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THE GOVERNMENT BUDGET

Since the level and pattern of government expenditures frequently reflect the thinking and decisionmaking summarized in the government's budget, their study should probably begin with it, that is, the processes that determine both the content and structure of the budget and eventually the character of its impact on the national economy. The government's budget, as it has been formulated since 1946, is a plan or projection of its receipts and expenditures over a given period. This period usually runs from 1 July of one year to 30 June of the following year, and is known as the "fiscal year" of the Philippine Government. The President of the Philippines has usually presented the government's budget to Congress in February of the year. The budget does not record how government expenditures compare to its tax receipts at the end of the fiscal year. In fact, since budget estimates have usually been made some nine months ahead of a fiscal year that ends even some 20 months later, the estimated receipts and expenditures can and have often diverged from the actual data, partly because of unavoidable errors in estimating tax receipts on the basis of a national income or product that can not be precisely determined at the time the estimates are made and partly because of political intrusions in operating the budget during the fiscal year.

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PHILIPPINE BUDGETING IN HISTORICAL PERSPECTIVE

Manipulation of the budget for political purposes has always characterized the budgetary process ever since it was formally introduced to Filipino consciousness with the legislation of the Philippine (Cooper) Bill of 1902. The Philippine or Cooper Bill, which had been inspired by the American commitment to encourage Filipino participation in the colonial government, called for a bicameral legislature, the Philippine Commission and the Philippine Assembly. The Commission was constituted mostly by Americans, appointed by the US President with the consent of the US Senate, and obviously responsible to both. It included the Governor-General, who was chief executive of the government, and members of his executive cabinet. The few Filipinos who made it to the Commission in its early years were obviously visibly pro-American and easily overruled in the course of determining the mind of the Commission on matters of policy. The Assembly, on the other hand, was constituted by Filipinos who were elected by their own compatriots to represent them and naturally felt particularly responsible to them. Although the Philippine Bill did not expressly empower the legislature to prepare the government's budget, it soon became the practice for the Commission to initiate all budgetary legislation, partly because it was given an almost exclusive opportunity to modify the budget estimates proposed by the Governor-General. His Executive Secretary merely compiled the estimates of receipts and expenditures submitted by the various bureaus or offices 30 days before the legislature opened its regular session each year. The Commission's influence over the shape and magnitude of the budget was ensured by the Philippine Bill which required that any expenditure be legislatively appropriated, and, where the Commission fails to appropriate the necessary expenditures for the ensuing year, that the previous year's appropriations be adopted as a guideline (Section 7). For all practical purposes, therefore, the legislative budget of the Commission was the colonial government's working budget and eventually became the touchstone of political manipulation between the Commission and the Assembly, since frequently their interests or loyalties were far from mutual or monolithic. In fact, the Assembly voted against the Commission's general appropriations bill in 1911, 1912, and 1913.

However, before the legislative ill will over the budget could further poison working relations between the Commission and the Assembly, US President Woodrow Wilson appointed Francis B. Harrison Governor-General of the Philippines. Filipinos, particularly Manuel L. Quezon, commended the appointment, since both Wilson and Harrison sought increasing Filipino participation in the government somewhat more aggressively than did William McKinley and William H. Taft before them. Wilson soon appointed so many Filipinos to the Commission that they eventually outnumbered the Americans. The new Filipino majority gradually eased up the usual tension that had come to characterize the determination of the budget at the Philippine legislature up to Wilson's election.

Moreover, in 1916 the US Congress legislated the Jones Act which struck a new watershed in the development of the Philippine budgetary process. In addition to organizing a Senate and a House of Representatives in the Philippine legislature and appointing the Governor-General, the Vice Governor, and the justices of the Philippine Supreme Court, the Jones Act in Section 21 enjoined the Governor-General to submit to the legislature within 10 days of its opening in regular session a budget of receipts and expenditures which was to be the basis of the annual appropriation bill. It also enabled the legislature to modify any part of such a budget. However, it empowered the Governor-General at the same time to veto any legislation, including individual items in the appropriation bill, and to adopt as a matter of course the previous year's appropriations for the ensuing year if and when the legislature fails to legislate the necessary appropriations. Altogether, these made the Governor-General the most powerful government official at the same time that they compelled him in the course of preparing his executive budget to organize effectively toward more systematic budgeting.

