



POLICY BRIEF

No. 2020-13 (April 27, 2020)

Ushering in the “New Normal”: Public Investment in a Pandemic Economy

Jerik Cruz¹ and Marjorie Muyrong²

“In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean will be flat again.”

- John Maynard Keynes, “A Tract on Monetary Reform”, 1923

In 1923, the British economist John Maynard Keynes was not talking about flattening the curve of COVID-19—he was referring to tendencies among economists to analyze short-run scenarios using long-run models. Yet today, with the Philippines caught between its worst public health crisis in history, and the specter of this “lockdown recession”, how to balance the immediate and longer-run needs of a pandemic-stricken economy is becoming one of the most pressing issues facing the country’s policymakers.

In the past weeks, much has been said about the need for government intervention to address the current health crisis and revive the stalled economy. Confronting a global pandemic requires not only stronger government measures to enforce social distancing, but also the [rapid reallocation](#) of productive resources from non-essential consumer goods to healthcare and social services. But with the International Monetary Fund now underscoring the economic risks that the pandemic will impose [until 2021](#), what areas should the government prioritize in its longer-term recovery package?

Recovery should combine a focus on essential sectors with pandemic resilience. With increased numbers of Filipinos especially among the poor reporting [hunger and income shortages](#), and with most MSMEs now [dependent on emergency funds](#), the costs of Enhanced Community Quarantine (ECQ) measures are reaching their boiling point. Meanwhile, [new infection waves](#) in Asian countries that have previously curbed the COVID-19 curve suggest that a resumption of ‘normal’ economic activity will remain infeasible until the medium term—and, in some respects, permanently. In this context, a forward-looking recovery package for the Philippine economy, among others, faces two priorities:

- **Identifying essential sectors:** due to the economic strain of the ECQ and gaps in the implementation of the government’s emergency support efforts, essential sectors for household survival and the functioning of the economy must eventually be reopened— at least partially. These essential sectors can be identified by examining their past performance in terms of job creation, their contribution to households’ consumption, and the strength of their forward linkages (i.e. their importance in providing inputs to all other economic sectors).
- **Contributing to pandemic response and resilience:** because of the protracted health impacts of coronavirus, and global shortages in supplies for combatting the pandemic, local production in different

¹ Lecturer at the Department of Economics, Ateneo de Manila University, and incoming PhD student at the Massachusetts Institute of Technology

² Instructor (on-leave) at the Department of Economics, Ateneo de Manila University, and PhD student at La Trobe University

sectors should be reallocated for supplying the Philippines' COVID-19 response— possibly until 2021. In tandem with this, strategic investments should also be made to foster socioeconomic resilience for the present pandemic (and future ones). Indeed, various public health experts have argued that climate change and environmental degradation will [intensify the risk of epidemics](#) in infectious diseases in upcoming decades.

Based on these two criteria, we identify in Table 1 some sectors for prioritization in lockdown easing and adaptation for COVID-19 efforts. Apart from health services, our selected sectors emphasize the need to ensure food supply for households (e.g. agriculture, food processing), and services needed to facilitate distribution of these supplies and transactions (e.g. land transport, wholesale and retail trade, logistics, fuel products, financial transactions). The forward linkages of most of these sectors are usually above the average (2.04); collectively, they encompass approximately one-third (36.4 percent) of the country's workforce, and more than half (51.7 percent) of average household consumption.

Table 1. Priority Sectors for Economic Recovery and Adaptation

Sector	Why essential?	Contribution to pandemic response/resilience?	Employment Share (2018)	Consumption Share (2015)	Forward Linkages (2012)
Agriculture	Household food supply and inputs for food processing	Risk of disruption and restrictions in global food supply chains	24.0%	22.6%	Other agri activities: 1.98 Corn: 1.91 Palay: 1.89 Fisheries: 1.75 Poultry: 1.64 Livestock: 1.39
Food processing	Household food supply		2.3%	19.7%	8.06
Wholesale and retail trade	Distribution of goods and supplies via domestic trade		19.4%*	n/a	15.68*
Land transport	Functioning of supply chains and mobility of workers		6.6%	3.7%	3.70
Financial Activities (inc. bank, non-bank and insurance)	Access to basic financial transactions and services	Insurance coverage during the pandemic	1.3%	2.1%	Non-bank: 3.24 Insurance: 2.31 Bank: 2.29
Petroleum and other fuel products	Fuel for transport, power, and for other production operations		0.02%	1.6%	6.95
Logistics (Warehousing and Support Services for Transportation)	Functioning of supply chains		0.9%	n/a	2.60
Health Services	COVID-19 treatment and other illnesses	Continuing impacts of pandemic until 2021	1.3%	2.0%	Health and Social Work: 1.20

