

Reducing Wastes in Government, Cutting Taxes from the Citizens ¹

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A. Defining the Role of Government

In discussing wastes and taxes in government, one cannot escape answering the question, whether implicitly or explicitly: “Just what is the role of government for the citizens?” And our answer to this question would somehow guide us which of those functions done by government can be regarded as wasteful and which are not. And consequently, which of those functions deserve to be financed by continued taxes, and which do not deserve continued taxes.

This is very important because unlike voluntary exchange between sellers and buyers of a particular commodity or service, where a seller gets only the money of the buyer if he satisfies the latter’s needs, taxation is collected forcibly, not voluntarily. Thus, taxation being a forced contribution to the government, should be kept to the minimum if the state is to fully respect the rights of the citizens in determining what’s good for themselves.

The big and expanded governments that we see in many countries in the world today are departures from the classical liberal concept of a limited role of government, which is the protection of citizens’ right to life, property and individual liberties. Famous objectivist philosopher Ayn Rand, wrote:

“The only function of government, in a (capitalist) society, is the task of protecting man's rights, i.e., the task of protecting him from physical force; the government acts as the agent of man's right of self-defense, and may use force only in retaliation and only against those who initiate its use.” (Capitalism: The Unknown Deal, 1966)

What we see now are governments whose functions and roles extend to the provision of education, health care, housing, pension and social security, credit and banking, infrastructure, utilities, business and trade regulation, unemployment insurance, and various income redistribution functions. With more role for government, with more government responsibility and less personal responsibility, more taxes, fees and charges are to be surrendered by individuals to the state.

In exploring the source of wastes in government and society, it is helpful also to see the role of the market . And a good thinker to derive wisdom from this is Adam Smith, who wrote+

“Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it... he intends only his own gain, and he is... led by an invisible hand

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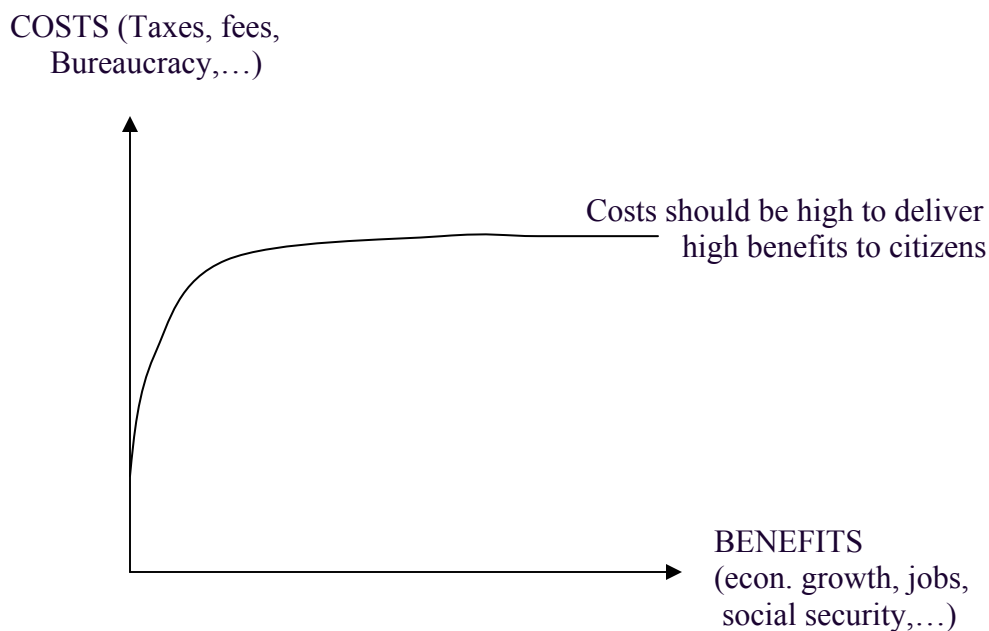
to promote an end which was no part of his intention... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” (The Wealth of Nations, 1776)

And which another famous economist, Milton Friedman, has this to add:

“People who intend only to serve public interest are led by invisible hand to serve private interest which was no part of their intention.”

We now briefly analyze the philosophy of an expanded function of government, namely in the provision of generous welfare program to the people.

Graph 1. The Promise of the Welfare State

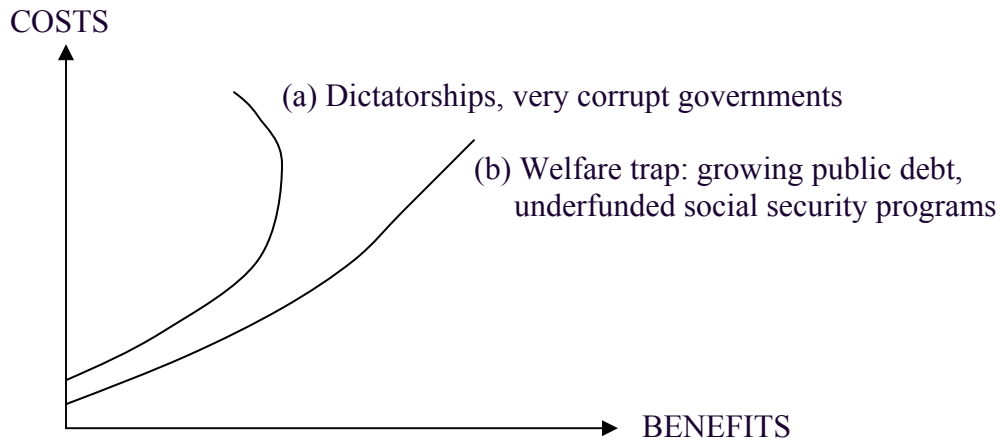


Almost all governments in the world, with the exception of a very few, are trying to be welfarist. It is a very convenient excuse and reason to create new taxes and fees, or to increase existing ones. Larry Reed, President of Mackinac Center for Public Policy, cautioned:

“Government has nothing to give anybody except what it first takes from somebody, and a govt. that’s big enough to give you everything you want is big enough to take away everything you’ve got.” (“Seven Principles of Sound Economic Policy”)

But as the saying goes, “Spending your own money for yourself or for others, you are very careful. Spending other people’s money for yourself or for others, you can be wasteful”. Thus, a number of undesirable results happen, like the following.

