The Post-EDSA regimes are usually contrasted with the undemocratic rule of late strongman Ferdinand Marcos. An important testament to this claim of post-EDSA democracy is the so-called "power of the purse" – the power to allocate national resources – granted to the legitimate proxies of the people, the elected members of House of Representatives. This is supposed to be a marked divergence from the Marcosian authoritarian power over the budget, a power that was eventually wielded for crony-patronage and dreams of grandeur.

The governance style of the current regime, however, seems to discredit this claim of fiscal democracy. Gloria Macapagal-Arroyo's current practice of line-vetoing budgets, realigning approved budgets, impounding her opposition's pork, and heavy borrowing and taxation, seem go against the congressional prerogative. Instead, the way she manages the country's coffers is instructive of how our democratic budget process can be abused and mutated into a virtual financial tyranny of one person. But is Arroyo the only one guilty?

FISCAL DICTATORSHIP

The Scarcity of Financial Democracy in Post-EDSA Philippines

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This paper argues that while the current administration had been the most brazen in doing so, the roots of this fiscal autocracy are structural rather than conjunctural. In fact, the past three presidents could have done the same and gotten away with it – all because of how the public finance system had been designed on the onset. Thus, it is necessary to study the nature of the budget process itself, which in itself placed in a context of a society of actors operating on a predefined set of power relations – something which also needs to be considered.

But ultimately, the question can be phrased as a question of who controls what and how much. We can begin answering this by considering the one of the most fundamental and perennial problem of public finance – the problem of scarcity.

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Scarcity of Democracy, not Resources

The problem of budget had always been framed by social movements as the scarcity of resources on education and other social services. The response of the government on this had thus been consistent throughout the years: the scarcity of resources in general. They claim that they want to impose fiscal discipline, and it is inevitable to under-spend on other social and economic sectors simply because the revenues generated are not enough to cover for all obligations.

The classic rebuttal of debt and development advocates to this reply is the debt servicing problem. A huge chunk of the budget, these advocates say, is eaten up for the servicing of interest payments and principal amortization of loans incurred in the past, some of which under questionable circumstances. The government has an equally classic defense when this issue is raised – that debt service is, by law, automatically appropriated. They elaborate on the underlying logic behind the law, that automatic appropriations is "necessary" if we are to maintain the country's access to credit.

This brings us to the question, who decides what is "necessary", and how to do the necessary things. This is a question of resource management and allocation, taking us closer to the fundamental refutation of the resource-scarcity argument by the government.

The fact is, while scarce resources remains to be a true problem of the public finance, it is not its' main predicament. In fact, last year (2007), we had generated the highest levels of revenue from 1983 to 2007, even in real terms or 1985 prices. Revenue and tax effort had been gradually been getting closer to the relatively high levels of the Ramos administration.

The main problem remains to be how resources are managed. In its twenty years of existence, the Freedom of Debt Coalition (FDC) had been continuously exposing the financial and economic hemorrhage the Filipino people is experiencing due to massive debt service requirements. The taxes collected from the Philippine economy end up not being re-channeled back as social or economic services, but go out of the country as payments for government's debts.

But the external outflow is not the only problem. An equally important issue is the issue of internal flow. Excluding external expenses, how does the government decide on how much to spend for what? Is the process democratic, transparent, and participatory? Are decisions made by legitimate actors reflected in the real spending of the resources?

Resource Management and the Locus of Power

The single issue that cuts across both external and internal is the issue of who controls the funds. Where does the resources raised by the State go? How does it decide its priorities? This necessarily takes us into the assessment of the national government budget *as an institution*, its processes and values evaluated by certain standards and parameters.

On this, we believe that the usual parameters of Public Expenditure Management (PEM) – aggregate fiscal discipline, allocative efficiency, technical efficiency [Oliveros (DBM), 2006] – are no longer adequate to measure the efficacy of a budget system. It is at least as important to also determine the locus of power in budgetary institutions. In fact, some literature already put forward the notion of hierarchical or collegial budgeting [IMF, 2006], in order to describe the effects of power distribution in resource management of governments.

Constitutionally, the power distribution as far as fiscal institutions are concerned is biased for the Congress, following the maxim that "the Congress shall have the power of the purse." Thus, the legislative branch has well-defined powers regarding debt, budget, and appropriations, as stipulated in Article VI, Section 24 which states, " All appropriation, revenue or tariff bill, bills authorizing increase of public debt… shall originate exclusively in the House of Representatives, but the Senate may propose or concur amendments."

There is logic to this. First, the framers of the Constitution may have thought that the Congress, in principle, is the institutional representation of the electorate itself. Naturally, power is supposed to emanate from bottom up, especially for a law of national importance such as that on the issue of resource allocation. Second, it will be the constituencies themselves of these representatives who will later bear the cost of revenue-generation through taxes and debt-creation, with debt essentially and effectively being a future tax on future constituencies. Third, it is to serve as the second line of check on an executive which is given leeway in implementing the laws formulated by the legislative, apart from the judiciary's power to declare the unconstitutionality of policies.

In reality, however, the locus of public finance power is not with the Congress. Governance experts and activists already engaged in the budget process came to a conclusion that the Philippine budget is an "executive budget". As it stands now, the national government budget is subject not to the representative wills of the people but to the political interests of a very powerful President and the ideological tendencies of the regime's largely neoclassical technocracy.

Inheriting from Marcos: The Legacy of Fiscal Dictatorship

So why would a budget which places the "power of the purse" on the Congress end up being an "executive budget"? The answer can be found from the legal impediments that prevent the Philippine Congress from effectively exercising their power, thereby emasculating it from providing checks and balances in the public finance process.

