



Canada can afford COVID recovery costs

In the first two months of the COVID-19 pandemic, the federal government announced emergency support spending of nearly \$150 billion. For context, total federal program expenses were forecast to be \$330 billion in the 2019 budget. There's no question this is a very large increase. It's also clear we can afford to increase federal spending.

While Stephen Harper's Conservative government equated fiscal responsibility with balancing the budget, Justin Trudeau's Liberal government has used the debt-to-GDP ratio as their fiscal anchor. The debt-to-GDP ratio compares what the country owes long-term with the Gross Domestic Product – the dollar value of goods and services produced in a specific year. This measure does a better job reflecting the reality

that government budgets aren't the same as household budgets and should be approached differently.

Unlike households, governments plan over longer time horizons, and play an important role in stabilizing the economy during downturns, and providing critical infrastructure and services. Thinking in terms of debt-to-GDP allows us to take into account the economic benefit of government spending over time. If the government borrows now to invest in something that enables stronger economic growth in the future, our debt will increase, but so will our expected GDP showing the decision to be fiscally sustainable in the long term.

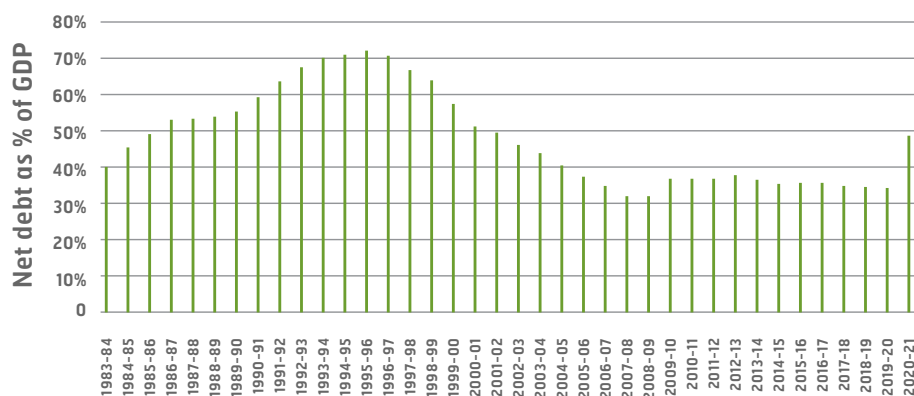
The Parliamentary Budget Officer (PBO) estimates that the deficit (the difference between revenue and spending in a given budget year) will

rise to \$252 billion in 2020-21, as the federal government spends more and receives less revenue. The PBO also estimates that Canada's economy may shrink by 12 per cent in 2020, which would result in a debt-to-GDP ratio of 48.4 per cent. This is a sharp increase from the pre-pandemic ratio of 30 per cent, but still nowhere close to the mid-1990s levels of around 70 per cent.

Despite these very big numbers, there is no reason to panic. Most of the new spending is temporary bridging money that will help people and communities weather this crisis, allowing the economy to bounce back faster once the pandemic has passed. While we don't know how quickly GDP will bounce back, we do know that our economy will be healthier because of the spending measures that have been put in place.

As well, overall debt servicing costs will be lower in this fiscal year than they have been in the past, because interest rates are so low. The primary way that governments borrow is by issuing bonds. The rate for 30-year federal government bonds is at two per cent, and 10-year bonds are below one per cent. The Bank of Canada is supporting federal and provincial governments by purchasing bonds directly and in secondary markets, ensuring that governments have a willing lender. This is another reason why 2020 isn't the same as 1995, when the federal Liberals introduced deep cuts to health and social transfers.

