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Crisis Working Group Report: Household Income and Credit Support

Communique #7: Staggered Re-opening Should Inform Tailored Income Supports

To help Canadian governments confront the public health and economic crisis resulting from the spread of COVID-19, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. The Working Group on Household Income and Credit Support is co-chaired by Michael Horgan (Senior Advisor at Bennett Jones LLP and Former Deputy Minister of Finance, Government of Canada) and Kathleen Taylor (Chair of the Board at Royal Bank of Canada) and supported by a group of Canadian business leaders and economists. The group's most recent meeting was held on Tuesday, May 19, 2020.

In the meeting, working group members identified the need to apply a risk-management lens to the reopening of the economy and reflected on how the vast differentials in COVID-19 experiences across the country necessitate a move away from a national one-size-fits-all re-opening plan and related income support plans. The working group also discussed policy options for modifying the CERB in the short term and phasing out the CERB over the long term, with a particular focus on financially supporting families as well as low-wage earners with potentially diminished incomes. The working group argued that Ottawa should increase transparency around details of the implementation of future income support plans and ensure that near-term policies reflect the limited supply of childcare options. Furthermore, the working group proposed longer-term policy options to support Canadians during the pandemic and recovery, including investments in retraining, reskilling, and upskilling.

Risk-Management Assumptions to Determine Income Support

In the beginning, Canada's stay-at-home strategies were specifically designed to flatten the curve of infection in order to protect the healthcare system. Stay-at-home rules were never designed to eliminate the virus from circulation. In support of "stay at home," The Canada Emergency Response Benefit program (CERB) was necessary to ensure that households stay afloat while these restrictions are in place.



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As the data have shown, the curve has been flattened considerably across the country. Parts of the economy are now re-opening in stages and at various speeds across the country. The working group highlighted the need to be transparent about our assumptions in regards to the re-opening, as these assumptions are critical when evaluating the effectiveness of current income support systems, plans for the next phases of reopening, and resulting policy alternatives.

First, we assume the virus will remain in circulation for some time. Therefore, living safely with COVID-19 should become the underlying premise, especially for the most affected provinces. Several provinces, such as the Atlantic provinces, have practically eliminated the virus for the time being and they may choose to follow a New Zealand-type strategy of limiting inbound access, with the upside that social and physical distancing conditions can largely be lifted locally. In other provinces, the virus continues to spread, albeit at much lower rates than previously, which is allowing gradual and staged re-opening. In either case, the use of personal protective equipment is likely to be required for many industries and premises for an extended period of time.

Second, we assume that any re-opening of the economy will be gradual, regional and sector by sector. Different industries will return to operation at different rates and at different times. Regardless of timing, all businesses need to follow stringent health and safety protocols. Re-opening presents safety issues, both in the workplace and in commuting to work, that will need to be addressed to ensure that workers can return safely.

Third, we note that some schools and daycares have been re-opening while others will remain closed. It is important to eventually get all children back to school or into care when it is safe to do so, not only because parents will need to go back to work, but also because of the negative impacts prolonged isolation is having on the development and long-term well-being of children.

Finally, the group identified the risk of a return to periodic economic shutdowns if the spread of the virus re-accelerates. More widely available [testing and tracing](#) is key to mitigating this risk.

What these assumptions point towards is that federal income support policies, such as the CERB, must shift from a one-size-fits-all approach – appropriate for a broad national shutdown – to a more targeted support approach. A more targeted income support approach would account for regional and sectoral differences, while addressing specific needs, such as childcare, and specific [sectors, such as tourism](#), travel, or oil and gas, which are experiencing the largest and most sustained displacements.

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Modifying the CERB and Other Short-term Support

In previous meetings, the working group raised two concerns with the CERB. The first [concern](#) was about CERB recipients who, after exhausting their benefits, will remain unemployed without access to Employment Insurance. The second [concern](#) was that the CERB may discourage people from returning to work as some businesses start to re-open, slowing down the recovery.

