



Brown's Economic Damages Newsletter

January 2021

Volume Eighteen Issue 1

Brown Economic offers 5 user-friendly, economic loss calculators for quick, accurate, and cost-effective damages estimates, available @ www.browneconomic.com:

- Non-Pecuniary (free)
- Working Life / Life Expectancy (free)
- Present Value (free)
- Housekeeping (pay per use)
- Income Damages (pay per use)

Cara Brown, B.A. (Hons.), M.A., President

Maureen Mallmes, B.Sc., SEMC

Dan Clavelle, M.Ec.

Rachel A. Rogers, B.A., J.D.

Ha Nguyen, B.A. (Hons.), M.A.

Shelley Smith, Ph.D.

Elda Figueira, MLS

Frank Strain, Ph.D.

J.C.H. Emery, Ph.D.

Stephen Clark, Ph.D.

Evaluating efficacy of government COVID-19 subsidies & programs (Part 4)

By Cara L. Brown, M.A.*

In Part 4 of this series, we examine the costs of the Canadian government's COVID-19 subsidies in terms of the impact on the Canadian economy's deficit and mounting debt, and the implications for Canada's economy. We also update Table 1 (confirmed COVID-19 cases and deaths across Canada) as of **January 12, 2021**.¹

COVID-related topics in other issues of Brown's Economic Damages Newsletter:

- ◆ Preliminary economic effects of COVID-19 in Canada, and implications for quantum experts (Part 1) – disseminated **June 15, 2020**
- ◆ Economic effect of COVID-19 in Canada: Disproportionate effects on industry sectors (Part 2) - distributed **Aug. 4, 2020**
- ◆ Shut-down of the Canadian economy: impact of COVID-19 on productivity (Part 3) - distributed **Oct. 15, 2020**
- ◆ Measuring the "benefits" related to COVID "costs": The *Value of a Statistical Life (VSL)* methodology (Part 5) forthcoming

* Appreciation is extended to Ha Nguyen, M.A, for research assistance.

¹ Previous issues of **Brown's Economic Damages Newsletter** supplied Table 1 statistics at June 30, 2020 (Part 1); July 30, 2020 (Part 2); and Sept. 30, 2020 (Part 3).

TABLE OF CONTENTS

CONFIRMED CASES & DEATHS FROM COVID-19 IN CANADA AS OF JAN. 12, 2021 (TABLE 1)	page 3
GOVERNMENT PROGRAM COSTS IN RESPONSE TO COVID-19	page 5
<i>Accounting for government program costs in Canada is murky</i>	page 6
DEFINING KEY TERMS: THE DEFICIT VERSUS THE DEBT	page 7
<i>Historical deficits in Canada & Comparison to G7 Countries</i>	page 7
<i>Figure 1: Deficit as a % of GDP, 2019 to 2021, G7 countries</i>	page 7
<i>Figure 2: Canada's federal surpluses & deficits, 1867 to 2020</i>	page 8
<i>More spending promised by Canada's government</i>	page 9
<i>Provincial government deficits</i>	page 9
<i>Figure 3: Government Debt Approaching Levels Seen During 1990s Fiscal Crisis</i>	page 10
IMPACT OF COVID-RELATED SPENDING ON CANADA'S ECONOMY	page 10
FEDERAL GOVERNMENT "PRINCIPLES" JUSTIFYING COVID-RELATED EXPENDITURES	page 12
HOW THE NATIONAL DEBT IS EXPECTED TO BE MANAGED	page 13
MODERN MONETARY THEORY (MMT) – INSPIRATION FOR UNLIMITED FISCAL SPENDING	page 14
UNINTENDED CONSEQUENCES	page 15
<i>Government officials ignore travel advisories during Christmas holidays</i>	page 16
<i>COVID lethality in long-term care (LTC) homes in Canada</i>	page 16
<i>How one fancy golf course parlayed CEWS into \$1 million profit</i>	page 16
<i>The CERB benefit: normalizing the pay-for-no-work mindset</i>	page 16
<i>COVID and Canada's Health Care System</i>	page 17

Confirmed cases & deaths from COVID-19 across Canada as of Jan. 12, 2021 (Table 1)

In Table 1 below, we update statistics on COVID-induced confirmed cases and deaths as of Jan. 12, 2021. Interestingly, the “rate of death” from these confirmed cases increased only slightly over the summer months: on June 11, 2020, the “rate of death” across Canada equaled 21 per 100,000 persons.² As of Sept. 30, 2020, this statistic equaled 25 per 100,000 persons.³ In contrast, the rate of death increased in 3.5 months to 45 per 100,000 persons (at Jan. 12, 2021), reflecting the staggering increase in confirmed cases and subsequently a higher per capita death rate. Interestingly, two regions now have a death rate per 100,000 persons greater than the cross-country rate (45): Manitoba’s rate is 53 per 100,000 and Quebec’s rate is 103 per 100,000.

Table 1: Compilation of COVID-19 confirmed cases & deaths, by province and territory in Canada (Jan. 12, 2021)

Canada/Province and Population	Confirmed cases	Deaths
Canada (38 million)	674,473	17,233
Alberta (4.4 million)	112,743	1,345
British Columbia (5.1 million)	58,553	1,019
Manitoba (1.4 million)	26,540	748
New Brunswick (0.8 million)	817	11
Newfoundland and Labrador (0.5 million)	393	4
Northwest Territories (0.04 million)	24	0
Nova Scotia (1.0 million)	1,534	65
Nunavut (0.04 million)	266	1
Ontario (14.7 million)	222,023	5,053
Prince Edward Island (0.1 million)	103	0
Quebec (8.5 million)	232,624	8,782
Saskatchewan (1.2 million)	18,770	204
Yukon (0.04 million)	70	1

Source: Government of Canada. *Coronavirus disease (COVID-19): Outbreak update*. Accessed at: <https://www.canada.ca/en/public-health/services/diseases/2019-novel-coronavirus-infection.html> on January 12, 2021; and Statistics Canada. Table 17-10-0009-01 *Population estimates, quarterly*.

- From Sept. 30, 2020 to Jan. 12, 2021, total cases across Canada increased by more than 300% (from 158,758 to 674,473) and deaths increased by 85% (from 9,297 to 17,233)
- The number of confirmed cases in Alberta skyrocketed from 18,062 to 112,743, a 6-fold increase in the last 3.5 months (October, November and December 2020 and the first two weeks of January 2021). The number of deaths (from 267 to 1,345) increased 5-fold.

² **Brown’s Economic Damages Newsletter** “Preliminary economic effects of COVID-19 in Canada, and implications for quantum experts (Part 1)”, June 2020, vol. 17, issue 3 (p. 9).

³ **Brown’s Economic Damages Newsletter** “Shut-down of the Canadian economy: impact of COVID-19 on productivity (Part 3)”, September 2020, vol. 17, issue 5 (p. 3).

- Like Alberta, the number of confirmed cases in BC increased more than 6-fold (from 9,138 to 58,553) while the number of deaths increased more than 4-fold (from 234 to 1,019)
- As was the case in July of 2020, Ontario and Quebec still account for the large majority of confirmed cases (67% of all cases in Canada) and account for an even larger share of deaths (80%), although both percentages have declined since September 2020⁴
- Saskatchewan's number of confirmed cases increased by almost ten-fold (1,913 to 18,770), and the total number of deaths in that province increased from 24 to 204
- Manitoba's cases swelled 13-fold (from 1,993 to 26,540) and deaths increased from 20 to 748
- On a positive note, while cases in the NWT increased almost 4-fold (from 5 to 24), and PEI's cases almost doubled from 59 to 103, both regions have averted any deaths due to COVID
- Unlike the rest of the provinces, the Atlantic provinces were able to constrain the increase in confirmed cases from Oct. 1, 2020 to Jan. 12, 2021. Even more impressive, the number of deaths barely registered a change: from 2 to 11 in New Brunswick; from 3 to 4 in Newfoundland; and no change in Nova Scotia (still 65) and PEI (still 0).