The system of budgeting that was eventually developed included a budget office in the Department of Finance which coordinated all budgeting in the government, low-level division chiefs in the various bureaus, middle-level heads of bureaus in the different executive departments, and a three-tiered high-level participation among the Governor-General, the Council of State, and ministers of his executive cabinet. The Council of State was constituted by leaders of the legislature.

Budgeting activity in every executive department started with an estimate of receipts and expenditures by the lowest chief of a division. All such estimates were next collated by the bureau head, who also checked on their consistency and eventually consolidated them in one statement. At this state, the minister of the department frequently monitored the bureau estimates. Later, he integrated all the budget estimates of the different bureaus into a departmental budget. This was subsequently sent to the Undersecretary of Finance who manned the budget office and went over all the departmental budgets, sometimes assisted by the Insular Auditor, before the consolidated budget for the entire government was transmitted for discussion to the Governor-General, his cabinet, and the Council of State.

Even as a more systematic process of budgeting was emerging out of the Jones Law, the feud over the budget that used to mar working relations between the Commission and the Assembly was unwittingly rekindled by the same legislation in making it possible for the legislature to amend any portion of the executive budget, and for the Governor-General to veto any legislation, including parts of the appropriation bill. In effect, the struggle for power over the national purse never waned whether under the Philippine Bill of 1902 or under the Jones Act of 1916. The new legislation merely underscored a more visible division between the legislature and the chief executive, and often the legislature became the court of last resort for executive agencies of the government anxious about preserving their budgets. This manner of 'fiscalizing' on the part of the legislature eventually weakened executive control over the government's budget. Harrison managed to effectively weather its intransigencies because he learned to collaborate with the Filipino legislators on the Council of State. Those who came after him, however, particularly Leonard Wood, were somewhat less successful.

This system of budgeting remained largely in effect throughout the country until 14 May 1935 when the Constitution of the Philippine Commonwealth called for a unicameral legislature known as the National Assembly, constituted 17 September 1935 at a national election. While the Constitution empowered the President to submit a budget as a basis of the general appropriations bill, similar to the Jones Act arrangement that had been in effect up to this point, it also restrained thc National Assembly from raising the appropriations for the executive offices and from adding to them unspecified items of expenditure. As in the Jones Law, the President was also extended the opportunity to veto a particular item of appropriation. The unicameral legislature turned out to be a simpler group to work an executive budget through, as President Quezon later found out, although this was probably as much due to his own effective leadership as it was to the new structures for budgeting. To integrate the budgeting processes in his office, Quezon promptly organized a Budget Commission which eventually displaced the budget office of the Department of Finance.

Control of the government's budget was further enhanced in 1937 with the legislation of Commonwealth Act (C.A.) 246, which prescribed the particular format of the budget and regulated the expenditure of authorized appropriations. The so-called "live-item" budget was introduced as the basic format for budgeting, itemizing expenditure proposals of any government agency into four categories: (1) position, (2) sundry expenses, (3) furniture and equipment, and (4) special purposes. This format was adopted for the budget virtually throughout the next 20 years.

Because of an amendment to the Constitution approved in 1940, the legislature became bicameral again in 1941. But, the President's budget veto was further enhanced by requiring of each legislative house a three-fourths majority in order to overrule the veto when it involved either appropriating a sum that exceeded 10 per cent of the total appropriations covering general expenses of the government for the preceding year, or authorizing an increase in public debt. In spite of the return to a bicameral legislature, budgeting became increasingly systematic in the course of efforts by the Budget Commission to submit the government's budget to Congress 15 days after it opened in regular session, efforts that were frequently supervised directly by President Quezon himself.

The systematic development of budgeting was interrupted during the Second World War. After the war, however, the Budget Commission rehabilitated the system of budgeting in response to postwar legislation. One of these, R. A. 433 of 1950, centralized government accounting in the Budget Commission for all agencies of the government. The organization of the Budget Commission itself went through a number of structural changes between 1952 through 1954 in order to increase its capability in the preparation and control of the government's budget, particularly so upon the legislation of R. A. 992, the Revised Budget Act of 1954.

