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# THE FUTURE OF WORK POST-PANDEMIC

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# **The Future of Work Post-Pandemic**

COVID-19 ECONOMIC RECOVERY WORKING GROUP

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## **Abstract**

The Future of Work Post-Pandemic is a collection of notes by members of the COVID-19 Economic Recovery group, formed by the School of Policy Studies and spanning Queen's University. The notes reflect the views of the authors on how the labour market will change as a result of the COVID-19 pandemic. A focus is on public policy changes to ensure that the shifts in the work environment are conducive to the well-being of Canadians and economic recovery.

Keywords: COVID-19, Coronavirus, Economic Recovery, Future of Work, Changes in Public Policy

## **Introduction to the Future of Work Post-Pandemic**

*Don Drummond*

A common question one hears of late is, "when will things return to normal?" The COVID-19 Economic Recovery Working Group from Queen's University weighed in on this question over the summer of 2020 from the perspective of the future of work. The effort produced a series of notes reflecting the views of the authors. But certain themes emerged as common across the thought pieces.

In the economy and especially in the labour market, there is no such concept as "normal." Rather, there are constant shifts across sectors as some advance and others fade. Within sectors and even firms, some types of jobs grow in demand, while others decline, and almost everyone is forced to adapt to these changes and reframe the way they work.

Economic shocks amplify the churn in the labour market. In previous recessions, Statistics Canada reports that 45 percent of layoffs became permanent (Morissette et al., 2020). The pandemic has produced the deepest recession of all, and we should expect very large, disruptive and enduring effects in the future of work. This will undoubtedly have serious implications for individuals, companies and governments.

The job losses from economic closures in response to the pandemic have disproportionately hit low-wage workers and women. All the jobs in places they worked will not return, and they will need income support, training and assistance gaining employment in areas of the economy that will advance.

Many workers will continue to do at least some of their work from home. As workers and their employers undergo the transition into working from home, they will need to balance the advantages with the potential costs of isolation. A hybrid model will likely emerge as common whereby a good deal of the work is done from home, but workers come together on occasion to spur collaborative spirits.

The course of economic recovery will be shaped to a large extent by the course of the virus. Economic gains will be set back if the virus lingers and especially if there are subsequent waves. The opening of the economy and other activities must be accompanied by careful strategy and discipline to minimize health risks.

Although massive government support programs have forestalled a wave of bankruptcies, there will be widespread corporate and personal bankruptcies as supports are phased out. More attention is needed now to prepare administratively and in policy to deal with this.

The economic recovery has already come a long way from the depths of the economic hit in April, but the remaining part is likely to be slow and leave many workers behind. Governments will need to apply further fiscal stimulus and it should recognize the disproportionate hits on lower-

paid workers and women and look for opportunities to address other challenges at the same time, such as the environment. The stimulus must also go beyond the conventional role of spurring demand in the economy and address the hit the pandemic has had on the economy's productive capacity.

The pandemic has highlighted the policy need to do a better job of supporting those in poverty or with highly uncertain incomes. There are several options to do this from a new Basic Income to filling the widest and deepest gaps in current social assistance.

The policy responses to COVID-19 have caused government deficits and debt to balloon. Many worthy national initiatives under consideration would require further, massive government spending. These needs and desires will need to be balanced against the importance of avoiding the next crisis being fiscal.

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## Implications for the Labour Market

### The Structure of Employment before and after COVID-19

*Fizza Mirza and Juliana Orlando Rohr*

The COVID-19 pandemic has resulted in the sharpest economic decline in recent history. The Global Economic Prospects estimates a 5.2 percent contraction in global GDP in 2020. Compared with the Great Depression and the 2008 crisis, the COVID-19 recession has seen the fastest and steepest downgrades. The impact of COVID-19 is unprecedented, altering the landscape of full-time and part-time employment in Canada. Even though economic recovery is underway, and many Canadians are returning to work, employment levels in July remain below pre-COVID levels. The COVID-19 pandemic has changed how Canadians work, as health restrictions promote working from home, and adaption to new health and safety measures is critical for numerous industries. The COVID-19 pandemic is constantly evolving and multi-dimensional in its impact on the Canadian economy, impacting each industry differently. While the pandemic is relatively new, its implications will continue to be felt over a long period, as many Canadians continue to work from home, and employment levels remain below pre-COVID levels.

While the COVID-19 pandemic has impacted all Canadians, there are various groups, industries, and geographical locations that have been affected the hardest. The following report will focus on the overall labour force pre-COVID and post-COVID. It will also focus on these various groups, industries and geographic locations since recovery will likely be uneven across workers, just as employment decline was skewed in some dimensions.

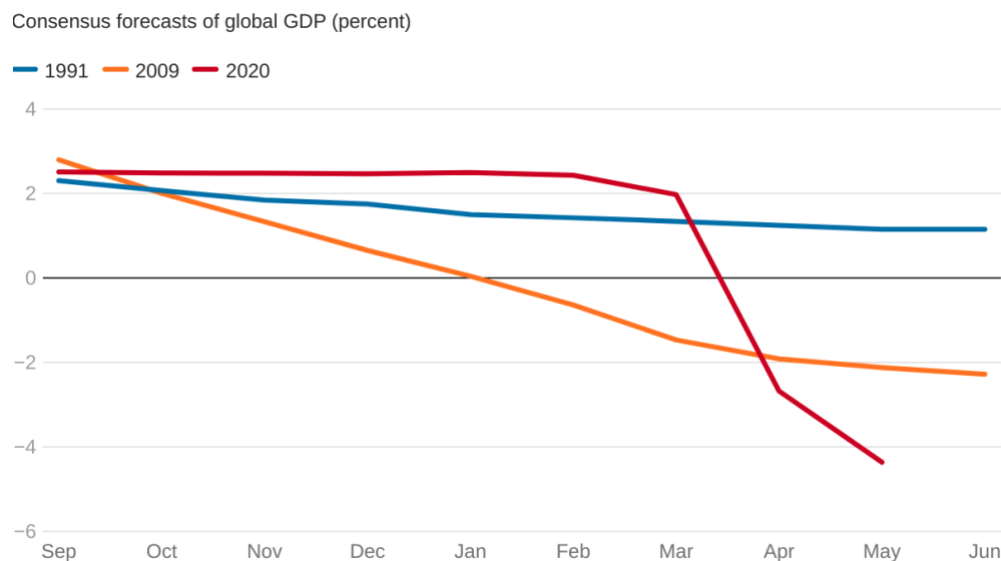


Figure 1. Consensus Economics, World Bank. Consensus forecasts of global GDP (percent)

The Labour Force Survey shows that from February to April, 5.5 million Canadian workers were affected by the economic shutdown. This number includes a drop of 3 million in employment and 2.5 million of COVID-related increase in absence. With the reopening of the economy in Canadian provinces, we have seen an increase in employment during May, June and July. As of the latest available data, employment has rebounded to -7% in July, in comparison to employment levels in February (Labour Force Survey, 2020).

### **Labour Underutilization Rate**

Employment rates must be considered when examining the large picture of the labour market during the COVID-19 pandemic. However, employment rates can underestimate the severity of hits since people are counted as moving out of the labour force if they cannot say they are actively seeking employment. In March, for example, 219,000 people were not in the labour force, but they had worked earlier in the month, and still wanted a job. These people are not classified as unemployed, because they were not actively looking for a job – most likely due to businesses being shut down and incentives to stay at home. If this group were to be counted as unemployed, the adjusted unemployment rate would be 8.9%, instead of 7.8% in March (Labour Force Survey, 2020).

Before the COVID-19 pandemic, the labour underutilization rate <sup>1</sup> was 11.3% in February. In March, there was an increase of 11.7%, bringing this rate to 23%. April was the month with the biggest hit since the beginning of this crisis – more than one-third (36.7%) of the potential labour force did not work or worked less than half of their usual hours. If we compare the same rate to the 2008 recession, the highest peak was at 12.8% - with this measure, it is possible to see how hard the COVID-19 pandemic impacted the Canadian labour market. While the underutilization rate has declined considerably since the reopening of the economy, July's labour underutilization rate is still at 22.4%, with one-quarter of Canada's potential labour force fully or partially underutilized. When compared to the 11.2% in February, July's rate is still substantially high.

The graph below exemplifies that following the highest peak in April 2020, the number of people considered to be underutilized has continued to decrease. This decrease may be attributed to the gradual reopening of the economy following the pandemic's height in April. For example, most regions in Ontario entered phase 2 in June, allowing some businesses that were shut down due to the pandemic to reopen (Office of the Premier, 2020).

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<sup>1</sup> The "labour underutilization rate" combines those who were unemployed, those who were not in the labour force but who wanted a job and did not look for one, and those who were employed but worked less than half of their usual hours for reasons likely related to COVID-19 (Statistics Canada, 2020).



The graph below also indicates the disparity between women and men, showing that women had more underutilized labour than their male counterparts.

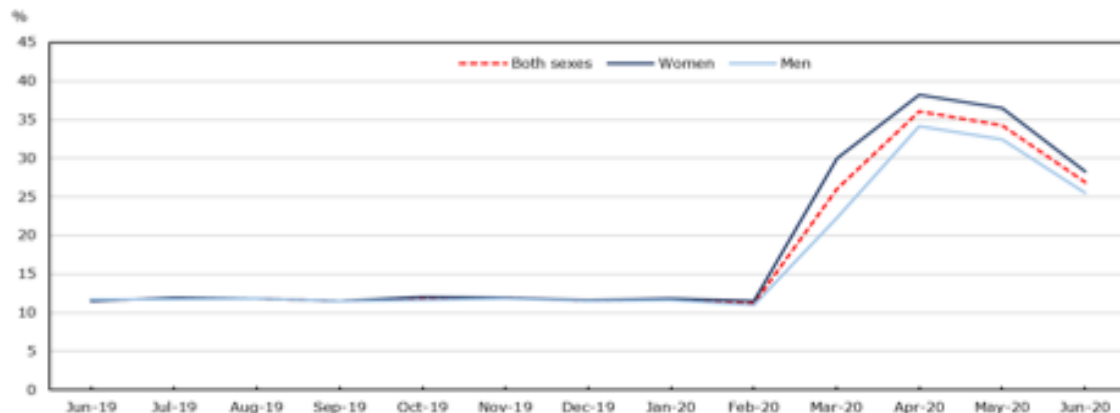


Figure 2. Labour Underutilization rate. Statistics Canada: Labour Force Survey, June 2020

### Increased Absences

In March, there were 1.3 million Canadians who were away from work for the full week of March 15 to 21. The reasons for their absence can be attributed to COVID-19. This number excludes vacation, labour dispute, holiday, parental leave and weather. The number of absences increased by 800,000 since February. During the development of the pandemic in Canada, absences from work increased substantially, hitting the highest absence rate in April, with 2.4 million employed but absent for the full week. Evidence from June indicates that some people took time off from work because they did not consider returning to work as a safe option, highlighting that Canadians consider safety measures important (Labour Force Survey, 2020). In July, COVID-related absences from work were at +972,000; +120.3% above February levels.

For numerous employed Canadians, hours have been lost due to illness during the COVID-19 pandemic. As mentioned above, there have been increases in the number of absences during the COVID-19 pandemic. The absences may be attributed to COVID-19, as employees and employers took time-off work to comply with the government's recommendations supporting self-isolation and physical distancing (Government of Canada, 2020). Moreover, it is possible that some absences were due to confirmed cases of COVID-19. In April, 380,000 COVID-19 related absences were recorded (Labour Force Survey, 2020). Absences from the workplace contribute to hours lost since employees have taken time off work. The graph below examines and compares the hours lost due to illness or disability in 2019 and 2020, showing a spike in hours lost when the pandemic first hit Canada, and a further increase in the following months compared to the same month last year. Absences from work reduced significantly when companies started promoting working from home.

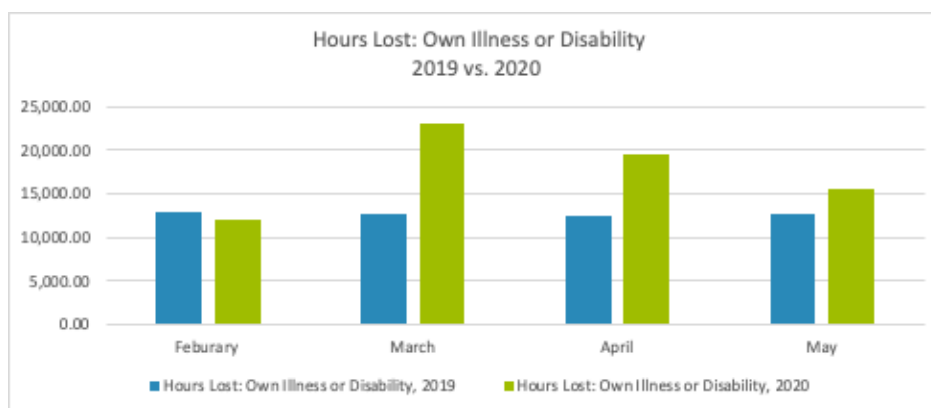


Figure 3. Hour Lost: Illness or Disability. Statistics Canada: Labour Force Survey, June 2020

## Working from Home

This increase of employees working from home is mostly due to public health recommendations, and the restrictions established due to COVID-19 (Labour Force Survey, 2020). In April, 3.3 million Canadians had to adjust to working from home, and many Canadians continue to do so, despite easing restrictions (Labour Force Survey, 2020). This decision is contingent on whether the workplace can adapt to COVID-19, and if employees feel safe returning to work (Labour Force Survey, 2020). With data showing an increase in employee productivity and well-being, this trend will likely stay even after the pandemic. In July, 4.6 million people worked from home; the number of Canadians who worked from home remained significantly higher than the number pre-COVID (1.6 million), despite the reopening of the economy in almost every sector.

## Full-Time vs Part-Time Employment

The COVID-19 labour market shock was felt particularly hard in part-time work.<sup>2</sup> From February to April, part-time work loss -29.6% in employment, which is significantly higher than full-time employment<sup>3</sup> -12.5% (Labour Force Survey, 2020). However, since May 2020, part-time employment has outpaced full-time growth, reaching close to its pre-COVID level. In July, part-time work was at -5% and full-time work at -7.5% compared to February 2020.

<sup>2</sup> **Part-time employment** consists of persons who usually work less than 30 hours per week at their main or only job (Statistics Canada, 2020).

<sup>3</sup> **Full-time employment** consists of persons who usually work 30 hours or more per week at their main or only job (Statistics Canada, 2020).

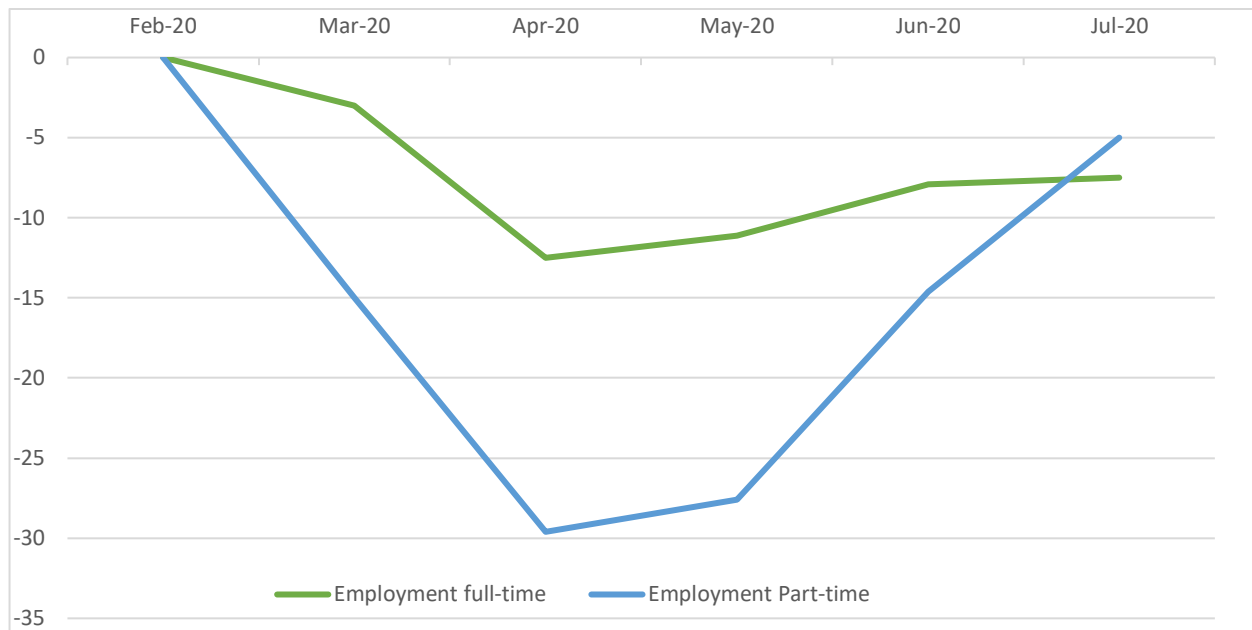


Figure 4. Employment Index (February 2020 = 0). Source: Statistics Canada, Labour Force Survey.

This trend has continued within numerous Canadian provinces. In July, most Ontarians who returned to work were employed in part-time positions (Labour Force Survey, 2020). A similar trend was experienced in Quebec, where mainly part-time workers returned to work in July. As provincial restrictions ease and more employees go back to work, the risk of contracting COVID-19 may act as a deterrent. Some employees have expressed wanting to work lesser hours and fewer days, impacting the average actual hours worked (MacLeod, 2020). However, it is important to note that while the number of average hours worked by part-time employees increased, it is still not at 2019 levels. Some employers may prefer part-time workers instead of full-time workers and are only offering part-time hours, meaning that re-entering the labour force as a part-time employee may not be the choice of the employee, but rather, the decision of the employer (Labour Force Survey, 2020).

### Demographics of the Most Affected by COVID-19 in the Labour Force

Employment losses resulting from the impact of COVID-19 have disproportionately affected the most vulnerable segments of the workforce. As businesses sought to curtail the public health threat posed by the disease, containment measures and social distancing led to jobs in the service sector, including travel, hospitality and personal care services, to halt operation. Furthermore, unemployment was largely seen amongst lower-income earners, younger workers, recent immigrants and women (OECD, 2020). Data from the Labour Force Survey shows that from March to May, groups from 15 to 24 years, 15 to 19 years, and 20 to 24 years were more likely to lose their jobs than older employees. In addition to the age groups, we could see a disparity between female and male employees. In the months from March to April, young female employees were more likely to lose their jobs than same-age male employees. During the reopening of the economy, male employees were also more likely to be rehired than their female counterparts.

As of July, in all age groups, men were closer to the pre-shutdown employment level than women (Labour Force Survey, 2020).

In a study reviewing the initial impact of the COVID-19 pandemic, Lemieux et al. (2020) report that the number of hours worked and employment of mothers with pre-school and younger aged children dropped significantly. As a result of shortages of child-care centers and in-class schooling, this uniquely prevented working mothers from joining the already competitive labour market supply. The same study shows that the largest impact across weekly earning is on those in the lowest-earning quartile. These workers' pre-pandemic earnings were close to the CERB subsidies. This factor could be a challenge for policies as we advance, as workers would need to be provided incentives to rejoin the workplaces and be dissuaded from relying on the CERB in the long-term.

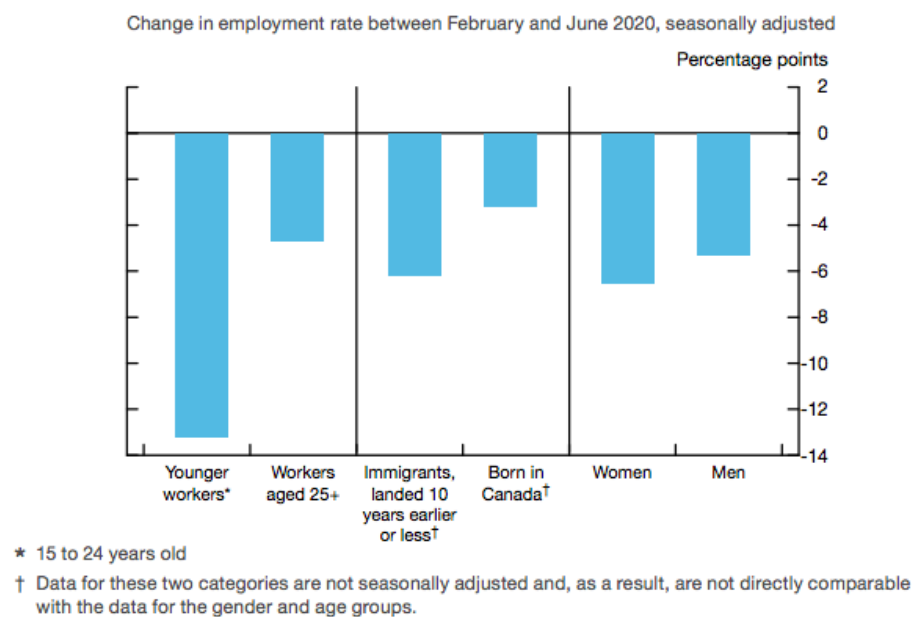


Figure 5. Employment losses have been larger for younger workers, recent immigrants and women.  
Source: Bank of Canada, 2020

Not all industries were impacted in the same way. In March, for example, the largest employment decline was recorded in industries which involves public-facing activities or limited abilities to work remotely: Accommodations and Food Services (-23.9%), Wholesale and Retail Trade (-7.2%), Information, culture and recreation (-13.3%) and Educational Services (-9.1%). This became a trend throughout the pandemic (Labour Force Survey, 2020). It is also important to notice that in 2019, the average hourly wages of these industries were \$18.36, compared to the total employment of \$27.83 (Labour Force Survey, 2020). This indicates that low income earners were among the first to experience job loss and economic hardship (Labour Force Survey, 2020).

