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LABOR TRENDS
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State of the nation: truth-challenged

Mrs. Arroyo's State of the Nation Address last July 24 before Congress is a prime example of the truth-challenged nature of her government.

Mrs. Arroyo's SONA claim: *"Sumusulong na ang ating plano na may tatlong yugto. Una, ang makaahon sa mga dekada ng utang at kapos ng pondo. Nagawa na natin ito."*

Under the Arroyo administration, interest payments have taken an increasing share of National Government expenditures—from 25% in 2001 to 32% last year. (See Table 1) Moreover, total debt service payments (interest and principal) have risen from 4.8% of nominal GDP to 5.5% over the same period.

Oddly, the Arroyo government is borrowing heavily from itself. According to the Commission on Audit (COA), from 2002 to 2004 the Bureau of the Treasury "invested"

PhP953.6 billion in Treasury bills issued by ... itself. The amount came from the Bond Sinking Fund which is money set aside for payment of maturing government securities.

Nearly a third (31.4%) of the non-tax revenues earned by the Arroyo government from 2001 to 2005 consisted of interest earned from such investments.

What this means is that the Arroyo government augments its revenue by borrowing from itself. *Umutang **sa sarili** para madagdagan ang kita.*

Mrs. Arroyo's SONA claim: *"Ikalawang yugto, ang pagbabalik sa taumbayan ang mas malaking kita ng pamahalaan: upang makapagpundar ng kalinga sa kalusugan, edukasyon at trabaho na kailangang-kailangan ng mamamayan. Ginagawa na rin natin ito."*

Last year, the Arroyo government cut non-interest, non-IRA spending—social and infrastructure spending—by PhP50B or a significant 10% of the year's program. In the first half of this year alone it cut even more: 19% or PhP60B. Since 2001, spending on social services and infrastructure has consistently fallen from 11.1% of nominal GDP to 8.6% in 2005. (See Table 2)

Only nine centavos of every peso the Arroyo administration spent from 2001 to 2005 was used for capital outlay. Capital outlay—spending on infrastructure—fell from 2.1% of nominal GDP in 2001, to 1.3% of nominal GDP in 2005. (See Table 2)

Table 1. Interest Payments and Total Debt Service

YEAR	Interest Payments			Total Debt Service		
	Value in Million Pesos	% of NG Expenditures	% of Nominal GDP	Value in Million Pesos	% of NG Expenditures	% of Nominal GDP
2001	174,834	24.6%	4.8%	274,439	38.6%	7.6%
2002	185,861	23.9%	4.7%	357,959	46.0%	9.0%
2003	226,408	27.4%	5.2%	469,990	56.9%	10.9%
2004	260,901	29.4%	5.4%	601,672	67.8%	12.4%
2005	299,807	31.8%	5.5%	678,951	72.0%	12.5%

Table 2. Non-IRA, non-Debt spending and Capital Outlays				
YEAR	Non-IRA, non-debt spending		Capital Outlay	
	In Million Pesos	as % of Nominal GDP	In Million Pesos	as % of Nominal GDP
2001	403,949	11.1%	74,793	2.1%
2002	439,785	11.1%	70,728	1.8%
2003	431,368	10.0%	81,274	1.9%
2004	458,438	9.4%	63,064	1.3%
2005	467,996	8.6%	70,355	1.3%

Rather than spend more on social services and infrastructure, the Arroyo government has been drastically cutting these.It is no wonder that our public schools are overcrowded and the quality of education has been deteriorating.

Mrs. Arroyo's SONA claim: "We now have the funds to address social inequity and economic disparity. We now have the funds to stamp out terrorism and lawless violence. *May pondo na tayo para labanan ang katiwalian.* We now have the funds for constitutional and electoral changes. Meanwhile, now we can fund the Medium Term Public Investment Program."

To support this claim the Arroyo government must**:** (a) complete the backlog in social and infrastructure spending cited above; and (b) not allow the backlog to pile up any further. In short, the Arroyo government must spend much more in real terms than it has programmed and has actually been spending this year and last year.

