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#### **A Philippine Social Protection and Economic Recovery Plan**

by

Alfredo R. Paloyo<sup>1</sup>, Cielo Magno<sup>2</sup>, Karl Jandoc<sup>2</sup>, Laarni Escresa<sup>2</sup>, Ma. Christina Epetia<sup>2</sup>, Maria Socorro Gochoco-Bautista<sup>2</sup>, & Emmanuel S. de Dios<sup>2</sup>

<sup>1</sup> University of Wollongong (Australia)

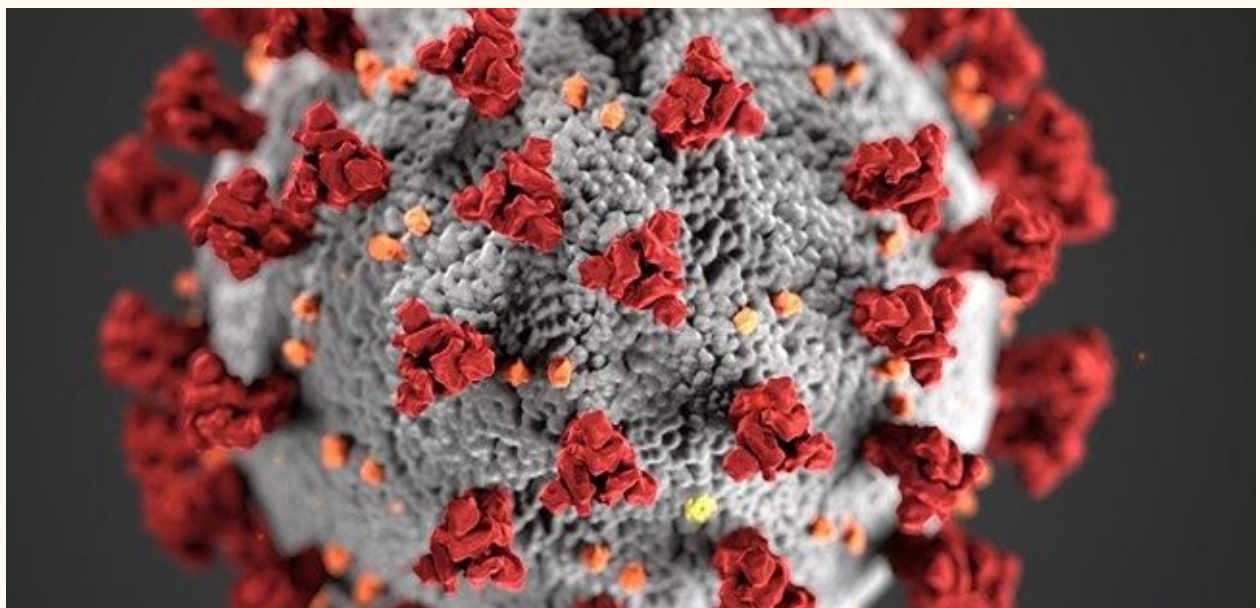
<sup>2</sup> University of the Philippines School of Economics, Diliman, Quezon City

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# A Philippine Social Protection and Economic Recovery Plan

**Alfredo R. Paloyo, Cielo D. Magno, Karl L. Jandoc, Laarni C. Escresa, Ma. Christina F. Epetia, Maria Socorro Gochoco-Bautista, Emmanuel S. de Dios<sup>1</sup>**

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The world is facing its biggest public health crisis in a century. Managing this crisis via a lockdown requires an intentional contraction of the economy of unprecedented proportions. This deliberate and unavoidable drawdown in market activity will put businesses at risk of destruction, with hundreds of thousands of Filipinos likely to lose their sources of livelihood. Many households will be plunged into poverty. Without assistance, those who are already poor will find themselves at the literal threshold of life and death as they battle

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<sup>1</sup> A.R. Paloyo is a Senior Lecturer in Economics at the University of Wollongong (Australia). C. Magno, K. Jandoc, L. Escresa, M.C. Epetia, M.S. Gochoco-Bautista, and E. de Dios are faculty members of the University of the Philippines School of Economics (of which Paloyo is also an alumnus). The views expressed here are personal and must not be attributed to any of our employers. We benefited from public plans proposed and thoughts shared by the following: [Steven Hamilton \(The George Washington University\)](#) and [Stan Veuger \(American Enterprise Institute\)](#), [Emmanuel Saez and Gabriel Zucman \(University of California Berkeley\)](#), [Wojciech Kopczuk \(Columbia University\)](#), [Arindrajit Dube \(University of Massachusetts Amherst\)](#), [Benjamin Hansen \(University of Oregon\)](#), [Ricardo Reis \(London School of Economics and Political Science\)](#), [Tyler Cowen \(George Mason University\)](#), and [Claudia Sahm \(Washington Center for Equitable Growth\)](#). We also received comments from [Scott Cameron](#), Angela Danila, and Paul Diaz. Correspondence: [alfredo@paloyo.net](mailto:alfredo@paloyo.net); Twitter: [@AlfredoPaloyo](#). The latest version of this document is available here: <https://bit.ly/2JiD10p>.