Reasons given for the spike in new cases include insufficient public health measures and complacency.⁵ For instance, South Korea was able to contain the spread of cases by building a robust test, trace and isolate system, obviating the need for a large-scale lock down. In Ontario, much of the source of new cases occurred in hospitals and long-term care facilities. Other reasons for the recent outbreaks are attributed to students returning to school⁶ and as a result of social gatherings (such as confirmed cases arising from parties at a BC ski resort). Premier Kenney singled out young Albertans by urging them to "knock it off" with the partying and social gatherings.⁷

Given the program costs summarized below, Canadian citizens can be forgiven for wondering why Canada's federal and provincial governments were not geared up with the testing/tracing process by Fall of 2020 given the lessons learned from the 1st lockdown in March of 2020. Early reports about the vaccination process in Canada has also inspired little trust in government, since only 340,809 vaccinations have been performed as of the date of this newsletter (less than 1% of the Canadian population).⁸ Compare this to Israel's timely vaccination of 15% of its population in less than two weeks. Israel expects to administer COVID-19 vaccines to all its citizens aged 16 and over by the end of March 2021, making the country on pace to become the world's first nation to immunize its population against the coronavirus.⁹

⁴ The comparable percentages as of Sept. 30, 2020 were that Quebec and Ontario reported 79% of all confirmed cases, and accounted for 93% of all Canadian deaths (source: **Brown's Economic Damages Newsletter** "Shut-down of the Canadian economy: impact of COVID-19 on productivity (Part 3)", September 2020, vol. 17, issue 5 (p. 4)).

⁵ **CBC News** "Why COVID-19 cases are surging across Canada and what needs to be done" Nov 7, 2020; "Coronavirus Second Wave? Why Cases Increase" (source: www.hopkinsmedicine.org/health/conditions-and-diseases/coronavirus/first-and-second-waves-of-coronavirus).

⁶ **The Washington Post** "The coronavirus is surging, but Canada is keeping schools open" Nov. 3, 2020; **The Globe & Mail** "How bad could the second wave of the COVID-19 pandemic get?" Sept. 18, 2020.

⁷ **CBC News** "Bigger, wider and more politicized: Alberta's 2nd surge of COVID-19 has arrived" Nov. 4, 2020.

⁸ **CTV News**. *Coronavirus vaccine tracker: How many people in Canada have received shots?* January 11, 2021.

⁹ K. Dangerfield. *Israel is leading the world in COVID-19 vaccine rollout. Here's what Canada can learn.* **Global News**, January 7, 2021; and A. Dunn. *Israel, already leading the world in rolling out the COVID-19 vaccines, aims to immunize entire country by the end of March* **Business Insider**, January 10, 2021.

Government program costs in response to COVID-19

In response to the COVID-19 economic shutdown, the Canadian government immediately put in place *Canada's COVID-19 Economic Response Plan* to provide economic aid to individuals and businesses affected by the COVID-19 lockdown.¹⁰ The price tag associated with the federal government's "direct costs" (subsidies granted to persons and businesses) and liquidity support and capital relief totaled slightly more than \$1 trillion as of **Aug. 6, 2020**.¹¹ This is the last date for which we have statistics from the Department of Finance. We do know that by Aug. 6, 2020, the CERB benefit costs had increased by one-third (from \$60 to \$80.5 billion) and the CEWS benefit almost doubled (from \$45 to \$83.6 billion) from previous estimates.

The programs are categorized in the following way, along with the total dollars spent by government:

- ◆ **Protecting Health and Safety (\$25.6 billion)**
- ◆ **Direct Support Measures (\$214.3 billion)**, which include (but are not limited to):
 - Canada Emergency Response Benefit (CERB - employees) - \$80.5 billion
 - Canada Emergency Wage Subsidy (CEWS - employers) - \$83.6 billion
 - Support for Students and Recent Graduates (over 2 years) - \$9.3 billion
 - Support for Seniors¹² - \$3 billion
- ◆ **Business Credit Availability Program (BCAP)¹³ (minimum \$86.5 billion)**
- ◆ **Tax Liquidity Support (\$85 billion)¹⁴**
- ◆ **Credit and liquidity support through the Bank of Canada, CMHC and commercial lenders (\$300 billion)¹⁵**
- ◆ **Capital relief (OSFI Domestic Stability Buffer) (\$300 billion)**

When these figures are added together, the total sum of COVID-related governmental programs and subsidies equaled **\$1.011 trillion as of August 6, 2020**.¹⁶ Of this total, the *direct program costs* inspired by the pandemic are approximately \$400 billion. **Given that this estimate omits the last 5 months of 2020, we know that it is understated.**

The federal government recently released another COVID benefit with the acronym "CERS." The *Canada Emergency Rent Subsidy* (CERS) will provide rent and mortgage support to small businesses affected by COVID-19. CERS is administered by the *Canada Revenue Agency* (CRA) on a period-by-period basis, with each period spanning 4 weeks starting on September 27, 2020. CERS will be in place until June 2021 (see table below).¹⁷ CERS subsidizes up to a

¹⁰ As per information provided by the Government of Canada's website (<https://www.canada.ca/en/>).

¹¹ House of Commons of Canada, Department of Finance. *Canada's COVID-19 Emergency Response: Bi-Weekly Report on Parts 3, 8, and 18 of Bill C-13, Tenth Report*, August 6, 2020 (latest report at the time of this publication).

¹² This category includes costs of one-time payments to OAS and GIS recipients, New Horizons for Seniors Program expansion, lower RRIF minimum withdrawal rates, and contributions of \$9 million through United Way for local organizations.

¹³ Captured in the main category "Other Liquidity Support and Capital Relief". The BCAP program includes these categories: small and medium-sized enterprise and loan and guarantee program (\$40 billion); the Canada Emergency Business Account (\$41.3 billion); financing for mid-size companies (to be determined upon uptake); credit and liquidity support for the Agriculture sector (\$5.2 billion); and the Large Employer Emergency Financing Facility (to be determined upon uptake).

¹⁴ This category pertains to income tax payment deferrals (\$55 billion) and sales tax/custom duty payments deferrals (\$30 billion).

¹⁵ This estimate included the statement that the "figures represent *lower bound estimates* based upon announced credit and liquidity support to date" (emphasis added).

¹⁶ Of the \$1.011 trillion-dollar figure, specific programs and subsidies like the CERB and CEWS (and others) account for approximately \$400 billion. This figure corresponds approximately to the \$491 billion shown across from the category "Total – COVID-19 Economic Response Plan" (p. 62) of the federal government's *Fall Economic Statement 2020* entitled "Supporting Canadians and Fighting COVID-19", Nov. 30, 2020. We assume that the \$91-billion discrepancy is due in part to the different date to which the costs have been counted (presumably to Nov. 30, 2020 in the *Fall Economic Statement 2020*) versus the House of Commons report dated Aug. 6, 2020 and the introduction of more programs.

¹⁷ Only periods 1-3 are confirmed. Periods 4-9 still need to be adopted by the Parliament of Canada (as per information provided on the Government of Canada's website (www.canada.ca/en/revenue-agency/services/subsidy/emergency-rent-subsidy.html)).

maximum of 65% of eligible expenses for businesses that can demonstrate a revenue loss due to COVID-19. There is no minimum revenue loss required to qualify for the subsidy. An additional top-up of 25% will be available for organizations temporarily shut down by a mandatory public health order issued by a qualifying public health authority. This means hardest-hit businesses subject to lockdown could receive rent support of up to 90%.¹⁸ Presumably, CERS was created due to the criticisms levied at the *Canadian Emergency Commercial Rent Assistance* (CECRA) program, the predecessor of the CERS program.¹⁹ Perrin Beatty, CEO of the Canadian Chamber of Commerce, indicated that “the [CECRA] program itself was badly flawed.”²⁰ Unlike CECRA, CERS provides rent support directly to tenants.

Accounting for government program costs in Canada is murky

In conjunction with out-of-date estimates of COVID program costs (known only to Aug. 6, 2020), researchers who compare countries’ public spending through the *Open Budget Survey* (OBS) find that Canada’s tracking of expenditures is not transparent and inconsistent with most other governments. The reasons for this are twofold:

- 1) Canada’s fiscal system separates the budget (increment) and appropriations (complete expenditures), which is uncommon because they are considered one and the same in the majority of countries and
- 2) The accounting for the budget is presented on an accrual basis whereas the accounting for year-end financial statements is written with cash-based budgeting information.

The 2019 OBS stated the following with respect to the impact of these particularities:

The different accounting practices and lack of alignment of the appropriations and budget make it *nearly impossible to clearly track how public money moves* from the budget document (a high-level fiscal plan), to the estimates (departmental spending), to the public accounts (how money was spent). There are disconnects of timing, accounting and information (emphasis added).

