SUSTAINABLE SHARED GROWTH

POLICY BRIEF #1

PANDEMICS -- DEEPEN THE CONVERSATION

Association for Good Government
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Sustainable shared growth is a research and advocacy of the Sekiguchi Global Research Association / Atsumi International Foundation that is shared with the Association for Good Government. It refers to the three economic goals of efficiency, equity, and environmental friendliness.

"DISASTER VULNERABILITY AND RESILIENCY: SUSTAINABLE SHARED GROWTH PRINCIPLES FROM A TIME - SPACE - UNIVERSE CONTINUUM" by Max Maquito[1] and Joffre Balce[2]

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Summary Unshared growth, i.e., growth without improvement in the distribution or income or wealth, makes us more vulnerable and less resilient towards natural disasters. It is of prime importance, therefore, that we build a society that leverages the principles of sustainable shared growth so that our policies span across generations and national boundaries, flatten the Kuznets curve of inequality, and further promote decentralization. It will call for innovative and even experimental approaches tempered not by a capricious obsession with theory but glimpses of success in history that can be used as components of an alternative universe. In such an alternative universe, we are likely to be spared the enormous hardships that we are now experiencing as our nation, nay, the world struggles to unite in its fight against an insidious and deadly enemy.

With the COVID-19 pandemic, there has been much talk on how it is having a skewed adverse effect on the poorer segments of the economy. The government, private sector, civil society, and even the more privileged have stepped in to provide various ways to soften the blow. This is where on-going efforts to balance the principles of solidarity and subsidiarity would be crucial in coping with this crisis.

In this policy brief, however, we briefly distance ourselves from the raging battles to assess the war. We take sustainable shared growth, as our criteria of development.

Sustainable (Eco[3]). We should acknowledge that the pandemic is first and foremost a natural (environmental) disaster. Basically two causes of the pandemic have been proffered. One is the predilection of the Chinese for exotic meat (WHO 2020), and another is a biological weapon conspiracy theory involving both China and the US. As of this writing, the latter theory appears to have been debunked by a peer-reviewed paper arguing that the coronavirus could only be the product of natural evolution (Scripps 2020).

Whichever theory is true, it shows that the distrust between China and the US could also be found in the bioweapons arena, despite being signatories to the BIological Weapons Convention that outlaws the direct or indirect involvement in the production, stockpiling, acquisition, retention, and production of biological weapons. Such distrust has unfortunately undermined areas of collaboration between the two superpowers (Huang 2020). It is also a distrust that is shared by not a few in

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[3] We use this conveniently short term, which in Japanese, refers to environmentally-friendly.

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the Philippines. Whichever theory is true, it shows humanity's unbridled appetite to bend nature to its will. This time, nature seems to be fighting back on a massive scale, calling for widespread collaboration to counter it.

Shared Growth (Efficiency + Equity). The following have been identified as factors affecting the risk associated with disasters: the nature of the disaster; the exposure to the disaster; and the vulnerability of the population exposed to the disaster, which is more of a pre-disaster concept. Resiliency, on the other hand, pertains to the capacity to minimize the adverse impact of a disaster when it happens, or the ability to quickly recover, and is more of a post-disaster concept. Shared growth, i.e., higher levels of development and equity in income/wealth distribution, figures prominently in both economic vulnerability and resiliency. Vulnerability (Resiliency) has been shown to decrease (increase) with the level of development and increase (decrease) with the level of inequality in income and wealth distribution (Noy and Yonson 2018). In this sense, developing countries with inequitable distribution of income/wealth are twice cursed.

These countries could be thrice cursed given that the above cited disaster-related studies cover only localized ones such as earthquakes and typhoons. The COViD-19 pandemic that qualifies as a disaster, by definition, would assault a bigger area -- the whole world. Hence, its impact would be that more devastating, its damage lasting, making vulnerability and resiliency important policy issues going forward.

A TIme-Space-Universe Perspective. Physicists have described our world to basically have three dimensions: time, space, and universe. This third dimension is our non-physicist way of summarizing what physicists have started to label as alternate or parallel universes. We take this perspective to organize and cull different economic principles that may be of further relevance to pandemic-related policy making, based on the premise that shared growth contributes to decreasing the vulnerability and increasing the resiliency to natural disasters. These principles are summarized in the table below.

