The Canada Emergency Wage Subsidy as an employer-based response to the pandemic: First steps, missteps, and next steps*

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Many members of the Royal Ottawa Golf Club may have been relieved, perhaps even pleasantly surprised, after hearing the Club treasurer summarize the financial statements for the year ending 2020, the pandemic year. The Royal Ottawa is the club of the elite in Canada's national capital region, including former prime ministers and cabinet ministers, high commissioners and ambassadors, business leaders and even players in the National Hockey League, among its well-heeled membership: a well-financed operation that nonetheless applied for and received a $1.019 million wage subsidy from the federal government.

Based on the audited financial statements and a recording of the annual general meeting, The Canadian Broadcasting Corporation reported that the membership had many suggestions for the use of the monies—lower fees, a transfer to the capital account, accelerating expenditures, paving the parking lot—but the club treasurer reported that in the end the executive decided to "park" the funds. The entire amount "ended up on the bottom line," and contributed to a "very strong financial position," the Club weathering the first year of the pandemic nicely with a $825,000 surplus, somewhat higher than the $43,000 recorded for the 2019 fiscal year (Gatehouse 2020).

This golf club, like many other businesses, was clearly aware of many fast-paced developments in the policy response to COVID-19. Most notable, on April 1st, 2020 the Department of Finance of the Federal Government issued a press release entitled "Government Announces Details of the Canada Emergency Wage Subsidy to Help Businesses Keep Canadians in their jobs." "To help Canadians and businesses get through these tough economic," the release stated, "the Prime Minister, Justin Trudeau, announced that the Government is proposing to introduce a wage subsidy of 75 per cent for qualifying businesses, for up to 3 months, retroactive to March 15, 2020." With this announcement, and the passing of legislation on April 11th, the CEWS, as it came to be known, started taking applications on April 27th, the Royal Ottawa Golf Club being among the roughly 300,000 applications received during each of the remaining months of the year. The stated objective of the program was to support businesses "hardest hit by the COVID-19 pandemic" and thereby "protect the jobs Canadians depend on during these difficult times."

I tell the story of the Royal Ottawa because it so clearly illustrates the failure to appreciate three basic lessons from standard economic principles that should govern the design and evaluation of programs intended to maintain a tie between workers and firms, principles that eventually will, or should, guide more detailed cost-benefit assessments of this program. In the first section of this chapter, I describe the CEWS, how it evolved over the course of the pandemic, and how it has been wound down. In the second section I reflect on why in retrospect we might be cautious in considering its design as a model for the future: the failure to address the factors that influence the shut-down decision of the firm; the failure to recognize that the legal incidence of a subsidy is not necessarily its economic incidence; and the failure to target policy to the margin.

But in assessing the Canadian pandemic response it is also important to recognize three matters of policy practice. In the third section, I use these to also evaluate the challenges policy makers faced in crafting the Canadian response and highlight how existing programs were in one sense more suited but at the same time hampered in their capacity to respond. These include a federally operated non-experience-rated unemployment insurance program that has long-offered ongoing wage subsidies to employers, and special provisions within this program for work-sharing during significant economic shocks. In evaluating the effectiveness of the CEWS, and in charting options for the future, policy makers will need to not only recognize core economic principles, but the challenges posed by program delivery, program substitution, and policy drift arising from the political economy of discretionary decisions.

I conclude that, when the final evaluations are in, it may well be that the CEWS will not pass a cost-benefit test because other programs proved to be more effective in offering real-time income support to affected workers, and that the political economy of the small business lobby may have shaped a less than optimal response. What made the CEWS necessary in the eyes of policy makers was the bottlenecks in the delivery of existing and better suited programs. It was challenges in the service delivery side of government that created the need and that drove hasty policy choices. In the Canadian case, one positive consequence of the pandemic may be long needed investments in the modernization of program delivery that will reduce the need for discretionary policy in the future. If this lesson is not to be lost, governments should offer ongoing investment for the continual modernization of service delivery in good times and in bad. With this modernization in place future Canadian public policy would be well advised to rely on the unemployment insurance program, and particularly on the work-sharing provisions it offers, to more effectively target support directly to workers. The Canadian Emergency Wage Subsidy may reasonably be thought of as an experiment not to be repeated.

The evolution of the CEWS

The Canada Emergency Wage Subsidy represents a very significant part of the Federal Government's pandemic response. The 2021 Federal Budget estimates total spending of $111 billion on this program over the fiscal years from 2019/20 to 2021/22, amounting to 38.6 per cent of the total direct pandemic support measures of $286 billion, significantly exceeding the next highest item, the Canada Emergency Response Benefit at $73 billion (Canada 2021a, Table A1.15 and pages 604 to 608).[1]

As originally announced, potentially all employers, of all sizes, in all sectors of the economy (excluding the public sector) were eligible to apply for a 75 per cent subsidy of the first $58,700 normally earned by an employee, a maximum benefit of $847 per week. It was also announced that this benefit would be in place for 12 weeks, from March 15th to June 6th, 2020. The Department of Finance made clear that "entitlement to this wage subsidy will be based entirely on the salary or wages actually paid to employees," and it even went so fall as to suggest, as an act of moral suasion rather than legislative requirement, that "All employers would be expected to at least make best efforts to top up salaries to 100% of the maximum wages covered." (Canada 2020a)

The legislation that enacted these provisions received Royal Assent on April 11th, 2020 as Bill C-14, stipulating that employers were eligible if their revenues declined by at least 15% between March 15th and April 11th relative to March 2019, but by 30% between April 12th and May 9th or between May 10th and June 6th relative to April or May of 2019.[2] A business could also qualify if gross revenues fell by the same percentages relative to average revenues between January and February 2020 if it was not active on March 1st, 2019.[3]

In line with the prevailing sentiment among policy makers in many of the rich countries, a sentiment strongly promoted by the Paris-based Organization for Economic Cooperation and Development, the government clearly intended this program to channel income support to workers through their employers, preventing the layoffs that would otherwise inevitably result from the pandemic-induced collapse of demand for products and services in many sectors. The guiding metaphor was of "freezing" the economy and businesses in order to prevent job and income losses during the lockdowns necessitated by the pandemic, and then to begin again

[1] The Canada Emergency Response Benefit, CERB, offered direct support to individuals who had an annual income of at least $5,000 in the previous year, who experienced a significant pandemic related fall in their income, and who were not able to receive support through the unemployment insurance program. It amounted to a maximum of $2,000 over any four-week period, $500 per week, between March 15th and September 26th, 2020. This program evolved over the course of the pandemic, most notably to be superseded by the Canada Recovery Benefit, accounting for an additional $26.7 billion in spending.

