Philippine presidential candidates to cut budget deficit

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While all the presidential candidates in the May elections in the Philippines are making empty promises to help working people and the poor, the reality is that, whoever wins, the next administration will launch a further assault on living standards.

Like countries around the world, the Philippines is confronting demands from international financial capital to cut sovereign debt and slash budget deficits. The huge debts that were taken onto government books during the 2007–08 global financial crisis through stimulus packages and bailouts now have to be passed onto the working class in the form of higher taxes and cutbacks to essential services.

The global downturn impacted heavily on the Philippine economy. After 7.08 percent growth in 2007, the economy slowed to just 3.8 percent in 2008 and again, even more sharply, in 2009 to just 0.9 percent. In the process, the government estimated over 163,000 manufacturing jobs were destroyed.

President Gloria Macapagal Arroyo instituted a stimulus package worth $US7 billion and interest rates were cut to try to assist the economy. Even though exports fell, remittances from more than 8 million overseas workers continued to flow in to the tune of more than $17 billion in 2009, providing a major boost to private consumption. According to a 2009 United Overseas Bank study, the Philippines has the highest private consumption-to-GDP ratio of nine Asian countries—77.0 percent compared to 59 percent for Hong Kong, which came second.

International pressure is growing, however, for the Philippines to cut its debt levels. Last year, the budget deficit was a record $6.35 billion or 3.9 percent of GDP. Public debt stands at more than $90 billion, or more than 50 percent of GDP.

In January, Moody's, the international credit rating firm, pegged the country's sovereign rating at three notches below investment grade and warned that "renewed capital inflows" required a return to a "path of fiscal consolidation". Arroyo had previously announced a balanced budget by 2013, but abandoned the target amid the global economic turmoil.

A month later, Standard & Poor's kept the country's sovereign rating unaltered (BB-), but warned that it required evidence "of renewed focus and commitment to fiscal consolidation". It added that the next administration should continue Arroyo's financial policies.

By March, *Business World* reported that the country's five-year credit default swap spreads were trading at 162 basis points against a 120 weighted average for Asia, driving up the costs of financing. A potential massive sell-off of securities, the newspaper warned, was in the offing if the country's fiscal position were not shored up soon.

The political establishment quickly fell into line. *GMA News* this month reported that the central bank had reduced by a third its short-term loans to banks under its rediscounting facility and tightened its eligibility requirements. After initially budgeting 35 billion pesos ($US770 million) for the second phase of its fiscal stimulus, the government announced that it was scrapping the plan altogether.

The presidential candidates have pledged to fix the public finances. An analysis by *Business World* concluded that the four leading contenders had "all promised measures to boost the tax to gross domestic product ratio, estimated at a five-year low of 12.8 percent last year". It continued: "The country's next president will have to turn his back on populist promises made during the campaign and raise taxes sooner rather than later to prevent a financial crisis."

The focus on increasing taxes must be understood in the context of the protracted assault on social services. Civil service wages and debt servicing together use up more than 80 percent of tax revenue, leaving little over for anything else. Debt servicing alone totalled 622.3 billion pesos ($US13.2 billion) last year or 8.1 percent of GDP. Public health and education services are badly underfunded. There is no financial support for the jobless. As for raising money through privatisation, most state assets have been sold off already.

All the presidential candidates are engaged in an uneasy balancing act: making promises to voters to improve their lives, while quietly signalling to the corporate elite that its austerity agenda will be implemented.

The leading contender Senator Benigno Aquino III, the son of the late President Corazon Aquino, has sought to exploit public disgust over the huge backlog in the construction of classrooms—an estimated 20,000 as a minimum—in the public school system. His "solution", however, is to extend the current voucher system, channeling an estimated $170 million into private pockets to send more than 1 million young people to private schools. In reality, the proposal will condemn millions of working class and peasant youth to a public school system that will be further starved of funds.

Aquino had been promising to impose no new taxes and instead improve public finances by cracking down on tax evasion. He estimated that $3 billion in lost revenues would be raised. He quickly shelved the plan after being roundly criticised by the corporate elites, who are, by and large, the biggest tax evaders. Now, if his tax evasion scheme does not work within six months, Aquino promises to impose new taxes.

Second in the opinion polls, Senator Manuel Villar, is a real estate billionaire. While posturing as a "poor boy" from Tondo, a poverty-ridden district on the outskirts of Manila, Villar has pledged that his administration would not hesitate to increase taxes. In addition, Villar has proposed to wring more from government assets, hinting at privatising the National Food Authority, the agency that provides subsidised rice to the poor.

When Aquino and Villar speak of increased taxes, they do not mean an impost on the wealthy elite, but regressive indirect taxes that hit the working class and the poor the hardest. Economic analysts are mooting the possibility of raising the country's Value Added Tax from 12 percent to 15 percent. Arroyo's decision to raise VAT taxes was one reason that her popularity slumped to record lows. Her party's presidential candidate scores just above zero in the opinion polls.

The Philippine political establishment is aware of mounting levels of social discontent. Unemployment is now 7.3 percent, slightly down from the 7.7 percent recorded in 2009. This translates into more than 2.8 million Filipinos unemployed. The underemployed, those who are seeking more working hours, increased by 1.7 million and now total 7.1 million people. According to the Social Weather Station polling agency, more than 9.4 million families or more than 47 million people rated themselves poor (out of a total population of 90 million).

The imposition of even harsher austerity measures in the wake of the May election will set the stage for a looming confrontation with the working class and rural poor.