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Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

Canada (November 2020)

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covid-19.iza.org

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ABSTRACT

During the height of the COVID-19 pandemic in March and April 2020, Canada lost more jobs than it had in the past three recessions combined. The labour market recovered the majority of those losses by the end of the summer, but by the fall of 2020 the rate of employment gains slowed and employment losses continue to, especially, weigh on youth, low-wage workers, women and workers in hard hit industries. The Federal Government's response in support of individuals and business has been equally unprecedented, including introducing entirely new programs with direct transfers to individuals and wage subsidies for businesses. Given the urgency with which these new measures were introduced, the eligibility criteria and benefit levels, especially for individual-oriented programs, were intentionally generous. As a result of the government support measures there has been a significant deterioration of Canada's fiscal position, with federal debt-to-GDP rising from 31% to about 50%. Like many other OECD countries, the ongoing sustainability of public finances is dependent primarily on interest rates remaining low and on phasing out pandemic-related measures reasonably quickly. The pandemic-induced increase in debt will have very far-reaching and long-lasting impacts that will affect Canadian federal and provincial governments' ability to address major pre-COVID structural issues such as population aging and climate change, as well as new policy initiatives.

* Many thanks to Federico Bettini, Graham Dobbs, Brittany Feor and Bolanle Alake-Apata (LMIC), and Serena Balzer and Alyssa Drost (McMaster University) for valuable research assistance. The authors would also like to thank Matt Henderson and Daniel Komesch (Polytechnics Canada) for their insights on the impacts of COVID-19 related to students.

Cite as:
Tobin, Sweetman (2020): IZA COVID-19 Crisis Response Monitoring: Canada (November 2020).

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Labor market impact of COVID-19

The initial impact of the COVID-19 crisis was steep and rapid. In its first two months, March and April of 2020, Canada lost more than three million jobs from a workforce of just over 19 million. The worst months were April and May, and the bounce back was initially robust with nearly 2.4 million jobs added between May and September. However, there was a slowdown in the rate of recovery between September and October as the second wave of COVID-19 grew. Overall, as of October 2020 (the most recent data available), employment levels remain just over 635,000 workers below the February peak.[1]

The Canadian government's support for the labour market and the economy in general is put into perspective by an economic statement issued on November 30, 2020 by the federal government[2], and a July fiscal snapshot.[3] In light of the COVID-19 crisis, the November statement projects the federal debt to gross domestic product (GDP) ratio to be just under 51% in the current fiscal year, rising to nearly 53% in 2021–22 (see section below on fiscal viability). Interestingly, the federal government indicated these recently announced measures are time-limited and bound by the health of the economy, which will be measured by, among other things, the employment rate, total hours worked and the level of unemployment.

In examining the evolution of employment and unemployment rates during the pandemic, some concerns have been raised about how comparable these recent trends are to historical norms given that the share of the employed reporting zero hours has also increased dramatically.[4] Thomas Lemieux and colleagues report that by April 2020, a 32% decline in hours worked coincided with a 15% decline in overall employment.[5]

COVID-19's labour market impacts have been uneven on several dimensions, especially age, wage, sector/industry, immigration status, gender and geography, as seen in Table 1, which looks at February to October changes. The most dramatic differences are across industries, where accommodation and food services; arts, entertainment and recreation; and transportation and warehousing, were particularly hard hit whereas (for example) finance, insurance, real estate, rental and leasing were little impacted. Low wage workers (in the first 25th quartile of earnings) and those with less education were also more negatively affected in terms of employment. To some extent, this reflects the sectoral composition of employment losses, meaning that the sectors most affected by the pandemic such as accommodation and food services, tend to employ younger, lower-educated workers and the wages tend to be below the median. Each of these groups most impacted by job losses has also been slow to recover, with employment levels remaining well below their pre-crisis levels of February 2020.

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1 "Labour Force Characteristics, Monthly, Seasonally Adjusted and Trend-Cycle, Last 5 Months," Statistics Canada, Table 14-10-0287-01, https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028701.

2 https://www.canada.ca/en/department-finance/news/2020/11/government-of-canada-releases-supporting-canadians-and-fighting-covid-19-fall-economic-statement-2020.html

3 https://www.canada.ca/en/department-finance/services/publications/economic-fiscal-snapshot.html

4 Stephen R.G. Jones, Fabian Lange, W. Craig Riddell, and Casey Warman, "Waiting for Recovery: The Canadian Labour Market in June," Canadian Public Policy 46, no. S2 (2020): S102–S118, https://www.utpjournals.press/action/showCitFormats?doi=10.3138%2Fcpp.2020-078.