Because of these disconnects, Canada ranked behind countries such as Brazil, Georgia, Mexico, South Africa, and Sweden; and barely outranked the Philippines and Peru. One of the key recommendations was also the simplest one: to render Canada’s budget process one that can be followed by parliamentarians and citizens.²¹

Given these budget tracking problems, the estimates above may reflect a larger margin of error than we can discern from the available information.

¹⁸ As per information provided on *The Canadian Federation of Independent Business’* website (<https://www.cfib-fcei.ca/en/canada-emergency-rent-subsidy-cers-faq#facts>).

¹⁹ The CECRA program was introduced on April 24, 2020 and ended on September 30, 2020. The CECRA plan, which, in partnership with the provinces and territories, provided forgivable loans to qualifying commercial property owners (landlords) to reduce the rent owed by eligible small businesses by 75%. As of September 2020, the federal government had delivered over \$1.5 billion in rent support through CECRA for small businesses. Nevertheless, since its announcement in April 2020, the program faced a number of criticisms with the main complaint being that entry depended on buy-in from the landlord, who had no obligation to participate in the program and as such, tenants whose landlords opted out were ineligible from receiving CECRA benefits.

²⁰ E. Dyer. *Troubled pandemic rent subsidy program expires today — and there’s no replacement ready*. *CBC News*, Sep 30, 2020.

²¹ Gaspard, H. “Not the most alluring of tasks: reforming Canada’s fiscal practices, lessons from the Open Budget Survey (OBS) 2019” *Institute of Fiscal Studies and Democracy* (IFSD/IFPD), Apr. 29, 2020.

Defining key terms: the deficit *versus* the debt

The government budget balance in any given year is calculated as the difference between a government's revenues (taxes and proceeds from asset sales) and its expenditures. It is often expressed as a ratio (%) of *Gross Domestic Product* (GDP). If the balance is positive, the government has a surplus (it spends less than it receives). **If the balance is negative, the government has a deficit** (it spends more than it receives).²² A country's national debt is the accumulation of all the annual deficits, plus the interest since Confederation.²³ The larger each annual deficit is, the more accumulated debt the government has. It helps to think of the "deficit" as the current-year balance and the "debt" as the ongoing tally of deficits for all years.

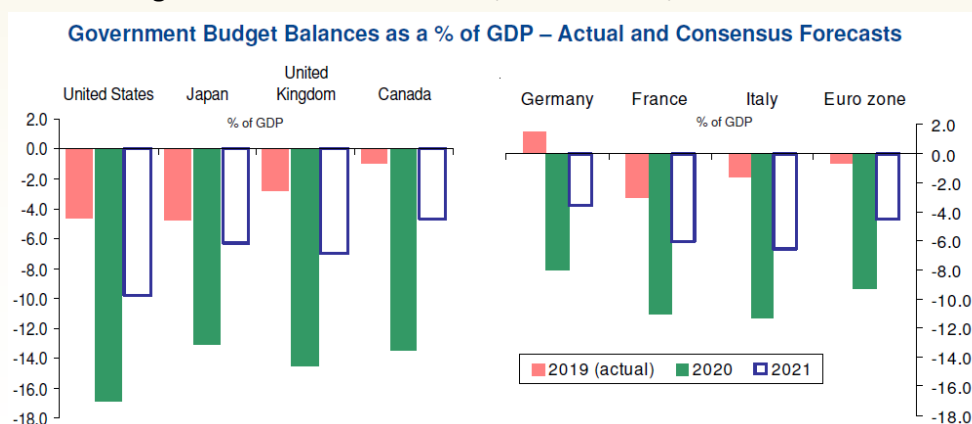
When we add the expected 2020 annual deficit of \$382 billion²⁴ to the existing national debt, Canada's debt starting in 2021 will equal **\$1.2 trillion**.²⁵ The cost of higher-than-average unemployment rates, which the federal government predicts will continue into 2021, will cause a \$71 billion decline in tax revenue (of which more than half is a loss in income taxes).²⁶ To provide a perspective, US federal debt totaled \$16.8 trillion at the end of fiscal year 2019.²⁷ To support Americans during the COVID-19 related crisis, United States Congress passed a \$2 trillion relief bill in March 2020, which sent Americans one-time checks of up to \$1,200 and temporarily offered unemployed persons \$600 a week on top of their state jobless benefits.²⁸

The 2020 annual deficit (\$382 billion) is six times larger than the \$56 billion deficit during the financial crisis in 2009 and surpasses the combined total of every deficit between 2008 and 2019.²⁹

Historical deficits in Canada & Comparison to G7 Countries

The government budget balance (deficit) as a percentage of GDP is used to measure a government's ability to meet its financing needs and to ensure good management of public finances. Canada will place 3rd-highest, behind the United States and the United Kingdom, for the national deficit relative to economic size in 2020. Compare this ranking to population size: the UK has twice the population of Canada, whereas the US has 9 times the population of Canada.³⁰

Figure 1: Deficit as a % of GDP, 2019 to 2021, G7 countries



Source: Consensus Economics. *Consensus Forecasts - G7 and Western Europe Survey, June 2020*.

²² FocusEconomics. *Fiscal Balance (% of GDP)*. Available at: (<https://www.focus-economics.com/>)

²³ M. Gollom. *What voters need to know about deficits and the debt*. *CBC News*, October 3, 2019.

²⁴ R. Aiello. *Federal deficit on track to exceed \$381B, as spending increases in wake of second COVID-19 wave*. *CTV News*, November 30, 2020.

²⁵ Department of Finance Canada. *Economic and Fiscal Snapshot 2020*, July 8, 2020.

²⁶ Department of Finance Canada. *Economic and Fiscal Snapshot 2020*, July 8, 2020.

²⁷ Congress of the United States' *Federal Debt: A Primer*, March 2020.

²⁸ P. Wiseman, *U.S. debt from coronavirus pandemic will soon exceed size of entire economy, analysts say*. *Global News*, September 5, 2020.

²⁹ Trevor Tombe. *Why Canada might need a temporary COVID-19 tax and repayment fund*. *Maclean's*, June 8, 2020.

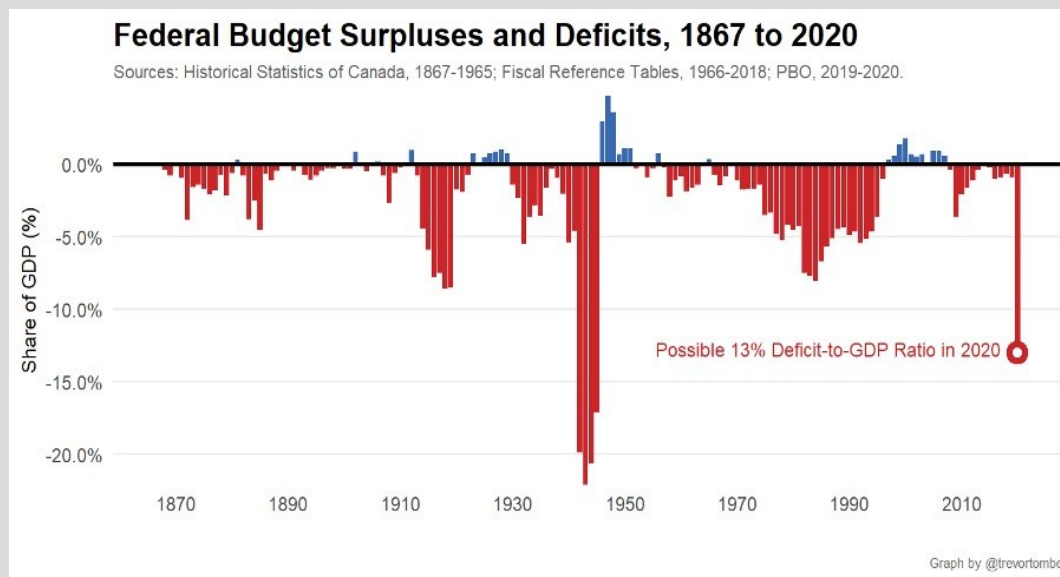
³⁰ OECD (2021), Population (indicator). doi: 10.1787/d434f82b-en [Accessed on 08 January 2021].

In general, there are two primary sources of funding used by governments to cover their expenses: taxation and borrowing. When the revenue realized through taxation is not enough to fully fund a government's spending, they borrow money. Governments raise funds (*i.e.*, borrow money) from domestic and foreign financial institutions (banks, insurance companies, pension funds and other investment funds) and large corporations by selling securities, such as bonds, on the financial market.

