The 1987 Constitution accords the Philippine Congress what had been dubbed as "the power of the purse". This is supposed to be a testament of freedom and the principle of checks and balances, in marked divergence from the Marcosian authoritarian power over the budget.

In practice however, legal restrictions prevent the legislature from effectively exercising this power. Ironically, most of these restrictions are inherited from a Marcosian statute – the Presidential Decree 1177. 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 were actually copied directly from PD1177. Thus, the integrity of our budget institution as it stands is rendered highly vulnerable to rent-seeking prospects for an overtly powerful president, ironically in a period of liberal democracy.

# ENDING THE FISCAL DICTATORSHIP

## *Towards an Alternative Public Finance System*

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### Fiscal Dictatorship

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 – Contained in Section 38, Book VI of the 1987 Revised Administrative Code as derived from Section 43 of Presidential Decree 1177, this provision ensures that the President can refuse to allocate the money that had been appropriated by Congress.

2. The Power to Reallocate "Savings" – Contained in Section 39, Book VI of the 1987 Revised Administrative Code as derived from Sections 44 and 45 of Presidential Decree 1177, this provision empowers the President to channel savings to cover deficits of other items in the budget.

When the powers to impound and to reallocate savings are combined, it is tantamount to a power to realign appropriations itself.

3. The Power to Line-Veto – Contained in Article VI, Section 27(2) of the 1987 Constitution, which is similar to Article VIII, Section 20(2) of the 1973 Philippine Constitution, this provision above guarantees the power of the executive to veto specific items of the budget while retaining the others, thereby avoiding the possible political impasse that can happen on absolute veto of the budget bill. Thus, since it is the executive which proposes the budget via



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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.

4. <u>The Power to Reenact Budgets</u> – Contained in Article VI, Section 25(7) of the 1987 Constitution, which is similar to Article VIII, Section 16(6) of the 1973 Philippine Constitution, this provision effectively shields the executive from exhaustion of funds should the Congress fail to come up with the budget.

5. <u>The Power to Unilaterally Contract Loans</u> – Contained in Article VII, Section 20 of the 1987 Constitution, which is Article IX, Section 15 of the 1973 Philippine Constitution, rhe power to unilaterally contract loans allows the presidency to raise as much money as (s)he can, using future revenue-generation capacity as collateral.

6. <u>The Automatic Debt Servicing Provision</u> – Contained in Section 26(B), Book VI of the 1987 Revised Administrative Code, as copied en toto from Section 31(B) of Presidential Decree 1177, 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. This does not include yet the principal amortization, which eats up even more share of the annual national expenditures.

Only by removing these provisions would we make effective the Congressional "power of the purse" as outlined and enshrined in the Constitution.

**The Dilemma: Who's best to decide?**

A common critique of the strong Congressional powers on the budget, as in the case from 1935 up to declaration of Martial Law, is that the Congressional powers "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]. Ironically, the tendency of the Congressional intervention on the budget to be particularistic and "ad hoc" is only tempered, by the absolute powers of the president, who can unilaterally reverse the changes made by the Congress on the budget formulated by its technocracy.

We argue, however, that Congressional intervention can be made to meet with the rational objectives and national development strategies, only if the public finance system supports so. The institutional dispersion of sources of financial power and the preservation of the budget agency's integrity and rationality are not mutually exclusive objectives. The alternative to bringing back the powers of appropriation to the Congress would be a budget agency impervious to political opinion and social signals, and thus is unresponsive to structural and more political and social causes of the problems of the nation.

We believe that concurrent with the empowering Congress, we should work towards the shifting of 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.

**Recommendations: Towards an Alternative Public Finance System**

Therefore, the following immediate and long-term measures are recommended to be implemented, with the end view of democratizing the budget process and strengthening the budget institutions:



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1. **Clipping of Presidential Powers.** The first step towards the democratization of the budget, is for legal impediments for the exercise of the Congressional "power of the purse" to be removed. This can be done by:

   a. Overhauling the Revised Administrative Code of 1987 as instituted by Executive Order 292, which includes the <u>removal of the automatic appropriations for debt service</u> (Section 31.B.) and the <u>presidential powers of impoundment</u> (Section 38) and <u>realignment of savings</u> (Section 39).

   b. Amending the Foreign Borrowings Act of 1966 (as amended by PD 1939) and the Official Development Act of 1996 to <u>place more Congressional limits and parameters on the unilateral contracting of loans</u>, pending a more favorable condition for a constitutional amendment modifying this presidential power (Article VII, Section 20).

   c. Legislating parameters for the <u>line-veto</u> and <u>reenactment</u>, pending a more favorable condition for a constitutional amendment striking out these two presidential powers (Article VI, Section 27.2 and Section 25.7, respectively).

2. **Together with the Striking out the Automatic Re-appropriation (Reenactment) provision, budget-cycle must be increased from one year to a regular Congressional term (currently three years).** This will allow for a more long-term budget formulation tied to national development strategies, as outlined in Medium-Term Philippine Development Plan (MTPDP) formulated by the executive and approved by the Congress.