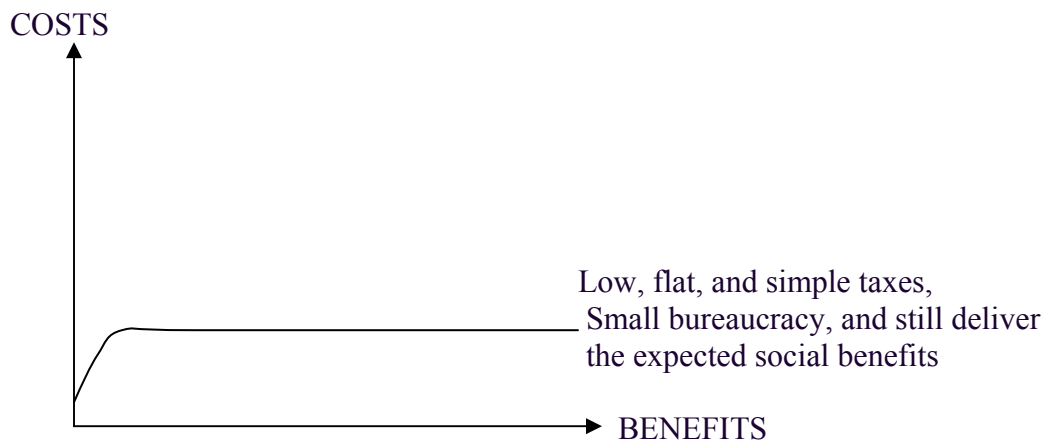
Graph 2. Diversions from the Promise of the Welfare State



Many countries in Africa and a few countries in Asia and Latin America are in situation (a) above. While many countries in Europe, the US and Japan, are in situation (b). The riots in France in late 2005 and early 2006 was a classic example of the problem of a welfare trap: citizen expectations of welfare and social security are much higher than what the state can provide, and what the productive taxpayers can pay.

In both cases, wastes to society were created: poverty and misery under dictatorships when people were supposed to be productive under a regime of economic freedom. And huge public debts that will be shouldered by the future generations in the form of continued high (if not higher) taxes, longer working years and delayed retirement, under a regime of welfare trap.

Graph 3: Responsible Citizenship, Limited Government Alternative



The above alternative is called as such because the focus should be on giving individuals and households greater responsibility in running their lives, and less government responsibility on functions that are better left to the citizens themselves. Assignment of responsibility is very important. More of this in the succeeding discussions.

B. Big and Interventionist Governments: Some Empirical Evidence

We now go to looking at the numbers. How “big” governments are now? And have they grown bigger or smaller compared to 2 decades ago?

Table 1. General Government* Expenditures as % of GDP, 2003
(unless year is specified)

| Country | 1980 | 2003 |
|-------------|------|------------|
| Sweden | 63.7 | 57.2 ('02) |
| Denmark | 57.5 | 56.4 |
| France | 44.0 | 53.4 |
| Austria | 50.6 | 51.2 |
| Belgium | 55.4 | 50.6 ('02) |
| Germany | 49.3 | 49.1 |
| Norway | 54.5 | 48.0 |
| Netherlands | 57.8 | 47.8 |
| Italy | -- | 46.4 |
| UK | 46.4 | 42.9 |
| Spain | 31.4 | 36.5 ('02) |
| Switzerland | 37.0 | 34.7 ('01) |

| Country | 1980 | 2003 |
|---------------|------|-----------|
| Canada | 42.0 | 37.8 |
| United States | 34.8 | 35.0 |
| Australia | 33.6 | 35.3 |
| New Zealand | 45.8 | -- |
| S. Africa | 29.9 | 33.5 |
| Malaysia | 37.7 | 21.4 |
| Thailand | 21.1 | 15.2 |
| Hong Kong | -- | 21.8 (02) |

source: IMF, Government Finance Statistics Yearbook, 2004 and 1992.

* General government = central/national government + state/provincial & municipal governments

Data is not available for the US, Canada, Japan, China, other big economies and Asian economies. Only central government expenditures as % of GDP is available, but this will not make data comparison possible because general government includes expenditures by state/provincial and local government units (LGUs).

For the Philippines, expenditures of the national government is around 18% of GDP. If expenditures by LGUs (because they also raise their own taxes and revenues on top of transfers by the national government) are included, it could be around 22% of GDP.

Many governments in Europe still have spendings about half or more than half of the whole economy's GDP. Although compared to more than 2 decades ago, their size and expenditures relative to GDP are now somehow smaller

In Asia, Malaysia and Thailand's government spendings have drastically reduced relative to their GDP.

Now, these numbers often do not include unfunded social security and medicare or health claims, both present and future claims. This is an indicator of how welfarist and nanny-statist governments are. That is, the extent of what should have been personal and parental responsibilities, have been arrogated to the "collective" as social and government responsibilities.

And so, the higher the ratio, the more welfarist, the more government responsibilities, and the lesser personal responsibilities, are assigned.

Here, the numbers can be scary. For instance, it's about 200% of GDP in France. In the US, unfunded social security and medicare claims is estimated to be \$36 trillion, or around 300% of GDP. When public debt and other traditional federal liabilities are included, the total U.S. federal debt is over \$46 trillion, or nearly 400% of GDP!

Table 2. Extent of Government Intervention among Citizens in Starting a Business

Starting a Business in Asia, Medium-size company

| Economy | No. of Procedures | Duration (days) | Cost (% GNI per capita) |
|-------------|-------------------|-----------------|-------------------------|
| Lao PDR | 8 | 163 | 17.3 |
| Indonesia | 12 | 97 | 86.7 |
| Cambodia | 10 | 86 | 236.4 |
| Bhutan | 10 | 62 | 16.6 |
| Vietnam | 11 | 50 | 44.5 |
| Sri Lanka | 8 | 50 | 9.2 |
| Philippines | 11 | 48 | 18.7 |
| Taiwan | 8 | 48 | 4.6 |
| Bangladesh | 8 | 37 | 87.6 |
| China | 13 | 35 | 9.3 |
| India | 11 | 35 | 73.7 |
| Thailand | 8 | 33 | 5.8 |
| Nepal | 7 | 31 | 78.5 |
| Malaysia | 9 | 30 | 19.7 |
| Pakistan | 11 | 24 | 21.3 |
| Japan | 8 | 23 | 7.5 |
| Korea | 12 | 22 | 15.2 |
| Mongolia | 8 | 20 | 5.1 |
| Maldives | 5 | 13 | 18.1 |
| Hong Kong | 5 | 11 | 3.3 |
| Afghanistan | 3 | 8 | 67.4 |
| Singapore | 6 | 6 | 0.8 |

Source: <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/>

So, why would starting a business – that creates jobs, that creates new goods and/or services, that expands an economy's output, and helps bring down the price of those goods and services that were produced and expanded – seem like a criminal act to many governments, that entrepreneurs have to wait many days, pay many permits/licenses/certificates/inspections/accreditations and other bureaucratic requirements, and pay lots of taxes, fees and charges?