Running a deficit means that our country is carrying a debt load which must be serviced by interest payments on a regular basis.³¹ The increase in interest on debt payments leads to larger debts and deficits. In the 1990s, when debate about fiscal policy loomed large (when interest rates were much higher than the decline in interest rates that occurred from 2000 to 2020), analysts concluded that the "continuing increase in public debt had substantially impacted risk premiums on Canadian bonds, pushing up interest rates...an increase in the cost of debt servicing followed this [causing] the total debt to [increase]...and federal finances became unsustainable."³²

A historical analysis is illuminating. Below, we show Dr. Tombe's graph of federal budget surpluses and deficits from 1867 to 2020.³³ Dr. Tombe's historical analysis shows that Canada's government has run a deficit in almost every year since 1867, with the main exceptions occurring in the 1950s and the 1990s. Large deficits were incurred in wartime years (1920s and 1940s) and in the 1970s/1980s.

Figure 2: Canada's federal surpluses & deficits, 1867 to 2020



Amassing all of these yearly deficits has led to a \$1.2 trillion national debt as of 2020.³⁴ Of this total, approximately \$400 billion (one-third of the total debt) represents the *direct program costs* related to COVID in 2020 (the liquidity measures and capital relief figures above are not factored into the deficit/debt).³⁵

³¹ Domestic and foreign financial institutions (banks, insurance companies, pension funds and other investment funds) and large corporations are the federal government's main lenders.

³² A. Atsin. *Federal Deficit and Public Debt in Canada: Are We Aware of the Implications for the Medium-Term Outlook?* [Institute of Fiscal Studies and Democracy](#), Feb 26, 2019.

³³ Trevor Tombe. *Why Canada might need a temporary COVID-19 tax and repayment fund*. [Maclean's](#), June 8, 2020.

³⁴ Department of Finance Canada. *Economic and Fiscal Snapshot 2020*, July 8, 2020. Statistics Canada's *Fiscal Reference Tables November 2020* confirms that by the 2019-20 year (ended March 30, 2020), "total liabilities" equaled \$1,248,609 million (or \$1.25 trillion) – see Table 15. As of the writing of this article, we know that this figure will be considerably higher by March 30, 2021.

³⁵ Even though the credit and liquidity support granted by The Bank of Canada and capital relief were counted in the COVID-19 related government costs (totaling \$600 billion), the federal government's accounting methods show that these costs are "reflected in the government's revenues from enterprise Crown corporations" (source: Department of Finance Canada. *Supporting Canadians and Fighting COVID-19: Fall Economic Statement 2020*, released November 30, 2020, Chapter 2, p. 61).

More spending promised by Canada's government

Despite the massive impact of COVID-19 2020 spending on Canada's debt, the federal government has promised additional spending under the slogan 'build back better' with its "reset" agenda of \$70 to \$100 billion in spending which could push the debt to \$1.6 trillion (58% of GDP) in 2025. These funds have been promised for childcare, long-term care, pharmacare, green subsidies, revamping the fiscal stabilization fund for provinces, and income support for the gig economy.³⁶ Mintz comments on these proposals:

Ottawa believes only massive public spending and deficits can generate economic growth...The government doesn't understand or doesn't care that new taxes and regulations, not to mention wasteful subsidies, impede growth...Public spending is not a magic wand. It can even be a malevolent wand: *high deficits and looming tax hikes can rattle investor confidence, leading to capital flight.*

Canadians might enjoy [the COVID benefits] now, but they won't like what comes next – the *higher taxes that the current lack of fiscal discipline makes inevitable* (emphasis added).

Provincial government deficits

The Canadian provinces' fiscal outlook is also in poor shape: all provinces are carrying deficits. As projected by RBC economists, all provinces will see large revenue shortfalls in 2020-2021 due to the COVID-19 economic fallout:³⁷

- Newfoundland and Labrador: -\$2 billion (7.0% of the province's GDP)
- Nova Scotia: -\$0.8 billion (1.9% of the province's GDP)
- New Brunswick: -\$0.6 billion (1.8% of the province's GDP)
- Quebec: -\$13 billion (3.0% of the province's GDP)
- Ontario: -\$21 billion (2.5% of the province's GDP)
- Manitoba: -\$1.5 billion (2.1% of the province's GDP)
- Saskatchewan: -\$1.5 billion (2.1% of the province's GDP)
- Alberta: -\$18 billion (6.4% of the province's GDP)
- British Columbia: -\$5 million (1.8% of the province's GDP)

When the federal debt is added to the provincial debt, the results are even more disturbing. TD Economics produced the following graph:³⁸

³⁶ Jack M. Mintz. *We'll pay for all these down payments*. *Financial Post*, December 3, 2020; and Department of Finance Canada. *Supporting Canadians and Fighting COVID-19: Fall Economic Statement 2020*, released November 30, 2020.

³⁷ RBC. *Provincial Deficits Projected to Surge Due to COVID-19*. Released April 28, 2020.

³⁸ *TD Economics*, "Taking on Debt to Support the Recovery An Update on Canadian Government Finances", Aug. 12, 2020.

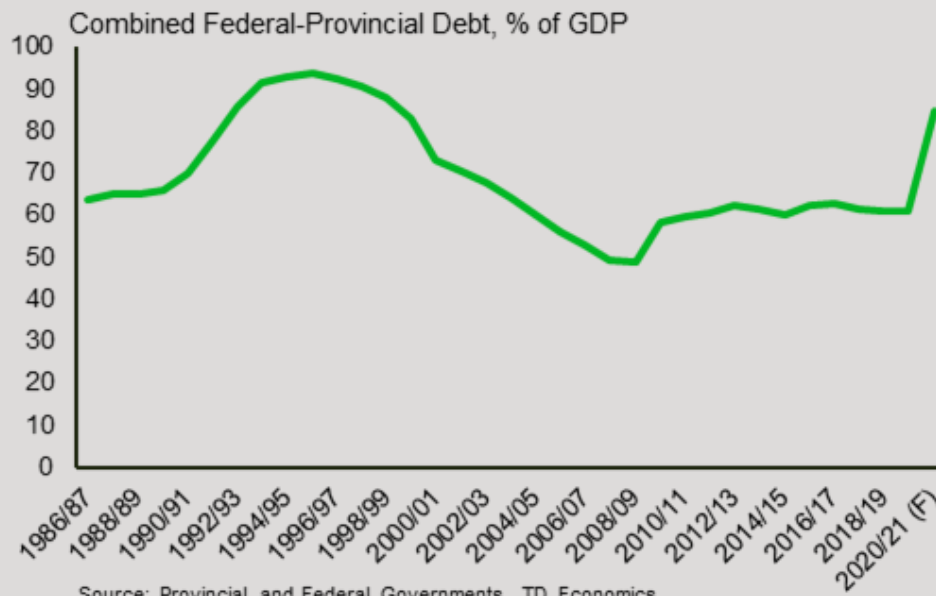
Figure 3: Government Debt Approaching Levels Seen During 1990s Fiscal Crisis

Figure 3 shows that once the provinces' debt is added to the federal debt, the combined total is expected to soar past 80% of GDP. This will put upward pressure on interest charges and reduces the amount of capital available for productive pursuits such as investments on infrastructure projects, healthcare, education and technology, and constrain a country's ability to react during a financial crisis.³⁹

Office of the Parliamentary Budget Officer released a report entitled *Fiscal Sustainability Report 2020: Update* on Nov. 6, 2020. Although the authors of this report claim that "current fiscal policy at the federal level is sustainable over the long term", they are of the opinion that provincial and territorial governments' fiscal policies are not sustainable (p. 2). This conclusion is based partly on the "ever increasing health care costs due to population ageing" (p. 14) which is expected to be most acute in the next 25 years.

Given the provinces' deteriorated fiscal situation, the federal government will provide \$19 billion in aid to provinces and territories to help fund COVID-19 testing, contact tracing, PPE, childcare spaces and municipalities. The funding is a part of a comprehensive agreement entitled "Safe Restart Agreement", between the federal, provincial and territorial governments. According to the *Financial Post*, the federal government will also transfer money to bail out municipal governments with soaring expenses and plunging revenues during the pandemic.⁴⁰

Impact of COVID-related spending on Canada's economy

The massive federal government economic response to COVID-19 is more expensive than the simple tally of program costs because the government has to borrow heavily to pay for the COVID-related support⁴¹ since we were already in a

³⁹ K. Manzer. *The future of debt, inflation and global rates*. *RBC*, August 25, 2020; H. Hennerich. *Debt-to-GDP Ratio: How High Is Too High? It Depends*. *Federal Reserve Bank of St. Louis*, October 7, 2020.