3. **The spatial dimension of the National Budget Preparation must be enhanced by a Revitalized Regional Budget Allocation Scheme (RBAS) project**

   The Ramos administration, continuing with the decentralized budgeting approach developed in the Aquino's term (codified also in the Book VI of the 1987 Revised Administrative Code), pushed for a regional block fund through the RBAS. This is a step higher from the Agency-RDC (Regional Development Council) consultations for agency budget, as instead of just reviewing the allocations determined by the agencies' central office, RDCs will have the "authority to determine what programs and projects are to be funded and implemented in the region consistent with and in support of the region's development plan and investment program" [Mercado, 1999], It was only stopped due to a perception by legislators that it is an electioneering budget.

   The RBAS must be continued, but it should be improved so as to assuage the fears of the legislators and to make the processes more inclusive and democratic. Thus, the revitalized RBAS, while taking into account pressures for greater fiscal decentralization and autonomy, <u>puts greater emphasis on people's direct participation, including all the stakeholders</u>.

   As such, the revitalized RBAS must include the following features:

   a. ***Representatives are required to be involved in the final decision making process on the programming and planning stage in the RBAS, so as to minimize impetus for Congressional insertions and realignments**.*

      This is to address the critique that Congressional participation in the budget process is compromising the work the methodological rigor and rationality with which the budget and planning departments developed the national budget. As it stands, the budget



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development process involves not only macro-, microeconomic and social planning, but also systematic consultations with stakeholders, decision-makers, and implementers. Individual and "ad hoc" Congressional realignments and insertions threaten to spoil the "bigger picture".

This is a valid claim, as the system does not provide venue for a more rational intervention on the part of the legislator. The "power of the purse", if exercised fully in the current public finance system, will only bring us back to the pre-Martial Law system of irrational budgeting – something which we cannot afford in the modern era of international challenges and opportunities. We need to reform further the public finance system beyond just the dilution of presidential powers. On this, we argue that the "power of the purse" need not be compartmentalized to the "budget legislation" phase alone. In fact, the "power of the purse" can be more effectively and rationally exercised during the budget planning stage.

**It is thus suggested that representatives of a particular region must directly participate in the RBAS deliberations, with them having the power of final decision and approval.** Congressional intervention can happen in the start, rather than in the end, of the process – allowing for more strategic and "big picture" adjustments by the executive without necessarily encroaching on the Congressional "power of the purse".

b. ***Citizen's participation and involvement.*** The RBAS must also institutionalize a way by which the public, acting through Local Government Units, can register its approval or disapproval of a particular proposed regional budget. The result of the RBAS deliberations must be put into consultations up to municipal-level.

c. ***Open to public and stakeholders, civil society organizations are involved.*** The RBAS deliberations must not only be among government officials, bureaucrats and technocrats – civil society and the social movement must be allowed to participate and register their critique if necessary.

4. **Integration of the Department of Budget and Management (DBM), the Department of Finance (DoF), and the National Economic Development Authority into a singular, Constitutional commission-level, Public Finance Commission independent from the executive branch.**

- *Why a Constitutional Commission instead of an Executive Agency?* The main problem with a budget agency under a president is, as outlined earlier, its vulnerability to rent-seeking politicization. Therefore, the best way to divorce public finance from patronage would be to establish a semblance of independence from the public finance agency. Instead, the executive branch can submit proposed budgets of agencies to the Public Finance Commission, which it will evaluate and compile and later submit to Congress. The alternative would be to bring the "initiative of the budget" to the Congress, though it wouldn't have the sufficient information necessary to be able to decide as effectively as the agencies themselves.

- *Why integrate DBM, DOF, and NEDA?* The functions of the three agencies outline the different aspects of public finance. DOF raises revenues, DBM manages expenditures, and NEDA mobilizes foreign financing and crafts developmental strategies. Integrating the three agencies would do well in streamlining the bureaucracy, synchronizing national development policies, reducing complexity, and strengthening accountability measures.



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In fact, together with Bangko Sentral ng Pilipinas (BSP, the country's Central Bank), these departments already convene as Development Budget Coordinating Council (DBCC) which presents to the Committee on Appropriations the current fiscal position and the macroeconomic assumptions on the start of budget deliberations. Institutionalizing this integration would facilitate better alignment of objectives which are actually not separate in the first place.

5. **Institutionalize grassroots people's participation and involvement in all stages (proposal, legislation, authorization, evaluation) and levels (agency-level, region-level, etc.) of budget development by decentralizing budget decision-making using LGU-level mechanisms.**

   In order to balance the technocratic tendencies of an independent public finance commission, and so as to allow the government to know the exact needs of the people from the people themselves, we have to institutionalize the participation in the budget process not just of civil society organizations and people's organizations, but more importantly, of the people themselves, at least with regards to the budget which directly affects them.

## *Source:*

Montes, Manuel F. (1991). *Financing Development: The Political Economy of Fiscal Policy in the Philippines*. Philippine Institute for Development Studies (PIDS).



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