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Commentary

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COVID-19's economic fallout: Addressing poorly targeted income support and the mythical 'she-cession'

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Introduction

There is growing evidence that the federal government income support programs for Canadians during the pandemic have been overly generous and poorly targeted. Household disposable income in Canada rose the most of any major nation, as government transfers more than replaced the loss of earned income during the lockdown and most of this money was saved rather than spent. As a result, government deficits in Canada were the largest in the G20 and nearly twice as large as in Europe. Nevertheless, Canada's unemployment rate was higher despite this unprecedented amount of government support to households. Meanwhile, Statistics Canada released additional data refuting the myth that women suffered disproportionate job losses during the pandemic.

Governments enhanced and not just replaced incomes

The second quarter National Accounts showed that the federal government was excessively generous with the income support programs it hastily introduced in response to the spring lockdown of the economy. The net impact was not just the income replacement intended to tide people over during the unforeseen lockdown in the spring but outright income enhancement.

As expected, earned income from working plunged by $113.7 billion (or 7.4 percent) in the second quarter as 5.5 million Canadians lost their jobs or worked short hours.[1] However, household disposable income jumped by a record $144.0 billion (or 10.8 percent) largely due to a $224.1 billion (or 88.2 percent) increase in government transfers. These transfers were mostly made under the Canada Emergency Relief Benefit (CERB) intended for people who lost their jobs, which paid out $81.6 billion to 8.9 million people between March and September (an annual rate of $139.9 billion). The federal government intent was for the CERB to compensate tax filers who earned at least $5000 in 2019 and expected to make less than $1000 a month while collecting the benefit. Other programs included support for students and seniors, as well as enhancements to the GST credit and Canada Child Benefit for lower-income families.

The excessive amount of money transferred to households not in need was reflected in the personal savings rate in the second quarter. The savings rate skyrocketed from 7.6 percent in the first quarter to a record 28.2 percent in the second quarter, an increase in absolute terms of $314.9 billion. This reflects the fact that too much money was sent to members of households with incomes of over $100,000, clearly above any conceivable threshold of hardship. Other flaws in the design of income support programs include paying the full CERB benefit of $2000 a month to people who were working part-time, creating a disincentive for these people to return to work (Corbella 2020).

Since the release of the second quarter data on household incomes and savings, other data have reinforced the impression that government support in Canada was excessive. More detailed analysis of the CERB recipients shows that many belonged to households that did not need the money to meet basic needs or were ineligible to receive it. Canada Revenue Agency (CRA) data show that at least 128,690 people who earned over $100,000 in 2019 applied for the CERB (Press 2020). Furthermore, an analysis by the Fraser Institute showed that 27.4 percent of money transferred from the federal government to households was paid to families with a combined income of over $100,000 a year (Clemens et al. 2020). This includes money paid under the CERB, the Canada Emergency Student Benefit, and the Canada Child Benefit, resulting in a total of $22.3 billion in poorly targeted assistance. An estimated $13.4 billion was paid to young people living with their parents and another $7.0

billion sent to spouses in families with at least $100,000 in household income in 2019.

Data from the CRA show that 823,850 Canadians received the CERB benefit despite not filing a tax return in the past year (Postmedia News 2020). While not every CERB applicant has to file a tax return, most low-income people do in order to receive the GST and other tax credits. If many of these claimants who had not filed a return did not have a job, the CERB is not replacing earned income as intended. In principle, the CRA should be able to recoup any money from people claiming it under false pretenses. As well, the CERB was paid to other people ineligible for the benefit, such as pensioners who may have mistakenly believed they qualified or households that simply wanted to build up their savings at a time of massive uncertainty. This is one of many reasons why the estimated cost of the CERB program ballooned from initial estimates of $35 billion to $82 billion.

In their attempt to help households in the short-run, the government may create financial difficulties for these same households in the longer-term. Many people receiving the CERB payments appear to not understand that CERB income is taxable and can lead to the clawback of other government benefits. The Parliamentary Budget Officer estimates that this will lead to an unexpected tax bill for "most people" claiming the CERB in the spring of 2021 (Curry 2020).

