of Php36.6B against a collected amount of Php11.9B</i> ³⁴
38%	<i>Leakage rate in the tax payment of corporations, from a collectible of Php142.4B against a collected amount of P88.3B</i> ³⁵
7%	<i>Leakage rate in the tax payment of wage and salary earners, from a collectible of Php65.9B against a collect4ed amount of Php61.3B</i> ³⁶
46%	The share of increased tax evasion in the 2.3 percentage point decline in BIR tax effort between 1997-2001 ³⁷

Issues and Concerns

Areas	Description / Discussion
Taxation	The tax base is shallow; Tax effort is low and declining; New tax measures can be inflationary and regressive.
Tariffication	Unbridled liberalization or tariff reduction contributed to declining tax effort Liberalization led to closures and job displacement, thus, eroding tax base and contributing to the decline in the tax effort.

³² Cielito Habito, “No Free Lunch”, in PDI 7/26/04

³³ *ibid.*

³⁴ *ibid.*

³⁵ *ibid.*

³⁶ *ibid.*

³⁷ Manasan, *op.cit.*. See also footnote #14.

Debt Burden	<p>Too high and increasing; unsustainable; becoming unmanageable. It is understated because it does not include off-budget items, such as the payment of principals on indebtedness that are maturing, Likewise, it excludes outstanding obligations for the year, that is, what government owes its suppliers and contractors for services that they have already rendered</p>
	<p>At 31%, debt servicing eats up a large portion of the national budget. Since more than 50% is allocated for personnel salaries and maintenance and operating expenses, and about 6% is allocated to the Internal Revenue allotment (IRA) of Local Government Units, only the remainder is</p> <p>Especially foreign indebtedness is no longer rationally managed. It will be harder for the Philippines to borrow anymore money in the international financial markets because of the higher “event” risk that our present debt burden entails. In any case, if creditors are still willing to lend money to the government, the interest rates are expected to be higher because the risks of default also becomes higher.</p> <p>no “daring” strategy, thus fiscal solutions “dictated” by creditors</p>
	<p>Assumption by National Government of Deficit /losses of GOCCs, particularly of NAPOCOR, the single biggest contributor to the consolidated public sector deficit. Together with increasing the electric tariff, these twin policy is expected to make the NAPOCOR more attractive to private buyers, which is the third plank of the strategy to solve the power problem and ease the budget deficit . In the light of the privatization fiasco of Maynilad, many have raised doubts whether privatizing NAPOCOR is a better solution.</p> <p>Probable additional burden from failure of SSS, GSIS and RSBS. Despite recent improvements in their operations and funding, these financial institutions remain shaky. Government is committed to guarantee the continued operations of these financial institutions and financial failure of these institutions, will force government assume their liabilities and set them in order. Proposed measures to stabilize these institutions include increasing the contribution rates of members, re-designing their architecture into a defined-benefit (public) and defined-contribution (private) schemes; outsourcing their financial management; improving the efficiency of their administration, and cost cutting.</p> <p>However, all these measures to lighten intended to lighten the debt burden of government may shift the heavier burden to the public and the workers through higher prices, higher tariffs of public utility services, higher premium on social insurance while promoting precarious, flexible and insecure jobs that will pull down present wage levels, as also the tax effort.</p>

Government Bureaucracy and expenditures	<p>Automatic Appropriation of the budget for debt servicing and debt payments. Alternative measures being proposed, such as moratorium, debt cap and remission or relief are complicated, may not sit well with creditors and thus raise the country's "risk" factor as well as increase the interests on Philippine debt bonds. In the end, the cost may be higher than the benefits.</p> <p>"Extravagant" expenditures, such as the high salaries and/or perks of executives in the GOCCs and the three branches of government or in the blatant misuse of government properties and assets for private gain result in declining public trust and confidence in government, making it harder for government to work out reform measures that are nonetheless necessary and urgent.</p> <p>Wasteful expenditures that is partly due to a bloated bureaucracy that is partly caused by unrestrained political appointments as well as by redundancies and inefficiencies and waste in rendering public service. Frequent political gridlock not only often result in costly delays in the implementation of programs and projects but also many lawmakers steer the passage of laws that have no revenue back-ups; Proposed measures to "rationalize" the bureaucracy results to downsizing that leaves the displaced government workers out in the cold.</p> <p>Doing away with the pork barrel raise the issue of check and balance between the executive and legislative branches of government. To the extent that the pork barrel is spent on promoting the social welfare of congressional constituencies or used to improve social services, removing the pork without re-aligning the amount to its former usage can cause social dislocation and can be counter-productive.</p> <p>The reduction of IRA can dislocate LGU finances and social services devolved to them and weakens the devolution mandate of the Local Government Code;</p> <p>Pump priming, investments in public and social infrastructure and improvement of economic and social services can be the first victims of cost cutting measures, and, therefore, may increase poverty instead.</p>
Tax Leakage	<p>Evasion; avoidance; legal loopholes and other tax leakages are hard to plug in the absence of appropriate or because of inadequate legislation and inefficient administration or implementation.</p> <p>Non implementation of existing laws; poor administration;</p>
Smuggling and Graft and Corruption	<p>Rampant and unchecked due to inadequate legislation.</p>
Economic Growth	<p>Low and slow; jobless growth; swelling informal sector not conducive to improved and sustained tax effort;</p> <p>poverty as cause and effect of fiscal problems; macroeconomic instability</p>