In other words, to fulfill all of the above Mrs. Arroyo should ***exceed*** the budget deficit that she set for her government at a level intended to appease the international creditor community and allow Mrs. Arroyo to stay in power. The local stock market heartily applauded Arroyo's speech. We wonder if they understood the implications of what she was saying.

Mrs. Arroyo's SONA claim: "Our economy is now growing over the longest period in the last quarter-century: 22 consecutive quarters of growth."

How wonderful—that is if you consider an annual average growth of 4.8% for the past 22 consecutive quarters an extraordinary achievement. That would count among the lowest in Southeast Asia, according to ADB data. (See Table 3)

Furthermore, if you look at the three major production sectors: agriculture, industry and services, it is only services that posted positive growth for the past 22 consecutive quarters. Agriculture's positive performance has been for only four consecutive quarters, at an unimpressive average rate of 2.8% per year.

What is worrisome is that for the last 5 consecutive quarters, investment spending (capital formation) has been falling at an average of -5% per year.

Mrs. Arroyo's SONA claim: *"Umakyat ng mahigit tatlumpung porsyento ang kita ng pinakamahihirap na pamilya sa unang tatlong taon ng ating panunungkulan...."*

Mrs. Arroyo is citing findings of the National Statistical Coordination Board (NSCB) which show that in the country as a whole, the average per capita income of the

Table 3. 2005 GDP Growth in the Philippines and other Southeast Asia

	Real Growth Rate (%)
Cambodia	8.4
Vietnam	8.4
Laos	7.2
Singapore	6.4
Indonesia	5.6
Malaysia	5.3
Philippines	5.0
Thailand	4.5

Sources: Asian Development Bank (ADB) and NSCB

Table 4. Average Annual Income by National Income Decile: 2000 and 2003				
Decile	2000 (Pesos)	2003 (Pesos)	Change	Percent Inc./(Dec.)
Philippines	**145,121**	**130,594**	**(14,527)**	**-10.01%**
First decile	24,506	23,258	(1,248)	-5.09%
Second decile	39,620	37,218	(2,402)	-6.06%
Third decile	51,250	48,377	(2,873)	-5.61%
Fourth decile	64,231	60,513	(3,718)	-5.79%
Fifth decile	80,247	75,036	(5,211)	-6.49%
Sixth decile	100,549	93,172	(7,377)	-7.34%
Seventh decile	128,203	118,166	(10,037)	-7.83%
Eighth decile	169,290	154,467	(14,823)	-8.76%
Ninth decile	237,029	216,115	(20,914)	-8.82%
Tenth decile	556,277	479,645	(76,632)	-13.78%

poorest 30%, in nominal terms, rose by 10% to 14% between 2000 and 2003. In real terms, it went up by 28% to 38%. To arrive at these numbers, the NSCB uses *provincial poverty thresholds* to estimate real incomes.

Usually, the consumer price index (CPI) is used to estimate real incomes. Based on NSO calculations, the average family income of the poorest 10% to 30% of families increased by only 7% to 8% between 2000 and 2003.

Moreover, using the *national average* of the CPI to deflate nominal incomes, the average family income of the poorest 10% to 30% of families FELL by 5% to 6% over the same period. All families, rich and poor, experienced a shrinking in their average real incomes between 2000 and 2003, according to the NSO data. (See Table 4)

If provincial CPIs rather than the national average is used, the result is slightly different but the overall finding is still the same: real average per capita incomes of all families FELL between 2000 and 2003. Real per capita incomes of the poorest 11-30% of our population rose slightly **by less than 1%.** This is a far cry from the 30% increase in real incomes arrived at by using provincial poverty lines.

Thus, the NSCB data cited by Arroyo shows a 28% to 38% increase in real incomes of the poorest 30%. By contrast, the NSO data shows a 5% to 6% decline or at best a 1% increase in real income. Why the huge discrepancy?