⁴⁰ *Financial Post*. *Ottawa, provinces reach \$19-billion deal on funding for reopening*. July 16, 2020.

⁴¹ R. Hogue and R. Muthukumaran. *Pandemic to spill red ink all over provinces' books*. *RBC Economics*, April 27, 2020.

deficit position before March 2020.⁴² At the same time, the COVID-19 pandemic has triggered the most sudden and deepest economic contraction in Canada since 1961,⁴³ causing real GDP to fall by 2%, 13% and 5% in the first three quarters of 2020 compared to the third quarter of 2019⁴⁴ -- an economic loss which augments the national debt. Jack Mintz forecasts that “Canada’s lost output [GDP] from 2020 to 2025 will total \$730 billion.”⁴⁵ In addition, the contraction in Canada’s economy in 2020 (measured by the decline in GDP) resulted in lower tax revenues for the government.

Yet the Dept. of Finance’s fiscal snapshot released in July 2020 did not indicate how or when the federal government planned to rein in the spending.⁴⁶ Atsin acknowledges that the additional spending on interest leaves fewer resources that can be allocated for other government programs for tax relief purposes and that the government deficit ultimately burdens taxpayers:⁴⁷

Deficits impose an increasing burden on future generations, as it contributes to higher interest rate payments that must be financed. The implication is that a larger share of future revenues must go to paying interest on the debt. In the simplest terms, *every dollar paid to finance the debt is a dollar that is not available for other vital priorities such as health care or social programs* (especially when considering the spending increases needed to keep up with Canada’s aging population) (emphasis added).

Phillip Cross, a senior fellow at the Fraser Institute and former Chief Economic Analyst at Statistics Canada, echoes this sentiment:

“the legacy of unprecedented budget deficits will prevent governments from initiating expensive new infrastructure and social spending programs while increasing the burden on future taxpayers ... the pandemic’s legacy of lower interest rates further undermines pension plans, *bringing closer the day governments face the unappetizing choice between taxpayer’s subsidizing public service pensions or trimming benefits*” (emphasis added).⁴⁸

Most economic experts anticipate that it will take a long time (until 2025) for Canada to fully recover from the economic downturn created by the lockdown due to COVID-19.⁴⁹ In a recent forecast entitled “COVID-19 and Uncertainty to Flatten the Curve of Economic Recovery,” the *Conference Board of Canada* reports that the pace of recovery is expected to stall over the coming quarters, thousands of job losses are permanent, immigration is stalled, labour market conditions will not return to pre-lockdown levels until 2025, and tax hikes and significant government spending cuts are inevitable as federal and provincial debt soars.

⁴² The federal government posted a budgetary deficit of \$28.8 billion for the fiscal year ended March 31, 2020 (source: Department of Finance Canada. *Annual Financial Report of the Government of Canada Fiscal Year 2019–2020*, November 30, 2020).

⁴³ M. Rathore and I. Ghosh. *Canadian economy mired in its deepest recession on record, with U-shaped recovery likely*. *Financial Post*, April 28, 2020.

⁴⁴ Statistics Canada. *Table 36-10-0104-01 Gross domestic product, expenditure-based, Canada, quarterly (x 1,000,000)*.

⁴⁵ Jack M. Mintz. *We’ll pay for all these down payments*. *Financial Post*, December 3, 2020.

⁴⁶ Government of Canada. *Economic and Fiscal Snapshot 2020*, July 2020; and Global News. *Canada’s deficit to hit \$330B as coronavirus lands ‘permanent’ economic impact*. September 29, 2020.

⁴⁷ A. Atsin. *Federal Deficit and Public Debt in Canada: Are We Aware of the Implications for the Medium-Term Outlook?* *Institute of Fiscal Studies and Democracy*, Feb 26, 2019.

⁴⁸ Phillip Cross. *The Pandemic: High-Water Mark for Government Intervention?* *Macdonald-Laurier Institute*, December 8, 2020.

⁴⁹ BNN Bloomberg. *It will take ‘years’: Economists on post-pandemic recovery*. May 29, 2020; Conference Board of Canada. *COVID-19 and Uncertainty to Flatten the Curve of Economic Recovery*, September 30, 2020; *The Economist Special Report: The world economy*, October 10–16, 2020.

“Principles” justifying COVID-related expenditures

According to the Minister of Finance, Canada can “afford” the level of COVID-19 spending given its fiscal strength as demonstrated by:⁵⁰

- Canada had the lowest net-debt-to-GDP ratio in the G7 before the pandemic and is expected to come out of the recession in the same position;
- Interest rates are at historic lows, and as such, Canada’s interest charges, as a share of GDP, are currently at a 100-year low;⁵¹
- Economic growth is expected to outpace interest rates moving forward.⁵²

Dr. Collins, head of the Canadian Medical Association, said on November 13, 2020 that “the strength of the economy should not come at the expense of Canadians’ lives.” This view reflects a political and moral position that lies at the root of the COVID-19 policy crisis, according to Terence Corcoran, columnist and editor at the National Post.⁵³ Corcoran argues that “total spending on preparing the health-care system...to handle the inevitable spread of COVID-19 has been dwarfed by massive populist redistributions of cash”. Similarly, Cross disputes the value of the federal government income supports during COVID, observing that:

Governments boast of having “Canadians’ backs” with income support, *but they failed to provide basic health services such as safe long-term care facilities for the elderly, rapid testing and comprehensive tracing*, and the timely roll-out of vaccinations. Canada wasted its experience with the SARS virus in 2003...Tracing was ad hoc, despite its importance in allowing authorities to pinpoint what activities to curb instead of the blanket shutdowns imposed in the spring [of 2020] (emphasis added).

Corcoran’s and Cross’ comments show that the federal government has already made “trade-offs” between economic considerations and Canadians’ lives. In fact, one could argue that the direct support payments (such as the CERB) benefitted low-income Canadians and Canadians in industries disproportionately affected⁵⁴ while government expenditure failed to avert deaths in long-term care homes (LTCs).

Health ministers in Canada might want to believe that economic considerations should not impinge on policies that aim to curb the spread and impact of COVID. But the ability and capacity of the health systems in each province and territory has always been constrained by economics, just like every other spending initiative. This means that government policy should proceed *within* the context of inevitable trade-offs, not pretend that they should not exist.

⁵⁰ As per Minister of Finance Freeland’s speech *Address by the Deputy Prime Minister and Minister of Finance to the Toronto Global Forum: Canada’s plan for a strong economic recovery from COVID-19* on September 24, 2020.

⁵¹ Communications from the Bank of Canada reveal that there no plans to increase the overnight rate (slashed to 0.25% on March 27, 2020) in the next three years until 2023 (sources: Bank of Canada press releases: *Bank of Canada will maintain current level of policy rate until inflation objective is achieved, recalibrates its quantitative easing program* (October 28, 2020); *Bank of Canada will maintain current level of policy rate until inflation objective is achieved, continues its quantitative easing program* (December 9, 2020)). Similarly, the US Federal Reserve plans to maintain interest rates near zero through 2022.

⁵² This assumption is derived in part from the investment in the economy from the liquidity measures put in place with the direct program costs itemized above (equal to approximately \$600 billion of the \$1.011 trillion COVID costs).

⁵³ T. Corcoran. *Thou shalt not kill the economy*. *Financial Post*, November 18, 2020.

⁵⁴ For a review on the disproportionate effects of the shutdowns instituted in response to COVID-19, see **Brown’s Economic Damages Newsletter** “Economic effect of COVID-19 in Canada: Disproportionate effects on industry sectors (Part 2)”, July 2020, vol. 17, issue 4.

How the national debt is expected to be managed

In May 2020, Finance Minister Morneau informed the CBC's Rosemary Barton that tax hikes – including a GST increase – were not part of the government's immediate plans to deal with the deficit.⁵⁵ Ironically, one of the recommendations for repaying the COVID debt is an upward adjustment to the GST rate or new sales taxes (see below).

Harvard economist Alberto Alesina and his colleagues have studied governments' responses to large deficits linked with recessions and found that reducing government spending is a less-damaging response to controlling deficits, compared to tax increases.⁵⁶ Government spending cuts can strengthen the economy and enhance economic growth as private investments tend to rise when government spending is reduced.