This latter legislation introduced the idea of performance budgeting, stressed the necessity of balanced budgets, itemized appropriations and allotments according to specified programs and projects of a government unit, emphasized the concept of budgetary obligation as the measure for control and budget reporting and eventually led to a modernization of budgeting, accounting and auditing in the government. The latter task was accomplished with financial support from both the Philippine and US governments. Performance budgeting identifies clearly the particular services that are supplied by a given function, activity or project of the government. This system of budgeting was formally adopted by President Ramon Magsaysay in 1956 for a dozen executive offices directly under his supervision. And in 1957, it was adopted by all executive departments of the government.

BUDGETING TODAY

There are three fairly distinguishable phases to the budget process in effect up to the fiscal year 1973: (1) budget formulation, (2) legislative authorization, and (3) budget execution and control.

Budget formulation usually begins at the lower levels of the government agency and consists simply in estimating receipts and expenditures. These are subsequently reviewed and integrated by higher levels of the government agency which eventually submit the estimates to the Budget Commission towards the end of October or early November. Budget estimates are supposed to reflect considerations of efficiency, revenue availability, social and economic feedbacks, in general some optimality between outlays and the programmed activities. Frequently, these guidelines are ignored as the different agencies exaggerate their individual capacities and requirements.

The process of legislative authorization commences soon after the President submits to Congress the proposed executive budget for the ensuing year, that is, 15 days after it has opened its regular session. In general, Congress can not increase the outlays proposed in the President's budget, even as it can raise those of the Judiciary or those of its own.

The House Committee on Appropriations initiates the legislative review of the budget. Different officers of the government, from cabinet member to bureau director, are summoned to rationalize their individual portions of the budget in a number of hearings that often trigger amendments by the entire House itself.

The budget is subsequently transmitted to the Senate, where it is examined by the Committee on Finance and the Economy. Differences over the budget between the House and the Senate are usually deliberated on in a Conference Committee constituted just for their resolution.

The amended budget is then remitted to the President, who either approves it in its entirety or vetoes some of its items, after which he sends it back to Congress for its final approval. The budget is approved either with the vetoed parts or as it was before any presidential modification. A majority approval by Congress makes it the official budget of the Government. It is at this point that it becomes an appropriation, that is, an authorization to make payments out of the Philippine Treasury on specified conditions for specific purposes.

The final phase of execution and control of the budget must preserve its legislative intent, observe its financial limitations, and tolerate flexibility in government operations. In efforts to control the budget effectively, the Budget Commission sets aside five percent of its total value as reserve for emergencies, cuts back on disbursements of an agency whenever its receipts turn out to be less than previously expected, and checks that allotments, which are outlays earmarked for specific agencies of the government, do get to them as a matter of fact and are expended according to their expressed purposes. A very crucial component of the entire process of budget control is the management of incurring obligations. In budgeting, an obligation is the amount arising from an act of an administrative official binding the government to the immediate or eventual payment of a definite sum of money. Thus, an obligation is as good as an expenditure or an outlay, especially so when there are no lags between its incurrence and the remittance of a check or treasury warrant covering its full value. This is really a matter of managing the cash budget of the government.

MANAGEMENT OF THE CASH BUDGET

The matter of managing the operations of the cash budget is described in Circular 210 of the Budget Commission, although the ground rules had also been enunciated in its manual of operations issued in 1968. First, the Treasurer of the Philippines is required to report both the level and estimated sources of cash inflows to the national Treasury. Next, the different agencies of the government must request for allotments out of the appropriations, and must submit a weekly schedule of disbursements, i.e., an apportionment is necessary. The Budget Commission then evaluates whether the requested allotments can be met with the cash inflows to the Treasury, and places a ceiling on the volume of disbursements that the agencies can make. Finally, the Auditor General or his representative refrains from countersigning any check or Treasury warrant that either exceeds the ceilings placed on agency disbursements or that has not been previously apportioned, i.e., scheduled for disbursement during the week.

LEVEL OF GOVERNMENT SPENDING

One way to get an idea of the economic importance of government is to examine the level of activity it handles in relation to the total economic activity generated each year by the nation. In what follows, efforts have been made to limit the data to those available in the Annual Reports of the Auditor General. It has become necessary to do this in order to steer away from the sort of frustrating confusion which often bedevils attempts at gathering data from different government agencies that frequently present rather conflicting estimates on the same activity.

