# Inefficiencies, Disincentives and the Misallocation of Resources under the Conditional Cash Transfer Program

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**Abstract:** The conditional cash transfer (CCT) program provides cash grants to poverty stricken households in order to help finance their basic needs, foster investments in human capital and help reduce inter-generational poverty. Cash grants are subject to certain conditions set by government that must be followed by the recipients in order to maintain their eligibility over a five year period. Most of the research conducted to assess the impact of conditional cash transfer programs have revealed positive outcomes in terms of increased enrolment, more frequent visits to local health centers and higher household incomes. However, these results should not be considered impressive or astonishing, because at the very least, these outcomes are logically expected. However, it is important to consider the fact that the program will be shouldered by the taxpayers and will necessarily require the creation of more taxes and an increase in current tax rates to pay off increasing fiscal deficits and accumulating public debts. More taxation and higher tax rates only serve to discourage private sector investments which lead to lesser job creation and a lower capacity to produce goods and services in the future. An economy's competitiveness is drastically reduced by higher public debts and more taxation and will limit a member country's ability to exploit the gains from liberal trade, finance and investment in an economically integrated region such as ASEAN.

The goal of the study is to illustrate the inefficiencies, disincentives and misallocation of resources that have occurred upon the implementation of the program. The theoretical framework for the study is based on the moral hazard problem which is inherent in any government program funded by coercive taxation and the nature of public goods and services which protects it from the discipline imposed by free markets, particularly in view of the massive inefficiencies and waste associated with its provision and distribution. The study provides a description of the conditional cash transfer program, its expected outcomes and a presentation of arguments on how it leads to inefficiencies, disincentives and the misallocation of resources.

The conclusion drawn from the study is that the CCT program will not necessarily reduce poverty, particularly in a country where more than eighty percent of the unemployed have high school or college diplomas. Its wide coverage and inefficient monitoring will lead to billions of pesos in wasteful spending, will contribute to growing fiscal deficits, the accumulation of more public debt, unending inflation and a greater tax burden for the private sector. Higher taxation chokes the private sector, limits its ability to produce goods and services, limits job creation and reduces economic prosperity.

**Key words**: conditional cash transfers; fiscal deficits; public debt; leakages; opportunity cost

## 1. Introduction

The conditional cash transfer (CCT) program which began in the year 2007 has become one of the major policy instruments being used by government in order to support the effort to eradicate poverty and achieve six out of the eight millennium development goals set by the United Nations for developing countries. It is currently called the "4P's program (or the "Pantawid Pamilyang Pilipino program") which provides cash grants to poor families subject to certain conditions set by government that must be followed by the recipients in order to maintain their eligibility over a five year period. These conditions generally include mandatory enrollment of children in public schools and regular medical check-ups for both children and mothers in each of the households identified as target beneficiaries of the program.

The provision of these cash grants should allow children to finish at least primary or secondary schooling and consequently find gainful employment to prevent the transmission of poverty to the next generation of families. In addition, requiring children to be vaccinated and mothers to regularly visit municipal or barangay health centers for medical check-ups, should improve their health and well-being, reduce the incidence of sickness and disease in the community and allow local governments to better disseminate information on family planning, the proper spacing of children and the use of both artificial and natural means of birth control.

## 2. Methodology

The study provides a description of the conditional cash transfer program, its expected outcomes and a presentation of arguments on how it leads to inefficiencies, disincentives and the misallocation of resources. The discussion on government inefficiency in implementing programs is based on the moral hazard problem.

## 3. Results and Discussion

### 3.1 Description of the Conditional Cash Transfer Program

The conditional cash transfer program officially began in 2007 under the administration of President Gloria Macapagal Arroyo. At present, the amount of cash grants range from a maximum of P1,400 per month to P1,900 per month. The size of the cash grant is based on the rationale that P500 per month is to be used for health and nutrition expenditures while the amount of P900 per month is for the indirect education expenses of 3 children for 10 months in a year (Jimenez, 2014).

