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Surviving the Lockdown and Beyond

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SURVIVING THE LOCKDOWN AND BEYOND *

The current coronavirus pandemic, along with its social and economic consequences, represents the challenge of a generation. The virus (SARS-CoV 2), which causes the disease COVID-19, has now affected virtually all countries and confronts the Philippines with an unprecedented public health crisis that, left unchecked and using low disease transmission parameters, could infect as many as 75,000 to 250,000 Filipinos ¹ and leave 2,250 to 7,500 dead ² in its wake by July.

The urgent need to prevent that grim scenario³ is the reason for the ‘enhanced’ community quarantine over all of Luzon⁴ that effectively began on 16 March and is due to end on 12 April; ⁵ twenty four provinces and cities in the Visayas and Mindanao are also implementing lockdowns.⁶ However, this drastic measure contributes its own share of social and economic hardship: people are physically restricted in movement and have lost their income and livelihoods; existing social safety nets are not designed to reach the people most at risk; production and delivery systems are severely constricted; and the country’s health system, already strained pre-lockdown, is close to its breaking point.

The decisions we make in the next four weeks will significantly determine how we are able to recover from the pandemic. In our view, three are most urgent.

First, to do all that is necessary to extend supply chains for food and basic goods right up to the doorsteps of households now quarantined, and to do this in the most reliable and orderly manner possible. We must ensure that the risk to life coming from the virus is not complicated by a threat to life coming from social privation and possible social disorder, i.e. we must ensure that no one goes hungry. This will require a more efficient sharing of authority and accountability between relevant national agencies and LGUs, in which the latter take the lead in targeting and distribution, and the former take the lead in

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¹ The range of 75,000 to 250,000 is based on DOH/WHO (75,000 positive cases by June 2020, presented March 19, 2020); PIDS (2020) (75,000 positive cases by June, assuming R0=2 and no intervention. R0=2 is a low estimate; the highest is 4), and DJ Darwin R Bando, Bart C Weimer Pandemic dynamics of COVID-19 using epidemic stage, instantaneous reproductive number and pathogen genome identity (GENI) score: modelling molecular epidemiology. doi: <https://doi.org/10.1101/2020.03.17.20037481> (250,000 cases). More recently, the UP Pandemic Response Team estimated 140,000 to 550,000 that will be infected, a significant proportion of which will not be detected unless tested.

² This assumes a 3 percent mortality rate.

³ It is grim not only in absolute terms but because the level of supplies to fight the disease is so low, e.g. if 75,000 are infected, an estimated 15,000 (or 20%) could require intubation. However, there are only 1,500 respirators available.

⁴ Presidential Proclamation No. 929, 16 March 2020.

⁵ On 7 April, the lockdown was extended until 11:59 pm of 30 April.

⁶ <https://www.rappler.com/nation/254906-list-areas-mindanao-under-community-quarantine-curfews-state-calamity-coronavirus>

managing supply chains across jurisdictions and bulk procurement. It may also mean allocating to and targeting barangays, or clusters of households, rather than individual households. While the usual apprehensions about leakages are well taken, administrative, logistical and social costs of targeting by household may far outweigh any benefits of ‘saving’ from leakages (to the less-than-vulnerable), especially if susceptible populations include people not covered under regular poverty alleviation programs, and if barangays (rather than regions, provinces or cities) become the catchment areas moving forward.

Second, to lift lockdown restrictions gradually and selectively, in lockstep with the preparedness of the health system to face the flow of cases that will continue even after the lockdown. Conversely, immediately and adequately provision the health system so that lockdown restrictions can be lifted as quickly as possible. There is too much that is not understood about how and why the virus is behaving as it is locally. Thus, a gradual lifting is the prudent approach, buying more time for the health system to be more informed and to prepare and brace itself for the flow of cases that is bound to come for some time. It is also imperative for the health system to be equipped with the necessary national and local infrastructure and staff. This in turn requires funds from national government sources, including Philhealth, to flow immediately to public and private health providers. To this end, there must be a shift away from pre-pandemic bureaucratic procurement regulations to allow for exigencies as needed under emergencies of this magnitude.