Moreover, for the type of economic activity that government represents, the reports of the auditor general seem the most useful source of information for a number of reasons. These reports record government economic flows and stocks on actual rather than on estimated or projected basis. They tend to present a more credible coverage of the real magnitudes involved in government activity than those suggested by other sources. In the course of our research work, as a matter of fact, it became apparent that all the other agencies of government collecting information on public finances generally check their own estimates against the audited actual statements of the General Auditing Office (GAO).

Even the GAO accounts themselves, however, as these are presently prepared, do not organize government flows and stocks in a way that would be sufficiently meaningful for economic analysis. The economist, as we have found out, frequently has to transform data available from the GAO in an accounting framework that clarifies the actual economic impact of government on the total activity of the nation.

Government spending generally takes two principal forms. One represents direct absorption of such resources as manpower, materials and equipment which normally have competing or alternative uses in other lines of the national economic activity.

This type of spending constitutes government demand and measures the amount of resources that are actually allocated by the government in the course of doing its activity. It consists of outlays for payrolls, the purchase of other services and materials principally to maintain existing infrastructure, and the acquisition of additional capital goods. Payrolls are of course for purchases of labor from households and form part of their income, while the other outlays are generally for purchases from the business sector and eventually become part of its income also.

The other form of government spending are mostly transfer payments such as subsidies, aids, and simple handouts. Virtually all of these are unilateral transactions that do not involve any economic value in return for the payment, at least at the moment that the transfer payment is made. Similarly, outlays for debt service, i.e., the amortization of public debt, are included in this category of government spending. Their allocative effects on total resources are eventually determined largely by the private decisions of recipients of the transfer payments.

Both types of government spending obviously require financing of some sort, and of course affect the absolute level of total spending that gets generated within the economy. To what extent they influence total spending is suggested in Table 1, which shows the magnitude of government spending during fiscal year 1970 as well as its distribution among outlays for payrolls, maintenance and supplies, capital goods, debt service, and transfer payments at the national and local levels of government. While government spending totaled nearly ₱5 billion, it represented no more than 12 per cent of the total (GNP) spending in the economy during the period. The national government accounted for 80 per cent of public spending and for 10 per cent of the total spending. Local governments, which comprise the provincial, municipal and city levels of government, accounted for 20 per cent of government spending, and 2 per cent of total spending. Either in relation to total spending in general or to government spending in particular, there does not seem to be much local government in the country. Most of the government that goes on, to the extent that this can be indicated by the level of spending that gets done, is apparently highly centralized. Thus, even as late as 1970, there was very little economic basis for local or decentralized government in the Philippines.

Table 1
The Public Sector, 1970 (Millions of Pesos)

Government Spending	*Total*	*National*	*Local*
Payrolls	2308	1889	419
Maintenance/supplies	1461	1139	322
Capital goods	747	622	125
Debt service	269	256	13
Transfer payments	185	131	54
Total	4970	4037	933
Percentage of GNP	12	10	2

It is also quite clear from Table 1 that the level of government spending itself points to an orientation of total spending in private enterprise. In fact, a good 10 per cent of government spending in the form of transfer payments and debt servicing eventually results in an absorption of resources over which the government hardly has any direct control, although it pays for the spending. A good part of this spending starts out as investment in government enterprises or corporations, most of which flounder in operation, so that the so-called investment ends up as a subsidy to keep them going, quite often at a rather significant level of loss to the national treasury.

Government demand, which is the sum of outlays for payrolls, maintenance and supplies, and capital goods, amounted to ₱4.5 billion in 1970, which represented nearly 91 per cent of public spending and about 11 per cent of total (GNP) spending in the country. At the national level, it constituted 81 per cent of spending, and about 93 per cent of the spending of local governments. This suggests that in spite of the modest level of spending that they handle, local governments are doing relatively more economic spending, i.e., they are spending more for the public, than the national government. It also suggests that most of the non-economic public spending is incurred by the national government, which explains why it does most of the public borrowing as a matter of course and the debt servicing that this implies.