It operates in 80 provinces covering 1,483 municipalities and 144 cities in all 17 regions nationwide. In February 2014, the program had more than 5 million registered households identified by the National Household Targeting System for Poverty Reduction of the DSWD. Based on the report of Reyes et., al. (2015) the identification of the poorest households within the municipalities is done by the DSWD using the National Household Targeting System for Poverty Reduction (NHTS-PR). The system uses a Proxy Means Test (PMT) model to identify the poor families using data from the 2006 Family Income and Expenditure Survey (FIES) and the 2006 Labor Force Survey (LFS).

During its first year of implementation, it covered 6,000 poor households as the initial batch of beneficiaries. By the end of 2008 the number of families covered by the program increased to 586,523 households and this further increased to 630,000 in 2009. For the year 2010, the number of poor households under the program increased to 1 million as the newly elected President Benigno Simeon Aquino Jr. decided to continue its implementation under the name: "Pantawid Pamilyang Pilipino Program" or 4P's. The Aquino administration aggressively expanded the program to cover 2.3 million households in 2011, and 3.1 million households by the end of 2012. By 2013, the program covered more than 3.9 million households and was further increased to 4.2 million in 2014, 4.4 million in 2015 and 4.6 million in 2016 (Department of Social Welfare and Development DSWD, 2016). All families covered under the program will receive cash grants over a five year period. Budgetary allocations for the program have increased from P50 million in 2007 to P62.7 billion by 2016 and P78.6 billion by the year 2017 (Department of Social Welfare and Development, 2016, Department of Budget and Management, 2016).

In 2011, it was estimated that the program had reached 20.32 percent of the country's total poor families in which 82 percent of the beneficiaries were rural poor (Reyes, 2013). In the results of the study where 4Ps beneficiaries were identified, an average overall increase in spending in food, education and health care for children was observed (Raquiza, 2013; Reyes et al 2013; Chaudhury, Friedman and Onishi, 2013). School participation among children aged 6-17 years had also increased across time by roughly 3.5 percentage points in 2011 (Reyes, 2013; Reyes et al, 2013). For the year 2015, the 4P's program had been responsible for producing 332,673 high school graduates with 13,649 students finishing with honors (Aquino, 2015)

## 3.2 Inefficiencies, Disincentives and the Misallocation of Resources

### 3.2.1 Fiscal Deficits, Public Debt and Higher Taxation

From 2007 to 2016, the government has allocated a total amount of P315.75 billion for the conditional cash transfer program (Department of Budget and Management, 2016). In 2010, the Asian Development Bank approved a $400 million loan to help finance the program over the 2011 to 2014 period, while the World Bank provided a loan worth $405 million to cover the same program over the 2009 to 2014 period (Somera, 2010). These loans help finance the cash grants as well as part of the administrative costs of implementing the program. However, debt servicing will be substantially larger than the combined amount of the loans at $805 million because of both interest and principal payments to be amortized over a long term period covering 10 to 15 years. Long term loans normally require total debt payments that are more than two times larger than the original principal amount, particularly if these have maturities that go beyond a ten year period.

These debt payments will obviously be taken from increased tax collections, which will require government to impose new taxes and raise existing tax rates in order to pay-off maturing debts. The heavy cost of this program will be passed on to the private sector, as increased taxation coercively takes a larger part of earned income, and limits the ability of the private sector to spend, save and invest. More taxation discourages firms from expanding productive capacity, creates lesser jobs, leads to lesser goods and services produced, reduces the creation of wealth and limits the ability of workers and business owners to spend for consumption. Taxation reduces the welfare of individuals because it takes away a substantial portion of the income earned that could have been spent for financing personal needs and wants. What makes the situation worse is the fact that additional taxes collected to fund cash grants were simply redistributed to another sector of society without a commensurate public good or service that would justify the above mentioned additional taxation.