[2] March 15th marked the date of the first country-wide emergency orders, suggesting to policymakers that falls in business revenue might not be visible until the full following month.

[3] See Fleury, Roy-César, and Smith (2020) for more details, and a legislative summary of the Bill.

where the economy had left off once the health shock had passed or been contained. Indeed, at the time speculation was rampant among many economists about the shape of the recession and recovery, the best-case scenario being a "V-Shaped" recession, sharp and quick on the downswing but equally sharp and quick on the upswing, a "plucking" model of the business cycle to borrow a term used decades ago by Milton Friedman and his co-authors.[4]

That said, the Prime Minister was also clear in repeated press conferences that the Government was crafting its policies step-by-step in the face of uncertainty about the nature and extent of the health shock and its economic impacts. Two quick steps forward, but with awareness that there will inevitably be missteps necessitating a rethink, followed by another move forward as better evidence accumulates. The socio-economic challenges of COVID-19 called for real-time policy making and delivery, and the Government was first to admit that programs of a scale never before designed, put into place at a speed never before attempted, would require reconsideration and refinement as the situation evolved, as experience was gained, and as delivery capacity was developed. The Government may well have been in a hard-pressed position of facing sub-optimal policy choices: between supporting too few or supporting too many Canadians.[5]

So, it is in some sense understandable that a wage subsidy program intended to prevent, or at least soften a sharp decline in employment and incomes, would be refined and even extended as the first wave of the pandemic turned into a second wave before wide scale vaccination was possible. The enabling legislation stipulated that the CEWS payments could be collected no later than September 30th, 2020. But the CEWS was repeatedly extended with changes, most notably in the Federal Budget released on April 19th, 2021 that extended the program with the intention to wind it down on September 25th but also seeking legislative authority to extend through regulations to as long as November 20th if the government saw fit. And indeed, on July 30th, 2021, the government announced proposed changes and an extension to October 23rd, 2021, before confirming on October 21st that the program would indeed end.[6]

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[4] "Output is viewed as bumping along the ceiling of maximum feasible output except that every now and then it is plucked down by a cyclical contraction. … Since there is no physical limit to the decline short of zero output, the size of the decline in output can vary widely. When subsequent recovery sets in, it tends to return output to the ceiling; it cannot go beyond, so there is an upper limit to output and the amplitude of the expansion tends to be correlated with the amplitude of the contraction." (Friedman *et al.* 1964, page 17)

[5] In fact, when announced the CEWS was replacing a more modest program that had been launched less than two weeks earlier. On March 18th, 2020 the Federal government announced that effective immediately small businesses would be offered a 10 per cent wage subsidy for 90 days (to June 19th), to a maximum of $1,375 per employee and $25,000 per employer. See Canada (2020b).

[6] See https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy/cews-what-changes.html for a timeline of the program evolution, and https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy/cews-frequently-asked-questions.html#h_1 for a detailed list of frequently-asked questions that describe the program and its evolution. The post-budget announcement on July 30th is described in Canada (2021b), and the final announcement confirming that the program would not be extended any further in Canada (2021c).

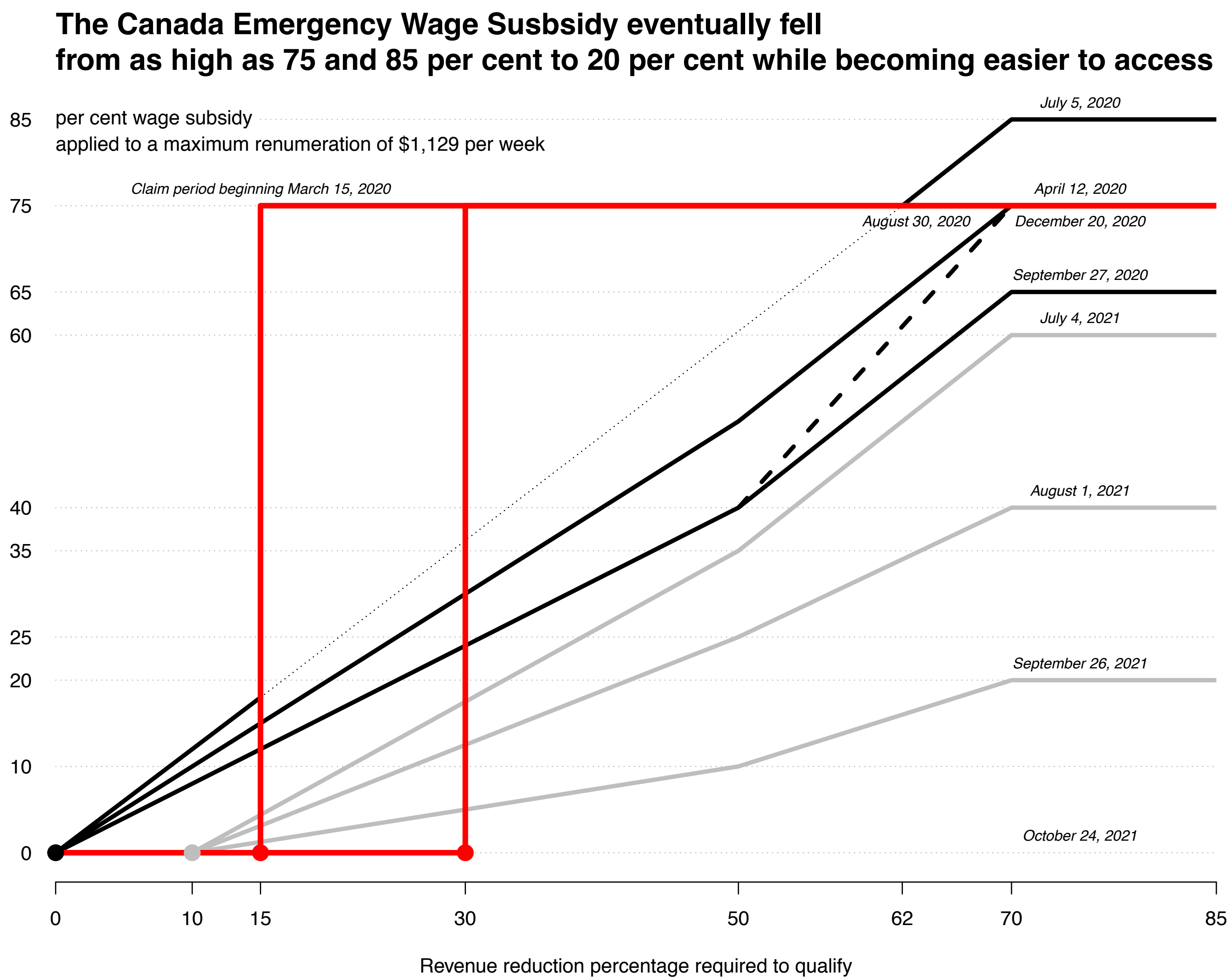
The actual structure of the program, however, can be summarized as moving through three distinct phases, the subsidy rate as a function of the revenue drop required to qualify depicted in Figure 1 by three different colors corresponding to each of these phases. The first is the program as originally launched, having the most stringent eligibility rule, but a high subsidy rate. Applications to the program were required for each of a series of monthly claim periods. This version of the program combined a sharp discontinuity in the eligibility rule, requiring a revenue fall of at least 15 per cent during the first claim period and 30 per cent during the next two, with a very generous and flat subsidy rate of 75 per cent regardless of the revenue loss beyond the minimum required to qualify.

