



# **Written Submission for the Pre- Budget Consultations in Advance of the Upcoming Federal Budget**

**By: The Conference Board of Canada**

August 7, 2020

**Recommendation 1: Focus on measures that encourage hiring**

**Recommendation 2: Provide a clear longer-term plan to fiscal sustainability**

**Recommendation 3: Infrastructure investments to address regional economic development and climate change**

**Recommendation 4: Support to increase Canadian firms' capacity to innovate and scale-up**

**Recommendation 5: Support a data infrastructure that enables implementation of value-driven healthcare solutions**

### Recommendation 1: Focus on measures that encourage hiring

The global economy is suffering an unprecedented decline in 2020 because of the COVID-19 pandemic, and Canada is not immune. The economy will suffer a deep recession this year as global demand for resources and oil plummets, tourism is halted, and social distancing measures and virus fears sink domestic demand. The widespread nature of the recession will last well into next year. While many factors currently lie beyond the policy influence of the federal government, policy makers have taken appropriate steps to help solidify economic activity within our borders.

The Conference Board commends the federal government for its quick implementation of the many fiscal support measures put in place since March 2020. The measures have supported household income and helped mitigate business closures.

Over the next year, and perhaps longer, Canadian businesses will be operating in a challenging environment. Running a business while the novel coronavirus remains a risk is costly and difficult. Lower demand combined with new health and safety regulations means that many businesses will operate well below capacity while many of those same regulations are costly and labour intensive. The result is lower revenues and higher costs—a situation that will endure until a treatment or vaccine is found and widely distributed, likely taking up to a year or longer.

Ensuring greater take-up and an extension of the Canada Emergency Wage Subsidy (CEWS) is key to encouraging hiring, helping businesses survive in the COVID-19 environment and lifting consumer and business confidence. While household incomes have held up through the worst of the job losses, our July survey of over 3,000 Canadians showed that a continued rebound in consumer confidence has been held back because of respondents' concerns about future employment and income.

The CEWS has received modest uptake so far because many businesses fully shut down from March to May and are just now starting to reopen, and because companies have been struggling to interpret whether they qualify. We have heard from business leaders that they are unsure of how foreign affiliate sales will impact their qualification and that the drop in revenues required to qualify is too sizeable for many businesses. The federal government should clarify qualification rules and scale the subsidy based on revenue loss. Examples of similar programs in Europe have led to high take-up and significantly mitigated job losses in comparison to Canada.

**Recommendation:** We feel the CEWS is key to helping many businesses operate and hire in a high cost environment. And hiring will boost household confidence and spending—creating a virtuous cycle in redressing the economy. Our recommendation is that the CEWS qualification be simplified and extended until such time as COVID-19 measures are lifted. Scaling the program so that benefits are aligned with the extent of revenue losses provides an opportunity to extend the program and make it less generous to avoid overburdening public finances.

## **Recommendation 2: Provide a clear longer-term plan to fiscal sustainability**

The current economic crisis will have lasting effects on federal and provincial government finances. Our federal fiscal situation was relatively healthy heading into the crisis in comparison to that of many developing economies. However, the fiscal burden that Canadian taxpayers will need to support includes all levels of government. Consolidating debt and debt financing costs at the federal and provincial levels, especially post-COVID-19, suggests that Canada's overall fiscal burden is not light in comparison to other jurisdictions.

There is a significant risk that mounting concern about Canada's debt accumulation could affect perception about our fiscal sustainability among bond rating agencies. This was evidenced in Fitch Ratings' recent downgrade of Government of Canada long-term bonds—with Fitch reporting that Canada's consolidated gross debt, and our "decentralized fiscal framework" may hamper our ability for fiscal adjustment. Post-crisis, there are also important risks of higher interest rates. Globally, many countries will be increasing their issuance of long-term bonds, the situation will undoubtedly lead to upward pressure on bond yields.

While economic forecasts are plagued with uncertainty as we emerge from recession, the upcoming budget should provide a longer-term (5- to 10-year) fiscal outlook that is based on a clear set of assumptions and economic outlook. Moreover, an alternate scenario could be provided to "stress test" the fiscal plan. We understand that it may be a challenge for federal finance to produce a cohesive near-term forecast that is based on the consensus of private-sector economists, given the varying assumptions adopted among forecasters. Still, it is possible to provide the Ministry's longer-term view of the economy and the resulting fiscal outlook, for both a baseline and pessimistic outlook.

The implications of COVID-19 on the federal government's near-term fiscal situation are largely inevitable but Canadians are worrying about the unprecedented spending requirements on our long-term fiscal situation (federally and provincially). Currently, Canadian households and businesses are in the dark about the long-term fiscal situation and concerns about the future of government programs and additional tax burden is mounting.

**Recommendation:** The federal government needs to assure Canadians, and bond ratings agencies, that we have a plan that can reestablish our fiscal health. Important measures of fiscal health include declining debt servicing costs as a share of GDP and the government's current fiscal anchor, declining net debt as a share of GDP. Difficult times require hard decisions—the federal government must set a credible path to achieving these targets, even under a pessimistic scenario that could include a longer prevalence of COVID-19 and higher bond rates over the longer-term. A credible plan, that accommodates risks, will lend to Canada's fiscal credibility with bond raters and help alleviate the concerns of households and businesses in Canada.