C. Wastes and Corruption, Philippine Case

Corruption in government is a malady that has probably existed since government was invented in various parts of the world. As governments expanded, ie, as government agencies, bureaucracies and enterprises expanded, so has corruption expanded.

In the Philippines, the battle against corruption was highlighted in the first People Power Revolution, also known as "Edsa 1" where a dictator which ruled the country for 20 years (1965-1985), former President Marcos, was ousted in 1986. Then new President Cory Aquino, instructed all agencies to fight corruption within their ranks; a number of new anti-corruption bodies and court were also created.

Fifteen years later, in 2001, another People Power Revolution, aka "Edsa 2" took place, and former President Estrada was ousted. The battlecries for the same citizen revolt were essentially the same: "enough of corruption". Today, the same concerns keep on reverberating, in the Philippines and many countries in the world. It is safe to bet that the same concerns will come up again and again in the next 20 years; in the next 50 years or more.

One indicator that corruption is not subsiding, is the presence of many anti-corruption agencies. That is, more anti-corruption bodies = more corruption happening. In the Philippines for instance, there are nearly 20 anti-corruption bodies, and yet the extent of corruption remains unabated. These anti-corruption bodies in the Philippines are as follows:

1. Office of the Ombudsman (OMB). Investigates and prosecutes, takes criminal cases to court or Sandiganbayan, depending on the accused government official's rank.
2. Commission on Audit (COA). Conducts independent audits of government agencies, refers financial irregularities to the OMB.
3. Civil Service Commission (CSC). Sets standards and norms for civil servants; preventive role in minimizing and controlling corruption.
4. Sandiganbayan. Main anti-graft court, adjudicates cases brought to it by OMB; deals only with cases for high-ranking government officials.
5. Judiciary (Supreme Court, Court of Appeals, lower courts). Adjudicates law in all areas.
6. Department of Justice (DOJ). Government's (Executive branch) chief criminal prosecution arm.
7. National Bureau of Investigation (NBI). Under the DOJ. Gathers evidence for probable hearings and file appropriate charges.
8. Presidential Commission on Good Government (PCGG). Assigned to recover ill-gotten wealth of the Marcos family, now of the past President Estrada.
9. Inter-Agency Anti-Graft Coordinating Council (IAAGCC). Shares info and resources and

coordinate its members (CSC, COA, DOJ, NBI, OMB, and PCAGC, now PAGC).

10. Presidential Anti-Graft Commission (PAGC). Superseded ex-Pres. Ramos' Presidential Commission Against Graft and Corruption (PCAGC), and ex-Pres. Estrada's National Anti-Corruption Commission (NACC). Investigates corruption practices by Presidential appointees.

11. Presidential Commission on Effective Governance (PCEG). To strengthen public sector institutions and streamlining agenda.

12. Governance Advisory Council (GAC). Advises Presidents in formulating governance reform. Consists of private sector appointees.

13. Anti-Money Laundering Council (AMLC). Can freeze suspicious accounts for 15 days without recourse to courts.

14. Department of Budget and Management (DBM). Oversees reforms in government procurement system, bureaucracy streamlining.

(Source: ADB, 2005: "Country Governance Assessment: Philippines")

There are 2 more institutions not mentioned in the ADB list that should have far bigger roles in combatting corruption:

a) House of Representatives (HOR). The congressional (House and Senate) committees are the regular forum where issues and scandals are investigated, and bills are discussed and approved (or neglected, unacted). Hence, the committees can either uncover and discourage corruption, or protect the corrupt officials upon the connivance of top committee leaders. The HOR has 57 regular committees and 14 special committees!

b) Senate of the Philippines. Same power of committees as those in the lower House. The senate (with 24 senators) has 36 regular committees and 20 oversight committees.

The presence of so many anti-corruption bodies is like putting in more money to find out how much money have been wasted and stolen already. All these plus other government bodies indirectly engaged in preventive anti-corruption activities (the Bangko Sentral ng Pilipinas or BSP, the Securities and Exchange Commission or SEC, among others), and private sector-initiated anti-corruption watchdogs have one thing in common: they demand "good governance". But almost none of them demand "less governance".

Big and expansive government means big opportunity for corruption. Since the fund to create and sustain a government agency does not come from the elected politicians nor the appointed administrators and bureaucrats but from taxes, especially from private sector taxpayers, the temptation to waste such money is big. The small probability of being caught and much smaller probability of being prosecuted and punished (in case one is caught) enhances the temptation to steal and waste.

Again, the dictum:

"Spending your OWN money for yourself, your family, or for others, you're careful. Spending OTHER PEOPLE's money for yourself, your family, or for others, you can be wasteful."

D. Reducing Wastes in Government and Society

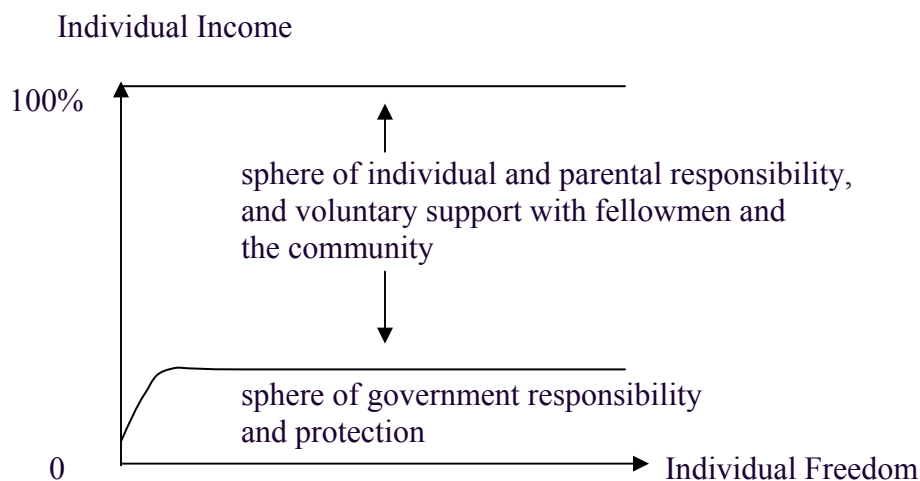
Wastes happen when resources were spent when they should have not been spent at all, or more resources were spent than what was necessary. Bloated government bureaucracies are often the main source of social waste. And good ol' Adam Smith has this to say about the bureaucracy, somehow acidic to hear:

"The whole, or almost the whole public revenue, is in most countries employed in maintaining unproductive hands... Such people, as they themselves produce nothing, are all maintained by the produce of other men's labour... Those unproductive hands, who should be maintained by a part only of the spare revenue of the people, may consume so great a share of their whole revenue... that all the frugality and good conduct of individuals may not be able to compensate the waste and degradation of produce occasioned by this violent and forced encroachment." (The Wealth of Nations, 1776)

Now, even if we assume that the government bureaucracy is well-disciplined and motivated, wastes can come from the citizens themselves. This is possible when many people become too dependent on welfare and subsidies, that they become lazy and complacent. And they use their free time from not working in demanding "equality" with the rest of society, that they should be entitled also to material welfare that the productive sectors of society enjoy.

So, going back to our earlier graph 3, Responsible Citizenship alternative, we can rephrase the division of responsibility into the following:

Graph 4. Assigning Responsibility and Freedom



E. Reducing Wastes in Philippine Government

There are at least 3 options to reduce wastes in the bureaucracy: (i) agency mergers and consolidation, (b) privatization, and (c) abolition and devolution to LGUs. Examples to be given here are those in the Philippines.

1. Agency Mergers: DOF + DBM + NEDA

The Department of Finance (DOF) is in charge mainly of looking for revenues -- through the Bureau of Internal Revenue (BIR), the Bureau of Customs (BOC), the Bureau of Treasury (BTr), privatization. It is also in charge of borrowing from local or foreign sources when there is budget deficit (revenues are lower than expenditures). The DOF makes revenue projections based on macro-economic growth projections, both national (GDP growth, inflation rate, interest rates, exchange rate, level of exports and imports, among others) and international (world interest rates, oil prices, and so on). The DOF also incorporates some micro-economic development, like which sectors are fast growing (like telecoms industry and cell phone texting) and hence, large revenue can be collected.

The Department of Budget and Management (DBM) is in charge of making initial budget estimates based on the following:

Agency requests + LGUs' share of tax collections (internal revenue allotment or IRA)
+ legislators and the President's pork barrel + subsidies to government corporations
+ automatic appropriations for interest payment (local and foreign debts) and agrarian reform fund (among others).

Then DBM consolidates those numbers in coordination with various agencies, including revenue projections and potential borrowings prepared by the DOF, then present the budget to Congress through the President. After Congress has discussed and enacted the annual General Appropriations Act (GAA), DBM disburses the money as allocated by Congress and as automatically appropriated.

The National Economic Development Authority (NEDA) is in charge of macro-economic planning based on development in the external/foreign environment and the domestic environment like pump-priming in certain sectors, the level of budget deficit. It is also tasked with socio-economic planning, "fighting poverty", preparing the medium-term economic plans and targets, and so on.

Very often, NEDA and the national economists who constitute its bureaucracy create the impression that they indeed plan the economy and make the economic policies. So, many people blame the economists for ruining the economy; they blame the agency for mis-planning the economy.

These 3 agencies are all planners. DOF plans the revenues, the taxes to be raised and new taxes to be created. DBM plans the expenditures, the subsidies and pork barrel that each agency and political unit (from LGUs to legislators to the President) will receive, the interest payment to be made. NEDA plans "poverty-reducing" social and economic programs that will be carried out by various other departments and agencies.

These 3 agencies' functions are often intertwined, so they meet regularly in various inter-agency bodies, like the Development Budget Coordinating Council (DBCC), along with the Bangko Sentral ng Pilipinas (BSP). Hey, you may wonder what an "independent monetary authority" is doing sitting with top bureaucracy of the Executive branch planning many things?

The DBCC is an important inter-agency body as it is the one presenting the budget and sources of financing to Congress. So, merging these 3 agencies into say, a Department of Finance and Economy (DFE) or whatever mongrel agency, taxpayers, especially those in the private sector, will be relieved of the high operating costs of the 3 offices. In addition, in a number of developed economies, these 3 functions are done by a single agency, their Ministry of Finance.

2. Privatization: Development Academy of the Philippines (DAP)

There are many government agencies, corporations and academic institutions that should better be left to the private sector, to spare taxpayers of additional fiscal burden that bore into their pockets annually. A good example is the Development Academy of the Philippines (DAP, www.dap.edu.ph). Among the reasons are the following:

One, fiscal burden. DAP receives P70 million per year in 2005 and 2006, P168.7 million in 2004. If the budget of DAP is sourced mainly from ordinary office runners and janitors receiving salaries of P8,000/month on average, and those guys are taxed 15% on average of their annual income, or P15,600/year in personal income tax, then government will need to expropriate partly the incomes of 4,487 ordinary office employees, to get P70 million. For DAP's 2004 budget of P168.7, government would have expropriated part of the incomes of 10,814 ordinary employees.

Two, DAP is one of those redundant government "think tanks". Among the other known government "think tanks" are the Philippine Institute for Development Studies (PIDS), National Defense College of the Philippines (NDCP), the 100+ state universities and colleges (SUCs), certain departments like NEDA, the various in-house "think tanks" within other departments (ex., NTRC under the DOF). All of those government think tanks are researching for "national development, improve governance and fight corruption, fight poverty..." All of them, no exception, have those avowed missions.

Three, DAP is itself a money-making body on top of the subsidies it gets from the state annually. Its conference center (DAPCC) in Tagaytay for instance, earns money from its hotel and cottages (around P5,000/night for the cottages), from its conference fees, etc. DAP should continue doing those things and charge even higher if it wants too -- as a private corporation, not as government corporation that continues to live off on taxes of other people.

Four, its administration is highly politicized. Selection of DAP president is through the influence of the President of the Republic.

Five, the DAP board almost mirrors membership of NEDA board. The DAP board is composed of the following: a representative of the Office of the President, CSC chair, DAP president, secretaries of DOF, DepEd, DBM, DA, DENR, DOH, DAR, and NEDA. NEDA board, chaired by the President, is also composed of all of them (except the CSC chair and DAP President) plus

other cabinet secretaries. And NEDA board is the highest policy-making body of the government in the Executive branch, getting inputs from all departments and their attached agencies.