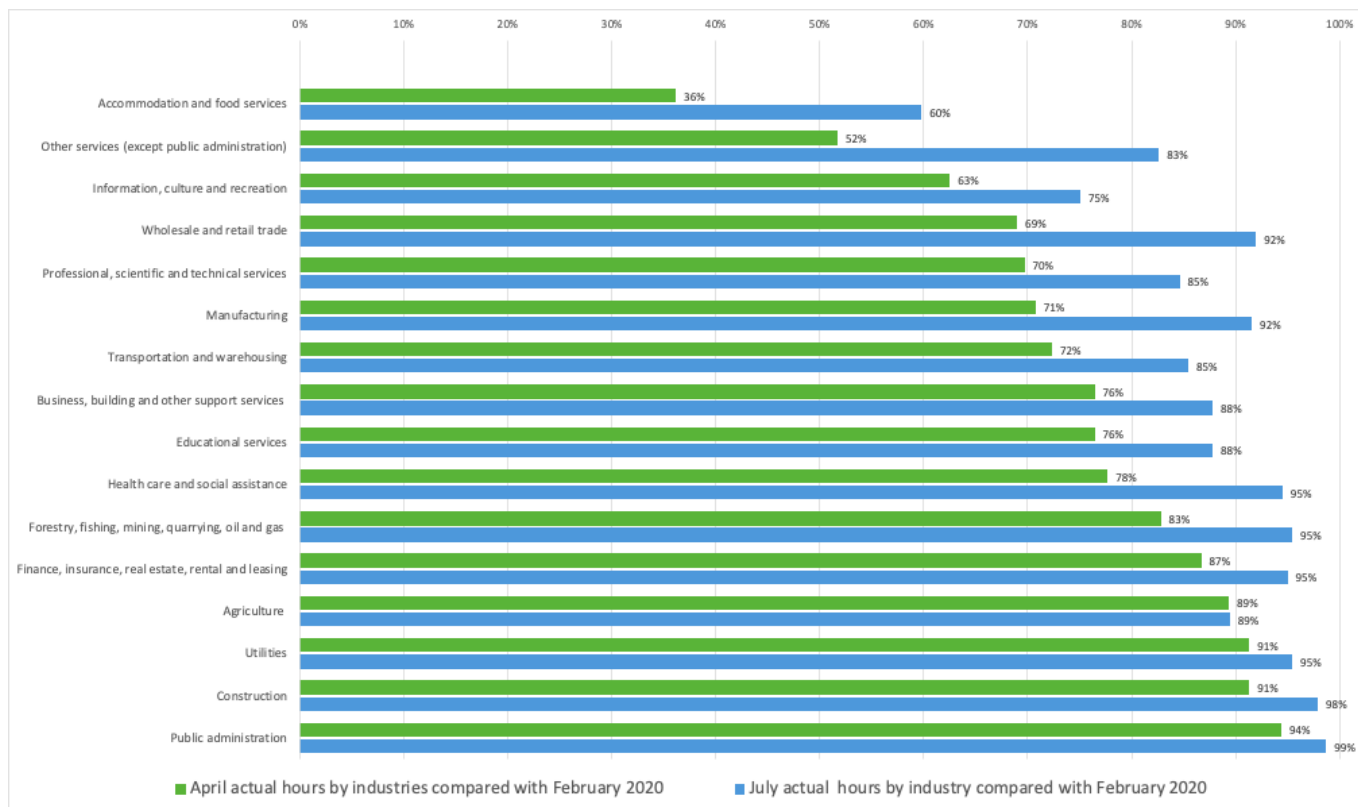


Figure 6. Actual Hours by Industries compared with February 2020 (Feb 2020 = 100%). Source: Statistics Canada, Table 14-10-0289-01 Actual hours worked at main job by industry, monthly, seasonally adjusted, last 5 months (x 1,000)

In addition to being amongst the first to experience job loss and economic hardship, the Statistics Canada June Labour Force Survey found that “employment among low-wage workers had recovered to 78.8% of the February level, compared to 96.7% for other paid employees” (Labour Force Survey, 2020), highlighting the fact that low income wage earners also experienced a slower recovery period than those employed in other sectors. The slower recovery period exemplifies the challenges that low wage earning Canadians continue to experience.

For low income wage earners within the Wholesale and Retail Trade industry, a slight increase in wages during the COVID-19 pandemic was later met with a decrease going into the economic recovery. The change is likely due to the elimination of a wage increase offered by major retailers such as Loblaws, Metro and Walmart (CBC News, 2020). Following a wage increase at the onset of COVID-19, major retailers have ended the wage bump that was offered to its employees (CBC News, 2020), which explains why employees in the wholesale and retail trade industry have experienced a decrease in wages.

## COVID-19 in Comparison to other Economic Downturns

The following infographic, accessed through the Statistics Canada Labour Force Survey, June 2020, exemplifies how COVID-19 compares to other periods of economic downturn. The infographic compares COVID-19 to the 1981-1982 recession, the 1990-1992 recession and the 2008-2009 recession.

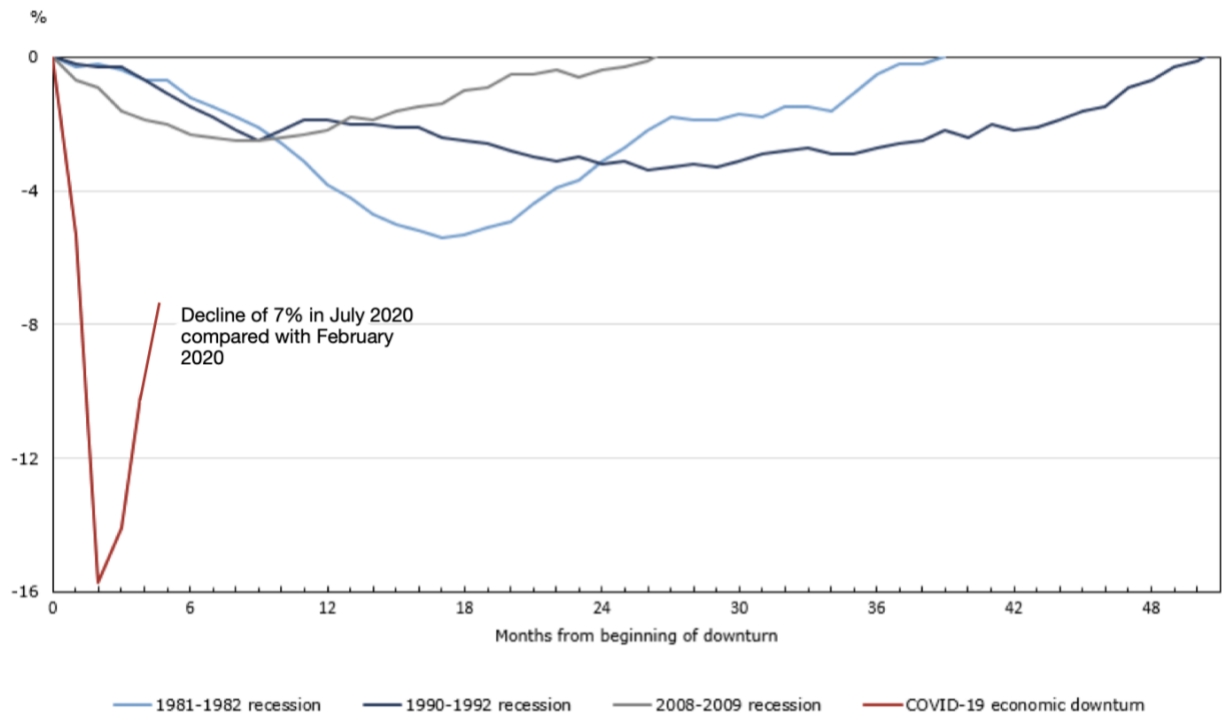


Figure 7. Employment changes indexed from the beginning of notable downturns. Source: Statistics Canada, Labour Force Survey, June 2020

The above chart demonstrates that COVID-19 “in just two months, employment fell to 15.7% below pre-COVID levels” (Labour Force Survey, 2020), at a faster rate than previous periods of economic downturns. It is also evident that the declines and increases from prior periods of the economic recession have been more gradual and not as sharp as employment changes during the COVID-19 pandemic. In contrast to other periods of economic downturn, the COVID-19 pandemic has changed much more rapidly, and in a shorter time period, than others. In addition, employment changes during the COVID-19 pandemic have declined the lowest when compared to other notable downturns.

## Geographical Locations

The following section of the paper will compare the impact COVID-19 has had on employment within Canadian provinces and examine the geographical impact of COVID-19 on different population centres.

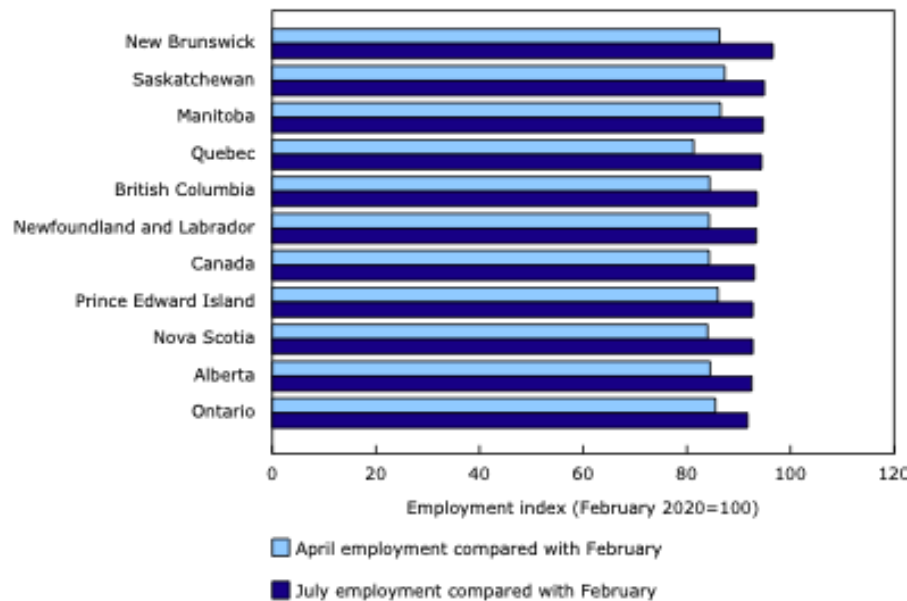


Figure 8. Employment changes indexed from the beginning of notable downturns. Source: Statistics Canada, Labour Force Survey, June 2020

Within the Canadian provinces, the employment level within population centres and rural areas has increased but continues to remain below the level of employment in February. The graph below shows the recent improvements in employment as of July, as provinces in Canada were impacted differently by the crisis.

In July, Alberta experienced a 3.2% increase in employment, while Ontario experienced a 2.2% increase (Labour Force Survey, 2020). However, Vancouver has undergone economic recovery at a rate slower than the rest of British Columbia, which has recovered to 93.5% of its employment level in February (Labour Force Survey, 2020). Most notably, employment in New Brunswick has reached 96.6% of its pre-COVID level of employment during July, as the province started its recovery rate earlier than most of the other Canadian provinces (Labour Force Survey, 2020). Manitoba, Quebec, Newfoundland and Labrador, Saskatchewan, Prince Edward Island and Nova Scotia continue to experience increases in employment and decreases in the unemployment rate (Labour Force Survey, 2020).

Next, employment in small population centres and rural areas will be compared. Doing so will contextualize how employment has been impacted across different types and sizes of Canadian communities. Overall, total employment for all population centres and rural areas has been lower in 2020 than the total employment for all population centres and the rural regions in 2019.

Small population centres in Canada experienced a –15% change employment between the months of March and April, signifying a decline in employment during this period. The change is significant between March and April, which is worth noting since immediately preceding COVID-19, there was only a small decline in employment at –0.2%. Moving into the recovery period, there was a 4% increase in employment in May.

On the other hand, rural areas experienced a -9% change between the months of April and May. The decline in employment is the smallest percentage change of all focus areas recorded within the March-April time frame, meaning that rural areas were typically not impacted as severely as other geographical regions. In addition, rural areas also experienced a 7% increase in employment in the month of May, which is higher than a variety of the other geographical regions studied.

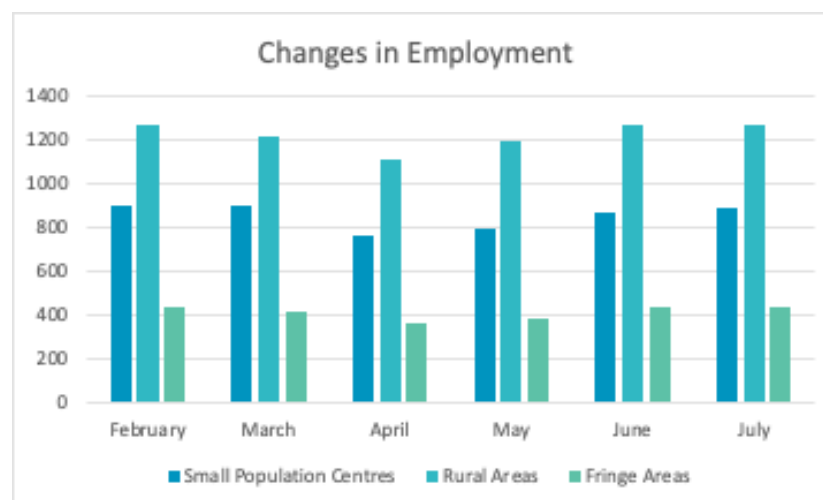


Figure 9. Employment level changes in small centres, rural areas and fringe areas, Statistics Canada, Labour Force Survey.

Not only has the COVID-19 pandemic impacted employment in small population centres and rural areas, but it has also further impacted the unemployment rate across various Canadian communities. The most significant change to the unemployment rate has been experienced within fringe areas, which refers to population centres with 10,000 or fewer residents. In fringe areas, the rate of unemployment increased from 6.2 in March to 13 in April, marking a 110% increase. May's unemployment rate was reported as 10.6, which is below the national average of 13.7 reported by Statistics Canada for May (Labour Force Survey, 2020). While fringe areas experienced a high rate of unemployment during the pandemic, those areas are recovering faster than other Canadian communities.



In contrast, other communities have not seen as quick a change in the unemployment rate. Specifically, the unemployment rate in rural areas has remained relatively stable, with minimal changes, since the onset of the COVID-19 pandemic. In March, the unemployment rate was recorded as 8.6. In April, the unemployment rate increased to 12.3 and changed to 12.2 in May. The minimal changes in the unemployment rate within rural areas may be attributed to the fact that some members of the labour force are still laid-off or unable to return to work, specifically in good-producing industries such as Agriculture, Construction and Manufacturing. However, Statistics Canada has found that the goods-producing sector has resumed its services to 93% of its pre-COVID levels, demonstrating that it has improved within the labour market since then (Labour Force Survey, 2020). In addition, the Government of Ontario has introduced measures to support individuals and communities within rural Canada through the COVID-19 Economic Response Plan, which has been used to alleviate some of the financial burdens faced by Canadians living in rural communities. It is possible that the implementation of initiatives through the Economic Response Plan has allowed businesses to remain open and has allowed employees to return to work.

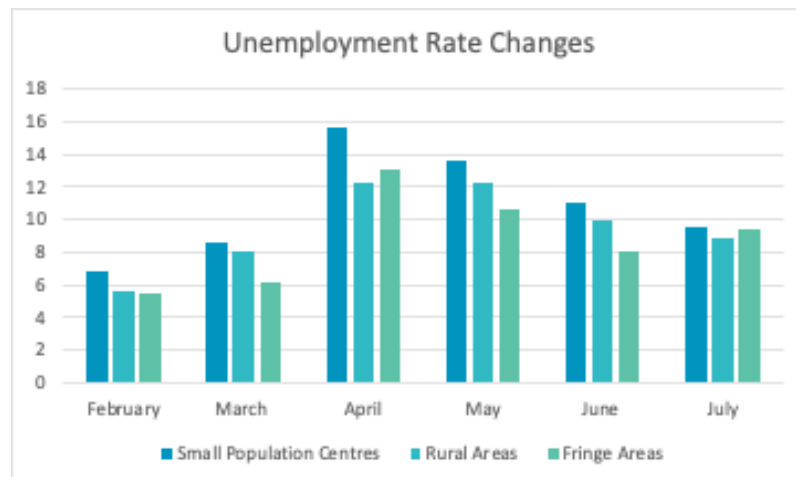


Figure 10. Unemployment rate changes in small centres, rural areas and fringe areas. Statistics Canada, Labour Force Survey.

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## **Pre-COVID labour market trends**

*Patrick Deutscher and Juliana Orlando Rohr*

Prior to the COVID-19 crisis, the structure of the Canadian economy and jobs was evolving, though perhaps not as dramatically as often portrayed.

The underlying forces of technological change and global competition drive change as new businesses rise and expand while some existing industries decline to dwindle or disappear. Existing companies may adopt new processes which displace part of their workforce while requiring new employees with the ability to work with the latest technology. The process of creative destruction, as it was called by the Austrian economist Joseph Schumpeter (1942), leads to both winners and losers. There is no guarantee that in any given location, the losers will not out-number the winners. Nor is the fact that there are winners out there any consolation to those who have fallen among the losers, usually through no fault of their own.

Economic shocks, whether business cycle demand fluctuations or supply shocks, can affect the pace of change. The Covid pandemic originated as a severe supply shock with economic activity suspended over a large swathe of the economy in order to halt or slow the spread of the virus. Shutdowns interrupt the flow of income as workers lose their jobs, and businesses lose their customers. The scale of this is without precedent at least since the 1930s, and the government also responded in an unprecedented way providing massive levels of deficit-financed income support. This response is rightly applauded as essential to providing a bridge to a return, at some point, to normality.

This paper examined some of the key labour market trends in the Canadian economy over the period from 2001 to 2019.

In the aggregate, over the year 2001 to 2019 jobs have outstripped the growth of the population in Canada. The path was not smooth and the employment to population ratio fell during the global financial crisis. Still, by 2019, the ratio for both women and men in the core 25-54 age group was at its highest level of the century. Employment among older workers (55+) has also risen significantly. The grudging recovery of the employment-population ratio for men in the core labour force participation age group, below its pre-recession level for the following decade, illustrates the damage that can result from a downturn. This post-crisis period also saw a rise in longer spells of unemployment as a share of total unemployment.

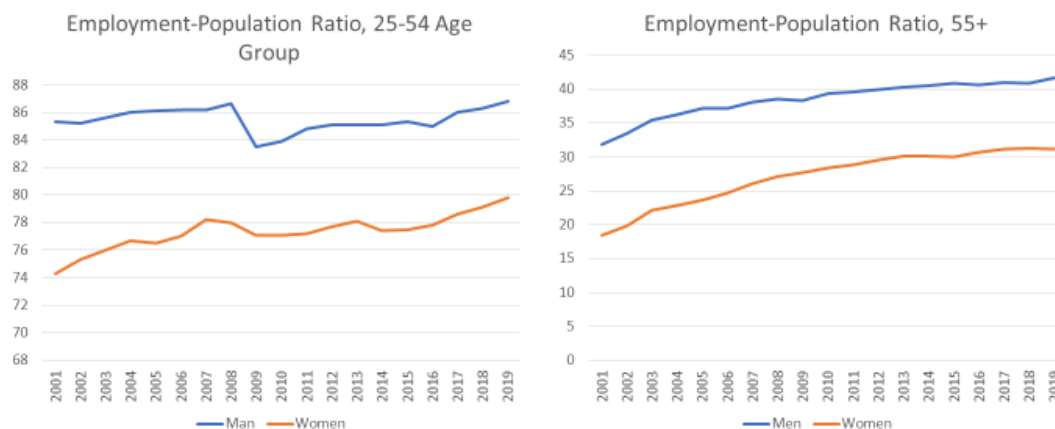


Figure 1. Employment has kept up with the population in Canada. Source: Statistics Canada. Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual; Table 14-10-0327-01 Labour force characteristics by sex and detailed age group, annual

Long-term unemployment moved up after the 2008-09 recession and did not start moving back to pre-crisis levels until late in the long, slow recovery.

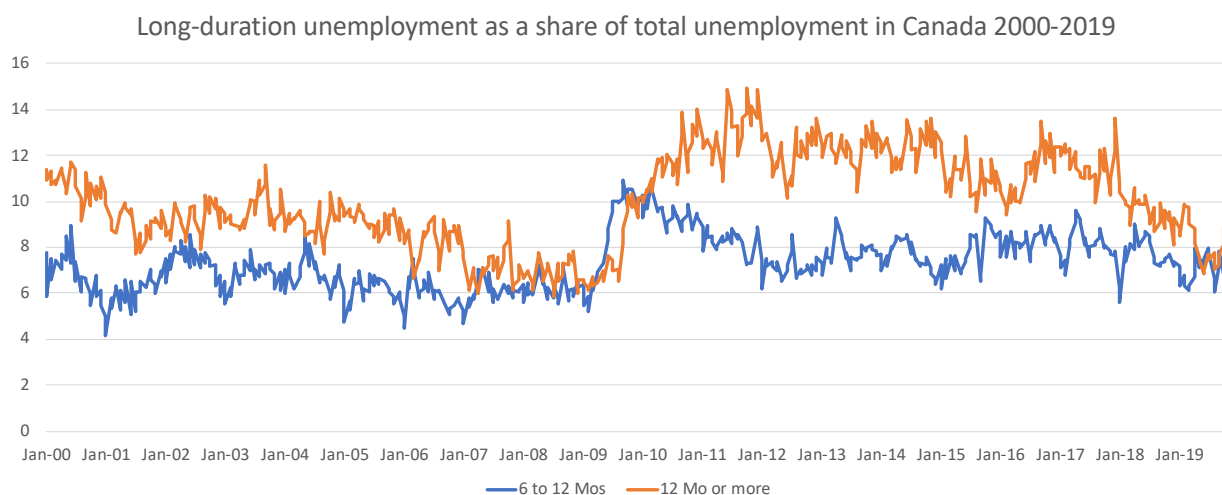


Figure 2. Long-duration unemployment as a share of total unemployment in Canada 2000-2019. Source: Statistics Canada. Authors' calculations from Table 14-10-0342-01 Duration of unemployment, monthly, seasonally adjusted

The structure of economic activity evolved and, with it, employment. Perhaps the most dramatic change has been the decline between 2001 and 2019 of Canadian manufacturing employment, both absolutely and relatively. Manufacturing employment fell by 489,000 jobs. Manufacturing's share of total employment dropped from 14.9 to 9.1 percentage points. Replacing these jobs as a share of employment were gains in construction (from 5.5 to 7.7 percentage points), professional, scientific, and technical services (from 6.6 to 8.2 percentage points), health care and social assistance (from 10.4 to 13.1 percentage points).

While employment in some occupations declined, new jobs arose in other activities. In line with the job loss in the manufacturing sector, processing and manufacturing machine operators and related production workers were the biggest net losers (-188.8 thousand) followed closely by office support occupations.

Growing occupations spanned a wide range of the economy with no type of job dominating. The fastest-growing occupations were professional occupations in natural and applied sciences (+396,000) and business and finance (+364,000). Together, these constituted only 16 percent of the growth of the job adding occupations. The need for health care led to the net addition of over 600,000 jobs in various related occupations, such as nurses and other professionals, medical support and technical activities related to health care.

<i>Change in employment in Canadian Occupations, 2001 to 2019, (000s)</i>	
Total, all occupations	4,123.4
Processing and manufacturing machine operators and related production workers	-188.8
Office support occupations	-186.3
Middle management occupations in retail and wholesale trade and customer services	-58.5
Distribution, tracking and scheduling co-ordination occupations	-58
Assemblers in manufacturing	-44
Labourers in processing, manufacturing and utilities	-41.1
Senior management occupations	-12.1
Workers in natural resources, agriculture and related production	-7.7
Processing, manufacturing and utilities supervisors and central control operators	10.3
Occupations in front-line public protection services	10.9
Supervisors and technical occupations in natural resources, agriculture and related production	23.2
Harvesting, landscaping and natural resources labourers	26.3
Trades helpers, construction labourers and related occupations	35.6
Professional occupations in art and culture	35.9
Care providers and educational, legal and public protection support occupations	52.2
Finance, insurance and related business administrative occupations	84.7
Other installers, repairers and servicers and material handlers	88.9
Sales representatives and salespersons - wholesale and retail trade	92
Sales support occupations	93.4
Maintenance and equipment operation trades	104.5
Professional occupations in nursing	123.2
Technical occupations in art, culture, recreation and sport	124.4
Middle management occupations in trades, transportation, production and utilities	126
Specialized middle management occupations	141.9
Professional occupations in health (except nursing)	142.5
Technical occupations related to natural and applied sciences	161.1
Service supervisors and specialized service occupations	161.9
Assisting occupations in support of health services	164.9
Paraprofessional occupations in legal, social, community and education services	172.4
Service representatives and other customer and personal services occupations	174.1
Technical occupations in health	178.6
Professional occupations in education services	188.7
Transport and heavy equipment operation and related maintenance occupations	190.9
Industrial, electrical and construction trades	193.4
Professional occupations in law and social, community and government services	235.4
Service support and other service occupations, n.e.c.	244.6
Retail sales supervisors and specialized sales occupations	249.6
Administrative and financial supervisors and administrative occupations	327.6
Professional occupations in business and finance	364.4
Professional occupations in natural and applied sciences	396.4

Source: Statistics Canada. Table 14-10-0297-01 Labour force characteristics by occupation, annual, inactive (x 1,000)

Many of the growing occupation groups require significant levels of higher education and skill development. Others are open to people with less education or experience, such as Service representatives and other customer and personal services occupations. These include many restaurant workers, occupations in tourism, security guards, and jobs in sales. These often provide young workers and students with first jobs and part-time work.

