Socio-Econ. Plann. Sci. Vol. 21, No. 1, pp. 25–32, 1987
Printed in Great Britain

0038-0121/87 $3.00 + 0.00
Pergamon Journals Ltd

IMPACT OF INCREASED EXTERNAL DEBT SERVICING ON GOVERNMENT BUDGETARY PRIORITIES: THE CASE OF ARGENTINA

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(*Received* 23 *April* 1986)

Abstract—As external debt servicing has increased, developing countries have been forced to re-evaluate programs in an effort to curtail government spending. This paper attempts to examine the character of the sectoral adjustments that have taken place (1961–1982) in the main functional areas of Argentinean government expenditures. In general, it appears that social services, particularly education and health along with public administration, have borne the brunt of the government's rising debt service problem. The social sectors have suffered further due to regime changes, with military regimes tending to cut back even more severely allocations to the social sectors than normal debt service constraints would have warranted.

INTRODUCTION

The economic climate of the 1960s, 1970s and early 1980s in Argentina has been particularly unstable, not only because of adverse developments in world markets but because of increased difficulties in stabilizing the domestic economy. One of the consequences of the country's relative economic stagnation has been an increasing difficulty on the part of the government to finance its customary budgets.

As debt service costs have risen and revenue has levelled off or declined, the government has been forced to re-evaluate programs in an effort to curtail government spending. This paper attempts to examine the character of the sectoral adjustment that has taken place in the main functional areas of government expenditures [1]. Is there evidence that particular sectors have suffered as debt service payments increased? Were the shifts in political regime particularly important in reordering budgetary priorities in light of mounting debt service payments? What are the implications for servicing increased levels of debt?

EMPIRICAL TESTING

Multiple regressions with Cochrane–Orcutt corrections [2] for serial correlation were performed. The share of the budget allocated to each functional expenditure type was the dependent variable, with the share of debt service an independent variable and government expenditures as a percent of gross domestic product the control variable.

After the first set of regressions were run, each equation was re-estimated with a political shift dummy variable included as a third independent variable [3].

During the period under examination, four regimes governed:

(1) 1961–1956 period of democracy;
(2) 1966–1972 first military regime;
(3) 1973–1976 Peronist regime;
(4) 1977–1982 second military regime.

There is sufficient reason to believe that regime type does not have the same meaning over time, i.e. the first and second military regimes might in fact have few similarities with regard to economic policy, with the same to be said for the elected Peronist civilian regime (1973–1976) and the non-Peronist civilian regime (1961–1965). At least eight different representations of the 1961–1982 regime types make sense (Table 1) with:

(1) DUMPB representing the standard civilian military dichotomy;
(2) DUMP depicting structural shifts upwards over time between the 1960s regimes to the Peronists and finally the second military regime. If DUMP is statistically significant, the country would have experienced two sharp breaks upward in the amount of funds allocated to military expenditure during the 1961–1982 period;
(3) DUMPA similar to DUMP with three upward structural shifts produced with regime changes, i.e. increased militarization with regime change;
(4) DUMPC assuming military regimes in Argentina to allocate significantly more resources to defense than their civilian counterparts, with the Peronists more inclined to increase defense expenditures than their civilian counterparts in the early 1960s;
(5) DUMPD similar to DUMPC but with the first civilian regime more prone to step up military spending than the Peronists;
(6) DUMPE assuming to Peronists least likely to give priority to defense, followed by the first civilian regime, then the first military regime, with the second military regime most heavily increasing military spending;
(7) DUMPF assuming no real change in military allocation priorities in the 1960s, a sharp fall off under the civilian Peronist regime and a major shift

Table 1. Argentina, political dummy variables, 1961–1982

Year	DUMP	DUMPA	DUMPB	DUMPC	DUMPD	DUMPE	DUMPF	DUMPG
	Dummy variable							
1961	0	0	0	0	1	1	1	1
1962	0	0	0	0	1	1	1	1
1963	0	0	0	0	1	1	1	1
1964	0	0	0	0	1	1	1	1
1965	0	0	0	0	1	1	1	1
1966	0	1	1	2	2	2	1	3
1967	0	1	1	2	2	2	1	3
1968	0	1	1	2	2	2	1	3
1969	0	1	1	2	2	2	1	3
1970	0	1	1	2	2	2	1	3
1971	0	1	1	2	2	2	1	3
1972	0	1	1	2	2	2	1	3
1973	1	2	0	1	0	0	0	0
1974	1	2	0	1	0	0	0	0
1975	1	2	0	1	0	0	0	0
1976	2	3	1	2	2	3	2	2
1977	2	3	1	2	2	3	2	2
1978	2	3	1	2	2	3	2	2
1979	2	3	1	2	2	3	2	2
1980	2	3	1	2	2	3	2	2
1981	2	3	1	2	2	3	2	2
1982	2	3	1	2	2	3	2	2

Note: 1961–1965 period of democracy; 1966–1972 first military regime; 1973–1976 Peronist regime; 1977–1982 second military regime.