If tax collections are not enough, government undertakes deficit spending which requires more borrowing that produces inflation particularly when the Central Bank (or the Bangko Sentral ng Pilipinas (BSP)) creates new money to lend to government. Inflation is a hidden tax, because it is the outcome from deficit spending that is funded by the Central Bank's creation of new money. This increases public debt and assures the imposition of more taxes and higher tax rates in the future. Inflation erodes the purchasing power of money and hurts workers, businessmen and consequently the poor who receive cash grants. The conditional cash transfer program contributes to the accumulation of fiscal deficits. Deficit spending in the Philippine economy was largest at P314.5 billion in 2010, when government expenditures reached P1.5224 trillion and with tax revenues at only P1.2079 trillion. Deficit spending for the year 2016 is at P242 billion, while other years with enormous deficit spending levels were in 2009 at P300 billion, 2012 at 242.8 billion, 2002 at 210.7 billion, 2003 at P199.9 billion, 2011 at 197.8 billion and 2004 at 187.1 billion (Department of Budget and Management Report, 2016). Estimates for the year 2015 show a national government debt of P5.954 trillion which increased from P5.7397 trillion in 2014 (Bureau of Treasury, 2014, Department of Budget and Management Report, 2016).

The burden of paying off public debt falls squarely on private sector businesses and workers. Although government executives and employees file income tax returns, their tax payments come from salaries and wages funded by tax collections from the private sector, which in effect, still puts the biggest burden of public debt payments on the private sector. Government agencies, bureaus and departments cannot exist and cannot create jobs without collecting taxes from the private sector.

### 3.2.2 Big government and more taxation

Bigger government, more bureaucracy and larger budgets for public programs have always resulted to more graft and corruption and the expanded CCT program simply provides another venue for national and local government officials to divert public funds away from projects and into personal or political party use given the difficulty of monitoring the number of beneficiaries (currently at 4.6 million households for 2016). The Commission on Audit has regularly discovered various cases that involved the illegal use and diversion of public funds in all government departments under the executive branch, and the expanded CCT program with its wide coverage across the entire country, only adds to the list of potential sources of public funds which can be diverted for other purposes.

The expansion of the program from 6,000 households in 2007 to 4.6 million households by 2016 has required 1,800 new personnel and additional administrative costs to cover staff salaries and allowances, monitoring and evaluation, training, bank fees, capital outlays and advocacy with all of these comprising 20 percent of the total budget for the 4P's (Department of Social Welfare and Development 2014). The level of sophistication and organization in ensuring the efficient and effective delivery of the program is very high and difficult to maintain as its implementation is challenged by internal issues such as targeting errors, leakages of funds, cash disbursement delays, as well as the occurrence of natural disasters such as typhoons, flooding, severe drought and earthquakes (Reyes et., al., 2013) The wasteful use of public funds attributed to leakages, inefficient operations and ineffective administration as well as the diversion of these funds away from beneficiaries and into personal or political party use, is a major opportunity cost to the tax paying worker and businessman in the private sector.

### 3.2.3 Cash grants and institutional vote buying

Cash grants are not earned, their payment to a beneficiary does not produce a public good or service for the tax payer, it creates a sense of entitlement by the poor, fosters a culture of mendicancy and perpetuates patronage politics particularly when local government officials use the program to extort votes. This is done by threatening to withhold the benefits and removing an individual from the program or bribing voters by promising larger cash grants to more households. Under the implementing guidelines of the conditional cash transfer program, both elected and appointed officials should not have any relatives as beneficiaries of the program, and referrals made by congressional representatives should not be entertained by social workers in the locality. However, there are several cases involving the relatives of barangay officials receiving cash grants even if they are non-poor households and mayors and congressmen influencing parent leaders and enumerators to include households who are not necessarily identified as poor by the National Household Targeting System for Poverty Reduction (NHTS-PR). Parent leaders and enumerators are social workers under the DSWD, who are also vulnerable to the influence, persuasion, or in severe cases, harassment done by local government officials. These parent leaders and enumerators are responsible for verifying, finalizing and monitoring the list of household beneficiaries at the municipal level as identified by the NHTS-PR.