Six, DAP cannot really claim to be an "independent government think tank". To say an agency to be an "independent government think tank/corporation" is a contradiction in terms. Once you're a government body, you are dependent on the bureaucrats who comprise your board, you are dependent on the legislators who appropriate your annual budget, you are dependent on the President who appoint the officials who comprise your board.

There is really no need to retain DAP as a government corporation. There is really no need to milk the taxpayers to finance another government body whose functions can still continue as a private corporation.

3. Agency abolition, devolution to LGUs

One national government agency ripe for abolition and its function to be devolved to local government units (LGUs), is the Department of Tourism (DOT). LGU leaders (governors, mayors, their respective councils, brangay leaders) can compete with each other in attracting tourists into their areas. Hence, they shall be pressured to develop their place's infrastructure (roads, seaports and airports, power and telecommunication facilities), peace and order situation, and overall governance.

For instance, white-sand-beach municipalities of Mindoro Oriental (ex. Puerto Galera) will compete with white-sand-beach municipalities of Aklan (ex. Boracay), Bohol (ex. Panglao), Cebu (ex. Mactan), La Union, Ilocos Norte (ex. Pagudpud), Pangasinan (ex. Hundred Islands), etc.

Mountain resorts of Benguet (ex. Baguio) will compete with mountain resorts + waterfalls of Mt. Province (ex. Sagada), Ifugao (ex. Banaue), Cagayan (ex. Callao caves), Isabela (ex. Magat dam), Zambales (Subic), Tarlac & Pampanga (Mt. Pinatubo), Bukidnon (ex. Malaybalay), Davao, and so on.

Thus, the DOT is abolishable. Or it can be demoted to a bureau attached under the OP handling national tourism promotion, having no regional or provincial offices.

F. Reducing Taxes: The Asia-Pacific Challenge

Table 3. Top Marginal Income and Payroll Tax Rate

| Country | 1990 | 2000 | 2004 |
|-------------|------|------|------|
| Japan | 69 | 50 | 50 |
| Australia | 49 | 49 | 49 |
| China | 45 | 45 | 45 |
| S. Korea | 66 | 44 | 40 |
| Taiwan | 50 | 40 | 40 |
| Indonesia | 35 | 40 | 40 |
| New Zealand | 33 | 40 | 39 |
| Thailand | 55 | 37 | 37 |
| Pakistan | 50 | 35 | 35 |
| India | 53 | 30 | 33 |
| Philippines | 35 | 32 | 32 |
| Malaysia | 45 | 29 | 28 |
| Bangladesh | 25 | 25 | 25 |
| Singapore | 33 | 28 | 22 |
| Hong Kong | 25 | 17 | 20 |

Source: Gwartney and Lawson, Economic Freedom of the World, Annual Report 2006

Although income taxes have generally come down in most Asia-Pacific countries over the last 2 decades, most governments until now still get between $\frac{1}{4}$ to $\frac{1}{2}$ of people's yearly income. Only Singapore and Hong Kong have income taxes lower than 25 percent.

Table 4. Number of Business Taxes, 2004

| Country | No. of Payments | Time (hours) | Total tax rate (% profit) |
|----------------|------------------------|---------------------|----------------------------------|
| Sri Lanka | 61 | 256 | 75 |
| India | 59 | 264 | 81 |
| Philippines | 59 | 94 | 53 |
| Indonesia | 52 | 576 | 37 |
| Pakistan | 47 | 560 | 43 |
| Thailand | 46 | 104 | 40 |
| China | 44 | 872 | 77 |
| Mongolia | 42 | 204 | 32 |
| Malaysia | 35 | 190 | 35 |
| Nepal | 35 | 408 | 33 |
| Vietnam | 32 | 1,050 | 42 |
| Lao PDR | 31 | 180 | 33 |
| Cambodia | 27 | 121 | 22 |
| Korea | 27 | 290 | 31 |
| Bhutan | 19 | 274 | 43 |
| Bangladesh | 17 | 400 | 40 |
| Singapore | 16 | 30 | 29 |
| Japan | 15 | 350 | 53 |
| Taiwan | 15 | 1,104 | 36 |
| Hong Kong | 4 | 80 | 29 |
| Afghanistan | 2 | 275 | 36 |
| Maldives | 1 | 0 | 9 |

Source: <http://www.doingbusiness.org/ExploreTopics/PayingTaxes/>

It's disgusting to see that entrepreneurs who, again, create jobs, expand the economy's production of goods and services, which help stabilize prices and lower inflation, which alleviate poverty, are over-taxed by many governments. The multiple taxes slapped on entrepreneurs, medium-sized ones in the table above, siphon off around 40 percent on average, of business profit. No wonder why tax evasion or tax payment minimization is widely practiced in many countries around the world.

Finally, the low, flat tax revolution is continuing in eastern Europe. This should be an inspiration for us, organized taxpayers' associations and unions in Asia-Pacific.

Countries that adopted low, flat income taxes, and year of introduction:

| | |
|-------------------|-----|
| Kyrgyzstan (2006) | 10% |
| Georgia (2005) | 12% |
| Ukraine (2004) | 13% |

| | | |
|-------------------------------|--|-----|
| Russia (2001) | 13% | |
| Iraq (2004) | 15% | |
| Romania (2005) | 16% | |
| Hong Kong (1947) | max | 16% |
| Slovakia (2004) | 19% | |
| Jersey and Guernsey (1940) | | 20% |
| Slovenia (estimate from 2007) | 20% | |
| Estonia (1994) | 26% | |
| | (2005 24%; 2006 23%; 2007 22%; 2008 21%; 2009 20%) | |
| Latvia (1994) | 25% | |
| Lithuania (1994) | 33% | |
| | (1 July 2006 27%; 2008 24%) | |

(source: World Taxpayers Association)

G. Reducing Taxes: The Philippine Challenge

The Philippine Taxpayers' Union (PTU) will pursue the campaign, "No tax on work, shift to sales tax". This philosophy is guided by the fact that economic activities by productive individuals and enterprises already (a) create jobs, and (b) expand production of food, housing, clothing, transportation, other human needs. Hence, productive economic activities already serve welfare functions to society, and they should not be penalized with income taxes and bureaucratic licenses, permits and other paper work.