Most of these restrictions are inherited from a Marcosian statute, which emphasized an "executive-biased" budget process. Presidential Decree 1177, or the "Budget Reform Decree of 1977"[1] was decreed by Marcos during the time of Martial Law supposedly because "national interest calls for the institutionalization of budgetary innovation realized during the New Society and developed within the context of the Constitution of 1973", claiming that "the budget process as implemented prior to September 21, 1972 was not able to fully support national objectives and plans".

The fall of the dictatorship showed a glimmer of hope that the process of liberal democratization would also touch on the aspect of public finance. This hope, however, was quashed when President Corazon Aquino resurrected the public finance infrastructure created by the dictatorship, and inherited the same undemocratic system of budgeting from Marcos. Some of the provisions of the Revised Administrative Code of 1987, as originally instituted by Executive Order (EO) 292, were copied directly from PD1177.

The presidential powers of the budget, which we seen to have usurped the legislative power of appropriation and served as legal restrictions towards financial democracy, is mainly contained in the provisions below:

1. **The Power of Impoundment**
2. **The Power to Reallocate "Savings"**
3. **The Power to Line-Veto**
4. **The Power to Reenact Budgets**
5. **The Power to Unilaterally Contract Loans**

[1] The full title is: "Revising the Budget Process in order to Institutionalize the Budgetary Innovations of the New Society".

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6. **The Automatic Debt Servicing Provision**

Let us elaborate them one by one:

1. *The Power of Impoundment* *Choking the Enemy*	
Section 38, Book VI of the 1987 Revised Administrative Code as instituted by Executive Order (EO) 292	
Except as otherwise provided in the General Appropriations Act and whenever in his judgment the public interest so requires, the President, upon notice to the head of the office concerned, is authorized to suspend or otherwise stop further expenditure of funds allotted for any agency, or any other expenditure authorized in the General Appropriations Act, except for personal services appropriations used for permanent officials and employees.	
Marcosian Legacy	Derived from Section 43 (Suspension of Expenditure of Appropriations) of Presidential Decree 1177, or the "Budget Reform Decree of 1977"

This provision ensures that the President can refuse to allocate the money that had been appropriated by Congress. And reasons had been replete for administrations to do so. The Ramos and Arroyo (after the 2004 fiscal crisis) administrations, in particular, always aimed to lower its budget deficits, and thus, under-spending on important items.

If we are going to look at the expenditure performance of the government from January to June of 2007, we can see that there had been an under-spending of about P37.9 billion, most of the which was in the *Others* item. This particular item includes allocations for education, health, social welfare, and infrastructure. It registered a P24.8 billion difference between the actual and programmed allocation.

January-June 2007 Spending Performance *(in billion pesos)*			
	Program	**Actual**	**Variance**
All Expenditures, of which:	**589.2**	**551.3**	**–37.9**
Net Lending and Equity	*5.7*	*2.8*	*–2.9*
IRA	*97.1*	*99.8*	*2.7*
Subsidy	*3.2*	*10.6*	*7.4*
Others	*333.3*	*308.5*	***–24.8***

Department of Finance.

The same is true with the preceding year. The 2006 spending performance reveals that actual expenditure is P54.6 billion lower than what was programmed. The variance was actually caused by the P68.4-billion cut, also on the *Others* item. Expenditure in 2005 is not much better, with a P50.3-billion cut.

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2005-2006 Spending Performance *(in billion pesos)*						
	2005			2006		
	Program	Actual	Variance	Program	Actual	Variance
All Expenditures	**963.2**	**942.2**	**–21.0**	**1,099.0**	**1,044.4**	**–54.6**
Interest and Net Lending	320.3	301.8	–18.5	348.3	310.2	–38.1
IRA	120.2	160.6	40.4	134.1	174.7	40.6
Subsidy and Equity	4.9	12.4	7.5	6.1	17.4	11.3
Others	517.8	467.5	**–50.3**	610.5	542.1	**–68.4**

Department of Finance.

The United States (US) government, particularly during the term of President Richard Nixon, explicitly prohibited impounding funds via their Congressional Budget and Impoundment Act of 1974. The US President instead is then limited to recommending the rescission of specific funds, which must be approved by the US Senate and House of Representatives within 45 days. The US Congress, however, ignored many of such requests by the President [Brownell, 1999].

The impetus for enacting such a law may have been due to the practice of presidents then, starting with President Thomas Jefferson in 1801 (who refused to spend $50,000 for US Navy gunboats, as appropriated), of not releasing funds for Congressional appropriations in order to tame the budget deficit. Nixon heavily used the impounding power in order to stem inflationary pressures as purportedly caused by the budget deficit, impounding almost $12 billion, or 4% of the entire Congressional appropriation for 1974 [Johnson, 1994].

In the US, impounding was wielded in the past supposedly against "pork" or "wasteful and parochial tax and spending provisions [Brownell, 1999]" in order to reduce the budget deficit. It thus became is a very political instrument by the President that was opposed by some US politicians, including the then North Carolina's Democratic Senator Sam J. Ervin Jr. who saw impoundment as a violation of the separation of executive and legislative power (in reaction to Nixon impoundments at that time) [Time, 1973].

Arroyo's impoundment was also wielded against pork – her opposition's pork. Philippine Senate Minority Leader Aquilino Pimentel, reacting on the reported doubling of congressional pork barrel or the Priority Development Assistance Fund (PDAF) in 2007[2], said that funds for opposition identified projects are being deliberately withheld by Malacañang and budget officials [Senate Press Release, 2007][3].

[2] From P6 billion as proposed by the Palace to P11 billion as signed.

