Intelligence MEMOS

From: Dwight Duncan

To: Canadian Ministers of Finance

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Re: **Extraordinary Events call for Extraordinary Responses**

The government of Canada did exactly what it should have done last Friday by postponing its March 30 budget and outlining the first part of its large-scale response to COVID-19.

Suddenly, governments are faced with something little anticipated just weeks ago: a life and death global event, out of their control, precipitating an economic decline – or worse.

Most economists now predict that Canada will be in a recession by the second quarter of fiscal 2020/21 and that a global recession is imminent.

Watching Finance Minister Bill Morneau over the last few days, I have been awash with déjà vu.

As Ontario's Finance Minister from 2007 to 2013, my colleagues and I brought down six budgets, five of which dealt with the Great Recession of 2008/09 and its aftermath.

Today's situation is worse than the one we faced.

This is more than a financial crisis, it poses a direct threat to human life; something we did not have to contend with.

The Hobson's choice for policymakers today is that the actions needed to confront the health crisis, are hammering the economy.

Border tightening, travel restrictions, quarantines, and social distancing are forcing governments and central banks to take immediate, extraordinary steps to make cash and credit available to various players in the economy.

And this means existing economic projections, no matter how recent, are out of date.

Meanwhile, estimates of how much "firepower" Ottawa has to address the new economic reality vary widely, with some estimates putting that number as high as $40 billion.

While that may seem like a lot, it's worth noting that the TSX has lost more than $800 billion in market cap since it peaked in February.

Governments around the world are wrestling with the reality of how limited their powers are in the face of a global economic tsunami.

Regardless, they must devise and implement a significant fiscal stimulus.

Though the circumstances in 2008/09 were markedly different than today, they landed on us just as hard and with no warning.

The first challenge for governments is to make sense of all the information flooding in and then respond to the most pressing priorities.

It's not easy.

"Trying to do an economic forecast in this kind of turmoil is a bit like trying to put a value on your house when the kitchen is on fire," Doug Porter, then Deputy Chief Economist at the Bank of Montreal, famously quipped.

Make no mistake, today the kitchen is on fire.

Canada's economic policymakers will face a number of obstacles in the coming days.

First, they will be getting inconclusive projections and advice from their various departments/ministries, the Bank of Canada, OSFI and private sector economists, each trying their best.

Still, elected leaders get frustrated when the brightest economic and public policy minds offer up widely divergent views on appropriate responses to challenging issues.

Second, Canada needs to be deeply concerned about what is going on in world energy markets. The recent Russia/Saudi dispute has further destabilized the revenue streams of the energy-producing provinces, which could further fray the fabric of Confederation.

Finally, the federal government will have to reconcile the uneven distribution of the pain associated with the unfolding economic reality. Not only the sectoral distribution between people and businesses but the regional and provincial discrepancies as well.

The same phenomenon occurred in the 2008/09 recession.

That recession hit the the economies of Ontario and Quebec hard. Ironically, as that was happening, commodity prices hit all time highs stimulating record growth, employment, and budgetary surpluses in the energy producing provinces.

The distributional challenge, and the structure of the Canadian federation, compel the federal government to work closely with all of its provincial counterparts in the same way as then federal finance Minister Jim Flaherty and then Bank of Canada Governor Mark Carney did 11 years ago.

Initially we were dealing with extinguishing the fire. That meant co-operating to save Chrysler and General Motors, enhanced vigilance in the face of potential runs on the stocks of our big banks, insuring that systemic risk was not affecting provincially regulated non-bank financial institutions, easing EI rules, and a range of other important though less high profile issues.

If I could offer some modest advice to our leaders based on the experiences of more than a decade ago it would be this.

The next few weeks will be critical as your self confidence will be tested. Things are going to happen that will make the past week look relatively stable. Continue to project confidence in all you do. That confidence could be more important than anything else you do.

Finally, you have access to some the best experts and advisors in the world. Always remember, however, that your instincts, experience, and common sense need to be factored in to the

Dwight Duncan is a Senior Strategic Advisor at McMillian LLP, Executive-in-Residence at the Odette School of Business at the University of Windsor, and was Ontario Minister of Finance from 2007 to 2013.

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