In fact, if one looks closer at the spending habits of both levels of government, it becomes rather clear that in proportion to their overall spending, local governments allocate close to one-half of their expenditure to the maintenance of physical infrastructure and its expansion, while the national government does so up to just about one-third of its spending. In this same connection, local governments generate relatively more capital formation (14 per cent of their expenditure) than the national government does (13 per cent of its expenditure), even as it handles about five times more capital spending in absolute amounts than local governments ever do. For both levels of government, however, an average (weighted) of 90 per cent of the capital spending goes into land and new structures such as roads, harbors, irrigation works and schoolhouses, while the other 10 per cent goes into the acquisition of equipment. But, local governments spend relatively more on new equipment (28 per cent of their capital expenditures) than the national government (9 per cent of its expenditures). The national government of course pays out more payrolls in absolute and relative terms than local governments. And in this sense, it contributes more value added (output) to the national economy. Even so, local governments manage to allocate a fairly comparable proportion (45 per cent of their spending) to payrolls as the national government does (48 per cent).

PURPOSES OF GOVERNMENT SPENDING

Moreover, the priorities of the national government differ markedly from those of the local governments, as indicated in Table 2 which shows a breakdown of their expenditures for fiscal year 1971.

The national government, which spent four times more than local governments did, allocated close to 30 per cent of its total expenditures to the supply of education. The 1935 Constitution

Table 2
Government Spending by Function, 1971 (Millions of Pesos and Percentages of Total)

National			*Local*		
Education	₱1254	28.6%	Police/fire	₱216	20.1%
Defense/police	755	17.2			
Transportation/ communication	642	14.6	Maintenance of highways, bridges, streets, ports, agriculture	192	17.9
General government	522	11.9	General administration	145	13.5
Debt service	339	7.7	Education/ welfare	143	13.3
Agriculture/ nat. resources	272	6.2	Capital formation	130	12.1
Health/medical care	214	4.9	Revenue services	91	8.5
Commerce/ industry	119	2.7	Transfer payments	61	5.8
Labor/ welfare	69	1.6	Operating expenses	55	5.1
Pension/gratuities	2	0.0	Adjudication	22	2.1
All other	203	4.6	Debt services	17	1.6
Total spending	₱4391	100.0%	Total spending	₱1073	100.0%

required the national government to support the first four years of every citizen's education. The provision for defense and police services takes another 17 per cent of national spending. Another 15 per cent goes into building facilities for transportation and communication. General government services, which include those of the principal executive, legislative and judiciary manpower, claim some 12 per cent of national expenditures. The remaining 25 per cent or so goes into debt service, agriculture, health, trading and welfare activities of the national government.

However local governments, whose scale of spending is about one-fourth that of the national government, .allocate one-fifth of their total expenditures to the supply of protective services (police and fire). Together, the expansion and the maintenance of local infrastructure such as highways, bridges, streets, ports and harbors take on nearly 30 per cent of local expenditures. The cost of general administration, which includes payrolls for the principal officers of the local government, takes 13 per cent of its total expenditure, and about just as much goes into the local supply of education and such welfare services as the maintenance of local prisons. The cost of revenue services (tax collection through the Treasurer's Office), operating the local public enterprises, adjudication, and debt services takes less than one-fifth of local expenditures.

GROWTH OF GOVERNMENT SPENDING

The same patterns of government spending have generally prevailed during the last 20 years, as is evident in Table 3, although the level of public spending itself accelerated somewhat rapidly over the same period. At the national government, public education, national security, public works, and public administration require over 70 per cent of the annual expenditure. The development of agriculture, public health and the amortization of the public debt take another 20 to 25 per cent of the annual spending. Among the local governments, a similar structure of demand for public services has also emerged, with the requirements for local security, education, public administration, the maintenance and expansion of local infrastructure accounting for 75 per cent of their total expenditures. Local governments of course do very little borrowing which explains why they spend relatively less than half as much as the national government does on debt services. However, they use close to 10 per cent of their annual outlays on the collection of taxes that are mostly meant for the national government. At the same time, they maintain a number of public enterprises such as local slaughterhouses, markets, waterworks, and communications facilities which have claimed at least some 5 per cent of their total expenditure each year over the last 20 years.