When influenced by local government officials, the social workers end up being coerced to include political allies and supporters in the list of beneficiaries who may be poor or non-poor and this strengthens the practice of patronage politics that promotes a culture of dependency by the poor on their local government officials. A true evaluation of the cash grant program is not seriously undertaken as long the local official is supported and consequently elected. In areas with armed conflict such as the provinces in the Bicol Region where NPA rebels operate, and the Autonomous Region for Muslim Mindanao with the MILF, MNLF rebels and the Abu Sayaf groups, these cash grants are used in order to pre-empt turmoil at the grass-roots which can have the effect of trapping the poor under patronage politics, forcing them to live a life of mendicancy at the mercy of politicians who control resources (Ibon International, 2014).

### 3.2.4 Wasteful Resource Use in the form of Leakages and the Opportunity Cost of the Tax payer

When cash grants are given to non-poor households, the program ceases to be a social safety net. It stops being a policy measure to support poverty alleviation efforts and simply becomes a redistribution program, transferring wealth accumulated from the hard earned income of workers and businessmen in the private sector to the non-productive sector of society. With a combined budget of more than P315.75 billion from the year 2007 to 2016, covering 80 provinces and 1,484 municipalities, with 4.6 million cash grant recipients, the existence of leakages becomes an absolute certainty and the lack of honest personnel monitoring the system will determine the magnitude by which funds from the program will be diverted to the non-poor as well as to government officials that control the cash grant disbursements.

#### 3.2.4.1 Ineligible households, duplicate entries

For the year 2012, the Commission on Audit (COA) reported that the conditional cash transfer program had covered a number of ineligible households, most of which were found in Region 5 with 64 beneficiaries being included that were not poor. The COA had stated that the selection of poor households through the household assessment and the application of the Proxy Means Test (PMT) may be considered deficient. (Commission on Audit Annual Report, 2012). The PMT tends to overestimate the number of poor households as shown by the list generated by the National Household Targeting System for Poverty Reduction (NHTS-PR) designed by the Department of Social Welfare and Development (DSWD). For the year 2009, the NHTS-PR estimated that there are 5.2 million poor households and 5.7 million families which differs largely from the National Statistical Coordination Board's (NSCB's) official poverty estimate in 2009 of 3.9 million poor families based on a refined methodology (Reyes et., al., 2013). For the year 2012, the NHTS-PR estimated that there are 5.2 million poor families which is way above the 4.2 million poor families based on the 2012 Family Income and Expenditure Survey (FIES), and only 3.9 million families with members aged 0-18 and/ or are pregnant (Reyes et., al., 2013). The PMT model of the NHTS-PR appears to be overestimating the number of poor families (Reyes et., al., 2013). In addition, poverty statistics being used in the targeting scheme of the DSWD do not match the official records of the NSCB which raises questions about the credibility of the DSWD's database (Reyes, et., al.,2013).

For the year 2012, P96.62 million worth of disbursements did not comply with regulations and P50.15 million worth of payments went to 7,782 households which were not in the list of validated beneficiaries in the National Targeting System of the DSWD . (Commission on Audit Annual Report, 2012). A number of the non-poor and ineligible households that had received cash grants were either relatives or supporters of local government officials. The enumerator and the parent leaders working under the DSWD, who are responsible for verifying and finalizing the list of poor households as determined by the PMT and the NHTR-PR system, are always subject to the influence and persuasion of local government officials such as the mayors and barangay captains who understand that cash grants may be used as a potential tool for political patronage. To a certain extent, this fuels allegations that the targeting system is being rigged for electoral politics in local government units in preparation for the upcoming elections (Ibon International, 2014).

From January 2012 to August 2012, cash grants of P18,683,963 had revealed duplication among the names of 4,443 households. Disbursements of P3.18 billion from 2008 to 2012 remained undocumented as December 31, 2012 and there were 386,435 bank accounts of the DSWD with a total amount of P139 million that reflected no withdrawals since the accounts were opened (Commission on Audit Annual Report, 2012).