Third, to anchor any government spending program in the near term on actions to address the significant weaknesses in the country’s public health system, its fabrication and logistics capabilities, its R&D systems, its financial system, its social safety nets, and the capacity for foresight and implementation among its public agencies, including an understanding of the moving parts of supply chains and the MSMEs that populate these chains – weaknesses laid bare by the crisis. Together these amount to serious inadequacies in the country’s ability to withstand a wider range of shocks, i.e. its economic resilience. Ignoring these weaknesses and assuming that the economy can simply start where it left off would be as foolish as rebuilding a fallen structure in the same hazardous location, using the same plans and materials, and thinking that the structure will not collapse the next time around.

Finally, the question arises about how to finance the above priorities while the economy is on lockdown, but also in its aftermath when demand will likely remain muted for some time. The unprecedented scale of the problems in health, work, and incomes created by the pandemic also dictate that the government’s macroeconomic tools must themselves set unconventional goals and be used in unconventional ways. **In our view, the central bank’s ability to act as a ‘lender of last resort’ is a crucial role it must take on precisely during a crisis, more so in one that is not the result of irresponsible behaviour, in order to reduce risk and uncertainty.** Thus, the central bank can and should do “whatever it takes” to ensure that the program of expenditures laid out by government is provided the necessary financial resources. In this way, government can hold up its end of the social

contract, at a time also when there is expected to be large tax revenue shortfalls. Taxation as a source of government revenue is inferior to seigniorage revenue from the issuance of money when the economy is stopped dead in its tracks.

GETTING FOOD TO THE DOORSTEPS OF QUARANTINED HOUSEHOLDS

People have largely accepted the rationale for the lockdown and have stayed home. However, patience is running thin and anxiety has built up because of the lack of clarity on the singular question of food, i.e. ‘if we cannot work, how are we supposed to feed ourselves?’ This was raised as a concern from the start, even before the community quarantine was ‘enhanced’. But at that time, the unfortunate response from authorities was “*Walang namamatay sa gutom. Sa isang buwan hindi ka mamamatay*”.⁷

Three weeks into the lockdown, the question of meeting basic food needs in a sustained manner has still not been satisfactorily answered. People are repeatedly told, instead, that the movement of goods will not be affected by the lockdown. But supply chains are only part of the equation, and even that assurance has fallen short; the volume and variety of goods available in retail outlets or online, and thru commercial delivery services, have noticeably shrunk, which is attributed to mobility, workforce, and other quarantine restrictions that have disrupted production and other parts of the supply chain.⁸

The only way to stabilize quantities and the movement of supplies is to unpack the component parts of each chain, identify where shortages and regulatory glitches are happening, and resolve these directly. This is a complex but necessary undertaking which cannot be done by government alone and will require the supply chain management expertise of private sector practitioners working with public health experts. Restrictions that have little impact on arresting the pandemic, such as checkpoints along national road systems, or temperature-taking (since at least half of infected people are asymptomatic), could be removed. If production and storage is constrained, food terminals and stockpiles may have to be set up. The point is to allow selected institutions, sectors, services and occupations essential to the production and flow of food, medicine, cooking and cleaning supplies, etc. to operate, providing resources to augment capacity where warranted. To minimize risks while these services are allowed to operate freely, random testing for possible “super spreader” occupations (such as postal and courier services, transport workers, food vendors, personnel of food delivery establishments and bulk food transport services) can be a condition for continued operation.

The other part of the equation, income replacement mechanisms for displaced workers and their families, has not been fully worked out. R.A. 11469, or the *Bayanihan to Heal*

⁷ <https://www.gmanetwork.com/news/news/nation/729768/panelo-says-no-one-dies-of-hunger-even-for-a-month/story/>

⁸ A supply chain is the network of producers, vendors, warehouses, transportation companies, distribution centers and retailers which are required to produce and distribute a specific product or service.