both the virus that is ravaging their health and well-being, and the economic hardship that will almost certainly exact a social—if not physical—death. Even those who are currently economically-stable risk joining the ranks of the vulnerable.

The government must act quickly to ensure that businesses can survive, jobs are secure, and the most vulnerable members of society are protected. The message must be decisive and formidable: “We will not let businesses fail, and we will not let people go hungry—whatever it takes.”

Our plan begins with recognizing that the economic contraction is immediate and sharp—but temporary. There will be a real output loss in the economy, but this is necessary to contain the spread of the virus. The objective is to alleviate the economic, social, and psychological hardships caused by the reduction in economic activity and to minimize any permanent damage to the economy. Doing this will involve providing emergency financial and non-financial aid to the most vulnerable households, guaranteeing continuity for businesses and maintaining the employment of their workers, and creating an economic environment which will allow the economy to recover quickly and continue on a growth trajectory when the public health crisis eventually wanes.

## SOCIAL PROTECTION

The pandemic has thrust into the limelight the woeful state of our social insurance system, which was already insufficient even without the extraordinary demand on resources today. Community quarantine, which is the policy measure of choice to control the spread of the virus, has made it impossible for millions of people to make a living and who will now go hungry if the government does not act. The dire situation could transition into a rapid and total dismantling of social cohesion if radical actions are not taken swiftly and decisively.

**Secure supply chains and ensure that essential services remain open.** The supply chains for food and essential nonfood items, such as water, electricity, medicines, packaging materials, soap and disinfectants, etc., must be secured. Essential services provided by financial institutions, food and beverage outlets (groceries, supermarkets, and public markets), pharmacies, public utilities, logistics, and obviously, medical institutions like hospitals and clinics should continue to be provided. Restaurants and fast-food chains can continue to operate with take-out and delivery options only. Online and network delivery services that cater for households’ food and nonfood needs should be encouraged to operate and given full rein. Emergency services should continue to function, as well as fire and police departments. The government can continue to provide its essential services with a reduced workforce. Public transportation—at least along arterial roads—should be available, but with enhanced enforcement of social distancing to the extent possible. Local

governments, which have superior local knowledge, should be given the flexibility to manage their transportation requirements within reasonable bounds.

**Immediately distribute emergency financial and non-financial aid to the most vulnerable.** An increase in payments to poor households already identified in the government's conditional cash-transfer program (4Ps, *Pantawid Pamilyang Pilipino Program*) should be easy to administer. The government, however, must now quickly identify new households that have been thrust into poverty by the pandemic so that cash can be distributed to them too. Mobilize the disaster-relief infrastructure to distribute noncash benefits, especially food, water, and medicine. Immediately distribute food and nonfood vouchers to poor communities to be claimed at any supermarket or grocery. Special attention must be paid to the nutritional needs of young children, whose deprivation now can have consequences for their physical and mental development. *Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers* (TUPAD) is another existing community-based program that the government should fully administer now. It can cover both the formal and informal sectors. Currently, the maximum assistance under this program is 30 days. It should be made flexible to cover the unemployed if quarantine goes beyond 30 days. The goal is to ensure that no one goes hungry. People assured of their survival will be more likely to adhere to the extraordinary regulations meant to protect their and the community's health.