Debt rises, but still low compared to 1990s

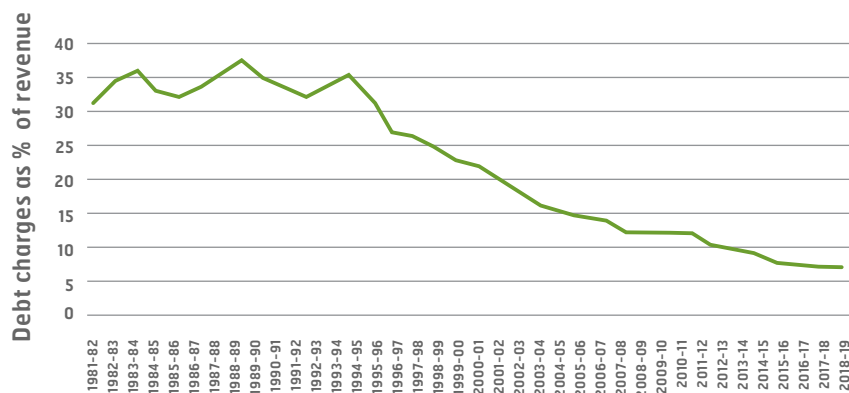


Sources: 2019 Fiscal Reference Tables, Statistics Canada table 36-10-0113-01, and Parliamentary Budget Officer.

In the 1990s, the federal government claimed they had difficulty finding anyone willing to purchase government bonds, even with relatively higher rates of return.

Before the COVID-19 pandemic, the PBO estimated that the federal government had the fiscal room to increase spending by \$40 billion annually and keep the debt-to-GDP ratio stable. The 2020 Alternative Federal Budget prepared by the Canadian Centre for Policy Alternatives estimates that reversing decades of revenue cuts and increasing tax fairness could raise an additional \$50 billion. This makes sense when we think about the scale of tax cuts over the past 20 years. Together, Jean Chrétien and Stephen Harper cut corporate taxes in half, from 29 per cent to 15 per cent. In the mid-2000s Stephen Harper cut the equivalent of \$17 billion in 2020 dollars from federal revenue, when he cut the GST from seven to five per

Federal borrowing costs at historic low



Source: 2019 Fiscal Reference Tables, Table 13

cent. Justin Trudeau's second 'middle class' tax cut that primarily benefits wealthier families will cost \$6 billion a year when fully implemented.

Whether we borrow at historically low rates, increase revenue to ensure tax fairness, or some combination of the two, we can well afford to increase federal spending.

In fact, if we make public investments in sectors like health care, child care, livable communities, and energy efficient buildings, we'll see a stronger impact on economic growth alongside lower inequality and improved well-being.

Federal pandemic supports

The federal government has already announced several large emergency programs to help bridge people and businesses through the pandemic. All costs are estimates, as economic and public health responses continue to evolve.

- Canada Emergency Wage Subsidy (CEWS): repays eligible employers 75 per cent of wages paid to employees, up to \$847 per week. \$75 billion was budgeted for this program, but early reports indicate that take-up has been lower than expected.
- Canada Emergency Response Benefit (CERB): provides a taxable benefit of \$500 per week, for up to 16 weeks, directly to eligible workers. The PBO forecasts this program will cost \$35 billion.
- Canada Emergency Student Benefit (CESB): provides a taxable benefit of \$1,250 to \$2,000 per four-week period, at an estimated cost of \$9 billion.
- Canada Emergency Business Account (CEBA): provides interest free loans of up to \$40,000 to small businesses and not-for-profits, with 25 per cent forgiven if repaid on schedule. The cost is expected to be \$9 billion.
- Canada Emergency Commercial Rent Assistance: provides forgivable loans to property owners that are leasing property to eligible small businesses. The PBO estimates this program will cost \$500 million.
- Enhanced Canada Child Benefit and GST Credit: A one-time top up to recipients of the GST Credit and CCB, expected to cost around \$7.5 billion.
- Targeted packages for agriculture, airlines, tourism, energy, and the non-profit and charitable sector, total cost uncertain.
- Support for banks and other lenders through the Office of the Superintendent of Financial Institutions (OSFI), the Canadian Mortgage and Housing Corporation (CMHC), and the Bank of Canada (BoC), which increased their capacity for lending by more than \$750 billion.



ECONOMIC DIRECTIONS

This expanded edition takes a deeper dive into the economic impacts of COVID-19: what we know so far, what we might see in the coming months, and what it all means for CUPE members.

Economic growth – The pandemic’s impact on global growth remains uncertain. The initial shock has been deeper than any recession on record, and the shutdown has lasted longer than expected. Some sectors are emerging as the hardest hit, like restaurants, travel and tourism, and entertainment. We don’t know how many people will visit these businesses once they reopen, especially before a vaccine is widely available. There’s little experience with recessions where these are the worst-impacted sectors, so it’s hard to predict the ripple effects of their downturn. In Canada, record low oil prices have deepened the recession. Most economists expect the economy to bounce back eventually, we just don’t know how long that will take.