The success of the Canadian economy is returning to a high level of employment despite the job loss in manufacturing and in the face of technological and competitive challenges may give us some confidence that the labour market devastation caused by the Covid pandemic will also be overcome. However, this should not suggest complacency. Change has been much more difficult in some communities than in others. Smaller manufacturing-based cities and towns have fallen behind the growth of large metropolitan centres. In addition, workers who lose jobs suffer an income loss beyond that incurred while they are unemployed. According to Chan et al. (2020), more than one-in-five workers who were "permanently laid off" between the late 1970s and the early 2010s, saw their earnings drop by 25% even after five years of the initial job loss. Morissette et al. (2020) report that over the period 1979 to 2011 the percentage of laid-off workers who suffered at least a 10 percent earnings decline five years after job loss rarely fell below 40% over the entire period. The negative effect on long-run earnings of job loss is more severe during recessions which points to the importance of returning as quickly as possible to high employment.

Because the shock in 2020 is far more severe than anything we have experienced before, it may pose challenges of a different sort and a greater magnitude than we have overcome in the recent past.

Moreover, although the number of jobs has kept pace with population, many Canadian workers do not enjoy the benefits and security of a standard, permanent, full-time position. Studies estimate that more than a fifth of Canada's professionals (22%) are in precarious work of some sort, including involuntary part-time, contract or freelance work. According to the International Labour Organization, precarious employment refers to the inadequacy of rights and protection at work. This includes factors such as income volatility, uncertainty in future employment, employee misconduct, and individual preferences in work arrangement. Evidence also suggests that employees who work on an involuntary part-time and temporary basis are at a much higher risk of being precariously employed.

While the Labour Force Survey shows that part-time and temporary work arrangements are not growing relative to the overall workforce, industries such as services-producing sectors, information, culture and recreation services, accommodation and food services, and educational services have recorded a disproportionate increase in part-time and temporary work.

<i>Change in employment by Industries, 2001 to 2019, (000s)</i>	<i>Full-time</i>	<i>Part-time</i>
<b>Total, all industries</b>	3,355.70	939.90
Goods-producing sector	129.40	16.6
Agriculture	-63.40	-20.30
Forestry and logging and support activities for forestry	-36.80	-1.60
Mining, quarrying, and oil and gas extraction	106.30	3.00
Utilities	23.70	-0.4
Construction	621.60	34.60
Manufacturing	-511.80	2.7
Durables	-300.90	0.60
Non-durables	-211.00	2.1
Services-producing sector	3,226.30	923.30
Wholesale and retail trade	360.20	181.8
Wholesale trade	90.70	1.70
Retail trade	269.60	180.1
Transportation and warehousing	213.40	51.50
Finance, insurance, real estate, rental and leasing	330.00	20.3
Finance and insurance	243.60	-4.00
Real estate and rental and leasing	86.40	24.2
Professional, scientific and technical services	520.70	99.30
Business, building and other support services	179.70	65.5
Educational services	298.60	101.70
Health care and social assistance	822.30	150.6
Information, culture and recreation	38.60	67.80
Accommodation and food services	122.10	152.7
Other services (except public administration)	104.70	30.10
Public administration	236.10	2.1

Source: Statistics Canada. Table 14-10-0023-01 Labour force characteristics by industry, annual (x 1,000)



In 2019 there were 14.1 million workers classified as permanent employees in Canada. There were also 2.1 million classified as temporary, including seasonal work, casual jobs and term or contract employment. Both permanent and temporary employment grew by similar amounts between 2001 and 2019 (just over 27%). Term or contract employment increased much more, growing by 39.4% from 770,000 in 2001 to 1,073,500 in 2019. As a share of paid employment this category rose from about 6% in 2001 to 7.4% in 2017 and fell back 6.6% in 2019.



Figure 3. Term and Contract Employment as a Share of Total Employment (excludes self-employment)  
Source: Statistics Canada. Table 14-10-0072-01 Job permanency (permanent and temporary) by industry, annual (x 1,000)

There were 2.9 million self-employed in Canada in 2019, representing 15% of total employment. Self-employment had risen from 1976 (when the current labour force tables begin) until the late 1990s, moving from about 12% of total employment to 17% in 1998. This share dropped to about 15% in 2001 and has subsequently fluctuated near that level.

In recent years the category of gig work has risen to prominence. The term is loosely used and encompasses types of labour that have long existed, people picking up one-off day jobs or individual tasks posted on a bulletin board. Its rise to prominence came about because of internet applications that link a customer with a specific worker prepared to meet a particular need. Gig workers are usually hired for short-term jobs, including freelancers and on-demand workers hired to do a specific task. In some cases, they are classified as unincorporated self-employed workers whose future business activity is uncertain and occasional. The categorization is challenging both from the point of view of sorting the data and the legal relationship. Uber and Lyft drivers get tasks from a platform that takes the order, offers the job to available drivers, collects the fare, reimburses the driver, and performs other background tasks necessary to provide the service. The companies characterize the drivers as self-employed while some of the drivers, seeking to be classified as employees and obtain the legal protection offered to employees, are looking to courts to settle the question.

Data from the Canadian Employer-Employee Dynamic Database and the 2016 Census of Population, shows that the number of gig workers among all Canadian workers aged 15 and older, increased from 5.5% in 2005 to 8.2% in 2016. As of 2016, one out of every ten Toronto workers

participated in the gig economy, either as their main job, or as a way to supplement their income from a primary job. A study by Statistics Canada (Jeon et al., 2019) finds that gig workers are more prevalent among immigrant communities and that workers in the bottom 40% of the annual income distribution are twice as likely to be involved in the gig work economy. Among those who enter the gig economy, about half stay for a year, with about a quarter participating for three or more years. Many reported looking for gig work after losing regular employment earnings.

Part-time work is also a significant component of the labour market. Some workers, students, for example, may have a preference for a part-time job. Others may end up working part-time because they have not been able to find full-time work. Some employers may have a preference for part-time workers to match predictable fluctuations in demand for their products. Again, over the period since 2001, part-time employment as a share of total employment has moved in a fairly narrow range. It was 18.1% in 2001 and 18.9% in 2019, never straying outside an 18-19% annual band over the entire period.

The share of part-time workers who were not working full-time for economic reasons was 25.8% in 2001, reached an annual peak of 27.8% in 2010 and the share subsequently declined to 19.5% in 2019.

One important dimension on which the Canadian labour market has changed has been the decline in union representation throughout the years. From its inception in the 19<sup>th</sup> century, the Canadian trade union movement was predominately a male domain reflecting the composition of industrial employment. It remained so until the 1960s. However, since 2007 a union member is more likely to be a woman, working in an office, school or hospital. The "traditional" union member, such as factory workers, miners, and blue-collar trades, have seen their union membership fall over the past three decades. In Canada, most of the decline occurred in the 1980s and 1990s, causing unionization rates to fall from 37.6% of the workforce in 1981 to 30.1% in 2018. While the overall union coverage rate is declining, the trend differs by sex. Since 1981, male workers' union coverage rate dropped from 41% to 27.9% in 2018. For female workers, the rate remained relatively stable over the same period, varying between 31% to 32.4%.

There is a notable decline in the unionization rate among young workers. One factor contributing to this decline is the employment shift away from industries and occupations with high union density (construction and manufacturing) and toward those industries with lower rates (retail and professional services).

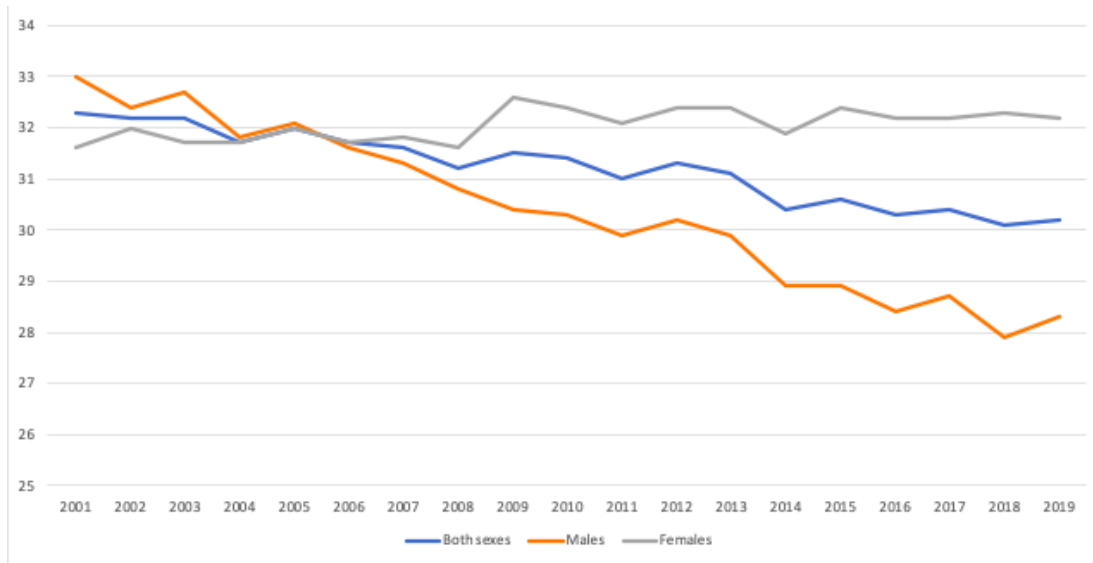


Figure 4. Union Coverage Rate (by a collective agreement) in Canada, 2001-2019. Source: Statistics Canada. Table 14-10-0129-01 Union status by geography

Along with the decline in unionization, there has been a general slide in the coverage of employment-based social protection for workers. At the end of the 1970s, more than half of all male employees had a Registered Pension Plan (RPP) at their job. In the early-1980s, RPP coverage among male employees began to decline, falling below 50% in 1986. Coverage continued to decline throughout the 1990s and fell below 40% in 2003 and dropped to 30.1% in 2018. During the same period, pension coverage among female workers stayed relatively stable. From coverage of 36% in the late-1970s, women's pension coverage increased to just over 40% by the late 1980s. As of 2018, the pension coverage rate for women is 39.3%. As with the trends for union representation, the higher RPP coverage for women results from higher employment in the public sector, including education, health care and social assistance. In 2019, 36% of employed women aged 25 to 54 were employed in these sectors, four times more than the rate for men of the same age (9%).

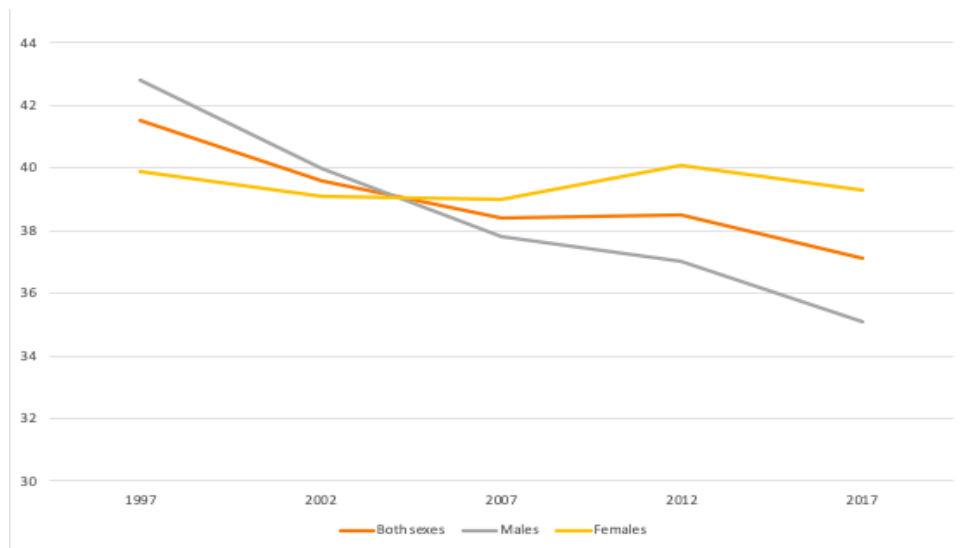


Figure 5. Percentage of Paid Workers Covered by a Registered Pension Plan, 1997 to 2017. Source: Statistics Canada. Table 11-10-0133-01 Registered pension plan (RPP) active members by area of employment & Table 14-10-0027-01 employment by class of worker, annual (x 1,000)

### Implications for Post-Covid Labour Market Policy

The resilience of Canada's labour market before the COVID-19 pandemic resulted not just from the economy's capacity to adjust but from a range of supportive public policies including income support, training and adjustment assistance, infrastructure investment and the aggressive use of fiscal and monetary policy to encourage recovery from the 2008-09 recession. While the world of work has been previously impacted by the economic crisis, the COVID-19 pandemic poses different challenges to the labour market.

- Low-wage workers, women and minority groups have been more affected during this pandemic than when compared to previous shocks. To this point employment recovery is also uneven across these workers.
- Sectors such as air, train, tourism, commercial real estate and brick-and-mortar retail, and hence employment within, will likely not return to pre-pandemic levels of activity for many years. Barrero, Bloom and Davis (2020) estimate that 42 percent of recent layoffs will result in permanent job loss.
- The likely shifts in production processes will amplify employment disruption. With COVID-19 acting as an accelerator, there will be greater momentum in mechanizing production processes, including the use of robots and Artificial Intelligence. With Public health experts believing that we are at greater risk than ever to experience large-scale global pandemics, business models will adapt to provide insurance against workplace health risks and protect

supply chains from being highly disrupted by a possible future pandemic. Again, this technological advancement is more likely to be felt by more vulnerable groups with lower education and skills. Policies to provide retraining to workers in declining industries and that link income support to participation in training and job search could speed the necessary changes.

Even though there wasn't a big change over the period examined in this document, vulnerable workers not adequately protected by social insurance are a big component of the labour force and re-engineering EI to extend coverage as well as an examination of employment standards protection to eliminate gaps will be necessary to promote equitable growth.

The Canada Workers Benefit is a tax credit that encourages employment, provides disposable income to low-to-modest income households and may subsidize the cost of hiring to employers. It could be enhanced to provide more effective support to Canada's labour market in a period of potential turbulence and persistent high unemployment.

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## **Changes in the Canadian Labour Market Resulting from the Pandemic**

*Spencer McDonald and Juliana Orlando Rohr*

The result of any major, impactful crisis is both response and change. Notable examples experienced throughout the course of our history include World Wars, the 9/11 tragedy, the Great Depression, natural disasters, and pandemics. Social, environmental, and economic impacts are all experienced in some form, and level as a result of these events. The goal is for policies to steer the response to positive outcomes for each of these key areas.

The world has been, in many ways, relatively fortunate when it comes to the realm of global pandemics. The 1918 Flu is arguably the closest comparable to the current COVID-19 crisis. Although SARS, MERS and other disease outbreaks have also been experienced over the course of this hundred-year span, none have impacted the world in the same manner as COVID-19. The social, economic, cultural and environmental impacts of COVID-19 have been felt around the world throughout the course of the lengthy pandemic; with most governments urging citizens to heed the advice of the health care professions and implement such practices as quarantine, social distancing, no group gatherings, mask-wearing and frequent hand washing. The medium and long-term impacts of COVID-19 are largely unknown. What has been realized throughout the course of the pandemic thus far, however, is the fact that throughout North America, and indeed in much of the developed world – the traditional “workplace” for tens of millions of working age people, may forever be changed. Further, the impact that the virus will have on both urban centres and rural communities, and the interplay between these types of communities, will be noticeable, and for some communities, will likely be overwhelming.

The following section of the study will look at permanent changes in the labour market as a result of COVID-19, with a specific focus on permanent job losses, jobs that are unlikely to reappear, and new occupations that might emerge with the rollout of the pandemic.

### **Permanent job losses**

The reopening of the economy post-COVID-19, and to what extent the unprecedented number of layoffs that have taken place will become permanent, remain uncertain. Evidence shows that nearly half of all layoffs under previous recessions ended up being permanent in nature. In combination with the overall uncertainty associated with many aspects of the COVID-19 pandemic, the resultant number of job losses is likely to be severe. A study published by Statistics Canada (Morissette et al., 2020) reports that on average, 12.4% of Canadians aged 15-64 have been laid off each month from February to April – compared to approximately 2.5% of Canadians belonging to this same age group, under the previous two recessions experienced in Canada.

When comparing levels of education and rates of unemployment, Statistics Canada shows that younger workers with a lower education level have been disproportionately affected by the

economic situation of all previous recessions in Canadian history. Since February 2020, approximately 15.1% of workers without a degree were laid off, compared to 7.2% of those who held a bachelor's degree, or higher. While this large divide between rates of lay-offs by level of educational attainment was not the case during previous periods of economic downturn, the permanency of the layoffs seems to be following the same trend. This means that many of those being laid off during COVID-19 are following the same trend as the previous three recessions, which saw between 44.6 and 46.4% of layoffs become permanent.

Statistics Canada (Labour Force Survey, May 2020) indicates that the unemployment rate reached 13.7% in May, the highest rate since 1976. However, the unemployment rate grew more slowly compared to previous two months and fell in June; the labour market is slowly responding to the gradual easing of COVID-19 restrictions. It is important to take into consideration that the actual unemployment rate can understate the hit suffered in the labour market, since the unemployment rate do not count for those who are not actively looking a job, neither those who are still employed, but working on reduced hours.

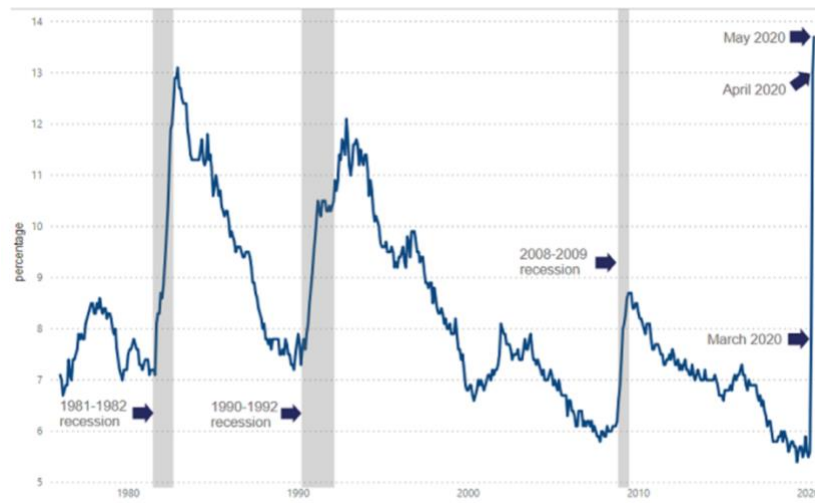


Figure 1. Unemployment Rate in previous recessions. Source: Statistics Canada. Table 14-10-0287-01 (formerly CANSIM table 282-0087)

MacDonald (2020) uses information from Labour Force Survey to illustrate how the unemployment “burden” associated with COVID-19 has not been shared equally in terms of hourly earnings, gender, and education level. As indicated by the survey, on average those earning over \$48 per hour actually saw an increase in the number of hours worked, while those earning \$16 per hour had their hours either reduced by 50% or lost their jobs altogether, from the period of February to May 2020.

The variation between gender is also noticeable. According to Statistics Canada, women disproportionately faced the brunt of the pandemic. In March, women aged 25 to 54 years old



lost more than twice the jobs (298,500) than men in the same age group (127,600). Compared to February, there were 162,000 (+55.8%) more core-aged women unemployed in March, whereas men in this age group, unemployment increased by 71,300 (+21.8%). This disparity can be attributed to an overrepresentation of women in sectors that were mostly affected by the pandemic.

Further, despite the survey showing that permanent job losses are not rising dramatically, increasing from 351,000 in February to 502,000 in May, figures show that there are in fact a number of layoffs which are turning permanent, with the full recovery from the pandemic taking months, or more likely years, with those hardest hit likely being the ones who are among the last to recover. Data from Statistics Canada (Morissette et al., 2020) also shows that those who found new jobs after being laid off resulted in a sharp decline in future earnings. For those belonging to the “permanently laid off” category between the late 1970’s and the early 2010’s, more than one-fifth saw their earnings drop by 25% even after 5 years of the initial job loss.

### **Jobs unlikely to reappear**

After the COVID-19 pandemic, it is likely that many jobs and industries will cease to exist, due to the realization of what can be done remotely and its efficiency (Kelly, 2020). Sectors that used to spend a great deal of time, money and effort on traveling for meetings and conferences, witnessed their work structure change in months, with activities continuing effectively through videoconferencing. Given that this option exists and has the potential to save significant amounts of money, it is likely that a number of industries will continue in their transition into the web-conferencing model rather than going back to the face-to-face model. The costs of airfare, hotel stays, car rentals, meals and more will almost certainly be viewed as unnecessary for a number of sectors/specific industries.

A study done by Kok (2020) points out that service-oriented economies will undoubtedly experience lasting structural changes as a result of the COVID-19 pandemic. A new way of doing things will have impacts on growing sectors such as medical services, biotech, food production, delivery services and IT. With such strong demand in these sectors, there will exist new opportunities for workers displaced from other sectors which will not re-emerge post-COVID.

The role of re-training will be particularly important, yet with the move to remote work becoming a viable option, the competition for a number of jobs may be even more fierce – with workers from virtually anywhere in the world (with connectivity) being able to compete for these remote-type jobs. Lower skilled workers are the most affected by this crisis, since they have been continuously displaced through COVID job losses. This same group is unlikely to possess the skill set and education to immediately enter back into the workplace in jobs or sectors requiring higher levels of both education and/or skill sets. It has become increasingly important for industries to not simply drop their workers at the first sign of trouble, as it has been shown that it is less likely the workers will return after being laid off. Further, for the economy to recover, a

number of these workers will need to remain in place for people to have the ability to support the various sectors and the overall economy.

The service industry, recreation, entertainment, accommodation and air travel have experienced devastating losses in revenue and in employment. While government shutdowns are largely the reason these particular industries have suffered such losses, their shutdowns were a necessary response to the pandemic. However, it is important to consider that once the economy reopens fully, these industries are not likely to be as quick to rebound as a number of other industries such as automotive and goods-producing sectors whose losses spanned a much shorter period of time. In May 2020, for example, we could already see that employment rebounded weakly in the service-oriented sector (+1.0%) compared to the goods-producing sector (+5%). In July 2020, this trend changed to a strongly increase in employment in the services-producing sector (+348,000; +2.5%), and a modest growth in the goods-producing sector (+71,000; +1.9%). Comparing both sectors to its February levels, the service sector already recovered 93%, and in the goods-producing sector 93.1% (Statistics Canada, 2020).