As One Act, provides for two months' worth of emergency subsidies, in cash or in kind, for 18 million low income families across the country; at ₱5,000 to ₱8,000 per family per month this totals ₱180 bn to ₱288 bn. It also prioritizes the augmentation of the specific program budgets of national agencies (DSWD, DOLE, DA, DTI, DepEd). National agencies are now grappling with how to identify and locate who gets what and how by, among others, consolidating beneficiary databases across agencies.⁹

We urge authorities for the time being to set aside targeting parameters that are too fine—especially for the first round. The time lost and administrative, logistical and social costs that will be incurred to complete a comprehensive database and then execute a precise household level targeting mechanism are far greater than the benefits to be gained from avoiding 'leakages' to households who are 'less vulnerable'. First, susceptible populations include people who may not have qualified under regular poverty alleviation programs like the 4Ps before the lockdown, such as wage workers, transport workers, etc.¹⁰ Second, the number of vulnerable households is expected to be a moving target as more quarantined households become vulnerable over time for a variety of reasons (e.g. unpaid furloughs or layoffs that can no longer be put off, depleted savings, higher costs of goods). Third, public health protocols to contain infections are currently cluster- or location-based (e.g. 'hot zones' defined by radius around an infected household, by street, by barangay), and targeted barangay-wide quarantines are expected to be the norm when the Luzon-wide lockdown is lifted. Thus, designing targeting mechanisms differently (say, for the delivery of emergency provisions) makes little sense from either efficiency or social cohesion viewpoints.

In any case, there seems to be enough elbow room to be redundant, even to tolerate 'leakages'. Eighteen million households represent roughly 72% of all households in the country and is more than six times the estimated number of income-poor households (three million) and eighteen times the number of food-poor households (800,000) as of 2018.¹¹ It is also more than three times the number of 'highly vulnerable households' by one estimate, and double the number of 'affected households' by another.¹² There is also

⁹ <https://www.rappler.com/nation/256531-cash-aid-poor-families-in-limbo-government-works-database-coronavirus-crisis>

¹⁰ Workers of private establishments whose operations are affected (suspended, downscaled) by COVID 19 are covered by DOLE's CAMP program, a program used when Boracay was shut down, which provides a one-time lump sum of P5000 to them. The reach of this program is not clear however; there are close to a million MSMEs in NCR alone.

¹¹ <https://psa.gov.ph/poverty-press-releases/nid/144752>. 72% is estimated from population projections for 2020 at roughly 110,000,000 and an average household size of 4.4.

¹² G. Ducanes, S. Daway-Ducanes and E. Tan 2020 (<https://www.bworldonline.com/target-highly-vulnerable-households-for-support-during-the-enhanced-community-quarantine/>). 'Highly vulnerable' is defined as households belonging to the poorest 30% of all households in terms of per capita income and without any member with a 'quality' regular job. Estimates are 2.4 million for Luzon and 2.8 million outside Luzon. Using the same database, M.C. Epetia (2020, unpublished) estimates the number of 'affected households', defined as households of wage and salaried workers paid on a daily basis and own-account workers living in subsistence, to be 5.3 million for Luzon and another 4 million outside Luzon.

no reason for emergency subsidies to be allocated and disbursed to all provinces and cities at this time; more than half of all provinces, including fifteen out of thirty-eight in Luzon, do not have reported cases of residents contracting the disease, and an enhanced quarantine may not even be necessary if and when the disease manifests in these areas.¹³

¹⁴ Allocations to and targeting in NCR, currently ground-zero for this virus, and other current hotspots need not be so limited or constrained therefore. Responses may be refined and resources adjusted (say, through a supplemental budget) for other jurisdictions later.

Cash transfer modalities should be set aside for a later date and the focus should instead be on in-kind transfers – food and basic goods - and how to deliver these to the doorsteps of households. Under normal circumstances, cash transfers would be better than transfers of specific goods, since they give the consumer a choice over the types and amounts of goods to buy. But in-kind transfers are superior to cash transfers when there are supply constraints (physical barriers to delivery, severe shortages) for relevant goods, and as a self-selection targeting mechanism.¹⁵ Transfers in kind are especially recommended under mandatory home quarantine conditions; having thousands venture out to queue at ATM machines or scrambling in markets defeats the purpose of social distancing.

