Intelligence MEMOS

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To: Members of Parliament

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Re: **Making the Federal Wage Subsidy Work**

Like the battle against the virus itself, the struggle to mitigate the economic impact of the COVID-19 crisis is forcing governments to act swiftly.

The federal government's Canada Emergency Wage Subsidy (CEWS) is a case in point. By supporting up to 75 percent of wages of employers suffering significant revenue loss, it could forestall layoffs that will exacerbate the economic and human costs of the crisis. Three features could help it do that:

1. Eligibility broader than the currently proposed 30 percent revenue decline from the same month last year;
2. Letting financial institutions advance cash to employers immediately; and
3. A graduated, rather than all-or-nothing, scale for the subsidy.

Eligibility is the first hurdle. A 30 percent revenue decline from the same month last year will exclude many organizations – among them, startups, businesses and not-for-profits with lumpy month-to-month revenues, and those still uncertain about the impact of the crisis.

Other countries are taking a broader approach to upfront eligibility: a **trust but verify** approach akin to what Ottawa's Canada Emergency Response Benefit (CERB) does for individuals. Ireland announced its wage subsidy, saying "eligibility will initially be determined, largely on the basis of self-assessment and declaration by the employer concerned, combined with a risk focused follow up verification." Ireland is allowing the employer to use the previous month's turnover "or on any other basis that is reasonable." New Zealand is **allowing employers** to use January and February 2020 as a baseline as well as the same month last year. The CEWS also could apply an either/or test of a decline relative to the same month last year, or earlier in 2020.

A reconciliation at the end of the year could reference an employer's revenue decline over the full year, to recoup payments that were not necessary. An economic rebound would leave many businesses and not-for-profits with smaller percentage declines in revenues for the year than for the worst affected months.

Delivering support quickly is the second hurdle. The federal government has said it can deliver the CEWS in three to six weeks. Caution is warranted on that. Ottawa lacks the capacity to process the likely application volume and deliver payments quickly – as its difficulty processing EI claims illustrates and as its closure of Service Canada centres underlines.

Payroll charges are relentless: for most employers, one looms at the middle of April, and another at month-end. Some organizations that postponed layoffs when the government announced the CEWS cannot wait much longer.

This is where the recently announced **Canadian Emergency Business Account** (CEBA) can help. The CEBA gives small businesses and not-for-profits access to a $40,000 interest-free loan, with up to $10,000 forgiven, through their current financial institutions. The United States has meanwhile established its **Paycheck Protection Plan** (PPP), which lets businesses and not-for-profits with fewer than 500 workers access loans equal to 2.5 times their monthly payroll, up to a maximum of $10 million.

A similar Canadian plan would let financial institutions advance cash up-front, and reconcile after the employer receives CEWS funds. Canada can emulate elements of the PPP by increasing the CEBA guarantee. The forthcoming wage subsidy legislation could limit businesses and not-for-profits to an end-of-year choice of seeking forgiveness of their CEBA loans or paying back the forthcoming wage subsidy. Involving the financial institutions with which employers have existing relationships will not only accelerate the support, it will be a key bulwark against fraudulent claims.

Fine-tuning the revenue-decline criterion could address the third hurdle – employers who, partly because they do not know if they will be eligible, do not apply. Scaling the subsidy so that it is phased in over a range of revenue declines, rather than the full amount with 30 percent and nothing otherwise, would reassure employers that a bad prediction would not expose them to a major penalty – or, perversely, tempt them to stop sales or defer donations in order to keep themselves safe.

The CEWS can help Canada's economy through the COVID-19 crisis. Adjusting the eligibility criteria, facilitating up-front funds and scaling the subsidy will make it faster and more effective.

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