This design was replaced with the claim period beginning on July 5th, 2020, one that repeated through subsequent claim periods for a year. During this phase the rules permitted employers with any revenue fall to qualify for the subsidy, significantly eroding the targeting of program eligibility. Further, employers were not under any obligation to demonstrate that their revenue loss was related to COVID-19. The subsidy rate increased linearly with the amount of the revenue loss up to a loss of 50 per cent, beyond which it was "topped up," increasing at a higher rate to a maximum, introducing an attempt to target program generosity on the most impacted businesses. This maximum varied slightly with changes over some of the claim periods. The first claim period of this structure, that beginning on July 5th and extending to August 30th, was the most generous version of the CEWS. Not only were all employers with any revenue drop eligible, not only did the subsidy reach a maximum rate of 85 per cent for the most affected businesses, but also if the subsidy rate calculated by the piece-wise linear rule was lower than what would have been received during the previous claim period, then the employer could take advantage of, to use the government's words, a "safe harbour" and claim the higher subsidy rate. The region over which the safe harbour applied is indicated by the dashed line in Figure 1 for the July 5th claim period.[7]

The maximum subsidy rate was reduced to 65 per cent for the claim period beginning on September 27th, but then returned to 75 per cent with the December 20th claim period, where it remained until July 4th, 2021. This claim period represents the start of the third structure of the program, characterized by a minimum 10 per cent reduction of revenues to qualify, and a gradually declining maximum subsidy rate, though still embodying a top-up of that rate if the revenue decline is 50 per cent or greater. With the Government's July 30th announcement, the maximum subsidy rate stood at 20 per cent with the claim period beginning on September 26th, 2021, and the program was eliminated entirely beginning on October 24th.

[7] Applications made in the claim period beginning on September 27th, 2020 through to the period beginning November 22nd were also subject to a "safe harbour" rule not depicted in Figure 2.

Figure 1



Source: Created by the author using information available at the time of writing from Canada Revenue Agency and Department of Finance Canada.

The wage subsidy could be claimed not just for existing employees but also for those hired after March 15th, 2020. The subsidy rate applied to weekly per employee renumeration to a maximum of $1,129, implying a maximum subsidy of $959.65 when the 85 per cent rate was in place, and $846.75 for the 75 per cent rate. In addition, beginning in claim period starting on June 6th, 2021, well after a year since the initial launch, the Government introduced "the executive compensation wage subsidy repayment rule," requiring repayment of any or all of the wage subsidy to publicly listed or traded employers whose aggregate executive compensation during 2021 exceeded that in 2019.

On October 21st, 2021 the government confirmed that the CEWS would end, and that it would be replaced by two more targeted programs: a "Tourism and Hospitality Recovery Program," and a "Hardest-Hit Business Recovery Program." Eligibility for these programs would be determined not just by significant revenue losses in the current month, but also average monthly losses over the first 12 months of the pandemic: a 40 per cent decline in revenues over each of these time spans for businesses in tourism and hospitality, and 50 per cent for other businesses. The maximum subsidy rate for the Tourism and Hospitality Recovery Program was set at 75 per cent, increasing one-for-one for each percentage point loss in revenues above the qualifying threshold; while for the Hardest-Hit Business Recovery Program it was set at 50 per cent, but starting at 10 per cent, and only reach the maximum for businesses experiencing a 75 per cent reduction in revenues.[8]