Other writers have argued that we should be content with the current borrowing cost because of the inordinately low interest rate environment; in other words, "it could be worse". Tombe contends that "even if interest rates soon rise beyond 5%, federal debt remains sustainable."⁵⁷ Federal government publications have plainly stated that "current fiscal policy at the federal level is sustainable over the long term", although it should be observed that this statement is buttressed by a key assumption that "interest rates will remain lower than the rate of future economic growth."⁵⁸ Both of these economic variables can fluctuate far from economists' ability to project them.

Some are arguing for a new tax to be created. NDP Leader Jagmeet Singh is urging the federal government to look to offshore tax havens and impose a "wealth tax"⁵⁹ to raise revenue to offset the massive debt and deficit.⁶⁰ The Broadbent Institute proposes the following recommendations for increasing federal revenues:⁶¹

- o Apply a graduated wealth tax to "allow the richest Canadians to make a contribution, appropriate to their wealth, toward repairing the damage that COVID-19 has done to public finances"
- o Amending the federal income tax system by taxing a larger share of pre-tax income for the top 1% of income earners
- o Eliminate the stock option tax reduction, reduce the dividend tax credit and limit the capital gains reduction
- o Implement corporate tax reform by eliminating corporate tax cuts and introducing an excess-profits tax on large corporations that have significantly profited during the pandemic
- o Introduce a sovereign wealth fund that would invest only in a green economic recovery, *i.e.* sustainable economic diversification and decarbonization projects
- o Increase consumption (sales) tax and social-security premiums

In addition to the above recommendations, in its *Submission to the House of Commons - Pre-Budget Consultations for the 2021/2022 Federal Budget* released in August 2020, the *Canadians for Tax Fairness* proposed a digital tax of at least

⁵⁵ D. Cochrane. *A crisis like no other: Canada's finances could take years to recover from the pandemic recession*. *CBC News*, May 16, 2020.

⁵⁶ A. Alesina, C. Favero and F. Giavazzi. (2014). *The output effect of fiscal consolidation plans*. *The National Bureau of Economic Research*.

⁵⁷ Trevor Tombe. *Why Canada might need a temporary COVID-19 tax and repayment fund*. *Maclean's*, June 8, 2020.

⁵⁸ Parliamentary Budget Office, *Fiscal Sustainability Report 2020: Update*, Nov. 6, 2020 (pp. 2, 13).

⁵⁹ The NDP has called for a tax on the wealthiest one per cent of Canadians, while Mr. Morneau's mandate letter from the prime minister instructs him to introduce a new tax on luxury boats, cars, and personal aircraft, and to do an analysis to "ensure that wealthy Canadians do not benefit from unfair tax breaks". PBO estimated that 13,800 Canadian economic families would be subject to the tax, and it would raise \$5.6 billion in revenue in fiscal year 2020-21 (source: as per information provided by Member of Parliament Peter Julian's website).

⁶⁰ R. Aiello. *'The challenge of our lifetime': Federal deficit to hit \$343 billion this year*. *CTV News*, July 8, 2020.

⁶¹ *Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget* (released on August 7, 2020).

3% on revenues earned by multinational tech giants (such as Amazon, Google and Facebook) from Canadian consumers and users, and applying GST to imports of digital services. (The *Canadians for Tax Fairness* had submitted similar proposals to the House of Commons Finance Committee in August 2016).

Dr. Tombe suggests 3 ways to address the COVID spending:⁶² (a) increase the GST back to 7%; (b) increase eligibility for OAS back to age 67 (from age 65); (c) impose a special temporary levy (a “COVID sales tax”) of 1.5% to be invested by the *Canada Pension Plan Investment Board* (CPPIB). Tombe maintains that the Board would need an “average return of 8%” to repay the debt in 10 years.⁶³

On November 30, 2020, Minister of Finance Freeland tabled the 2020 *Fall Economic Statement* (FES 2020) that contains revenue-raising tax measures. FES 2020 highlights proposals similar to that of the Broadbent Institute and the *Canadians for Tax Fairness*: full taxation of employee stock options; new rules to impose GST/HST obligations on on-residents providing digital services in Canada; a new digital services tax in 2022; and new money for a more aggressive Canada Revenue Agency to tackle tax evasion. The tax measures contained in the FES 2020 are forecasted to raise \$7.2 billion in total net revenues over the next five years.

However, according to Jack Mintz “hitting the rich won’t do it: the rich will avoid new taxes, including leaving the country, as some already have. The only taxes up to raising substantial new revenues are the personal income tax, GST, and excise and payroll taxes.”⁶⁴

Similarly, Dr. Ferede, an associate professor of economics at MacEwan University, found that taxpayers, especially upper-income earners, tend to respond to tax hikes in ways that can reduce the tax revenue governments would otherwise collect by reducing their level of work activity and/or reporting less taxable income by shifting income to other jurisdictions with lower tax rates. Dr. Ferede reports that the Trudeau government’s 2015 tax hike on upper-income earners was forecast to generate \$10.3 billion in additional tax revenue in 2020 before any behavioral responses, but only \$0.7 billion was collected after accounting for behavioral effects.⁶⁵

Modern Monetary Theory (MMT) – inspiration for unlimited fiscal spending

Page contends that “the economics of deficits have changed”:

With next-to-zero interest rates and no inflation in near sight, there are virtually no bottom-line balance sheet impacts of running larger deficits. All the risks are punted to the future. *Debt creates instability risks*. If years down the road, inflation makes a comeback, interest rates will rise. The carrying cost of debt will skyrocket. *Higher debt interest costs will crowd out spending on key policy priorities* (emphasis added).⁶⁶

Traditionally, governments borrow money by selling government bonds to private-sector investors. *Modern Monetary Theory* (MMT) advocates call on governments to bypass private capital markets and sell their bonds directly to the central bank (the Bank of Canada) to fund government spending. Using this strategy, the Bank of Canada would buy

⁶² Trevor Tombe. *Why Canada might need a temporary COVID-19 tax and repayment fund*. *Maclean's*, June 8, 2020.

⁶³ CPPIB’s average net rate of return was 11.2% per year from 2012 to 2019, which dipped to 3.1% in 2020 (source: CPP Investment Board’s 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020 *Annual Reports*).

⁶⁴ Jack Mintz. *We’ll pay for all these down payments*. *Financial Post*, December 3, 2020.

⁶⁵ Ferede, E. *The Revenue Effects of Tax Rate Increases on High-Income Earners*. *Fraser Institute*, 2019.

⁶⁶ Page, K. *A Fall Budget 2020 Strategy Drive Toward the Future*. *Policy Magazine*, Aug. 31, 2020.

government bonds directly from the government and pay for the bonds by essentially ‘printing money’ and mitigate the government’s direct cost of borrowing by charging a zero-interest rate. As the Fraser Institute describes it:

The key argument for MMT is that central banks have no solvency or liquidity constraints on how much they can lend, or any other fiduciary limitations on the amount of government bonds they can purchase, as long as they finance bonds issued in their domestic currency...The important MMT inference is that *traditional concerns about expanding government deficits are unwarranted and should not stand in the way of increased government spending* (emphasis added).⁶⁷

The problems with this “theory” include:⁶⁸

- Pressures on the rate of inflation, which reduces consumers’ purchasing power and as a result depresses our standard of living;
- Economic inefficiencies that harm economic growth;⁶⁹
- Pressures on the level of interest rates, which will increase the governments’ debt servicing costs and reduce investment in the private sector; and
- The success of the MMT approach depends on the “strength of institutions” in the specific country (meaning political stability and independent central banks).⁷⁰

MMT proponents acknowledge that there is a “potential limit” to printing money to finance government deficits. When this limit approaches (using the impact on inflation as the signal for the limit), governments must do what they have always done to reduce deficits: raise taxes. At this point, MMT reverts to traditional ways of dealing with government debt.

The idea of an unlimited bank account for the country is seductive and likely to inspire more spending than if a budget is followed or there are spending limits. Even CBC News attributes these advantages to MMT: full employment, a more equitable distribution of wealth and a social safety net for all who need one – but it is easy to create society’s “wish list” when MMT experts advocate no limits on spending. Indeed, one of the key advocates of MMT, Stephanie Kelton, has stated in her book that *“spending should never be constrained by arbitrary budget targets or a blind allegiance to so-called sound finance.”*⁷¹ Certainly, this is not an approach advocated or practiced by successful corporations. These entities understand there are always financial constraints; there is no Money Tree perpetually in full bloom which exists outside of what is created by economic actors employed by the corporation and investments in capital or technological inputs.

