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the Size of the Deficit Does
not Matter as Much as
What it is Used for

(Part 2/2)

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Amid the cum-COVID-19, the Size of the Deficit Does not Matter as Much as What it is Used for (Part 2/2)¹

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Our governments' action plans to support Canadians during the pandemic have generated huge deficits (\$250B at the federal level). These are legitimate deficits as we could not allow thousands of unemployed people to fall into poverty and hundreds of businesses to go bankrupt. However, our governments will not be able to withdraw these programs overnight and reduce their deficits immediately, since the pandemic has caused damages far exceeding its time length.

Think of the thousands of unemployed workers in the airline, restaurant, travel, oil and gas and cultural sectors and the thousands more who have been or will be permanently laid off because their businesses have been swept away by the crisis.

Within a few months, the labour shortage has turned into a labour surplus, with the influx of unemployed people from the companies affected by COVID-19. All these unemployed people and all these companies will be calling for help again and putting an enormous pressure on the federal government. It will therefore be tempting for the federal government to take a short-term approach to economic recovery by sprinkling its support while targeting economic sectors. Without denying that some businesses will indeed need to be "saved", the government should instead focus on a long-term approach based on a vision of the future for the entire Canadian economy.

Such a vision would be embodied in new economic policies which would transform support programs into investment programs to bring Canada in line with the major trends emerging from modern economies.

¹ This article is a follow-up to a Part 1 article – "Amid the cum-COVID-19, Investing Matters More Than Supporting!", Henri-Paul Rousseau, 2020, Perspectives 2020PE-20, CIRANO. Online: <https://www.cirano.qc.ca/en/summaries/2020PE-29>.

The primary objective is to provide the country with the tools to be able to make the best of this New World. The major trends are digitization and robotization of production and distribution processes, product traceability, ecological transition towards clean energies and a consideration of extreme risks.

Such a vision would be embodied in new economic policies, which would transform support programs into investment programs to bring Canada in line with the major trends emerging from modern economies. The following are some examples of such economic policies:

- 1. A bold national policy for human and scientific capital**
- 2. A genuine digital shift policy**
- 3. A major infrastructure improvement policy to speed up the ecological transition**

The following are some examples of economic policies based on this vision.

1- A bold national policy for human and scientific capital

The objective of this policy would be to improve the qualifications, skills and abilities of the workforce and to increase the country's scientific and technological capital. The federal government, along with the provinces and the private sector, must invest massively in training and reskilling programs for the workforce, drawing on the best Canadian and international practices. Such an initiative would involve our colleges and universities, who had to develop online courses due to the pandemic but need additional financial resources to be better tooled and to attract and retain the best talent. Workforce training and education fall under provincial jurisdiction, but this crisis provides an opportunity for governments to work together and help workers forced to reskill amid the crisis and to support all workers in the digital shift and in the automation of our industries. This policy would ultimately provide us with a sustainable framework for workforce training while facilitating, in the future, the integration of immigrants.

2- A genuine digital shift policy

The digitization of transportation, logistics, harbours and airports is essential if our manufacturers, craftsmen, farmers and retailers are to overcome supply chain disruptions and maintain or even increase their trade positions. Digitization ensures the traceability and security of goods and commodities that today's consumers and businesses demand. Whatever the tools of this digital shift policy – accelerated tax depreciation, tax credits or subsidies – the government must direct them to increase the digitization of our businesses.

Similar to the provinces, the federal government must also switch to digital and, in the process, take the opportunity to strengthen the role and place of Canadian digital and artificial intelligence players. Each industrial and commercial sector should establish, with governments, a plan to strengthen their ecosystems in order to make a successful digital transition, consistent with the above human capital policy.

3- A major infrastructure improvement policy to speed up the ecological transition

Such a policy would promote a successful ecological transition for the production and distribution of energy and for the transportation of people and goods. The current challenge for our governments and key socio-economic actors, including leaders in the environmental movement, is twofold: first, to build a consensus on a critical path to energy transition, and second, to include all regions of Canada. Indeed, the ecological transition will lead to a gradual abandonment of fossil fuels, and regions that produce these energies will be impacted by the impairment of their oil and gas assets, and these “stranded assets” will be furthermore depreciated by the current health crisis. These regions will need help, and the clean energy-producing regions will have to be ready to support them in this transition. Bold projects such as the creation of an Eastern Canada Hydro-Electric Corporation, bringing together Quebec, the Atlantic provinces and the federal government to strengthen clean power generation and open up the pan-Canadian market for clean energy, will be daring. Green public transit projects such as high-speed rail in the Quebec City-Windsor corridor will have to be put back on the agenda. The time has come for a green and smart infrastructure.

These few long-term policies, described in more detail in a Burgundy Report published by CIRANO (Rousseau, 2020), will require investments of several billion dollars, postponing the return to a balanced budget by a few years. But at least, this deficit will serve to improve the human, scientific, digital and ecological capital of our society, while boosting economic activity rather than simply supporting it. They will also require a very large consultation between our governments and socio-economic players, which must be orchestrated at sectoral and regional summits that, in turn, will specify the priorities and augment the project backlog. Such an exercise is certainly aggressive, but not more than the major G20 summits or the many successful summits held in the past. Chiefly, this exercise is commensurate with the challenges we are now facing. No one knows the future, but this approach will go down in history as a “SOUND” decision by our government if the worst-case scenario turns out to be true.

REFERENCE

Rousseau, Henri-Paul, 2020, “COVID-19 – Economic Policy Options for Managing and Recovering from the Crisis in Quebec and Canada”, Burgundy Report 2020RB-02, CIRANO. Online: <https://www.cirano.qc.ca/en/summaries/2020RB-02>.