Evaluating the CEWS

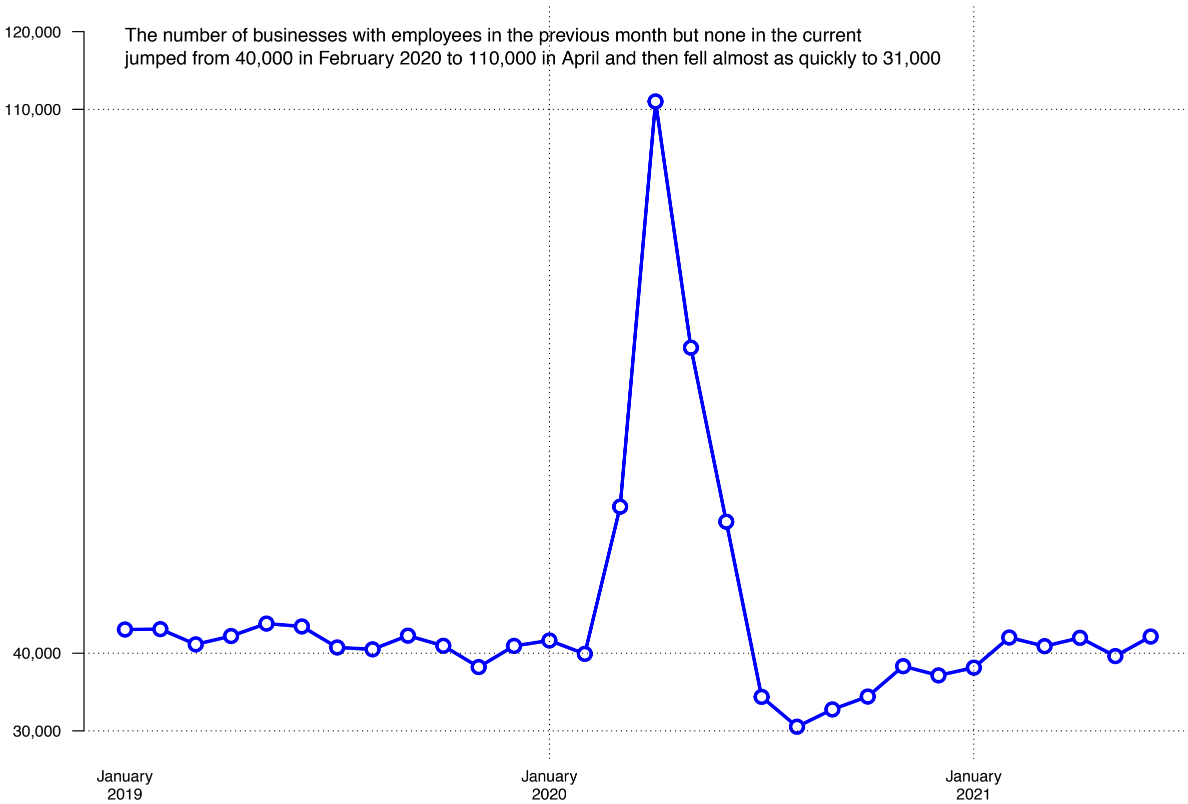
Figure 2 depicts the pattern of monthly business closures in the country from the beginning of 2019 through to June 2021, the most recently available data at the time of writing. A "business closure" refers to an establishment having at least one paid employee in the previous month that reports no employees in the current month. Just short of 41,700 establishments closed during the average month of 2019, about 4.6 per cent of the 905,000 employers typically active. The numbers for January and February 2020 were no different, with respectively 41,440 and 39,725 closures. But in April 2020 closures jumped to 110,000, following 58,500 in March, itself being an unprecedented jump. As a consequence, the number of active firms fell to a low of 795,000 in May, these closures translating directly into the deepest employment losses experienced during the pandemic.[9]

[8] More details on these programs and other changes introduced with the October 21st announcement, including their phasing out and the expansion of the Canada Recovery Hiring Program and Canada Emergency Rent Subsidy, are described in Canada (2021d).

[9] The pattern depicted in Figure 2 is little different if the data are expressed as rates. The percentage of businesses closing in the average month of 2019 was 4.6, spiked to 13.5 per cent in April 2020, and fell to a low of 3.7 per cent in August of that year, staying below the 2019 average until February 2021, where it remained.

Figure 2

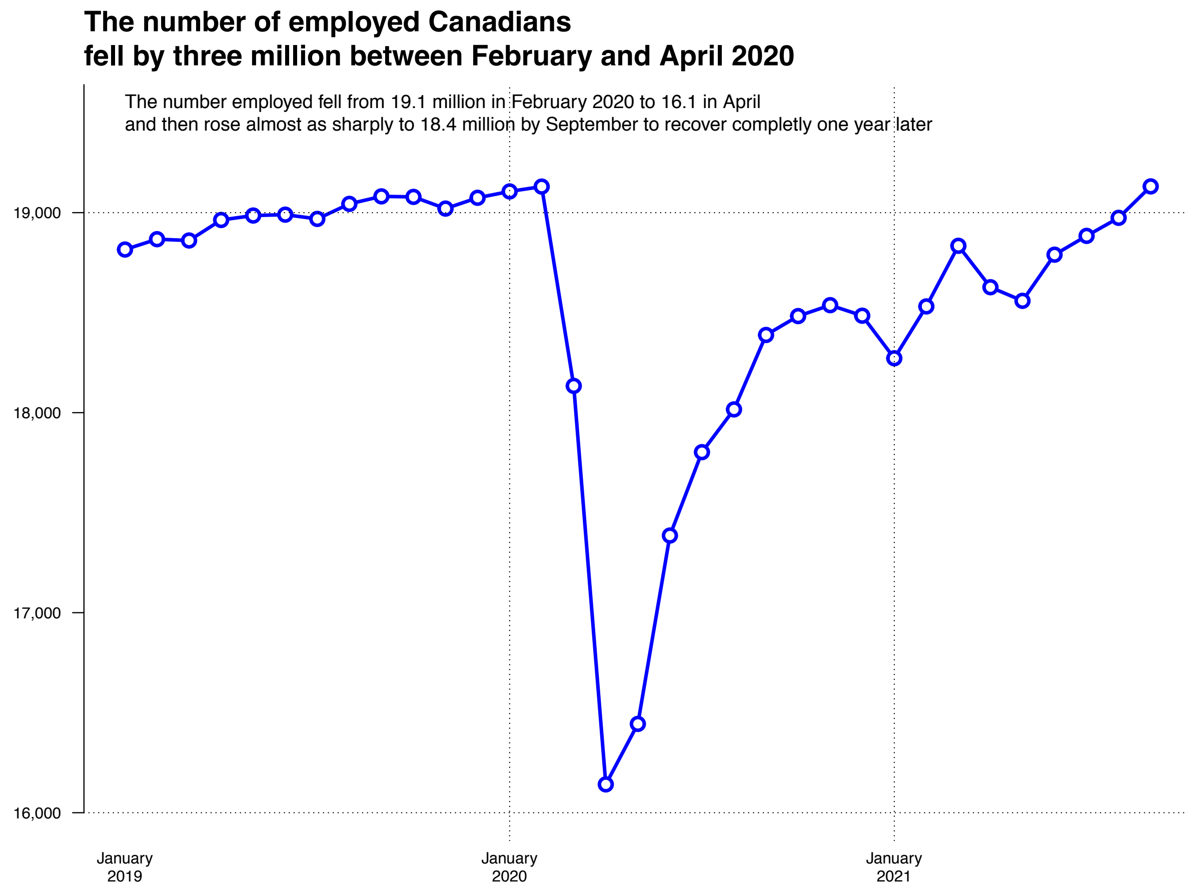
Business closures peaked during the first full month of the pandemic but after two months returned to and have remained below 2019 levels



Note: Business closures refer to business establishments transitioning from having at least one employee in the previous month to no employees in the current month, an establishment being the unit of production within an enterprise. Chart shows these seasonally adjusted data from January 2019 to June 2021.