Table 2. Argentina: impact of public sector debt service allocations on major budgetary items, 1961–1982

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of public administration		(−4.98)		(1.06)	0.566	24.04	2.08
	DUMP (−1.99)	(−2.75)	(1.59)	(−0.25)	0.721	12.95	2.06
Share of defense		(−1.99)		(4.10)	0.173	3.97	1.36
	DUMPA (0.86)	(−2.15)		(3.12)	0.205	3.98	1.57
	DUMPB (2.68)	(−2.51)		(4.36)	0.409	6.23	1.94
	DUMPC (2.05)	(−2.25)		(4.85)	0.327	4.37	1.67
	DUMPD (3.05)	(−2.70)		(3.56)	0.455	7.54	2.07
	DUMPE (3.48)	(−3.45)		(2.90)	0.506	9.24	2.23
	DUMPF (5.85)	(−5.74)		(0.44)	0.703	21.34	2.05
	DUMPG (2.51)	(−2.29)		(4.43)	0.386	5.67	1.84
	DUMPF (5.27)	(−2.11)	(−0.71)	(0.65)	0.696	11.50	2.06
Share of domestic security		(−5.22)		(12.07)	0.589	27.27	1.36
		(−3.66)	(2.10)	(2.98)	0.443	7.17	1.26
	DUMPE (2.25)	(−3.85)	(3.91)	(0.97)	0.488	4.77	1.41
	DUMPF (3.83)	(−4.91)	(3.97)	(0.22)	0.615	7.99	1.71
Share of social services		(−6.48)		(2.40)	0.688	42.00	1.61
		(−5.95)	(2.12)	(2.20)	0.756	28.02	1.58
	DUMP (−2.52)	(−6.12)	(3.29)	(2.74)	0.804	20.54	1.61
	DUMPA (−3.44)	(−7.19)	(4.13)	(3.49)	0.819	22.71	1.94
	DUMPB (−3.57)	(−7.22)	(2.78)	(2.31)	0.858	30.33	2.06
	DUMPC (−2.85)	(−7.06)	(3.04)	(2.73)	0.818	22.53	1.96
	DUMPD (−4.12)	(−6.99)	(2.18)	(1.71)	0.889	40.42	2.09
	DUMPE (−5.43)	(−7.52)	(3.05)	(1.55)	0.921	58.80	2.28
	DUMPF (−6.12)	(−6.56)	(2.62)	(0.88)	0.939	77.10	2.19
	DUMPG (−2.80)	(−6.66)	(1.99)	(0.40)	0.838	26.01	1.91

(continued)