### **Recommendation 3: Infrastructure investment to address regional economic development and climate change**

Research and investment in microgrid technology and the link to storage capacity could help the government execute on the long-term economic development of rural, remote and indigenous communities.

The term microgrid refers to a family of technologies designed to decentralize electricity production by linking producers and consumers of electricity together in localized electricity grids. Microgrids must be able to function independently from the grid but are often designed to integrate into a larger electrical grid, a configuration referred to as a hybrid microgrid. The electricity can come from renewable generators, such as wind, solar and hydro or from traditional fuels like natural gas or diesel generators.

The value of microgrids in relation to federal policy is to move community-based generation towards lower-carbon emission production. Recent developments have begun to consider how combined heat and power technologies, electric vehicles (EVs), and other transit modalities can be integrated into microgrid deployments.

Smaller grids can offer opportunities for emissions reductions, resiliency, scalability, and localized control of services and prices. Support for infrastructure investment comes in varied forms, but smaller scale grids will have a growing requirement for capital.

When it comes to investment opportunity, there has been little research that looks at the community, investment and emission reductions conditions that can lead to building out microgrids. Community conditions include information on microgrids, total community potential, investment required, and economic impact. Investment conditions focus on financing tools, partnership models (public/private), and return on investment.

The fundamental changes that COVID-19 will leave behind may provide opportunities for the government to execute on some long-term development goals. Fuel switching, energy storage applied to regionalized demand and supply, coupled with a focused buildout in microgrids, has the potential to contribute to economic revitalization, while moving Canada further to its 2030 and 2050 emissions targets.

**Recommendation:** Invest \$10 billion per year for three years in microgrid build-out and associated storage in rural, remote, and northern Canada.

#### **Recommendation 4: Support to increase Canadian firms' capacity to innovate and scale-up**

The Conference Board publishes an annual Innovation report card that benchmarks Canada with peer OECD countries. We have observed that Canada's innovation challenges stem from a mediocre "handover" performance; while Canada performs well on publicly funded research and education indicators, we underperform on converting these strengths into globally successful products/services.

For example, Canada produces almost four per cent of the world's research output and rank relatively high on creation of start-ups but we have a disproportionately low number of "unicorns"—companies that are valued at \$1 Billion or more—compared to other leading jurisdictions with comparable amounts of available capital.

We believe that part of the problem lies in our support for analyzing and supporting development of organizational capabilities (management skills, workforce skills and competencies, and technology adoption) that affect innovation.

**Recommendation:** We recommend launching a program that provides Canadian small and medium-sized businesses an assessment service on their internal innovation capabilities. The program should also connect companies with service providers that can help them overcome their assessed gaps. The National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) can be leveraged as a delivery mechanism for this program.

### **Recommendation 5: Support a data infrastructure that enables implementation of value-driven healthcare solutions**

Our health system is overwhelmed. Healthcare spending as a share of Canada's gross domestic product (GDP) has been trending upward. In 2019, health expenditures represented 11.6 per cent of Canada's GDP. Our projections show that without system level changes, healthcare costs will continue to increase at an accelerated pace. Compounded by the direct and indirect impacts of COVID-19, the Canadian healthcare system is being pushed to the limit.

Value-driven solutions, focused on improving patient outcomes and system efficiencies, can curb this upward trend. This means assessing the balance between patient outcomes and healthcare costs on an ongoing basis. Value-based healthcare is a patient-outcomes driven approach for managing and transforming healthcare systems. With the patient at the centre of health care decision making, this framework is aligned with the federal government's existing strategic investments.

Value-based healthcare systems rely on the timely and accurate measurement of health outcomes and costs. While data is being collected at different levels, lack of standardization and differences in policies limit its utility in informing decision making. A national data infrastructure is needed to leverage the billions of data points that are generated through patients' contact with the healthcare system. An infrastructure that enables standardized measurement and data linkage across provinces and territories to assess value and inform value-based payment models. This information would have a huge impact on our predictions and planning, and would help to ensure that we optimally allocate our limited health resources.

The greater the data pool and transparency around it, the better it can be used to inform appropriate investment, service delivery, breakthrough research, and rapid response to population health threats. This enables a focus on prevention through which greater efficiency and cost effectiveness can be achieved, reducing strain on health care systems.

**Recommendation:** We recommend that the federal government invest in a national, value-driven healthcare data platform. This would support efforts to spread and scale virtual care solutions and drive each jurisdiction to improve by forcing organizational and individual accountability across jurisdictions. It would promote benchmarking and sharing of best practices and put patients at the centre of their own care.

## About The Conference Board of Canada

The Conference Board of Canada is the foremost independent, objective, evidence-based, not-for-profit applied research organization in Canada. We are experts in publishing, disseminating research, economic analysis and forecasting, helping people network, running conferences, developing individual leadership skills, and building organizational capacity. We are independent from, but affiliated with, The Conference Board, Inc. of New York, which serves nearly 2,000 companies in 60 nations and has offices in Brussels and Hong Kong.



**Where insights meet impact**