Source: Created by the author using information from Statistics Canada, "Experimental estimates for business openings and closures for Canada, provinces and territories, census metropolitan areas, seasonally adjusted," Table 33-10-0270-01. Available at https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3310027001.

Figure 3



Note: Chart shows the seasonally adjusted number (in thousands) of Canadians 15 years and older, the working-age population, classified as employed by The Labour Force Survey conducted by Statistics Canada. The data refer to the reference week of each month, usually the week containing the 15th, from January 2019 to September 2021.

Source: Created by the author using information from Statistics Canada, "Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months." Table 14-10-0287-01. Available at https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028701 .

The monthly Statistics Canada household survey used to track employment and unemployment rates, *The Labour Force Survey*, reports that the number of employed Canadians fell by three million, from 19.1 million in January and February to a 2020 low of 16.1 million in April, with the employment-population ratio dropping about ten percentage points from 61.8 per cent to 52.1 per cent. Figure 3 shows the speed and depth of the drop in the number of employed. By mid-April the pandemic had burst through the economy; the damage to employment was done in a matter of six weeks. But this sharp fall in employment was followed by sharp increases during each of the following months, with fully two-thirds of the employment drop being recovered by September.

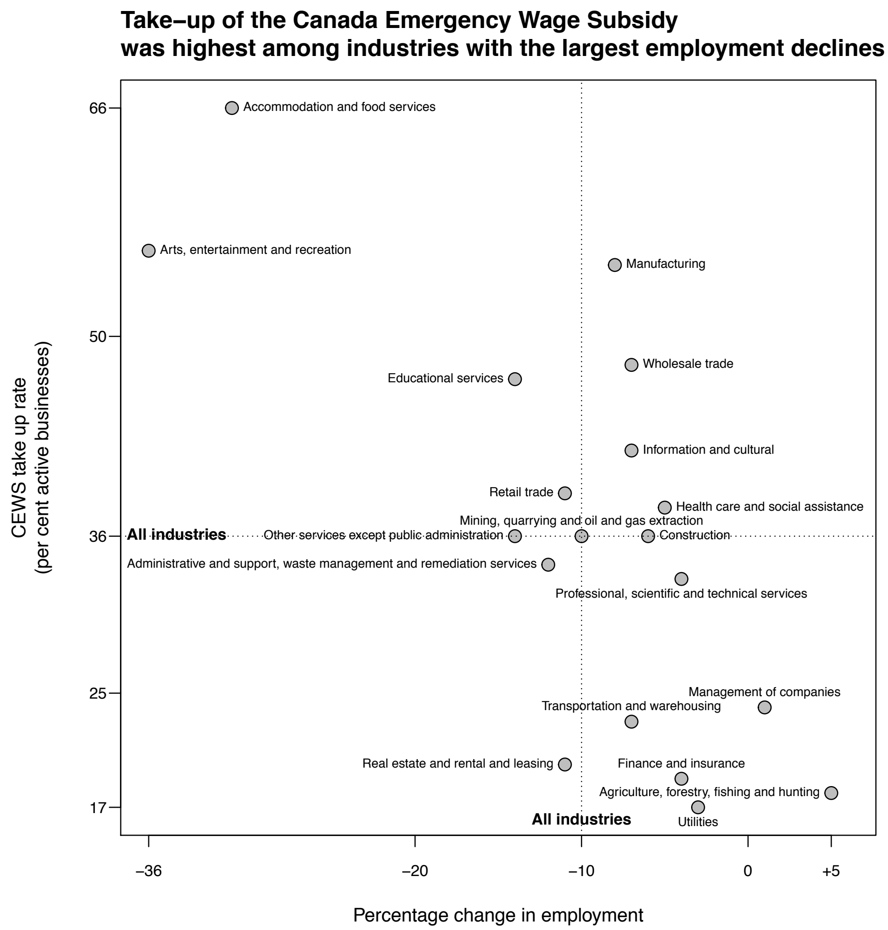
The 2021 Budget states that "Federal support measures have protected jobs and helped limit the number of permanent business closings. ... The Canada Emergency Wage Subsidy has, at times, supported a quarter of private sector employment, and an even higher share in some hard-hit industries like accommodation and food services" (Canada 2021a, page 82).[10] But this falls short of a program evaluation, which requires more than an "audit study," a documentation of how much was spent, and how it was spent. A full evaluation requires an assessment of the degree to which the stated goals were achieved, of the impact of this spending: Did CEWS reduce firm closures and attenuate the loss of jobs? How big was this impact? At what cost?

Statistics Canada reports that while CEWS support was indeed concentrated in the hardest hit industries, these industries, and particularly the businesses in them receiving CEWS, also suffered the largest declines in employment. The CEWS take up rate in Accommodation and Food services was 66 per cent, and in Arts and Entertainment it was 56 per cent, well above the economy-wide take up rate of 36 per cent.[11] But as Figure 4 illustrates, these sectors also experienced the sharpest falls in employment, 31 and 36 per cent respectively, declines that were well beyond the experience in the next most affected industries, Education Services at 14 per cent, Administrative and Support Industries at 12 per cent, and Retail Trade and Real Estate, both at 11 per cent. Statistics Canada also reports that employment fell more among CEWS recipients than among non-recipients in these industries. Indeed, this was the case in all industries with the exception of Construction. But this perspective, a description of outcomes, one that invites a comparison between firms receiving and not receiving CEWS support, also falls short of a proper program evaluation. It does not tell us what employment would have

[10] The document goes on to note that "Business insolvencies have, so far, remained low and below historic levels." In fact, insolvencies, were not just lower but significantly lower, about one-third lower during the 2020 pandemic months compared to the same months in the previous year, particularly so during March and April of 2020. This said, it is important to note that insolvencies are a more stringent measure than the indicator used in Figure 2, and are measured in the hundreds, bouncing around 300 per month over the course of 2019, and 200 during the pandemic months of 2020, though reaching a low of about 150 in April. See Canada (2021a, Chart 2.4). The Budget document does not translate this into an impact on employment.