**Provide vulnerable households with financial relief.** The extension of the tax-filing deadline is a good first step, but more can be done. A moratorium on foreclosures and utility payments during the quarantine period is essential for households earning below a certain income threshold and only for primary residences. These payments can be collected over an extended period at a later date at 0% interest. Rolled over credit-card debt should not incur any interest if the credit limit is below a certain amount. Individuals should be allowed to withdraw their contributions from the Social Security System (SSS), Government Service Insurance System (GSIS), and Pag-IBIG up to ₱50,000 to be repaid over an extended period at 0% interest. Conditional on businesses not laying off their workers, employees who are furloughed because of the pandemic should continue to receive their salary in full for the first two weeks, and then 80% of their pay thereafter. The government and the employer can share this burden, with the employer taking a larger share in the beginning and the government increasing its share moving forward. Work-related expenses for those who work from home should be deductible from taxable income, with rules to be liberally applied for one fiscal year. The government can provide subsidies to affected workers, including those whose wages are paid on a daily basis and own-account workers whose monthly income are below the food threshold. We estimate the two-month subsidy to reach ₱25.55 billion in Metro Manila and ₱310.23 billion for the whole country (although these are subject to revisions given changing conditions).

**Protect the health of individuals.** That Philhealth commitment to cover all testing and treatment related to COVID-19 is a good step. Employers should find ways to allow their employees to work from home as much as possible. Paid sick leave should be extended to a minimum of 14 days for the duration of the crisis, with the government covering 80% of the salary for the first seven days and 100% thereafter. Tariffs and nontariff barriers that apply to personal protective equipment (PPE) and other essential medical equipment to fight the COVID-19 pandemic should be suspended with immediate effect. Occupational licensing restrictions should be relaxed to allow nursing and medical students close to finishing their degree to assist in the efforts to combat the disease. National and local governments must stand ready to take over hotels, motels, and other accommodation services to use their beds should the health crisis require it. The military must be locked and loaded to rapidly build temporary treatment facilities and to provide medical assistance via their trained engineers and medical personnel.

**The government must continue to pay its obligation to contractors of institutional Contract-of-Service workers.** Institutional COS workers include janitorial and other support services of government agencies. The government must ensure their salary throughout the quarantine period even if they do not report for work.

**Enforce anti-price gouging and anti-hoarding laws.** The government must enforce anti-price gouging and anti-hoarding policies for essential products including personal protective equipment, alcohol, medicine and vitamins during the quarantine period.

**Provide support to agriculture and ensure its supply chains are unimpeded.** Luzon produces 47 percent of agricultural value added in the country. Therefore, the lockdown of the island can disrupt agriculture and its related activities. Moreover, Filipinos in rural areas are the poorest and therefore more vulnerable to income shocks. The government should provide support to farmers, either through input subsidies or access to markets, so that they will continue to produce during this crucial time. In addition, agricultural supply chains should be unimpeded by checkpoints due to the lockdown. As and when shortfalls become inevitable, the government should be ready to import more or incentivize the private sector to do the same.

**Mobilize local governments.** Local governments must be tapped to ensure regular sanitation of public places. They should ensure support for vulnerable constituents including senior citizens and persons with disabilities (PWDs) who may have limited access to essential resources including food and medicine during the quarantine period. They can create short supply chains of goods in their communities or be the main procurer of goods of small farmers. This can contribute to food supply resilience within their communities. They can provide transportation to essential workers. They can establish mobile markets and

mobile kitchens. They can also be the main partner of the Department of Labor and Employment (DOLE) in implementing TUPAD and tap the TUPAD beneficiaries to provide essential services (e.g., sanitation, food/grocery delivery to elderly and PWDs, transportation for frontliners). They should provide decent isolation centers for persons under investigation (PUIs) and persons under monitoring (PUMs) especially for those coming from urban poor communities. Local governments can apply the Local Government Code provisions on emergency purchases (Secs. 366 & 368) to procure necessary supplies including testing kits for their constituencies. This will enable them to conduct mass testing pursuant to the World Health Organization (WHO) directions. Provincial governments should consider regulating the flow of people in and out of their territorial boundaries without hampering the flow of essential goods and services.

**Put in place a coherent, comprehensive, and compassionate containment plan for Metro Manila and its vicinities.** Due to its high density, Metro Manila as the epicenter of the COVID-19 spread comes as no surprise. Therefore, under the leadership of the National Government, we suggest that there must be close coordination between the Metro Manila Council and neighboring spillover cities and municipalities in order to enact a coherent, comprehensive and compassionate containment plan. This will ensure that supply chains will not be disrupted, transport of essential medical personnel will not be hampered, contact tracing will be more efficient, transboundary movement of workers will not be blocked, and information will be shared seamlessly, among others.

**Anticipate the spread.** All efforts are now focused on Metro Manila but within a short period, we are bound to see an increase in the number of infected individuals in the provinces. While this has not happened yet, the national government should allocate funds to improve the capability of provincial hospitals to respond and treat the most vulnerable patients. Local governments should exert efforts to identify the most vulnerable in their communities, particularly the elderly and those with comorbidities, and state universities with laboratories that are capable of handling COVID-19 testing should be tapped. Mass testing should be done, with priority given to those at the highest risk and showing symptoms.