5 Thomas Lemieux, Kevin Milligan, Tammy Schirle, and Mikal Skuterud, "Initial Impacts of the COVID-19 Pandemic on the Canadian Labour Market," Canadian Public Policy 46, no. S1 (2020): S55–S65. https://www.utpjournals.press/doi/full/10.3138/cpp.2020-049.

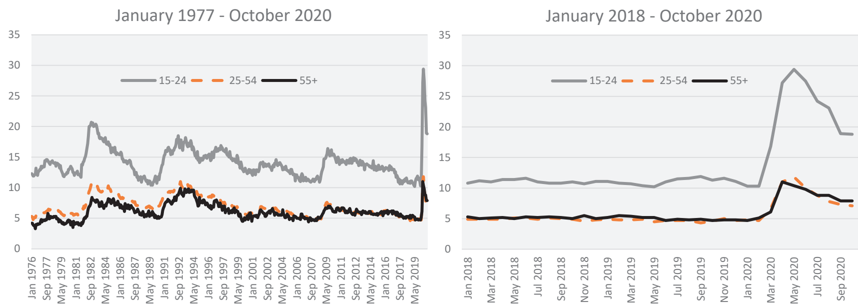
Table 1: Employment Changes Since the Onset of the Crisis

		Employment loss (% from peak to trough)	**Employment in October** (as a % of Feb)
Age	15–24	-34.7%	92.6%
	24–54	-12.6%	99.6%
	55+ (or 55–64)	-13.7%	98.7%
Wage	Low	-26.1%	94.5%
	Med/High	-9.1%	100.9%
Sector	Accomodation and food services	-49.3%	83.1%
	Wholesale and retail trade	-19.8%	98.6%
	Total	-15.4%	98.5%
Immigration	Landed	-13.9%	95.1%
	Canadian Born	-9.9%	99.5%
Gender	Women	-16.7%	97.3%
	Men	-14.1%	99.6%
Education	High school graduate	-16.8%	97.0%
	Post Secondary Diploma	-13.9%	98.5%
	Bachelor	-7.7%	103.5%
	Above Bachelor	-8.1%	100.3%

Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

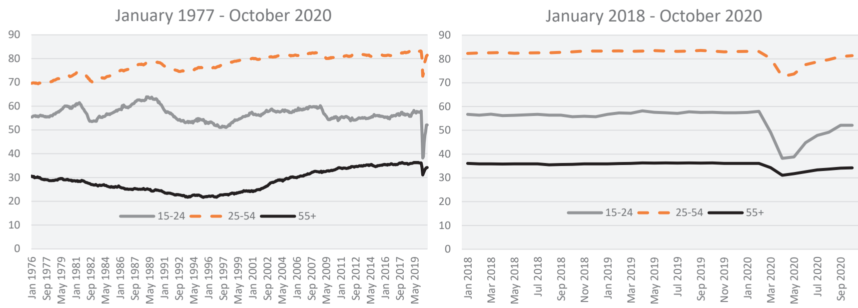
Figure 1 shows the dramatic impact on young workers by contrasting the unemployment rate for three age groups. To provide perspective, on the left-hand side are the unemployment rates since 1976, and on the right is a magnified view since January 2018. The extreme unemployment rate for young workers during the COVID crisis relative to historical recessions is noteworthy. In contrast, for workers aged 25–54 and 55 and over, COVID-era unemployment rates are comparable to those experienced during previous recessions. Figure 2 similarly addresses the employment rate and again shows the relatively large decline for young workers.