[3] This has happened before. Presidential chief of staff Michael Defensor said the PDAF is released directly to the opposition congressmen's districts instead of being given to their offices [Sunstar, 2006].

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2. *The Power to Reallocate Savings* *Beefing-up the War Chest*	
Section 39, Book VI of the 1987 Revised Administrative Code as instituted by Executive Order (EO) 292	
Except as otherwise provided in the General Appropriations Act, any savings in the regular appropriations authorized in the General Appropriations Act for programs and projects of any department, office and agency, may, with the approval of the President, be used to cover a deficit in any other item of the regular appropriations…	
Marcosian Legacy	Derived from Sections 44 (Authority to Approve Fund Transfers) and 45 (Authority to Use Savings in Appropriations to Cover Deficits) of Presidential Decree 1177, or the "Budget Reform Decree of 1977"

The executive is not just empowered to impound, it is also empowered to channel savings to cover deficits of other items in the budget. When these two powers are combined, it is tantamount to the power to realign appropriations itself – a power which previous administrations exercised frequently. Notice in Tables 1 and 2 that Internal Revenue Allotment (IRA) is always beefed-up, so was subsidy and equity. This, one speculates, is to ensure support of local politicos and the crony elite entrenched in Government Owned and Controlled Corporations (GOCC).

Moreover, the power incentivizes artificial generation of savings which it can reallocate elsewhere. For example, FDC already reported [2007] that the Arroyo administration had been borrowing more than it should, and reporting the excess as savings.

3. *The Power of Line-Veto* *Surgically Dissecting Opposition*	
Article VI, Section 27(2) of the 1987 Constitution	
The President shall have the power to veto any particular item or items in an appropriation, revenue, or tariff bill, but the veto shall not affect the items to which he does not object.	
Marcosian Legacy	Article VIII, Section 20(2) of the 1973 Philippine Constitution as ratified in accordance with Presidential Proclamation No. 1102.

On top of the power to realign the approved budget, the President also enjoys large power of discretion on what items to approve. The provision above guarantees the power of the executive to veto specific items of the budget while retaining the others[4], thereby avoiding the possible political impasse that can happen on absolute veto of the budget bill[5]. Thus, **since it is the**

[4] The Philippines is not alone in granting the President the Line Veto power. It was also important to note that the first actual implementation of line item veto authority actually occurred in Argentina, as stated in Article 66 of the 1853 Argentine Constitution [Miller, as quoted in Brownell, 1999]. The 1958 French Constitution also granted the President of France with the same powers [Balikian, as quoted in Brownell, 1999].

[5] As we shall read later, US President Clinton's absolute veto in 1995 of the appropriations bill led to a "shutdown" of the federal government.

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executive which proposes the budget via the Department of Budget and Management (DBM), only to be sponsored by the Committee on Appropriations of the House of Representatives, **the executive can simply veto changes that had been made by Congress (both Senate and HoR) on the budget proposed by itself**.

While there are provisions for the overriding of the Presidential veto as stipulated in the Article VI, Section 27(1) of the 1987 Constitution, the onus of ensuring that the budget they appropriated remains legislated is shifted back to the Congress even if in principle, they have the "power of the purse", never mind the fact that funds may not be allocated in the first place (see no. 1 and 2).

Let us take a look in the case of the 2008 budget, for example. FDC together with several civil society organizations campaigned for the reallocation to social services of interest payments for debts which are "challenged as fraudulent, wasteful and or useless", for "premature allocations for interest payments for program loans and bond issuances still in the pipeline", and to account for "savings as a result of the appreciation of the peso with the exchange rate recomputed at P41 to a dollar from a high assumption of P48:$1 in the NEP (National Expenditure Program)". The Bicameral Committee report adopted and incorporated the proposals in the budget submitted to the president.

Mrs. Arroyo, however, decided to veto the debt reduction provisions, citing the need to "preserve" and "protect" the country's "global credit standing". Since then, Arroyo's veto of the debt reduction provision in the 2008 NG Budget was largely unchallenged because of the veto was aptly executed a day after the suspension of Congress' session, conveniently denying Congress the time period with which to take an urgent vote against the veto.

The Presidential Power of Line-Veto had already been around us for so long. The 1935 Philippine Constitution already outlines such power in Article VI, Section 20(2). Article VIII, Section 20(2) of the 1973 Philippine Constitution[6] preserves the line-veto power of the head of the State, then the Prime Minister. This power over appropriation legislation is one the reasons why the balance of power between the executive and the legislative remained lopsided in favor of the former.

In the US, no such power is outlined for the Chief Executive. In fact, in reaction to the Congressional Budget and Impoundment Act of 1974 during Nixon, several US Presidents had lobbied for the Line-Veto power[7]. The reasoning behind this is, if a president cannot impound funds during the budget implementation phase, then at least (s)he can veto specific provisions in the budget which are deemed to be wasteful during the budget authorization phase. On April 9, 1996, the US Congress and President William "Bill" Clinton succeeded into signing to law the Line Item Veto Act[8]. This effectively gave Clinton the power to cancel any provision in the budget, sign the budget into law, and then give back to Congress the cancelled provisions [Brownell, 1999].

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[6] As ratified on January 17, 1973 in accordance with Presidential Proclamation No. 1102.

[7] The struggle for the Line-Veto didn't start from the time of Nixon. It was reported that "before the adoption of the Line Item Veto Act, presidents had tried for over 120 years to acquire this discretionary power over individual spending provisions. Since the Civil War, eleven presidents had publicly stated their support for the line item veto. They include Presidents Grant, Hayes, Arthur, Franklin Roosevelt, Truman, Eisenhower, Nixon, Ford, Reagan, Bush and Clinton" [Brownell, 1999].

