



# POLICY BRIEF

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## Strategic Dimensions of Social Assistance in Response to COVID-19

Noel P. de Guzman

The one thing on the mind of Filipinos nowadays is how long will the COVID-19 crisis last. The government must realize that it is playing some sort of game with its citizens, a game involving both coercion and cooperation. The strategy of the government, a mixture of forced lockdown and appeals for voluntary social distancing, is meant to lessen the rate of contagion of COVID-19. This is understandable given that according to the well-known Kermack-McKendrick mathematical theory of disease epidemics, the rate of spread of an infectious disease is equal to the ratio of the infection rate to the recovery rate of those already infected. Meanwhile, the strategy of the citizenry is whether to cooperate or not with the government directives given their own personal objectives and constraints. In the early phase of the epidemic and the initial shock, securing cooperation from the citizenry seems to be working, save for a few miscreants. But as the crisis lingers on one can't help but speculate about a possible tipping point wherein the citizenry suddenly switches to the noncooperative strategy, the possibility of wide-scale social unrest.

The possibility of social unrest is not only driven by economic considerations. It is also a matter of social psychology. A case in point is the phenomenon of *rational fatalism*. This is a type of behavioral response to unusually stressful situations wherein people rationally take more risks when they feel that everything around them is beyond their control. In other words, it can be likened to a weakly dominant strategy. In choosing the risky action, there is nothing left to lose but there is a potential gain. The prolonged duration of the pandemic can potentially trigger this kind of behavioral response and this is the very danger that the government faces.

Of course, as many quarters of our society have already correctly suggested, the answer to this problem is immediate social protection for the poorest and most vulnerable sectors of society. The most visible of these social protection initiatives is the delivery of food rations to the poorest households to ensure social distancing. However, for this strategy to prevent rational fatalism and social unrest, the branch of economics called game theory reminds us that establishing credibility through commitment devices is crucial. Only if the government can assure the public that such initiatives will be sustained for the entire duration of the health crisis will the rational equilibrium response of the citizens coincide with the socially optimal outcome hoped for by the government. In other words, it must be a Nash equilibrium for the citizens to cooperate. A firm commitment by the government to sustain social protection until the end is needed to prevent the game from unraveling backwards. If people expect that social assistance will eventually stop even before the end of the crisis, then they will consider this game of "social assistance in exchange for your cooperation" as a finitely repeated game. The outcome of such a situation is the withholding of cooperation from the side of the citizenry. However, if the commitment of the government is perceived as credible, then there is a very high chance that cooperation will be sustained. Government credibility is a much-valued resource in this uncertain time which means that

those who hold political power in our society must demonstrate large personal sacrifices to convince an increasingly skeptical public.

At this point, the total value of social assistance needed for the entire duration of the crisis is a big question mark. However, for purposes of comparison, in the publication of the World Bank entitled *Making Growth Work for the Poor: A Poverty Assessment for the Philippines* published in 2018, it distinguishes *asset loss* from *wellbeing loss* arising from natural disasters. Citing the case of a “once in 25 years disaster” (like typhoon Ondoy), the estimated asset loss of the poorest quintile in Metro Manila is 2700 pesos per capita while the corresponding figure for the wealthiest quintile is 16,600 pesos. While the asset loss is expectedly lower for the poor than the rich because the poor have substantially less assets, this study also mentions that the wellbeing loss for the poor is significantly higher compared to the rich. The figure for wellbeing loss is 10,200 pesos per capita for the poor which is almost four times the value of its asset loss, while the corresponding figure for the rich is 4600 pesos which is only about one-third of its asset loss. With the unprecedented ferocity of COVID-19 and its still uncertain conclusion, one would imagine that its differential economic impact on the rich versus the poor will be so much bigger and the needed social assistance package will most definitely require more innovative ways of securing funds.

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