Figure 1: Unemployment rate by age group



Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

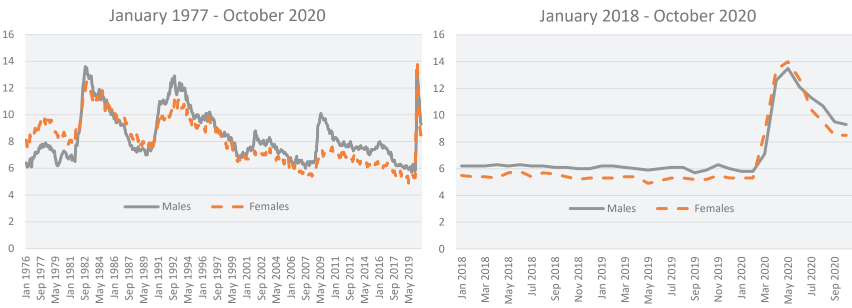
Figure 2: Employment rate by age group



Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

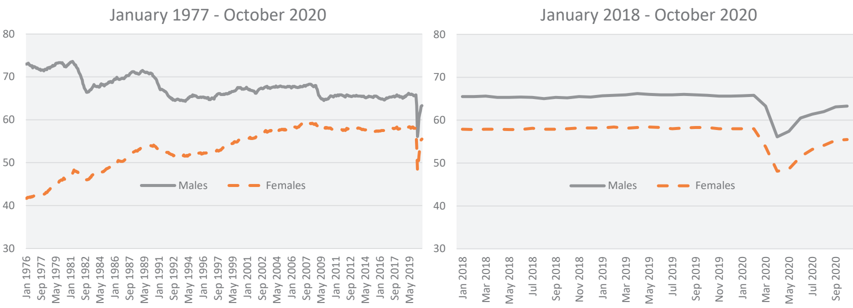
Figures 3 and 4 undertake a similar exercise as Figures 1 and 2, but for females and males. As seen on the right-hand side of Figure 3, at the onset of the pandemic (April and May 2020), the female unemployment rate jumped from somewhat lower to slightly higher than that for males. This led to an initial narrative about females being harder hit, which was true. However, in the recovery starting in June 2020, the female unemployment rate declined more quickly than that for males. The uneven changes in unemployment for both females and males follow in part from the gender composition of the industries most affected by lockdowns and physical distancing requirements. Figure 4 tells a similar story about employment rates by gender, but also raises a serious concern for the future. On the left of Figure 4, we see that female employment has recovered, or at least not been permanently reduced by recent recessions, whereas male employees appear to have experienced more permanent effects from recessionary shocks. This issue requires careful attention going forward.

Figure 3: Unemployment rate by gender



Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

Figure 4: Employment rate by gender



Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

Although the second wave of COVID-19 has been geographically dispersed, the initial impact was concentrated, with a few major urban areas disproportionately affected. On this dimension, provincial government reactions play a role in labour market outcomes. Canada is a decentralized federation with two constitutionally recognized orders of government (not levels — neither has authority over the other): federal (national) and provincial (regional).[6] Healthcare is almost entirely a provincial responsibility although the federal government has influence by virtue of fiscal transfers to the provinces. Most labour markets are also the responsibility of the provinces. The federal government has responsibility for a very limited set of industries including banking, interprovincial transportation and the military. This means that business restrictions, social distancing and mask wearing are the

6 In contrast, municipal governments are creatures of provincial governments and represent a lower level of government over which the federal government has no direct responsibility. Canada also has three territories with very small populations; they have ties to the federal government but are treated similarly to provinces.

responsibility of provinces. Substantial differences in provincial policy approaches due to differing local conditions have been seen throughout the pandemic.

Despite having less formal responsibility than the provinces for labour markets, the federal government has greater fiscal capacity relative to its responsibilities and has constitutionally protected "spending power." It runs the national Employment Insurance (EI) program (called unemployment insurance in some countries), and during the COVID-19 crisis it established a wide array of short-term and one-time benefit programs, discussed below. Almost all COVID-19 labour market–oriented direct transfers to residents and employers originated with the federal government, although a few were cost-shared with the provinces.

Orientation and targeting of adopted measures

For individuals, the most important, broadly based program introduced by the Federal Government was the Canada Emergency Response Benefit (CERB), which operated from March 15 to September 26, 2020. CERB was a temporary direct transfer program that operated two parallel streams: one for those (expected to be) EI eligible (CERB-EI), and another for those not EI eligible (CERB-CRA; Canada Revenue Agency). Especially in the early days of CERB there was some confusion about who should apply to which stream and some people applied to both and needed (or will need) to make repayments. The EI stream of CERB simplified and effectively temporarily replaced the existing EI program's regular and sickness benefits. The combined CERB streams had less stringent entrance requirements than pre-COVID EI and was accessible for workers with minimal labour force attachment who would not normally qualify for EI. CERB was also more generous for those with low EI benefit rates and receiving it did not directly affect subsequent EI eligibility (although the latter was not entirely clear at the outset). Processing time to the payment of the first cheque was also supposed to be (on average) faster and there was less administrative burden for workers and employers. On the funding side, the CERB-CRA stream was paid out of the federal government's general revenues whereas CERB-EI stream was entirely premium funded by employers and workers. CERB provided a taxable benefit of $2,000 every four weeks for eligible workers[7] — that is, those who stopped working or whose work hours were reduced due to COVID-19 (with retroactive applications accepted until December 2, 2020).[8] The program was initially only intended to last 16 weeks but was extended to 28 weeks in total. As of October 4, 2020, about 27.5 million total applications had come from 8.9 million unique applicants, representing 48.1% of the labour force; 51.4% of applicants were male, and 48.5% were female.[9] Payments totalled $81.6 billion. The contrast between so many processed claims relative to job losses peaking at just over three million is stark, especially since other programs were also operating.