## **PRESERVE JOBS AND BUSINESSES**

To combat the spread of the virus, it is necessary—indeed, it is optimal—to drastically scale back economic activity. Consumers and workers are in isolation, ill, caring for somebody who is ill, or dead. Demand will decrease because people are incapacitated; supply will also decrease because businesses will have to shut down. However, while the economy is in a state of hibernation, some bills will still have to be paid and everyone still has to eat.



A flagrant contagion or a lockdown will, in either case, handicap the ability of businesses to intertemporally substitute expenditure. That is, facing liquidity constraints, an otherwise solvent firm may be forced to go bankrupt. Unable to meet payroll and nonpayroll requirements, businesses will pull the plug and shut down, depriving millions of Filipinos of their only source of livelihood. If that occurs during this period, the accumulated knowledge of business processes, relationships, products, and firm-specific human capital will be destroyed.

The message the government should send to businesses should be loud and clear: “Do not worry, secure your workers—the government will provide you with the means to get through this crisis.” The plan for businesses should center on preventing the shutdown of firms facing liquidity constraints. When the economy’s engines restart after the public health crisis, surviving businesses will be able to quickly resume operations, and this is what we want if we are to fast-track the recovery.<sup>2</sup>

**Workers’ jobs must be preserved.** To do this, businesses must be able to pay their workers’ salaries even if they are not working. A special kind of unemployment or furlough insurance can kick in, as discussed above under SOCIAL PROTECTION. Employer contributions to SSS, GSIS, Philhealth, and Pag-IBIG can be shared with the government. The amount covered by the government can be varied depending on the non-working duration, and the replacement rate (the share of the original salary covered) can be adjusted. Hourly-wage earners and employers can come to an agreement to reduce hours and maintain pay if it will prevent separation from the firm. Those workers in the gig economy can declare themselves as unemployed and be entitled to the same benefits based on their income history. Workers that have been detached from the labor market may find their skills have depreciated; support for retraining and upskilling via the Technical Education and Skills Development Authority (TESDA) should be provided.

**Small- and medium-scale enterprises (SMEs) must be provided tax relief.** Depreciation can be enhanced and accelerated, although the benefits will materialize later upon filing the return. A significant proportion of capital investments should be expensed, perhaps with a cap at ₱1 million. The Department of Finance (DOF) should explore if temporary adjustments to the provision on net operating loss carry-forward can mitigate the financial stress. The Bureau of Internal Revenue (BIR) has taken a good first step in extending the deadline for filing tax returns. The package concentrates on SMEs because large firms are much more adept at accessing credit markets, both national and international.<sup>3</sup> They are able to raise

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<sup>2</sup> The financial sector has a pivotal role to play during the start of the recovery period. We comment on that in the following section, LIQUIDITY BAZOOKA.

<sup>3</sup> Some large firms would nonetheless require assistance. In particular, we discuss the case of airlines below.

outside equity. SMEs do not typically have the necessary expertise to tap into the credit and stock market.

**We must improve the ease and cost of doing business.** The government can suspend penalties for late filings and returned checks for at least one month. Payments for business permits and other clearances can be deferred and collected at 0% interest.

**The government should provide emergency loans to SMEs with the view of incentivizing them to retain their workforce.** These loans can be channeled through existing financial institutions with the support of the *Bangko Sentral ng Pilipinas* (BSP). Businesses who apply for the loan will have their revenue losses covered—perhaps based on the previous years’ performance for older firms, and based on accounting records for new ones. These loans shall be paired with tax credits from the government conditional on maintaining employment. If full employment cannot be sustained, then tax credits can be made proportional to the reduction in full-time employment (FTE) hours. Participating businesses can have their net profits capped to minimize the incentive to inflate it by depressing nonlabor variable costs. The BIR can set up a new office to ensure compliance with the intention of the loan.

**The tax and non-tax support is intended to be of limited duration, and it must be targeted.** The negative shock differentially affects industries, so targeting aid is paramount. For example, restaurants, travel, leisure, hospitality, and retail are taking on an enormous share of the burden of community quarantine. Businesses operating in these sectors should receive the aid first before we begin to consider supporting other sectors, if at all. Targeting is difficult, both when applied to businesses and to households, but the gravity of the situation suggests that we should distribute the aid as quickly as possible. The benefit of the package reaching its intended recipients outweighs the cost of some of it leaking to those who do not need it at all—to an extent. The government should regularly evaluate whether any of the benefits can be lifted in due course.