Fixing the fiscal breakdown: 6 toolkits

Proposals to fix the fiscal breakdown mostly agree that reforms will be painful and that the ride will be bumpy, owing to past neglect that have deepened the problems and complicated their solutions.

Their underlying proposition is to share the burden of reforms that must be undertaken regardless. A fear is that, once again, the poor, marginalized and vulnerable sectors will be hardest hit by many of these reforms

Many of the proposals, moreover, inadequately spell out how the gains from such reforms are to be shared and how equitably the sharing will be..

The six toolkits are:

- GMA's 10-point Legacy, MTPDP's 5 chapters and proposed Fiscal Reform Agenda (Box 1)
- Manasan's Menu (Box 2)
- The UPSE Solution (Annex 3)
- Bello's Dare (Box 4)
- FTA's proposals against smuggling (Box 5)
- 18 Options for Workers participating in Privatization (Box 6)

As its broad and comprehensive program of Government, the GMA Administration has proposed a 10-point Legacy, which was later clustered into 5-points by the SONA and the proposed MTPDP. The draft MTPDP, in turn, details the 10-point legacy in five chapters that are made up of "fighting targets" and action plans containing both legislative and administrative measures. The proposed MTPDP defines the basic task as fighting poverty and building prosperity. It aims to focus on "strategic measures and activities which will spur economic growth and create jobs." (Box 1)

Manasan's Menu. In her paper, "Fiscal Reform Agenda: getting ready for the bumpy road ahead", Manasan lists several fiscal reform measures and provides amounts that can be raised for each of the revenue measures and expenditures cuts. (Box 2)

UPSE Report. Days after Manasan's paper, The UP School of Economics (UPSE) came out with another study entitled "The Deepening Crisis: the real score on deficits and the public debt". Authored by 24 economic professors of the UPSE, the deficit and public debt is critically appraised and certain solutions consistent with their appraisal are proposed for public debate and adoption by the authorities: fully implement all previous tax measures, raise taxes, cut expenditures, reform the GOCCs, maximize ODA, among others. Like the Manasan study, the UPSE report provides calculations or estimates on how much the proposals will raise revenues and cut costs. (Box 3)

Bello's Dare provides a stinging critique to the UPSE study. Co written by Walden Bello, UP professor and executive director of the Global South, Liddy Nacpil and Ana Marie Nemenzo, Secretary-General and President of the Freedom from Debt Coalition, respectively, they say that the UPSE report is overdue, selective and not daring enough. While agreeing with some of the UPSE proposed solutions, they add two "daring" proposals of their own: accelerate the reversal of tariff reduction and devalue the foreign debts. (Box 4)

The Fair Trade Alliance's (FTA's) demand to make smuggling a heinous crime and to reform customs has been publicly advertised, which claims to drain government revenues anywhere between Php 150 to Php 200 billion pesos. Composed of groups of farmers, workers and businessmen, the FTA advocates for protection and advancement of firms and farms, jobs and livelihood from the ravages of unbridled liberalization and blind pursuit of free trade foreign investments. (Box 5)

The "18 Options for Workers" is a trade union proposal setting conditionalities for workers' participation in privatization, otherwise it threatens "strikes and boycotts which will all cost us dearly." It advocates for the respect and promotion of core labor standards in the privatization process and provides negotiable options for affected workers in order to arrest the "race to the bottom" in labor standards. (Box 6)

Box 1: GMA ADMINISTRATION PROGRAM OF GOVERNMENT (2004-2010)