The federal government made a deliberate decision to move quickly, recognizing that some errors would occur. Support for those who needed to self-isolate or who had lost income because of temporary layoffs or COVID-19 related issues was a government priority. Some confusion ensued and continued into the fall of 2020. A non-trivial number of individuals erroneously claimed both CERB-EI and the CERB-CRA, and some claimed CERB (for which the initial administration was minimal) who were ineligible.

7 All monetary figures in this document are in Canadian dollars.

8 For a comprehensive list and description of federal programs introduced, including eligibility requirements, please consult the following: https://www.canada.ca/en/department-finance/economic-response-plan.html; and https://www.canada.ca/en/services/benefits/covid19-emergency-benefits.html.

9 See https://www.canada.ca/en/services/benefits/ei/claims-report.html; and http://dashboard.cdhowe.org/.

Recently, the tax authority reported that 213,000 Canadians may have to repay benefits. Many had voluntarily repaid benefits[10] prior to this announcement.[11] Also, although CERB was taxable, no taxes were deducted from the transfer, which many anticipate will be problematic when income taxes become payable.

CERB also interacted with other elements of the tax and transfer system in a manner that was not always initially obvious to claimants and potential claimants. As a result, beneficial tax and application strategies were not always clear to claimants at the outset. Of particular policy interest are the impacts on very low-income individuals. They experienced heterogeneous treatments on several dimensions — especially as a function of province of residence. Since for some individuals CERB paid more than disability and other social assistance programs, and certain recipients met the eligibility criteria, some applied (either switching or claiming both). In Canada social assistance (including some disability programs; also called income assistance or welfare) is operated by provincial and territorial governments; CERB claimants who were also social assistance recipients were treated quite differently across provinces.[12] Some provinces/territories offset CERB payments with dollar-for-dollar reductions in social support payments; others, representing the vast majority of the population, undertook partial claw backs. Only one province and two territories allowed recipients to retain both transfers. Despite incomes remaining constant or increasing, cash management problems ensued, especially where rent for living accommodations was paid directly by the social assistance program. Once the COVID-19 moratorium on evictions was over, some income assistance recipients faced the loss of their housing.[13]

Beyond CERB, in the early days of the COVID-19 pandemic, well above average applications for EI were also made. The EI program was temporarily modified with some administrative steps simplified to reduce the burden on EI staff and to speed up the delivery of benefits. COVID-specific claims were also sped up. Canada has a one week waiting period for EI eligibility — a type of deductible — and this was waved for quarantine cases.

Effective September 27, 2020, workers previously covered by CERB have been transitioned to a modified EI program with generous temporarily measures for both entrance requirements and minimum benefit rate so that marginally attached workers and those affected by the pandemic are eligible. In Canada, EI's eligibility threshold and weeks of entitlement (maximum 45 weeks) are functions of hours worked in the qualifying period (typically one year, depending on the regional unemployment rate), but the duration has been extended for CERB beneficiaries. For the next year, applicants are treated as if they reside in a region with an unemployment rate of at least 13.1% and are given a "credit" of 300 hours towards qualifying for benefits. Moreover, the minimum (taxable) weekly benefit has been increased to $500.

For those not eligible for EI, three new programs were also created:

10 See, for example, Catherine Cullen, "Canadians Applying for New Pandemic Benefit Report Confusion, Frustration," CBC News, Oct. 16, 2020, https://www.cbc.ca/news/politics/canada-recovery-benefit-crb-cerb-pandemic-covid-1.5764377; and Catherine Cullen, "CRA Warns 213,000 Canadians That They Might Have to Pay Back CERB Overpayments," CBC News, Nov. 23, 2020, https://www.cbc.ca/news/politics/canada-revenue-agency-cra-cerb-pandemic-covid-1.5812925.

11 Kathleen Harris, "Canadians Have Made 190,000 Repayments on CERB Claims, Says CRA," CBC News, Jun. 10, 2020, https://www.cbc.ca/news/politics/cerb-repayments-claims-tips-abuse-1.5605838.

12 Gillian Petit and Lindsay M. Tedds, "The Effect of Differences in Treatment of the Canada Emergency Response Benefit across Provincial and Territorial Income Assistance Programs," Canadian Public Policy 46, no. S1 (2020): S29–S43, https://www.utpjournals.press/doi/full/10.3138/cpp.2020-054.