The federal government repeats the mantra that it "has Canadians back" during the crisis. However, the tsunami of money flooding out of Ottawa shows that the government not only had Canadians "backs" but also their front, top, bottom and both sides. The excess of support compared with what was needed to replace earned income lost to the pandemic is reflected in Canada's running the largest government deficit in the G20, a burden on future governments and generations.

The generosity of government transfers to households in Canada contrasts with other advanced economies. Canada was by far the most extravagant in providing income support. Most other major industrial nations, especially in Europe (such as Germany, France, the UK and Italy), carefully calibrated their aid so that household income losses were mostly replaced but not enhanced during the pandemic (OECD 2020b).

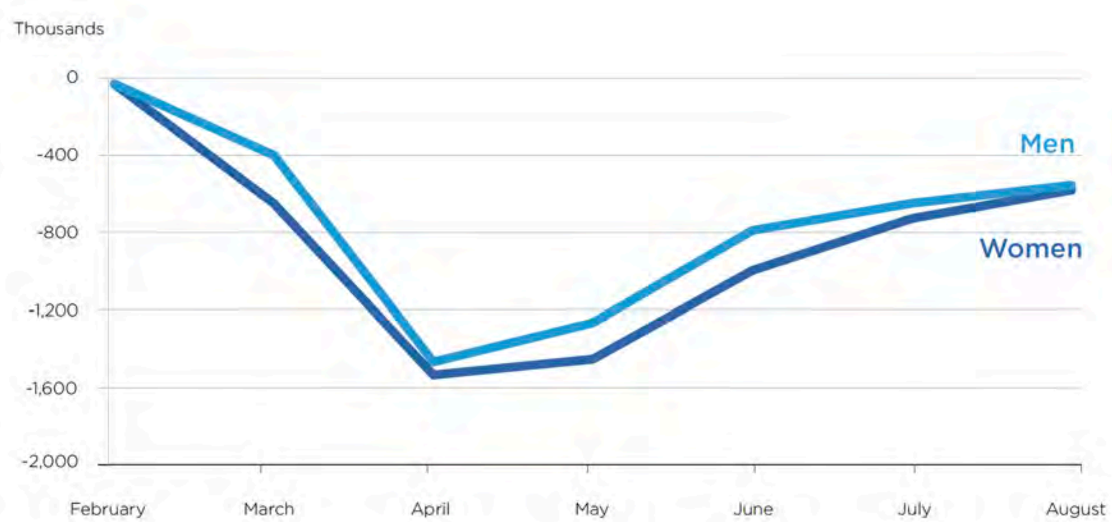
The result is that Canada is running the highest government deficit to GDP ratio in the G20 group, according to the International Monetary Fund's biannual Fiscal Monitor (International Monetary Fund 2020, 4). The total government deficit in Canada is projected to equal 19.9 percent of GDP in 2020, well above both Britain (next at 16.5 percent) and the United States (at 12 percent), and nearly double the 10.1 percent in the Euro Area. Most of Canada's deficit reflects the federal government's shortfall of $343 billion it forecast in July, before additional spending was announced that will likely boost the final tally past $400 billion. The provinces are running a combined deficit of nearly $100 billion. While they barely touched their transfer programs, the provinces are struggling with the health care costs of the pandemic and plunging revenues. In November, the largest provinces all projected record deficits, of $38.5 billion in Ontario, $15 billion in Quebec, $21.4 billion in Alberta, and $12.8 billion in British Columbia.

Canada has little to show in terms of its labour market performance despite the unprecedented transfer of income to households. Our unemployment rate is higher than most nations. After briefly spiking above Canada in April, the US unemployment rate fell faster, reaching 8.4 percent in August compared with 10.2 percent in Canada, according to the OECD (see Table 1 of OECD 2020a). Unemployment in the European Union was even lower at 7.4 percent, although data for the EU is not strictly comparable with North America because the EU excludes people on temporary layoff. However, even excluding temporary layoffs, the unemployment rate in Canada rose 3.6 percentage points between February and August, compared with an increase of 1.6 points in the US and less than a point in the EU (OECD 2020a, 1).

The 'She-cession' is solely the result of seasonal factors

A recent MLI commentary exposed the myth that women experienced disproportionately large job losses during the pandemic in 2020 (Cross 2020). Between February and August, employment for women fell by 562,000, essentially the same as the drop of 535,000 for men (see Chart 1).