There are also some speculations that the movie theatre industry will disappear after the pandemic (Forbes, 2020). Movie theatres have always held an exclusive window for film releases. Usually, the industry demanded 90 days for exclusive rights before the movie can be shown elsewhere. However, with movie theatres closing down due to the pandemic, filmmakers were forced to release films without giving the movie theatres industry the exclusivity. Universal, one of the biggest filmmakers, announced that it would no longer provide the movie theatres industry with the exclusivity after the pandemic. Without the exclusivity rights, movie theatres will have a drastic decrease in profitability, hence the speculation of being one of the industries that will disappear.

### **New types of employment emerged**

While some industries such as the accommodation and food services, arts, entertainment and recreation, transportation especially airline companies have been facing a severe hit, some sectors are adapting to the new reality. A new way of doing things will have impacts on growing sectors such as food production, supply chains, delivery services, logistics and warehousing. Since the pandemic started, jobs in logistics and warehousing have increased by 156.2% (Ranosa, 2020), which is a vital increase as the world continues to grapple with the coronavirus pandemic.

For more businesses, some new jobs are being developed to address new COVID protocols. Whether these are workers dedicated to taking temperature checks for customers, sanitizing store equipment or controlling crowds, it is possible that the demand of such new types of employment would continue to increase until a vaccine is found, and mass distributed; however, high uncertainties await as companies may expand the responsibilities of existing employees instead of hiring new ones due to cost and health concerns.

## **Discussion of a shift to working from home**

Physical distancing measures has led to a large number of Canadians working from home. This shift raises discussion about mental health, productivity, and work-life balance. The results of research and studies are mixed due to limited information, revealing that some uncertainties remain.

As pointed out by the University of Toronto's Chris Bovaird (2020), physical distancing from workplaces would also lead to psychological distancing from employers. The shift to remote work might affect mental health for those who are accustomed to conventional office life. A study published by Buffer (2020) found that for those who normally work remotely, 19% report loneliness. The feelings of isolation negatively impact emotional and mental wellness of people, especially when the feelings are chronic, which, for many who live alone, could persist during the coronavirus pandemic. However, from the other hand, Bovaird (2020) points out that there is no longer the need for long commuting hours, which in turn could allow people to feel happier and have a healthier life in general.

A wealth of research outlined the challenges people experience with working from home – with 29% indicating that they struggle with work-life balance when forced to work from home (Caramela, 2020). Issues associated with gender-gaps have also been at the forefront throughout the pandemic, as primary care-giving duty has often fallen to mothers who are now tasked with working from home and providing care to school-aged children who are unable to be at school. Challenges associated with working from home while managing children has emerged as being one of the overwhelming factors which makes maintaining a high level of productivity very difficult. Labour Force participation will continue to be a hit, mostly for women, as families across Canada opt for home-based learning (ex. Quebec).

Some studies have argued that there is a loss of productivity that comes from working from home, yet this loss may be as low as 1-3% depending on one's home situation (Valoir, 2020). On the other hand, some large companies have expressed their intent in keeping home office as an option for their staff even after the pandemic comes to an end (Valoir, 2020).

Stanford Economist Nicholas Bloom, who in earlier work identified benefits of productivity associated with working from home, has now expressed fear that productivity may plummet in the current coronavirus crisis (Gorlick, 2020). An analysis of the Chinese company Ctrip, which had previously conducted a work from home experiment with its staff, showed that two essential characteristics of this experience were that employees were only allowed to work from home if they had a home office (not in a bedroom or common living area) and that employees had to attend a face-to-face, in office meeting every fifth day (Gorlick, 2020). Bloom fears that a complete move to work from home, and elimination of face-to-face meetings and interaction will result in a slump in innovation.

The permanency of the work from home arrangement resulting from COVID-19 will depend on a number of factors. Among these factors, productivity ranks high on the list – just how much of a difference exists between how productive workers are at home compared to when they are in their actual workplace is a key metric. Numerous studies now exist, based on both short- and long-term data, which show that in many industries, the difference between working from home and working from the workplace is negligible – as low as a 1% difference when measuring productivity. Second, the permanency of the work from home situation may well depend on the preferences of workers. 40% of workers surveyed indicate they would prefer to work from home full time and may opt to do so well beyond the duration of the COVID-19. Third, the permanency of work from home arrangements also depends on the telework capacity of the industries. While many industries will continue to require physical office buildings, warehouses, factories and service centres in order for their sector to survive in the post-COVID world – others will not.

It is estimated that 85% of jobs in finance and insurance, 85% jobs in educational services, and 84% jobs in professional, scientific and technical services can be plausibly performed from home while only 6% in accommodation and food services, and 4% in agriculture, forestry, fishing and hunting can be potentially shifted to working from home (Deng et al, 2020).

For the Mississauga based Mobile Computer Corp, Inc., the work has continued, relatively uninterrupted, throughout the entire duration of the COVID crisis thus far. The small software firm maintains that employees have in fact boosted their productivity and are happy to do without the lengthy commutes into the office many previously faced. Mobile Computer Corp, Inc. has now indicated that they will flip from spending one day working from home (pre-pandemic) to spending just one day in the office (post COVID). Like many others, Mobile Computer Corp Inc. maintains that there is value in face to face meetings, and to having time spent in the actual office building. With productivity boosted, and morale high, they will not be returning to any significant amount of time being spent in the office. A blended work week, or “hybrid work life” which sees employees splitting time between home office and work office will almost certainly become not only an option, but a popular one, in the post-pandemic work world.

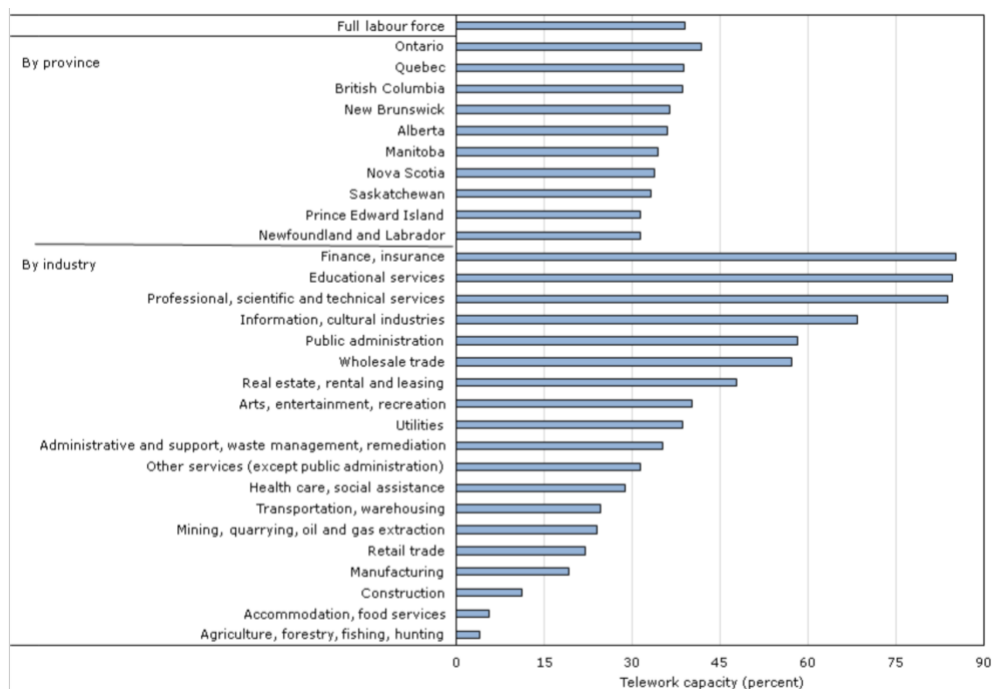


Figure 2. Telework capacity in 2019, by province or industry. Source: Statistics Canada, Labour Force Survey, 2019.

Whether and to what extent telework arrangements will persist as a new norm when the economy is fully reopened remains to be seen. A shift to working from home can possibly bring positive social and environmental impacts, including reduced traffic congestion and air pollution. However, whether the transition will improve mental health, productivity, and work-life balance remains uncertain.

## Conclusion

The nature of the workplace will forever be changed as a result of the COVID-19 pandemic. With numerous lessons learned, adaptations made, and efficiencies discovered, it is likely that its impact will be shared among nearly every industry, in some form or another. The emergence of new sectors, the fading out of some sectors and the realization of interdependencies have been highlighted throughout a relatively brief period as a direct result of the pandemic. The ability to work from home, and to maintain or even improve productivity in doing so, has been a pleasant surprise for many groups – namely, employers. However, this is but one metric and does not cover the entire scope of how this pandemic has changed individuals working lives.

Despite the successes mentioned above, the same scenario, if played out over a longer period, will reveal its weaknesses. Tolls on mental health for many trying to balance home life with the many demands of work-life, including child-care and education, has proven difficult, and is unlikely to improve at the rate much desired, and will persist as a very challenging dilemma - continuing to have disproportionate impacts among very specific groups. Uptake in the resources

offered by the Canadian Mental Health Association (CMHA) and a strong reliance on our existing relationships, both with family and friends – once again, interdependencies – are areas that need to be explored as the pandemic continues on its course.

Assessing the various outcomes - among them, social, economic, environmental and cultural - of the current pandemic is something which undoubtedly will be done for decades to come. However, what requires careful consideration and measurement is how we, as citizens, are collectively working to keep life in balance to ensure the best possible outcomes become the reality of our future. As demonstrated since the beginning of time, the unbreakable force of the human spirit will not be defined by any one crisis. COVID-19 is no exception to the rule.

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## Implications For The Workplace

### How Will COVID-19 Relocate and Restructure the Workspace?

*Patrick Deutscher and Leo Erlikhman*

The COVID-19 pandemic inflicted an unprecedented shock to the Canadian labour market. From February to April, more than three million jobs were shed, a decline of 15.7%. The impact on labour input was even larger as many workers who remained employed worked far fewer hours, often zero. Hours worked across the economy declined by 27.7% from February to April. As governments began to relax restrictions on activity, employment surged back in May, June, and July. However, July employment continued to be 1.3 million jobs or 7% below pre-crisis levels and it is likely that future job recovery will be harder to achieve.

The decline in employment fell heavily on service sector jobs involving close face-to-face contact between workers and customers such as stores, restaurants and bars. The abrupt decline in travel both across international borders and within the country reduced demand for accommodation. Women and recent immigrants make up a disproportionate part of the labour force in these industries. Compared to February levels (seasonally adjusted) employment was down most sharply in 'accommodation and food services', 'information, culture and recreation' and retail trade.

Female employment was down by 16.9% in comparison to 14.6% for male employment. Young workers who often find first jobs and part-time jobs in hard hit industries, suffered an outsized employment decline of 34.2%. Recent immigrants were more likely than Canadian-born workers to move out of employment in March and April (Deng et al., 2020).

This paper is arranged in four sections. The first section briefly considers the path ahead for employment and the importance of conquering the virus itself. Section 2 considers the impact of changes in consumer preferences. Section 3 considers the impact of business production decisions. Section 4 concludes briefly with some thoughts on the implications for policy.

### The Path Ahead

The path of recovery will depend on the course of the disease. If it retreats steadily until, eventually, an effective vaccine is available, people can be expected to gradually resume pre-crisis life. If the disease flares up in repeated outbreaks or if there are further waves of the epidemic, then even the partial recovery seen to this point could be stalled. Decisions by government to maintain or loosen restrictions such as occupancy limits in restaurants or cross-border travel will both be influenced by the estimated risk to public health and, if those risk materialize, could lead to further flare ups weakening consumer and business confidence. If sufficiently severe, the flare ups could lead to re-imposition of public health restrictions as has happened in Germany, Australia and elsewhere.

There has been a great deal of speculation about long-lasting and even permanent impacts of the pandemic on the economy and the nature of work. Permanent impacts could result from changes in consumer preferences or from innovations in business practice that prove durable.

Long-lasting impacts could also result purely from the depth and duration of the economic slump. There is a well-established scarring effect on the life-time earnings of people who enter the labour force during a recession (Oreopoulos et al., 2012). Some otherwise viable businesses that might have prospered in the absence of the pandemic will not survive a protracted downturn despite the efforts of government to provide support. Some businesses that survive will emerge with weakened finances and face an uncertain economic outlook. They will feel pressure to contain costs and will achieve this in part by cutting jobs that are not seen as contributing to profitability. This pressure will intensify as industry support programs, like the CEWS (Canada Emergency Wage Subsidy), are phased out.

It can take considerable time to return to work after a job has been lost. After the 2008-09 recession the employment to population ratio fell by over three percentage points and did not recover to its prerecession level for a full decade. Long spells of unemployment, a year or more, became more common showing how difficult it was for some workers to return to economic activity after the shock. The reopening of schools and the availability of safe childcare in a Covid-constrained setting will be an additional challenge for continued employment growth. Either unavailability or a lack of confidence in the ability of schools to provide a safe environment for their children could further postpone the return of parents to the workforce. This pressure is most likely to fall on mothers.

In addition to spells of joblessness workers may end up in jobs that pay less than their previous job. Morissette et al. (2020) found that long tenured workers who were laid off from firms where they had worked for six years or more were at high risk of experiencing large (10% or more) earning declines in the years after they lost their job. The loss of earnings following layoff was worse for those who lost jobs during economic downturns.

The speed and depth of the economic shock caused by COVID-19 was much more severe than previous recessions, which look like slow-motion car wrecks in comparison. On the other hand, the initial rebound has been much more rapid with economic indicators, including jobs in some industries, surging back as soon as rules allowed some businesses to reopen doors.

Apart from the possible impact of a Covid resurgence (which many see as more likely than not) the future path of the recovery may be more comparable to the pace of recovery experienced from previous recessions. Some jobs will disappear while others will arise. Workers will take time to give up on previous jobs and search for new ones. Employers will need time to find the workers that have or can be trained the skills required for new roles.

## How will consumer spending patterns change?

As we continue to enter the new reality that is brought on by COVID-19, governments have established policies that prepare for the recovery phase of the economy. Currently, economies attempt to operate in a new 'healthy reality' where disease prevention is front of mind as vaccine development continues (OECD, 2020). With a decline in work hours and strains on health systems, individuals need to assess their own personal health risks as they evaluate the level of participation they would like to have in the economy. Callum et al. (2020) argue that those who feel that they are likely to be infected have increased caution in how they navigate society. On the other end, businesses take on the role of planning by providing mitigation strategies to prevent future infections that allow regular business to continue. This included the rapid development of work from home strategies and the redesign of how businesses would operate with workers and customers near one another.

The COVID-19 crisis has led to a transformative shift with nearly a decade's worth of digital transformations occurring within a few weeks (Baldwin, 2020). The changing forced by government shutdowns and new pandemic restrictions resulted in an immediate paradigm shift of the modern global workspace. At the height of the pandemic, it is estimated that 40-70% of North American and European workers were doing so remotely (Baldwin, 2020). Within North America upwards of 50% of businesses were either partially or fully closed by government orders. As of August 19<sup>th</sup>, 2020, the Canadian Federation of Independent Business (CFIB) reports that only 66% of its members have re-opened with 40% returning to their normal staffing levels compared to the previous year. The federation represents over 110,000 small businesses across Canada and has been monitoring the impact of COVID-19 throughout the pandemic (CFIB, 2020).

Much of this may be attributed to the changes that have occurred in consumer taste and preferences within Canada because of the 'new normal' that COVID-19 has brought about. With a reported decline in retail business from February to May, businesses needed to adapt quickly to maintain relevance in the current market. Statistics Canada reports that there was a 99.3% increase in online shopping compared to the previous year (Aston et al., 2020). Each retail subsector excluding food and beverage saw increases in online sales in comparison to in-store purchases which all saw declines. Grocers and 'big-box' retailers were "perfectly positioned" for COVID-19 seeing record revenue numbers from retailers, such as Walmart and Target, who quickly adapted stores and boosted online shopping options (New York Times, 2020).

Canadian **grocers** recorded record revenues. However, they did not see the corresponding profit increase given the adoption of 'hero' or 'pandemic' pay which increased operating expenditures (CTV news, 2020) (Loblaws, 2020). Canadian e-commerce grocery sales boomed with Loblaws seeing a 280% boost in e-commerce compared to last year with its first quarter outpacing all of 2019 in sales (CTV News, 2020) (Loblaws, 2020). Similarly, Metro and Empire Inc. achieved double digit growth with retailers rapidly adopting new ways for consumers to shop while still feeling safe.

Stores increased staffing and built in new systems to provide consumers with pandemic style 'security theater' (Deloitte, 2020) to show consumers that their safety was paramount to business operations. New partitions between customers, floor markers and cleaning regimes are being taken to show consumers that they can feel safe while shopping. The size and variety of the big-box retailers have allowed them to eat-up market share by providing the consumer with multiple services. Similarly, smaller businesses that rapidly adapted to the crisis have been able to recover quickly from the crisis with a strong rebound in retail sales in June with a 23.7% increase in sales surpassing pre-pandemic February sales numbers (Aston et al., 2020). Sales maintained levels with only modest growth in July, but this shows that firms that adapted to the crisis and have been able to re-open in the retail sector have been able to recover quickly. This change in consumer taste and preference may have a long-standing impact on Canada post-COVID-19 with some Canadians choosing to stay with e-commerce platforms rather than returning to the traditional retail landscape. This may have impacts on job numbers within the sector as companies may be able to operate with fewer employees compared to pre-pandemic staffing requirements and a new 'healthy reality' is formed while we await a vaccine (OECD, 2020).

The **bar and restaurant** sub-section of the food and beverage industry was initially impacted heavily by policies mandating the closure of businesses. At the start of the pandemic 3% of American restaurants closed, a number which rose to 14% as the stressors of the pandemic and the failure to adapt quickly resulted in permanent closures of establishments (Bloom et al., 2020). According to Restaurants Canada, the onset of the pandemic led to 800,000 jobs being lost in March 2020. While some have returned to normal operations, Restaurants Canada has estimated that 10% of the Canadian restaurant industry has permanently closed due to COVID-19 (Forbes, 2020; Financial Post, 2020). The sector has seen sales decline by 49.8% during this time-period, with 'drinking establishments' seeing 85.9% decline in year over year sales (Aston et al., 2020). The dramatic decline in sales coupled with the low-margin nature of the industry and the high costs associated with adapting to the newly regulated environment likely resulted from the initial shock of lost businesses.

The industry has called on the government to provide more supports to ease the high costs associated with commercial rent which is the number one cost restaurants and bars have during this time (BNN, 2020). That relief has not come and most likely will not as the industry is prone to high turnover; this will result in new businesses that can open in the future. Full recovery, however, may take years.

Parts of the sector may be permanently lost to other parts of the food and beverage sector with an increase in e-commerce for groceries and other food products potentially resulting in a permanent shift for some consumers. The Agri-Food Analytics Lab at Dalhousie University has examined the change in consumer tastes and purchasing preferences during the pandemic. In their August release, they report that there has been a 30% decline in restaurant food sales this year (Dalhousie, 2020) as individuals purchase less food from restaurants and cook more at home. The Dalhousie researchers project that the industry may lose up to \$20 billion this year in

economic activity as a result of the virus (Dalhousie, 2020). Based on survey findings that 24% of the workforce could permanently move away from the office in the future, they speculate that the restaurant industry may face a permanent dramatic relocation and reduction in demand as consumer purchasing preferences shift in tandem with telecommuting.

Recovery in food and beverage industry is tied to a company's willingness to adapt to consumer safety concerns and operate within government guidelines. The sector has seen a rapid shift in consumer behaviour with e-commerce providing many in the sector with a vital lifeline to survive the pandemic by maintaining operations. E-commerce platform Uber saw a dramatic rise in the amount of orders in its subsidiary business UberEATS with a 113% increase in orders during the pandemic which is contrasted by a 73% decline in its ride sharing operations (CNBC, 2020). The COVID-19 crisis hit the industry with a reallocation shock to its business practice (Bloom et al., 2020) and forced a rapid adoption of new technology. We are seeing a return to normal operations with new technology and physical spaces in this industry which are likely to be permanent given the capital expenses required to establish them.

The **Entertainment and Arts and Culture** sectors within the economy have also been heavily impacted by the pandemic because of government policies restricting large gatherings and events. This has led much of the industry to remain in a holding pattern which will most likely remain for the foreseeable future until a vaccine is developed. Industry insiders have stated that a return to pre-pandemic levels may never come as it begins to try to innovate to navigate new consumer preferences and safety concerns (KPMG, 2020). Cineplex for example has said its revenues have declined by 95% during the pandemic as moviegoers avoid theaters (BNN, 2020). This also extends into the film industry where production on projects was halted as large indoor gatherings of people are not able to occur. The industry has developed 'safe sets' to maintain some production capacity using outdoor sets in the summer. However, as the weather turns the industry will need to find new solutions to the health challenges brought forward by COVID-19 (CBC, 2020). Currently these sectors along with the hospitality industry have seen the lowest rate of employees returning to work as reported by the CFIB with businesses worrying this will continue deep into 2021 (CFIB, 2020).

The **travel industry** has also been similarly decimated by COVID-19 with an 94% decline in air travel to date. COVID-19 government restrictions and public safety concerns will likely lead to international and domestic travel continuing to stall for the remainder of this year (CTV, 2020). Some markets are vying for long-distance travel tourism dollars with the European Union and Hawaii waiving quarantine restrictions for Canadians entering, if they present a negative COVID-19 test within 72 hours of entry (Department of Transportation, Hawaii, 2020 and CTV, 2020). However, the Canadian government's travel restriction upon re-entry remains a barrier as a mandatory 14-day quarantine upon return to Canada would remain a deterrent.

While international travel may be declining, COVID-19 has seen returns in some sectors with domestic and local tourism. The Eastern Canadian provinces have set up a “safe bubble” for travellers to move freely within Atlantic Canada and to allow for the tourism season to be salvaged (CBC, 2020). This model has seen success with consumers spending money domestically where previously tourism dollars may have been spent elsewhere. Similarly, in Ontario, local tourism destinations have been at times overwhelmed with patrons seeking safe destinations to vacation. The mayor of Picton made a public plea for Greater Toronto Area (GTA) residents to space out visits to Prince Edward County as strong demand has resulted in capacity issues and the need to turn consumers away (CBC, 2020). This shows that the tourism sector will likely be able to rebound from the initial COVID-19 shock if vendors can provide the needed safety protocols that meet consumer demands.