13 Bonnie Allen, "Landlords Say Poor Tenants Who Received CERB Can't Make Rent After Losing Social Assistance," CBC News, Nov. 22, 2020, https://www.cbc.ca/news/canada/saskatchewan/landlords-tenants-cerb-rent-1.5810230.

- The *Canada Recovery Caregiving Benefit* (CRCB) for those forced to take time off work to care for a dependent due to the pandemic.
- The *Canada Recovery Benefit* (CRB) for those who do not qualify for EI.
- The *Canada Recovery Sickness Benefit* (CRSB) for those employed and self-employed individuals unable to work because they are sick or need to self-isolate due to COVID-19, or who have an underlying health condition.

A series of targeted programs was also designed to help certain sub-populations, especially persons with disabilities, students, Indigenous peoples and seniors. Selected programs include:

- *Persons with disabilities*: As of October 30, 2020, a non-taxable, non-reportable, one-time payment provides up to $600 for extraordinary expenses incurred by (eligible) persons with disabilities during the COVID-19 pandemic.
- *Students*: The Canada Emergency Student Benefit (CESB) — operating from May to September 30, 2020 — provided financial support to post-secondary students, and recent post-secondary and high school graduates, unable to find work due to COVID-19.
- *Indigenous persons*: A range of broad-based financial support was provided to address several issues including community supports, health preparedness, on-reserve income assistance and mental health services.
- *Seniors*: In July 2020, those eligible to receive the Old Age Security pension received a one-time payment of $300; those eligible to receive the Guaranteed Income Supplement also received $200.

There has been some criticism of the federal government for not moving more quickly but given that, in the vast majority of instances, entirely new programs were being developed and introduced, the government's response has been rather swift, with the exception of the one-time payment for persons with disabilities, announced only recently.

Overall, this COVID safety net was designed and executed remarkably quickly. It has been criticized for having poor eligibility screening and for being too wide and too generous. However, spending too much time on designing and screening for means-tested criteria would have certainly delayed the availability of support. Given the unprecedented nature of the crisis in both depth and speed of job losses, and the need to encourage self-isolation and quarantine, it is better that too many rather than too few received support.

The potential work disincentive of such support, however, has raised two serious debates. First, transfers that do not negatively affect output are not normally of concern to economists, but disincentives to work are viewed as problematic. Yakabuski points to the remarkable level of support provided to workers in Canada.[14] To this point in the COVID crisis, Canadian labour income fell by $100 billion, but the federal government provided $225 billion in direct transfers to workers and employers. The full potential downside of this may only become apparent in future. Further, despite the rather substantial transfer, for businesses, as discussed later, the criteria were said by some to be too narrow and too stringent. Second, public discussion has focussed on the poor wages of many essential workers and their lack of benefits, especially sick leave, which may have exacerbated the spread of the pandemic, particularly in long-term care homes.[15]

14 Yakabuski, Konrad, "Chrystia Freeland rolls the dice on federal finances" The Globe and Mail, Nov. 28, 2020, https://www.theglobeandmail.com/opinion/article-chrystia-freeland-rolls-the-dice-on-federal-finances/.

15 See, for example, Stephanie Marotta, "Pandemic Highlights Paltry Sick-Day Policies," The Globe and Mail, Nov. 28, 2020, https://www.theglobeandmail.com/canada/article-covid-19-pandemic-highlights-canadas-paltry-policies-for-paid-sick/.

A preferable strategy for some may have been greater emphasis on subsidizing employment in situations where self-isolation and shutdowns were not required. Canada's effort here was smaller than for CERB and the debate is really about the emphasis placed on alternative programs.

At the intersection of support to workers and support to businesses, non-profits and charitable organizations is the Canada Emergency Wage Subsidy (CEWS), from March 15, 2020, until June 2021. It was originally a 12-week program that was then extended. CEWS's primary goals were to support workers, to maintain employment relationships, to keep workers with firm-specific knowledge in their workplaces, and to reduce EI and CERB claims. CEWS is similar to the EI work-sharing program, but it provides faster access to funds, is less administratively burdensome, is usually more generous, and is paid for from general federal revenues rather than by employers and worker EI premiums. CEWS was originally a 75% wage subsidy to a maximum of $847. The subsidy was reduced to 65% from September 2020 until the end of the year, with subsequent declines until June 2021. The key eligibility requirement is for firms to have had a minimum revenue decline. This figure was 15% from March 15 to mid-April 2020, then 30% until early July, and subsequently "any decline" until December 2020. The required decline for 2021 has not yet been announced.[16] At the outset, there were complaints about the CEWS threshold revenue loss being too high, and the administrative burden for businesses being too great.

