

FISCAL POLICY TRENDS

March 2020

THE FEDERAL GOVERNMENT'S POLICY RESPONSE TO COVID-19: ACTING QUICKLY AND DECISIVELY

As the number of confirmed cases of COVID-19 worldwide and in Canada continues to climb, the global economy is experiencing large disruptions not seen since 2008. On the morning of Monday, March 9, 2020, trading on Wall Street was halted for 15 minutes shortly after the opening bell by the market's circuit breakers due to a large decline in prices. In addition, U.S. West Texas Intermediate fell by 24.59% to \$31.13/barrel-its second worst day on record.

With the global economy potentially heading towards a recession, Canada should act now and quickly to mitigate the impact while reducing the transmission of COVID-19. This is not a time for austerity: austerity would leave many vulnerable populations to weather COVID-19 alone, which would not help slow the transmission of the virus nor provide an economic stimulus.

The federal government is in the best position to provide a flexible and quick response to COVID-19. Although coordination among the federal and provincial governments and employers would be the most desirable, the nature of COVID-19 requires a quick response devoid of political posturing.

1. Immediately strengthen the health care sector

Canada needs to invest in a [front-line emergency health care](#) response immediately. Italy's health care system was quickly overwhelmed with cases, particularly those in need of ventilators. In the United States, front-line health care workers, particularly nurses, quickly ran out of basic protective gear, unnecessarily exposing them to the virus. The world is showing us we need to heavily invest in research and development funding for rapid detection tests and a vaccine. Much like after 9/11, we can earmark billions of dollars in spending and worry about the exact allocation later. The provinces, though, should take the lead on allocating most of this spending.

2. "Enact Universal Paid Sick Leave"

EI Sickness Benefits currently only cover workers who have paid into EI, have worked the required number of hours, and whose earnings drop by at least 40% for one week. This leaves those in non-traditional, precarious employment, such as the self-employed, gig-economy workers, and part-time workers, uncovered. The EI Sickness Benefits approval process is also too slow and too unresponsive to be of value to most people.

Instead, an entirely new paid sick leave program should be introduced, as has been done in [Singapore](#). Such a program could replace some or all of a worker's earnings while they self-isolate. This would provide incentives to those who feel like they cannot afford to take work off but show signs of illness to take stay at home and slow the transmission of the virus. Further, it would cover gaps in existing provincial and employer-paid sick leave: some provinces, such as Ontario, provide 12 employer-paid sick days, whereas in B.C., employers are not required to provide any paid sick leave.

3. Expedite tax returns

In the 2018 tax year, the Canada Revenue Agency (CRA) issued a [tax refund](#) to 62% of tax filers. Expediting the issuance of these tax refunds could stimulate local consumption, particularly related to local pandemic preparedness. A [CIBC poll](#) found that many Canadians view tax refunds as a windfall: 20% of respondents in 2018 expected to use their refund to cover every day expenses and 22% would invest it. Expediting tax returns could be a more cost-efficient way to stimulate the economy. One way to expedite tax returns would be to use the information and mechanisms the CRA already has in place to [auto-fill tax forms](#) for low-income populations who receive social assistance and a T5007. For this group, most of their sources of income are on the T5007 and thus already in the hands of the CRA.

4. Provide additional financial resources to low-income households

Low-income persons do not have the resources to prepare for COVID-19. Fortunately, the federal government already issues the GST/HST credit to low-income households, and all provinces already issue some sort of income assistance to low-income persons. Coordinating a one-time emergency top-up for recipients of the GST/HST credit, GIS beneficiaries, and income assistance recipients would provide low-income persons much needed resources.

5. Provide a top-up to the Canada Child Benefit (CCB) to help with child care costs

As COVID-19 spreads, children may have to stay home from school or their day cares. This will require parents and guardians to either stay home from work or find emergency child care. Providing a temporary top-up to the CCB would help parents and guardians with these emergency costs, including the cost of having to miss work.

6. Invest in infrastructure

Now is a good time to invest in infrastructure. Thirty-year government bond rates are well below 1%, making borrowing cheaper than it has ever been. Investing in infrastructure infuses money into the economy, provides jobs, and could be used to create additional child care spaces or build [hospitals](#) that may be needed in the weeks and months to come.