For the year 2013, the COA reported that in the DSWD's system of using the "Over the Counter Scheme" (OTCS) for releasing cash grants, a total amount of P10.626 billion was deposited in the DSWD Land Bank of the Philippines account. From this deposit, approximately P10.295 billion had been utilized or disbursed. The amount of P330.347 million which remained unused was the budget allocation for cash grants in 8 regions. These represented approximately P91.929 million worth of unclaimed grants for active beneficiaries in regions 4A, 6, 9 and the CARAGA. In addition, an amount of P46.502 million worth of cash grants were traced to 4,320 households with double entries (Commission on Audit Annual Report, 2013).

In 2014, the COA discovered both non-eligible beneficiaries, and beneficiaries with duplicate entries. Many of the current beneficiaries are not in the list identified as poor by the National Household Targeting System. From the sample taken by the COA, 1,752 were identified as unique households and 609 were duplicates (Commission on Audit Annual Report 2014). If the sample of 2,361 household beneficiaries were randomly selected from a population of poor households as determined by the DSWD, the 609 duplicate entries represents a 26 percent incidence of households being given cash grants twice, instead of only once on a regular basis. This clearly represents a large leakage, particularly if the proportion of 26 percent is applied to the 4.2 million households covered in 2014. In effect, this would imply that 1.196 million households are receiving cash grants twice instead of only once on a regular basis.

For the year 2015, the Consolidated Commission on Audit Report on Official Development Assistance Programs and Projects showed that the amount of P1.579 billion from 2010 to 2015 had remained idle, alongside the discovery of 327 household names being duplicated. When cash grants are not disbursed, and are left to stay idle over a four or five year period, this creates the impression that the officials who have access to the funds are exploiting the interest income earned from the billions worth of deposits that remain untouched. This also represents a huge opportunity cost for the private sector who will end up paying for a program where the financial resources were not utilized and diverted for some other purpose, rather than being used for private personal consumption, savings and investment that could have materialized if not for the additional taxation.

Because of the expanded coverage from 6,000 households to 4.6 million households, both inclusion errors (of non-eligible households) , and exclusion errors (of the truly poor households) will be greater and the expected leakages and wasteful spending to become larger. In a study assessing the conditional cash transfer program for the year 2009, it was discovered that 72 percent of the beneficiaries belong to the bottom 20 percent of the population. This implies that the other 28 percent are households which are not the poorest of the poor but still continue to benefit from the cash grants (Fernandez and Olfindo (2011)). Results of the study also show that 90 percent of the beneficiaries belong to the bottom 40 percent of income earners which implies that 10 percent of the beneficiaries are not the poorest of the poor but are part of the upper 60 percent of the income earners (Fernandez and Olfindo (2011)).

In 2015, there were 94 documented cases of loan sharks or informal lenders within several municipalities that acquired the ATM cards of 4P's beneficiaries. Households that surrendered their ATM cards had applied for loans from the informal lenders of the community with payment guaranteed at the end of the month when cash grants are made available through the ATM account. The 4P's beneficiaries ended up surrendering the ATM cards to serve as collateral for loans to finance immediate household needs which could not be paid when cash grants were released every two or three months instead of the regular monthly disbursements (GMA News, 2015). For the same year, the Asian Development Bank reported that approximately 30 percent or $19 billion of the P62 billion budget allocated for the conditional cash transfer program was not distributed to the beneficiaries (Asian Development Bank, 2016). Budget allocations for the program should not be large if the full amount cannot be utilized. Large budgets create more debt and will require more taxation in the future.

#### 3.2.4.2 The Moral Hazard Problem and the Inefficient and Wasteful Nature of Government

It is logical to expect that all government agencies will be subject to graft and corruption because of the very nature of government's existence as a wasteful and inefficient institution that is never penalized and not subject to the discipline of the market. When private firms provide goods and services with inferior quality and are inefficient and wasteful in their production processes, such firms are ignored by the consumers, consequently suffering losses and closing down. This is the natural penalty, discipline, or sanction imposed by the market on inefficient producers. Government however, is never effectively penalized for administrative wastefulness, operational inefficiency, the plundering of public funds and the poor quality of their services since they do not generate revenue from sales but instead collect revenues through coercion, by threatening individuals with imprisonment when taxes are not paid. In addition to this, wasteful and inefficient government agencies, bureaus and departments can always be subsidized or bailed out through taxes or borrowings from a Central Bank. The accumulation of public debt guarantees more taxation in the future. This illustrates the moral hazard problem wherein the cost of government's wasteful and inefficient behavior can be passed on to the tax payer without government being penalized in the long term.