[11] The "take-up rate" refers to the number of CEWS recipients divided by the number of active recipients in the industry, and the fall in employment refers to the percentage difference between industry employment during April 2019 to March 2020, and April to October 2020. See Chart 1 and Table 1 in Liu, Lu, and Willox (2021).

Figure 4



Note: Chart shows the relationship between the take-up rate of the Canada Emergency Wage Subsidy and the percentage change in industry employment for broad industry categories. Take-up rates are defined as the number of CEWS recipient businesses as a percentage of the total number of active businesses in the industry. The change in employment refers to the percentage change in industry employment from between April 2019 and March 2020 and that between April 2020 to October 2020.

Source: Created by the author using information from Liu, Lu, Willox (2021, Chart 1). Available at https://www150.statcan.gc.ca/n1/pub/36-28-0001/2021006/article/00006-eng.htm .

been among CEWS-recipient firms if they had not participated. The factors determining participation in the program are also certain to influence employment outcomes, and as a result generate a self-selected sample that biases any simple comparison.

Proper program evaluation requires a clear counterfactual of what would have happened to closures and employment in the absence of the program, all other things constant. Careful evaluations with a quasi-experimental design will certainly be the subject of future research, but to some degree may be challenging given that the pandemic had wide-ranging impacts across the entire economy and that there were many policy responses with new programs interacting and having overlapping eligibility rules.[12] Any speculation about whether this program passes a basic cost-benefit analysis must necessarily be contingent. Perhaps the best evaluation that can be done in its immediate aftermath is to rely on judging it in terms of its stated objectives, its adherence to some basic lessons from economic theory, and some back-of-the-envelope calculations based on these principles.

The stated objective of the CEWS was clear: to prevent business closures and to keep employees "in place," in some way attached to their employer, in order to channel income support to them. Preventing business closures was part of the "freezing the economy" metaphor, so program design should, in the first instance, be informed by what economic theory teaches about the shut-down decision.

It is hard to imagine that the program had a major impact on preventing closures during the early weeks and months of the pandemic, when the decline in total employment was greatest, for the simple reason that it did not receive legal status until mid-April, and the government did not start accepting applications until April 27th. Once open, applications were slow to start coming in from eligible businesses, even if they could be made retroactive (Robson 2020, page S10). Unprecedented business closures and major job loss had, in large measure, taken place even before the CEWS was effectively up and running. Meanwhile the CERB had already been available for three weeks, with strong uptake among the surge of workers laid off during the previous six weeks. The availability of timely and direct support through this program likely cut off the demand and the urgency for support through a wage subsidy.

Furthermore, the CEWS did not offer support for the costs that influence the closure decision of businesses. A wage-subsidy may be seen as a policy to maintain employer-employee attachment only if the firm has decided not to permanently close down. As such, the first course of action in maintaining employer-employee attachment must be preventing permanent business closures. This shut-down decision depends upon being able to cover fixed costs, costs that don't vary with production. This is distinct from decisions over the rate of production.

[12] These studies may well benefit from adopting cross-national or inter-regional comparisons. Granja, *et al.* (2020) offer one example of a US-based evaluation of a program very similar to the CEWS, The Paycheck Protection Program, in part basing their identification strategy on regional variation. Some of their findings suggest that the program's impact on employment was small. Autor *et al.* (2020) also offer a preliminary analysis of this program with a distinct identification strategy.

Businesses will keep operating in the short term if they cover their variable costs, even if fixed costs can't be covered by operating revenues. But eventually, over the course of weeks or months depending upon the structure of the capital involved, fixed costs need to be covered. If public policy is concerned about permanent closures, it needs to address fixed costs like rents, financing, and some parts of the wage structure, particularly those associated with overhead employees and those with firm-specific skills. These are costs to which, at least on paper, the CEWS was not addressed. Indeed, the Government's very first instinct was to bolster support to the financial sector and a number of facilities for business credit. These measures were announced as early as March 13th, 2020 (Canada 2020c). But support for rent and other expenses directly associated with lockdowns evolved more slowly, was less generous, and was slow to be taken up.

Even if CEWS is unlikely to have had a significant impact in preventing firms from closing in the early weeks and months of the pandemic, it may have had an impact afterwards. Business closures did fall rapidly in the months after their April 2020 peak, and were below 2019 levels from June 2020 onward, through subsequent waves of the pandemic. Indeed, as Figure 2 shows, for most of 2020 they were significantly below the previous year, reaching a low of 31,000 in August, fully one-quarter below the 2019 average. CEWS may well have contributed to this extraordinary low rate because its design did not recognize a second principle of basic theory: that the legal incidence of a subsidy may not be the same as its economic incidence. In some measure firms may have used the funds for purposes other than just supporting the payroll of workers directly engaged in the production process, including management and other supervisory or overhead workers. Clearly, this possibility is hinted at by the fact that the Government introduced the repayment rule for executive compensation. This was a response to media coverage of profitable large businesses simultaneously increasing executive compensation and collecting CEWS support. Even if the data are not available to accurately assess the impact on executive compensation, these reports raise the possibility of more wide-ranging support of business expenses beyond just production workers to include management at all levels, not just senior executives.

In some measure this may have been a blessing in disguise, but it leaves open the question of whether reducing closures to a level significantly lower than the 2019 level, a business cycle peak, also leads to economic inefficiencies. Joseph Schumpeter's view of recessions, as cold showers inherently involving structural changes that move the economy forward as recovery promotes more productive firms, is also as a metaphor for understanding the long-term consequences of the pandemic. A metaphor of emptying and then refilling the bathtub, one encouraged by Friedman's plucking model, does not offer a complete guide to public policy in pandemic or other times. Schumpeter encourages us to view public policy that overshoots in supporting firms that would otherwise close as thwarting, or at least postponing, the structural changes that the pandemic moved forward in time. For example, it is reasonable to suggest that the pandemic called for a greater online presence in all sectors, including retail and food services, or a reduction in a broad array of public facing business models, even a smaller or different restaurant sector, or a more sophisticated and responsive human resources strategy among small businesses. A generous, broad-based, wage subsidy might be serving to support firms that had already been slow to adapt to an evolving climate, and who instead buckled down during the pandemic and its aftermath to rely on even lower wages.