Moreover, as Table 4 shows, the growth of spending by the

Table 3
Growth of Government Spending by Function, 1951–1970
Five-Year Averages (Millions of Pesos)

	1951–55	*1956–60*	*1961–65*	*1966–70*
National Government	688	1047	1764	3054
Education		259	492	896
Health	181	68	113	162
Labor/welfare		15	33	33
Transportation/ communication	139	185	285	487
Agriculture/ nat. resources		101	172	230
Defense/police	140	167	253	462
General government	112	114	196	364
Debt service	52	70	106	197
Commerce/industry	11	18	53	63
Pension/gratuities	20	10	5	17
All other	33	40	56	140
Local Governments	196	266	431	768
Maintenance of highways, bridges, ports, streets, agriculture	36	46	78	142
Police/fire	33	47	72	131
Education/welfare	34	45	69	111
Capital formation	23	31	58	116
General administration	18	28	53	94
Revenue services	17	26	39	64
Operating expenses	13	19	26	42
Transfer payments	8	12	24	42
Debt services	11	7	6	12
Adjudication	3	5	6	14

local governments has also generally lagged behind that of the national government. In fact, whenever spending accelerates at the national government, spending among local governments either decelerates or accelerates at a lower rate. On the other hand, when national spending decelerates or declines, local spending either decelerates or declines less rapidly or actually increases. In effect, public spending by the national government is subject to a much wider range of variations than spending done by local governments. In short, there is more stability in the expenditures of local governments than in those of the national government. Put differently, the growth of public spending by local governments depends on whether the national government accelerates, decelerates or reduces its own level of

Table 4

Real Growth of Government Spending, 1951–1968
(Millions of 1955 Pesos)

Year	*Total*	*National*	*Local*
1951	600	458	142
1952	785	605	180
1953	812	620	192
1954	993	795	198
1955	1007	786	221
1956	1159	932	227
1957	1230	997	233
1958	1226	976	250
1959	1152	903	249
1960	1310	1044	266
1961	1486	1202	284
1962	1488	1192	296
1963	1729	1417	312
1964	1838	1473	365
1965	1823	1445	378
1966	1881	1458	423
1967	2034	1592	442
1968	2282	1809	473

spending, which can be true only if both depend on the same source of funding, as they do.

In the competition for public funds, obviously the national government ends up doing most of the public spending, as Table 5 suggests. As a matter of fact, about four-fifths of all the government spending between 1951 and 1970 were made by the national government, the other one-fifth by local governments. This has been especially true of the public expenditure

Table 5

Growth of National and Local Government Spending by Economic Categories, 1951—70, Five-Year Averages (Millions of Pesos)

	1951—55	*1956—60*	*1961—65*	*1966—70*
Government spending	884	1316	2196	3814
National	688	1047	1764	3054
Local	196	269	432	768
Payrolls	310	605	1093	1901
National	215	474	895	1561
Local	95	131	198	340
Maintenance/supplies	277	302	488	1040
National	218	215	399	782
Local	59	87	149	258
Capital formation	136	203	265	488
National	113	172	207	380
Local	23	31	58	116
Subsidies, aids, grants	98	129	238	176
National	90	116	217	134
Local	8	13	21	42
Debt service	63	77	112	209
National	52	70	106	197
Local	11	7	6	12

for payrolls and capital formation, certainly more so in the case of transfer payments (subsidies and interest) 90 per cent of which are incurred by the national government, and a little less so with respect to expenditure for maintenance, materials and supplies some 25 per cent of which are generated by local governments.

Because of this, the economic importance of spending by the national government has tended to increase more rapidly than the comparable spending of local governments. This is indicated in Table 6. Public spending as a proportion of total (GNP) spending rose from 11.2 per cent in 1951 to 12.6 per cent by 1970, or by a little more than one percentage point. However, the proportion of spending by the national government on goods and services expanded two percentage points, from 7 per cent of GNP in 1951 to 9 per cent by 1970. It explains for the relative increase of two percentage points in government spending on goods and services over the 18-year period under review. The national government has been expanding real expenditures each year at the average rate of 8.4 per cent, while local governments were doing so somewhat less rapidly at 7.3 per cent. In effect, overall spending by the government rose in real terms by 7.9 per cent.

Even at this rate, however, government spending actually expanded more rapidly than the growth of total spending or national output. The growth of output tended to decelerate from 1951 when real GNP was growing at about 8 per cent per year through 1970 when it was averaging an annual expansion of 6 per cent. In short, government activity was certainly not a lagging sector in the national economy. As a matter of fact, government payrolls, which averaged some ₱310 million in 1951 and constituted about five per cent of personal incomes that year rose to ₱1.9 billion by 1970, which added up to 7.6 per cent of the personal incomes received for the period. But, the participation of government in the national effort at capital formation has tended to diminish from 13.8 per cent of the gross domestic capital formation in 1951 to 7.5 per cent in 1970. Since 1966, however, it has accelerated again, at a somewhat modest rate.

