Proposal for a Main Street Bailout

To: Hon. Bill Morneau, Minister of Finance
Hon. Mary Ng, Minister of Small Business, Export Promotion and International Trade

March 22, 2020

Dear Ministers Morneau and Ng,

Canada has effectively fired hundreds of thousands of local small business owners. The enforcement of social distancing has cut their revenue dramatically and in many cases (barbers, daycares, dry cleaners, restaurants, etc.) it has simply gone to zero. But all their expenses remain. Many of them have signed personal guarantees on their leases, and can't simply walk away. According to a 2016 JP Morgan Chase study, 25% of small businesses have less than two week's cash on hand, and 75% have less than two months. Their businesses were forced to close in the public interest, and we have a moral obligation to help them survive.

There is also a strong economic argument. Local small business employs millions of Canadians and helps serve as the backbone of community and economic life. When we are able to relax social distancing people will need places to go and jobs to go back to. If these businesses aren't saved from ruin over the next few months, local businesses will need to be rebuilt from scratch with new owners. We will lose know-how and all the capital and goodwill those businesses generated. It will take much longer for the economy to recover.

What interventions are necessary: Small business owners need cash, and they need relief on their expenses -- especially rent.

Only strong immediate action by governments and large financial institutions will allow for the "Main Street bailout" that we need to keep our main streets healthy and our businesses afloat, so that they can re-open once the era of social distancing is over.

Loans vs. cash: One option that has been much discussed in the media is providing low-interest loans to small business so they have enough cash to pay their bills. While this will be helpful for some small businesses, such as technology start-ups and other high-growth firms, it will not be effective for local small businesses. Why?

- Distribution channels will not reach most businesses. Banks are overwhelmed and many business owners have shut the doors and gone home. Despite that over 90% of businesses have a banking relationship, there is no practical way to execute on a plan to provide loans, in whatever form, to Canada's hundreds of thousands of small local businesses.

- Local business owners are often not very financially sophisticated. To go into debt of any sort they would require advice from lawyers and accountants. With many offices far below capacity, how will timely advice be available to them?

- Local businesses often provide income for their owners, but not significant profit. Once social distancing is relaxed, it will take some time for business to return to previous levels. Debt may take years to repay and some may never get there. These businesses were closed to protect society, and the result should not be a significant and long-lasting burden for their owners.

While there's a role for debt to play for a sub-set of small business, like the technology sector, a serious plan to help local small business needs to focus on reducing their expenses and simpler, more practical, ways to provide them cash.

A Main Street bailout should:

1. Enable businesses to stretch out their remaining cash as long as possible

2. Use simple, practical, broadly applicable approaches to ensure that they are not geared toward the most financially sophisticated business owners

3. Ensure that businesses are not facing a substantial burden when social distancing is eased (as would be the case by postponing rent or providing new debt)

Here are some suggestions, most of which have been implemented in other countries.

Reduce Expenses

1. **Mandate that the first $10,000 of all commercial leases be waived for April, May and June.**, it is anticipated that this will cover approximately 85% of local small businesses, without allocating urgent funds to larger businesses that don't need it. To execute on this without unfairly penalizing landlords, many of whom are quite small, this would require coordination with Canada's major lenders on a property debt payment moratorium. One approach would be to move three months of principal payments to the end of amortization periods and finding an equitable way to share the burden of waiving interest payments for these three months between lenders and government.

   Countries with similar policies: France, Italy (tax credit equal to 60% of rent), South Korea (tax break for landlords)

2. **Postpone property tax for occupied commercial properties.** Property tax is either paid by tenants directly, or passed through as gross rent by landlords. Municipalities will likely need loans from the federal government to execute on this.

   Countries with similar policies: Scotland

3. **Waive utilities bills for three months.** Some Provinces are moving on this, but where this is under municipal jurisdiction, again loans from the federal government are likely required.

   Countries with similar policies: France

Increase Available Cash

1. **Delay collection of sales tax (HST).** Businesses collect sales tax on behalf of Provincial and Federal governments and then remit it at a later date. If government postponed collection of

sales tax it would provide an injection of cash to businesses without requiring new loans or complicated distribution channels.

Countries with similar policies: UK, Netherlands, France

2. **Delay collection of Employer Health Tax.** Many Provinces collect EHT from companies periodically, and this could be paused to create a similar outcome to delaying collection of sales tax. EHT payments already made for 2020 could also be rebated. More aggressively, all payroll remittances, including WSIB and CPP premiums, could be paused.

   Countries with similar policies: France

3. **Work with major credit card providers to waive interest on corporate cards for six months.** This will allow businesses to use existing credit without requiring new loans and without incurring substantial interest charges.

   Countries with similar policies: None we've found

All of these policies can be geared toward the small businesses in most urgent need by applying limits to the amounts that are waived or postponed. Depending on the length and severity of social distancing, some of the deferred costs may eventually have to be forgiven.

We would suggest one other policy to aid in economic recovery. Many countries (Finland, New Zealand, France, Sweden, Denmark, UK) have implemented far more generous wage subsidies than the 10% available in Canada. While we are certainly supportive of similar immediate steps in Canada, it is important to think about employment once social distancing is eased, as business is likely to recover slowly. Many local business owners have already laid off all their staff. To encourage owners to re-employ as many people as possible, we would suggest preparing for a more generous wage subsidy for *after* social distancing is eased.

These measures will save many local businesses and are far more practical than trying to broadly distribute loans. They will cut costs to the bone, allowing businesses to wait out the crisis on their limited cash reserves. They will ensure that, when we're finally allowed out of our houses, life will seem normal again with our community intact. They will help the economy recover quicker, as established businesses hiring back old staff will be significantly faster and more efficient than starting from scratch. And, critically, this approach produces a far more equitable sharing of the economic burden between business owners, banks, landlords and the government. That is a moral objective that loans simply do not accomplish.

Signed,

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