No time to waste: A pandemic financial recovery plan we need to implement today

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MANILA, Philippines — Most countries hit by the coronavirus are now agonizing over what they can do to prevent their economies from sliding into a deep and long recession. There is almost total disagreement from one country to the next.

In the Philippines the debate is just beginning, but we do not have time for debate. We should instead make some quick decisions. Better to implement an imperfect strategy immediately while the patient, so to speak, is still alive, than a perfect plan after he dies.

First principle in a country like ours: The more complicated the financial rescue plan, the more likely that 90 percent of the outlay will wind up in the usual pockets.

Second principle: Don't just throw money at the crisis. We need to decide what result we are targeting. We need to begin with an end in mind.

What are other countries doing? The US has a $2 trillion recovery plan, whose first stage is simply giving money to citizens. This won't work in the Philippines because the money will just disappear. Spain and Italy want to issue "corona-bonds," but haven't yet specified what to do with the money.

The simplest – and therefore best - plan I have seen is Denmark's. It aims to preserve jobs by reimbursing every business 75 percent of its salary expense for the next several months. Instead of lay-offs, most businesses will choose to come up with the 25 percen balance and keep their people employed. Focusing on employment will shore up consumer spending, supporting the entire economy. Thus, in addition to having the most direct and immediate impact on social welfare, this employment-first approach will also produce lasting spillover benefits in terms of business solvency and consumer confidence.

The Danish approach is also easy to administer because past payroll taxes are easily ascertainable and not debatable.

The scheme's fairness is self-evident because the same persons who paid taxes in the past would be the ones getting their jobs preserved.

And, best of all, it can be implemented NOW.

The UK has already signaled it will imitate the Danish scheme, reimbursing 80 percent.

The Danish approach makes the most sense for a country like ours, in which fewer than five percent of adults are entrepreneurs or any kind of investor, vs. 95 percent who work for a salary. A rescue package aimed at business or the capital markets per se (easy loans, higher liquidity, tax reductions) would leave the vast majority of Filipinos feeling left out. Not only left out, but unemployed and hungry. That's not a good recipe.

Politically, preservation of employment is the clear and in fact only way forward in our country's current situation.

With government subsidizing employment temporarily, the companies would have an incentive to operate rather than shut down. In turn, the general public doesn't become hungry, restive, or desperate, and government officials get 100 percent political bang for every buck of financial relief. Congressmen and those in the administration will look like heroes.

The only weakness of the salary-reimbursement scheme in the Philippine context is it doesn't account for those in the undocumented economy (e.g., street vendors). We will need a separate and parallel effort to help these sectors.

But the Danish model can be done almost immediately without any need for long-drawn negotiations or complex planning. There is no need for long discussions about which sectors to save first, or what size company should bear more pain. Only a few things will need to be decided by our policy-makers.

First, eligibility. The benchmark for eligibility should be those employees who received a full monthly salary (or at least 20 days' pay if on a daily wage) during September, October, and November 2019. These persons, if still employed by the same company now, should be covered, at the salary level actually evidenced in those months. This provision is simply to avoid that sneaky businesses "hire" ghost staff and pocket the subsidy.

As for the salary level covered, I suggest P20,000 a month. Every eligible employee would be covered 75 percent, meaning P15,000 per month subsidy at the limit. The average subsidy might work out to P10,000. This would save the vast majority of jobs and keep most of the population from outright hunger.

Second, how many months should the subsidy run? I suggest April 1 to July 31, four months in all. This will hopefully be enough time to re-start most sectors of the economy, without the enormous dysfunctionality of mass layoffs. If things were still bad in July, we could take stock and reconsider an extension.

Making some quick educated guesses, this rescue would cost about $35 billion (42 million employed Filipinos, times average P10,000 per month, times four months).

Third: How to pay? The Philippines is in the fortunate position that our national debt is only about $135 billion, 80 percent of GDP. This is much lower than the widely accepted "prudent" level of 130 percent of GDP. We have plenty of elbow room. A few months ago our leaders were hell-bent on spending $35 billion for a one-line Metro Manila subway that would do virtually nothing to help traffic, indeed, only make it worse. We can surely spend this amount to save millions of jobs and indirectly our small and medium enterprises, while preserving purchasing power to keep supporting big business.

Since Filipinos have shown time and again that we can't agree and we can't plan, we should follow a simple strategy like the Danes, one that minimizes discussion, confusion, and delay. One. Two. Three. That's all we need to decide. Don't like 75 percent? Make it 60 percent. Or 80 percent.

Just decide. Get on with it already, before unemployment – and the attendant social unrest - escalates beyond control.

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