Canada’s fiscal response to coronavirus crisis is a good start, but there’s still work to be done

By David Williams and Jock Finlayson
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The COVID-19 pandemic is the most serious public health, economic and financial crisis in modern history. Governments around the world are deliberately deactivating their economies, albeit to varying degrees, as a central part of their public-health strategy to address the pandemic. This supply-side shock will elicit a severe downturn in domestic and global demand across 2020-21.

For governments in Canada and elsewhere, the first priority is to bolster the acute health-care system, and accelerate COVID-19 testing and contact-tracing. The second is to drastically reduce physical interactions across the population to slow virus transmission. The third is to help the economy ride out the storm and emerge more or less intact. Going forward, Canada will need every dollar of GDP and every job it can safely sustain in order to feed, shelter and pay the population, and to support the millions of citizens who have been rendered economically inactive by government fiat.

Governments should consider carefully which businesses must cease operation and which ones are essential. It should also weigh whether a middle ground exists, where a business can safely operate through innovative practices that achieve physical distancing. The goal should be to achieve as much physical distancing and infection mitigation as possible at the least economic cost. As much of Canada’s consumer-based economy is shuttered, governments should be looking to the industrial and digital economies to operate safely, and support the rest of the country and its supply chains.

A fourth priority for policy makers is to provide timely palliative relief for the economic pain that their public-health programs – and the contemporaneous global recession – is causing. After a hesitant start, the federal government has unveiled a series of fiscal measures worth about $190-billion, or about 8 per cent of 2019 GDP. This is broadly in line with what other advanced economies are doing. The provinces have also announced fiscal packages, worth another 2 per cent of GDP in the case of British Columbia. The purpose of these programs is to provide bridging cash flows to households and businesses through a shutdown of uncertain duration.

The centrepieces of the federal government’s economic support package are the Canada Emergency Response Benefit (CERB), one-off payments through the Canada child benefit and GST credit, the Canada Emergency Wage Subsidy (CEWS), tax deferrals, and interest-free loans and guarantees for small businesses. In addition, the Bank of Canada and other federal agencies are keeping financial and credit markets functioning.

The CERB and CEWS are massive programs – around $95-billion in total. Their success will hinge on expeditious implementation. That is, on whether the money arrives in recipients’ bank accounts in time for the next due dates for rents, mortgages or payrolls.

There are some elements missing from Canada’s economic support package, however. First, so far, very little is being done to assist hard-hit industries or regions. By contrast, Australia, France, Germany, Britain and the United States are directly supporting specific sectors to preserve their human, physical and organizational capital.

Second, Canada is not acting to encourage new private sector investment. The more capital-intensive a business, particularly in the use of digital technologies, the better its prospects for survival in a world of physical distancing. In a recent survey of Business Council of B.C. member companies, two-thirds indicated they were deferring or cancelling capital projects. Canada should follow Australia's lead in providing additional accelerated depreciation for capital investments over the next two years.

Third, it is unfair to force retirees to sell securities at distressed prices to meet required minimum withdrawal limits for Registered Retirement Income Funds (RRIFs). Canada's temporary 25-per-cent reduction in the withdrawal limit for 2020 should be increased to 50 per cent for two years, in line with Australia, to mitigate sequencing risk. This will assist retirees, and the companies their savings help finance, to ride out the crisis.

The federal government's economic support package is a good start. Effective implementation will be crucial to its success. The government should also be looking to assist hard-hit industries and key export sectors, incentivize much-needed capital investment and safeguard retiree pension accounts.

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