After the initial shock of COVID-19 saw a decline in **housing** prices and sales in the first three months of the pandemic which saw the lowest point in the Canadian housing market over the past 20 years. However, June and July saw record sales for detached homes in Canada, resulting in an unprecedented boom in housing in the midst of a recession (CBC, 2020 and CTV, 2020). More homes were sold in July 2020 than any other month in the past 40 years according to the Canadian Real Estate Association (CREA). This resulted in a 26% increase in year over year sales relative to 2019. In Canada’s largest markets, sales were up by over 49.5% in the GTA and 43.9% in Vancouver with prices climbing by over 14% (CREA, 2020). Low mortgage rates coupled with fix-termed mortgages have made borrowing attractive for many consumers, however, the boom may also reflect new individual needs for more spaces such as home offices and room for childcare. These factors may continue to drive this sector as we move forward. The flexibility of being able to work from home has caused individuals to seek out new housing markets. Major tech firms Shopify and Facebook have announced permanent work from home opportunities (Bloomberg, 2020 and CBC, 2020). Home sales have risen outside the GTA with smaller markets seeing consumers move out of the city in search of more space and lower cost of living (Bloomberg, 2020). These firms have said that moving to remote work permanently may result in salary deductions to account for the lower cost of living, and it will be interesting to see what these reductions look like in the future. This provides smaller cities an opportunity to attract high income workers. For other businesses that have not announced plans to date, there will likely be a negotiation and discussion related to salaries for firms that permanently move to a hybrid or remote work environment and experience cost savings by moving away from large and costly office spaces.

High-density living has provided significant challenges during the pandemic as people look for more public spaces to gather and work. News reports from Canada’s major cities show a continued battle between public health and citizens looking to congregate and gather. The boom in home sales and COVID-19 restrictions have also had a negative effect on rental prices across Canada. Rent for new listings in the GTA has declined 22% since the start of the pandemic and listings for new rentals have increased by 83% since the start of the pandemic as reported by the Financial Post (2020). Listing service Zoocasa highlights a reduction in units available on Airbnb

as a source of this increase in listings (Zoocasa, 2020). This is likely coupled with a decline in wages with millions having been transitioned to the CERB program and others seeking cheaper units as total listing increase. The decline in rent is a welcome change but may be short lived as the economy recovers and individuals return to work and the cohorts of students return to campus in 2021.

### **Will production processes change permanently?**

Faced with uncertainty and sharply reduced demand Canadian business pared investment plans for 2020 sharply. Compared to plans published in February non-residential capital spending has been cut by 11.8% or over \$31 Billion. The oil and gas sector accounted for a large part of the decline, \$11 Billion, and the pandemic was not the only challenge faced by that industry. The roll back in investment plans was widespread across the economy with very large cuts in industries most affected by COVID-19. Planned investment dropped by 47 % in air transportation, 50 % in accommodation services and 41 % in 'food services and drinking places.

As the immediate impact of the pandemic and weak economy on investment dissipate, longer term consequences for **investment in automation**, robotics, artificial intelligence, and machine learning are likely to come to the fore.

To a large extent this would accelerate an underlying trend. Technological change is creating new ways to produce goods and services. Whether businesses decide to change how they operate depends in large part on the cost of labour compared to the cost of switching to a different more capital-intensive technology. The pandemic will have focused attention on the fact that robots do not get sick the way that human workers do. This will be particularly salient for firms that have had to shut down because of Covid outbreaks, losing revenues and possibly being subject to litigation and intensified regulation.

Two meat-packing plants in southern Alberta were reportedly the locus of over 2000 cases as of late June, with the outbreak at Cargill's High River operation described as the link in the largest outbreak in Canada. Meat packing and poultry processing are likely to automate production more rapidly in the near future.

In addition to concern for worker safety and to the threat of production disruption due to disease many businesses will look to automation more closely because of pressure to contain costs. This will be a continuation of previous trends, but it is likely to be accelerated by the financial pressures that persist when the immediate crisis has passed.

The pandemic raised concerns about the fragility of global **supply chains**. If continuous production depends on the operation of distant factories expensive disruptions can result from shutdowns in other parts of the world. The same issue arose as a result of earlier natural disasters. The 2011 Tohoku earthquake and tsunami in Japan in addition to the loss of life broke the links in international supply chains, disrupting production throughout the world.

Such experiences have taught the importance of managing the risk of disruptions and encouraging firms to build resiliency into their processes rather than being dependent on a sole source. But this is expensive and over time some businesses may decide that maintaining multiple sources is too expensive a price for insurance, especially if considerable time has passed since the last disruptive disaster.

COVID-19 initially broke out in an important manufacturing province of China and fears of the disruption to global supply chains quickly emerged and were realized. China's exports fell by 11.1% year-to-year in the first quarter of 2020. First-in, first-out the Chinese economy rebounded strongly in the second quarter. However, the pandemic focused attention on China's dominant place in world manufacturing and along with growing concern about trade and labour practices are contributing to a reassessment of corporate and national economic strategies that involve reliance on the Chinese economy.

**Large-scale production**, if well managed, often brings with it tremendous efficiencies and economies of scale. Lower costs allow lower prices to consumers and can lead to a concentration of production. Concentration can make the system as a whole more fragile. As shown in the case of large meatpackers, closure of a single plant can disrupt the flow of goods to the market enough to cause temporarily sharply higher prices.

While the pandemic and other disasters have shown the disruption that can result from long supply chains and from the concentration of production in a small number of giant facilities, the disruptions have proved temporary. Concern with future disruptions may encourage investment in more distributed production including, for example, more localized food production. These developments would have to compete against the cost advantages of large plants and of distributing parts of production around the globe in locations where they can be carried out most efficiently. It is possible that smaller scale and large-scale production will increasingly coexist, on the basis of consumers prepared to pay a higher price for boutique products.

### **Moving the Office Worker back Home**

Deng, Morrisette and Messacar of Statistics Canada calculated that 38.9% of current Canadian jobs could be carried out remotely. This potential was realized early on in the pandemic.

One of COVID-19's greatest impacts has been on office workers. The pandemic has resulted in more than a decade's worth of investment and innovation taking place in a matter of weeks (Baldwin, 2020). As governments and private enterprise moved towards digital platforms to continue operations and maintain service delivery with unprecedented investments in digital infrastructure. Office towers in Canada's largest markets now stand nearly empty and will remain that way at least until January 2021 (CBC, 2020). The past three decades have seen monumental shifts in how we work through new innovations in technology (Lee, 2020 and Parker, 2020). The contemporary office has become the central focus and driver for organizational activity and the focus of many people's daily lives. The current "open plan design" of today's office is meant to scientifically manage and maximize the value of each employee and research states that this can



increase staff happiness by maintaining close social contact among workers (Parker, 2020). Firms do this so they can improve productivity, prevent absenteeism and improve staff retention, Parker notes that:

“Organisations have continued scientific management office cost reduction strategies under the guise of innovative office designs. This historic trend will be tested by a pandemic, which calls for control of its spread, including radical changes to the office at potentially significant cost” (Parker, 2020).

COVID-19 will bring forward new costs as the ideas of “open plan office design” run counter to all current safety guidelines of social distancing and minimizing person to person contact (Mance, 2020). Over the last 30 years we have seen a reduction in the amount of workspace per employee from 25 sq. m to 8 – 13 sq. m per staff under new open designs (Parker, 2020). To date very little is known about the return to office plans for major firms and governments. As employers await new public health guidelines it is likely that the future office will look much different from the contemporary spaces of today as a focus on health will be paramount. COVID-19 will remove many of the ‘routine parts of a typical workplace’ and is forcing policymakers and employers to come up with new ways to prevent transmitting the virus (Mance, 2020).

Firms will have to adapt spaces to meet the new demands for ‘safe workspaces’ in order to reopen which could come with significant costs. Under current guidelines companies would only be able to operate offices at 25-30% capacity. Major restructuring of floorplans and new office layout designs will have to provide innovative solutions to allow for collaborative work environments and meetings to take place. It is possible that without a vaccine COVID-19 will cause major shifts to occupational health and safety standards. The push to be compliant may result in further delays to in-person work as companies look for innovative ways to manage their workforce. The potential for flexible working hours, split shifts, staggered workdays, and visibly increased custodial services are likely in early 2021 as companies return to work. All of these changes are expected to come with significant costs associated which may be pushing firms to adopt remote work to reduce space and time usage in office and save costs permanently. As we prepare for a return to work and firms evaluate their employee base, we may see another labour shift as companies decide which workers are essential in the office, who will work remotely and who will be let go.

Office spaces in Canada are expected to change as we move out of COVID-19 and into the post-pandemic phase. Currently the GTA hosts four of Canada’s five most expensive commercial real estate zones with the downtown core of Toronto experiencing the lowest vacancy rate in North America at 1.9%. With a pre-COVID-19 construction boom in Toronto and the slowing down of in-person office operations, projections show a potential for falling rents deep into 2021 with a rebound only expected in 2022. COVID-19 coupled with increased construction has the industry projecting an increase in vacancy rates to healthier levels between 5-10% in the GTA and other major financial sectors. The CEO of Shopify Inc, Canada’s largest company by market value, stated in response to the pandemic that in his firm “most [employees] will permanently work remotely”

and that “Office centrality is over”. However, Shopify two months later completed the largest real estate transaction for office space in Canada this year in July committing to take over 340,000 square feet in The Well development located in downtown Toronto, where it will be the anchor tenant (CoStar News, 2020).

It is likely that office centrality is not over, but that it will be reimagined moving forward as firms look to manage the growing concerns of their workers. Remote work provides a benefit to employers who can now reduce expenses related to employees who choose to be remote by offering lower salaries matched with the benefit of working from home and needing less space for them to work (CNBC, 2020). Millennial workers favour work-life balances and flexible hours to meet their needs and the transition to more hybrid workspaces will most likely come as a result of the pandemic much sooner than companies initially planned (Lee, 2020). As higher skill employees have become more and more difficult to retain there has been a refocus on employee wellbeing to optimise productivity during working hours (Lee, 2020). Discussions surrounding satellite workspaces and research to determine how co-working can occur in a post-pandemic reality are ongoing (Parker, 2020). Firms will seek arrangements whereby workers will interact with their company in new ways while still being able to gain the social benefits of workplace community.

Employees have shifted their beliefs related to offices over the course of the pandemic with academic surveys showing that a majority of employees would like a hybrid working environment after the pandemic, having now experienced the difference (Beaudoin et al., 2020). The rise in teleworking will bring forward new challenges for managers to maintain accountability and productivity of their workers. Communication channels are inevitably delayed in remote settings causing time lags on task completion compared to in-person office environments (Parker, 2020). While previous studies had found mixed results in productivity at home, since the pandemic has begun feedback has been mostly positive (Parker, 2020). Productivity can be maintained under the right conditions through steady management and regular communications with employees.

COVID-19 has accelerated ‘work from home’ life but provides a new challenge for employees in deciding when to stop working. Management has the potential to assume employees will work more readily from a home environment and may expect more of their workers in a remote setting (Lee, 2020). COVID-19 will result in a temporary and potentially permanent shift in the contemporary workday with employees learning to manage their work-life balance and meet productivity requirements.

This will also present a new challenge with the stratification of work in the post-COVID era as not all workers will be able to be remote (Kramer et al., 2020). As noted earlier, there are significant costs associated with working from home requiring space and resources to do so effectively. Lower income workers living in smaller and shared urban environments are unlikely to be able to enjoy the full suite of benefits given by hybrid-work as their personal spaces remain unsuited for telecommuting (Baldwin, 2020). There may also be high cost barriers to build home offices where space is limited, making remote work more difficult for many. The crisis saw many larger

professional service firms provide employees with benefits to outfit home offices (McCarthy Tetrault, 2020). However, in the future will this still be the case given companies profit-driven nature of operations. There are also occupational health and safety concerns related to adequate workspaces for home workers. Suitable communication and commitments will be required for workers which are not accessible outside of large urban settings. This could deepen the divide between urban and rural communities. Managing the stressors that workers will face in isolation should also be a front of mind concern for employers who want to keep their workforce healthy. COVID-19 has provided a great deal of flexibility for employers to begin exploring the need for all of their employees. Cost reductions through telecommuting may be possible and further jobs may be at risk in industries that were previously thought to be immune from 'offshoring' (Baldwin, 2020).

Innovation during COVID-19 while extremely rapid on matters related to solving virus-related issues as nearly all available research dollars have shifted to pandemic related issues. With focus solely on COVID-19 there are concerns in a delay for other innovations to occur on projects that were in process during the pandemic. Universities across the country were shut down for months and expect a minimal on campus presence this fall causing a further delay in research into 2021. There are some concerns that remote work could slow innovation by preventing the regular interactions and sharing of ideas between co-workers. Firms will need to monitor this as they search for the right balance between flexible work environments with the desirability of promoting productive interactions in the workplace. As we move further into other phases of reopening universities and companies should look to continue regular research and innovation that is not related to COVID-19 to maintain the pace of progress seen before the pandemic.

### **Some Implications for Policy**

The pandemic will likely entail significant reallocation of workers between sectors. This cannot be fully planned, and time will show what activities will thrive and which will fade. Government can help the transition by providing income support that does not discourage accepting jobs and by providing flexible education and training for displaced workers.

Government has appropriately focused on supporting continued employment by firms hard hit by the pandemic, subsidizing wages paid by firms that have incurred significant revenue loss. As economic recovery takes hold government should avoid the temptation of maintaining temporary programs that may keep unsustainable businesses on life support and slow the movement of capital and workers to new, innovative activities.

Governments at all levels will have large deficits and a much higher level of debt relative to the size of the economy when the pandemic ends. It will be important to make Canadians confident that debt will not grow without limit. Low interest rates increase the temptation of ever-more deficit finance. But interest rates will not remain low indefinitely and deficits that finance ongoing spending entitlements should be paid for by the taxpayers who benefit from them rather than bequeathed to future generations. That said, a return to high employment should be a priority

and fiscal consolidation should proceed at a pace that does not slow the economy. It will be a time for Canadians to identify their most important priorities and for their governments to focus on these.

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## Considerations for Economic Recovery

### Risks of Reopening the Economy too Soon

*Juliana Orlando Rohr*

The COVID-19 pandemic outbreak caused many, if not all, countries to close off borders, non-essential businesses and warn their citizens to stay at home. In Canada, the lockdown caused a total of 3.1 million Canadians to be affected by either job loss or reduced hours. As a response to the crisis, the Federal Government launched a COVID-19 Economic Response Plan with new benefits and programs to help those who were mostly affected by the pandemic. At the federal level alone, the Department of Finance estimates that more than \$202 billion is being spent in household and business transfers for the period of 2020-21.

Since the economy had a hit, economists started to make projections on when the economy would be recovered. At the same time, policymakers were defining when would be the best time to reopen the economy. However, many of these forecasts and policy decisions were taking little regard to historical data, international examples and health specialists' opinions. Quotes, such as from the Chief Economist at Scotiabank, Jean-François Perrault, "It's very important to think about this in two halves: the first part of the year (was) a tremendously damaging economic scenario, and the second part of the year obviously a very significant rebound as we reopen". In addition to that, early March 2020 forecasts suggest that economists are expecting the economy to recoup linearly, not considering that we will have more infection waves that, when combined with the flu epidemic, it could have more severe impacts than the first one.

By prematurely loosening public health restrictions, Canada would inevitably have a setback to economic activity as well as health. Studies such as the OECD Economic Outlook estimates that in the event of a second wave, Canada's annual output is projected to shrink by 9.4% in 2020 (OECD, 2020). The Economic and Fiscal Snapshot of Finance Canada projects that in resurgence of uncontrolled transmission of the virus later in 2020, with smaller waves in 2021, would lead to another decline in economic activity. This decline translates into deeper and longer-lasting negative impacts on the economy, with estimates of a 11.2% in real GDP in 2020 (Finance Canada, 2020).

### Historical Data

The 1918 flu killed 50 million people worldwide. As of July 2020, COVID-19 killed 655,000 worldwide. While the 1918 influenza can't be compared in mortality and infection rate to COVID-19, it is important to consider historical data when predicting how the economy will recoup and when governments should allow particular economic activities to resume.

Looking back at the 1918 influenza, the US Federal Government didn't have any plans to tackle the disease's spread, leaving the responsibility to the municipalities. This led to different mortality rates and economic recovery differing from city to city. Philadelphia and St. Louis are good examples to look at since they were very similar before the 1918 pandemic, but how fast and strict each municipality acted had a significant impact on mortality rates and the path of



economic recovery. While Philadelphia kept non-essential businesses open in the first months of the pandemic, St. Louis closed all non-essential activities. These different actions led to different outcomes: St. Louis had a death rate of approximately 358 per 100,000 people, whereas Philadelphia had 748 deaths per 100,000. In both cities, the virus came in waves, with the second wave having a higher mortality rate. After the second wave, St. Louis had a decline in mortality rates, which caused the city to lift social distancing restrictions. However, evidence shows that restrictions were lifted too early, with mortality rates going up once again. St. Louis was then forced to put social distancing measures back in place.

A study published in JAMA (Howard Markel, 2007) found that no city had a second peak of infection among the 43 cities in the study, while the measures were still in effect. Second waves usually occurred after the relaxation of interventions. Another study published by PNAS (Hatchett et al., 2007) concluded that until there is a vaccine available or herd immunity is achieved, nonpharmaceutical interventions such as social distancing and keeping non-essential business closed is fundamental to control a spike in deaths.

While lots has changed in medicine since 1918, a COVID-19 vaccine is not yet available, which reinforces the need to keep social distancing measures in place to contain the spread of the virus. Wave one is hardly done in Canada and indeed is still getting worse in many places. World Health Organization (WHO) chief Tedros Ghebreyesus says that the worst is yet to come, with “no silver bullet at the moment – and there might never be.” By reopening the economy without proper measures in place, it seems like Canada is committing the same mistake that St. Louis did a century ago.

Data on the last four pandemics (1918 H1N1, 1957 H2N2, 1968 H3N2 and 2009 H1N1) shows a pattern of multiple waves of infection, in which the numbers of infection and deaths exhibit well-separated temporal peaks with a separation time-scale of months (Mummert et al., 2013). This suggests that Canada will have a second wave of COVID-19, most likely in the fall, and combined with seasonal influenza, the intensity of both viruses could make the second wave worse than the first one.

One more time, Canada has access to data that could provide insights on how a resurgence in cases could look based on international examples.

### **International Examples**

Many states in the US (e.g. Arizona, Florida, Georgia) are real-time evidence that ignoring the virus and opening economies without the right conditions in place backfires. While it is understandable that governors are pressured to respond to a declining economy, reopening the economy too soon caused many states and countries to reimpose restrictions that they had lifted earlier, creating a bigger problem.

Arizona was one of the last states to enact the lockdown, and the first to reopen its economy. Even after the governor’s order to stay-at-home, most Arizona bars and nightclubs were still open. In the graph below, we can see that weeks after the reopening, cases started to spike again, leading to restaurants, gyms and companies closing down again.

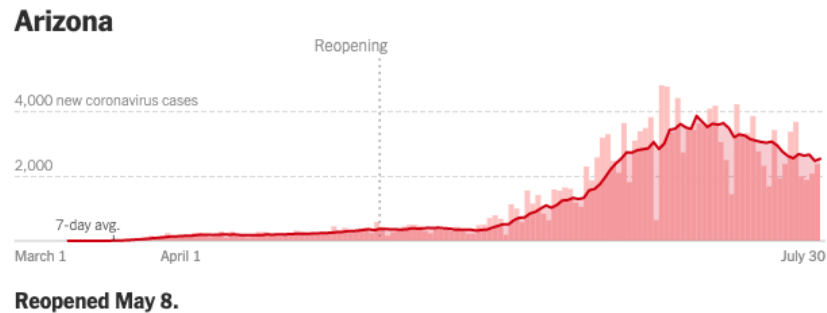


Figure 1. Number of New COVID-19 cases in Arizona. (The New York Times, 2020).

Another international example is the comparison of the approaches taken by Sweden and Denmark. Sweden decided not to have a lockdown and trust its citizens that they would behave responsibly. On the other hand, Denmark imposed one of the earliest and strictest lockdowns in Europe. The assumption would be that Sweden would have more people getting sick; hence mortality rates would be higher, but the economy wouldn't suffer as much compared to countries that decided to close all non-essential businesses. As of July 2020, Sweden's mortality rates per capita are the fifth worst globally, and five times higher than Denmark. However, contrary to what they expected economically, Sweden's economy still suffered nearly the same magnitude as Denmark. Sweden's GDP is estimated to contract by 7% with a single wave, and 8% with a double hit, while Denmark's estimates that GDP will contract by 6% in 2020 with a single wave, and 7% with a double hit (Deloitte, 2020).

There can be no meaningful recovery until the virus has settled down in terms of the perceived risk of flaring back up. If businesses are open, they are not operating at their full capacity and may be undermining future profitability.

When looking at regions that had to shut down their non-essential businesses again, data supports the idea that business owners and employees are better off to stay in lockdown than reopening and having to shut down again. Firstly, it is important to realize that even if businesses are functioning, their revenue is down from previous years. Let's take the restaurant industry as an example. If we assume that social distancing is being followed, that will reduce 30% to 50% of the restaurant capacity. Hence, only 50% to 70% of last year's revenue would be coming in. Let's assume that there is no innovation in their business model, such as takeout and delivery. This leads to a business with low-cash flow and the added cost of starting its business back up again, such as buying inventory, personal protective equipment for employees and sanitizing. Secondly, many employees don't feel comfortable returning to the workplace, and in reality, there is no reason to believe that they wouldn't come in contact with the virus. This situation exposes businesses and employees to undue health risks. If the government decides to stop providing unemployment benefits as soon as the economy is open, employees will be forced to return to work, whether it's safe or not. The same scenario has occurred in many countries, such as Germany and China, which caused a spike in cases, and forced the countries close parts of the economy once again.

Even if we consider that businesses could afford the initial investment to reopen and close it again, it would be very hard to have enough cash flow to remain solvent. According to QuickBooks Canada nearly 2 in 3 (64%) Canadian small businesses have had cash flow issues. Nearly 2 in 5 (37%) Canadian business estimates it takes more than 30 days to get paid, leaving them with more than \$20,000 in outstanding receivables. If businesses are already having cash flow issues in normal capacity, operating at a reduced capacity would only make it worse.

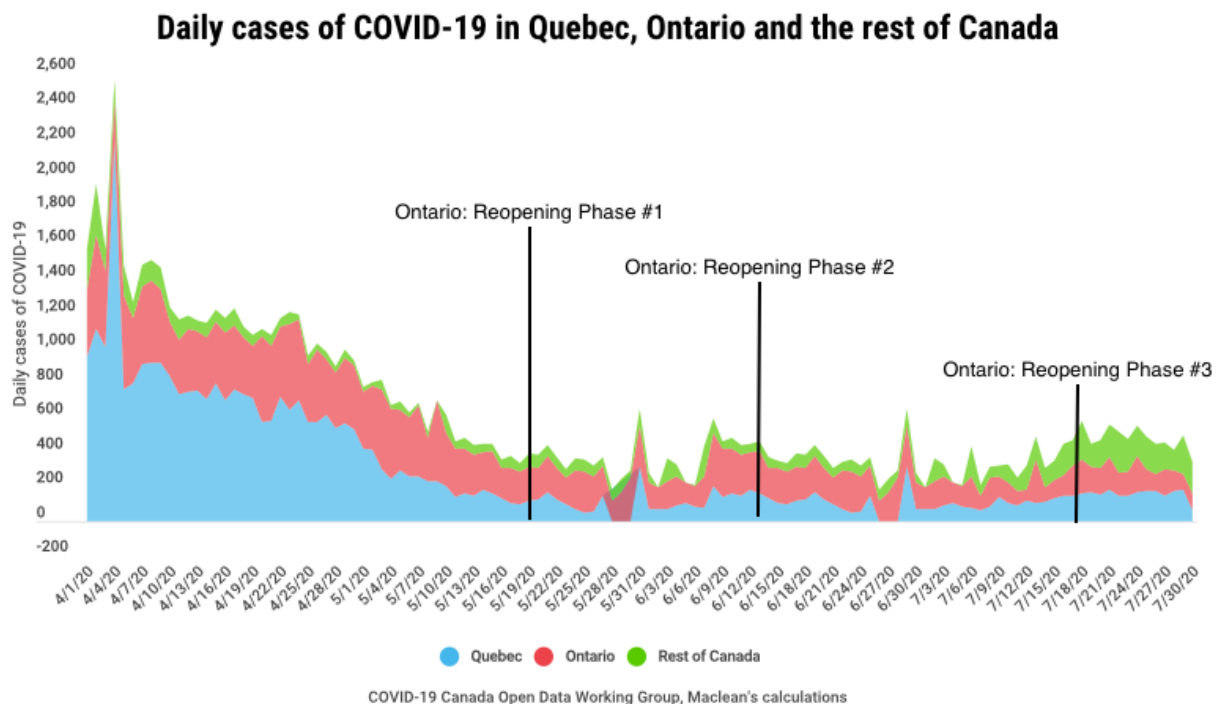


Figure 2. Daily cases of COVID-19 in Quebec, Ontario and rest of Canada. Source: COVID-19 Canada Open Data Working Group, Maclean's calculations.