Chart 1: Cumulative change in employment by sex, February to August 2020

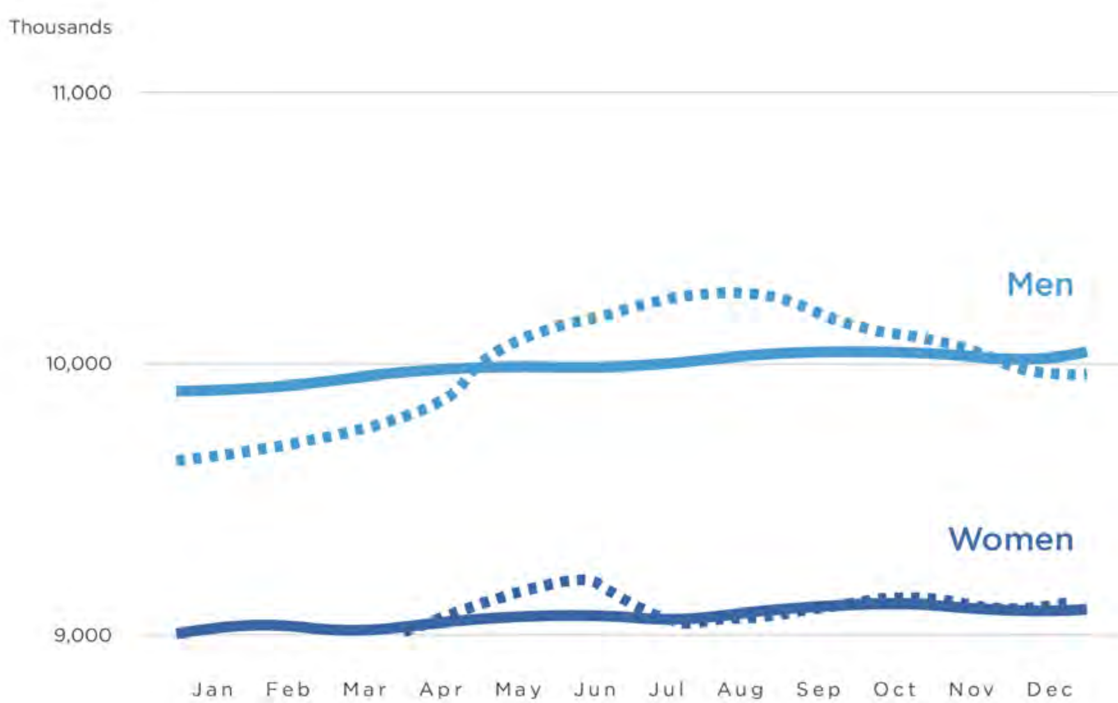


Source: Statistics Canada data Table 14-10-0287-01

Armine Yalnizyan, the main proponent of a 'She-cession' in which women suffered disproportionately from job losses during the pandemic, responded in the *Financial Post* to its debunking. She claimed that women accounted for 85 percent of the total decline of 350,000 jobs between February and September. However, these data are not seasonally adjusted.[2] Statistics Canada's seasonally adjusted data used in the MLI study shows a 50-50 split between men and women. This difference between the seasonally adjusted and unadjusted data reflects that all of the larger drop in female employment claimed by Yalnizyan was due to different seasonal patterns for men and women.

In particular, the period from February to August is precisely when outdoor work rises steadily to reach its seasonal peak in industries such as construction, agriculture, mining, forestry and other natural resources. So it is to be expected that jobs for men in non-seasonally adjusted data would show a larger increase than for women (see Chart 2), who are mostly employed in services industries that are not as affected by seasonality.[3]

Chart 2: Employment by sex, January to December 2019, adjusted and unadjusted* for seasonality



* dotted lines illustrate data unadjusted for seasonality
Source: Statistics Canada data table 14-10-0287-01

It is easy to calculate the seasonal factors used by Statistics Canada to seasonally adjust what is called the "raw" data from its surveys that are not adjusted for seasonality. The seasonal factor for any particular month is the raw estimate divided by its seasonally adjusted value. For example, for seasonal factor for men in January 2019 was .976. This means that employment for men in January is typically 2.4 percent lower than average simply due to seasonal factors, so the raw estimate for employment that month is raised by 2.4 percent in the seasonally adjusted data to compensate. Conversely, the highest seasonal factor for men in 2019 is 1.024 in August; since employment for men is higher in that month solely due to seasonal factors, their raw employment estimate is adjusted down by 2.4 percent in the seasonally adjusted value.

