Intelligence MEMOS

From: Kevin Milligan

To: Canadians Concerned about COVID

Date: March 17, 2020

Re: **The Economy Needs a Big, Strong COVID Bridge**

COVID-19 threatens our health and our economy. Airlines, tourism, hospitality, and retail businesses are being hit with massive shocks now to revenue and soon to payrolls. Without immediate action, businesses will go bankrupt and millions of Canadian families may soon fall short of being able to meet their basic needs.

For an ordinary recession, we might argue over whether and how to stimulate consumer demand to spur a return to growth. This time is different.

Currently, for reasons of public health, we want to actively suppress work for a time, and purposely stifle some forms of economic activity. This challenge here is not "stimulus"; it requires new thinking and new policy ideas.

What we need is to bridge our economy to the other side of the infection when unrestrained economic activity can begin again.

How can we bridge our economy over this crisis? Other C.D. Howe Institute writers have offered productive ideas to confront the emergency. Bill Robson suggests widespread deferrals of tax remittances and payroll deductions. This helps families and businesses with the cash flow crunch they will soon be facing, with negligible net costs for the treasury. Alexandre Laurin and Bill Robson suggest a temporary loosening in rules around retirement savings to allow better access to savings in this time of need. These are excellent ideas that should be implemented. But they are not enough.

Our economic bridge needs to be stronger and broader to get our economy to the other side of the COVID-19 crisis. Our policy focus should be twofold. We need more policy measures to support family incomes and to backstop business balance sheets.

We need to support family incomes because unemployment will spike; and many of those who keep their jobs will see hours and wages curtailed. Policy specialists normally attempt to perfect the details of transfer programs in order to balance the targeting of benefits, negative incentive effects, and overall costs. These policy design considerations are vital in ordinary times.

These are not ordinary times.

Instead, we must prioritize speed over all else, because family incomes will be stretched starting now.

Enhancement of Employment Insurance sick leave is a beginning, along with making it easier to access the work-sharing provisions of EI. But we also need direct cash transfers to families. Some families need extra childcare; others will struggle with rent or mortgage payments. Cash fills these needs flexibly and quickly.

We also need to backstop business balance sheets. With revenue drying up, many large and small Canadian businesses – with sound long-run business models will face sudden danger. The government has authorized an extra $10 billion of loans through the Business Development Bank and the Export Development Bank to help small and medium-sized businesses, along with loosened bank regulations to free up hundreds of billions of private lending.

But more can be done. Employer-side payroll tax cuts or credits can ease the pain of maintaining payroll commitments, keeping businesses open and workers paid. An aversion to using public money to assist business is understandable. But if we want active employers to survive the crisis, temporary assistance will keep payrolls being paid and shelves being stocked through our time of need.

The bill for this package will be large. Moreover, there are further immediate needs for public health and research spending at the federal level, and billions in unexpected direct healthcare expenditures at the provincial level. In addition, the not-for-profit and charitable sectors will need temporary assistance too. This adds up.

How to fit these new expenditures into a sustainable fiscal framework? I propose a compromise: we set aside fiscal targets for a year and spend what is needed now, but we do so with explicit end-dates for each of the new spending items.

We cannot take the risk of building a bridge that is too small or too short, lest our economy suffer permanent harm. After the crisis abates, we take stock, set a renewed path to fiscal sustainability, and repair the fiscal damage.

Canadians will be relying on tireless efforts by our healthcare workers and researchers to get us through the COVID-19 crisis. But Canadians will also rely on public policy to preserve our economic wellbeing for the future. We need to get this right.

Kevin Milligan is professor of economics, UBC Vancouver School of Economics, and a Fellow-in-Residence at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.