**Exporters and importers should receive support.** The economic slowdown of other countries means that markets for our exported goods will be cut off. Moreover, disruptions in the global supply chain will affect imports of raw materials or other intermediate inputs. This will hurt the ability competitiveness of our firms (even the large ones in economic zones) and put the jobs of hundreds of thousands of workers at risk. Measures to alleviate their loss include credit guarantees, special credit windows/facilities for business, loan repayment holidays/loan restructuring, providing an “employment maintenance fund”, and reducing tariffs to stem the cost surge of imported inputs.<sup>4</sup>

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<sup>4</sup> See Jandoc, Mendoza, and Quimbo (2020) “Vulnerable to the virus: globally-oriented manufacturing firms at risk from the spread of COVID-19”, [UPSE Discussion Paper No. 2020-01](#).



**The airline industry should receive direct financial relief.** The increasing number of countries imposing travel restrictions have already caused a number of international airlines to furlough their workers and to cancel close to 90% of their routes (if not a total grounding of the fleet). Domestic airlines may be temporarily exempted from paying excise taxes and other fees typically associated with their operation. The option of a total bailout can be placed on the table, with a national government equity stake.

We emphasize it again here: **support to businesses should be on the condition that these businesses will not lay off their employees.** Job separation during this period must be, as much as possible, voluntary. When the eye of the storm has passed, and economic activity is ready to pick up again, we want our businesses to still exist, and we want them to be able to reemploy their workers as quickly as possible. Our plan goes a long way in ensuring that is the path we are on.

## “LIQUIDITY BAZOOKA”

**The BSP should be ready to deploy unconventional monetary policy measures and provide the economic resources necessary to deal with this crisis.**

Although the *Bangko Sentral ng Pilipinas* made the welcome move to lower the policy interest rate and expand its discount lending facilities, and earlier also, reduced the reserve-requirement ratio, these moves may not suffice to help the economy stay the course under a crisis in which people are quarantined and businesses are in hibernation (as they should be).

The significant role of the BSP in any crisis is to shore up confidence in the market and fully commit to its position as the lender of last resort given its monopoly power to print money. The Reserve Bank of Australia, the European Central Bank, and the US Federal Reserve have all committed to do “whatever it takes”. The BSP should likewise send a strong message to the country that it will do the same: there should be no such thing as off-limits in its commitment to see the economy through this crisis by providing the ammunition to ensure that liquidity and credit markets do not dry up.

The government can issue long-term bonds to finance the expenditure it needs in order to mitigate the crisis, and the central bank can “print money” by buying this debt, effectively monetizing it. The BSP itself can now issue its own securities and purchase them, a more direct way of “printing money” that may have the added benefit of not inflating the government’s fiscal debt/GDP ratio. BSP purchases of any type of long-term bonds will produce a salutary effect of having bond yields decline in addition to injecting liquidity.

Some of the government bonds to be issued can be directed toward a Commercial Paper Funding Facility. The BSP can follow the lead of the US Federal Reserve and buy up the commercial paper of firms in order to ease their liquidity constraints and help them maintain employment of their workers. If the charter of the BSP prevents it from buying commercial paper, it can issue its own securities for this purpose, in cooperation with the Treasury.

Supporting businesses and getting the economy back to normalcy quickly will prevent the public health crisis from birthing a financial crisis, with the BSP having to bail out banks because of massive borrower defaults on loans.

## **“FISCAL STIMULUS” IS THE WRONG CONCEPT**

The COVID-19 pandemic is—first and foremost—a public health issue. The specific coronavirus, SARS-CoV-2, that is ravaging countries like Italy, China, and Iran is contagious and deadly. As far as we know, no one is immune, a cure does not exist, and there is no vaccine—yet. Left unchecked, the rapid spread of the disease within a population can overwhelm a country’s health services system, leading to even more deaths.

Epidemiologists suggest that strong measures to mitigate the spread of COVID-19 are necessary to flatten the curve—that is, to slow down the transmission of the virus within the community so as not to overwhelm the health system. Apart from a strict quarantine or a lockdown, public health professionals also propose social distancing: people should not gather in large groups and a person should maintain a distance from someone else of at least 1.5 meters. This buys medical researchers time to develop a reliable treatment and an effective vaccine.<sup>5</sup>

Community transmission—when someone tests positive for the virus without having been in contact with someone with a confirmed infection or having come from a high-risk area—is already occurring in the Philippines. This has shifted the strategy of the DOH from contact tracing—identifying the people who have been in contact with someone who tested positive to the virus—to community-level quarantine. The radical measures include, among others, closing schools, shutting down public transportation, and restricting travel spatially (checkpoints) and temporally (curfews).

