Crisis Working Group Report:
Crisis Household Income and Credit Support

The C.D. Howe Institute has initiated a special project to provide rapid expert insights to help Canadians and Canadian policymakers navigate the COVID-19 crisis. Several working groups will address challenges in the monetary, fiscal and financial policy domains. One such group is the Household Income and Credit Support Working Group, chaired by Michael Horgan, Senior Advisor at Bennett Jones LLP and Former Deputy Minister of Finance, Government of Canada, and supported by a group of Canadian business leaders and economists. Meeting weekly, this group will debate policy ideas, and communicate the results of its discussions in a public joint Communique. The group’s first meeting was held on Tuesday, March 24, 2020. The purpose of the first meeting was to identify and prioritize key risks for households during this crisis, to discuss policy options and to consider recommendations.

The working group noted that the COVID-19 crisis is different from other crises as it is a supply-driven crisis and a massive percentage of private-sector employers are at risk. Without a rapid response from governments to prevent layoffs and shutdowns of businesses and not-for-profit organizations, unemployment will continue to rise sharply. Since supply creates demand, focusing only on measures that support the demand side of the economy such as providing supports in generating business and employment income is ultimately not sufficient. That said, Employment Insurance (EI) programs and other income supports can provide a bridge back to lost jobs when the economy recovers; but governments should also help businesses (particularly small businesses) and not-for-profits pay their bills and stay afloat during the crisis.

Businesses in some industries such as travel, tourism, and hospitality have experienced virtually a 100 percent reduction in demand related to the COVID-19 crisis. This highlights the importance of providing income supports for those who lost their jobs due to the crisis. The working group discussed whether the EI program would be able to deal with the flood of applications. Furthermore, the members of the Household Income and Credit Support Working Group agreed that the risks and consequences of not supporting employers and individuals enough is significantly higher than offering them too much.
Due to the complex nature of the policy domain, the group identified various issues and risks as being the most pressing to tackle in the short term. These issues and policy interventions to address them fall under three major themes as follows:

**Wage subsidies**: The federal government’s previously announced 10-percent subsidy was too little to enable businesses and not-for-profit organizations to retain employees. Since the measures to contain the virus are, presumably, temporary, providing generous wage subsidies was identified as an effective and appropriate approach to prevent further massive layoffs and business shutdowns. Preventing job loss not only helps the economy to recover quickly as neither workers nor employers need to go through the process of finding an employment or filling a position respectively again, but also mitigates the impacts on mental and physical health. The wage subsidy program, however, needs to be different from the European style programs, which provide wage subsidies only for furloughed employees. To be nimble, the federal government can adopt the current feature of the EI program and offer a subsidy equal to 55 percent of covered earnings of workers.

**Other Income support**: While the group endorsed deferrals on payments and financial supports for targeted Canadian businesses and workers to create cash flow, it highlighted the need for further financial emergency support such as forgivable business loans and identified several vulnerable groups who are, potentially, left behind, such as

- tenants, either individuals or businesses and other employers, need an emergency financial support to pay their rents since other types of support such as moratorium on evictions of tenants can have unintended consequences as it puts the ability of landlords to pay their own expenses such as rental property maintenance expenses at risk.
- those whose EI benefit is ending and it is not clear whether there will be some expansion of benefits;
- self-employed individuals and contractors with no income as a result of current circumstances, who are not classified as employees;
- students who are soon graduating and unable to find an employment. The recent survey shows that similar to other crisis young individuals are hit harder than others and see greater increases in their unemployment rate; and
- workers on the front lines of the crisis who need extra support and receive proper equipment.

**Time frames**: The working group identified the need for a plan on how to resume economic activities and get employees back to work, despite the coronavirus crisis. This requires finding ways to contain the coronavirus without shutting down the economy for more than a reasonable period of time. It requires considering options that make workers feel comfortable with going back work, possibly learning from
the South Korea and Singapore experiences. Otherwise, a large number of businesses and not-for-profits may not survive. There was also a consensus among the members of the group that speed is a key element in this crisis to mitigate the risk and uncertainties in the labour market. For example, the governments need to provide the details of their plans to support employers and workers as quickly as possible to ensure business continuity.

The Household Income and Credit Support Working Group Working Group will meet again next week. Much is likely to change between now and then, and the next meeting will focus on emerging issues and specific policy proposals from the members. Areas for potential consideration include what provinces should do for their residents; how the federal and provincial governments should coordinate in providing supports and taking precautionary measures; what other types of support other jurisdictions have provided; and measures to reassure pensioners and for senior citizens who have lost retirement wealth.

**Household Income and Credit Support Working Group members include:**

- **Michael Horgan**, Senior Advisor at Bennett Jones LLP and former Deputy Minister of Finance, Government of Canada
- **Grant Bishop**, C.D. Howe Institute
- **Luc Godbout**, Université de Sherbrooke
- **Brian Kingston**, Business Council of Canada
- **Parisa Mahboubi**, C.D. Howe Institute
- **Kevin Milligan**, University of British Columbia
- **Mike Pedersen**, Business Development Canada
- **Bill Robson**, C.D. Howe Institute
- **Tammy Schirle**, Wilfrid Laurier University
- **Kathleen Taylor**, Royal Bank of Canada
- **Ed Waitzer**, Stikeman Elliott LLP