This raises the third principle that the CEWS violated: the need to target behavior at the margin, to support firms that would otherwise have shut down operations without supporting those that would not have shut down in spite of the pandemic, nor those that would have shut down regardless. The targeting of program eligibility and benefit generosity was at best coarse. The CEWS was not in any way targeted at the margin, particularly with the reduction of the eligibility rule allowing enterprises with any revenue reduction, or as little as a 10 per cent fall, to qualify, there being no obligation to document that the fall was pandemic related, and easily manipulated by accounting or other adjustments to revenue. It may well be very difficult to target policy on the margin with this sort of program, it being virtually impossible for government administrators to attribute revenue declines specifically to the pandemic.

Putting aside the dynamic inefficiencies that Schumpeter's view raises, this would lead to a significant deadweight loss and waste of public monies. Michael Smart of the University of Toronto finds, based upon the first six months of the CEWS, that the average subsidy for each approved application was $300,000. He argues that the "problem is that CEWS payments are paid for **all** workers at affected businesses, not just those facing the prospect of earnings losses. That makes the program an expensive way of helping workers hit by the lockdown" (Smart 2020, emphasis in the original). His back-of-the-envelope calculations, based upon an elasticity of labor demand of 0.15, suggest that each person-month of employment support by CEWS came at a cost of $25,000, with only one-in-twelve employees owing their jobs to the program.

The story of the Royal Ottawa Golf Club succinctly illustrates how the operation of the CEWS had little relation to these three basic principles that should have informed optimal program design. This was an enterprise at no risk of shutting down, which diverted the funds received to other purposes, and which in the end did not materially change employment. If as Professor Smart suggests, the program offered about $2,000 support per employee covered but cost $25,000 per job saved, then there were a good many enterprises like the Royal Ottawa supported in the net cast by this program.

Public policy practices and next steps

The irony of Canada's employer-based policy response to the pandemic is that the existing labor market and social policy architecture was, in principle, well suited to offer wage subsidies to many employers, and to promote labor retention during sharp economic downturns. The problem was one of practice, of the capacity to deliver: the scale of the shock to employment swamped the infrastructure of existing programs, and necessitated discretionary and fast-paced development of workarounds like the CEWS.

Social policy—from child-care and education, to income assistance and workplace regulation—is delivered by the provinces and is a provincial responsibility even if it often involves a significant financial contribution from the federal government. The federal government can influence the design of these programs and the setting of national standards through cost-sharing agreements negotiated separately with the ten provinces, often a challenging and time-consuming process. But this is not the case for the unemployment insurance program, called Employment Insurance, which lies entirely in the domain of the federal government, and which can be changed with federal legislation for the country as a whole.

Employment Insurance is financed through a uniform payroll tax on firms based upon the payroll of their insured workers to a maximum insurable earnings. The program results in significant cross-subsidization between regions, industries, and firms as it is not experience-rated, all firms facing the same contribution rate regardless of their lay-off history and the extent to which their employees rely on benefits. Many firms never receive a net transfer from the program, others always do, with the resulting cross-subsidization being caused, in large measure, by greater than average separation rates, particularly temporary layoffs, among lower-wage always-subsidized firms. This implies a long-standing wage subsidy in which many of these employers regularly lay-off workers in the face of demand shocks, confident that they will remain available to be recalled. The program encourages an attachment between employers and employees through an implicit contract, employees getting enough work to qualify for benefits, and being recalled before they are exhausted. This is a *de facto* wage subsidy. (Corak and Chen 2007)

Whatever the inefficiencies associated with this design, whatever its implications for inter-regional, inter-industry, and inter-firm income transfers, it is well suited, in a macro-sense, to maintain an attachment between employers and their employees in the face of a temporary shock to product demand. Furthermore, there are features of Employment Insurance that make it even more suited to the particular objectives the government was pursuing through CEWS. The Employment Insurance program includes a provision called “Work Sharing,” described this way by a Government of Canada monitoring report:

> Work-Sharing is an adjustment program designed to help employers and employees avoid layoffs when there is a temporary reduction in the normal level of business activity that is beyond the control of the employer. Layoffs are avoided by offering temporary EI income support to employees eligible for EI regular benefits willing to work a temporarily reduced work week while their employer recovers. The goal of the program is for all participating employees to return to normal working hours by the end of the Work-Sharing agreement. (Canada 2021e, page 124)

In other words, this is exactly what the Government’s pandemic response was calling for, a way of supporting employee incomes through their employers, and maintaining an attachment between them by using reductions in hours of work to avoid layoffs. Work Sharing was put to effective use during the 2007/08 Great Recession, and it is no surprise that the Government’s first announcements of pandemic emergency measures on March 15th, 2020, before CEWS was conceived and launched, promoted and expanded this part of Employment Insurance.[13]

However, it became immediately clear that the simultaneous pursuit of these two goals, income support and employer-employee attachment, could not be achieved entirely through Employment Insurance for two reasons. The first illustrates the influence that the program delivery side of public policy had on the policy development side: the administrative capacity of the Employment Insurance was incapable of handling the pandemic caseloads. The program was constrained by its infrastructure and not able to meet the unprecedented demands placed on it by the millions of pandemic-induced claims. The Minister responsible for the program reported at the time that proceeding at the usual rate the backlog would take up to 18 months to process (Robson 2020, page S3). An automatic stabilizer, whose original objective was to respond in real time to big shocks, chocked and struggled and stalled, decades of patch-work fixes and layers of complexity added to its application process and delivery windows simply not being up to the task (Corak 2020). The CEWS, in some measure, can be thought of as a stop-gap discretionary measure to work around capacity constraints in programs otherwise manifestly better designed to meet the stated goals. The lesson going forward for public policy concerns the need to invest in delivery infrastructure in a way that continually modernizes the workings of automatic stabilizers that can respond in close to real time. One positive outcome of this experience is that the Government has done just that, allocating funds in the last Budget to accelerate "Benefit Delivery Modernization," an investment related to the IT infrastructure of Employment Insurance and other programs.