[8] Amending the Title X of the Congressional Budget and Impoundment Control Act of 1974

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The legislation of the Line Item Veto Act may have been one of the reasons why the Clinton administration announced on May of 1998 a budget surplus of $39 billion, the first time since 1969 [OPS - US, 1998]. It was thus unfortunate for the Clinton administration that on June 25, 1998, the Supreme Court, in *Clinton v. City of New York*, struck down the Line Item Veto Act, ruling that the Act's provisions violated the proper constitutional lawmaking procedure as outlined in the Presentment Clause of Article I of the US Constitution [Brownell, 1999].

Arroyo, strangely, seemed to have used the same language in her budget message [Arroyo, 2008] for the 2008 General Appropriations Act. In her message, she promised a "balanced budget" – from a deficit of P7.4 billion [DBM, 2008] to zero in 2008. However, despite having exercised line-veto, Arroyo still failed in fulfilling the promise of a balance budget, expecting a budget deficit of P45 billion, or 0.5% of the Gross Domestic Product (GNP) [Amojelar, 2008].

4. *The Power to Reenact Budgets*

The President's Security of Tenure

Article VI, Section 25(7) of the 1987 Constitution

If, by the end of any fiscal year, the Congress shall have failed to pass the general appropriations bill for the ensuing fiscal year, the general appropriations law for the preceding fiscal year shall be deemed reenacted and shall remain in force and effect until the general appropriations bill is passed by the Congress.

Marcosian Legacy	Article VIII, Section 16(6) of the 1973 Philippine Constitution as ratified in accordance with Presidential Proclamation No. 1102.

This is an innovation of the Marcos regime in the 1973 Constitution – "automatic re-appropriation" is not present in the preceding 1935 Philippine Constitution. This provision effectively shields the executive from exhaustion of funds should the Congress fail to come up with the budget, since constitutionally, no funds can be disbursed by the executive unless appropriated by the legislative through a law.

Moreover, it may even be the case that an administration may want budget reenactment, in order to achieve fiscal goals and be given more discretion on fund disbursement. In 2006, Malacañang's threat to veto the budget after the Senate slashed by P26 billion the proposed P1.053 trillion of the House-approved budget [Senate Press Release, 2007] may have led to the 2005 budget's reenactment, ironically allowing the Palace to save as much as P135 billion [OPS - RP, 2006]. FDC [2007] also warned that the delay of the passage of 2007 budget may allow Arroyo to "simply realign the allocations for projects and programs finished last year to items under her discretion -- for election purposes".

The Arroyo administration operated under three budget reenactments during its seven-year term – in years 2001, 2004, 2006. It is interesting to note that year 2004 happens to be an election years, while 2006 is a period of intense political crisis, born out of the "Hello Garci" scandal and the push for a Charter Change.

In other governments, failure to appropriate means government shutdown. In the US for example, the most recent federal government shutdown occurred in 1995 during the term of President Clinton, in a stand-off between him and the Republicans who are currently dominating the House of Representatives then led by House Speaker Newt Gingrich [CNN, 1995]. The stand-off started when Gingrich and the Republican majority slashed Clinton's proposed budget, which Clinton vetoed. Without having enough numbers to challenge the veto, Gingrich and the republican

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majority then decided not to pass a revised budget, causing the expiration of the current continuing funding resolution (P.L. 104-31) [Kosar, 2004].

Subsequently, US citizens began to experience massive government non-provision of services, with 400,000 newly eligible participants in the Medicare having delayed enrollments, 112,000 social security claims not processed, and 160,000 passport and visa applications delayed [US Government Info, 1999]. This stand-off ultimately led to the drop of public approval of Gingrich, who was forced to resign in 1999.

In parliamentary governments, budget crises such as this result to a "loss of supply" which eventually leads to the resignation of the Prime Minister and/or the dissolution of the government, paving the way for the election of a new government. This is because more often than not, non-appropriation of budget by the Congress is a political statement of lack of confidence of the executive. It seems that in the Philippines, a President is shielded from such kind of a statement, providing her or him relative protection from Congress, and thus, a lasting security of tenure.

5. *The Power to Unilaterally Contract Loans*
Dictating the Fiscal Future

Article VII, Section 20 of the 1987 Constitution

The President may contract or guarantee foreign loans on behalf of the Republic of the Philippines with the prior concurrence of the Monetary Board, and subject to such limitations as may be provided by law. The Monetary Board shall, within thirty days from the end of every quarter of the calendar year, submit to the Congress a complete report of its decision on applications for loans to be contracted or guaranteed by the Government or government-owned and controlled corporations which would have the effect of increasing the foreign debt, and containing other matters as may be provided by law.

Marcosian Legacy	Article IX, Section 15 of the 1973 Philippine Constitution as ratified in accordance with Presidential Proclamation No. 1102.

This provision is also not present also in the 1935 Constitution, making the power of the president to unilaterally contract loans another innovation of the Marcos regime. We must remember that Marcos signed into law 1973 constitution following an unprecedented availability of commercial credit after the oil price shock. He needed the power to unilaterally contract loans to take advantage of this situation and to begin a period of debt-driven growth period, from 1970 to 1983 [Montes, 1991].

Much of the loans were channeled to the public corporate sector as subsidies and "capital contributions" which were not meant to be returned back to the government [Montes, 1991], spurring a period of high government deficits. Also, the government issued sovereign guarantees to the debts of some private corporations owned by Marcos cronies, like Rodolfo Cuenca of Construction and Development Corporation of the Philippines (CDCP) [Tiglao (FDC), 1992] and Herminio Disini of Cellophil Resources Corporation (CRC) [FDC, 1992]. This later lead to wholesale government assumption of these debts when these companies started going bankrupt and the owners started fleeing the country.