Although government relies on the Ombudsman, to investigate and file cases against corrupt public officials, the number of graft and corruption cases that have accumulated for several decades, across all government agencies, bureaus and departments have created an enormous backlog that delays the conclusion or resolution of both old and new cases. There were 35,404 cases filed from February 1979 up to September 2015 with 3,075 cases pending resolution (Sandiganbayan, 2015). Such delays provide the opportunity for the guilty to either escape, bribe or threaten judges, prosecutors and witnesses for the purpose of avoiding conviction.

### 3.2.5 Questionable Outcomes

#### 3.2.5.1 Cash grants do not automatically get a household out of poverty

It should be obvious that as long as poor households are the recipients of the cash grants, and that the required conditions are complied with, better nutrition, higher enrollment and greater numbers of children and mothers availing of health care services are at the very least, automatically expected. However, a reduction in poverty incidence cannot be a certain outcome, because of the fact that, cash grants are just social safety nets which help finance nutrition, indirect education expenses and healthcare, but do not guarantee immediate employment. Household income rises because of the cash grant, but until the children finish either primary or secondary education and find gainful employment, getting out of poverty is still uncertain, particularly when 85 percent of the unemployed in the Philippines have high school and college diplomas (NSCB, 2015). In an economy with weak job creation, and slow investment growth, graduating students from primary or secondary education are not guaranteed jobs particularly if the needs of the economy do not match the academic background and skills of graduates.

Higher enrollment rates in general are not always followed by higher test scores, and this puts into question the quality of public education. Higher enrollment does not necessarily equate to higher functional literacy rates, particularly when public schools do not have competent teachers, do not have teacher training programs, have students to teacher ratios of 50 to 1 or greater, and do not have enough classrooms, science laboratories and equipment as well as computers to complement the learning process. Cambodia and Mexico for example, have increased school enrollment because of conditional cash transfer programs, but these outcomes have not been matched by higher test scores(Chaudhury, Friedman and Onishi, 2013).

Older children from the ages of 10 to 15 ( most of which are males) are observed to have higher drop-out rates compared to other children of younger age groups despite the provision of cash grants (Chaudhury, Friedman and Onishi, 2013). This can be partly explained by the children's lack of interest in the latter stages of high school and the intention to find work as soon as possible in order to help with the family's daily needs (Reyes, et., al., 2013). This situation illustrates an outcome wherein cash transfers do not guarantee the children's completion of school and the consequent escape from poverty.

#### 3.2.5.2 Disincentives

Cash grants under the modified conditional cash transfer program which target homeless families living in the streets, itinerant indigenous families, families displaced by natural and man-made calamities, families with a person having a disability, child laborers, children in conflict with the law, families with members that have a terminal disease and victims of human trafficking may not be able to comply with the required conditions of enrollment and regular health care check-ups, but will still enjoy its benefits. However, these are groups which have a high probability of remaining poor after the cash grant period has elapsed and will continue asking government to support their needs, further strengthening the culture of dependency and entitlement that the program has created. The above mentioned situation will not lead to a reduction in poverty and will increase more dependency on government.

The Secretary of the Department of Agriculture had recently reported that workers in rice, corn, sugarcane and other cash crop farms have refused opportunities to work during the planting and harvesting seasons because of the provision of cash transfers by government (Pinol, 2017). It appears that a large number of rural workers have decided to avoid the oppressive working conditions in farms and have relied more on government cash grants in order to meet their basic needs.