Finally, authorities should consider reassigning authority as between national government agencies and LGUs, with the preceding in mind. LGUs are in the best position to decide on targeting parameters and delivery mechanisms so that supply chains are extended the ‘last mile’ to households within their jurisdictions.¹⁶ LGUs have the most at stake in terms of managing the quarantine and ensuring social peace, and have unique knowledge of constituents and neighbourhoods, so that concerns for leakages to the less vulnerable are balanced out with local imperatives for social cohesion and solidarity. LGUs also know the extent of their own logistical capacities, and how support from the national government or the private sector can be best applied.¹⁷ **On the other hand, national government agencies are best suited to focus on securing and facilitating the food supply**

¹³ As of 4 April, 49 out of 81 provinces do not have reported cases of residents contracting the virus: 15 out of 38 provinces in Luzon, 10 out of 16 provinces in the Visayas, and 17 out of 27 provinces in Mindanao (<https://www.rappler.com/newsbreak/in-depth/255126-coronavirus-cases-philippines-maps-charts-data>)

¹⁴ If the behavior of the virus and what works or doesn’t work is better known, and if localized health systems are better prepared, an enhanced community quarantine as we know it may no longer be necessary. In which case, emergency subsidies may also not be necessary.

¹⁵ It is a self-selection target mechanism because households which are less in need – including middle income households who may have been displaced but who may have savings to cushion this shock - are more likely to voluntarily forego food rations rather than cash. This would be useful especially if household/individual targeting is relaxed.

¹⁶ That is, mayors and governors should be given the flexibility to decide how/who to target (i.e. by household, clusters of households or barangay), in what form emergency subsidies would be delivered (cash or in-kind), and how.

¹⁷ For instance, several LGUs were steps ahead of the national government, implementing their own food/supplies distribution programs. They may prefer that their allocation of the emergency subsidies be applied to augment these programs, rather than be applied to a separate program of cash transfers (notwithstanding any budget-augmenting grants they are to receive under the *Bayanihan* Law.) The point is, the more that targeting and distribution decisions are delegated to governors and mayors, the better.

chains that cross over multiple jurisdictions, as well as procuring goods in bulk which LGUs may draw from.

Extending supply chains until the last mile to households will involve logistics at city and barangay levels. Local governments can use public funds to finance both public and private services for this purpose (e.g. to deploy food delivery services, mobile food trucks, etc.); the free movement of commercial delivery services both within and across jurisdictions is especially essential. As already mentioned, the risks of transmission from ‘super spreader’ personnel involved in warehousing, transport, delivery and other logistics may be managed with basic protective gear and a system of random testing.

A reassignment along these lines requires certain operational authorities to be deputized to LGUs. For instance, this includes the authority to allow the operation (or not) of public transportation within barangays and along arterial roads, if only to provide mobility to personnel involved in the distribution and delivery of essential goods and services to households. The provisions of R.A. 11469 seem to be broad enough to permit a more efficient distribution of functions and we hope that national implementing agencies (DSWD, DTI, DILG, PNP, DOTr, DOH, DA) leverage these provisions for this purpose.

LIFTING OF QUARANTINE RESTRICTIONS IN LOCK-STEP WITH THE ADEQUATE PROVISIONING OF THE HEALTH SYSTEM

Freezing the economy is a necessary step to immediately slow down the spread of the virus and break its initial trajectory (“flatten the curve”). Most crucially, a lockdown forestalls an immediate collapse of the health system and buys time to put in place the necessary national and local health infrastructure – health personnel, testing kits and facilities, protective equipment and other supplies, quarantine centres, health financing, information systems – to manage the virus and its transmission moving forward.¹⁸

The decision of when and how to lift the lockdown must therefore hinge on whether national and local health systems have in fact been adequately provisioned against the expected rate of transmission of the virus.¹⁹ The expected rate of transmission has to do with the change in the number of cases identified on a daily basis, given the level of

¹⁸ From a public health viewpoint, one month could be enough time, e.g. in the case of the Philippines, assuming testing capacities are on the ground, all those who got sick before the 16 March quarantine and those they may have infected two weeks after, would have been identified and quarantined by April 12. The mandatory home quarantine would have also reduced the transmission from those not identified, or from those who are asymptomatic, to numbers that could be managed through localized responses, including barangay-level lockdowns/testing, where cases appear.