Under a community quarantine, it makes little sense to speak of a “fiscal stimulus package”, an unfortunate choice of words. For in times like these, even Keynes the *bon vivant* must sit in quarantine. The point, on the contrary, is to freeze the economy—to retreat into

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<sup>5</sup> Hence, while it may be inevitable for 60-70% of a population to contract the virus before the rate of infection stops, it matters crucially for mortality rates whether this occurs in a short time or over a much longer period.

hibernation as public health demands. We do concur with the view, already expressed by some in the business sector,<sup>6</sup> that extraordinary sums of public money may need to be spent now and in the near future. But this should be done under no illusion of normalizing—much less raising—economic activity. Rather, such sums should be spent to save people’s lives, provide subsistence, preserve employment, and affirm social solidarity, even while the economy is at a standstill and waits for the storm to pass.

## TRANSPARENCY AND ACCOUNTABILITY

The Executive Branch should be given adequate resources to perform its duties and exercise prerogatives to respond to this pandemic. We have existing laws that allow for such during national emergencies. The Executive Branch has existing funds that have appropriations under the General Appropriations Act (GAA), such as the National Disaster Risk Reduction and Management Fund (Republic Act No. 10121) and the Presidential Contingent Fund. There must be transparency in the use of these funds. Even as we allow for a degree of flexibility, we should reaffirm the Constitutional principle that the power of the purse belongs to Congress and cannot be abdicated. If additional funds are necessary, the Executive Branch must present a clear budgetary plan to Congress. Blanket legislation allowing the Executive Branch to reallocate or realign any appropriation of the GAA violates the Constitution and upends Congress’ fiscal responsibilities.

## CONCLUSION

The public health solution comes at an economic cost: individuals and businesses will now have to face what is undoubtedly an enormous liquidity gap. The US economy has been characterized as entering an Ice Age, and Denmark is said to be “freezing” its economy.<sup>7</sup> Life will change for the vast majority of individuals, at least for some time.

There are lessons to be learned here. We highlight a few. One, we have not given enough attention to paid sick leave. Second, distributing aid is difficult when a large share of the population is “unbanked” (without an account) and are without a national ID. Third, there are hurdles to the ease of doing business that can be relaxed. Fourth, we have not solved our mass transportation problem in this country. Finally, we believe democratic principles, such as the separation of powers between branches of the government, can be maintained while solving a crisis even as enormous as this.

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<sup>6</sup> See the statement of the Makati Business Club: “Call on Congress for maximum fiscal response” (issued 21 March 2020).

<sup>7</sup> “This Is Not a Recession. It’s an Ice Age”, Annie Lowrey, *The Atlantic*, <https://www.theatlantic.com/ideas/archive/2020/03/quantifying-coming-recession/608443/> and “Denmark’s Idea Could Help the World Avoid a Great Depression”, Derek Thompson, *The Atlantic*, <https://www.theatlantic.com/ideas/archive/2020/03/denmark-freezing-its-economy-should-us/608533/>.

The goal of any plan should be to bridge this gap so that we can come out on the other side. In this sense, what we are advocating is a **social insurance package**, even though it has some features of a fiscal stimulus. The success of the plan should **not** be evaluated on the basis of whether it stimulated aggregate demand; that is not the objective. Instead, the question to be asked is, “Were we able to minimize the economic hardship of those who were forced to retreat for the collective good?”

Seven years of uninterrupted and respectable economic growth and the enactment of crucial revenue-enhancing measures in the past three years have provided the fiscal space needed to stem a crisis such as this. The economic managers estimate the loss from COVID-19 at ₱187 billion, and to fight this, we should be prepared for the deficit to increase to at least 5% of GDP. This crisis is *sui generis* and is not caused by a weakness in our economy, but rather an external shock that will hopefully subside in a few months. Spending at least ₱100 billion to ₱300 billion more on the different social protection and economic recovery programs outlined above will protect our people, avert a recession, and arrest the misery that COVID-19 will bring.

Ultimately, all these prescriptions should be done under the principles of good governance. Transparency and accountability should always be exercised and the balance of power maintained. There is no reason for a crisis in public health to turn into a crisis of social institutions.