## Potential Risks

There is a lot of research and evidence suggesting that reopening the economy needs to be gradual, with meticulous attention to real-time data, and most important, maintaining the social distancing measures.

With the reopening of non-essential businesses in Ontario, the province has announced that elementary, secondary and high schools will reopen at normal capacity in the Fall. While this will allow parents to go back to work, it is important to ensure that students, teachers and staff will be safe. A study published by The Lancet Child & Adolescent Health Journal (Panovska-Griffiths et al., 2020) found that schools can operate safely if effective virus control measures, as well as the test and trace system, are in place. The Hospital for Sick Children (SickKids, 2020) has also endorsed the reopening of schools in the Fall. Dr. Ronald Cohn, President and CEO of SickKids, said that "Not opening schools in September would continue to have a negative impact on the mental, behavioural and developmental health of children." With that in mind, the organization has provided guidelines and recommendations on keeping everyone safe when school doors

open. With only 7.5% of COVID-19 cases being reported in individuals aged 0-19 years old, there is evidence suggesting that children, particularly under 10 years old, may be less susceptible to the infection, and potentially less likely to transmit the virus to others (SickKids, 2020). Despite Ontario's plan to reopen schools were based on SickKids recommendations, it appears that in terms of class sizes, Ontario's plan is not fully in line with their report. A month away from the beginning of classes, the Ontario government rejected a board plan to cut elementary class sizes and shorten the daily class time (Jeffords, 2020).

Another potential risk is posed by the United States. Due to our strong economic and social ties, it will be important to prepare for a scenario in which they could infect Canadians. One risk is that the continual rise in cases will be maintained in Canada due to the proximity of our borders. As of August 2020, the US has had 4.8 million cases, with the peak of new cases less than one month ago. Despite our border being closed to non-essential travel, hundreds of thousands of US visitors are still crossing the border to Canada every week. Another possible risk is that if the US decides to restart “normal life,” ignoring public health recommendations, it could backfire Canada’s economy since the US is our biggest market. With the novel coronavirus getting worse in the US, and their economy dropping 32.9% in GDP, it is worrisome that if US economy does not recover, chances are ours will not either.

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## **Promoting a Green Economic Recovery and Sustainable Employment post COVID-19**

*Abdulla Husain and Saif Hussain*

For many decades, the world has been operating under a global economic model that is predicated on human self-interest (Black & Viel, 2020). And while this paradigm has yielded many benefits, it has also resulted in the manifestation of self-interest into greed. Greed has resulted in unsustainable human consumption of all available resources, wreaking havoc on our planet and environment (Goldenberg, 2010). The products we consume are designed with planned obsolescence: they are made as cheaply as possible with the intention of breaking so that the consumer will buy more (Kin, 2020), resulting in higher profits at the expense of the sustainability of our planet and the public good.

The COVID-19 pandemic has eclipsed the threat of climate change posed on the world. With a focus now on the investment of public resources to resume a sustainable economy, the pandemic presents a great opportunity to adopt green policies in tackling these novel challenges.

### **Preface**

The COVID-19 pandemic has resulted in the sharpest economic decline in recent history. To put this into context, Statistics Canada reported that real gross domestic product (GDP) declined by 11.5 per cent in Canada's second quarter – the deepest single-quarter fall since the agency began publishing data in 1961.

While most of the world's economic suffering began following the sudden brunt of the disease, Canada felt the pressure twice as hard. With a steep fall in oil prices triggering deep recessions in oil-producing countries, Canada has seen oil trading in negative prices for the first time in its history (Black & Viel, 2020). Provinces like Alberta and Newfoundland and Labrador, the country's energy sector leaders, have found it near impossible to insulate itself from the threat to their businesses and economic lifelines.

In the upcoming months and years, Canada's road to economic recovery will be shaped largely by what health impacts the coronavirus displays after the first wave is experienced. Deloitte has forecasted the Canadian economy to resume economic viability – one which would mirror pre-pandemic levels – by Q1 of 2022, with unemployment taking even longer (Deloitte, 2020).

As the world pivots in face of these novel challenges, so should the (in)visible hands of the free market economy. Notable policy challenges concentrated in driving work after the impact of this pandemic should be prioritized, and include:

- The Bank of Canada in its July Monetary Policy Report lowered Canada's potential output for 2023 by 4 per cent relative to the previous estimate reported in its January report. Such an estimate can have adverse effects on the productive capacity of the economy by

means of weaker cross-border trade, shorter supply chains, lower immigration, and worse matching of demand and supply in the labour market.

- Lower incomes and reduced savings will expectedly decrease consumer demand, challenge herein lies in driving labour demand.
- Alternative models such as online-shopping are now essential structures of a post-pandemic market. Retail and public-facing service jobs will see a reduced presence in the labour market. A great need will be to re-invent the purpose of these individuals in order to sustain a once thriving economy.
- Healthcare and well-being will continue to be the priority as economies push forward to garner resumption. As such, teleworking is becoming a utopic alternative to employers seeking to recoup losses and drive the machinery of businesses forward. This luxury, however, is not awarded to everyone today. The already disadvantaged workers of society (e.g., non-union, low-wage, hourly paid, young workers and women) will be further divided as labour markets readjust (Lemieux et al., 2020).

Fiscal measures taken by the federal government in the form of liquid stimulus injections have become the first vaccination against economic deprivation of Canadians. To put this into context, the initial stimulus put forward in response to the COVID-19 crisis was 11.8% of total GDP, whereas only 2.8% of total GDP was spent after the 2008 financial crisis. However, to maintain financial stability and sustain household welfare, there still stands a need for continued stimulus interventions to spur economic growth to battle unemployment and overall economic downturn (Cassim et al., 2020).

Learning from the lessons of the past, public leaders are commissioned to adapt quickly to the realities around them and respond ambitiously. The government is the only force to withstand a task akin to rebuilding an economy after a war – one led by a sufficient financial stimulus, authority and capacity to plan and act. A post COVID-19 labour market requires the same quantity and quality of work to curtail the negative impacts which can threaten the prospects of Canada in the global arena (Black & Veil, 2020).

## **Macro-Economic Forecasts**

### ***Finance Canada's 2020 Fiscal Snapshot:***

Key indicators from the 2020 fiscal snapshot:

- Deficit for 2020-21 rises to \$343.2 billion from \$34.4 billion projected pre-pandemic.
- Federal debt-to-GDP ratio is expected to rise to 49% in 2020-21 from 31%.
- Direct federal support for Canadians and businesses: \$212 billion.
- COVID-19 slowdown has cost the federal treasury an additional \$81.3 billion.
- GDP will shrink by projected 6.8% this year.
- Economy is expected to bounce back by 5.5% in 2021.

**Bank of Canada:** In an effort to meet the economic and financial well-being of Canadians, the Bank of Canada lowered interest rates to keep inflation low and stable. The Bank notes the importance of making credit affordable and available for companies that continued to pay their employees and households to meet basic needs during the economic shutdown (Bank of Canada, 2020). In terms of liquidity support, the Bank put forth several asset purchases programs to increase liquidity in core funding markets to boost the economy and ensure markets remain functioning viably. The Bank expects the economy's recuperation to slow as businesses reopen due to consumer behaviour and particularly their confidence. The slack in economic turnaround is attributed to lagging demand in comparison of supply, which creates disinflationary pressures. Further to this, the Bank predicts real GDP to decline by 7.8% in 2020 and resume with growth of 5.1% in 2021 and 3.7% in 2022. The Bank predicts that the economy will experience a prolonged recuperation phase during which growth will decrease in comparison to the current post-recession burst. The Bank's "central scenario", which it cautiously uses in replacement of a projection, assumes no widespread second wave of COVID-19 outbreak, and forecasts inflation to pick up modestly to 1.2 percent in 2021 and 1.7 percent in 2022.

**TD Bank:** TD Canada's economic report on Canadian spending patterns depicts a positive picture amidst a global epidemic – an outcome of the sizable CERB payments. Personal spending growth was up 1.8% year over year in the week ended July 24<sup>th</sup>. Comparing this to the growth averaging roughly -16% year over year in the second quarter to +0.4% average in this (third) quarter, spending patterns and resumption of economic normalcy are tied to how fast provinces are re-opening (TD Canada, 2020). TD Bank anticipates economic growth of 5.2 per cent in 2021 and does not expect pre-crisis level economic activity – recorded at the end of 2019 – until early 2022. Furthermore, the unemployment rate is projected to be above 6 per cent through 2023, despite taking into consideration a decreased labour force growth as a result of travel restrictions.

**The Organization for Economic Co-operation (OECD):** Despite stringent public health measures put into practise by provinces and territories to resume economic viability, OECD projections still predict an unemployment rate of 7.7% by the end of 2021 in a single-wave scenario and a rate of 8.4% in a double-hit event (OECD, 2020). As a benchmark comparison, the 2020 Employment Outlook Report from OECD notes the previous peak of 8.7% reflected in the third quarter of 2009.

**International Monetary Fund (IMF):** The IMF has lowered its forecast for global economic growth this year as a direct result of the impact by COVID-19. The IMF predicts that the global economy will shrink by 4.9% for 2020, significantly worse than the 3% drop it had estimated in its previous report in April – the deepest recession seen in the post World-War-II period. The IMF estimates Canada's GDP to fall by 8.4% in 2020, with economic growth of 4.9% in 2021. This growth places Canada below the projections for the five European G7 countries but ahead of Japan (Crutsinger, 2020).



## **Climate Change and COVID-19: A Canadian Perspective**

As the government gradually reduces the stimulus of exceptional income support in months ahead, the shift needed should look at expanding support for earned income (Schewllnus, 2020). The job hereon is to spur economic growth while highlighting innovation in specific sectors of the labour market. This should be coupled with a proportionate stimulus package which goes beyond the current needs of economic sustainability, and rather aims to address longer-term issues such as climate change.

Climate change looms as a potentially large structural change affecting the economy and the financial system (Bank of Canada, 2019). Through the emission of greenhouse gases, human activities have caused approximately 1.0 degree Celsius of global warming above pre-industrial levels and, if it continues to increase at the current rate, global warming is likely to reach 1.5 degrees Celsius between 2030 and 205 (Bank of Canada, 2019). In the absence of mitigation policies, current quantitative estimates for physical effects on the macroeconomy between now and the end of the century indicate a risk of potentially large negative effects, ranging from 1.5 to 23 percent of global annual gross domestic product (GDP) per capita (Bank of Canada, 2019). The effects of widespread warming, including more frequent and severe extreme weather events, are projected to intensify. These climate changes pose physical risks to Canadians and the Canadian economy.

The physical risks of climate change will likely imply increases in the frequency and severity of negative supply shocks (e.g., destruction of capital stocks, disruptions to labour supply, disruptions to supply chains) and demand shocks (e.g., damage to household and corporate balance sheets that result in reduced consumption and investment) (Bank of Canada, 2019). While demand shocks are typically manageable from a monetary policy perspective, supply shocks are generally more challenging because they generate a trade-off for central banks between stabilizing inflation and stabilizing output fluctuations. A rise in the frequency and severity of negative supply shocks makes it more difficult for central banks to accurately forecast output gaps and, by extension, inflation.

## **Recommendations**

### *Expansive Fiscal Stimulus*

The severe and unprecedented magnitude of economic impact caused by the COVID-19 pandemic should be reflected in the government's fiscal response. To sustain a robust economic recovery, an equally unprecedented and expansive fiscal stimulus is needed to minimize the threat of a deepened recession. By means of large stimulus injections, such fiscal policies should have the aim to boost aggregate demand in order to lessen the debt-to-GDP ratio in the long-term.

In former-Finance Minister, Bill Morneau's 2020 fiscal snapshot published in July reported that \$212 billion has been spent on direct support to Canadians and businesses after the pandemic. In a comparative context, the British legislature announced spending commitments exceeding half a trillion pounds in its 2020 budget; the US government has agreed to a \$2 trillion stimulus package – the largest in its history; and the European Council has agreed to a €1.8 trillion spending package to contain the economic downturn.

Thus, Canada as a G7 country, should equally position itself to demonstrate a historic stimulus package to continue the well-being of Canadian businesses and citizens. With projected GDP losses reported by the Bank of Canada, combined with high unemployment rates, a robust budget is needed to stay true to the Keynes theory of deficit-financed fiscal stimulus. The Canadian government should be prepared to run short-term budgetary deficits and incur debt increases in order to fund green initiatives which encourage investment and job creation, which in turn will recoup losses from generated revenue. In the upcoming stimulus announcements, the federal government is recommended to accelerate investments in renewable energy sectors and work in ways to encourage working for and creating green businesses easier and sustainable.

### *Carbon Tax*

To contain the deficit incurred as a result of generous stimulus injections into the economy, the government should look to generating revenue under existing policy instruments which also cater to reducing the negative externalities caused by carbon emissions.

Currently, the price on carbon is too low and fossil fuel subsidies are too high to sustain a responsible future. As such, a focus on carbon pricing should be made central to any viable recovery stimulus package. With an ambitious and unprecedented government response to the crisis to stabilize an already fragile economy, an equally valiant intervention is needed to avoid an unstable austerity push thereafter.

It is recommended that Canada's carbon tax be increased appreciably above \$50 per tonne to a more effective \$100 per tonne to raise revenues and soften the hit on fiscal deficits and debt as a result of the pandemic response. The revenue raised would source stimulus measures aimed at promoting a green economy and assist in re-deploying the labour force affected by the economic downturn. Equally as important, this step would take the nation towards meeting its 2030 emissions reduction goals for other nations to look as an example towards.

### *Green Policies*

It is recommended that the Government of Canada adopt all 22 recommendations by the Task Force for a Resilient Recovery in its preliminary report released in July 2020 (Recovery Task Force, 2020). This will ensure a resilient economic recovery from the pandemic while supporting the jobs, infrastructure, and growth necessary to keep Canada competitive and sustainable in the green economy of the 21<sup>st</sup> century.

The task force recommends that the Government of Canada invest \$49.9 billion over five years in the following areas:

1. Invest in climate resilient and energy efficient buildings (\$27.3b);
2. Jumpstart Canada's production and adoption of zero-emission vehicles (\$7b);
3. Go big on growing Canada's clean energy sectors (\$11.5b);
4. Invest in the nature that protects and sustains us (\$3.2b); and
5. Grow clean competitiveness and jobs across the Canadian economy (\$1b).

The aim with adopting the recommendations of the Task Force should combine the objective of retooling low-income, women and young workers with the opportunity to rejoin the labour market. The future of work post COVID-19 under a green lens provides an opportunity to address insecure and precarious employment occupied by these discriminated groups. With generous government subsidies subsiding after September, the need for robust and re-purposed employment is now needed more than ever to assure household debts remain sustainable while the larger economy remains functioning.

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## Implications for Income Support

### **Reforming Income Security to Encourage Work and Learn from the COVID-19 Pandemic**

*Rafayet Newaz, Juliana Orlando Rohr, Hugh Segal and Rebecca Wissink*

The impacts of COVID-19 and its corresponding market closures have created economic insecurities on multiple levels. Canada's sudden shutdown of various sectors led to extensive household and corporate debt. Although 38.9% of jobs could be done remotely (Statistics Canada, 2020), millions of working individuals saw their workplaces close or operate at a reduced workforce due to government-enforced shutdowns. This translated to an all-time high unemployment rate of 13.7% not seen since December 1982. The industries that were most affected by the pandemic were Accommodations and Food Services, Arts, Entertainment and Recreation, and Retail Trade. These industries have a higher concentration of low and minimum wage workers than other sectors.

In order to help Canadians during the pandemic, multiple federal programs were swiftly released to prevent overwhelming economic collapse. For individuals, this translated to the Canada Emergency Response Benefit (CERB). As of August 16th, there are 8.62 million applicants (Canada Emergency Response Benefit Statistics, 2020). The importance of federal emergency programs during this pandemic has created an Overton window<sup>4</sup> to discuss a Guaranteed Basic Income (GBI), and the conversation has gathered global attention.

Canadian social assistance programs in place prior to the COVID-19 pandemic had many gaps and excluded many groups. As the economy wound down, these gaps became more exposed; they further amplified as financial security concerns grew, further exacerbating poverty and income inequality. A return to the same policies will leave millions of people in need. To address some of the gaps in the current social assistance programs, this paper analyses three alternatives:

- 1) Guaranteed Basic Income to 75% of the poverty line.
- 2) Basic Income of \$2,000 a month.
- 3) Filling the gaps in the current system.

Statistics Canada measures low-income and poverty with three different sets of data: Low-Income Cut-offs (LICOs), Market Basket Measures (MBMs) and Low-Income Measures (LIMs). This report will use the MBM as the main measure; as of August 2018, the Market Basket Measure was adopted as the official method of calculating poverty in Canada. Using the MBM

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<sup>4</sup> Is the range of policies that are politically acceptable to the mainstream population in a given time frame.

also provides a geographic measure since there are 50 MBM thresholds across the country (Heisz, 2019). "Poverty is defined by the condition of a person deprived of the resources, means, choices and power necessary to acquire and maintain a basic level of living standards and to facilitate integration and participation in society" (ESDC, 2018).

## The Case for Basic Income in Canada

There are three main groups in need for social assistance. Families with young children, seniors and working age adults without children. As the graph below demonstrates, families with young children and senior have been seeing a decrease in poverty rates in the last decade. Mostly due to the Canada Child Benefit and the Guaranteed Income Supplement for seniors. This shows that existing programs can help to bring down the poverty rates among groups.

According to the Market Basket Measure (MBM), the national poverty rate has fallen from 15.6% in 2006 to 8.7% in 2018 (an all-time low since the measure was adopted). While we can see a decrease among the other groups in the percentage of low-income people, the working-age population (18-64 years old) has seen a smaller drop over the years. In 2018, the working-age group represented 75% of people living in poverty in Canada. This group includes people receiving social assistance, but 5.6 percent are also working, poor individuals. This paper will focus on possible policies to address poverty in Canada, with a specific focus on the working age population without children.

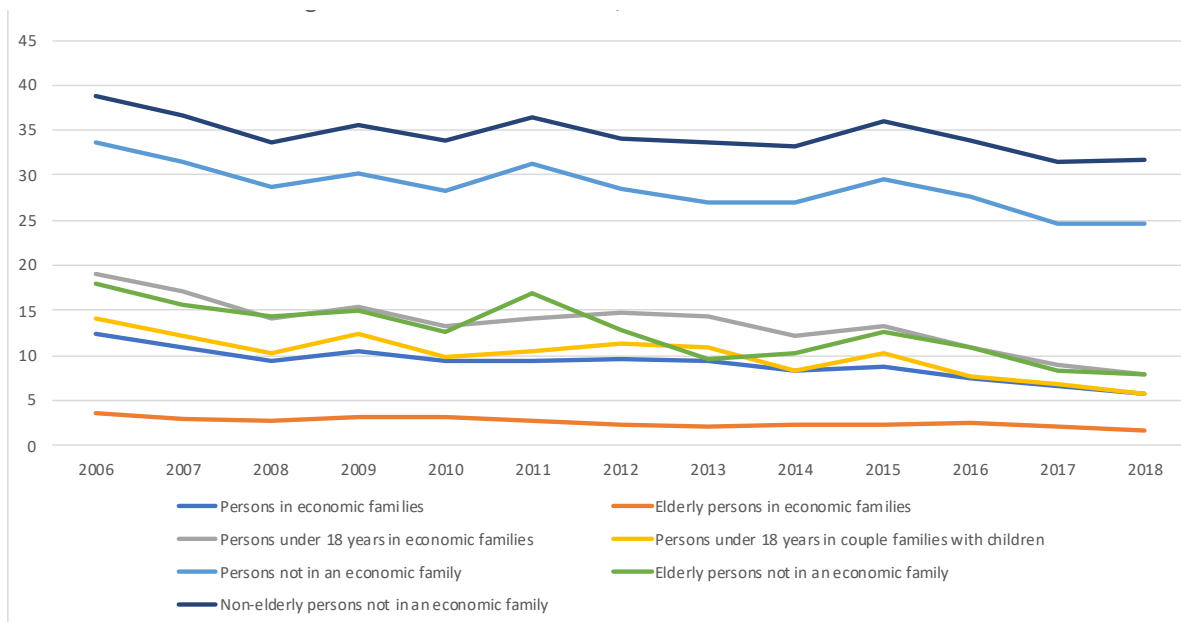


Figure 1. Percentage of Persons in Low Income, Market Basket Measure 2008 base. Source: Statistics Canada, Table 11-10

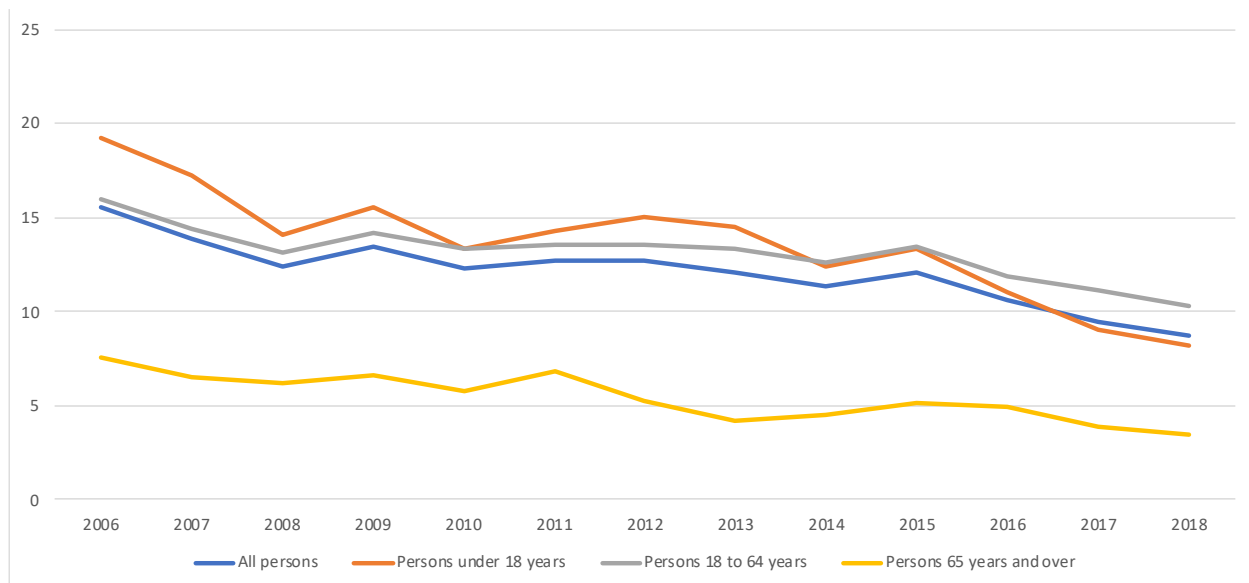


Figure 2. Percentage of Persons in Low Income, Market Basket Measure 2008 base. Source: Statistics Canada, Table 11-10-0135-01 Low income statistics by age, sex and economic family type

Currently, welfare incomes are below the poverty line, and sometimes low wage jobs on full-time employment are not enough to bring workers to the poverty line. In order to eradicate poverty in Canada, measures other than the Canada Child Benefit, Canada Workers Benefit, and Guaranteed Income Supplement for seniors must be taken.