<p style="text-align: center;">10-point Legacy</p> <ol style="list-style-type: none"> 1. creation of ten million jobs 2. education for all 3. balance the national budget 4. link the country through a network of transportation and digital infra 5. provision of power and water 6. decongestion of Metro Manila 7. development of Clark and Subic corridor 8. Automation of the electoral process 9. Peace agreement with rebel groups 10. “closure of wounds” caused by divisions due to EDSA 1, 2, and 3. <p style="text-align: center;">The Draft MTPDP’s 5 Chapters</p> <ol style="list-style-type: none"> 1. Economic Growth and Job Creation 2. Energy Independence and Savings 3. Social Justice and Basic Needs 4. Education and Youth Opportunity 5. Anti-corruption and Good Governance <p>Proposed fiscal targets towards balancing the budget by 2009 and reducing CPSD to no more than 3% by 2010:</p>	<ul style="list-style-type: none"> ➤ Reduce national government debt to GDP ratio from to less than 60% ➤ Lower the deficit to 4.2% of GDP in 2004 and 3.6% in 2005 ➤ Focus on fiscal consolidation through fundamental revenue and expenditure measures by: dramatically (a) increasing the revenue effort to their 1996-1997 levels; (b) rationalizing public expenditures towards greater productive spending; (c) significant improvement in public investment levels. ➤ Pump “new” blood into the tax system and rid expenditures of inequities and inefficiencies. <hr/> <ul style="list-style-type: none"> ➤ At least double national government spending as a percent of GDP from about 2.0% in 2004 to about 4.6% in 2010 <p style="text-align: center;">Fiscal Reform Agenda</p> <p>1. Legislative Measures</p> <ul style="list-style-type: none"> ➤ <u>8 new revenue measures</u>: indexation of excise tax on “sin” products; general amnesty; rationalization of fiscal incentives; review of the VAT system; tax on telecommunications; excise tax on petroleum products; institutionalization of an attrition system; adoption of gross income taxation ➤ <u>enactment of Fiscal Responsibility Bill</u> ➤ <u>Enactment of an omnibus re-engineering law</u> ➤ <u>Rationalization of Retirement and Pension Benefits\</u> ➤ <u>Removal of automatic guarantee provision in certain GOCC</u>
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2. Administrative Measures

- revenue reforms: improve revenue collection; adjust fees and charges upwards
- improve enforcement mechanisms
- Disciplined, efficient public spending: focus expenditures to areas with greatest impact and benefit to the greatest number; public investment measures operationalize the MTPIP; strengthen the ICC process of NEDA; rationalization/reorganization program;

improvement of GOCC performance; LGU autonomy and devolution of certain projects; implement debt reduction plan such as bond exchange to lengthen debt maturity, more use of ODA than commercial borrowings and limit guarantees to GOCCs.

3. Address NAPOCOR Losses

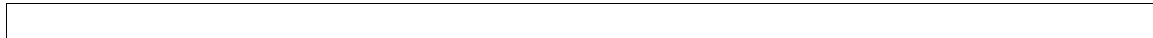
Source: Presidential Speeches, www.op.gov.ph; NEDA Draft MTPDP (Work in progress as of August 31, 2004)

Box 2: Manasan's Menu

Source: Manasan (Aug. 2004)

Annex Table 1. New Tax Measures

Tax measure	Revenue Impact (billion PhP)	Remarks
Indexation of excise tax on alcoholic products	4.7	relatively easy to collect; small number of collection points; can be justified on the grounds that consumption impose social costs on rest of economy in the form of add'l health care/ police services
Indexation of excise tax on tobacco products	7.4	
Indexation of excise tax on sin products to 1997 levels	12.1	
Indexation of excise tax on petroleum products (b) 25% increase - P1.10/ P0.40 (a) 50% increase - P2.20 / P0.80 (c) 100% increase - P4.4/ P1.60 (full indexation to 1997 levels) (d) across the board Php-1 per liter	5.3 10.7 21.3 17.0	politically sensitive product; price increase tends to trigger increase in wages and prices of other products; current wave of price increases in int'l market make this reform doubly difficult; question of timing – should govt wish to impose it, doing so should be timed with softening of prices in world market, may be coupled with rebates to public transport to improve social acceptability, can be justified because of environmental costs (i.e., pollution and congestion) associated with its use.
Rationalization of fiscal incentives	14.0	a/ focus on limiting coverage to exports and one or two industry groups; harmonize various tax incentive laws thru tax exp'd budget
Imposition of excise tax on text messaging (a) 1 centavo (b) 10 centavos (c-) 20 centavos	0.9 9.1 18.3	b/ c/ sumptuary nature of text messaging unclear; easy to collect; small number of collection points
Imposition of across-the-board import surcharge (a) 1% (b) 2%	8.0 16.0	would not affect relative protection across industries; may be inflationary, may be implemented by administrative action without need of legislation
Increase in VAT rate (a) from 10% to 12% (b) from 10% to 14%	14.9 29.8	may be hard to justify given prevailing evasion at existing tax rate; but may be needed given difficulty in raising revenues from other sources
Reduction in number of VAT- exempt products including petroleum products	4.0	c/ broadens the VAT base; will tend to ease VAT administration; in line with international practice
Use of presumptive income levels for professionals/traders		broaden tax base to include hard-to-tax groups; make individual tax system more equitable