Textile manufacturing / Wearing Apparel		Production of Protective Physical Equipment (PPE)	1.3%	1.7%	Textiles: 1.70 Wearing apparel: 1.28
Pharmaceuticals		Medicine manufacturing for COVID-19 and non-COVID purposes	0.1%	1.7%	1.35
Manufacturing of ventilators and medical equipment		Equipment manufacturing for COVID-19 purposes	0.4%	n/a	Misc. manufactures: 1.23
Chemicals		Production of sanitizers, and other chemical products for COVID-19 response	0.2%	n/a	Chemical products: 3.20
Construction		Build, Build, Build can be recalibrated to jointly strengthen digital and social infrastructure	9.4%	n/a	2.35

Source: Employment shares are authors' calculations from 2018 Labor Force Survey; consumption shares from 2015 Family Income and Expenditure Survey, and forward linkages from 2012 Input-Output Table

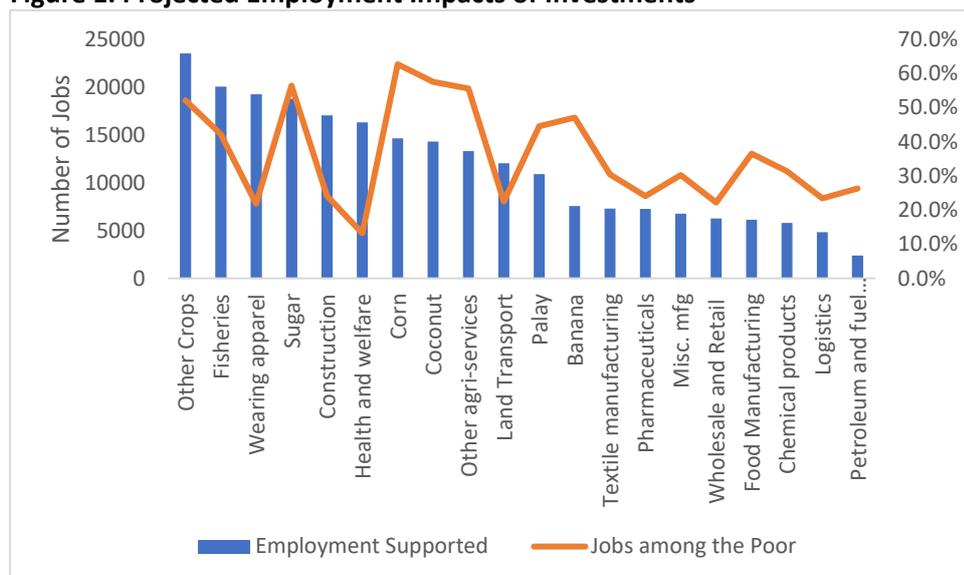
* - with Maintenance and Repair of Motor Vehicles

Echoing previous calls for [“Healthcare Keynesianism”](#), we likewise underscore the need to funnel investments into sectors vital for mass-producing COVID-19 supplies. These include sectors such as textiles, pharmaceuticals, medical equipment, and chemical manufacturing, which have operations that can be repurposed to meet immediate and medium-term demand for coronavirus-related goods and equipment. In the same vein, construction operations can be selectively resumed to build infrastructure for strengthening the country's longer-term pandemic resilience (e.g. social and digital infrastructure). Together, these sectors span roughly 11.4 percent of employed persons in the Philippines, and additional 3.4 percent share of households' consumption.

Estimating the employment impacts of recovery investments. As of writing, the Duterte administration's economic development cluster has yet to formulate the 4th pillar (i.e. its economic recovery plan) of its [socioeconomic strategy against COVID-19](#). Yet lawmakers at the House of Representatives have already proposed [Php1.65-trillion](#), [Php 1-trillion](#), and [Php 370-billion](#) packages for supporting the long-term recovery of the Philippine economy, which have recommended, among others, expanded safety nets for vulnerable workers and households; zero-interest/negative-interest loans, grants and subsidies for business resilience; as well as bail-outs for distressed sectors and industries.

Still absent in current proposals of a long-term recovery package, however, is the necessity of strategic public investments for regenerating employment and demand, while augmenting the country's resilience against future pandemics and other long-term risks. At most, officials of the [DOF](#) and [NEDA](#) have underscored the role of the Build, Build, Build program in the government's 'bounce-back' efforts, though details of how the program will be realigned the light of COVID-19 remain forthcoming.

Figure 1. Projected Employment Impacts of Investments



Source: Authors' calculations, using 2012 Input-Output Tables

Figure 1 shows the results of our simulation on the employment impact of additional investments using Leontief input-output multiplier analysis among the sectors in Table 1. Specifically, the projections represent the economy-wide job impacts of a PhP 1-billion infusion of investment in a single sector, all other factors held equal. While our estimates provide a basis for comparison of different sectors' potential for supporting jobs, we caution against a literal interpretation of the numbers as a locked-down environment is likely to have dampened multiplier effects across economic sectors.