A number of policy options are available to address these concerns. CERB eligibility can be extended beyond the July cutoff with an [income-tested claw back](#) to tackle disincentives to work. At the same time, when planning out the next phase, Ottawa should aim to preserve [fairness](#) between those who would continue to receive the CERB and others who would continue to work without receiving the CERB. One proposal for balancing concerns of work incentives and fairness would be an extended but lower CERB with a steep income-tested claw back, combined with a temporary [Working Bonus](#) program (WB) for low-wage workers. A Working Bonus would be similar in design to a conventional earned-income tax credit, such as the Canada Workers Benefit. To address the coverage gap for those who are not able to return to work, the Working Bonus and the clawed back CERB can be complemented by targeted supplemental measures such a refundable [childcare tax credit](#) for parents returning to work and an immediate boost to the [Canada Child Benefit](#).

Working group members, however, noted two challenges with these proposed options: first, a lack of administrative infrastructure for real-time income testing of support programs such as CERB; and second, the absence of childcare options due to childcare closures, which limits the potential effectiveness of a refundable childcare credit in supporting working parents.

The federal government must, therefore, be transparent with administrative challenges for the next phase of income support in regard to verification of monthly income level, either through the CERB (which is already income-tested on a monthly basis) or the Employment Insurance system. Furthermore, subsidizing a wider range of childcare options may help address the supply issue for parents who can return to work. Lastly, designing any income support should include the opportunity for both parents to share childcare responsibilities when no childcare option is available. In designing future income support programs, governments need to ensure that their structure does not reinforce traditional gender roles.

Long-term Income Support Plans

As highlighted earlier, we assume that absent a vaccine, infection risks will stay with us for some time. Keeping the economy in an induced coma for a sustained period time is neither desirable nor feasible. With planned gradual re-openings, some sectors may not come back to their normal state of operations

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for an exceptionally long time. At the same time, keeping emergency programs in place for the long run is challenging and impractical.

The working group noted that major shifts in the economy had already been underway prior to the crisis, and that COVID-19 will likely create permanent displacements or lead to businesses choosing to operate differently when they re-open. The working group expects that these shifts will lead to structural unemployment. With some sectors struggling while others are growing, the working group believes policymakers should focus on how they can support workforce reallocation through retraining, reskilling and upskilling of workers. Skills' adjustments are painful but necessary to address long-term displacements and structural unemployment, by creating new opportunities for workers to move to higher paying jobs. The existing framework to address skills mismatch is currently within the EI system – but the working group is uncertain if that is the right system for the future. Existing training programs may need to be repurposed for this effort. For example, the working group highlighted that the [Canada Training Benefit](#) announced in the 2019 budget may be a good fit to adapt quickly to the current situation. Some of the most successful models for retraining have involved partnerships between business and government.

At its next meeting, the working group will dive into some alternative transitional solutions.

Members of the Household Income and Credit Support Working Group include:

Michael Horgan (Working Group Co-Chair), Senior Advisor, Bennett Jones LLP and former Deputy Minister of Finance, Government of Canada.

Kathleen Taylor (Working Group Co-Chair), Chair of the Board, Royal Bank of Canada.

Don Drummond, Stauffer-Dunning Fellow and Adjunct Professor, Queen's University.

Luc Godbout, Professor and Director of the Chair in Taxation and Public Finance, Université de Sherbrooke.

Brian Kingston, Vice President, International & Fiscal Issues, Business Council of Canada.

Alexandre Laurin, Director of Research, C.D. Howe Institute.

Parisa Mahboubi, Senior Policy Analyst, C.D. Howe Institute.

Janice McKinnon, Professor, University of Saskatchewan.

Kevin Milligan, Professor, University of British Columbia.

Mike Pedersen, Chair of the Board, Business Development Canada.

Bill Robson, President and Chief Executive Officer, C.D. Howe Institute.

Tammy Schirle, Professor, Wilfrid Laurier University.

Lara Speirs, Executive Vice President & Public Affairs General Counsel, Randstad Canada.