The 1987 Constitution didn't do much to dilute this presidential power. It only added the requirement of the submission of a Congressional report, which is missing from the 1973 version. But submission of a report doesn't tantamount to a request for Congressional approval, nor even a semblance of consultation. As such, the spending spree of post-EDSA governments continued, peaking at Arroyo's term as president. FDC already reported that from 2001 to 2006, Mrs. Arroyo

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borrowed a total of P2.83 trillion, exceeding the total P1.51 trillion combined borrowings of the Aquino, Ramos and Estrada administrations spanning fourteen years.

But it is not just the quantity that is worrying, but also the legitimacy of these debts. The recent noise on the anomalous $329 million National Broadband Network (NBN) project that is supposed to be financed by the Chinese Export-Import Bank and implemented by the Department of Transportation and Communication with Zhong-Xing Telecommunications (ZTE) company puts into question the possibility that the contracting loans might have been a usual source of corruption money, especially for the current administration.

This leads us to another impact of too much fiscal centralization – the worsening of the debt problem. The power to unilaterally contract loans allows the presidency to raise as much money as (s)he can, using the future revenue-generation capacity as collateral. This runs counter to the thesis of budget deficit analysts Alberto Alesina and Roberto Perotti that the more hierarchical the budget process is, the less budget deficit and thus indebtedness it means for the country [Alesina and Perotti, as cited in IMF, 1996].[9]

And the fact is, loans are simply a tax levied on future generations, as they will be beholden to pay it later when the payments are due. In fact, as the next section will state, these payments are automatic, whether or not the loans that led to these debts have been approved by the people.

6. *The Automatic Debt Servicing Provision*
Involuntary Push towards Poverty and Mal-development

Section 26(B), Book VI of the 1987 Revised Administrative Code as instituted by Executive Order (EO) 292

Automatic Appropriations. — All expenditures for ... (b) principal and interest on public debt, ... are automatically appropriated.

Marcosian Legacy	Copied *en toto* from Section 31(B) of Presidential Decree 1177, or the “Budget Reform Decree of 1977”

It was during the Martial Law in the Philippines that automatic appropriation for debt service was first codified, in Section 31(B) of Presidential Decree 1177. In consonance with her “honor-all-debts” policy, Aquino signed into law the Administrative Code of 1987, copying *en toto* Section 31(B) of PD1177 into Section 26(B) of the code.

This provision is responsible for the fact that for all post-EDSA governments, from 1986 to 2008, debt service for interest payments alone already averaged around 25.72% of the national government budget. Moreover, from 1986 to 1996 and 1999 to 2008, interest payment allocation exceeded education spending, despite the provision in the Philippine Constitution, Article XIV, Section 5.5, stating that education is supposed to receive the highest budgetary allocation.

Thus, automatic appropriation for debt, on top of other automatic appropriations, severely compromise the Congressional “power of the purse“ since only a little amount of the budget is left for Congressional reallocation **as Congress cannot increase the budgetary ceiling** (Article VI, Section 25(1)). The level of borrowings too, is effectively set by the amount of principal

[9] Alesina and Perotti states that more collegial institutions "delay the response to fiscal imbalances once they appear", which can be more abetted by hierarchical institutions imposing fiscal discipline.

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amortization to debts which are to be "rolled over", since they are not part of the budget but instead deducted to new "financing" of the government.