Table 6

Growth of Government Spending in Relation to Total (GNP) Spending, 1951–1970, Five-Year Averages

	1951–55	*1956–60*	*1961–65*	*1966–70*
IN MILLIONS OF PESOS:				
All government spending	₱884	₱1316	₱2196	₱3814
Spending on goods/services	723	1110	1846	3429
National government	546	861	1441	2723
Local governments	177	249	405	706
Transfer payments	161	206	350	385
Subsidies, aids, grants	98	129	238	176
Debt service	63	77	112	209
AS A PERCENTAGE OF GNP:				
All government spending	11.2%	11.6%	12.4%	12.6%
Spending on goods/services	9.2	9.8	10.4	11.3
National government	7.0	7.6	8.0	9.0
Local governments	2.2	2.2	2.4	2.3
Transfer payments	2.0	1.8	2.0	1.3
Subsidies, aids, grants	1.2	1.1	1.3	0.6
Debt service	0.8	0.7	0.7	0.7

Most of the expansion in government activity since 1951 has apparently been directed at raising public employment and less on public capital formation. While overall capital formation steadily rose from 12.5 per cent of the GNP in 1951 to 21.6 per cent by 1970, capital formation by government, which never went beyond 2 per cent of GNP throughout the period 1951–70, has relatively declined up to 1966 when it started to accelerate a little bit. In short, capital formation by government has hardly kept pace with that of the private sector which still generates most of it. On the other hand, government employment which averaged less than 5 per cent of total employment during the 1950's accounted for about 6 per cent of the total employed in the 1960's and for more than 7 per cent by the early 1970's.

WHY GOVERNMENT SPENDING GROWS

This suggests something about the nature of the growth of government spending over the last 20 years under review. At least one-half of all the government spending went into the supply of education, defense, and public administration, activities that require fairly large human (manpower) inputs. If one adds to these the expenditures that go into the maintenance and expansion of the physical infrastructure for public transportation and communication, an activity that also requires large doses of manhours, it becomes clear that the rising cost of human management, of growing people, making them safe, keeping them moving and in order, is a principal element in the expansion of government spending. The supply of public education alone, as Table 7 shows, takes an ever increasing proportion of government spending, from 20 per cent in 1951 to 26 per cent by 1970, and rising rapidly. A similar trend is also true of the supply of facilities for public transportation and communication, although the proportions that go into defense expenditures and public administration have tended to diminish. The average annual spending by the government has especially accelerated during the 1960's and apparently more so during the latter part of the decade.

The cost of public management has steadily risen partly because the size of this public has expanded rapidly, and partly because the prices of the goods and services that go into its management have inflated even more rapidly. In the matter of

Table 7

Principal Items of Government Spending, 1951—1970
Five-Year Averages (Millions of Pesos)

	1951—55	*1956—60*	*1961—65*	*1966—70*
All Items	884	1313	2195	3822
Education	179	304	561	1007
Transportation/ communication	165	262	421	745
Defense/police	173	214	325	593
General government	130	142	249	458
All others	237	321	639	1019

public education, for example, the school age population (6 to 19 years old), which totaled some 9.7 million in 1960 and represented 35.7 per cent of the national population, was increasing at the annual rate of 400,000 so that by 1970 it totaled 13.8 million and constituted 37.5 per cent of the population, an increase of almost 2 percentage points in 10 years. At the same time, the proportion that actually attended school went up from 4.1 million or 43 per cent of the school age population in 1960 to roughly 9.3 million or 67 per cent of the comparable population by 1970. Thus, not only were there more people to teach. An escalating proportion of them also wanted to be taught as a matter of fact.

With respect to the impact of inflation in the supply of public goods and services, this is suggested in Table 8, which compares government spending in current and constant pesos for the period 1951—1971. The difference between the current and the constant peso values of government spending has been large and has tended to become much larger over the latter part of the period. Thus, inflation is not only a factor to the real growth of government spending, but also a rather important one. This point becomes even clearer if the period under review were segmented, for purposes of analysis, into four different periods of five years to a period, and a comparison of the difference between the current and constant peso values of government spending were made from one period to another since 1951 through 1970. Thus, for the period 1951–55, the average spread between the current and constant values amounted to 5.5 per cent of the annual spending of government in current pesos. This spread persistently rose to 7 per cent of the spending during the period 1956–60, to 22.5 per cent in 1961–65 and to 25 per cent of the annual government spending during 1966–70, despite the fact that the reference or base year for the price deflator was changed from 1955 to 1967 for the years 1969 and 1970.