As of November 22, 2020, CEWS had approved 355,990 unique claims and paid out over $50 billion in subsidies (in contrast to about $80 billion for CERB). The number of unique employees subsidized is not available given worker turnover, but at the peak of the program in May/June 2020, just over 3.9 million workers were being supported. By October/November 2020, that number fell to about 1.5 million in a Canadian workforce of about 19 million.

Immediate liquidity support to businesses

Akin to pandemic reactions in most OECD nations, Canada's liquidity support to businesses involves monetary policy action, interventions in financial markets and direct support to employers.[17] In March 2020, the Bank of Canada's target interest rate was reduced by 150 basis points (the same reduction as the U.S. Federal Reserve's Federal Funds Rate, but from a slightly higher initial value). A form of quantitative easing was commenced with the Bank purchasing not only provincial bonds but also corporate bonds and commercial paper. Programs were also introduced to purchase federal securities and government backed mortgage bonds in secondary markets. Further, the Bank of Canada and the Office of the Superintendent of Financial Institutions introduced or eased a variety of credit and liquidity measures, allowing financial institutions to continue serving customers who might otherwise have experienced (more severe) liquidity constraints.

A variety of targeted, broad-based direct approaches were also undertaken to support businesses. On one front, normal financial interactions with government were relaxed in recognition of liquidity constraints. There was a one-time enhanced goods and services tax (GST, akin to a VAT) credit, and deferral of business (and personal) taxes, customs duties, and sales taxes. On a second front, established loan facilities expanded farm credit,

16 See https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy/cews-statistics.html; and https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html.

17 See Bank of Canada, "Table 1: Summary of Key Policy Measures," Monetary Policy Report, April 2020, pp. 13–14, https://www.bankofcanada.ca/wp-content/uploads/2020/04/mpr-2020-04-15.pdf; and CD Howe Institute, "COVID-19 Policy Measures by Country," June 1, 2020, https://www.cdhowe.org/covid-19-policy-measures-country-0.

business development and export development loans. Some new programs were also commenced. Of particular note are the following:

- *Canada Emergency Business Account* (CEBA): Interest-free business loans of up to $40,000, with up to $10,000 forgivable with repayment by December 2022. Revised and expanded in October 2020.
- *Canada Emergency Commercial Rent Assistance* (CECRA): Potentially forgivable loans for landlords of small businesses.
- *Canada Emergency Rent Subsidy* (CERA): Grants to small businesses for rent. This is paired with the CECRA and requires landlord co-operation. Provinces participated in funding these programs and most also prevented tenant evictions (commercial and personal) during the crisis.
  - *Canada Emergency Rent Subsidy version 2* (CERA v2): In October 2020, the government announced appreciable revisions to the rent subsidy program for businesses, non-profits and charities that had suffered a revenue drop retroactive to September 27.[18] This revised program paid funds directly to tenants and no longer required landlord co-operation. Many aspects of its operation and phase-out mirror the CEWS.
- *Business Credit Availability Program* (BCAP): Loans for small- or medium-sized employers.
- *Large Employer Emergency Financing Facility* (LEEFF): Short-term loans with a minimum value of $60 million.

Some have complained that these programs have been too complex, too slow, too late to start and/or too restricted.[19] Given the various program requirements, some borrowers preferred to maintain credit relationships with established banks; others may have strategically delaying borrowing in light of shifting criteria for government programs and/or in search of better terms with banks.

Support of dependent workers

So called “gig” work is hard to define and is often conflated with non-standard employment and precarious employment. Consequently, data collection on the incidence of gig work remains ad hoc. However, Statistics Canada classifies gig workers as unincorporated self-employed workers who do not report a business number on their tax returns and who contract work with firms or individuals generally through digital platforms. While no COVID-19 programs directly target gig workers, recent changes to programs for individuals, discussed above, will make it easier for them to access certain types of benefits.

Working conditions and work organization

The potential polarization of the labour market, depending on whether a workers’ job can be performed from home or not, has been raised as another labour market concern. Little evidence exists so far, except that those not able to work from home and not essential workers have been harder hit by layoffs. More than a quarter of businesses report that all employees

18 See https://www.canada.ca/en/department-finance/news/2020/11/canada-emergency-rent-subsidy.html.

19 See, for example, “Complexity, Slow Rollouts, and Too Many Strings Attached: A Midterm Review of the Business Bailout Programs,” The Globe and Mail, Oct. 23, 2020, pp. B1, B4–B5, https://www.theglobeandmail.com/business/article-complexity-slow-rollouts-and-too-many-strings-attached-a-midterm/.

could work from home. Close to half of workers in information and cultural industries (42.8%) and professional, scientific, and technical services (45.3%) could do so. Less than 20% of businesses reported that none of their employees could work from home; these were mostly in construction (31.5%), retail trade (29.7%) and accommodation and food services (30%).