¹⁹ We note that the Inter-Agency Task Force announced on 31 March that the DOH would be setting the parameters for whether the lockdown would be extended or not. It also announced that additional quarantine facilities for Covid-19 patients were being considered (e.g. PICC, Rizal Memorial Sports Complex, World Trade Center) and that provincial, city, municipal, and barangay officials were tasked to identify and refurbish facilities, which could also be used for quarantine purposes.

<https://businessmirror.com.ph/2020/03/31/iatf-eyes-additional-quarantine-facilities-for-covid-19-patients/>

testing. Readiness of provisions would be gauged by the estimated number of cases per geographic unit or catchment area²⁰ relative to the distribution of resources *in situ* so that units can quickly ‘quarantine, test, isolate’. From this it is evident that improvements in the capacity of and ability to respond of localized systems will be the crucial determinant of whether a lockdown in specific catchment areas can be relaxed.

On the one hand, much is still not understood about how the virus behaves in our specific context. The reported cases as of this writing are much lower than what models project, and the reasons for the wide discrepancies are still debated.²¹ Meanwhile, provisioning the system with the necessary human and material resources for health at both national and local levels is no small matter. This is because **the health system was already strained even before the lockdown.**²²

Given current levels of personnel, equipment and supplies, and their distribution across the country, a gradual, sequenced and selective lifting will be the most prudent course of action at this time. Restrictions on mobility could be lifted, first, within barangays, then within cities and then between cities – the pacing of which should be informed by public health indicators and the readiness of each barangay or city (e.g. not all barangays in a city may be ready at the same time.). The first stage could start in the 3rd or 4th week of April; the last stage could come as late as June. The revival of economic activity should be phased in at the same rate but much will depend on an adherence to, and enforcement of public health protocols (protective gear and random testing of high contact personnel) by and among private establishments. As a priority, and given the imperative to supply food and essential goods to quarantined households, establishments involved in these supply chains should be allowed to restore their operations to full capacity.²³

The duration of each phase will depend on how quickly public funds can flow and supplies delivered to public and private health providers, including to local governments which will also have to ‘quarantine-test-isolate’. RA 11469 mandates funds to go to DOH, PGH and

²⁰ A unit may be based on both administrative boundaries and geographic variables. An island province may be one unit; a cluster of contiguous provinces, another.

²¹ On April 7, the DOH has recorded 177 deaths out of 3,764 confirmed cases as against the low case estimates of 75,000 cases and 2,250 deaths (mentioned earlier in this paper.) There seems to be three possible explanations: (1) interventions (e.g. lockdown) have been put in place, (2) the nature of disease transmission, latency, and because a large portion of those infected remain non-symptomatic (the picture that we see today from our surveillance measures are at best 2 weeks old), and (3) perhaps, most importantly, the age structure underlying most models are grossly different from that of the Philippines, where the age group 50 and above only accounts for 17 percent of the total population according to the projected population age structure for 2020 (O. J.C. Solon, 2020, unpublished).

²² This is discussed at length in Panelo, C. I. A., Solon, O. J. C., Ramos, R. M., Herrin, A. N. *The Challenge of Reaching the Poor with a Continuum of Care: A 25-Year Assessment of Philippine Health Sector Performance*. Quezon City, 2017.