Income taxes (personal and corporate) should ultimately be abolished and a national sales tax or value added tax or VAT, plus excise and other consumption-based taxes, among others, can be retained or created, to finance a small and limited government. We do not propose immediate drop from the current top-tax rate of 32 percent to zero in one swoop. Rather a gradual phase-out over a period of around 10 years. As income taxes fall within the 10-year period, national sales tax also gradually increases from around 2 percent, up to 12 percent maximum. Or the current 12 percent value added tax (VAT) will be retained and expanded to cover all sectors except agricultural and fishery products in their raw form

Excise tax on alcoholic, tobacco and petroleum products will be retained and increased if necessary, to augment collections from the national sales tax and/or VAT. A rich household that does not pay income taxes will still pay huge amount of taxes to the government. It will have 2 or more cars, so it will pay lots of sales tax and excise tax on fuel products, pay annual vehicle registration tax, pay lots of sales tax for the tires, spare parts, other accessories. A rich household will also have a bigger house, so it will pay lots of sales tax in housing construction materials, furniture and appliances, for its big electricity, water and telephone bills.

A poor household will have no or one old car, so it pays no or little VAT and excise tax on petroleum products; it will have a small house, so it will pay small VAT for its few appliances and furniture, small electricity, water and telephone bills, and so on. The more-consumption, more-taxes principle, not only enables just and equal application of tax laws to all households, rich and poor alike, but also retains the "progressive" objectives of tax collections (ie, more taxes

from richer individuals and households).

Our initial estimates show that there will be revenue-neutral results over the long-term. The initial drop in revenue collection will be compensated by faster economic growth and bigger household consumption, which will increase collection from sales tax.

H. Concluding Notes

Reducing wastes in government is possible, we just have to show various alternatives to the public how the benefits in terms of lower taxes, smaller bureaucracy, lower prices and more jobs, will more than compensate the initial pains of job dislocation in the bureaucracy. But more than producing numbers and statistics, we need to assert and highlight individual and parental responsibility, and less government responsibility. Less government means less taxes and intervention, more individual freedom on how to run their own lives and their own communities.

Annexes: The Philippine Bureaucracy

A. Executive Branch, Agencies

- 1) Office of the President (OP)
 - + Office of the Executive Secretary
 - + 40 Presidential advisers/consultants
 - + nearly a hundred government corporations and banks (see GOCCs below)
 - + dozens other offices (see Other Executive Offices below)

- 2) Office of the Vice-President (OVP)

- 3) Department of Agriculture (DA)
 - + regional and provincial offices
 - + 11 attached agencies; biggest are Bureau of Fisheries and Aquatic Resources (BFAR), Fiber Industry Devt. Authority (FIDA), Fertilizer and Pesticide Authority (FPA)
 - + attached corporations, like the NFA, NIA), PCA, PhilRice,...

- 4) Dept. of Budget and Management (DBM)
 - no attached agency, no regional offices, no attached corporation

- 5) Dept. of Education (DepEd)
 - + regional offices
 - + thousands of public elementary and high schools
 - + attached agencies, like the Phil. High School for the Arts

- 6) Dept. of Energy (DOE)
 - + attached corporations: NPC, Transco, PNOC, PSALM, NEA,...
 - no regional offices, no attached agency

- 7) Dept. of Environment and Natural Resources (DENR)
 - + regional, provincial, and community offices
 - + attached agencies: Environmental Mgt. Bureau (EMB), Mines and Geo-sciences Bureau (MGB), National Mapping and Resource Information Authority (NAMRIA)
 - + attached corporations: LLDA, NRDC, PFC

- 8) Dept. of Finance (DOF)
 - + attached agencies: Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), Bureau of Treasury (BTr),...
 - no regional offices
 - + attached corporations: PDIC, TIDCOR, CDA,...

- 9) Dept. of Foreign Affairs (DFA)
 - + 4 attached agencies, like the Foreign Service Institute (FSI)
 - + regional offices

- 10) Dept. of Health (DOH)
 - + regional offices
 - + 1 attached agency, the Commission on Population

+ attached corporations/hospitals: PCMC, LCP, NKTI, (PHC),...

11) Dept. of the Interior and Local Government (DILG)

+ regional offices

+ 6 attached agencies; biggest: Phil. National Police (PNP), Bureau of Fire Protection (BFP), Bu. of Jail Management and Penology (BJMP)

12) Dept. of Justice (DOJ)

+ 9 attached agencies; biggest: Bureau of Corrections, Natl. Bureau of Investigation (NBI), Public Attorney's Offices (PAO), Land Registration Authority (LRA)

13) Dept. of Labor and Employment (DOLE)

+ regional offices

+ 7 attached agencies; biggest: Technical Educ. and Skills Devt. Authority (TESDA), Natl. Labor Relations Commission (NLRC), Phil. Overseas Employment Admin. (POEA)

+ attached corps.: OSHC, OCC

14) Dept. of Land Reform (DLR, formerly Dept. of Agrarian Reform)

+ regional offices

+ 1 attached agency, the National Commission on Indigenous Peoples (NCIP)

+ 1 attached bank: Land Bank of the Philippines (LBP)

15) Dept. of National Defense (DND)

+ regional offices

+ 5 attached agencies; biggest: Armed Forces of the Phils. (AFP), Phil. Veterans Affairs Office (PVAO), Government Arsenal

+ attached corp.: PHIVIDEC Industrial Authority

16) Dept. of Public Works and Highways (DPWH)

+ regional offices; no attached agencies

+ attached corps.: MWSS-Regulatory, LWUA, PEA,...

17) Dept. of Science and Technology (DOST)

+ regional offices

+ 21 attached agencies! biggest: Science Education Institute (SEI), Phil. Science High School (PSHS), Phil. Atmospheric, Geophysical and Astronomical Services Admin. (PAG-ASA)

18) Dept. of Social Welfare and Development (DSWD)

+ regional offices

+ 3 attached agencies

19) Dept. of Tourism (DOT)

+ regional offices

+ 2 attached agencies: Natl. Parks Development Committee (NPDC), Intramuros Admin. (IA)

+ attached corporations: PCVC, PTA, NPF

20) Dept. of Trade and Industry (DTI)

+ regional offices

+ 8 attached agencies: Board of Investments (BOI),...

+ attached corps.: NDC, PEZA, SBGFC, CITEM,...