Table 2—*continued*

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of education		(−6.43)		(2.49)	0.685	41.34	1.69
	DUMPA (−5.08)	(−6.56)	(3.81)	(3.08)	0.860	30.75	2.75
	DUMP (−4.56)	(−5.41)	(3.00)	(2.07)	0.874	34.80	2.04
	DUMPB (−3.31)	(−6.13)		(3.59)	0.753	27.52	2.00
	DUMPC (−2.43)	(−5.65)		(3.49)	0.703	21.28	2.04
	DUMPD (−3.78)	(−6.51)		(3.57)	0.776	31.21	1.97
	DUMPE (−5.40)	(−6.86)		(3.49)	0.849	50.73	1.88
	DUMPF (−6.16)	(−7.11)		(3.12)	0.869	67.84	1.54
	DUMPG (−2.47)	(−6.13)		(3.50)	0.704	21.44	1.81
Share of health		(−2.59)		(16.93)	0.260	6.71	2.19
		(−2.26)	(−1.41)	(15.39)	0.346	4.77	2.35
	DUMP (−7.07)	(−4.35)	(−1.85)	(−1.23)	0.983	305.83	1.98
	DUMPA (−5.22)	(−6.32)		(0.34)	0.923	108.43	1.98
Share of social security and welfare		(−3.53)		(13.90)	0.396	12.47	1.79
		(−3.33)	(2.84)	(3.70)	0.392	5.82	1.71
	DUMP (2.00)	(−3.26)	(1.87)	(1.53)	0.478	4.58	1.72
	DUMPF (1.45)	(−3.35)	(3.40)	(2.19)	0.432	3.81	1.80
Share of housing		(−1.52)	(1.42)	(3.15)	0.122	1.25	1.90
	DUMPB (−2.11)	(−1.53)	(1.36)	(1.37)	0.307	2.21	2.06
	DUMPC (−1.42)	(−1.67)	(1.63)	(2.43)	0.212	1.34	2.05
	DUMPD (−4.03)	(−1.10)	(0.72)	(−0.36)	0.569	6.61	1.93
	DUMPE (−4.81)	(−0.66)	(1.09)	(−0.93)	0.648	9.21	1.94
	DUMPF (−5.71)	(0.77)	(0.10)	(−1.76)	0.719	12.80	1.93
	DUMPG (−2.14)	(−1.49)	(0.90)	(1.28)	0.311	2.26	2.03
Share of other social expenditures							
	DUMP (−2.23)	(−1.01)	(1.68)	(10.51)	0.286	2.01	1.75
	DUMPA (−2.25)	(−1.26)	(2.03)	(9.72)	0.289	2.03	1.97
	DUMPE (−1.51)	(−0.53)	(1.17)	(5.04)	(0.208)	1.31	2.24
	DUMPF (−1.71)	(−0.39)	(0.94)	(5.64)	0.227	1.47	2.20
Share of economic development		(−4.89)		(1.14)	0.557	23.91	1.78
		(0.03)	(−4.48)	(−0.35)	0.867	59.16	2.02
	DUMPB (1.65)	(−0.01)	(−4.77)	(−0.17)	0.878	36.14	2.14
	DUMPC (1.51)	(0.33)	(−4.77)	(−0.15)	0.874	34.91	2.18
	DUMPD (1.63)	(−0.35)	(−4.31)	(−0.25)	0.882	37.92	2.08
	DUMPE (1.48)	(−0.44)	(−4.45)	(−0.27)	0.879	36.40	2.03
	DUMPG (1.68)	(−0.06)	(−4.44)	(−0.21)	0.881	36.93	2.15

Note: Estimations made using Cochrane–Orcutt iterative procedure of serial correlation correction.
( ) = t-statistic.

Table 3. Argentina: impact of public sector debt service allocations on major budgetary items, 1961–1975

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of administration public		(−1.98)		(0.37)	0.247	3.93	2.13
		(−2.05)	(1.00)	(0.08)	0.299	2.13	2.11
	DUMP (1.76)	(−2.77)		(0.55)	0.416	3.53	2.11
	DUMPA (1.70)	(−2.62)		(−0.25)	0.386	3.14	2.00
	DUMPB (−1.47)	(−2.65)		(2.24)	0.408	3.44	2.25
	DUMPD DUMPE (−1.58)	(−2.77)		(1.60)	0.413	3.52	2.21
	DUMPF (−1.76)	(−2.77)		(0.56)	0.416	3.57	2.11
	DUMPG (−1.56)	(−2.75)		(1.89)	0.415	3.54	2.23
Share of defense							
	DUMPB (2.02)	(0.87)	(−2.55)	(3.49)	0.541	3.53	1.95
	DUMPC (2.40)	(1.10)	(−3.10)	(4.20)	0.574	4.06	1.89
	DUMPD DUMPE (1.66)	(0.65)	(−2.01)	(2.81)	0.522	3.28	1.93
	DUMPG (1.79)	(0.73)	(−2.22)	(3.05)	0.527	3.35	1.94
Share of domestic security		(−1.96)		(0.85)	0.243	3.85	1.53
		(−2.37)	(1.28)	(0.70)	0.344	2.62	1.33
	DUMP (−0.43)	(−1.91)	(1.21)	(0.57)	0.361	1.70	1.37
Share of total social services		(0.72)		(0.59)	0.042	0.52	2.32
		(−1.24)	(2.68)	(0.78)	0.411	3.48	2.19
	DUMPA (1.23)	(−1.63)	(1.16)	(0.75)	0.489	2.87	2.28
	DUMPB (−1.50)	(−1.97)	(2.91)	(1.23)	0.505	3.06	2.36
	DUMPC (−1.47)	(−1.97)	(3.11)	(1.33)	0.498	2.97	2.37
	DUMPD DUMPE (−1.46)	(−1.91)	(2.36)	(1.08)	0.505	3.06	2.34
	DUMPF (−1.23)	(−1.63)	(1.16)	(0.75)	0.489	2.87	2.28
	DUMPG (−1.49)	(−1.94)	(2.62)	(1.14)	0.505	3.07	2.35
Share of education		(−2.65)		(2.43)	0.370	7.07	2.00
		(−2.82)	(1.12)	(2.21)	0.442	3.65	1.82
	DUMPB (−1.83)	(−3.35)		(2.76)	0.529	5.62	2.45
	DUMPC (−1.59)	(−3.11)		(2.90)	0.503	5.07	2.53
	DUMPD DUMPE (−1.83)	(−3.41)		(2.60)	0.524	5.52	2.20
	DUMPF (−1.50)	(−3.14)		(2.35)	0.474	4.51	1.86
	DUMPG (−1.86)	(−3.42)		(2.67)	0.530	5.64	2.31
Share of health		(−9.66)		(−0.45)	0.886	93.33	1.82
		(−5.03)	(−3.32)	(1.48)	0.881	37.02	1.85
	DUMP (−1.45)	(−4.25)	(−1.02)	(−0.80)	0.946	53.49	1.83
Share of health							
	DUMPA (−2.37)	(−8.48)	(0.44)	(−2.61)	0.967	88.94	2.14
	DUMF (−1.45)	(−4.25)	(−1.03)	(−0.80)	0.946	53.49	1.83
		(−4.64)	(−3.28)	(2.04)	0.860	18.56	1.74
Share of social security welfare		(1.21)		(0.24)	0.110	1.48	1.96
		(−0.30)	(1.54)	(1.03)	0.219	1.40	1.83
	DUMP (0.01)	(−0.27)	(1.07)	(1.03)	0.219	0.84	1.83