Jobs – The official unemployment rate rose from 5.6 per cent in February to 13 per cent in April, an increase of almost 1.3 million unemployed workers over two months. But that’s not the whole picture. Almost 1.1 million other workers were not counted as officially unemployed because they weren’t looking for another job, even though they had lost work. Another 2.1 million workers were still employed in April but had no hours of work because of COVID-19. When these workers are counted, the effective unemployment rate for April is closer to 30 per cent. This rivals levels of unemployment during the Great Depression. Despite a pickup in employment in May, the effective unemployment rate remained stable.

The effects of job loss are not being felt evenly. Part-time, temporary, and contract workers were the first to be laid off. Many higher wage workers adjusted to working from home and have seen minimal job and hour losses. In contrast, over half of low-wage workers (earning less than \$16 an hour) lost their jobs or had their hours cut. More women than men lost work in March. In April layoffs spread to more full-time work and male-dominated sectors. As governments started lifting restrictions in May, more men returned to work than women. This was especially true for parents of children under six.

Wages – The deep and dramatic impacts of this recession will affect bargaining. Private and public sector employers are unlikely to have much wiggle room on wages. At the same time, temporary top-ups for low-wage essential workers have shone a light on the need for wage increases for many workers and are an opening to fight for improved wages and working conditions.

Inflation – Oil prices have dropped sharply as Russia and Saudi Arabia couldn’t agree to prop up the price, and instead flooded the global market. This will play a big role in driving down inflation. In the food sector, falling demand from restaurants has left some farmers with significant surpluses they can’t sell, which has increased storage and feeding costs. At the same time, costs have gone up along the food supply chain to ensure safety for workers and customers. Overall inflation will likely remain low in the near term, but the price of some items, like hand sanitizer, may be affected by increased demand and disruptions in global supply chains.

Interest rates – In response to the pandemic’s economic impacts, many central banks cut rates dramatically in March. The Bank of Canada (BoC) cut its key lending rate from 1.75 per cent to 0.25 per cent and announced several programs to provide financial support to mortgage lenders and governments. Government borrowing has never been so affordable, with 30-year federal government bonds selling at 2.0 per cent interest. But workers may not see banks or credit unions passing on savings from low interest rates. Instead, most have increased their prime lending rates or kept them stable, citing increased risk. With all the federal government and BoC support to the financial sector, we should expect public pressure for banks to charge fairer prices for loans.



Rebuilding an economy that works for us all

The COVID-19 pandemic has exposed the threads that connect us all. Our health and well-being depend on the health and well-being of everyone else in our communities, our country, and around the world. In the last few months, we've seen clearly that when some of us aren't safe and well-protected, we are all at risk.

The pandemic has also exposed just how frayed and broken our social safety net is. Public services are the lifeline that will pull us through this crisis, but these

services and programs have been underfunded, under-resourced, and under attack for decades.

Recent EKOS polling shows that people understand the importance of strong public services and the critical role of government in the economy. Nearly three-quarters say they expect a "broad transformation of our society" when the crisis is over, with 70 per cent saying this transformation should focus on our collective health and well-being.

A Broadbent Institute poll also shows widespread support to

spend what's needed to rebuild and expand public services, and to make our economy fairer. There's a growing consensus that there's no room for profit in long-term care, or other care work. The pandemic has exposed the failures of privatization, deregulation, and lax enforcement of labour and health and safety laws. As Canada starts rebuilding and recovering, we have an opportunity to reimagine what our economy looks like.

An important part of this is reimagining the rules we use to govern economic activity. These rules must ensure that the needs of people and the environment are the priority, not corporate profits. There is no economy without people, both as workers and as consumers.

Increase workers' power

Rewriting the rules for workers is an urgent priority. We all rely on essential workers and share a responsibility to ensure they can work in safety, are fairly paid, and are treated with respect.

There are opportunities at all levels of government to improve employment standards and labour laws, and improve enforcement of existing legislation and regulations. Unions have been pushing for years to raise minimum wages, and calling for employers and governments to end ever-increasing reliance on precarious work. Legislation currently makes precarious work attractive for employers, and it's past time to change that.