Despite these caveats, the results in Figure 1 allows us to establish the following trends:

- **Sectors with most job-supporting potential:** construction, health services, land transportation, and wearing apparel are among the sectors where investments could have very pronounced catalytic effects on employment— *yet agricultural sectors consistently register as much, if not more job-generating potential than others.* Indeed, the sectors which featured the most such effects were 'other agricultural crops' and 'fisheries.'
- **Sectors with the most impact on the poor:** agriculture especially has a significant catalytic effect on jobs where the poor are located— *but sectors which also display relatively higher spillover impacts on the poor are in industry, such as food manufacturing, textiles, chemical products, and miscellaneous manufactures.*

To simulate the impacts of such investments at the scale of a COVID-19 recovery package, we used the same methods to project the economic impacts of injecting PhP 1-trillion into the healthcare sector (i.e. a "Healthcare Keynesianism" scenario) or the construction sector (i.e. Build, Build, Build spending). Table 2 presents the outcomes of this analysis. As with Figure 1, we emphasize that the numbers are mainly illustrative, given the disruptions posed by the pandemic and ECQ measures.

Table 2. Estimated Output and Job Impacts of Health or Construction Investments

Top 20 Sectors		Output Increase (million PhP)	% of 2018 Output	Top 20 Sectors	Output Increase (million PhP)	% of 2018 Output
	<i>Economy</i>	<i>1,908,263</i>	<i>6.0%</i>	<i>Economy</i>	<i>2,408,098</i>	<i>7.6%</i>
1	Health Services	1,006,580	339%	Construction	1,014,334	68%
2	Wholesale and retail trade	217,606	5%	Wholesale and retail trade	245,051	5%

3	Other Service Activities, nec	86,909	8%	Metallic Mining	166,516	123%
4	Land transport	25,956	7%	Basic metal industries	116,378	31%
5	Construction	18,784	1%	Other mining and quarrying, nec	99,953	75%
6	Corn	6,455	6%	Food manufactures	92,093	2%
7	Administrative and Support Service Activities	16,126	5%	Non-metallic mineral products	90,265	34%
8	Palay	6,985	42%	Petroleum and other fuel products	86,940	11%
9	Agricultural activities and services	4,787	5%	Non-bank Financial Intermediation	50,412	7%
10	Public Administration	7,557	3%	Poultry	33,700	12%
11	Other mining and quarrying, nec	20,477	3%	Electricity	30,785	3%
12	Education	10,254	3%	Other Service Activities, nec	27,716	3%
13	Basic pharmaceutical products	30,194	20%	Computer, Electronic and Optical products	27,203	2%
14	Food manufactures	53,639	15%	Fabricated metal products	26,979	21%
15	Warehousing	6,846	1%	Chemical and chemical products	23,850	6%
16	Coconut	2,206	1%	Administrative and Support Service Activities	20,288	3%
17	Communication	28,046	4%	Land transport	20,008	3%
18	Professional, Scientific and Technical Activities	7,870	2%	Insurance and activities auxiliary to financial intermediation	18,519	3%
19	Fishery	3,426	1%	Education	16,340	2%
20	Other crops	2,180	2%	Banking Institutions	16,068	2%

Source: Authors' calculations using 2012 Input-Output Tables

Notwithstanding these issues, Table 2 indicates that pump-priming the healthcare or construction sectors could generate an additional output of PhP 908-billion or PhP 1.408-trillion of output respectively, while spurring economic activity equivalent to 6.0 percent and 7.6 percent of 2018 GDP. *While the construction sector may have larger spillover effects, we take note that investments in the healthcare sector have more marked multiplier effects in other essential sectors (e.g. land transport, agriculture, food), as well as industries which are essential for the Philippines' COVID-19 response (e.g. pharmaceuticals).* Alongside BBB, these figures attest to the potential of public investment in the health sector to foster synergy across essential and frontline sectors for the “new normal” of the post-pandemic economy.

Based on these trends, we advance the following recommendations for the government's long-term recovery efforts:

- **Invest beyond BBB:** for its “bounce back” program, government should explore the possibility of complementing BBB with a ramped-up public investment program for health and agriculture. Apart from their role in providing essential goods and services, agriculture has high job-supporting potential, especially among the poor, while health investments appear to have spillover effects which are especially complementary for sustaining other essential sectors.

- **Adapt BBB:** In addition to developing transport infrastructure, BBB can be adapted for strengthening the country's pandemic resilience, by targeting the development of social, digital, and rural infrastructure. Digital infrastructure will be critical to minimizing inequalities in access to digital technologies/opportunities, while rural infrastructure will be necessary to maximize the country's agricultural productivity and food supply in an uncertain global environment.
- **Invest in capacity of pandemic-response sectors:** despite laudable efforts to reorient different sectors for COVID-19 purposes, continuing [local and global shortages with these supplies and equipment](#) have persisted. Beyond coordinating efforts by private firms to manufacture such supplies, government should consider complementary investments and financing to these sectors to expand their capacity to supply the country's pandemic response until 2021. The wearing apparel sector appears to be particularly promising in terms of job-creating potential

DISCLAIMER: The contents or opinions expressed in this brief are the author(s) sole responsibility and do not necessarily reflect the views of ADMU Economics Department and/or ACERD.