(continued)

Table 3—*continued*

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of housing		(3.34)		(−1.37)	0.481	11.15	2.19
		(−2.28)	(2.71)	(3.94)	0.483	4.67	1.51
	DUMP (3.21)	(−1.08)	(−0.56)	(−0.83)	0.758	9.41	2.07
	DUMPB (−2.61)	(−2.46)	(3.42)	(1.89)	0.651	5.61	1.74
	DUMPC (−2.40)	(−2.80)	(3.77)	(3.00)	0.653	5.66	1.73
	DUMPD DUMPE (−2.88)	(−2.10)	(2.48)	(0.26)	0.671	6.13	1.83
	DUMPF (−3.21)	(−1.08)	(−0.56)	(−0.83)	0.758	9.41	2.07
	DUMPG (−2.76)	(−2.26)	(2.92)	(1.37)	0.661	5.84	1.79
Share of other social expenditures		(5.56)		(0.74)	0.720	30.99	2.02
		(3.40)	(1.97)	(0.59)	0.804	20.61	2.00
	DUMPA (1.07)	(3.79)	(0.19)	(−0.13)	0.861	18.65	2.03
Share of economic development		(−6.02)		(−0.32)	0.751	36.24	2.33
		(−3.05)	(−2.15)	(−0.52)	0.834	25.26	2.45
	DUMPA (−0.61)	(−3.06)	(−0.67)	(−0.69)	0.846	16.57	2.38

Note: Estimations made using Cochrane–Orcutt iterative procedure for serial correlation correction.
( ) = t-statistic.

Table 4. Argentina: impact of public sector debt service allocations on major budgetary items, 1966–1982

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of public administration		(−4.72)		(0.85)	0.614	22.28	1.92
		(−3.06)	(0.95)	(1.17)	0.607	9.28	1.98
	DUMP DUMPA (−2.78)	(−2.89)	(1.87)	(−0.21)	0.838	20.83	1.94
	DUMPF (−1.21)	(−2.24)	(0.64)	(0.85)	0.675	8.32	1.96
Share of defense		(−1.74)		(3.80)	0.178	3.05	1.34
		(−1.19)	(2.98)	(10.62)	0.507	6.19	1.17
	DUMPB DUMPC DUMPD (4.99)	(−1.82)	(1.05)	(−0.27)	0.712	9.90	1.77
	DUMPE (12.05)	(−4.18)	(1.79)	(−3.29)	0.932	55.14	1.79
	DUMPF (14.30)	(−4.96)	(1.07)	(−3.84)	0.951	72.84	2.36
	DUMP6 (1.46)	(−1.50)	(−1.92)	(9.35)	0.575	5.43	1.69
Share of domestic security		(−5.33)		(12.74)	0.670	28.42	1.05
	DUMPB DUMPC DUMPD (3.59)	(−4.40)	(4.25)	(−0.47)	0.650	7.44	1.78
	DUMPB (4.20)	(−4.92)	(4.42)	(−0.54)	0.704	9.53	1.84
	DUMPF (4.02)	(−4.89)	(4.06)	(−0.22)	0.698	9.28	1.83
	DUMP6 (2.19)	(−3.59)	(3.35)	(0.37)	0.530	4.51	1.69
Share of total social services		(−5.39)		(1.88)	0.68	29.07	1.57
		(−5.47)	(2.47)	(2.81)	0.725	15.85	1.61
	DUMP DUMPA (−2.62)	(−6.19)	(3.88)	(3.68)	0.806	16.61	1.64
	DUMPB DUMPC DUMPD (−5.10)	(−5.03)	(0.85)	(−0.32)	0.947	71.62	1.95