21) Dept. of Transportation and Communication (DOTC)

+ regional offices

+ 6 attached agencies: Maritime Industry Authority (MARINA), Office of Transportation Security (OTS, LTO?),...

+ attached corps: PPA, MIAA, PhilPost, PNR, LRTA,...

22) National Economic and Development Authority (NEDA)

+ regional offices

+ 5 attached agencies: National Statistics Office (NSO),...

+ attached corp.: PIDS

23) Office of the Press Secretary (OPS)

+ 6 attached agencies: Bureau of Broadcast Services (BBS), Phil. Information Agency (PIA), National Printing Office (NPO),...

+ attached corp.: PTV

24) State Universities and Colleges (SUCs)

113 total (M.Manila 8; Region1- 5; CAR- 6; Reg.2- 5; Reg.3- 13; R4 11; Reg.5- 8;

Visayas: Reg.6- 11; Reg.7- 5; Reg.8- 11

Mindanao: Reg.9- 9; Reg.10- 7; Reg.11- 4; Reg.12- 6; Caraga 4)

25) Other Executive Offices, Government-owned and controlled corporations (GOCCs) and government financial institutions (GFIs)

100+; some listed in the budget materials, some are not;

26) Joint Legislative-Executive Councils

B. Government Financial Institutions (GFIs) and Government-Owned and Controlled Corporations (GOCCs)

As of 2003, COA Report:

Cluster 1, Financial A:

1. Al-Amanah Islamic Investment Bank of the Philippines (AIIBP)

2. Bangko Sentral ng Pilipinas (BSP)

Attached Agency:

- CB Board of Liquidators (CBBOL)

Subsidiary:

- Philippine International Convention Center, Inc. (PICCI)

3. Development Bank of the Philippines (DBP)

Subsidiaries:

- DBP Data Center, Inc. (DDCI)
- DBP Management Corporation (DMC)
- Industrial Guarantee Loan Fund (IGLF)

4. Land Bank of the Philippines (LBP)

Attached Agencies:

- National Livelihood Support Fund (NLSF)
- People's Credit & Finance Corp. (PCFC)

Subsidiaries:

- Bancom Realty Corporation (BRC)
- LB (Land Bank) Realty Development Corporation (LBRDC)
- LandBank Countryside Development Foundation, Inc. (LCDFI)
- LBP Insurance Brokerage, Inc. (LIBI)
- LBP Leasing Corporation (LBPLC)
- Masaganang Sakahan, Inc. (MSI)

Total, 17 = 4 mother banks + 13 attached agencies and subsidiaries

Cluster 2, Financial B:

1. Employees' Compensation Commission (ECC)
2. Government Service Insurance System (GSIS)

Subsidiaries:

- GSIS Family Bank (GSISFB)
- GSIS Mutual Fund, Inc. (GMFI)
- Meat Packing Corporation of the Phil. (MPCP)

3. Home Development Mutual Fund (HDMF)
4. Home Guaranty Corporation (HGC)
5. National Development Company (NDC)

Subsidiaries:

- Batangas Land Company, Inc (BLCI)
- First Cavite Industrial Estate, Inc. (FCIE)
- GY Real Estate, Inc. (GYREI)
- Inter-Island Gas Service, Inc. (IIGSI)
- Kamayan Realty Corporation (KRC)
- Luzon Integrated Services, Inc. (LINSI)
- Manila Gas Corporation (MGC)
- National Precision Cutting Tools, Inc. (NPCTI)
- National Slipways Corporation (NSW)
- National Stevedoring and Lighterage Corporation (NSLC)
- National Trucking and Forwarding Corporation (NTFC)
- Philippine National Lines (PNL)
- Pinagkaisa Realty Corporation (PRC)
- Tacoma Bay Shipping Corporation, Inc. (TABASCO)

6. National Home Mortgage Finance Corporation (NHMFC)
7. Philippine Crop Insurance Corporation (PCIC)
8. Philippine Deposit Insurance Corporation (PDIC)
9. Philippine Health Insurance Corporation (PHIC)
10. Small Business Guarantee and Finance Corporation (SBGFC)
11. Social Security System (SSS)
12. Trade and Investment Development Corporation of the Philippines (TIDCORP) / Philippine Export- Import Credit Agency (PhilEXIM)
13. Philippine Veterans Investment Development Corporation (PHIVIDEC)

Subsidiary:

- PHIVIDEC Industrial Authority (PIA)

Total, 31 = 13 GFIs + 18 subsidiaries and attached agencies

Cluster 3, Public Utilities:

1. Light Rail Transit Authority (LRTA)
2. Local Water Utilities Administration (LWUA)
3. Metropolitan Waterworks & Sewerage System (MWSS)
4. National Electrification Administration (NEA)
5. National Power Corporation (NPC)
6. Philippine National Oil Company (PNOC)

Subsidiaries:

- PNOC Coal Corporation
 - PNOC Development and Management Corporation
 - PNOC Energy Development Corporation
 - PNOC Exploration Corporation
 - PNOC Malampaya Production Corporation
 - PNOC Petrochemical Development Corporation
 - PNOC Shipping and Transport Corporation
7. Philippine National Railways (PNR)
 8. Philippine Postal Corporation (PPC)
- Subsidiary:*
- Philippine Postal Savings Bank, Inc.
9. Power Sector Assets and Liabilities Management Corporation (PSALM)

Total, 17 = 9 mother corps. + 8 subsidiaries

Cluster 4, Industrial and Area Development, Regulatory

1. Bases Conversion Development Authority (BCDA)

Subsidiaries:

- BCDA Mgt. & Holdings, Inc. (BMHI)
 - Bataan Technology Park, Inc. (BTPI)
 - Clark Development Corporation (CDC)
 - First Centennial Clark Corporation (FCCC)
 - John Hay Management Corporation (JHMC)
 - North Luzon Railways, Inc. (NLRC)
 - Philippine Centennial Expo '98 Corporation (EXPOCORP)
 - Poro Point Development Corporation (PPDC)
2. Cagayan Economic Zone Authority (CEZA)
 3. Cebu Ports Authority (CPA)
 4. Garments and Textiles Export Board (GTEB)
 5. Laguna Lake Development Authority (LLDA)
 6. Mactan-Cebu International Airport Authority (MCIAA)
 7. Manila International Airport Authority (MIAA)
 8. National Housing Authority (NHA)
 9. Partido Development Administration (PDA)
 10. Philippine Aerospace Development Corporation (PADC)
 11. Philippine Economic Zone Authority (PEZA)

