The Need for a Debt Moratorium

Increasing Fiscal Spending, Ending Fiscal Dictatorship

Position Paper of the Freedom from Debt Coalition on the Proposed 2009 National Government Budget

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The Economic Crisis

Much has been said of the global economic crisis brought about by the collapse of the US financial market. Yet, little has been said and discussed about the real effects of the crisis on a small developing nation such as the Philippines. The few who have taken the challenge to present an alternative scenario concerning the magnitude of the crisis to a fledging economy like the Philippines were branded as doomsayers and pessimists. This was in tandem with the government's pompous brandishing of our so-called strong economic fundamentals like a talisman, which would purportedly withstand the test of the anticipated "economic winter."

This continuing denial from our government coupled with misplaced optimism was further motivated by the recent signing by US President George W. Bush of the historic $ 700 billion Wall Street bailout which was billed as the largest and most expensive US government intervention since the 1930s. However, confidence in the international financial market is still pretty much held in reserve as the US government admitted that the scheme would not be an instant fix for the broad financial crisis and is in fact adopting a "wait and see" approach on the said debacle.

In fact, many developing nations in the Asian region are preparing for the worst. For example, economists in Malaysia are asking their government to increase investment in the country while China is considering increasing its wages so as growth can be boosted by higher domestic consumption instead of relying solely on exports.

Proposals to finance the investment of new productive capacity sourced from domestic resources are also being strongly recommended with governments having a stronger role in providing credit sourced from local financial institutions.

Simply put, the general attitude towards the crisis is for developing nations to increase state spending relying on self-financing directed to social services as well as the productive sectors to pump blood to their local economies.

One of the reasons for this is the assumption that foreign credit will be harder to access next year as foreign interest rates are expected to jack up, with the U.S. government set to borrow

$700 billion for financial bailout, and with foreign banks tightening credit in an effort to ward-off inflation.

Actually, finance secretary Margarito Teves himself announced that the government will be "pre-funding" its financial requirements for 2009, due to a more inaccessible credit next year.

Another factor is the strong economic links which have been developed between the US and the Asian market particularly China. China's main market is the US which in turn imports raw materials from neighboring nations such Korea, Japan and Southeast Asia. As US faces uncertainty, China and its neighbors confront the same economic dilemma.

Increasingly, developing nations appear to be developing their own version of "decoupling" so as to mitigate the onslaught of the crisis. They are not only increasingly relying on their resources but are also reflecting on the merits and disadvantages of financial deregulation and liberalization while pondering the difficult question of whether the old devel0pment model is in fact viable in the first place.

The 2009 National Government Budget

However, the same cannot be said of how our government is preparing for the crisis. The proposed National Expenditure Program for 2009 is a case in point.

In the proposed P1.415 trillion 2009 national government budget, The Budget of Expenditures and Sources of Financing for 2009 states that the proposed budget measure would be funded by P1.393 trillion worth of revenues thus, creating a deficit of P21.66 billion. Of the P1.415-trillion budget, P302.650 billion will go for interest payments of outstanding debts.

However, the budget does not count the principal amortization for outstanding debt, which is pegged at P378.866 billion. In truth, this makes the real deficit to be at P400.53 billion pesos instead of P21. 66 billion.

To cover the deficit, the government will be borrowing a total of P437.086 billion pesos. This is on a period of tightening global credit as the U.S. government borrows massively to weather its financial crisis. Yet, the "gross borrowings" will not go to pump-up the budget or to stimulate the economy. It would automatically go to "rolling over" the payment made for the principal amortization.

In effect, while other countries are preparing for self-reliance and are institutionalizing mechanisms for capital and resources to stay within their respective economies, we are doing the opposite. We are virtually helping rich countries such as the US bail themselves out of the crisis while we make our economy more vulnerable.

Obviously, the 2009 budget as it is will not prepare us for the global financial crunch.

The budget is still heavily dependent on the availability of foreign credit. Proof of this, we are still reeling from a serious financial outflow as large chunks of the debt we are paying for are in dollars, and we are still paying for loan agreements which are blatantly illegitimate.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City 1100 Philippines
Phone: (+632) 921 1985 * Telefax: (+632) 924 6399 * Website: www.fdc.ph * Email: mail@fdc.ph

Furthermore, we are still not spending enough on social services to prepare our labor force and the real economy to survive the crisis while meeting the challenges in the future.

Increasing Fiscal Spending, Ending Fiscal Dictatorship

While we duly identify with certain sectors calling for a radical slash of the budget, subjecting it to a resource diet to lessen the fat and to narrow the maneuverability in using it as an election campaign kitty, we believe that a mere slashing of the budget without alternative reallocation is detrimental in the long run. Such measure is blind to the economic crisis, as it would run contrary to the need to spur needed economic mobility as well as provide socio-economic protection to the ordinary people.

We also believe calling for such a measure without demanding serious reforms in the budget to effectively address the democratic deficit and to curb the executive's preeminent fiscal powers is tantamount to the perpetuation of such powers which were the autocratic legacy of the deposed Marcos dictatorship.