UNINTENDED CONSEQUENCES

Along with the expected outcomes of massive government spending and the impact of forced shutdowns in the economy, addressing the COVID pandemic in Canada generated several unintended consequences. A few of these are touched upon below.

⁶⁷ Fraser Forum, *Modern Monetary Theory, Part 1: What is it and why is it gaining currency in these volatile times?* March 23, 2020.

⁶⁸ Fraser Forum, *Modern Monetary Theory, Part 2: Will MMT hold down taxes?* March 30, 2020; Fraser Forum, *Modern Monetary Theory, Part 3: MMT and inflation* April 14, 2020; CBC News, *MMT and the theory of the bottomless government piggy bank: Don Pittis*, Feb. 28, 2019.

⁶⁹ In turn, this has a negative impact on the size of the debt, because the sustainability of large deficits depends on economic growth outpacing interest rates.

⁷⁰ H. Hennerich. *Debt-to-GDP Ratio: How High Is Too High? It Depends*. Federal Reserve Bank of St. Louis, October 7, 2020.

⁷¹ **CBC The Sunday Magazine** “No need to worry about a deficit when the government can print money, say some economists” June 5, 2020.

Government officials ignore travel advisories during Christmas holidays

Despite widespread travel advisories issued by provincial and territorial governments which strongly encouraged Canadians not to travel unless it was “essential” – and severe restrictions forcing many businesses to shut down over the Christmas holiday period – government officials across the country were exposed as having ignored their own policies by vacationing in Hawaii, Mexico, Jamaica and other ports of call.

Aside from the mistrust engendered from exposing these travelers’ vacations, these stories have likely spurred many citizens to do precisely what government advisories were recommending they not do: travel. Who can blame them in this environment of marked hypocrisy?

COVID lethality in long-term care (LTC) homes in Canada

Canada has the highest COVID-19 mortality rate in long-term care compared with the rates in other OECD countries: As of May 2020, LTC residents accounted for 81% of all reported COVID-19 deaths in Canada, compared with an average of 38% in other OECD countries (ranging from less than 10% in Slovenia and Hungary to 66% in Spain).⁷²

How one fancy golf course parlayed CEWS into \$1 million profit

The Royal Ottawa Golf Club is one of the most prominent private golf courses in Canada. The club has long been a playground for the capital’s elite, offering “privileged” status to cabinet ministers, the leader of the Official Opposition, accredited high commissioners and ambassadors to Canada and their respective spouses, and several NHL players.

CBC News obtained the Royal Ottawa Golf Club’s audited financial statements and found that the club received \$1.019 million in support under the *Canada Emergency Wage Subsidy* (CEWS) over the spring and summer 2020 and as a result, “ended its fiscal year with an \$825,000 surplus in its operating fund – 19 times more than \$43,883 operating gain the club reported for 2019”. Combined with the return on investments from its capital fund and some cost-savings, the club had a total surplus of \$1.038 million in 2020. In a recording of its annual general meeting, the club’s board told members about the club’s “very strong financial position due to the CEWS windfall” and that “we ended up with a rather substantial subsidy ... It was over a million dollars. And that ended up on the bottom line.”⁷³

The CERB benefit: normalizing the pay-for-no-work mindset

The *Canadian Emergency Response Benefit* (CERB) program provides a payment of \$2,000 per month for a maximum of 6 months to people who have stopped working or have had to reduce their working hours because of reasons related to COVID-19. About 8.4 million Canadians, representing 40% of the labour force, received at least one payment from the *Canadian Emergency Response Benefit* (CERB).⁷⁴ To stay on CERB, workers cannot earn more than \$1,000 per month. This framework therefore disincentivizes workers, particularly low-income earners, to return to work or increase their level of work activity post-lockdown when income earned from employment would be less than the

⁷² Canadian Institute for Health Information. *Pandemic Experience in the Long-Term Care Sector: How Does Canada Compare With Other Countries?* Ottawa, ON: CIHI, June 2020.

⁷³ CBC News’ article entitled *Exclusive golf course books \$1 million surplus, aided by federal COVID-19 relief* (December 18, 2020).

⁷⁴ Financial Post. *CERB worked almost too well — now Trudeau needs to wean 7 million people off it*. June 17, 2020.

⁷⁵ M. MacLeod. *Reopening businesses struggling to lure staff back to work*. CTV News, June 23, 2020.

⁷⁶ Canadian Federation of Independent Business. *COVID-19 CFIB Member Survey #16 – Staffing Question Results*, July 16, 2020.

⁷⁷ J. Snyder. *\$80B CERB program may hamper recovery by being a disincentive to work, provinces warn*. National Post, July 24, 2020; and

M. MacLeod. *Reopening businesses struggling to lure staff back to work*. CTV News, June 23, 2020.

⁷⁷ Bolongaro, K. *Bloomberg News*. “CERB worked almost too well – now Trudeau needs to wean 7 million people off it”. June 17, 2020.

CERB benefit. As argued by Dan Kelly, president of the *Canadian Federation of Independent Business*, “CERB was designed in the middle of a pandemic as emergency relief for those with no ability to earn an income. But it is not designed for a recovery.”⁷⁵

A survey conducted in July of 2020 by the *Canadian Federation of Independent Business* (CFIB) stated that 27% of small firms found that some of their laid-off staff refused to return to work when recalled, mainly because they preferred to stay on the CERB.⁷⁶ Various provincial leaders have warned that the \$80 billion CERB program could hamper economic recovery by providing a disincentive to work.⁷⁷

The federal government has taken pains to emphasize that program supports like CERB were intended to be a temporary salve when shutdowns of many businesses were ordered. But if it acts as a disincentive to work, this constrains the recovery. At the same time, the widespread availability of the CERB benefit (without any eligibility requirements) normalizes the idea that there are funds available to people even if they are not working – for any reason. This idea contradicts the principle of “value-in-exchange” underpinning commerce in the private sector and institutionalizes a dependency on government spending.

It may be that Canadians are losing their appetite for accountability. There are reports that the “government was unable to pass legislation that would have disqualified people who fail to return to work under ‘reasonable’ conditions, while imposing fines for applicants who provided misleading information.” Instead, the government simply asks recipients to attest they are looking for work.⁷⁸

COVID and Canada’s Health Care System

“Waiting for treatment has become a defining characteristic of Canadian health care”, as stated by Barua and Moir in a recent Fraser Institute report entitled *Waiting Your Turn Wait Times for Health Care in Canada, 2019 Report*. Barua and Moir found that the median waiting time from a referral by a general practitioner to a consultation with a specialist was 10 weeks in 2019. The median waiting time from the consultation with a specialist to the point at which the patient receives treatment was another 10.8 weeks in the same year, about 3.5 weeks longer than what physicians consider to be clinically “reasonable” (7.2 weeks).

The latest data from the *Canadian Institute for Health Information* (CIHI) shows that COVID-19 resulted in a 21% decline in life-saving and urgent surgeries (for example, pacemaker insertions, bypass surgeries and cancer surgeries) and a 36% decrease in hospital admissions in Canada. While there was a notable increase (41%) in the non-surgical emergency admissions for major respiratory conditions (mostly COVID-19 patients), admissions to intensive care units (ICUs) were 22% lower during the period from March to June 2020, compared to the same period in 2019.⁷⁹ In commenting on the unintended drop in healthcare service volumes during the COVID-19 pandemic, CIHI states the following:

⁷⁵ M. MacLeod. *Reopening businesses struggling to lure staff back to work*. CTV News, June 23, 2020.

⁷⁶ Canadian Federation of Independent Business. *COVID-19 CFIB Member Survey #16 – Staffing Question Results*, July 16, 2020.

⁷⁷ J. Snyder. *\$80B CERB program may hamper recovery by being a disincentive to work, provinces warn*. National Post, July 24, 2020; and M. MacLeod. *Reopening businesses struggling to lure staff back to work*. CTV News, June 23, 2020.

⁷⁸ Bolongaro, K. *Bloomberg News*. “CERB worked almost too well – now Trudeau needs to wean 7 million people off it”. June 17, 2020.

⁷⁹ As per information provided on the Canadian Institute for Health Information’s website (www.cihi.ca/en/covid-19-resources/).

While we know about the changes in service volumes, the challenge is that we don't yet have the full picture of the impact of delayed or deferred care. ***Given these potentially unintended consequences, did pandemic preparations go too far?*** Our data certainly raises that question, but it doesn't answer it at this time. We do know that the findings from Wave 1 are valuable as health system leaders seek to evolve the response to COVID-19 and better understand how to adapt Canada's health systems as the pandemic continues.