Tax measure	Revenue Impact (billion PHP)	Remarks
Shift to gross income taxation		not consistent with neutrality of tax system, i.e., one that avoids interfering with resource allocation decision of private sector; does not really reduce venue for tax negotiation between taxpayers and tax examiners
Imposition of tax on windfall profits of telecommunication firms		is the sector lightly taxed? if not, why penalize a profitable sector
Imposition of franchise tax on telecommunication firms in lieu of the VAT	5.0 d/	frequent tax regime change will not sit well with industry
Increase in motor vehicle tax (or road users tax) (a) 20% increase (b) 50% increase	1.8 3.2	Revenue earmarked for road maintenance; increase partly explained by inflation adjustment
Imposition/increase in tax on luxury items	0.8 e/	improves progressivity of tax system; may take the form of higher excise tax on automobiles; coverage may be expanded to include other items; is it worth the effort?
Increase in minimum gross receipts for common carriers tax	4.1	levels set in 1976 yet
Reduction in corporate/individual income tax rate		tricky; not likely to work unless enforcement is significantly improved; reduction in CIT and IIT under CTRP did not yield supply side effects
Grant of tax amnesty		Philippines granted 18 amnesties in last 14 years; results not encouraging; disincentive effects on timely payment of correct taxes
Institutionalize performance-driven systems in tax collection agencies		may be linked with creation of autonomous revenue authority but not necessarily; application of lateral attrition
Creation of autonomous revenue authority		experience elsewhere shows mixed result with respect to revenue effect; negative revenue impact in first year likely; long-term revenue impact unclear
Increase fees and charges	4.3 f/	

a/ revenue loss from BOI-approved incentives in 2003 (National Tax Research Center)

b/ assumes 200 million text messages sent per day

c/ revenue estimate refers to petroleum products alone

d/ assumes 7% franchise tax

e/ refers to 50% increase in rates but same coverage

f/ assumes 10% increase

Box 3: The UPSE Solution

Table 3: Possible immediate revenue and cost-savings measures

Revenue measure	Additional take (bn pesos)	Contribution to revenue or cost-cutting (% of GDP)	Remarks
a. Indexation of specific taxes on tobacco and alcohol	14	0.33	a bill long pending in Congress
b. Closing off tax leaks plus additional BIR effort	12.4	0.29	half of the yield estimated by DOF (refer to Table 5)
c. P2-specific tax on petroleum	12	0.28	P2 per liter on approx. 6 mn liters (excluding fuel used for power)
d. Motor-vehicle fee increase and	2.0	0.05	a 50-percent fee increase (P1000 on ca. 2 million vehicles,
e. Eight-percent increase in excise on new vehicle registration	3.2	0.07	8 percent applied to ca. 80,000 new vehicles annually at average price of P500,000 per unit
f. Increase VAT rate from 10 to 12 percent and expand coverage	25	0.58	each percentage increase in VAT yields 0.3 percent of GDP
g. Reduce IRA to 30 percent	35.2	0.82	nominal amounts based on 2003 figures
h. Halve CDF allocations	10.7	0.25	P100 mn each from 24 Senators plus P35 mn each from 236 Representatives
i. other measures to be identified	10.3	0.24	
Subtotal (new measures)	124.8	2.90	
j. Existing primary surplus	25.8	0.60	
Total Higher primary surplus plus new measures	150.6	3.50	
Memo:			
j. Servicing of off-budget items and assumed liabilities	65	1.50	assumed reduced from current level of 3 percent of GDP

*Reckoned on the basis of 2003 GDP of P4.3 trillion.

Source: UPSE Report, August, 2004

Box 4:

Bello's Dare: a way out?

