Intelligence MEMOS

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To: Federal Economic Ministers

Date: April 30, 2020

Re: **How best to Curb the CERB Once It's Safe to Return to Work**

The Canadian Emergency Response Benefit (CERB) was an early and critical element in the federal government's response to the COVID-19 crisis. The government first announced the CERB in late March, promising $2,000 a month for up to four months for workers who lost their incomes. In mid-April, eligibility was expanded to people earning up to $1,000 per month and to workers whose EI benefits had run out.

Widely praised for providing immediate income support and helping contain the coronavirus by reducing pressure on lower-income people to work, the CERB made sense in an emergency. With attention increasingly turning to reopening the economy, however, the CERB is becoming a problem.

Measured by its popularity and the amounts paid out, the program has been a striking success. Between April 6 and 28, the government received about 7.3 million unique CERB applications and paid more than $25.6 billion in benefits. Applications were twice the number of Canadians who experienced COVID-related job losses or reduced hours (3.1 million, according to the Labour Force Survey) during the week of March 15-21. They were fully 40 percent of the number of Canadians employed in February. These huge numbers reflect the unprecedented implosion of the labour market. Moreover, alternative supports such as the Canada Emergency Wage Subsidy (CEWS) were slow to roll out.

On the other hand, such heavy use suggests there may be problems with the CERB itself. Its eligibility criteria are very broad. Unlike the Employment Insurance program, which requires recipients to keep a written record of prospective employers contacted, CERB recipients are not required to actively seek work or even be “ready and willing” to.

There are stories about some CERB recipients refusing to return to work or accept new employment opportunities when they have arisen. Legitimate health-related fears certainly explain part of any hesitation, but potential employers are learning in other cases that employees may prefer receiving the CERB to working, even when offered pay higher than the CERB provides. Or they are hearing from employees that they don't want to earn more than the $1,000 per month that would disqualify them from the CERB.

The rollout of the CEWS program on Monday now provides the opportunity for businesses to keep employees on their payroll. However, the CERB remains more advantageous financially than the CEWS for employees at the low end of the income scale, further complicating incentives to return to work.

When the government first established the CERB, worry about perverse incentives took a back seat – moral hazard was a minor concern in a crisis the virus had clearly caused. The longer the CERB lasts, however – and the more familiar its rules become both to potential users and to employers making decisions about hours and pay – the more the program's distortions of Canada's labour market begin to matter.

As health-related indicators improve, provinces are beginning to lift their restrictions. British Columbia, which never shut down as completely as other regions, is reopening. Saskatchewan, New Brunswick and Ontario have announced restart plans. Quebec will be gradually reopening daycares and elementary schools starting May 11, and its economy for potentially 500,000 workers over the next four weeks, with nearly 200,000 starting Monday. Businesses that were operating at reduced capacity are ramping up; businesses that were closed are reopening. With CERB recipients totalling nearly 40 per cent of people who held jobs before the crisis, Ottawa also needs to start changing course.

We can think of at least three possible ways for Ottawa to tackle this issue. It could mandate that CERB recipients accept their employer's offer of return to work, provided conditions are no less favourable than before the start of their eligibility for the CERB. It could establish an appeal mechanism for employers with regard to employees voluntarily declining work opportunities as economic activity resumes. It could also set income-tested CERB clawbacks, so that for a limited time CERB claimants returning to work or accepting a new job could keep a declining amount of the CERB up to a maximum earnings threshold.

Another compelling reason to wind down the CERB is the federal government's own finances. The program costs more than $4 billion a week, which by any standard is a lot of money. The federal deficit for this year is already expected to exceed $200 billion – and that figure will grow the longer it takes to reopen the economy. It is nearing time for Ottawa to shift towards policies that accelerate the recovery and generate the revenues it needs to repair public finances.

CERB helped cushion COVID-19's impact. But it now threatens to impede the recovery. Part of the federal government's plan to reopen the economy should be to wind the CERB down.

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(A version of this memo first appeared in the Financial Post.)