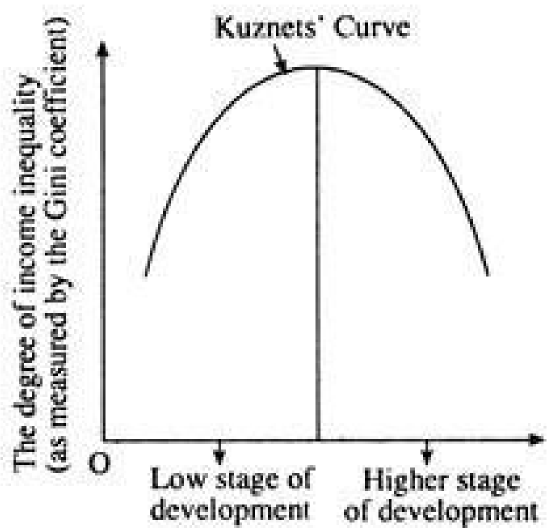
Dimension	Sustainable	Shared Growth
Time	Across generations	Flattening the Kuznets curve
Space	Across borders	Decentralization
Universe	*Across Universes: Efficiency + Equity + Eco*	

Sustainable and Time. From environmental economics, two principles could be of relevance here. One principle pertains to time, and highlights the principle of an intergenerational allocation of natural resources. Key to this principle is the time horizon of policy makers (short- or long-term). This principle conforms with the popular definition of sustainable development as a type of development that "meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development 1987).

Sustainable and Space. The second principle pertains to space, and highlights the increasingly cross-border nature of environmental problems. Climate change, for instance, does not only affect the people of the highest GreenHouse Gas-emitting country.

Shared Growth and Time. An economic principle related to the time aspect of shared growth is the inverted Kuznets curve of inequality, as shown below. As a country develops, inequality worsens before improving. While controversial, there is evidence that the Kuznets curve applies to the case of the Philippines (Ota 2017).

Shared Growth and Space. An overarching principle of shared growth is decentralization. This principle refers to the dispersal of growth away from traditional growth centers, through a bottom-up approach to decision-making. In doing so, decentralization contributes to the shrinking of disparities among Local Government Units (LGUs). Moreover, based on social network theory, the lessening of dependence on traditional growth centers would



Source: (Anushree n.d.)

also make a country less vulnerable to disasters that tend to cripple traditional growth centers or hubs.

Sustainable Shared Growth and Universe.

In the first half of this policy brief, we have argued that: (a) the on-going pandemic is firstly a natural disaster; (b) the adverse economic impact on society would be greater if the vulnerability were higher and the resiliency of the society exposed were lower; and (c) vulnerability would be higher and resiliency lower if the level of development were lower and the inequality were higher. These premises explain why the prospects for the Philippines, which is a developing country with relatively high inequality in distribution of income and wealth, are not really as bright as desired.

Stating this, of course, does not mean to denigrate the heroic efforts of Filipinos to cope with this crisis. Rather, it proposes to build an alternate universe, where sustainable shared growth principles are effectively applied and the economic impact on us of a pandemic would be significantly lower than at present. It will be a universe where the infection curve has been quickly flattened, deaths and economic disruption diminished, the threat of social hysteria or unrest dampened, and community quarantines are brief, if at all implemented.

From the second half of this policy brief, we cull some principles of sustainable shared growth which could make this alternative universe come true.

1. **Long-Term Provision of a Pandemic Funding**

A pandemic-strong environment could be considered as a natural resource enhanced by human effort and sustained across generations. Funding for pandemic preparedness, however, has a strong tendency to be cyclical: the resources only come in when there is a crisis, but recede once the crisis has passed. This leads to an estimated financing gap of US$3.5 billion annually for pandemic preparedness. This pales in comparison to an estimated US$500 billion per year of losses due to a pandemic that has not been prepared for (Yamey et al. 2020).

Pandemic bonds constitute one market solution to this funding malaise. A pioneering attempt of this was the issuance of the catastrophe (pandemic) bonds by the International Bank for Reconstruction and Development (IBRD, the lending arm of the World Bank) in June 2017, which was able to raise US$320 million. The pandemic bonds received a lot of flak for its stringent conditions in utilizing the funds (Szymanski 2020). Nevertheless, as a proof of concept, the IBRD pandemic bonds have succeeded in showing their potential for coping with pandemic risks. Moreover, pandemic funds allow for: 1. portfolio diversification; 2. market assessment of pandemic risk; 3. automatic triggering of investments to mitigate pandemic risks (Bris and Cantale 2020).

2. **Collaboration on Health-Related Global Public Goods**

By its very nature, a pandemic knows no borders. A global threat requires a <u>coordinated</u> global response. However, governments are reluctant to supply public goods due to the "free rider" problem. A public institution with taxation powers could act as a remedy. Given its central and legitimate role in global health affairs, the World Health Organization (WHO) is in the best position to act as an overarching governance mechanism. Despite this, the WHO suffers from a lack of freely usable funds as country contributions dwindled and voluntary contributions are increasingly earmarked (reserved for designated uses) by the donors, resulting in a serious mismatch between WHO priorities and budget (Yamey et al. 2019).