There is no easy way out of the fiscal crisis. The measures proposed by the UP economists should be seen for what they are: measures that will help alleviate but will not fundamentally confront the problem.

On the revenue side, reversal of the unilateral liberalization program is essential. The government has already begun this with Executive Order 241, which raised the tariffs on many manufacturing products and Executive Order 264, which froze the liberalization programs for a number of agricultural and fishery products.

The reversal of the program should, however, be accelerated and the government must resist determined efforts by neo-liberal economists and technocrats to reinstitute it. Of course, reversing unilateral liberalization will not only result in greater revenue. Equally if not more important, it will banish a program that, in the words of Isidro Camacho, "has killed so many local industries" because of "the uneven implementation of trade liberalization, which was to our disadvantage." [xvi]

On the spending side, there is no getting around the fact that we will need to devalue the foreign debt. What this means is political courage of the highest kind, and that, unfortunately, is in short supply in the current administration. But we only have to look at Argentina's experience to realize that we have no choice but to grab the foreign debt bull by the horns.

The main reason for the collapse of the Argentine economy was the policy of being a good debtor even when it was clear that servicing the debt was dragging the economy over the cliff. When Argentina defaulted on its foreign debt in 2002, it was because it could no longer service it at the onerous terms imposed by the creditors.

The period of crisis has now given way to a period of growth, with resources going into investment rather than debt service. Unburdened by debt repayments, Argentina grew by 7 per cent.

With an economy on the mend, the creditors are asking for full debt repayment. No way, says Argentine President Nestor Kirchner. The best offer, he has told bondholders, is 20 to 25 cents to each dollar owed them. Take it or leave it. And he has been able to get away with it, with even the IMF giving way and rewarding him instead with a \$3.3 billion loan. [xvii]

To our creditors, many of whom have been paid many times over for the original sum lent us, we can say, loosen your terms to, say, 50 cents to the dollar now or you will get a bankruptcy that will drag you along with it. Better 50 cents to the dollar now, rather than 20 cents or nothing later. Of course, there are many variants to such a negotiating strategy, and they need not involve brinkmanship. But the point is that that we must be much, much tougher with our creditors than we have been so far.

Our friends from the UP School of Economics say we must all share in the sacrifice that will be needed to avoid economic collapse. We agree, but we must include our foreign creditors in that burden sharing.

Now, the political courage that will engage in that sort of negotiating is what we need in our leadership circles at this point. And what we need from UP and other economists is the intellectual courage to recommend and guide such a course of action. Without frontally confronting and following a strategy of devaluing the foreign debt, fiscal collapse and bankruptcy will not only be a strong possibility but a certainty.

Box 5

Fair Trade Alliance (FTA) Proposals Against Smuggling

- Enact a law treating smuggling as a heinous crime. File a new anti-smuggling bill and have it certified by the President as urgent.
- Charge customs officials abetting patently fraudulent importations as accomplices or conspirators in the crime of plunder.
- Penalize purchasers, peddlers and those who possess known smuggled items, similar to those violating the Anit-Fencing law.
- Overhaul the ineffective anti-smuggling control mechanisms in place at Subic Bay, Clark and other economic and special zones and promote these zones as anti-smuggling zones.
- Limit the customs bonded warehouses (CBWs) to a number that can be effectively monitored and regularly audited (Less than 70 CBWs were audited last year out of almost 1,000 operating CBWs)
- Craft an effective Manual of Operations for the strict compliance by the remaining CBWs allowed to operate.
- Shorten the mandatory liquidation periods for all bonded warehouses from 9 months to 3 months.
- Amend the Transaction Valuation Law and institute correct and updated 'check prices' for imported articles to prevent under-invoicing by unscrupulous importers.

(Source: Paid ad by FTA in PDI 8/24/04)

Box 6

**18 Options for workers
participating in privatization deliberations**

“Trade unions must renegotiate for jobs. The message of trade unions to IFIs and government must be simple: “Treat us as full partners, otherwise face us in strikes and boycotts, which will all cost us dearly.” The aim ultimately is to go to the negotiating table..”

