

# Intelligence MEMOS



From: William B.P. Robson and Grant Bishop  
To: Federal Finance Minister Bill Morneau and Deputy Prime Minister Chrystia Freeland  
Date: March 25, 2020  
Re: **JOB SUBSIDY FROM OTTAWA IS KEY TO GETTING THROUGH THE COVID-19 CRISIS**

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The spread of COVID-19 and public health measures to combat it have delivered an unprecedented shock to Canada's economy. Businesses and not-for-profits are closing. Recent Employment Insurance (EI) claims suggest the unemployment rate is headed for double digits.

The economic distress is compounding the direct impact of the disease, and may ultimately overshadow it. Unemployment and financial distress hurt physical and mental health, and the implosion of the private-sector economy is propagating that damage. So just as Canadian policymakers must mitigate the health impacts, they must mitigate the economic impacts.

Governments elsewhere have stepped in to support jobs with direct wage subsidies. Canada's federal government has announced a 10 percent subsidy for three months.

That approach falls short on two counts.

The amount is too small, and the per-worker and per-employer caps too low, to stop layoffs. And the time-frame is too long – three months is an eternity for a business that has closed its doors, or a charity with no reserves. Canada needs something bigger, faster, and shorter-term.

How could a high-impact federal job-subsidy program work in Canada?

EI gives us a helpful framework. It provides weekly benefits of 55 percent of an employee's wage up to a ceiling based on average earnings: \$54,200 this year. Instead of letting people lose their jobs and apply for a government program, Ottawa should subsidize the jobs directly, helping employers keep their workers.

What would it cost? A subsidy equal to 55 percent of covered earnings for the entire workforce might amount to \$6-7 billion a week. Exclude the roughly one-third of employees who work for governments and in the broader public sector – we don't want the federal government subsidizing itself – and the cost would be \$4-5 billion a week. Net of federal income tax, it is less than \$4 billion – smaller yet if Ottawa can recoup provincial taxes. At 55 percent of covered earnings, the subsidy per worker would amount to some \$370 per week.

Even the lower amounts in these ranges would add appreciably to the federal government's deficit and debt. But the looming claims on the federal treasury are larger without it. A chain reaction of closures of businesses and not-for-profits will cause EI claims to mount. Paying EI benefits preemptively will keep paycheques flowing.

The federal government possesses the fiscal capacity to deliver this support. Governments will be borrowing to fund any fiscal support, and the debts that we incur today must be paid in the future. While fiscal capacity varies across provinces, Ottawa can borrow to fund this short-term support and repay it from future tax revenues nationwide.

The event it addresses is unique. The economic shutdown is a consequence of the public health measures governments are taking. Nobody can self-insure against this kind of shock. Governments are providers of social insurance. Preventing job loss will mitigate the misery that economic dislocation will otherwise produce.

Ottawa has a start on the administrative machinery to deliver it. EI contributions mean the federal government has a current payroll record on which to base immediate transfers to firms. Reversing the flow of EI payments will require administrative ingenuity. Employers would have to guarantee the jobs, so that the funds could not be diverted elsewhere. While not every dollar that flows will be equally effective, targeting is a bit beside the points when so many Canadian employers are thinking about, if not already implementing, job cuts. Some sorting out of who needed the money and who didn't can wait for 2020 tax filing. These are extraordinary times, and extraordinary times require extraordinary measures.

Finally, and crucially, the measure would be short term. Shutdowns and extreme social isolation are temporary. We can do this for a few weeks; we cannot do it for months. A one-month subsidy along these lines would cost \$16 billion. Especially against the backdrop of EI payments – let alone the collapse in tax revenue – that will occur without it, that is a cost the federal government can manage.

A job subsidy should be part of the federal government's next response to the crisis. Canadians need immediate help, and timelines to help them recover. Employers and employees alike will benefit from knowing that the federal government has their backs.

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