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The Entrepreneur

Unsolicited Advice

‘OUT of touch; insulting to the intelligence!’

That’s how I would describe the pieces of unsolicited advice given by Naoyuki Shinohara, deputy managing director of the International Monetary Fund (IMF), during his visit to Manila early this month.

Shinohara’s statements to the press were insulting to our intelligence because we did not need anybody from thousands of miles away to come and tell us what we already knew.

The government, he said, should spend more not only on infrastructure, which is one of the key requirements of investors, to generate more employment, increase income levels and reduce poverty, but also more on public education and health services, noting that doing so would help increase the income opportunities of the poor.

He went to say that one of the main problems of the Philippines is income inequality. And that, although the country has managed to sustain growth over the years—even in 2009 when most economies in the world suffered contractions due to the global financial crisis—the country still faces a significant problem in poverty.

I don’t know whether Shinohara and other IMF officials keep themselves up-to-date with news coming out of the local press.

If they did, they would have known why the government launched the Public-Private Partnership (PPP) Program, which is actually a new term for build-operate-transfer (BOT) scheme and its modified versions.

It’s precisely to attract more investments on infrastructure projects. The failure of the PPP to get off the ground after a year and a half, however, is another story.

On education, the yearly national budget always provides funds for the construction of classrooms, hiring of teachers, and now we have the K + 12 program purportedly to raise the quality of education.

On health services, we continue to build hospitals and improve health facilities. The Department of Health is even looking at the inclusion of health infrastructure projects in the PPP Program.

Despite these efforts, we recognize that current resources are not enough to achieve within a short period of time the ideal level of education and health services.

This brings us back to Shinohara’s out-of-touch advice. He said the government should spend more on projects that would help reduce poverty without expanding the budget deficit. Of course, he said, there is a need to increase spending on infrastructure and social services, but this should be supported by efforts to raise more revenue, and not by expanding the budget deficit.

That’s a typical chicken-and-egg situation, but the reality is clear: We need to spend more, even if it means expanding the deficit, to build infrastructure, which will attract

investments, generate a multiplier effect on business activities and drive economic growth which, in turn, will increase revenues for the government.

It is also the reality that we are not expanding the budget deficit; in contrast, we are even narrowing it. In September alone, the budget deficit was P18.5 billion, less than half the P42.41 billion ceiling for the month.

The narrower deficit was achieved by underspending, which I call our self-inflicted problem. The objective is to improve the country's credit rating, but the price is low economic growth and its serious consequences: more people out of work, less opportunities for livelihood, and less attractive environment for investments.

Deficit reduction is good, and targeting a zero deficit is the ultimate dream of any government, but not at this time, when the whole world is facing another recession when it is still recovering from the 2008 crisis.

We must remember we are resilient—that is why we were able to post positive growth in 2009 while two-thirds of the world plunged into recession—but we are not immune.

Our self-inflicted problems, particularly underspending, is exacerbating our vulnerability. We don't have to overspend and breach the P300-billion deficit target for 2011, but we should not be overzealous in keeping the deficit way below the ceiling.

It's already late in the game, with less than two months remaining of the year, but we should learn some lessons from our experience this year. One of these lessons is to listen to ourselves because we know our own problems.

We don't need somebody thousands of miles away to look at us from the outside and tell us what we already know.

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