The global taxation referred to above is the contribution of member countries of the WHO. This "taxation" mechanism is already in place and is of course commensurate to the ability of each member country to contribute. The problem, however, is that this portion of WHO's budget has been declining.

As with the case of rice security, the Philippines simply cannot afford to depend on the goodwill of other nations for her pandemic countermeasure requirements, especially when other countries are confronting the same scarcity problems. A global health governance institution such the WHO, during peacetime, could help in generating the resources for preparedness, and easen the strain on bilateral relations when the world is in a global health emergency.

The constituents of the member governments have a role to play in lobbying their respective governments to be more supportive of the above role of the WHO. The Philippines, in fact, is in a good position to drive this effort as WHO's Western Pacific headquarters is located in Manila.

3. Equality of Outcomes over Equality of Opportunities

For two administrations now, the Philippines has had "inclusive growth" as its battle cry for development. At first glance, "inclusive growth" might look the same as "shared growth". There is a crucial difference: the former stresses equality of opportunities, while the latter, equality of outcomes. Hence, the former would focus on Poverty Incidence as a performance indicator, while the latter on Gini Coefficient.(an indicator of inequality, as shown in the Kuznets curve above). Philippine growth appears indeed to have come with reductions in poverty incidence but not with improvements in income distribution (Maquito 2017).

Flattening the Kuznets curve, to lessen the growth-equity trade off, would require a shift in emphasis, which could even strengthen the focus on poverty incidence. This is a recommendable shift given that one of the major causes of poverty in the Philippines is the high and persistent levels of inequality in income and assets (Asian Development Bank 2015). Moreover, it has been found that for both developing and developed nations, "income inequality is inimical to both political and civil [liberly] equality" (Cole 2018). The problem with a policy focused on reducing poverty is that reduction in poverty does not necessarily come with a more equitable distribution of income and wealth.

4. A Stronger Push on Decentralization

The nationwide lockdown has posed a challenge on the political boundaries, both formal and informal, of LGUs across the country. More than ever, LGUs will be required to be self-reliant. This should spur LGUs to more seriously consider, for example, how they could reduce if not eradicate the often cited vertical gap in fiscal financing, wherein revenues are not sufficient to cover the expenses for functions that have been devolved to LGUs following the passing of the Local Government Code in 1991. Among the local financing schemes that they might consider would be land value taxation[4] and community currencies[5], which we have deemed to be mechanisms for achieving sustainable shared growth.

Nevertheless, the national government still has a very important role to ensure that resources are nimbly channeled from where it is more abundant to where it is scarcer. This should be done, however, without undermining the mechanisms already in place that reward good performance of the LGUs. Hence, we recommend that the current Internal Revenue Allotment (IRA) formula should not be revised to

[4] See Sustainable Shared Growth Seminars 24, 27
[5] See Sustainable Shared Growth Seminar 25, 26

address the horizontal gap among LGUs until a fuller review is made of its performance- based character, which it potentially has (Maquito 2017). This IRA character requires the national government to facilitate migration, after the pandemic, so as to enable the citizenry to vote with their feet and pockets, in addition to their votes through the ballot. A laudable step in solving the vertical gap is the Supreme Court Ruling of April 2019 to expand the source of the IRA to include tariff and duties collected by the Bureau of Customs, 50% of value-added tax, 30% of national taxes collected in the Autonomous Region in Muslim Mindanao, 60% of national taxes collected from the exploitation and development of national wealth, 85% of excise tax from tobacco products, among others (Punay 2019). Enforcement of this ruling has been set to 2022, but the possibility of hastening it could be reviewed given the on-going pandemic.

Land Value Taxation (LVT): From Australia to the Philippines.

LVT is a hallmark policy proposed by Henry George (1973), a 19th CE political economist, who lived from 1839 to 1897, in attaining progress without poverty Despite the wealthy classes' opposition, LVT, -- convinced by George's lecture tour in Australia in the mid 1890s as the simplest, efficient and fairest method -- was applied first on the state level and, finally, on the federal level in 1910. As the term implies, LVT is tax paid by the landowner based on the value of the land. Economic inequality between the states. was addressed by fiscal equalization. From the 1910s-20s, Western Australia, Tasmania and South Australia requested and received fiscal assistance from wealthier states to compensate for the loss of tariffs, which used to be its primary revenue source.. Eventually, the government formed a "horizontal fiscal equalization" -- an independent body recommending distribution of federal government grants based on fiscal need. Australia has attained interstate fiscal equality compared to other federal systems by continuing the practice. While many have lamented the lack of a federal response to the bushfires of which it was capable, it is being tested in the CoVid-19 epidemic.

The Philippines has much to learn from Australia's experience in dealing with the complexities arising from competing regional, dynastic aspirations and ideologies in striking the balance with national goals.

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