Despite Canada's health minister admonishing anyone who suggests that economic considerations should be considered when dealing with a pandemic, the death rates in long-term care facilities and CIHI's information demonstrates there have already been health-economy trade-offs – just not ones that were expected. And these trade-offs have had disproportionate effects.

Consumer Price Index



Unemployment Rate

From November 2019 to November 2020*		For the month of November 2020	
(rates of inflation)			
Canada**	1.0%	Canada:	8.5%
Vancouver:	1.2%	Vancouver:	8.1%
Toronto:	0.6%	Toronto:	10.7%
Ottawa:	1.8%	Ottawa:	7.1%
Montréal:	1.1%	Montréal:	8.5%
Edmonton:	1.2%	Edmonton:	11.3%
Calgary:	1.3%	Calgary:	10.7%
Halifax:	0.6%	Halifax:	6.6%
St. John's, NF:	1.3%	St. John's, NF:	9.3%
Saint John, NB:	-0.1%	Saint John, NB:	10.2%
Charlottetown (PEI):	-0.2%	Charlottetown (PEI):	10.2%
* Using month-over-month indices. Source: Statistics Canada			
** 12 month rolling average up to November 2020 is 0.8% (see non-pecuniary awards table).			

Brown Economic's consultants are accessible at the following email addresses and extension numbers using our **TOLL-FREE CANADA-WIDE** number:

1-800-301-8801

Name	Title	Extension	Email
Cara L. Brown, B.A., (Hons.) M.A.	President	201	cara.brown@browneconomic.com
Dan J. Clavelle, M.Ec.	Vice-President & Expert Witness	209	dan.clavelle@browneconomic.com
Rachel Rogers, B.A., J.D.	Economic Consultant & Legal Researcher	216	Maternity Leave
Ha Nguyen, B.A. (Hons.), M.A.	Economic Analyst	217	ha.nguyen@browneconomic.com
Shelley Smith, Ph.D.	Accounting	204	accounting@browneconomic.com
Frank Strain, Ph.D.	Economic Consultant & Expert Witness		frank.strain@mta.ca (Mount Allison University)
J.C.H. Emery, Ph.D.	Economic Consultant		hemery@unb.ca (University of New Brunswick)

UPDATING NON-PECUNIARY AWARDS FOR INFLATION (NOV. 2020, CANADA)

Year of Accident/ Year of Settlement or Trial	"Inflationary" Factors*	Non-Pecuniary Damages - Sample Awards				
		\$10,000	\$25,000	\$50,000	\$75,000	\$100,000
November 2019-November 2020	1.008	\$10,085	\$25,212	\$50,424	\$75,635	\$100,847
Avg. 2018-November 2020	1.026	\$10,262	\$25,656	\$51,312	\$76,968	\$102,624
Avg. 2017-November 2020	1.049	\$10,495	\$26,236	\$52,473	\$78,709	\$104,945
Avg. 2016-November 2020	1.066	\$10,662	\$26,655	\$53,310	\$79,966	\$106,621
Avg. 2015-November 2020	1.081	\$10,815	\$27,036	\$54,073	\$81,109	\$108,146
Avg. 2014-November 2020	1.094	\$10,936	\$27,341	\$54,682	\$82,023	\$109,364
Avg. 2013-November 2020	1.114	\$11,145	\$27,862	\$55,724	\$83,586	\$111,448
Avg. 2012-November 2020	1.125	\$11,249	\$28,123	\$56,246	\$84,369	\$112,492
Avg. 2011-November 2020	1.142	\$11,420	\$28,550	\$57,100	\$85,650	\$114,200
Avg. 2010-November 2020	1.175	\$11,752	\$29,381	\$58,762	\$88,143	\$117,524
Avg. 2009-November 2020	1.196	\$11,962	\$29,905	\$59,809	\$89,714	\$119,619
Avg. 2008-November 2020	1.202	\$12,019	\$30,047	\$60,093	\$90,140	\$120,186
Avg. 2007-November 2020	1.228	\$12,282	\$30,704	\$61,409	\$92,113	\$122,817
Avg. 2006-November 2020	1.254	\$12,544	\$31,360	\$62,720	\$94,080	\$125,440
Avg. 2005-November 2020	1.279	\$12,795	\$31,987	\$63,975	\$95,962	\$127,949
Avg. 2004-November 2020	1.308	\$13,079	\$32,696	\$65,393	\$98,089	\$130,785
Avg. 2003-November 2020	1.332	\$13,322	\$33,304	\$66,608	\$99,912	\$133,217
Avg. 2002-November 2020	1.369	\$13,689	\$34,223	\$68,447	\$102,670	\$136,894
Avg. 2001-November 2020	1.400	\$13,999	\$34,997	\$69,994	\$104,991	\$139,988
Avg. 2000-November 2020	1.435	\$14,351	\$35,878	\$71,755	\$107,633	\$143,510
Avg. 1999-November 2020	1.474	\$14,742	\$36,855	\$73,710	\$110,565	\$147,421
Avg. 1998-November 2020	1.500	\$14,997	\$37,493	\$74,986	\$112,479	\$149,973
Avg. 1997-November 2020	1.515	\$15,147	\$37,867	\$75,733	\$113,600	\$151,466
Avg. 1996-November 2020	1.539	\$15,392	\$38,480	\$76,959	\$115,439	\$153,919
Avg. 1995-November 2020	1.563	\$15,634	\$39,086	\$78,172	\$117,259	\$156,345
Avg. 1994-November 2020	1.597	\$15,970	\$39,925	\$79,851	\$119,776	\$159,701
Avg. 1993-November 2020	1.600	\$15,996	\$39,991	\$79,981	\$119,972	\$159,963
Avg. 1992-November 2020	1.630	\$16,295	\$40,738	\$81,476	\$122,214	\$162,952
Avg. 1991-November 2020	1.654	\$16,537	\$41,343	\$82,687	\$124,030	\$165,374
Avg. 1990-November 2020	1.747	\$17,468	\$43,670	\$87,340	\$131,011	\$174,681
Avg. 1989-November 2020	1.830	\$18,304	\$45,761	\$91,522	\$137,283	\$183,044
Avg. 1988-November 2020	1.922	\$19,217	\$48,042	\$96,083	\$144,125	\$192,166
Avg. 1987-November 2020	1.999	\$19,988	\$49,971	\$99,942	\$149,912	\$199,883
Avg. 1986-November 2020	2.086	\$20,859	\$52,149	\$104,297	\$156,446	\$208,595
Avg. 1985-November 2020	2.173	\$21,734	\$54,335	\$108,669	\$163,004	\$217,339
Avg. 1984-November 2020	2.259	\$22,595	\$56,487	\$112,975	\$169,462	\$225,949
Avg. 1983-November 2020	2.357	\$23,567	\$58,919	\$117,837	\$176,756	\$235,675
Avg. 1982-November 2020	2.495	\$24,951	\$62,377	\$124,754	\$187,131	\$249,508
Avg. 1981-November 2020	2.764	\$27,636	\$69,089	\$138,179	\$207,268	\$276,358
Avg. 1980-November 2020	3.109	\$31,088	\$77,720	\$155,439	\$233,159	\$310,879
Avg. 1979-November 2020	3.424	\$34,237	\$85,593	\$171,186	\$256,778	\$342,371
Jan. 1978-November 2020	3.900	\$38,997	\$97,493	\$194,986	\$292,479	\$389,972

\$99,942 = \$50,000 x 1.999 represents the dollar equivalent in November 2020 of \$50,000 based on inflation increases since 1987. Similarly, \$389,972 (= \$100,000 x 3.900) represents the dollar equivalent in November 2020 of \$100,000 in 1978 based on inflationary increases since the month of January 1978.

* Source: Statistics Canada, Consumer Price Index, monthly CPI release, rolling average (except for Jan. 1978).



Brown Economic Consulting Inc.

HEAD OFFICE

#216, 5718-1A Street South West
Calgary, AB T2H 0E8
T 403.571.0115 F 403.571.0932

#907, 1128 Sunset Drive
Kelowna, B.C. V1Y 9W7
Toll 1.800.301.8801

1701 Hollis Street Suite 800
Halifax, NS B3J 3M8
Toll 1.800.301.8801

Email help@browneconomic.com
Web www.browneconomic.com