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# Amid the cum COVID-19: Investing Matters More Than Supporting!

(Part 2/2)

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## **Amid the cum-COVID-19: Investing Matters More Than Supporting! (Part 1/2)<sup>1</sup>**

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Strict public health measures have been implemented to control the COVID-19 pandemic and prevent a health care system breakdown. Meanwhile, outstanding income support programs for individuals and businesses have become essential to prevent a recession from turning into a depression.



As we start lifting lockdown restrictions, can we envision the end of these support programs in the coming months? Under which conditions can we “disconnect” the Canadian economy from this life support? What will be the economic consequences if some programs are eliminated, curtailed or amended? It is difficult to answer those questions due to their complexity, resulting from the overlay of the four impacts we have just experienced in Canada, similar to other countries affected by the pandemic. We are actually facing four crises.

### **We are actually facing four crises:**

- 1) the pandemic itself, affecting individuals and businesses both directly and indirectly;**
- 2) a widespread containment, pausing all economic activity for over two and a half months;**
- 3) the explosion in public deficits resulting from the special personal and corporate income support measures implemented by governments worldwide;**
- 4) a lifting of lockdown restrictions and a shift to an economy severed from the \$150 billion government support, while all countries worldwide are initiating the same transition.**

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<sup>1</sup> The second part of this article is available – “Amid the cum-COVID-19, the Size of the Deficit Does not Matter as Much as What it is Used for”, Henri-Paul Rousseau, 2020, Perspectives 2020PE-27, CIRANO. Online: <https://www.cirano.qc.ca/en/summaries/2020PE-27>.



1. The first impact is obviously **the pandemic itself**, affecting individuals and businesses both directly and indirectly. The pandemic halted the economic activity in some sectors—tourism, restaurants, travel, culture—and has substantially reduced the activity level in some others, while imposing a strong and abrupt burden on health systems, and in the provision of highly specialized care.

2. The second impact is a **widespread containment**, pausing all economic activity for over two and a half months. While this impact has accelerated digital activity in all service areas, its effect on the manufacturing sector, from coast to coast and across all sectors, has been huge and international in scope. This pause actually halted all manufacturing supply and distribution chains. In our modern economies, goods are not produced by independent units, but rather by dozens of contract-bound companies. A company's output tends to become another company's input under a series of domestic and international transactions; a notable example is the back-and-forth movements of auto parts between Canada, the United States and Mexico. These trades are matched by payment transactions under credit agreements: banks typically provide short-term credit to finance receivables from a company and payables to another. As a consequence, a 2 to 3 months pause creates a real shock wave where everyone tries to secure their supplies while securing their receivables and delaying their payables, therefore jamming production, distribution and credit! SMEs and large companies want to quickly control their cash outflows; all expenses that can be reduced are reduced, and all investment projects that can be delayed are also delayed, with collateral layoffs. Governments are fully aware of this downward spiral and are trying to stop it, hence the third impact.

3. The third impact is the **explosion in public deficits** resulting from the special personal and corporate income support measures implemented by governments worldwide. The federal government's loss of revenue due to the pandemic-induced recession, combined with the nearly \$150 billion cost of these support programs, will result in a deficit higher than \$250 billion for fiscal year ending March 31, 2021, or nearly 13% of GDP. The federal and provincial debt-to-GDP ratio will rise from 90 % to 100% of GDP, and to 120% in the United States. Although most of these programs are universal, such as the Canadian Emergency Response Benefit, they are subject to standards; for example, a business would have to experience a drop in income of more than 30% to qualify for the 75% wage subsidy, on a maximum annual salary of \$58,700. Some of these programs are also targeted, such as additional income support for seniors and students. Adding in provincial and municipal programs, personal and business income has undoubtedly been supported by these extraordinary cash outlays. More significantly, however, these measures, although necessary, are only temporary. Hence the need to reopen our local and international economies.



4. The fourth impact is therefore a **lifting of lockdown restrictions** and a shift to an economy severed from the \$150 billion government support, while all countries worldwide are initiating the same transition.

Truly, we are still experiencing a crisis as there will be no immediate recovery of the Canadian economy when lockdown restrictions are lifted. Indeed, while individuals and businesses replenish their inventories and start spending more, this surge in domestic demand will not generate a continuous recovery for the following reasons:

- All countries are moving in a “cum-COVID-19” framework, and not in a “post-COVID-19” environment, which slows down economic activity;
- Loss of consumer income (over 13% unemployment in Canada and 14% in the United States in April) and wealth (several private and public pension funds are struggling) shattered households’ and business leaders’ confidence levels, which, according to OECD, fell back to levels similar to 2009 in the aftermath of the financial crisis;
- High uncertainty weighing on the strength of the recovery is prompting consumers to be cautious (savings rates are rising in almost all countries) and businesses to delay their investment projects;
- As global trade is slowing and due to multiple dislocations in the distribution (Canada Post and Amazon are overwhelmed) and supply chains (many manufacturers are out of stock, while others are accumulating unsold inventories), this recession is a rather unique case where supply and demand are both severely affected.

We should cautiously assume that this will be a deep long-lasting recession, leading to significant unemployment increases, debt levels and personal bankruptcies; too many SMEs and some large companies will be wiped out; and our exports will suffer a major backlash as our major trading partners will also be facing the same issues.

Clearly, our governments will be literally overwhelmed with requests for assistance from every region of the country and from almost every sector, even after spending hundreds of billion dollars. But the economic support policy cannot focus solely on supporting struggling sectors: it should be based on a vision for the future. How do we respond to these demands? What are Canada's industrial policy priorities? How can we boost our economy and rebalance public finances over the medium term?



**There will be no economic recovery without renewed investments. This means quickly converting income support programs into public investment programs and incentives for private investment.**

The main takeaway is the following: there will be no economic recovery without renewed investments. This means quickly converting income support programs into public investment programs and incentives for private investment, both in human resources and in scientific, digital, green and physical assets. A successful conversion will require a more structured interaction between governments and national socio-economic stakeholders, in addition to a better international coordination. It will also require a vision for the future of our Canadian economy. Stay tuned!\*

*\* The second part of this article is available – “Amid the cum-COVID-19, the Size of the Deficit Does not Matter as Much as What it is Used for”, Henri-Paul Rousseau, 2020, Perspectives 2020PE-27, CIRANO. Online: <https://www.cirano.qc.ca/en/summaries/2020PE-27>.*

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