

Appendix 35 - Cost-Benefit Analysis should accompany ALL financial aid from the Federal Government resulting from COVID-19

*It is well known that the **Federal Government** has spent or will spend \$billions in economic and financial recovery from the **COVID-19** virus issue. While the aid is welcomed to those directly affected, it is fast becoming a political issue with a magnitude of citizens who are also concerned about leaving future generations with "paying the bill" to put it succinctly.*

Many politicians are very quick to use this latter feature of "assistance" in irresponsibly using it to get "brownie points" from many Canadian citizens who equate government spending to household spending criteria. Deficits to them are "poisonous" and the "brain-washing" by these same politicians will increase as financial aid accelerates.

*It is therefore incumbent on the government not to cease that spending because of the "political windfall" accruing to opposition political parties, but to **become relevant** by being timely, even when a lot of important information is missing or must be approximated.*

However, there is help if the government has the "appetite" for new ways to accomplish economic/financial assistance of COVID-19 collateral damages to the citizens, and reduce political "squawking" by opposition political parties at the same time:

*"**Cost-Benefit Analysis**" should support the government's aid "packages" **as a default procedure.***

Wilfred J Pelletier CPA CMA; FMA

What is "Cost-Benefit" analysis?

"Cost-Benefit" is commonly known as a systemic approach to estimating the strengths and weaknesses of alternatives used to determine options which provide the best approach to achieving benefits while preserving savings. That appears to be simple enough but it is not!

With governments however a subtle element is often overlooked by ordinary citizens who are educated in "household budgeting" and equating government financial management to their "piggy bank" and/or "street corner" newspaper stand "business".

*What is forgotten by citizens is that there is a multitude of **regularity happenings** that have complex economic effects that go well beyond "abacus" and/or "piggy-bank" financial accountability.*

*Accordingly, governments have a greater responsibility in accountability. The "**Cost-Benefit Analysis (CBA)**" should be the instrument for doing so, but is it applied? It's not readily apparent if it is or not, but it should be. **ALL** regulatory proposals should be subjected to this analysis.*

*In principle, **CBA** measures the efficiency or resource allocation effects of a regulatory change. It calculates the dollar value of the gains and losses for all people affected. If*

the sum is positive, the benefits exceed the costs and the regulatory proposal would increase efficiency.

CBA is useful because it:

- Provides decision makers with quantitative and qualitative information about the likely effects of a regulation;
- Encourages decision makers to take account of all positive and negative effects of the proposed regulation(policy) and discourages them from making decisions based only on the impacts on a single group within the community (Provincial Governments are notorious for doing this);
- Assesses the impact of regulatory proposals in a standard manner, which promotes comparability, assists in the assessment of relative priorities and encourages consistent decision making
- Captures the various linkages between the regulatory proposal and other sectors of the economy (for example, increased safety may reduce health care costs), helping decision-makers maximize net benefits to society;
- Helps identify cost-effective solutions to problems by identifying and measuring all costs.

Not surprising, the **Australian Government** is meticulously addressing the issue of using CBA in its regulatory responsibilities; it recommends the following steps of application:

Table 1: Steps in preparing a full cost-benefit analysis

Step	Action
1	Specify the set of options.
2	Decide whose costs and benefits count.
3	Identify the impacts and select measurement indicators.
4	Predict the impacts over the life of the proposed regulation.
5	Monetise (attach dollar values to) impacts.
6	Discount future costs and benefits to obtain present values.
7	Compute the net present value of each option.
8	Perform sensitivity analysis.
9	Reach a conclusion.

Source: Adapted from Boardman et al. (2010).

While it is recognized that **TBS** already has a policy/regulation related to **CBA**, at this point it is strongly suggested access to methodology of other governments' methodology is an asset. The Australian Government source is VALUABLE information with respect to the discussions above. It also includes tables for necessary calculations of the **CBA**.

One of the first lessons in economics class is that **everything has a cost**. That in stark contrast to lessons in the political arena where many politicians talk about free stuff!

*In our personal lives, decision-making involves **weighing costs against benefits**. Business people make the same calculations if they want to stay in business. It has been an entirely different story for politicians in government where any benefit, however miniscule, is often deemed to be worth any cost however large.*

*The use of cost-benefit analysis (**CBA**) to assess regulatory proposals is an important tool in better decision making. A CBA involves a systematic evaluation of the impacts of a regulatory proposal, accounting for all the effects on the community and economy, not just the immediate or direct effects, financial effects or effects on one group. It emphasises, to the extent possible, valuing the gains and losses from a regulatory proposal in monetary terms.*

*This brings us to the topic of "**Lockdowns**". Surely, the government can't argue that "lockdowns" have been irrelevant to the economy. Nor can Canadian citizens argue that **they** have not contributed to the containment of COVID-19!*

*However, the **cost** as stated has to be evaluated, not only to the detriment of some programs, but because of not doing so creates risks for other collateral damages.*

*The present **TBS** directives relating to CBA application in the federal government were created under different conditions than today's **COVID-19 environment** and need to be reviewed, particularly the "ranges" and "nature" of costs and the resultant applications of **CBA***

*However, if the government starts evaluating, **what health controls should be "relaxed"** and by what amounts?*

*Answering to this requires collaboration between epidemiologists, economists, accountants and other social scientists. It should also include some expertise from business operations, the latter not apparent. It should **NOT BE DONE UNITERALLY** by governments in any circumstance.*

The existence of a trade-off between benefits and costs implies that a "spare no expense" approach to Covid-19 containment is very unlikely to be optimal. Limits have to be imposed.

Wilfred J Pelletier CPA CMA; FMA

While it is impossible to implement a literal "spare no expense" approach, China's containment strategy in Wuhan was quite stringent and perhaps the closest we can imagine coming to this extreme.

In Wuhan, and in many other Chinese cities, people were confined to homes except for grocery and medicine shopping once every couple of days; private motor vehicles were

*not allowed on roads; many hospitals were converted to specialized **Covid-19** ICU facilities.*

This caused such consequences as children being left home unattended because their parents were hospitalized; older people with mobility issues were left on their own because their caretakers could not reach them; patients needing periodic kidney dialysis or other forms of life support were effectively left to die. Such extreme stories of human tragedies – including starvation and suicides – abounded on the internet, economic activities came to a standstill, and civil liberties were almost non-existent.

*With the costs and benefits in mind, we might examine the government's response to the COVID-19 pandemic. The first thing to keep in mind about any crisis, be it war, natural disasters or pandemics, is **we should keep markets open and private incentives strong.** Markets solve problems because they provide the right incentives to use resources effectively. Federal, Provincial and local governments have ordered an unprecedented and disastrous shutdown of much of the Canadian economy in an effort to slow the spread of the coronavirus.*