²³ This would be accompanied by regulated in-city and inter-city public transportation services to cater to involved personnel. If public health and food systems require it, additional capacities could also come online to augment existing supply chains for essential goods. Supply chains for non-essential goods and services would be phased-in last.

other government hospitals, private hospitals, public and private testing and quarantining facilities, public and private health workers, sourced from the national government budget (GAA) and from Philhealth. As it is however, this flow has been slow, e.g. out of P30 billion set aside by the Philhealth Board on March 9 for cash advances to hospitals delivering critical services to COVID-19 patients, only 2.5 billion had been released as of March 27. PGH, designated to be one of a handful of COVID-19 centers, received its advance amounting to P265 million only on March 30.²⁴

Clearly there must be a shift away from pre-pandemic bureaucratic procurement regulations to allow for exigencies as needed under emergencies of this magnitude.

ORGANIZING FOR ECONOMIC RESILIENCE

The lifting of the quarantine will not automatically remove hunger and hardship. Incomes and output will recover slowly as the economy emerges to a global recession that is described as possibly being the “most brutal recession in living memory.”²⁵ All over the world, sectors such as travel, tourism and retail are expected to be the hardest hit as consumers remain wary and spending patterns change over at least the next few months. With foreign demand and investment demand also expected to remain muted, it will be left for government to carry the ball for the economy in the near term.

The national government seems eager get the economy back on track and restore its pre-pandemic growth trajectory as quickly as possible. Liquidity infusions to households, directly in the form of unconditional cash grants are being prepared, as are community employment programs (e.g. cash-for-work), both of which could boost consumption.²⁶ Liquidity facilities for MSMEs are also being contemplated to protect employment and incomes, but would probably be most useful for helping firms navigate and adjust (e.g. adopt technology) to the downturn and changing economic environment²⁷ The Build-

²⁴ The cash advances to hospitals followed the Interim Reimbursement Mechanism used during Yolanda, where hospitals affected receive up to 3 months in advance of the average monthly reimbursement of the previous year.

²⁵ <https://www.economist.com/news/2020/03/11/the-economists-coverage-of-the-coronavirus?cid1=cust/ednew/n/bl/n/2020/04/2n/owned/n/n/nwl/n/n/AP/441734/n>

²⁶ We refer to cash transfer modalities which, by this time, could be deployed (assuming that agencies have been able to get their targeting parameters coordinated). We note, however, that if, in the aftermath, households are hesitant to let go of cash and do not spend as much (see <https://www.nytimes.com/2020/04/09/business/economy/coronavirus-china-economy-stimulus.html?referringSource=articleShare>), or if goods that households want to purchase are unavailable (S. Daway-Ducanes, comments), then in-kind transfers in the form of food and supplies, equivalent in value to the intended cash grants, would have a greater effect on output.

²⁷ Such facilities would have to be carefully designed. For instance, we make the fine distinction between liquidity relief to firms during a lockdown and liquidity facilities or stimulus to firms during a recession, which would have different rationales and take different forms. The former could be understood as compensation for a state-induced liquidity crunch (<https://www.philstar.com/opinion/2020/03/25/2003244/smes-are-ticking-time-bomb>), since the lockdown effectively ‘stopped the clock’ on the sales of firms but did not stop the clock on their fixed costs, and would

Build-Build program is also waiting in the wings. Presumably, it will still be the centrepiece of government's expenditure program.

It is not clear however whether the economy can, or should, simply start where it left off and assume that the sustainable development goals set prior to the pandemic can be achieved using the same strategies and instruments. For the crisis laid bare weaknesses not only in the country's public health system but also in its fabrication and logistics capabilities, its R&D systems, its social safety nets, its financial system, and the capacity for foresight and implementation among its public agencies, including a lack of understanding of the moving parts of supply chains and the MSMEs that populate these chains—which together amount to serious lack of economic resilience in an era of shocks (like global contagions) that do not have a financial origin. Evidently, a re-evaluation of pre-pandemic development policies and priorities is warranted.