The answer lies in the use of different deflators, the provincial poverty thresholds by the NSCB and the CPI by

Table 5. Percent Change in Real Per Capita Income of Poorest 30%, by Region, 2000 and 2003

	Poorest 10%	Second 10%	Third 10%
Philippines	**38.0**	**33.1**	**28.4**
NCR	5.0	6.3	6.1
Region 1	11.8	10.4	10.9
Region 2	13.5	13.5	12.4
Region 3	9.8	8.5	8.4
Region 4A	6.0	0.6	1.2
Region 4B	(2.5)	0.2	(4.6)
Region 5	(2.8)	0.4	2.4
Region 6	1.7	7.5	8.8
Region 7	14.2	19.4	19.9
Region 8	4.2	2.7	2.8
Region 9	(14.4)	(14.1)	(16.3)
Region 10	(5.0)	(3.8)	1.8
Region 11	(4.2)	(2.3)	(1.5)
Region 12	10.2	10.7	12.8
CAR	15.3	11.7	15.4
ARMM	6.9	3.6	8.5
CARAGA	(1.3)	(2.9)	(2.0)

Source: NSCB

the NSO. According to the NSCB, the provincial poverty line uses a smaller basket of goods than the CPI basket. Moreover, the cost of the NSCB's poverty basket per province does not increase by as much as the CPI, hence the much lower inflation rates or price increases.

Incredibly, at the national level, the poverty lines imply that prices of commodities consumed by the poor FELL by 14% to 24%. That is why the increase in the real value of the incomes of the poor was larger than the increase in their nominal value (28-38% vs 10-14%), a rather strange result.

Another strange feature of the NSCB data is that at the national level the real incomes of the poorest 30% rose by 28%-38%. Since this is a national average, the regional averages should lie above or below this range. Looking at the regional data (Table 5), the highest increase in real per capita incomes of the poorest 30% was 20%; this occurred only in two income deciles in Region VII. In all regions where there was an increase in the real average per capita income of the poorest 30%, the median increase was 8%.

Mrs. Arroyo's SONA claim: *"... at bumaba ang dami ng maralita sa 25% ng mga pamilya, mula 28%, katumbas ng dalawang milyong katao na lumaya sa kahirapan."*

This is related to the preceding claim. Since the poverty rate is based on income, a 28%-38% increase in the real incomes of the poor is going to result in a lower poverty incidence.

Moreover, the distribution of income in the Philippines is highly unequal so that where you place the poverty threshold has a significant effect on the number of families considered poor.

A study by the ADB on poverty in the Philippines shows that at a poverty line of $1 a day, the poverty incidence in the Philippines was 15.6% of the population in 2000. When the poverty line is $1.10, the poverty incidence rises to 19.3%, and further to 26.5% with a poverty line of $1.30 per day.

In the same manner, lowering the real value of the poverty line or what is the same thing raising the real value of the incomes of the poor, by using the price index implicit in the poverty line rather than the CPI, results in a huge number of families—1.6 million families according to the NSCB—no longer considered poor.

The ADB explains this phenomenon:

"When income distribution is highly unequal, as in the Philippines, there are many families at the bottom of said distribution. As a result, poverty measures become very sensitive to where the poverty line is placed, and small changes in the poverty threshold can result in large changes in the population identified as poor." (**Poverty in the Philippines: Income, Assets, and Access,** Asian Development Bank, January 2005, Chapter 3, p. 31, http://www.adb.org/documents/books/Poverty-in-the-Philippines/default.asp)

Mrs. Arroyo's SONA claim (executive summary of the SONA 2006 technical report): "Generated a total of 3.3 million jobs from January 2005 to March 2006 through various interventions: more than 1 million jobs were created through microfinance and SME lending, more than 300,000 jobs from agribusiness land development and around 2 million from the development of various sector/ industries which include housing, tourism, infrastructure, ICT, mining, ecozones and apprenticeship."

The claim that the economy generated 3.3 million jobs in just over a year is simply fantastic, a fabrication of various government agencies. In fact, the economy generated an average 777,000 jobs over the past 12 months based on the January and April rounds of the Labor Force Survey (LFS). This is a little over half of the 1.5 million jobs goal of the Arroyo administration. Job creation in 2005 was also a dismal 700,000, compared with the 1.3 million annual addition to the working age population.

Whether it's votes or performance on the job, the Arroyo administration has no compunction padding the numbers.

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