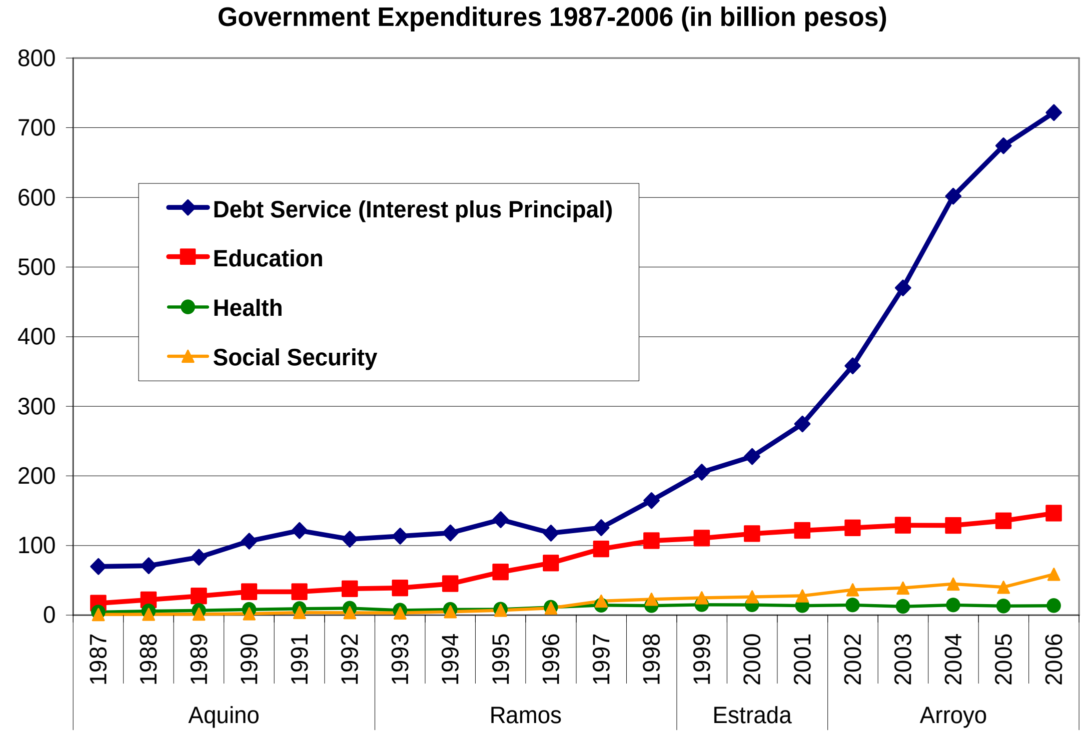

Fig. 1. *Government Expenditures. Source: Department of Budget and Management*

It is interesting to note that the US government also had an experience with an automatic appropriations law on debt service, but this was during a war. It was in 1847, during the Mexican War[10], that the US Congress for the first time altered the practice of appropriating specific amounts of money for each expense it authorized. Instead it empowered the Treasury to pay all interest and principal on the national debt as it came due, regardless of the amount paid out. This creates the first "automatic" appropriation legislation - authorizing the Treasury to pay the debt as it became due without obtaining specific congressional approval [Krishnakumar, 2005].

This institution of an automatic appropriation for debt was largely unopposed because the measure was needed in order to maintain capacity to borrow at reasonable rates, and in order to save Congress the trouble of passing a specific bill every year. Thus, for many years this was the only federal spending that was put on what a later age might call "automatic pilot" [Gordon, 1995]. US leaders may have thought that as war puts severe financial strain on the government, it is necessary to ensure solvency by assuring its credit rating.

[10] Prior to the war, US government revenues are already shrinking. From $50,827,000 in 1836, it dropped to $24,954,000 in 1837. From that year up to 1843 when the depression ended, the government would only have one year of surplus. During this period, debt climbed up to $32 million. The Mexican War then caused a further rise, to $68 million [Gordon, 1995].

Financial managers around the world recommend automatic appropriation for debt in instances of severe fiscal predicaments. Percy Mistry, in a publication which addresses the key issues surrounding financing for development (FfD) which is the subject of the International UN Conference on Financing for Development (UNCFD) in Mexico in 2002, recommended "activating automatic debt-service reductions or stand-stills in the event of financial crises with automatic debt service rescheduling through maturity extensions" [Mistry, 2002].

This leaves us wondering: why are we implementing an automatic appropriation for debt service in a period of improving debt ratios – something which is claimed by the government itself? Even more puzzling still, is the government policy of prioritizing credit rating while repeatedly stressing the undesirability of borrowing, as manifested by its "no borrowing" pronouncement in the 2008 national government budget deliberations. Why the need to retain Section 31(B) if we are already abandoning deficit-spending[11] as a public finance policy?

Section 31(B) remains the one the greatest obstacles towards exercising the Congressional power of the purse. With Section 31(B) in place, our budget remains to be in an "automatic pilot" which prioritizes loan repayments rather than social or economic services, with our helpless Congress scrambling to allocate what meager is left after paying our debts. Lifting it would bring back to Congress much of the resource management power it lost throughout the years.

Consequences of an Executive-biased Budget

These provisions combine to create an executive-biased budget which concentrates all fiscal powers in the hands of the president. The congress is denied any real power of the purse, and management of the country's resources is delegated into the hands of the budget bureaucracy.

What are the consequences of an executive-biased budget? First, in principle, it directly impedes on the democratic dictum of separation of powers. It compromises checks and balances and thus, allows for more discretion on the part of the executive. As we all know, discretion lays the conditions for corruption and abuse, and while corruption and abuse may not actually happen, the suspicion alone that it can wither away the confidence of many on the integrity of the budget process.

Second, it will be more difficult to orient institutional responses to legitimate social interests. While centralization can afford technocratic rationality that cannot usually be generated in more collegial setup, centralization also limits forward and bottom-up transmission of what social needs are and how they can be addressed. If you try to dissociate people away from the processes of the government, the more the government will not know of the nature and the roots of the social predicaments, and therefore it will not be able to respond accurately.

Manolo Quezon [2007] presents an interesting insight on this particularly in the localities. He said that especially during the elections, "it makes no sense for local leaders — and that includes candidates for the House — to inform the source of their patronage, the Palace, of the feelings of people on the ground. It would simply tempt the Palace to divert its resources to a more obliging candidate. And so local candidates took Palace resources, promising, of course, to deliver, but carefully avoided the temptation to use up their own political capital giving instructions that would be ignored anyway".

The same is true in the national perspective. The government, pushed by its own technocracy-imposed administrative constraints towards a contractionary economic policy and a conservative fiscal policy, can only see as a solution to deficits an austere spending program which cuts on social spending [FDC, 2007] and pushes for the implementation-easy indirect consumption taxes,

[11] Deficit-spending means spending more than you earn, which eventually leads to borrowings.

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never mind the political and social issues. It is predisposed to ignore or pay little attention to options that run counter to its "macroeconomic projections" such as adjustment of interest payments based on more realistic projections of foreign exchange rate (which is determined by an irrational foreign exchange market), or actions that are more political in nature, such as more stringent cases against corporate tax evaders, a certain degree of property expropriation, and/or debt renegotiation.

Third, an executive-biased budgeting process under a government of a weak state with weak institutions can also result into an arbitrary wielding of tremendous power that can be used for rent-seeking. Without getting into the discourse of the nature of the PDAF, the fact that the executive can impound PDAF and/or Internal Revenue Allotment (IRA) of opposition-aligned solons and Local Government Unity (LGU) officials is a testament of the rent-seeking power a president can use to stabilize its rule.