Thus, given the international economic climate, the government should in fact realize the dual task of increasing fiscal spending on social and economic services and in ending the embarrassing yet enduring legacy of the dictatorship so encroached in the budget process.

Debt Moratorium

The common question asked concerning alternative allocation and augmentation of specific social spending is where to source its financing. While there are numerous sources of financing such as a recommendation to reduce allocations to non-performing programs and agencies whose absorptive capacities are below par in order to augment basic services and infrastructure development, we also believe the biggest and the most underutilized source of financing are debts claimed from us that are being serviced by our annual budget.

Instead of allowing our resources to go to waste in servicing questionable debts, the legislature should immediately call for a moratorium on external debt payments amounting to P 200 billion and the transformation of the said funds into an "economic stimulus package" which will help shield the Philippines from the global fallout through boosting spending for social and economic services.

However, our call for a moratorium is not only based on the deepening economic crisis, it is also fundamentally grounded on serious questions challenging the legitimacy of the said debts and the continuing injustice being committed due to the payments of these false obligations.

Implementing the Moratorium

Hence, the moratorium should be until an official comprehensive investigation and audit of all public debt and contingent liabilities is completed while archaic policies such as the Automatic Debt Servicing Provision of the Revised Administrative Code of 1987 which perpetuate our debt problem is overhauled.

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This can be done with the creation of a Congressional Debt Audit Commission which while will audit all public debt will also review all laws and policies on borrowings and payments, leading to an overhaul of the said laws to effectively address fundamental flaws that have contributed to our debt problem.

Loan agreements, proposed loans and other debts found to be illegitimate, grossly unfair and onerous, fraudulent, wasteful and odious, and have caused serious negative impacts, should be repudiated and payment immediately discontinued.

The government should also call on lenders to cancel these debts, demand reparations and/or restitution from lenders and other parties if necessary.

Furthermore, there should be immediate steps for the revision of contracts for debts with lesser irregularities.

On the other hand, we also know for a fact that measures such as moratorium in the past have only caused the ballooning of debts after the end of the said measure. As a result, we demand that there should be no interest accruing on these debts during the moratorium period. We also deem it necessary that the accumulated principal payments of these debts should not be paid immediately after the moratorium is lifted. Rather, it should be spread out over time.

More than ever, the international economic crisis has forced the government to choose between the interest and welfare of its people or the interest and greed of lending institutions. Yet we assert, with or without the crisis, the Philippine government must once and for all resolve our long incarceration to debts illegitimately claimed from us by lenders.

Legislative Proposals on the 2009 National Budget

The call for an external debt service moratorium is buttressed by the fact that the Congress itself recognized the existence of "fraudulent, wasteful and useless" debts being serviced in the budget. In fact, they decided to suspend interest payments for such loans in the 2008 budget and reallocated the funds to social and economic services. The debt service reduction, however, was vetoed by Malacañang.

FDC maintains its proposal to reduce debt service in the 2009 budget. Specifically, we propose the **non-allocation of interest payments worth $317.88 million or P14.30 billion** earmarked for:

- loan payments for illegitimate debts – a total of $80.14 million or P3.61 billion.
- proposed loans which doubled for 2009 – amounting to $237.74 million or P10.698 billion.

As in the 2008 budget, the freed-up debt service funds should be re-channeled to **an economic and social "stimulus package"** to shield the Philippines from the US financial fallout, mitigate the current price crisis, and serve as counter-cyclical measure in a period of global economic downturn.

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- Priority should be given to social and economic services and other productive expenditures. **The Alternative Budget Initiative (ABI) already proposed increases of P34.85 billion.**

- The stimulus package should also include **a tax cut**, in particular the **suspension of Value Added Tax (VAT) on oil and power as a source of financing for the 2009 budget through a General Provision**. This would in effect free a total of **P92.77 billion** for the public to spend. The proposed tax cut includes the following:

    - VAT on Petroleum Products as collected by BIR, P770 million.
    - VAT on Raw Materials for Petroleum Products as collected by BIR, P1 million.
    - VAT on Electric Power Industry, P15.42 billion.
    - VAT on Electric Cooperatives, P894 million.
    - VAT on Petroleum Products as collected by BoC, P30.09 billion.
    - VAT on Raw Materials for Petroleum Products as collected by BoC, P45.59 billion.

Legislative Proposals towards Fiscal Democracy

One of the best ways to correct the huge democratic deficit in the budget process is for Congress to reclaim its lost constitutional power of the purse by curbing the executive department's unregulated fiscal powers.

Thus, we in FDC call for the following:

- Amendment of the Revised Administrative Code of 1987 as instituted by Executive Order 292 so as to remove the <u>executive powers of impoundment</u> (Section 38), <u>realignment of savings</u> (Section 39) and <u>automatic debt servicing</u> (Section 26 B).

- Amendment of 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>,

- Legislation of parameters for the <u>line-veto</u> and <u>reenactment.</u>

- Passage of House Joint Resolution No. 4 mandating Congress to create a Congressional Debt Commission which will audit all public debt and contingent liabilities.

Likewise, to ensure transparency, accountability and budget responsiveness to people’s needs, we call for the institutionalization of grassroots people's participation and involvement in all stages and levels of budget development.

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