Canada is a prosperous country and has ranked as one of the best countries to live in. However, as of 2018, 1 out of 12, or roughly 3.2 million Canadians live in poverty. People living in poverty are more likely to face health-related problems, get involved in the criminal justice system, and be more likely to need social support and assistance. By addressing poverty efficiently, Canada will promote economic growth and improve the quality of life for its citizens, enhance productivity, and develop a broader workforce.

### Issues COVID-19 Brought to The Fore

The COVID pandemic exposed many gaps in Canada's current social support system. For years, many Canadians have survived on a patchwork of shrinking government assistance, private philanthropy, costly debt, and/or working multiple part-time jobs. For too long, too many people have barely made enough income to survive, let alone save months of wages for an emergency. The pandemic forced many of us to go home, devastated the economy, and denied people access to their local food banks. COVID-19 clearly demonstrated that Canada does not have a strong or efficient social safety net in place to support its citizens in a widespread and prolonged time of crisis. Jobs have become increasingly precarious with an on-time delivery mentality that often means workers are on call with no dependable income, and a gig or entrepreneurial climate has become the norm in certain sectors. Given vast numbers of our population were living a hand-to-mouth existence, devastating levels of poverty would have spiked without unprecedented government intervention.



The Employment Insurance (EI) program was unprepared for the economic downturn and has suffered from reductions in benefits and restrictions to access in recent years. The response by the federal government was to implement the CERB at a rate of \$2,000 a month to make it financially possible for non-essential workers to stay at home. Eventually, the federal government also implemented a Canada Emergency Student Benefit (CESB) as it became evident that most students did not qualify for either EI or CERB. However, this is limited to the end of summer, and is paid out at a lower rate than the CERB at \$1,250 for students without dependents. Societal inequalities that existed prior to COVID became more apparent as many groups of people were not eligible for any of the three programs for various reasons explored below.

*Previously Unemployed Workers that would have been eligible for social assistance:* In order to be eligible for the CERB, applicants must have earned at least \$5,000 before taxes in the last twelve months, along with five other criteria. The other route would be for someone to pursue EI, which requires an applicant to have worked “between 420 and 700 hours of insurable employment” (EI regular benefits) in the last 52 weeks preceding the claim, which is a minimum of 12 hours per week. Not everyone can meet either of these thresholds. At this point, there is no quick return to employment for all who desire it, and with the increasing automation and outsourcing that was occurring pre-COVID along with business bankruptcies during COVID, telling people to find a job or go back to work is simply not a realistic answer. According to Statistics Canada (Labour Force Survey, July 2020), “From February to April, 5.5 million Canadian workers were affected by the COVID-19 economic shutdown. This included a drop-in employment of 3.0 million and a COVID-related increase in absences from work of 2.5 million.” The national unemployment rate in Canada in July 2020 is 10.9%, a reduction from 13.7% in May, but still well above the pre-COVID (February) rate of 5.6%.

*Seasonal Workers and Students:* Students and seasonal workers rely on summer employment often in summer camps and golf courses, as caregivers for children out of school whose parents are working, or within the local tourism industry. Although the economy is beginning to re-open, Statistics Canada (Labour Force Survey, July 2020) notes that most job gains have occurred in part-time positions, in the “retail trade and accommodation and food services,” jobs that often pay minimum wage. This return only began in June, meaning many folks lost two months of employable time and income. There is a significant uptick in workers vying for the few jobs available to them. Further, part-time jobs in July 2020 are still 5% less than they were in February, rather than experiencing expected seasonal growth.

*Self-Employed and Gig Workers:* Our economy encourages entrepreneurial activities. This is generally painted as an entrepreneurial participant or perfect neoliberal candidate who pays taxes, creating gross domestic product growth, possibly hiring locals, using their own funds to undertake economic risk, and generally demanding little of the government in exchange for the idea of freedom. However, as noted above, CERB requires proof of a certain number of insurable hours worked, and those who are self-employed simply would not qualify during COVID for one of the six types of EI available to the self-employed. According to Statistics Canada (Yssaad &

Ferrao, 2019) “In 2018, 2.9 million Canadians were self-employed, ... account[ing] for 15% of total employment.”

*Cultural Industry Artists and Participants:* Many gig workers are found in the cultural industries and cannot work from home or telecommute. When people stayed home and businesses shutdown, these workers (often self-employed and thus ineligible for EI) had no means of translating their work into an online forum to create cash flow. Some creative workers could transition depending on their medium, but not actors, buskers, sculptors, museum curators, or dance/theatre teachers. According to Statistics Canada (Jeon & Ostrovsky, 2020) “approximately 1.7 million Canadians ... worked in the gig economy prior to the pandemic.” “The arts, entertainment and recreation sector [in Canada] fell 41.3% as amusement, gambling and recreation industries halted operations in response to the closure of institutions and restrictions on mass gatherings” (GDP by Industry, March 2020).

*Migrant workers:* Seasonal workers from the Caribbean and Latin America are necessary to fill agricultural work gaps our aging and static society cannot, and our food production chain relies on this cheap and not completely legitimized labour. Migrant workers are often not considered full citizens in the public sphere as they do not pay taxes, and a bulk of their money is sent to relatives in their homeland. This lack of rights is evident “under the Temporary Foreign Worker Program, [where] migrant farmers are not entitled to standard labour rights such as a minimum wage, overtime pay or days off, and federal oversight over housing conditions has been notoriously inadequate” (Prouse et al., 2020). Yet farmers warned the government that these temporary foreign workers were the “backbone of the country’s agricultural industry”, and up to 95% of crops would be threatened without this work force in a national shutdown. As Canada shut its borders to travelers, it made an exception for “60,000 seasonal agricultural workers” as they are critical to the survival of the agriculture industry (Prouse et al., 2020). Allowing these vulnerable persons into the country to work with no protections led to a host of problems, including outbreaks of COVID-19 on farms. Workers were afraid to tell their employer they were sick for fear of being sent home, and socially distancing oneself was simply not an option on most farms.

### **What Have We Learned from the Pandemic?**

The COVID-19 pandemic has put many Canadians into precarious positions. It has been seriously economically detrimental to 53% of Canada’s population that depends on each upcoming paycheck to make ends meet. It has further impacted marginalized and racialized communities that tend to be more heavily distributed in lower-income brackets. For comparison, pre-COVID-19 poverty measures based on 2016 census data show a poverty share of 9.6% among Caucasian populations; poverty shares for racialized groups vary from 20% to 32% depending on the many racialized groups. As a result, the impacts of COVID-19 have disproportionately affected racialized groups both economically, and from a healthcare perspective. Generally, just lower-income, hourly-paid residents of Canada (including racially visible and Indigenous peoples) faced far worse healthcare risks and outcomes during the pandemic.

Problems such as inequality and poverty became even more evident during the pandemic. While some white-collar workers were able to work from home. Manual labour, and the working poor had fewer options and faced more risk of infection by attending work. Flaws in the Employment Insurance (EI) system became even more transparent when Canadians were laid off and needed to apply for the benefit. The pandemic revealed that programs need to be reviewed and adjusted to include an ever-changing labour force.

On the other hand, Canadians saw how quickly the government could act when it focuses on preventing poverty. The CERB benefit was released to over 8.34 million people who lost their jobs, or had their hours decreased due to government-enforced shutdowns. While this program, along with others, was released in a time of emergency, it set a precedent for how quickly well-targeted and non-rules-bound programs could be enacted.

Although governments worldwide are taking steps to rebuild economies and get workforce participation back to pre-pandemic levels, ignoring all the uncovered problems and not implementing policies to change pre-existing issues would be chasing an inadequate and inefficient status quo; it would be a sharp denial of what Canada learned during this crisis.

#### **Alternative #1: Guaranteed Basic Income (GBI), 75% of the poverty line**

This first proposal is to implement a Guaranteed Basic Income (GBI) program focusing on working individuals (18 to 64 years old) who are beneath the poverty line. This program would operate in similar fashion to the Guaranteed Income Supplement for seniors, and the Ontario Basic Income pilot program. While the Ontario Basic Income pilot program was based off the LIM, governments may want to replace the LIM for the MBM, since it is Canada's updated official measurement for poverty. While we propose that the GBI should be implemented by the federal government in cooperation with the provinces, by using the MBM it is possible to calculate the cost of living in different regions as a variable factor when establishing the amount to be provided to recipients.

Recipients would have a negative income tax (NIT) or refundable tax credit that tops up their income to 75% of the MBM, regardless of their status in the labour market. This program will not establish rules limiting earned income and workforce participation, since it is important to encourage recipients to work. Contrary to several provincial social assistance payments, GBI will not set a low exempt-income threshold; this usually results in a sharp reduction of social assistance payments, and disincentivizes recipients from seeking employment, which perpetuates the cycle of poverty in which they are trapped. In provinces with a 100 percent claw back rate, this means that social assistance payments are reduced dollar for dollar on all income earned above the exempt net income threshold. The claw back rate in the provinces and territories can range from a low of 25 percent in Nova Scotia, to a high of 100 percent in British Columbia, Saskatchewan, Quebec and Nunavut.

Our proposal recommends that recipients should be able to keep a large portion of what they earn, as this would provide them with the opportunity to work their way out of poverty, and not punish them for seeking employment. This alternative's main goals are to reduce poverty and its

negative impacts on an individual's quality of life, while finding a way to provide income support that does not discourage recipients from participating in the labour market.

Amid the COVID-19 pandemic, the PBO released a report in July 2020 with three scenarios that phase-out the benefit by \$0.50, \$0.25 and \$0.15 for each dollar of employment income. They estimate how much a federal program based on the Ontario Pilot Project would cost for six months. Unlike alternative #3, the PBO estimate bases its benefit rates on the Low-Income Measure (LIM) and not on Canada's current official poverty line (MBM). However, it allows the government to picture how much it would cost to implement this recommendation. The PBO estimated that the GBI total gross cost would range between \$47.5 billion and \$98.1 billion for the six-month period from October 2020 to March 2021. "A lower phase-out rate will result in more eligible individuals and, therefore, higher overall costs" (PBO, 2020).

#### **Alternative #2: Basic Income Canada Network (BICN) Basic Income (BI) of \$2000 a month**

The second alternative was put forth by the Basic Income Canada Network (BICN) in June 2020 (Regehr, 2020) to the Canadian Senate. Although BICN have outlined three possible scenarios for a basic income in Canada, the model they recommend is what follows. It is called a guaranteed income designed for 18- to 64-year-old individuals whose income does not meet the minimum threshold of "\$55,000 for a single adult; \$77,782 for an adult couple" (Pasma & Regehr, 2019). However, the impact is greatest for those earning less than "\$47,012 as a nuclear family" (Pasma & Regehr, 2019). BICN believes that for the time being, the two benefits to seniors are difficult to untangle and should be left untouched, not ruling out a demogrant in the future. Their proposed amount is closer to CERB at \$22,000 a year (CERB would be \$26,000 a year) or \$31,113 for a couple. While this reaches close to the low-income line, it will not meet/exceed the poverty line in some jurisdictions. The plan is meant to provide financial security into middle income demographics by proposing a gradual reduction rate of 40% on income earned after reaching the threshold.

The BICN argues that a basic income is meant to meet basic needs such as food, housing, and clothing that encourages people to participate in society with dignity that is not tied to income (Regehr, 2020). They do not suggest any disability top-up to the program, arguing that medical needs should be addressed through medical or social service programs. Further, this program is not meant to replace other needed changes to the social safety net, such as governmental support for low-income housing. The BICN believes BI could be good for both provincial and municipal governments as it eases poverty and the problems associated with it, including criminal activity, and the resulting policing required, as well as health care costs.

There is extensive literature supporting a BI, as often, 100% of the money is returned to the community by way of local purchases like food, haircuts, shoes, bus passes, gym memberships, and rent. However, a BI also has other positive consequences as it lifts people out of the desperation poverty creates. Some prior recipients of pilot projects conducted around the globe have been able to return to school and receive credentials, resulting in better paying jobs. Others have been able to move to better neighbourhoods for their children, or closer to their jobs.

Additionally, others have chosen to start businesses or free themselves from debt. In short, income is a resource that alleviates stress, and allows people to meet the varying demands of their lives.

There are opinions, educated concerns, and some gaps in logical reasoning floating in the public sphere about BI. Some of the anticipated concerns about a BI program are addressed by BICN in their Senate Brief (Regehr, 2020), and on their website. The most commonly heard argument against BI suggests that it would be a discouragement to recipients from participating in the labour force. To this, BICN responds: “Basic income is meant to help ensure the meeting of basic needs: for the ‘wants’ in life, income from other sources is necessary. The vast majority of people work to earn well beyond what they need for basics – and many people who are well off remain in the workforce” (FAQ, n.d.). It is further understood that people work for any number of reasons, including self-actualization and socialization. Outside of the fiscal realm, we also have to consider individuals who fall through the cracks. BICN’s plan requires a person to file taxes, meaning the homeless, those without identification, and those in active addiction may struggle to access and utilize the very supports meant to lift them. Nonetheless, potential flaws in a policy should not paralyze decision makers into inaction. It is perhaps best to equate BI to universal healthcare or education. There is a fiscal cost, but the social benefit of the public good far outweighs the potential pitfalls.

The BICN plan estimates that for the implementation of BI, it would cost \$134.45 Billion (Pasma & Regehr, 2019). By their model, taxation is used to partially finance it, while serious reductions in the social assistance program will primarily subsidize it given that funding will no longer be needed. Under this proposal, most social service programs are eliminated except healthcare. BICN’s redesign of the tax/transfer system to redistribute income generates \$136.95 Billion, so there are no reported costs outside tax/transfer changes (see Appendix - Table 3). For those in earning brackets up to the \$61,291, this plan will not cost them anything, while the top earners (above \$61,291) will see roughly \$12,842 in tax increases (see Appendix - Table 4) (Pasma & Regehr, 2019). The BI program would be administered through the tax system. One side effect of the BICN proposal is that increasing taxes for above \$61,291 can cause those high earners to bring their money somewhere else since they already pay marginal rates of over 50 percent.

### **Alternative #3: Filling the gaps in the current system**

The final alternative focuses on addressing issues within current social assistance programs, and developing a new program targeted for the working age population. While some of the existing measures adopted have shown a decrease in poverty among some groups (e.g. Child Benefit Old Age Security, Guaranteed Income Supplement), there are many problems with current welfare and social assistance programs. In addition to reforming some of the programs in place, another program also needs to be created for the working age population (18-64 years old), since this group are 75% of those living in poverty (Statistics Canada, 2018).

## *Reforming the Current System*

One of the main issues the provinces struggle with involves providing benefits compared that cover the cost of living, while making sure that those benefits do not exceed incomes earned from low-wage jobs. Since the MBM addresses the difference between the cost of living in each province and territory, social assistance benefits should be based on Canada's Official Poverty Line (MBM). Provinces with lower welfare rates (see Appendix – Table 1) such as British Columbia and New Brunswick should increase their rates to the MBM level.

Another policy that needs to change are the mandatory conditions to receive social assistance. In some provinces, work and training are mandatory. While mandatory work requirements may encourage recipients to seek out employment, it does not lead to an increase in the long-term labour force participation, or higher incomes. These conditions do little to address structural limitations, and hardly ever lift people out of poverty. Social assistance programs need to support the transition into the labour market while providing support to recipients depending on welfare. It is recommended that provinces remove mandatory work requirements to receive social assistance payments and increase benefits to eliminate deep poverty among welfare recipients.

Another major problem in the welfare system is the loss of benefits when recipients exit the program. This usually disincentivizes seeking out the next step in gainful employment since low-wage workers often receive fewer benefits through their employer (pharma care, preventive health care, eye care and dental care). It is recommended that provinces offer free extended healthcare, free childcare, and expand all benefits available for welfare recipients to all persons living below the poverty line.

Since the beginning of the pandemic, many changes have been made in the Employment Insurance (EI) program. On August 10, the Employment and Social Development Canada (ESDC) announced that a minimum unemployment rate of 13.1% would be applied temporarily for all EI economic regions. This new measure will allow more people to access EI regular benefits and provide eligible Canadians with access to a minimum of 26 weeks, replacing the CERB benefit. It is suggested that these new measures are to stay in place, even after the pandemic. As well as to make EI extendable to self-employed and gig workers.

In addition to the reforms proposed above, implementing a new program for working-age adults without children is suggested. A recent CSLS report indicates that a strategy focusing on the principle of making work pay, with the best way to do it is through supplementing earnings or by having a wage subsidy scheme for low wage workers (Hillel, 2020). Currently, the Canada Workers Benefit (CWB) is a refundable tax credit that provides relief for low-income workers; for a single person, the annual benefit is \$1,355 for a family \$2,335. An increase in this benefit to all low-wage workers below their regional MBM threshold is recommended.

Statistics Canada estimates that in order to lift all people living in poverty to the MBM threshold (2018), it would cost approximately \$18.484 billion (see Appendix – Table 2). By using the share of the poverty gap by age group composition, it is estimated that it would cost \$2.48 billion to lift

children out of poverty, \$15.22 billion for working-age adults, and \$765.91 million for seniors (Statistics Canada, 2020).

### **Addressing the Anti-Reform Concerns**

The ubiquity of forces and interest groups opposed to genuine reform of income security programmes across Canada is not dissimilar to those who opposed universal health insurance in the 1960s. While one might well describe the various opposing forces in terms of those in the business community, existing bureaucracies, and extremes on the political spectrum, it does not address legislative and substantive concerns raised in good faith that merit a constructive response to advance a coherent national debate on income security reform.

*Spending Discretion:* Inside ministries of finance, officials try to avoid statutory expenditure programmes that reduce the spending range and discretion of their ministers or governments - which is one of the key factors in opposition to income security reform. In Canada, income security is a joint federal-provincial responsibility. Depending on how federal-provincial transfers are handled, and the level of savings to the provinces, the replacement of their welfare programmes, and standards of spending discretion in various jurisdictions might well be enhanced.

*Discourages Work:* There is also a behavioural economics concern that automatic cash transfers to those beneath the poverty line would discourage work. This is often offered by small business organizations and political forces on the right. There is no evidence from basic income trials in Stockton, California, Namibia, Manitoba, the Netherlands, Finland or Ontario that desire to work is reduced in any meaningful way by a livable top-up for lower-income workers that itself encourages work. As noted above, most provincial welfare programmes in Canada already have pitfalls that discourage progressing in the labour market. The notion that low-income workers should accept any work despite low wages and poor working conditions violates a long history of fair wage and working condition policies, both from a provincial and federal standpoint. Recoiling to the prior exploitative economic model despite the pandemic experience would be a denial of all that was learned from its devastating economic consequences.

As pandemic restrictions eased, millions of workers returned to the workforce speaking to the general desire of Canadians to work. The allegation that boosting the poorest among us above the poverty line would dilute the workforce is extremely prejudicial, as is the notion that low-income Canadians between the ages of 18-64 should have no choice but to accept low paying jobs without benefits.

### **Promoting A Uniquely Programmatic Approach**

Significant opponents of a Guaranteed Basic Income argue that carefully designed programmes by various levels of government are a better response to the challenges created by poverty. They believe that a myriad of subsidies and special purpose programmes are far superior to assuring that poor income earners will break out of poverty, while affording them no freedom to decide

how to spend their money. This is the popular 1960's notion by programme reform advocates, that "if we build it" they (the poor) will come. This is the approach we have seen taken with Indigenous programming for decades, simply another form of colonialism where low income Canadians are afforded no choices or discretion, other than compliance with a myriad of rules crafted by "their betters". This paper clearly and precisely rejects this approach.

*Affordability:* While the CERB monthly grant of \$2,000 for over 8.34 million unemployed Canadians may not be sustainable over the long term, a basic income top-up for the three million Canadian residents now beneath the poverty line is more realistic and more fiscally responsible - especially when the fiscal benefits of reduced use of healthcare resources and reduced costs from the pathologies of poverty are calculated.

The federal and provincial governments have taken on massive amounts of debt at historically low-interest rates. The best way to address coherent debt servicing over the medium term is to expand and promote inclusive economic growth and productivity - which are encouraged in all alternatives proposed by this document.

All countries addressing pandemic costs have had to increase borrowing. All countries have seen their debt to GDP ratio rise (Gramlich, 2020). Canada is still well placed to manage these changes better than other jurisdictions. It is the role of government to undertake debt and borrowing in the national interest when individual citizens and companies cannot face the nature of health and economic challenges posed by extraordinary circumstances.

An income security reform that encourages work sends a powerful and progressive signal about the underlying socio-economic values and purposes of Canadian democracy. At present, both Canada's performance on the percentage of revenues spent on social programmes, and the Gini coefficient measure<sup>5</sup> of the gaps between rich and poor are comparable important partners and competitors like the UK, France, Netherlands, Italy, Denmark or Belgium. There is no economic reason for Canada to perform under these allies and trading partners.

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<sup>5</sup> Gini Coefficient is a statistical measure of economic inequality in a population. This measures the dispersion of income or distribution of wealth among the members of a population.



## Conclusion

Canada has made progress in reducing poverty. However, there were still 3.2 million people living under the poverty line in 2018 (Canadian Income Survey, 2018). The COVID-19 pandemic in 2020 left millions of people without employment, and further exacerbated inequalities in some groups of society. By repairing the current social safety net system, many more Canadians can be lifted out of poverty.

Different methods can be used to address poverty in Canada, and the current problems in the social safety net. In this report, the three proposed alternatives were:

- 1) Guaranteed Basic Income to 75% of the poverty line.
- 2) Basic Income of \$2,000 a month.
- 3) Filling the gaps in the current system.

While each alternative contains pros and cons, they all propose that the federal government, in combination with the provinces, needs to make changes to the current system.

People living in poverty are more likely to face health-related problems, get involved in the criminal justice system, and be more likely to need social support and assistance. The proposed alternatives would focus on enhancing the quality of life for Canadians. Still, it would also promote economic growth, improve productivity, broaden workforce development, and incentivize recipients to join the workforce. The pandemic has changed many aspects of our lives, and challenged current systems and the world of work; there is no better Overton window to adjust the social assistance programs across Canada in order to make it fairer, and make a bigger impact in the economy as a whole.