Thus, it is no surprise that in the Philippines, politicians gain most by aligning themselves with the incumbent President, and they did so. Manolo Quezon [2007] wrote that "from 1941 to 1969 and beyond, to the Batasang Pambansa and to the present, is that House elections have always resulted in an overwhelming administration victory. Without any exceptions. Even if the president running for reelection lost, his party would still win the House; and in cases where presidents were elected from the opposition, they would swiftly ensure that by the next poll, their minority would be an overwhelming House majority. In a sense, the House is so adaptable, so pliable, so dependent on the presidency's patronage powers that it ends up supporting whoever occupies the Palace — until, that is, the presidency passes on to someone else." Political analyst Joel Rocamora [2007] agrees and states that this is also true for local candidates, especially in mid-term elections.

Fiscal Dictatorship = Weak State

It is not just the case that concentrated fiscal powers in a state with weak institutions is bad for a society trying mend the ills of rent-seeking and abuse; concentrated fiscal power may also be bad for the state itself. To elaborate on this, we must take note that the fact that patronage is strong under an "executive budget" has important implications on our political institutions.

University of the Philippines Professor Alex Magno [2006] believes that the control of resources inevitably has impact to the development of political institutions, particularly political parties. He observed that "the decline of the plantation-based economic sectors have made local politicians more dependent on the IRA (more precisely, on leakages from that)" and "because the Chief Executive can cause the immediate release of internal revenue allocations or delay the same (or distribute infrastructure investments to supportive localities), the local elected officials more blatantly switch parties after each presidential election. This produces highly personalized allegiances that further undermine the development of the party system." Magno noted the fact that "so-called political parties now accredited are (merely) shells of previous presidential candidacies", like LDP of Aquino, Lakas-CMD of Ramos, PMP of Estrada, and just recently, KAMPI of Arroyo[12].

What is the effect of such on the Philippine state? Herbert Docena [Bello et al., 2004] explains that in this kind of situation, "the state" becomes "but a prize for a momentarily winning chronic inter-elite rivalry". David Kang of Dartmouth College elaborates this by comparing South Korea in the Philippines: "Corruption in Korea, although endemic, was constrained by the collusion of a powerful business class and a coherent state. Each major group was able to benefit from its close relationship with the other but neither could ever gain the upper hand… In contrast, corruption in

[12] Laban ng Demokratikong Pilipino (LDP), Lakas-Christian Muslim Democrats (Lakas-CMD), Partido ng Masang Pilipino (PMP), Kabalikat ng Malayang Pilipino (KAMPI)

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the Philippines swung like a pendulum. As one group or the other gained predominant power, it would busily set about lining its own pockets, aware that in the next round its fortunes might well be reversed" [Kang, as cited in Bello et al., 2004].

Thus, ironically, we have a case of a concentrated fiscal power contributing into making the Philippine state weak and vulnerable to the particularistic whims and rent-seeking designs of the ruling faction of the elite. A powerful executive doesn't necessary translate to a strong state– in fact, we have a case of a powerful chief executive exercising budgetary powers for patronage, thereby corroding further democratic institutions on public finance.

This fact translates to several implications. First, the relative autonomy of the government, which is necessary for the financing of strategic and developmental policies, is compromised by the multiplicity of the elite's parochial interests, all of which need state resources. Rocamora suggests that "competing demands on government have made it impossible to formulate and implement a coherent economic development policy or to develop political institutions capable of providing a reliable regulatory framework for the economy" [Rocamora, as cited from Bello et al., 2004].

Second, the development of an autonomous, independent, and impartial public finance institution is compromised. Our primary bureaucratic agency is rendered highly vulnerable to politicization and executive control, because it is in the political interest of a rent-seeking executive to politicize the agency. The appointment of a Bicolano politician and former administration Congressman Rolando Andaya Jr. as Department of Budget and Management (DBM) Secretary underscores this fact, and is a divergence from the practice of appointing technocrats, such as former DBM Secretary and UP Professor Emilia Boncodin, for the position.

Third, if public finance institutions are weak, then progressive voices from the civil society can easily be muted, their hard-earned reforms conveniently reversed, by a swift action of an unwilling executive. Arroyo's line-veto of debt service reduction and the non-payment for questionable loans is a proof of this, together with her line-veto in the 2007 budget of the non-allocation of funds for the controversial North Luzon Railways Project.

Theoretically, this can work the other way, if the progressive voices can somehow influence the motives of the chief executive. In practice, however, there is a strong grip of the neo-liberal and neoclassical ideas inside the technocracy of the administration resisting the waves of progressive reform. It is easier for the social movement to register its advocacies in a less monolithic House of Representatives and the Senate.

Fourth, a weak state is more vulnerable to external pressures and foreign dictates. Consider, for example, the conditionalities attached by lending institutions to their loans. The International Monetary Fund (IMF), for example, uses its lending facility meant to rescue governments from fiscal quagmires to take advantage of balance of payments and fiscal crises to impose painful, industry-wide "reforms" acquiescent with the paradigm of neo-liberal globalization – that of liberalization, deregulation, and privatization [FDC, 2008].

Contested Elite Democracy = Fiscal Dictatorship

Why are these provisions not removed even if they disempower sections of the elite inside the Congress? One of the reasons might be that in any given fiscal year, the President retains its patronage power, which can actually be wielded against any initiative to reform the status quo. This is actually a reiteration of our argument earlier that public finance power translates to political power which can be used for rent-seeking.

This explanation, however, fails to explain why Congress sometimes act and decide against an incumbent president, as in the case during the impeachment proceedings of former President

Joseph Estrada. Patronage may fail, and it will fail in instances when a rational congressperson realizes that voting against rather than voting for the incumbent increases his chance of reelection and/or election to a higher office.