### 3.3 Market solutions and the Private Sector

Increases in employment better explain reductions in poverty rather than conditional cash transfer programs whose impact can only be felt after five years or more of receiving cash grants. And even after a household finishes the period covered by the cash grant program, getting out of poverty still depends on securing better paying jobs. Job creation through a strong private sector with many small and medium scale enterprises and minimal government intervention have done much better in terms of solving poverty compared to the use of cash transfers for the poor. The reduction of poverty in China because of investments and job creation in special economic zones, free markets in Hong Kong, free trade in Singapore, the industrial revolution in England, and free enterprise and industrial growth and innovation during the late 19th and the latter half of the 20th century in the United States have led to the most drastic reductions in poverty, without the use of cash transfers for the poor. Outside of job creation, assistance for the poor was provided by the private sector and church organizations through voluntary contributions that set up scholarship funds and schools as well as private health care institutions.

The largest reductions in family poverty for the Philippines was recorded during the 1985 to 1988 period from 36.5 percent to 29.8 percent (Monsod, 2016). This was a period which involved the elimination of excessive government regulation, controls and crony capitalism which were the standard policies implemented by the dictatorship of Ferdinand Marcos and excessive government intervention under Martial Law. The next largest reductions in family poverty were from the 1994 to 1997 period , from 27.3 percent to 20.5 percent under the Fidel Ramos administration (Monsod, 2016). This was the administration that focused on encouraging the entry and growth of both domestic and foreign investment by reducing government restrictions and liberalizing the capital markets, the banking sector and the foreign exchange markets. Poverty reduction was slowest from 2006 to 2009 at 0.5 percent, 2009 to 2012 (at 0.8 percent from 20.5 to 19.7 percent) and 2012 to 2015 at 3.2 percent (from 19.7 percent to 16.5 percent) . These were periods that already included the implementation of the conditional cash transfer program wherein the budgets became larger and the coverage of families wider.

Church organizations have contributed extensively to the establishment of schools, skills training centers , feeding and shelter programs for the poor that serve as halfway houses to reintegrate the less fortunate and make them productive members of society and they have accomplished this work through voluntary contributions made by the private sector. The intervention of government in terms of minimum wage laws, the collection of social security taxes and health care taxes have only made the hiring of labor more expensive, reducing labor demand and decreasing employment. Higher taxes on personal income, corporate income and other business taxes have hampered or inhibited economic activity which could have created more jobs and produced more output and increased prosperity. Job creation through the private sector is the best sustained solution for poverty and government intervention through welfare state programs will only make the situation worse in the long run as it accumulates public debt and imposes more taxes.

### 3.4 Sample surveys may indicate improvements but will not capture the true extent of leakages

Most of the assessments and evaluations conducted on the use and effects of the conditional cash transfer programs have been based on sample surveys undertaken across various regions , cities and municipalities. Random sampling of households can provide conclusions on increased household income, higher enrollment rates, better nutrition and increased use of health care services. Averages, proportions and variances of these outcomes from the sample can be drawn and applied to the entire population of 4.6 million household beneficiaries. For example, an evaluation of the conditional cash transfer program using a small selective survey covering 900 households across 9 municipalities was conducted by Chaudhury and Okamura (2012), while 42,063 families were included in the 2011 Annual Poverty Indicators Survey wherein 3,066 households were 4P's beneficiaries representing 7.3 percent of the total (Reyes et.al., 2013). Surveys done by participating universities and the DSWD were used by Fernandez and Olfindo in 2011 which showed that 72 percent of the beneficiaries of the program belong to the bottom 20 percent, and 90 percent of the beneficiaries belong to the bottom 40 percent of income earners.

These surveys can provide estimates that can draw conclusions from a sample applicable to the entire population with a margin of error between 10, 5 or 1 percent. However, the assessment and evaluation of a program that pays cash benefits to 4.6 million households using a budget of more than P62 billion pesos cannot be left alone to surveys. Considering that 80 percent of the program budget is allocated for cash grants, approximately P49.6 billion will be distributed to the poor, and if 28 percent of the recipients are non-poor (Fernandez and Olfindo 2011), this amounts to P13.888 billion of worth of leakages. Even if large samples of more than 42,000 households are used, this implies that more than 4.5 million households will not be included in the survey and given a margin of error between 1 to 5 percent, the amount of leakages may actually be greater than P13.888 billion. This represents a huge waste, and inefficient use of resources which will be paid by the private sector. The monitoring of every household in a community in every municipality should be done across several years which will only call for a larger bureaucracy and a bigger budget for the program along with more public debt and higher taxation for the private sector.