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## Appendix

**Table 1**

*Welfare Incomes, 2018 (Source: Aldridge and Tweddle, 2018.)*

Province	Single person considered employable	Single person with a disability	Single parent, one child	Couple, two children
British Columbia	\$9,042	\$14,802	\$20,782	\$27,006
Alberta	\$8,106	\$10,301 (19,786)	\$19,927	\$29,238
Saskatchewan	\$8,883	\$11,422 (15,789)	\$21,087	\$29,955
Manitoba	\$9,756	\$12,403	\$21,764	\$29,918
Ontario	\$9,646	\$14,954	\$21,463	\$30,998
Quebec	\$9,320	\$13,651	\$21,867	\$30,453
New Brunswick	\$7,126	\$9,839	\$19,978	\$26,505
Nova Scotia	\$7,437	\$10,268	\$18,240	\$27,756
Prince Edward Island	\$10,445	\$11,208	\$20,977	\$32,757
Newfoundland and Labrador	\$11,383	\$11,583	\$23,436	\$29,296
Yukon Territory	\$18,093	\$21,747	\$34,003	\$50,489
Northwest Territories	\$22,163	\$27,553	\$34,447	\$45,567
Nunavut	\$7,782	\$10,782	\$18,098	\$29,561

**Table 2**

Dollar Amount Required to Lift Social Assistance Recipients to the MBM Poverty Line, 2018

(Source: Aldridge and Tweddle, 2018.)

Province	Single person considered employable	Single person with a disability	Single parent, one child	Couple, two children
BC (Vancouver)	\$11,642	\$5,882	\$8,469	\$14,361
AB (Calgary)	\$12,479	\$10,284	\$9,184	\$11,933
SK (Saskatoon)	\$10,531	\$7,992	\$6,369	\$8,874
MB (Winnipeg)	\$8,958	\$6,311	\$4,702	\$7,510
ON (Toronto)	\$11,561	\$6,253	\$8,529	\$11,417
QC (Montreal)	\$8,706	\$4,375	\$3,627	\$5,599
NB (Moncton)	\$11,080	\$8,367	\$5,769	\$9,907
NS (Halifax)	\$11,687	\$8,856	\$8,806	\$10,492
PEI (Charlottetown)	\$8,812	\$8,049	\$6,257	\$5,757
NL (St. John's)	\$8,119	\$7,919	\$4,143	\$9,707

**Table 3**

*Revenue for Basic Income (2017; Billions) from BICN (Source: Pasma & Regehr, 2019, p.21).*

Source	Amount
Federal Programs: All except OAS/GIS and the OAS Allowance	\$5.86
Change in OAS Benefits Due to Changes in Total Income	\$0.54
Personal Income Tax Changes to Rates and Thresholds	\$8.19
Changes to Corporate Income Taxes	\$17.38
Increase in GIS	(\$3.09)
<b>Federal Sub-Total</b>	<b>\$96.37</b>
Provincial Contribution	\$41.00
<b>Total</b>	<b>\$136.95</b>

**Table 4**

*Average Net Impact of Basic Income after Change in Taxes Paid and Transfer Payments Received for Nuclear Families by Total Family Income Decile (2017), from BICN (Source: Pasma & Regehr, 2019, p.23).*

Decile	Income Range	Average Basic Income	Average Change in Taxes Paid	Average Change in Existing Transfer Payments	Average Net Impact
First	\$<0 - \$10,523	\$20,224	\$395	-\$873	\$18,956
Second	\$10,524 - \$19,512	\$17,153	\$914	-\$3,808	\$12,431
Third	\$19,513 - \$26,390	\$7,411	\$1,547	\$576	\$5,288
Fourth	\$26,391 - \$36,107	\$8,155	\$2,103	-\$1,107	\$4,945
Fifth	\$36,108 - \$47,012	\$5,960	\$2,891	-\$608	\$2,646
Sixth	\$47,013 - \$61,291	\$4,462	\$3,396	-\$572	\$494
Seventh	\$61,292 - \$79,087	\$2,071	\$3,929	-\$394	-\$2,251
Eight	\$79,088 - \$104,479	\$227	\$4,588	-\$276	-\$4,637
Ninth	\$104,480 - \$148,385	\$0	\$5,424	-\$406	-\$5,830
Tenth	\$148,386+	\$0	\$12,534	-\$308	-\$12,842
<b>Aggregate</b>		<b>\$6,474</b>	<b>\$3,787</b>	<b>-\$898</b>	<b>\$1,796</b>

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## **We Can Reduce the Poverty Gap by Making Work Pay More**

*Special to Financial Post:*

*Don Drummond, Inez Hillel and Andrew Sharpe*

Reducing poverty is a key societal goal. Canada has done a good job in addressing this issue for children and seniors. According to the “market basket measure,” Canada’s official poverty metric, the poverty rate for people under 18 fell from 19.2 per cent in 2006 to 8.2 per cent in 2018, while the rate for people 65 and over also fell significantly, from 7.6 per cent to 3.5 per cent.

In contrast, the poverty rate for the working-age population (those 18 to 64 years of age) was 10.3 per cent in 2018 — which is higher than for the other two groups and represents less of a decline. (It was 16 per cent in 2006.) Partly because of the country’s success in reducing poverty among children and seniors, the working-age population accounted for 75 per cent of people in poverty in Canada in 2018, up from 67 per cent in 2006.

Working-age people are even more important in terms of the poverty gap, that is, the total amount of income by which Canadians in aggregate fall short of the poverty line. Statistics Canada estimates that this gap was \$18.5 billion in 2018 and that 82 per cent of it would need to go to working-age people, up from 74 per cent in 2006.

Through programs such as the Guaranteed Income Supplement for seniors and the Canada Child Benefit, public policy has played a key role in reducing poverty for Canadian children and seniors. Reducing it for the working-age population is more challenging. Canadians expect most people in that population to work. Income transfers, whether conditional or unconditional, can have disincentive effects.

Working-age people living in poverty include both those receiving social assistance and the working poor, with slightly less than one half (47 per cent) in the latter group. In all provinces and for all family types, income from welfare is below the poverty line. At the same time, low-wage jobs often do not pay enough to bring many full-time workers, especially those with families, up to the poverty line.

A poverty-reduction strategy for the working-age population needs several components, including higher welfare incomes, better skills-upgrading programs and fewer disincentives to work and save while on welfare. A recent report from one of us (Hillel) for the Centre for the Study of Living Standards argues that such a strategy should focus on the principle of making work pay. We believe the best way to do this is through an earnings supplement or wage subsidy for low-wage workers.

Canada already has a national wage subsidy program, the Canada Workers Benefit (CWB). But it is not particularly generous. The maximum annual benefit for a single person is \$1,355, and for a family, \$2,335. We propose expanding the CWB to a maximum of \$5,460 per year via a \$3-per-hour wage subsidy up to a maximum of 1,820 hours per year (which is equivalent to full-time, full-year employment at 35 hours per week). Details on the proposal can be found in the report.

We estimate the gross cost of the program would be around \$9 billion. But its net cost would be much lower. Benefits would be taxable; there would be savings on the current CWB program; and many workers would not receive the full annual subsidy. A maximum household income threshold for receipt of the wage subsidy could also be included to make sure it was targeted only to low-income households. Because subsidizing wages likely would increase people's incentive to work, the costs of other income-support programs, such as social assistance, would likely fall. Overall societal costs associated with poverty would also fall.

With the focus shifting to the working-age poor, this enhanced wage subsidy is a logical next step in Canada's poverty-reduction strategy. In addition to its obvious appeal of making work pay, it would have many advantages. The additional income parents would receive from it would help reduce child poverty, although the impact of high marginal effective tax rates over the clawback range (where greater earning leads to withdrawal of the subsidy) would need to be monitored closely. Integrating the program with the income tax system could provide automatic universal coverage of low-wage workers.

Right now, because of the pandemic, attention understandably is focused on short-term income support. As those programs are phased out, however, policy should shift toward longer-term approaches to reducing poverty among working-age Canadians. An enhanced wage subsidy is a good place to start.

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## Implications for Future Economic and Fiscal Policy

### **Don't Forget a Fiscal Anchor for the Speech from the Throne**

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*Don Drummond*

Prime Minister Trudeau has indicated the government will disclose expensive initiatives to Canadians in a Speech from the Throne on September 23.

Without also proposing very large tax increases, this new agenda would clearly abandon any return to the fiscal anchors of the last two Liberal election platforms, respectively to balance the budget by 2019 and gradually reduce the debt-to-GDP ratio toward 30 percent.

While Canadians support the extraordinary measures taken to address COVID-19, they have not been given the opportunity to discuss, much less give the government a mandate to permanently veer off that fiscal course. The government has an obligation to give people the information necessary for a national discussion about the country's economic and fiscal future and set out the choices for the future.

One choice is to re-establish a fiscal anchor. Without one, Canada could wind up in a fiscal crisis as occurred in the mid-1990s when the debt-to-GDP ratio crested at 66.8 percent, after which great sacrifice was required to make the fiscal situation sustainable. There is no great magic in the pre-pandemic 30-percent debt ratio, but it had the desirable features of establishing a rough sense of intergenerational equity, keeping interest payments down so the bulk of tax revenues could finance the services Canadians want, and providing flexibility to respond to future shocks, like the appearance of COVID-19.

It would not be easy to return to that ratio any time soon. Assuming 3.5-percent average annual growth in nominal GDP from the 2019 base and a deficit of \$100 billion for 2021-22, down sharply from the estimate of \$343.2 billion for this year, it would require nine years of average surpluses of \$16.7 billion to hit a 30 percent debt ratio by 2030-31. Merely balanced budgets would lower that ratio to 34.5 percent.

Considerable pressures work against such scenarios. As the Public Health Agency of Canada has warned, the virus could linger for several years, preventing the economy from recovering fully and making it difficult to phase out pandemic rescue measures. Moderate productivity growth and pandemic-related hits to investment, immigration and the matching of labour demand and supply could depress Canada's growth rate for many years. Interest rates will go up eventually; a one-percentage point increase in the effective interest rate paid on federal government debt would add \$10 billion per year to the deficit. The federal government is unlikely to be able to withstand the policy and political pressure of its lessening share of healthcare costs under the Canada Health Act, especially given population aging.

The largest pressure may well be the initiatives the government is considering for the Speech from the Throne. A Guaranteed Basic Income has been estimated by the Parliamentary Budget Office (PBO) to cost \$47.5 to \$98.1 billion for just six months. The PBO put the price tag on a

National Pharmacare Plan at \$22.6 billion per year. A National Childcare Program could easily double the \$7 billion over 10 years the Liberals gave to the provinces in the 2017 Budget.

If a fiscal stimulus plan becomes necessary to strengthen economic recovery, 1 percent of GDP (\$20 billion) would be the minimum table stakes. Estimates of Canada's current infrastructure vary wildly from \$50 and \$570 billion. Green initiatives could add billions to spending or reduce revenues. The Assembly of First Nations estimates that more than \$10 billion more needs to be spent annually to address the poor living conditions. To the extent such initiatives raise economic growth, there would be an offset through higher revenues, but it would be partial.

Canadians may have been shocked that the debt burden will rise to 49.1 percent of GDP this year. They now need to realize that it could remain at that elevated level under the sort of agenda being hinted for September's Speech from the Throne.

That result would flow if deficits after 2021-22 flattened to around \$50 billion because a portion of the initiatives listed above were implemented without significant tax increases.

Going further and allowing the deficit to persist around \$100 billion would drive the debt burden back close to the 1995-96 crisis mark within 10 years; the sacrifice would be paid by today's children and grandchildren.

Alternatively, taxes could be raised to pay for new initiatives but the choices there are tough given Canadians already pay high taxes and the essential need for Canada to be competitive in the global economy.

The economic and fiscal future of Canada has perhaps never been more uncertain. That is not a good context from which to spring a Speech from the Throne launching the country in a new and risky direction. Canadians need to understand the risks and the choices they face and be given the required information to have an informed national discussion of our country's economic and fiscal future.

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## **The Government of Canada Must Facilitate Serious Discussion of Canada's Economic and Fiscal Future**

*Don Drummond*

While Canadians believe the extraordinary fiscal measures to deal with the economic consequences of the pandemic are justified, the predictions of the Government's Economic and Fiscal "Snapshot" July 8, 2020, a deficit of \$343.2 billion for 2020-21 with a net debt-to-GDP ratio of 49.1 per cent, have raised a lot of questions with no answers so far. Canadians want and deserve from Government and its agencies more information to inform a national discussion of the country's economic and fiscal future.

### **The "Snapshot" Both Alarms and Comforts**

The size and speed in the growth of the deficit and debt burden are alarming. Some comfort can be taken that at 49.1 per cent, the debt burden remains well below the 66.8 per cent reached in 1995-96. Also, financing the debt costs but 8.9 cents of every revenue dollar, modest indeed relative to the 35.2 cents on the dollar in 1995-96 and a market exists for Canada's debt whereas none was assured 25 years ago.

### **Canadians Are Raising Many Questions about the Future**

Some are:

- Can Canada grow out of the increased fiscal debt without needing to take extraordinary actions?
- Is it important for Canada to return to a pre-pandemic fiscal situation?
- Or should the Government of Canada abandon the pursuit of fiscal normalcy and fund mega-projects to address longstanding problems that have been amplified by the pandemic?
- If extraordinary fiscal actions are needed to adhere to a fiscal framework or to fund new initiatives, should it be higher taxes, lower spending, or both?

### **Can Canada Grow Out of the Increased Fiscal Debt?**

The net debt-to-GDP ratio exceeded 100 per cent at the end of WWII but came down to an average of only 21 per cent from 1969-70 to 1977-78, despite annual deficits most years. Special factors generated very strong nominal GDP growth. These factors are not present today and are unlikely to re-appear. Instead, there are risks to consider:

*a) COVID-19 could linger, depressing the economy and requiring extension of extraordinary fiscal measures now in place*

When the pandemic's effects fade, the \$343.2 billion deficit can be reduced significantly by phasing out the extraordinary measures taken. These represent \$227.9 billion, leaving a deficit of \$115.3 billion. Resumption of growth in the economy and hence revenues will remain critically important. Yet, Canada's Public Health Agency warns COVID-19 cases could continue into 2022. This would undoubtedly imperil an economic recovery and make it difficult for the federal government to withdraw all the extraordinary spending measures associated with the pandemic.

Even if it comes down, the deficit will likely remain high well beyond 2020-21, pushing out the time when economic growth could start to bring the debt burden down.

*b) Future economic growth will be much lower*

From 1945 to 1976 nominal GDP growth averaged 9.4 per cent per annum, split roughly equally between 4.7 per cent real output growth and 4.5 per cent inflation. More recently it has generally been thought that normal or sustained growth was about 4 per cent in nominal terms, split evenly between real output and inflation. With the ageing of the population, that growth path will likely shift down to 3.5 per cent nominal, composed of 1.5 per cent real output growth and 2 per cent inflation. This real growth projection is lower than the 1.7 per cent in the last Finance Canada long-term projection. In any disclosure of information to inform Canadians Finance Canada should consider short-term and longer-term downward pressures on that projection. In its July 2020 Monetary Policy Update the Bank of Canada noted it had lowered its estimate of the economy's capacity 4 per cent for 2023 from its previous estimate of January 2020. This is driven by the assumption of lower business investment, lower immigration and greater labour market mismatching. For the longer-term, Finance Canada must consider the possibility of weaker productivity than previously assumed and a continuation in the downward trend in hours worked.

*c) Interest rates will not stay this low forever*

In the "Snapshot", the ratio of interest payments to federal debt is only 1.8 per cent. Interest rates will eventually rise. To support strong economic growth with savings and investment, they need to rise. Each one percentage point increase in the effective interest rate on debt adds \$10 billion to the annual deficit.

*d) There are policy-related fiscal pressures even without new, mega-projects*

The Canada Health Transfer is legislated to grow at a moving average of nominal GDP with a floor of 3 per cent per annum. With nominal GDP declining in 2020, payments will crawl along the floor for several years. Meanwhile, health bills will rise as the provinces and territories struggle to maintain the relative restraint in place since 2011, a struggle compounded as they respond to calls for better (and more expensive) long-term care. The federal government will come under enormous pressure to correct the marked decline in its share of total health spending.

If we assume 3.5 per cent nominal GDP growth on average and a \$100 billion deficit for 2021-22, a string of 9 annual budget balances thereafter would lower the debt-to-GDP ratio to 34.5 per cent by 2030-31. A 30 per cent debt burden would require an average surplus of \$16.7 billion over those 9 years. If returning to fiscal normalcy is taken as going back to the roughly \$30 billion deficits just before the pandemic, then the debt burden in 2030-31 would remain elevated at 42.5 per cent, not down much from this year's high-water mark.

These extrapolations show that without extraordinary actions, the federal government will be running elevated debt burdens for many years even without new, expensive initiatives. In fact, it will struggle to address pressures such as weaker economic growth, the eventual rise in interest rates and a sharp decline in the federal share of health costs. It must also be considered that in these stylistic projections, there is no allowance for any future shocks, economic, fiscal or health.

**Is it Important to Re-Establish Pre-Pandemic Fiscal Conditions?**

While there is no magic in maintaining the debt-to-GDP burden around 30 per cent, it has the desirable features that it keeps interest payments down, freeing revenues to provide services, it establishes a loose sense of intergenerational fairness and it affords some flexibility to deal with shocks, whether they be economic, financial or health. All are compromised by the 49.1 per cent debt burden Canada will hit this year. Extremely low interest rates for the next few years offer the luxury of some time to bring it down but the threat of several fiscal pressures suggests not indulging too much or too long in that luxury.

## **Should the Federal Government Abandon Fiscal Discipline and Fund Mega-Policy Projects?**

Many big-ticket policy initiatives are being discussed, including:

- A Guaranteed Basic Income, estimated by the Parliamentary Budget Office to cost between \$47.5 and \$98.1 billion for 6 months only; less expensive but still costly alternatives to plug some of the holes in Canada's social safety net
- A National Pharmacare Plan, estimated by the Parliamentary Budget Office to have a net federal cost of \$22.6 billion per year
- A National Childcare Program, which could easily cost billions of dollars more on top of the \$7 billion 10-year investment the federal government introduced in 2017, with some controversy about how much comes back in revenues through higher, induced labour force participation
- A fiscal stimulus plan in case the economic recovery is too late or too slow; it would need to be at least 1 per cent of GDP (\$20 billion)
- Green initiatives: some amounts are embedded in estimates of the infrastructure gap and possible fiscal stimulus, but several billions of dollars could easily be dedicated every year to environment-friendly subsidies and tax incentives
- Addressing Canada's infrastructure gap, estimated by various parties at anywhere from \$50 to 570 billion; it is by no means all federal but it seems highly unlikely municipalities and provinces and territories will have the fiscal capacity to address it without extraordinary federal aid.
- Addressing the poor living conditions of Canada's Indigenous population; the Assembly of First Nations estimates an additional cost of more than \$10 billion for First Nations People only.

Such initiatives would hopefully bolster economic growth and that would provide an offset to the gross costs, but it would be partial.

A very ambitious agenda which implemented most of the initiatives listed above could leave the deficit around \$100 billion for many years and that would return the debt burden to 61 per cent by 2030-31, dangerously close to the crisis level in 1995-96. A more partial implementation which produced a string of annual deficits of \$50 billion would generate a debt burden in 2030-31 of 48 per cent, essentially flattening it at the figure swollen this year due to the COVID-19 measures.

The arguments are made that now is the time to spend the money to address longstanding Canadian problems because interest rates are extraordinarily low and Canada's debt burden would remain below that of many other countries. However, while the higher spending would be permanent, low interest rates might not. We should not look to highly indebted countries as models because they tend to feature low economic growth and bleak prospects for youth. We should be mindful of intergenerational equity. It is irresponsible for one generation to pass forward much more debt than public assets.

## **Should Taxes be Raised, Spending Cut, or Both?**

Canadians are concerned that the spike in debt will necessitate higher taxes on personal and corporate income, that the capital gains inclusion rate will go up as well as the GST and carbon taxes, and inheritance and wealth taxes will be introduced.

Options for personal and corporate income tax rates are rather limited. Canada already has high marginal personal income tax rates and increases for high-income earners may not yield much more revenue. Canada does not have inflation adjustment for capital gains and a partial inclusion rate addresses that inequity in a very rough way. We already have a form of inheritance tax in the deemed realization of gains at death. There is not likely much more revenue to be had going further. Inheritance and wealth taxes spur the tax avoidance industry and do not produce much revenue in countries that have them while raising concerns over triple taxation (on income, then savings and third, on accumulated savings).

Corporate income tax rates must be competitive internationally and Canada has lost its advantage with respect to other countries, especially the United States with its recent tax cuts.

That leaves the Goods & Services Tax and the carbon tax as the most viable options economically. The carbon tax may, however, be sidelined pending the decision of the Supreme Court on the constitutionality of its federal imposition and using it to reduce the deficit would require a major shift in its “selling” as it has been promoted to date as being neutral to household finances.

Finally, some revenue may be possible from a new tax on digital services.

An additional concern with federal tax increases is that provinces, territories and municipalities will likely raise their own taxes to deal with their debt explosion due to the pandemic and structure issues such as the impact of ageing on healthcare costs. All levels of government may be squeezing the same taxpayers at the same time.

Spending could certainly be constrained in future, but rarely are there easy options. Every cent goes to somebody for something. And as noted above, there are a lot of pressures in the other direction – to increase spending to address longstanding challenges in Canada amplified by the pandemic.

## **Several Conclusions Flow**

- Phase out the pandemic measures as soon as the course of the virus allows
- Re-introduce a fiscal framework with a reasonable anchor; management of risks suggests aiming to get the debt burden under 35 per cent by 2030-31 and that means balancing the budget and staying in balance quite soon
- Be selective and strategic at what further, large policy initiatives are pursued
- Look for opportunities above and beyond phasing out pandemic measures to reduce spending
- Consider raising certain taxes to fund certain new initiatives
- Distribute publicly the relevant economic and fiscal information, including identification and assessment of risks so Canadians can engage in an informed discussion
- Really work on the one win-win scenario - raising Canada's economic growth rate. That is no minor challenge given the revealed fragility of our tight economic relationship with the United States and the greater challenge than one might have believed in doing business with rapidly growing economies like China.

## **The Federal Government and Its Agencies Should Support a Well-Informed National Discussion**

The federal Government needs to go well beyond the July 2020 “snapshot” and put out a longer-term discussion paper on Canada's economic and fiscal future. Finance Canada does not need to publish the information alone; the Parliamentary Budget Office and the Finance Committee of the House of Commons should be engaged as well. The so-called Purple and Green Books of 1994, respectively on the economy and finances, could serve as models. The document should address opportunities and risks, use scenarios, and need not provide firm answers. Those should come after a Canadian discussion of the choices. The Government should not feel unduly constrained by a need or expectation that its depiction of the future be accurate. Canadians get that things are highly uncertain and would be suspicious of anyone, including the Government of Canada, claiming to know how it will all evolve. They can take comfort here again from the 1995 Budget. It is credited with turning around Canada's fiscal situation, yet it was based on a terribly inaccurate fiscal projection. The lesson there, worth keeping in mind especially now, is that doing better than projected is more easily forgiven than the opposite. Hence the importance of addressing those risks.

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