- | | |
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| <ol style="list-style-type: none">1. Save jobs by convincing public sector corporations to work with unions and the community in building competitiveness. Accept that jobs will be lost, but instead of job security, the focus should be employment security where new jobs will be created.2. Stay “inside” the new law when all else fails. Institute provisions that guarantee the access of workers to policy and decision making.3. Continue asking questions because the privateers do not have the answers, and it should be the workers providing the points of debate.4. Tie the issue of privatization to the pocket, to its effect on the family budget. Privateers do not make money by doing things better, they make money by charging more and doing less.5. Build coalitions with the religious, NGOs, peoples’ organizations, and small businesses, based on shared goals and common issues.6. Come out with union-supported research on privatization. Get IFIs, government and legislators interested in economic policy analysis from the perspective of workers.7. Transform privatization issues to development and human rights concerns. The campaign must focus on access to energy and water as a human right, and on the possibility that privatization would strip the public of this human right.8. Do not approach the privatization debate ideologically but rather present benchmarks against which deregulation or privatization can be measured. Is there universal access? Is there safe, reliable, and affordable water, electricity, or ports services? How about job protection and an active labor market program? | <ol style="list-style-type: none">9. Require IFIs to carry out labor impact and social impact studies before they rush towards privatization.10. Be prepared to undertake protest actions. Use offensive strategies and complement lobbying with other forms of direct action.11. Insist on public performance audits or privatized agencies to determine if the contractors and new operators are keeping their promises.12. Push for a Freedom of Information Act, where the public has access to documents such as Letters of Intent and loan conditionalities.13. Oppose gradual or sequential privatization, which privateers use to manipulate regulatory systems.14. Respect existing collective negotiation agreement (CAN) even after privatization.15. Repeal proclamation 50, which essentially states that there is no security of tenure for a position that has been abolished.16. Push for government ownership[of a portion of the assets being privatized so that the government can keep the proliferation of cartels in check.17. ensure that the IFIs and the government – in consultation with unions – establish an Active Labor Market Program (AMLMP) to provide for job retraining, job counseling, and job placement for employees affected by privatization.18. Allow small investors to own assets in privatized corporations, and implement stock dispersal schemes. |
|--|---|

“Some norms – such as core labor standards – are ignored. It is no surprise that the preferred labor market policy in privatization is de facto flexibilization.”

Source: ALNI/P Monograph Series, Vol. 1, No. 3, September, 2003.

Proposals on trade union advocacy for sustainable fiscal reforms

Decent work as a framework

It is deemed important to raise decent work as a trade union proposal and framework in the public debates for fiscal reform in order to underline the notion that the pains and gains of reforms must be shared equitably by realizing decent work in the short term as well as in the long run.

The Decent Work concept has been adopted by the Labor Agenda Group as its framework for engaging the social partners in a social dialogue on development directions and strategies.

What precisely is the concept of decent work? (See *Box 7*) And how can it be used as the integrating framework for shaping the labor agenda and responding to the fiscal problems?

The first two dimensions of decent work, that is, work and productive work, concerns availability of work, since decent work is meaningless without work in the first place. The last four dimensions, that is, freely chosen work, equity at work, security at work and dignity in work, are all about its quality.

With decent work available to all, those who work can get themselves out of poverty by their own efforts - that will unburden government from taking care of them otherwise - not only from income derived from their work but also from their power to consume more. Both ways, they contribute to widening the tax base (more tax payers) as well as to increasing the tax effort (more tax revenues from income and consumption).

With decent work, they can better pay for their own social protection or negotiate for better ones with their employers, and contribute higher to public schemes, thus, improving the financial viability of these schemes. They can build, and spend on improvement of, their own houses, send their children to school or spend on the education of their children in better schools. These will not only provide more employment and quality employment for the labor force; it will likewise help in accelerating a virtuous economic cycle by increasing the rate of savings (from premium paid to social insurance schemes), thus, making available more money for investments, which will promote more livelihood and employ more people who can have a more regular source of income that increases their propensity to save.

Objectives of Proposals

The package of proposals should seek to: prevent the fiscal crisis from deepening and, eventually, from recurring and promote macro-economic stability by managing budget deficits and balancing the budget. The proposals should be evaluated on how these impact on the goal to alleviate poverty and how these can promote a more sustainable socio-economic development of the country, from which more decent work can consequently be generated that will widen the tax base and increase the tax collection of government in a more permanent way.