The pandemic also saw temporary wage increases for low-paid workers in some parts of the health sector, especially in long-term care homes, and in certain essential retail operations such as grocery stores.

New labor market entrants

Since more than three million Canadians lost their jobs at precisely the same time as the cohort of new graduates and students were formally entering the labour market and beginning their job search, the impact on youth — as seen in Figures 1 and 2 — is not surprising. This has clearly created significant challenges for a group with limited work experience.

Even as employment growth has resumed in many sectors, these new labour market entrants are competing with many highly skilled and qualified people also in search of employment. This can lead to skills erosion and make it more challenging to find work once the recovery is fully underway. In other instances, it can also lead to underemployment as many new labour market entrants seek out “any job.” Indeed, much of the recent increase in employment has been associated with re-employment in lower-skilled occupations.

At the same time, apprenticeships, skilled trades placements and other programs that rely on experiential learning or work-based placements — of which new labour market entrants are primary beneficiaries — have been postponed or outright cancelled. Despite recent efforts to support retraining — for example the Canada Training Benefit — government response to the pandemic has been more focused on supporting those who have lost work than on those entering the labour market for the first time.

We know from past crises that, in the absence of adequate measures to counteract it, employment among youth can take years to recover. Long-term economic and social implications include weak labour force attachment or outright exclusion, poverty, and settling for lower-skilled, lower paid jobs, all of which can impact potential future earnings and the ability to pay back student loans.

As we look ahead, it will be important to consider policy interventions to support youth sooner rather than later. Keeping youth and recent graduates attached to the labour market and providing the means to upskill and reskill is of particular relevance given the pandemic’s acceleration of economic transformation.

Policy innovations and labor market trends

Governments and businesses are struggling to understand what COVID-19 might mean for the future of work. One common theme depicts COVID-19 as an accelerator of changes already underway. With clear economic/financial winners and losers, many of these changes are viewed as disruptive. These concerns tend to focus on automation;[20] online shopping and the retail sector; and the oil and gas sector.[21]

In an interesting study, Joel Blit points out that in Canada (as in the United States) recessions have historically played a crucial role in reallocating productive resources.[22] All declines in routine tasks associated with technological change in the past few decades have occurred after recessions. This has led to productivity increases in the medium- to long-term, but has also caused labour market upheaval in the short-run. He posits that the COVID-19 pandemic and its aftermath are likely to have similar effects, and likely larger and faster ones. Further, he argues that government should not waste resources promoting stability by trying to return to pre-COVID norms, but rather that faster change is better. Moreover, he suggests that the opportunity cost of change is lower because of the existing disruption from the pandemic.

A different set of issues involves changes that were largely unforeseen prior to the onset of COVID-19. This includes massive reductions in aviation and tourism, and especially the huge shift to remote working, which has important long-term implications for the labour market.[23] The federal government, for example, is already looking to reduce its real estate portfolio and make telecommuting — a novelty at the outset of the pandemic — permanent.[24] Telecommuting is also viewed as contributing to the climate strategy. Three of Canada's major banks have also announced that staff will continue to work from home until at least April 2021.[25] Although these employers have not yet made any long-term commitments, many firms are evaluating the potential cost reductions associated with shedding office space. This could have substantial impacts, both on the nature of work and on the physical infrastructure of cities.

More broadly, calls to reform employment insurance, human resource (and other) practices in healthcare, and many other initiatives are widespread in light of the COVID-19 experience.[26] Simultaneously, there have also been calls not to undertake major reforms too quickly, but rather more thoughtfully. It is unclear which reforms undertaken during the pandemic will be sustained. The most enduring changes will likely be those originating organically as employers and workers learn the lessons of the pandemic, perhaps especially those not directly related to the crisis, such as the apparent cost-effectiveness of telecommuting.

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21 See Canada Energy Regulator, Canada's Energy Future 2020, https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2020/canada-energy-futures-2020.pdf; Gary Mason, "The Trans Mountain Pipeline Could Soon Be Canada's White Elephant," The Globe and Mail, Nov. 26, 2020, https://www.theglobeandmail.com/opinion/article-the-trans-mountain-pipeline-could-soon-be-canadas-white-elephant/.

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26 See, for example, Don Drummond and Duncan Sinclair, "COVID-19: A Catalyst for Change in Health and Healthcare?" CD Howe Institute, October 15, 2020, https://www.cdhowe.org/public-policy-research/covid-19-catalyst-change-health-and-healthcare.