12. Philippine Ports Authority (PPA)
13. Public Estates Authority (PEA)
 - Subsidiary:*
 - PEA Tollway Corporation
14. Southern Philippines Development Authority
 - Subsidiary:*
 - Marawi Resort Hotel, Inc.
15. Subic Bay Metropolitan Authority (SBMA)
16. Sugar Regulatory Administration (SRA)
 - Subsidiary:*
 - Philippine Sugar Corporation (PHILSUCOR)
17. Zamboanga City Special Economic Zone Authority (ZCSEZA)

Total, 28 = 17 mother corp. + 11 subsidiaries

Cluster 5, Agricultural, Trading, Promotional

1. Center for International Trade Expositions & Missions, Inc. (CITEM)
2. Cottage Industry Technology Center (CITC)
3. Food Terminal, Inc. (FTI)
4. Human Settlements Development Corporation (HSDC)
 - Subsidiaries:*
 - National Agri-Business Corporation (NABCOR)
 - Philippine Genetics, Inc. (PGI)
 - ZNAC Rubber Estate Corporation (ZREC)
5. Livelihood Corporation (LIVECOR)/KKK Processing Center Authority
6. National Dairy Authority (NDA)
7. National Food Authority (NFA)
8. National Irrigation Administration
 - Corporate Fund - F501
 - General Fund - F101, 102, 161
 - Special Fund - F158
 - Subsidiary:*
 - NIA Consult, Inc.
9. National Tobacco Administration (NTA)
10. Natural Resources Development Corporation (NRDC)
 - Subsidiary:*
 - Bukidnon Forests, Inc.
11. Philippine Coconut Authority (PCA)
12. Philippine Convention & Visitors Corporation (PCVC)
13. Philippine Fisheries Development Authority (PFDA)
14. Philippine International Trading Corporation (PITC)
15. Philippine Rice Research Institute (PRRI)
16. Philippine Tourism Authority (PTrA)
 - Subsidiaries:*
 - Corregidor Foundation, Inc.
 - Philippine Commission on the Promotion and Development of Sports Scuba Diving (PCPDSSD)
17. Quedan and Rural Credit Guarantee Corporation (QUEDANCOR)

Total, 27 = 17 mother corps. + 10 subsidiaries

Cluster 6, Social, Cultural and Scientific

1. Cultural Center of the Philippines (CCP)
2. Development Academy of the Philippines (DAP)
3. Lung Center of the Philippines (LCP)
4. National Kidney & Transplant Institute (NKTi)
5. Nayong Pilipino Foundation, Inc. (NPMF)
6. Occupational Safety & Health Center (OSHC)
7. Overseas Workers Welfare Administration (OWWA)
8. People's Television Network, Inc. (PTNI)
9. Philippine Amusement & Gaming Corporation (PAGCOR)
10. Philippine Center for Economic Development (PCED)
11. Philippine Charity Sweepstakes Office (PCSO)
12. Philippine Children's Medical Center (PCMC)
13. Philippine Heart Center (PHC)
14. Philippine Institute for Development Studies (PIDS)
15. Philippine Institute of Traditional and Alternative Health Care (PITAHC)
16. Philippine Leisure Retirement Authority (PLRA)
17. Technology & Livelihood Research Center (TLRC)

Total GFIs and GOCCs, Clusters 1 to 6 = 137

Source: Commission on Audit (COA, www.coa.gov.ph)

Not included here, as far as I know, are the following:

- a) Cluster 3: National Transmission Corp. (Transco) that is already up for privatization
- b) Cluster 4: Philippine National Construction Corp. (PNCC)
- c) Cluster 5: As of 2006, NRDC has 2 new subsidiary corporations: Philippine Forest Corp. (PFC) and Natural Resources and Mining Devt. Corp. (NRMDC)

Also not included are government-sequestered corporations (tv stations RPN 9 and IBC 13, shares in Manila Electric Cooperative (Meralco), United Coconut Planters Bank (UCPB), among others.

C. Legislative and Judicial Branches

- 1) House of Representatives
 - + House Electoral Tribunal
 - + 57 regular committees, 16 special (ad hoc) committees
 - + pork barrel
- 2) Senate of the Philippines
 - + Senate Electoral Tribunal
 - + 36 regular committees, 20 oversight committees
 - + pork barrel

3) Commission on Appointments
(members from House and Senate)

4) Supreme Court (SC)
+ Presidential Electoral Tribunal
+ lower courts (RTC, MTCs)

5) Sandiganbayan

6) Court of Appeals

7) Court of Tax Appeals

D. Constitutional Bodies

1) Civil Service Commission (CSC)

2) Commission on Audit (COA)

3) Commission on Elections (COMELEC)

4) Commission on Human Rights (CHR)

5) Office of the Ombudsman

E. Local Government Units (LGUs)

80 provinces, 83 cities, 1,525 municipalities, 42,000 barangays including the Autonomous Region in Muslim Mindanao (ARMM) and Cordillera Administrative Region (CAR)

F. Estimating the size of the bureaucracy

According to the Civil Service Commission (CSC), there are only 1.5 million government personnel (= 1M in national government agencies, NGAs + 100,000 in GOCCs + 400,000 in LGUs).

But there could be 3 to 4 million government personnel. How come?

LGUs alone: 42,000+ barangays in the country. A barangay (brgy.) would have a minimum of 14 personnel (brgy. captain + 7 brgy. councillors + brgy. secretary + brgy. treasurer + head of Sangguniang Kabataan (SK) + head of brgy security + brgy. nutritionist + brgy. health officer). Some barangays that can mobilize other revenues aside from what they get from the national government, the IRA, can have about 100+ personnel. If we take an average personnel of 20 personnel/brgy., at 42,000 brgys. nationwide, that's 840,000 people.

Municipal, city and provincial governments will have an army of their own employees, whether permanent or casual/contractual. My estimate is that there could be at least 1.2 million personnel in LGUs aside from barangay. The Union of Local Authorities of the Philippines (ULAP) also boasts of

1.7 million membership nationwide. This alone is much higher than the 400,000 LGU personnel listed in the CSC. So it is safe to put the number of LGU personnel at 2 million.

This plus the 1 million personnel in NGAs per CSC record, that makes 3 million. But if consultants, part-time and other staff are included, there should be more than 1 million. Hence, capping the 4 million mark is possible.