A better explanation would be taking into account the features of our democracy and the politics of opportunity. With power contested among rent-seeking factions of the elite, most of the factions are actually entertaining the possibility of their group ending up as the ruling one. In this case, no one would want to dilute the fiscal powers of the presidency – the ultimate holy grail that affords great powers to, and thus maximizes rent-seeking potentials of, the relatively weaker sections of the elite, i.e. weaker compared to other entrenched political-economic clans such as the Lopez patriarchy.

This might have even been the basis of the Marcosian declaration of Martial law in 1972 and the subsequent establishment of fiscal authoritarianism. In the pre-martial law period (1935-1971), the budget process is an American-style "democratic" fiscal process, wherein "the ultimate power over public finance belonged to Congress" and budget "decision was a result of accommodation of competing interests which… tended to prevent the system from addressing urgent developmental matters".

When Marcos took the reins of dictatorial power in 1972, he began to establish a "corporate" fiscal process committed to a development program, "with all conflicts internalized in the executive branch". "Amendment 6 to the 1973 Constitution which allowed the President to pass legislation concurrently with the legislature" giving "the President the power to counter the legislature's veto override of two-third's vote" is a demonstration of this power. [Montes, 1991].

The requirement of a lasting reform program, according to Manuel Montes [1991] of Philippine Institute Development Studies (PIDS), is the dismantling of the feudal basis of political power and the establishing of a different permanent basis for the government, which Marcos ultimately failed to do as it failed to deliver a genuine agrarian reform program. On the other hand, the Congress was never able to recover its pre-Martial law powers in appropriation because the 1987 constitution effectively codifed Marcosian powers. Instead, powers are transferred to a bureaucracy managed by technocrats with neo-liberal and neoclassical background.

Thus, Marcos was able to build the scaffolding for a strong state edifice – which is the relatively autonomous and monolithic bureaucracy – but failed to break the back of the original wielders of particularistic power. The first Post-EDSA government then began as a mutated mix of this remnant of the Marcos dictatorship and the resurgent power of competing elitist factions. Add to the mix the constitutional powers granted to the presidency, the partly independent fiscal apparatus is effectively transformed into a coveted instrument of the ruling class which factions take turns using for rent-seeking purposes.

Our case is different from Thailand, political scientist Paul Hutchcroft elaborates, where "we find an elite traditionally based in the bureaucracy… In the Philippines we find a bureaucracy long subordinated to particularistic elite interests" which have "a firm independent economic base … yet rely heavily upon their access to the political machinery in order to promote private accumulation" [Hutchcroft, as cited in Bello et al., 2004]. In a case of a highly executive-biased public finance process, access to the machinery means ultimate power, which can be used to neutralize (at least for the duration of the presidential term), but not necessarily eradicate, the power base of other elite factions.

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Conclusion
Democratizing and Strengthening the Public Finance Institution

Concentration of public finance powers to a president, arguably, may be good in some instances in the hands of a modernizing and progressive leader. Given the elite, rent-seeking nature of post-EDSA regimes, however, we are predisposed instead to minimize any one elite group's control over the budget process. At this time when the locus of political power still resides to an anarchy of political clans and political celebrities, the best way to develop the public finance agency as an institution that can strategically address the problems of the nation is to institutionally disperse sources of financial power so as to dilute effects of particularistic rent-seeking.

We cannot, however, go back to the more collegial, pre-Martial Law days of budgeting where decisions were reached "as a result of the accommodation of interests, which… tended to prevent the system from addressing urgent development matters" as "congressmen concentrated their interest on particular items of the budget and lost sight of the total or the trade offs between items". During that period, the absolute power of Congress over appropriations "superseded all the staff work that had taken place before the budget was submitted" resulting to unnecessary increases on projects or cuts that would make them unviable [Montes, 1999].

While the dilution of the power of the presidency over the budget must be endeavored, the integrity and rationality of the budget agency mustn't be compromised. Whatever level of sophistication the public finance bureaucracy achieved by the centralization efforts during Martial Law, including the methodical linking with economic analysis and the elaborate system of internal consultations, must be protected from the self-benefiting designs of some parochial legislators.

But this is not to say that the "power of the purse" should be removed from Congress. Whether Congress effectively fulfills its role or not is another matter, but as it now stands, the Congress is the closest thing our current democratic system has to a semblance of institutional representation of the people. In principle, the solution would be to make sure that parliament is genuinely representing the people, not emasculating it because it doesn't.

Moreover, without Congressional scrutiny, we are faced with the possible repercussion of a well-developed budget agency that is not subordinated to any political institution – bureaucratic inertia and technocratic myopia. Political dissociation may result to ineffective institutional responses, as the statistical inequities that can be detected by technocratic instruments doesn't necessary reflect the structural inequalities that can only be known through direct political processes.

This presents us the dialectical task of de-linking the public finance institution both from elite politics and at the same time, from political indifference. We argue that the best way to do this is by shifting the locus of fiscal power closer to the people themselves. The budget agency must be reoriented from an agency that simply calculates on its own the solutions for the needs of the bureaucracy, the society, and the economy, to a one that effectively facilitates people's direct participation in coming up with these solutions. After all, it's the people's money that the budget agency is managing.

In the end of the day, we cannot afford minimum public involvement in a budget process governed by institutions vulnerable to abuse and dereliction – we must instead maximize involvement of the people in order to strengthen these institutions. Only through directly and democratically reflecting the collective will of the people shall the budget genuinely be an instrument of progress and development.

*… see **Ending the Fiscal Dictatorship: Towards an Alternative Public Finance System***

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