The difference between the current and constant peso values suggests the extent to which inflation has intervened in the growth of public goods and services supplied each year by the government. It is also suggestive of the seriousness with which the contingency of inflation has to be taken into account in the decisionmaking process of the government. Presumably, the larger this difference, the more the inflation cuts into the ability of governemnt to supply public goods and services, and probably the greater the tendency of a growth-oriented government to hedge against inflation by adjusting its budgetary outlays in some proportion to the rate of inflation. In short, inflation dampens the rate at which the supply of public goods and services grows in real terms at the same time that it stimulates the government to larger budgetary outlays in reaction to its dampening effect. This is one instance where a failure in monetary policy at managing the level of general prices generates, through some form of synergy, a corresponding failure in fiscal policy at fostering more economic growth.

INVESTMENTS OF THE NATIONAL GOVERNMENT

Finally, in addition to its operating outlays for the supply of such conventional public goods and services as education and defense, the government also periodically spends for the continued operation of many of its investments. Most of these,

Table 8

Government Spending in Current and Constant Pesos, 1951—1971 (Millions of Pesos)

	Current	*Constant**	*Current-Constant*
1951	696	600	96
1952	848	785	63
1953	853	812	41
1954	1013	993	20
1955	1007	1007	0
1956	1194	1159	35
1957	1292	1230	62
1958	1336	1226	110
1959	1255	1152	103
1960	1480	1310	170
1961	1724	1486	238
1962	1815	1488	327
1963	2223	1729	494
1964	2573	1838	735
1965	2607	1823	784
1966	2841	1881	960
1967	3214	2034	1180
1968	3674	2282	1392
1969	4415	4328	87
1970	4970	4212	758
1971	5424	3820	1604

*Data for 1951—1968 are in 1955 pesos, while those of 1969—1971 are in 1967 pesos. The deflator is the implicit price index for government (consumption) expenditures in the national income accounts.

such as government investments in electrification and railroads, started out as businesses that had to be supported in the interest of the public. Frequently, however, they have been so poorly managed that it has become rather doubtful whether they serve the interest of the public at all, requiring as they do every year

Table 9

Investments of the National Government,
30 June 1971 (Thousand Pesos)

Activity	*Peso Value*	*Percent Distribution*
Abaca	₱ 13,701	0.52%
Airports	5,244	0.20
Banking	1,067,008	40.61
Cement	17,000	0.65
Coconuts	7,018	0.27
Economic Development Foundation Inc.	3,000	0.11
Electrification	284,748	10.83
Fertilizers/seeds	59,398	2.26
Government departments	1,504	0.06
Grains marketing/price support	261,676	9.96
Hotel	1,000	0.04
Housing	29,313	1.12
Irrigation/water	98,167	3.74
Landed estates	97,361	3.71
Land settlement	27,350	1.04
National Development Compnay	182,555	6.95
Public works	11,720	0.44
Railroads	117,804	4.48
Regional development authorities	26,756	1.03
Rural credit	138,519	5.27
Shipbuilding	56,276	2.14
Tobacco	67,650	2.57
Trading	47,869	1.82
Universities	4,809	0.18
TOTAL	₱2,627,446	100.00%

enormous sums of subsidy from the government. The magnitude and scope of these investments as of 30 June 1971 are indicated in Table 9. About 52 per cent of the government exposure to banking consist of Philippine subscriptions to the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD or the World Bank), the International Finance Corporation (IFC) and the Asian Development Bank (ADB). Another 38 per cent represent investments in the equity of the Development Bank of the Philippines (DBP), while six per cent are in the equity of the Philippine National Bank (PNB), another three per cent in the Land Bank, and roughly one per cent each in the equity of the Central Bank (CB) and other banks.

Many of these investments operate at a loss and constitute a drain on government finances. However, since they involve the jobs of several thousand employees, they have to be continually subsidized. Obviously, their continued support competes with demands on the government for more schools, for more roads, and for more defense expenditures.