Box 7:

Decent Work

Definition

The decent work (DW) concept has been defined as one providing “opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity.”³⁸

Four Pillars

Decent Work stands on **four pillars**. These are:

- Work, which includes employment, self-employment and unpaid work in economic activities undertaken by families;
- Rights at work, which are derived from commonly accepted international instruments that define these rights and principles, at the very least of which is the recognition, respect and promotion of Core International Labour Standards (CILS)³⁹
- Social Protection, which the International Labour Organization (ILO) in its *World Labour Report 2000* defines as to include not only public social security programmes but also private or non-statutory schemes with a similar objective to social security schemes , including publicly financed social assistance programmes.”⁴⁰
- Social Dialogue, a term that denotes peoples’ participation in decision making, the mechanism of which includes the range of from mere provision of information to co-decision, co-management and co-determination

Six plus one conceptual dimensions of decent work

³⁸ The quotation is lifted verbatim from: ILO, *Decent Work: Report of the Director General, International Labour conference, 87th Session*. The six dimensions of decent work I is concisely described in Anker, et. Al, *Measuring decent work with statistical indicators*, this portion of which is reproduced in the Annex to this final draft.

³⁹ The ILO lists eight core-labour standards as composing the CILS: 1) Convention 87: Freedom of Association and Protection of the Right to Organize; 2) Convention 98: Right to Organize and Collective Bargaining; 3) Convention 105: Abolition of Forced Labour; 4) Convention 138: Minimum Age for Employment; 5) Convention 182: Worst Forms of Child Labour Convention; 6) Convention 100: Equal Remuneration for Work of Equal Value; 7) Convention 29: Forced Labour ; 8) Convention 111: Discrimination in Employment and Occupation. The Philippines is signatory to 7 of these conventions, except 1: Convention 29 on Forced Labour.

⁴⁰ “Social Protection is broadly understood by the United Nations as a set of public and private policies and programmes undertaken by societies in response to various contingencies in order to offset the absence or substantial reduction of income from work, provide assistance for families with children, and provide people with health care and housing. It embodies society’s responses to levels of either risk or deprivation that are deemed unacceptable. The existence of social protection systems also promotes more humane societies, although they are now under threat. It should be seen not simply as a residual function of assuring the welfare of the poorest but as a foundation at a societal level for promoting social justice and social cohesion, developing human capabilities and promoting economic dynamism and creativity” says Gloria Kahn, Chief, Intergovernmental Policy Branch, Division for Social Policy and Development, Department of Economic and Social Affairs, United Nations, New York

“The definition ‘opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity’ explicitly includes six dimensions.

- “Opportunities for work refers to the need for all persons (men and women) who want work to be able to find work, since decent work is not possible without work itself. The underlying concept of work is a broad one, encompassing all forms of economic activity, including self-employment, economic unpaid family work and wage employment in both the informal and formal sectors.
- “Work in condition of freedom underscores the fact that work should be freely chosen and not forced on individuals and that certain forms of work are not acceptable in the 21st century. It means that bonded labour and slave labour as well as unacceptable forms of child labour should be eliminated as agreed by governments in international declarations and labour standards. It also means that workers are free to join workers’ organizations.
- “Productive work is essential for workers to have acceptable livelihoods for themselves and their families, as well as to ensure sustainable development and competitiveness of enterprises and countries.
- “Equity in work represents workers’ need to have fair and equitable treatment and opportunity in work. It encompasses absence of discrimination at work and in access to work and ability to balance work with family life.
- “security at work is mindful of the need to help safeguard health, pensions and livelihoods, and to provide adequate financial and other protection in the event of health and other contingencies. It also recognises workers’ need to limit insecurity associated with the possible loss of work and livelihood.
- “Dignity at work requires that workers be treated with respect at work, and be able to voice concerns and participate in decision-making about working conditions. An essential ingredient is workers’ freedom to represent their interests collectively”⁴¹

Decent work is not a static concept and must be realized within a given and moving political economy in the country. Thus, a seventh dimension may be added: the politico-economic environment. This dimension should create the enabling environment within which the six main dimensions are to be concretized. To illustrate: work generation proceeds from investments, which is a function of savings; savings require a level of income above which people and businesses start to save, which in turn require that people should have jobs or livelihood. Above all these, the managers of the political economy need to prove good governance and to ensure peace and order to create the necessary confidence for a virtuous economic cycle to continue.

No figures are supplied as these will have to be derived from studies to be undertaken on their short, mid, and long term impact on the poor as well as what can be determined by the studies as doable and more progressive.

⁴¹ Lifted verbatim from Anker, et.al.. *Measuring Decent Work with Statistical Indicators*, Working Paper No. 2., ILO Geneva.