(*continued*)

Table 4—*continued*

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of total social services							
	DUMPE						
	(−7.97)	(−5.94)	(1.77)	(−1.06)	0.974	149.91	2.12
	DUMPF						
	(−7.97)	(−6.28)	(2.72)	(−0.82)	0.974	151.41	1.84
	DUMPG						
	(−2.83)	(−4.72)	(0.76)	(0.67)	0.887	31.42	1.74
Share of education		(−5.34)		(2.00)	0.670	28.51	1.69
		(−3.89)	(1.27)	(3.32)	0.583	8.39	1.99
	DUMP						
	DUMPA						
	(−5.18)	(−5.87)	(3.50)	(0.38)	0.939	62.47	1.63
	DUMPB						
	DUMPC						
	DUMPD						
	(−3.44)	(−3.51)	(0.41)	(4.80)	0.749	11.96	2.00
	DUMPE						
	(−4.90)	(−4.22)	(0.52)	(3.82)	0.850	22.69	1.90
	DUMPF						
	(−6.02)	(−4.82)	(0.83)	(3.24)	0.898	35.23	1.80
	DUMPG						
	(−2.32)	(−3.04)	(0.60)	(5.84)	0.634	6.94	2.08
Share of health		(−2.47)		(12.89)	0.304	6.12	1.66
		(−2.26)	(−0.13)	(13.20)	0.301	2.59	1.71
	DUMP						
	DUMA						
	(−7.09)	(−6.47)		(−0.83)	0.976	249.15	1.98
	DUMPB						
	DUMPC						
	DUMPD						
	(−0.13)	(−2.38)		(12.79)	0.306	2.64	1.63
	DUMPE						
	(−0.11)	(−2.38)		(12.82)	0.305	2.64	1.65
	DUMPF						
	(−0.01)	(−2.39)		(12.76)	0.306	2.64	1.66
	DUMPG						
	(−0.91)	(−2.17)		(16.09)	0.370	2.94	2.16
Share of social security welfare		(−3.02)		(12.04)	0.395	9.16	1.08
		(−2.63)	(2.99)	(1.34)	0.409	4.16	1.59
	DUMP						
	DUMA						
	(2.46)	(−3.24)	(2.21)	(0.31)	0.638	7.06	2.00
Share of social security welfare							
	DUMPE						
	(1.39)	(−3.01)	(3.48)	(0.85)	0.509	4.14	1.73
	DUMPF						
	(1.72)	(−3.20)	(3.64)	(0.65)	0.551	4.89	1.78
		(−0.76)		(2.22)	0.04	0.57	1.96
		(−1.52)	(1.79)	(3.66)	0.21	1.60	1.92
Share of housing							
	DUMPB						
	DUMPC						
	DUMPD						
	(−6.89)	(1.03)	(−1.76)	(−2.78)	0.839	20.86	2.10
	DUMPE						
	(−6.58)	(1.15)	(−1.01)	(−2.68)	0.827	19.13	2.13
	DUMPF						
	(−4.92)	(0.60)	(−0.09)	(−1.64)	0.753	11.00	1.94
	DUMPG						
	(−4.39)	(0.11)	(−1.24)	(−1.31)	0.688	8.83	1.84
Share of other social expenditures		(−0.33)		(3.63)	0.01	0.11	2.11
		(−1.02)	(1.24)	(3.20)	0.109	0.74	2.16
	DUMP						
	DUMPA						
	(−2.25)	(−1.24)	(1.63)	(7.35)	0.367	2.32	1.65
	DUMPE						
	(−1.30)	(−0.50)	(0.74)	(3.54)	0.217	1.11	2.20
	DUMPF						
	(−1.47)	(−0.51)	(0.73)	(4.10)	0.241	1.27	2.21
	DUMPG						
	(−1.32)	(−0.47)	(0.59)	(2.01)	0.244	1.29	2.09