## 4.0 Conclusion

Cash grants (or transfer payments) are not earned and do not require a commensurate good or service to be produced in exchange for it. The conditions being required in order to receive cash grants are not in any way producing a particular good or service to be provided to the sector paying for the program (the tax payers). For all intents and purposes the cash grants are "dole-outs", being given away without requiring the production of a good or the provision of a service for the private sector who is paying for it.

Cash grants cannot be considered as a poverty alleviation measure because it will not have the immediate impact of reducing poverty. They can increase household income and spending as cash grants are distributed over a five year period, but will not necessarily bring a household above the poverty line. A cash grant is a social safety net and not a poverty alleviation measure. It can help children of poor families finish primary education, but the household's ability to get out of poverty depends on the children's chances of finding gainful employment after finishing school.

More government regulations, along with the provision of more welfare state programs such as larger cash transfers, public pensions, unemployment insurance, death benefits and public health care will only lead to bigger government, accumulating more public debt and requiring the imposition of more taxes and higher tax rates. Big government becomes a parasite that takes the life out of the private sector which will lead to lesser investment, less job creation and economic stagnation. The economies of Greece, Venezuela, Argentina, Bolivia, Chile, Brazil Mexico and several countries in the African continent have allowed the existence of big government and the creation of a welfare state leading to the accumulation of enormous public debts and the consequent imposition of more taxes on workers and businesses in the private sector. This has resulted to lesser private sector investment, high unemployment and capital flight to other countries with lesser government and lower tax rates. Government could always create more jobs but at the expense of collecting more taxes from the private sector or accumulating more debt which has a destabilizing effect on the macro economy.

Encouraging the growth of businesses in the private sector is the best way to create jobs and wealth through the production of tangible goods and services to be exchanged voluntarily in the free market. Jobs are better created by the private sector, because they do not impose additional burdens on the rest of the economy. This is the complete opposite of government, where its ability to create jobs requires imposing a burden on the rest of society through the collection of more taxes to fund the creation of public agencies that will hire new workers. When government imposes more taxation on the private sector, this limits its ability to expand plant, property and equipment and create new jobs. Government on the other hand needs to continue collecting more taxes in order to maintain the existence of public agencies, many of which have duplicative or redundant functions. Government becomes a parasite, extracting resources from the private sector in order to fund its continued existence. This consequently discourages the private sector from making any new investments and firms contemplate on transferring to other emerging economies with lesser government regulations and lower tax rates.

The dangers of allowing the program to expand excessively has already occurred with the implementation of the modified conditional cash transfer program which includes cash grants for rent, benefits for the elderly, the disabled, the terminally ill, indigent cultural minorities and those displaced by natural calamities and disasters. The inclusion of allowances for rice as well as college and vocational education are also being finalized by the legislative house for immediate implementation by the new administration. The dangers from the excessive expansion of the program involves the continuing enlargement of the bureaucracy which will only lead to more graft and corruption. This creates a larger source of public funds that could be used for political patronage at the local level, or diversion for other purposes at the national level.

## Implications on ASEAN integration

Maximizing the gains from an integrated ASEAN economic community is better achieved when the member country's macro-economy is stable. Sustained output growth, low inflation, low unemployment and a manageable balance of payments position are indicators of stability which contribute to the competitiveness of a member country within an economically integrated region such as ASEAN. However, continued increases in fiscal deficit spending, growing public debts and higher taxation all have the effect of destabilizing the economy, which reduces competitiveness and limits the member country's ability to exploit the gains from trade, investment and financial intermediation. Fiscal deficits lead to either inflation or high interest rates in the long term which slows down economic growth, while more taxation discourages both domestic and foreign investment. Programs such as conditional cash transfers will encourage more fiscal deficit spending, increase public debts and create the need for more taxation.

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