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CUPE | Canadian Union
of Public Employees



Paid, job-protected sick leave is a major issue. Before this pandemic, most non-unionized workers only had access to one or two unpaid sick days, and many had no job-protected leave if they got sick or had to self-isolate. Most provinces have since updated their legislation to extend the duration of unpaid sick leave. But this still leaves workers vulnerable to income loss and employer pressure to work while sick.

Workers need strong and enforceable workplace health and safety protections, and access to PPE.

Adding to the pressure, families were confronted with the need to take unpaid leave to provide care to children whose child care centres and schools were closed in response to the pandemic. Data from the Statistics Canada Labour Force Survey shows that this burden is falling primarily

on women. This highlights the continuing importance of our public education system, and the need for a national child care plan.

Unionized workers have also found it difficult to enforce their health and safety rights, with many workers being asked to return to workplaces they feel are unsafe, or quit, which makes them ineligible for income supports. This is most apparent in low-wage industries and those that rely heavily on migrant labour, such as the food processing industry. Workers need strong and enforceable workplace health and safety protections, and access to personal protective equipment.

Raise the bar for everyone

When the pandemic hit, the immediate prescription was to shut down large parts of our economy and daily life. But that left many workers struggling without the support they needed to follow public health advice and stay home. Unpaid leave isn't enough to allow workers to stay home. Most Canadian households don't have enough money saved to cover two weeks without pay, let alone the extended shutdown we're experiencing. Income support plays an important role stabilizing economic

demand in hard-hit communities, and at the same time it helps individuals meet their basic needs.

The pandemic shutdown left many workers struggling without the support they needed.

Over the past 25 years, successive federal governments have cut access to Employment Insurance (EI) and failed to recognize how ill-equipped the program was to provide support for a growing number of precarious workers. Low wage, part-time, temporary and contract workers were deeply affected by the first round of closures and layoffs in March. They are exactly the workers who are least likely to qualify for EI regular benefits.

The emergency benefits introduced by the federal government, including the Canada Emergency Response Benefit (CERB), provided over seven million Canadians with emergency supports in April. But many vulnerable workers were still left out: those without enough



earnings to qualify for CERB, seasonal workers who don't qualify for EI, and temp agency workers who are often paid in cash and have difficulty getting pay stubs. In the long run, we need to reimagine EI so that it supports all workers, and rethink social assistance to provide a decent life for those who are unable to work.

Strengthen public services

Years of austerity and a reliance on private markets to solve problems and deliver services have left us scrambling to respond adequately to the immediate health and economic crises. Public investment must drive the recovery and help us rebuild our economy and our society to be more resilient in the future. The Bank of Canada has lowered interest rates to 0.25 per cent and is acting as a lender by buying bonds directly from federal and provincial governments. The interest rate for 30-year federal government bonds is just two per cent, making federal investment in critical public infrastructure and programs more affordable than ever.

There will be a tendency for governments to do stimulus like

they have in the past, focusing on 'shovel ready' physical infrastructure projects. This recession is different, affecting women, low-income service workers, racialized workers, and migrant workers much more severely. Investment in the care economy, including health care, child care and social services, will have social and economic returns far higher than the current cost of borrowing, and will create good jobs for the workers who have been hardest hit by this economic crisis. Investment in affordable housing will also help to address pre-existing inequality which has been exacerbated by the economic fallout from the pandemic.

There are already calls for austerity and privatization, including through the federal government's Canada Infrastructure Bank. But you can't rebuild by cutting. And privatization will cost more, while delivering less. After the 2008 recession, the federal government removed economic supports too quickly, and focused on cuts and balancing the budget instead of strengthening our safety net.

Infrastructure spending prioritized inefficient and expensive P3s, locking municipalities across Canada into low quality

Let's make sure workers and public-sector solutions are at the heart of the recovery.

projects and growing debt.

We have never experienced an economic disruption like this. But we have experienced times of great change. We don't know what the next few months and years hold for us. But we know we will emerge better off if we come together and build a society and economy that works for us all. The importance of strong public services, and the value of front-line workers, has never been clearer. Let's make sure workers and public-sector solutions are at the heart of the recovery.