(*continued*)

Table 4—*continued*

Budgetary item	Political variable	Share of debt service	Government expenditures as a % of gross domestic product	Rho	Statistics r^2	F	DW
Share of economic development		(−4.32)		(0.64)	0.572	18.72	1.68
		(0.90)	(−4.99)	(−1.06)	0.913	63.13	1.71
	DUMPB						
	DUMPC						
	DUMPD						
	(1.21)	(0.19)	(−3.88)	(−1.14)	0.924	49.14	1.81
	DUMPG						
	(1.24)	(0.26)	(−3.60)	(−1.16)	0.925	49.59	1.88

Note: Estimations made using Cochrane–Orcutt iterative procedure of serial correlation correction.
( ) = t-statistic.

upwards under the second miliatry regime. This interpretation is often implicity assumed in the qualitative literature;

(8) DUMPG assuming again the Peronists least likely to undertake military expenditures, followed by the first civilian regime. It is used to test whether the first military regime was more inclined to allocate funds to defense purposes than the second military regime.

Only the statistically significant results are given here due to space limitations.

For the period as a whole (Table 2) it appears that:

(1) The share of the budget allocated to public administration had declined to help service the government's debt. This tendency has been reinforced by a secular trend downward in the share of the budget going to public administration, with the shift in regimes (but not with changes from military to civilian and vice versa);

(2) The defense share may be weakly affected by debt service payments. The r^2 for the debt service defense tradeoff is only 0.17 with a t-value less than 2. Adding the political dummies to the equation increases the negative sign of the debt service term. It appears that whatever cutbacks have occurred in the share of defense in the budget as a result of mounting debt service payments have been more than offset by shifts to military regimes;

(3) As with defense, domestic security has contracted as a share of the budget with increased debt service payments, only to be offset by shifts to military regimes;

(4) Total social services have been greatly cut back with the increase in debt service—the share to debt service explaining nearly 70% of the fluctuations in the share of total services. Changes in regime have reinforced the country's normal tendency to service the debt at the expense of social services. The military regimes, in particular (DUMPE, DUMPF) have been harsh on the share of government funds allocated to this sector of the budget;

(5) The share of education in the budget mirrors fairly closely that of total social services, as does the share of health.

(6) The share of social security and welfare appears less vulnerable to budgetary cutbacks. There is a tendency to reduce the share of the budget allocated to social security and welfare with increases in the debt service share of the budget, but, historically, there has also been a secular trend toward an increased share of the government budget to social security and welfare.

(7) The share of housing in the budget has not been influenced much by developments in debt servicing. However, regime changes, particularly to military regimes, have significantly reduced the share of the budget allocated to housing.

(8) The share of the budget allocated to economic services follows an interesting pattern. Regressed on the share of debt service in the budget, one finds a large negative tradeoff as the share of debt service in the budget increases. Adding the control variable, however, reveals that economic development's share of the budget has contracted as a proportion of government expenditures as GNP expanded. The longer run trend has apparently not been offset with political change (the sign is positive on the political dummies but none are statistically significant.

Contrasting the two time periods (Tables 3 and 4) reveals more or less the same pattern with regard to the handling of debt service. Debt service was not a particular problem in the first period (1961–1975), with service payments on the government debt not reaching a significant share (4.4%) until 1972. As a result, the t-values and r^2 are somewhat lower for the first period when compared to those of the 1966–1982 years.

CONCLUSIONS

In terms of the questions asked at the beginning of this paper, it appears that social services, in general, and education and health, in particular, along with public administration have borne the brunt of the government's rising debt service problem. The social sectors have suffered further due to regime changes, with military regimes tending to cut back even more severely than normal debt service constraints would have warranted.

Other sectors have been negatively affected by the debt servicing problem—possibly defense, domestic security, social security and welfare—but these sectors have found their budgets stabilized, with the military regimes inclined to raise their shares in the light of mounting debt.

Defense and economic development appear to be largely unaffected by the government's increased debt burden.

By 1982, debt service was accounting for 37.1% of the government budget, up from 22.6% in 1981 and 16.3% in 1980. Obviously, this trend cannot continue. Given current levels of external debt, it is fairly unlikely that the government will be contracting for major net increases in debt in the near term. Given this assumption, we can probably expect regime changes to play a more assertive role than in the past in influencing government budgetary allocations.

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