The weaknesses revealed by the crisis offer elements of a resilience expenditure program that can begin immediately, even as development policies are being re-assessed. To provide some examples, massive infusions to ramp up and modernize national and local public health capacities could begin, including establishing a Philippine Center for Disease Control, with sub-national centers and training capacities; modernizing the Bureau of Quarantine; fast-tracking the implementation of a single electronic medical record system for the whole country; fabricating/stockpiling important lifesaving equipment and supplies; offering incentive packages for all hospitals to establish separate infection control units; and the like.²⁸ Expenditures to boost the resilience of food and other supply chains can also begin immediately and include investments to augment production/fabrication capacities; upgrade warehousing, transport and distribution; support research and technology development; incentivize technology adoption by MSMEs and upskilling of workers, moving both up the value chain, and so forth. For this purpose, government would necessarily work with the private sector; both national and local governments would be involved. As the crisis demonstrated, local governments have a large stake in upgrading supply chains.

The point is, if equity, resilience and sustainable development are to remain at the core of the country's vision for itself, observations of how these systems performed must be taken into account in the design of economic policy and spending programs moving forward. To ignore these and assume that the economy can simply start where it left off, would be to squander a unique opportunity to reset the country on a potentially better development path.

imply very short term, 'forgivable' loans (i.e. grants) reckoned to payroll costs, forgivable if staff/payroll levels are maintained for the period of the forced shutdown (see programs of the Small Business Association of the US. Or Paloyo et. al., 2020 at <https://www.econ.upd.edu.ph/dp/index.php/dp/article/view/1525>, who list a number of other options). The latter would be designed to help firms navigate the downturn, which could include adopting new technologies and business models. Typically, if labor is displaced, unemployment insurance would be available.

²⁸ Dr. Susan Mercado, 2020, unpublished. See also Panelo et. al., 2017.

THE QUESTION OF FUNDING: CHALLENGES TO MONETARY AND FISCAL POLICY

The forced shutdown of economic activity brought on by the COVID-19 crisis is a shock that did not emanate from excesses in the financial sector, widespread mismanagement of private enterprises, or profligate spending in the public and private sectors. COVID-19 is a public health crisis. Thus, there are limits to what monetary and fiscal policy can do to directly contribute to its resolution.

That said, however, it is obvious that the crisis calls for a response from government for massive financing requirements of initiatives to address the economic effects of the lockdown. The unprecedented scale of the problems in health, work, and incomes created by the pandemic also dictate that the government's macroeconomic tools must themselves set unconventional goals and be used in unconventional ways.

The aim of the fiscal effort is to provision the health system, to dispense food and cash for social amelioration, offer liquidity lifelines to distressed firms, and begin to invest in boosting the resilience of systems revealed to be weak by the crisis. **To accomplish this task, the government must set aside—for the moment, anyway—its old paradigm of spending to stimulate the economy, and then taxing to catch up with its deficit targets.**

Rather, during the lockdown, the government must spend on a massive social protection scheme so that the economy can remain at a standstill. Stimulus spending is needed in the aftermath but for such spending to be a stimulus means that taxes intended to recoup tax revenues foregone during the period of forced contraction should not be imposed. Hence, the government's deficit target will likely be breached.

Monetary policy on the other hand needs to be more complementary to and better coordinated with fiscal policy rather than independent of it, at it would be in normal times. But these are not normal times and the central bank's ability to 'print' money enables it to take on a crucial role and act as a 'lender of last resort' during a crisis.²⁹ The central bank must realize, as it gradually seems to³⁰, that it can and must support the massive

²⁹ The central bank's monopoly power to 'print' money is its most important power. This ability to create money out of thin air allows the central bank to acquire real economic resources at practically no cost. In normal times, a central bank tasked with ensuring a stable rate of inflation would not ordinarily resort to printing money through either or both direct infusions of reserves in bank balance sheets and monetizing government debt. The latter tends to feed the inflation bias inherent in fiscal policy intended to boost output. An independent monetary policy can prevent this kind of 'fiscal dominance' to meet its inflation target by forcing some degree of discipline on fiscal policy in limiting the size of the debt/GDP ratio in normal times. However, in a contracted economy (such as during this lockdown and its immediate aftermath), inflation is not a pressing problem.