Next steps and fiscal viability

Like many other countries, Canada is now grappling with the second wave of COVID-19. Much of the policy focus therefore remains on the health and well-being of Canadians, with newly introduced restrictions in several jurisdictions.

In terms of fiscal spending, there has been considerable debate of the federal government's response to date. During the height of the crisis (April through September 2020), monthly federal income support payments averaged $22 billion[27] and an estimated 14% of GDP was spent over the first six months of the pandemic.[28] Regarding fiscal sustainability, the Parliamentary Budget Officer's (PBO) report of November 6, 2020, suggests "the primary deficit (that is, revenues less program spending) to reach 14.8 percent of GDP in 2020 — the largest on record — and net debt to increase sharply, rising to 48.1 percent of GDP from 30.3 per cent in 2019."[29]

More recently, the economic statement issued on November 30, 2020[30] by the federal government projects the federal debt to gross domestic product (GDP) ratio to be 50.7% in fiscal year 2020–21 and 52.6% in 2021–22. For context, Canada's peak federal non-wartime debt ratio was just over 66% in the mid-1990s, which ushered in an extended period of austerity. By international comparison, in its November 2020 statement the Canadian federal government reported spending a comparable percentage of GDP on direct fiscal support to that spent in Japan and the United States, but more than the United Kingdom, Germany, France and Italy. Canada also reports higher deferred revenue and accelerated spending than all G7 nations except Japan. This contrasts to the mid-summer snapshot, when Canada's total COVID-19 support – i.e., direct fiscal expenditures, tax and fee deferrals, and credit and liquidity support – was reported to have been similar to that of Germany and Japan as a share of GDP, but more generous than all other G7 nations.

It is important to note that much public debt in Canada is carried by provincial governments, so the federal debt does not reflect total public debt. And while the federal government estimates that 80% of COVID costs have been paid by the federal government, in the PBO fiscal sustainability report of November 6, the PBO indicated that for "provincial-territorial, local and Indigenous governments, current fiscal policy is not sustainable over the long term."

While the federal debt-to-GDP ratio is set to spike, it is forecast in the near term to remain around 50% of GDP (rather favourable compared to other OECD countries even after provincial debt is added to this federal debt ratio),[31] supported by a low (even declining) debt service ratio (owing to extremely low interest rates).[32] Yet, this outlook is predicated on a number of factors. The first relates to how the pandemic plays out during this second wave, its impact on overall economic activity and whether additional support measures (new programs or extensions of existing ones) are needed. Clearly a combination

27 This includes Employment Insurance (and related modifications), CERB, CEWS and CRB. See Parliamentary Budget Office, "Economic and Fiscal Outlook: September 2020," https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-027-S--economic-fiscal-outlook-september-2020--perspectives-economiques-financieres-septembre-2020.

28 Including measures related to health, direct support and liquidity support. See details: https://www.canada.ca/en/department-finance/economic-response-plan/fiscal-summary.html.

29 See https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-033-S/RP-2021-033-S_en.pdf.

30 https://www.canada.ca/en/department-finance/news/2020/11/government-of-canada-releases-supporting-canadians-and-fighting-covid-19-fall-economic-statement-2020.html

31 For an international comparison including provincial debt see the IMF's October 2020 Fiscal Monitor, although adjusting the numbers for international comparability also makes them differ from some of those discussed here (https://www.imf.org/en/Publications/FM).

32 However, on its fiscal sustainability report (ibid.), the PBO indicated that for "provincial-territorial, local and Indigenous governments, current fiscal policy is not sustainable over the long term."

of the two (lower revenues and higher expenditures) would further deteriorate Canada's fiscal position. The second risk relates to any noticeable change in debt servicing if interest rates were to climb. While the Bank of Canada is set to keep rates low until 2023, modest increases could have serious implications for Canada's fiscal position with considerable knock-on effects for aggregate growth and individual welfare.

Canada's federal government is developing a plan to "build back better," which may include large-scale, ongoing public spending programs. Indeed, the federal government's November 2020 economic statement cited above promises $100 billion of recovery spending over the next few years but has not yet provided any details on the nature of that spending. This seems sensible given the uncertainty regarding how the pandemic will unfold. How these proposals will evolve is unclear, as are the potentially substantial increases in healthcare spending both in the medium term to "catch up" from COVID-19 and because of ongoing acute deficiencies, particularly in long-term care homes. This combined with major pre-COVID issues such as population aging and climate change mean that public policy decisions made in the near term will likely have very far-reaching and long-lasting impacts.