The second reason Employment Insurance fell short in responding to the pandemic is limitations in coverage. Many workers, particularly low-wage workers, were not employed in "insurable jobs," and along with recent labor market entrants did not necessarily have the required hours of past work to qualify for benefits. This also required the Government to enhance its capacity to make income support payments directly to individuals, and in real-time, leading to the creation and implementation of the Canada Emergency Response Benefit. Eligibility for the program did not depend on contributions based on insurable employment, only requiring that the applicant had $5,000 of work income during 2019 or in the 12 months before the application and had not quit in order to collect the benefit.[14] This direct payment was an immediate success. It offered benefits to low-income Canadians suffering an income loss through a simple and quick application procedure leading to bi-weekly payments in a matter of days, the "trust then verify" principle used in its administration encouraging applications and speeding benefit delivery. As suggested, the flexibility and speed of the CERB

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[13] This involved expanding employer eligibility, doubling the permitted length of Work-Sharing agreements to 78 weeks, and easing the application process. See Canada (2021e, page 126). As of the time of writing these provisions, originally slated to end in September 2021, are to remain in effect to September 25th, 2022.

[14] For a fuller description see footnote 1 and Robson (2020, pages S6-S9). Robson notes that the "goal of the policy was not to encourage work but to allow workers to reduce their [labour] supply to protect public health." (page S7).

may in fact be one reason why CEWS applications were slow to get started, this “program substitution” also being an aspect of the practical side of public policy that likely limited the impact of the CEWS. A significant wage subsidy to employers as a way of channeling income support to workers is less necessary when direct payments to affected workers are already being delivered quickly and transparently.

The third policy practice influencing the effectiveness of the CEWS is “policy drift” associated with the political economy of discretionary program development. Best practice in the making of discretionary fiscal policy requires, among other things, interventions that are one-off, avoiding the development of vested interests that may sustain and reshape the policy into the longer term, extending expenditure beyond its original need for purposes beyond its original intent. In some measure this has happened to the CEWS, the government extending the program repeatedly, and most recently within weeks before calling a federal election. It is hard not to imagine that in some degree this reflects an ascending small-business community which through extensive media attention and lobbying of Members of Parliament contributed to shifting the framing of public discourse from concerns for essential workers to those of small business (Curry and Hannay 2021). Throughout its many versions the CEWS subsidy has also been applied not just to payroll associated with existing employees, but also that for workers who have been rehired.

Constraints in program delivery, the scope for program substitution, and the possibility of policy drift are all practical forces that have influenced the design and the effectiveness of the CEWS, but also offer lessons. When big, unexpected shocks happen in the future the policy response should not be to resurrect a program like the CEWS, which likely has not passed a reasonable cost-benefit analysis. Rather, policy makers should look to reinforce what should now be fine-tuned and robust automatic stabilizers, principal among them an unemployment insurance program that has sufficient capacity to process worst-case scenario caseloads in real-time, and offer quick adoption of Work-Sharing provisions, a design that avoids discretionary intervention and is imminently better suited to the goal of enhancing employer-employee attachment and targeting support on the margin.[15] Going forward the Employment Insurance program needs to be reformed to expand coverage to currently uninsured employment and otherwise ineligible workers, redesigned in its eligibly rules to be more sensitive to macro-economic downturns, and if necessary, complemented with other programs inspired by the success of the CERB.[16]

[15] The program requires employers to show that layoffs are unforeseen and temporary in nature rather than seasonal or part of planned production cycles, and that they have a reasonable plan to return to normal employment. Targeting support on the margin is also enhanced by requiring that employers to have been in operation for at least two-years, and a “cooling off” period between repeated reliance on the program.

[16] Corak (2021) discusses inadequacies in Employment Insurance and offers suggestions for reform.

Conclusion

In evaluating public policy addressed to mitigating business closures and layoffs over the course of the pandemic, particularly during the early months, it is important to recognize the uncertainties that Canadian policy makers, indeed policy makers across the rich countries, were facing about the scale and duration of the economic fall-out, and to recognize that "speed trumped perfection," as governments struggled to offer real-time support of a magnitude never before attempted. This said, it is exactly during uncertain times—when the challenges are new, when the data aren't in, when experiments, trials and pilots can't be conducted—that clarity of objectives and guidance from basic principles are most needed.

The Canada Emergency Wage Subsidy as an employer-based response to the pandemic intended to prevent business closures and prevent layoffs was certainly a program constructed in haste, but perceived to be necessary in the face of limits in the capacity of better designed existing programs, particularly the national unemployment insurance program. Even so, the program was not informed by fundamental lessons from economic theory. It was not addressed to the fixed costs that actually determine business closures; it did not recognize that a subsidy nominally directed to worker payroll can be shifted to other purposes; and it was not, or in principle could not be, targeted on the margin, on businesses that would indeed have closed in the absence of support. This implies that the job losses actually prevented are much lower than the actual payroll covered, each person-month of employment saved costing $25,000 according to one estimate. Income support of this magnitude paid directly to affected workers would likely not be considered politically acceptable among informed citizens, and it is therefore hard to imagine that the program would pass any reasonable cost-benefit analysis.

Going forward it will also be important to recognize the practical considerations that shaped, and perhaps even motivated, this program. Their downsides should be recognized. They call for policy makers to be as concerned with program delivery as they are with program design, offering ongoing investments in the modernization of physical and human capacity to deliver benefits. One positive consequence of the Canadian experience is that these investments have been promised to overcome limitations in the capacity of the country's unemployment insurance program. The expectation should be that in the future this program will play an even bigger role should it be necessary, particularly provisions within it designed to promote work-sharing which reduces the reliance on layoffs by offering benefits for adjustments to work-hours.

The practical experiences during the pandemic also call for policy makers to recognize that programs may interact and should be designed to complement each other. Other programs, notably the Canada Emergency Response Benefit, making real-time direct payments to individuals suffering income losses, were in some measure a substitute for the Canada Emergency Wage Subsidy, which was slower out of the starting gate and undersubscribed when it mattered most to the most vulnerable businesses during the first weeks and month of the pandemic. Success in making direct transfers to individuals to some degree made the wage subsidy less relevant; delays in getting it off the ground made it less necessary.

Finally, the practical considerations of public policy also call for policy makers to avoid policy drift, the development of vested interests that can prolong the duration of a program after its need has passed, or pervert its intent by skewing its design. This calls for increased reliance on programs structured as automatic stabilizers, rather than on discretionary interventions.

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