Some criteria / strategies for selecting proposals to be advocated

In shaping common proposals for fiscal reforms, participants may wish to consider the following criteria for selecting proposals to be advocated:

- *Progressive sharing of burdens and gains.* The poor should carry less burden than the rich.
- *Doable*, because others have done it. Even as political will is lacking among leaders, reforms must be carried out nonetheless, otherwise everybody suffers
- *Simple, easy to implement / collect*, particularly for new tax proposals. There are just too many legislations that have not been implemented because there is no budget to implement it.
- *Phased*: some reforms will have to be phased, in order to provide the least disruption in their implementation.
- *Prioritized*: as
 - short term (done within 6-12 months)
 - Medium term (done within 2 years)
 - Long term (initiated in the short-term and fully implemented within/beyond 3 years)

The proposals below are divided in two parts: the first is a listing of proposals that can be advocated by trade unions for government and others to consider; the second suggests concrete action that unions can carry out themselves.

List: 6-point package for external advocacy

- Improving tax collection and administration
 - Fully implement existing tax laws
 - Plug tax leaks / loopholes
 - Reduce exemptions to VAT
 - Rationalize investment incentives
 - Pass the NAIRA Bill or Consider creation of autonomous revenue authority
 - Consider the FTA proposal to minimize smuggling (*See Box 5*)
- Increasing taxes and improving the tax effort
 - Indexing specific taxes on tobacco and alcohol products
 - Increase excise taxes on petroleum, (excluding fuel used for power)
 - Increasing the VAT rate but only gradually in the next three years
 - Taxing the better-off and luxurious consumption; e.g. road users' tax, vehicle registration fees and charges, except for fare-regulated public conveyances (tricycles, jeepneys, non-aircon buses).
 - Rationalize and reduce fiscal incentives
 - Improve collection of real estate taxes
 - Increase tax rate of real estate except social housing.
 - Increase electric tariff, except consumption below 300 kwh
- Controlling and rationalizing expenditures
 - Do away with the Priority Development Assistance Program (PDAP), popularly known as pork barrel and re-align the amounts in support of programs that will promote the six plus one dimensions of decent work (*see Box 7*) as well as the GMA Administration's 10-point Legacy program (*see Box 1*). However, Congress should exercise tighter oversight functions on the

- expenditures of the whole government to ensure that revenues are spent according to the General Appropriations Act.
- For two years, reduce the Internal Revenue Allocation (IRA) for LGUs. This is proposed as a temporary, short-term measure to ease the large budget deficit and buy time and space to maneuver. However, the LGUs should be given a share in the increase of VAT collection in their areas. This way, the VAT gets to be implemented more broadly and the revenues derived from it is increased as well. At the same time, sharing with the LGUs the increases in VAT collection can recover some of the amount they lose from the IRA reduction. In addition, the proposal to increase taxes on real estate and improve collections from this source may increase the revenues of LGUs some more.
 - Securitize the outstanding obligations of government, or the amount owed to suppliers and contractors for services that have already been rendered but have not been paid.
 - Consider the “all options” strategy to privatization and improve capacity of regulatory agencies over public utilities as well as the options of workers who are affected (see Box 6)
 - Managing Foreign Debt and Accelerating Tariff reduction reversal
 - Consider the debt devaluation strategy (See Box 4)
 - Put a cap to debt payments
 - Negotiate for debt-for-social expenditures-swaps and debt remission
 - Negotiate for loan restructuring of short-term debts to make these more long-term at more concessional rates
 - Maximize use of ODA or concessional loans
 - Review commitments to WTO/AFTA and use safeguard mechanisms towards accelerating the reversal of reductions in tariff. (See Box 4)
 - Widening the tax base
 - Benefits for informal sector to formalize their businesses and livelihood
 - Creating permanent, regular and secure jobs.
 - Other Measures
 - Income tax relief for the poor and the minimum wage earner to increase their buying power from which more consumption tax can be collected.
 - Accelerate economic growth and ensure job creation in the process

Internal Advocacy

- Increase the awareness of members on their responsibility as tax-paying citizens – whether they are employed wage earners or self-employed income earners - and help ensure that taxes withheld by employers are remitted promptly to proper authorities.
- Join or organize meetings, conferences and advocacy campaigns on fiscal reforms commonly favored, and on taxation for good citizenship; and organize public manifestations in support of trade union advocacies on taxation, public fiscal prudence, and good governance.

- Organize or join and actively participate in networks against graft and corruption and smuggling; organize or support consumer groups and citizens' watchdogs for good governance and corporate responsibility
- Maximize the "de minimis" tax benefits in collective bargaining negotiations;
- Organize campaigns to "Buy Philippine-made Products" and organize the sale and distribution of "generic" wage goods products to members.