Men have larger seasonal swings in employment over the course of a year than women. The difference between their seasonal low in January and their seasonal peak in August is 4.9 percent.[4] By focusing on the employment gains in the non-seasonally adjusted data for men relative to women between February and August, Yalnyizan ignored that over this period jobs for men typically rise 4.5 percent versus only a 0.7 percent average gain for women.

> *As outdoor work shuts down due to the weather, it is inevitable that employment for men will decline relative to women.*

The October jobs report from Statistics Canada (2020) highlighted some trends that are relevant to the misleading notion of a "she-cession" and that recovery is being primarily hampered by a lack of day care for parents. First, the gender gap had virtually disappeared for fathers and mothers aged 25 to 54 with children under 18. The employment levels of both these groups in September were above their pre-recession peak in February; for women, it was 0.9 percent higher, while for men it was up 1.5 percent. For all men and women between 25 and 54 (not just those with young children) employment losses since February were slightly less for women (-2.1 percent) than for men (-2.4 percent). The groups lagging the most in the recovery were young men and women, with losses of 10.2 and 10.4 percent.

Just as the gap in jobs in the non-seasonally adjusted data over the summer was completely predictable, it is also easy to forecast a severe 'he-cession' is coming in the fall and winter. As outdoor work shuts down due to the weather, it is inevitable that employment for men will decline relative to women. In a typical year, jobs for men decline by 4.9 percent between August and January due to seasonal patterns, while they rise 0.7 percent on average for women. The relative loss of jobs for men between August and January does not require a particular policy response any more than the seasonal 'she-cession' of women's employment lagging behind men in the spring and summer necessitate policies aimed specifically at women.

There is little to differentiate between the terrible losses that both men and women have suffered this year. What was striking about the gender of job losses during the pandemic is how devastating they were for both men and women, not how disproportionately they were tilted towards women. At the worst of the recession between February and April, employment of men fell by 1.0 million compared with 1.3 million for women. To single out one group as experiencing exceptional hardship highlights the pitfalls of identity politics and how easily they lead to policies that put long-held political goals above the rehabilitation of a stricken economy – one currently experiencing a second wave of the pandemic that may prove fatal to many businesses already struggling to survive without enough aid from poorly-designed government support programs.

The 2020 recession was the economic equivalent of a thermo-nuclear device. Just as the modern atomic bomb exceeded the combined power of all conventional bombs dropped in World War Two, the job loss in just one month of 2020 exceeded the combined losses in the last three major recessions. Fostering a recovery from such a devastating loss should be the focus of policy-makers, not catering to particular segments of the labour force or the electorate.

About the author

Philip Cross is a Munk Senior Fellow at the Macdonald-Laurier Institute. Prior to joining MLI, Mr. Cross spent 36 years at Statistics Canada specializing in macroeconomics. He was appointed Chief Economic Analyst in 2008 and was responsible for ensuring quality and coherency of all major economic statistics. During his career, he also wrote the "Current Economic Conditions" section of the Canadian Economic Observer, which provides Statistics Canada's view of the economy. He is a frequent commentator on the economy and interpreter of Statistics Canada reports for the media and general public. He is also a member of the CD Howe Business Cycle Dating Committee.

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Endnotes

1 All the data on household incomes and savings comes from Statistics Canada Table 36-10-0112-01 Current and capital accounts-Households, Canada, quarterly.

2 The data come from Statistics Canada Table 14-10-0017-01. Labour force characteristics by sex and detailed age group, monthly, unadjusted for seasonality.

3 For a primer on seasonal adjustment written under my supervision while at Statistics Canada, see Wyman (2010).

4 By comparison, the difference for women between their seasonal low in January and their peak in June is 2.6 percent.

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