³⁰ For instance, the March 24 announcement of the BSP to lend P300 billion to the National Government, through the purchase of bonds issued by the Treasury, is effectively printing money in support of its fight

government effort through monetary accommodation. It must stand ready to provide needed liquidity to banks to help borrowers who are unable to service their debts owing to the forced contraction, and prevent a crisis in the real sector from spilling over to the financial sector that would imperil financial stability.

Thus, while the economy is on lockdown and in the immediate aftermath of its lifting, when demand will likely remain muted, the central bank should do “whatever it takes” to ensure that the program of expenditures laid out by government is provided the necessary financial resources. In this way, government can hold up its end of the social contract, at a time also when there is expected to be large tax revenue shortfalls. Taxation as a source of government revenue is inferior to seigniorage revenue from the issuance of money when the economy is stopped dead in its tracks.

There have been suggestions for the central bank to extend low-cost loans through banks— in exchange, perhaps, for maintaining workers on furlough for the duration of the lockdown and immediately after - with the government providing insurance of a certain amount for these. Just as it is difficult to precisely target recipients of social safety nets, so it is difficult as well to identify specific firms and industries or sectors to extend loans to or provide other forms of support (e.g., moratorium on or condonation of loans payments). Ideally, the parameters and criteria for targeted financial bailouts of firms need to be specified, given problems of moral hazard that may arise. **However, a lockdown period and its immediate aftermath may not be the time to focus on threshing out these problems as there may be more gains to assisting firms through ensuring adequate liquidity in a situation of market failure; simple parameters may therefore suffice.**³¹ Interventions intended to infuse liquidity in the post-lockdown economy may require less forbearance and more thought, however. Potential moral hazard problems that arise should not be completely set aside and need to be addressed by appropriate macroprudential regulations so as not to imperil financial stability.

Just as the COVID-19 crisis has called into question the resilience of systems in the real sector, the current crisis affords an opportunity to re-think efforts to create an even more resilient financial system that can recognize and assess ‘tail’ risks, provision as best it can, and hopefully, withstand such shocks. Although banks are better capitalized today than they were prior to the Global Financial Crisis, it remains to be seen whether better capitalization of banks and the use of macro prudential regulations will suffice to allow banks to withstand the fallout from a crisis of a non-financial origin and the medicine of forced economic contraction.

against the coronavirus pandemic. See <https://business.inquirer.net/293332/bsp-to-lend-govt-p-300b-to-fight-virus-pandemic> .

³¹ For instance, assistance may be directed at MSMEs (with 199 employees or less) rather than large firms, and be time-bound, to apply to the period of the lockdown and a fixed, specified period (say two months) following its lifting.

More importantly, the current crisis focuses our efforts on trying to find ways to harness the financial system to better support government's efforts to address the economic effects of a lockdown response to a public health crisis. It has exposed gaps in the overall approach of having a coherent financial response plan in place and ready for deployment during an emergency of this nature. In a country where there is a large unbanked sector of the populace as well as a large informal labor sector, finding efficient modalities of channeling loans and social payments to targeted households and firms, for example, is not an easy task.³² It also questions fundamental assumptions about whether and how banks can be the best conduits of government support to the private sector through the provision of bank loans at a time of forced economic contraction.

Proposals have been made to lift some or all of the lockdown restrictions immediately in view of the economic costs they impose. We completely understand this concern. But it is our position that lifting restrictions before the health system is adequately provisioned and before the breadth of the virus transmission is better understood will only impose greater economic costs in terms of human health and in future economic fits and starts, as the society then gambles with whether it has successfully controlled the virus or must confront yet another wave of infection.

The economy is ultimately run by and for people, and a working economy matters only if it serves the greatest good. Alongside provisioning the health system, it is government's greatest task to make sure people do not go hungry during this lockdown. But making sure lessons are taken to heart – lessons on the value of resilience and the grim consequences of its absence – will be the most important task beyond it.

³² All this is also happening in a more complicated context of a massive supply shock that has forced output contraction from the response to COVID-19. The usual policy monetary and fiscal policy tools are demand-side tools used to neutralize cyclical deviations from trend output, not a situation in which potential output itself may have shifted down.