



Policy



Paper

The Size and Cost of the Public Sector in Western Canada

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The Size and Cost of the Public Sector in Western Canada

By Rodney A. Clifton, B.Ed., and Jackson Doughart, MA
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Note: The data for this paper were collected in December 2016 using data from Statistics Canada CANSIM Table 383-0030. This was the same data set used in the AIMS paper, *The Size and Cost of the Public Sector in Atlantic Canada*. On Feb 10, 2017, Statistics Canada announced (<http://www.statcan.gc.ca/daily-quotidien/170210/dq170210b-eng.htm>) that it had replaced Table 383-0030 with Table 383-0033. The new table will continue to be updated, while the old table has been archived on the StatsCan website.

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Executive Summary

Public sector workers represent a major cost for all levels of government: municipal, provincial, and federal. This study examines the size and the cost of the public sectors in all provinces, but focuses on Western Canada: Alberta, British Columbia, Manitoba, and Saskatchewan. The data were drawn from Statistics Canada and examine the share of the workforce in the public sector, the number of public sector employees per 1,000 residents, and the share of the total compensation awarded to public sector workers in all provinces.

The study shows that the number of public sector employees is proportionally higher in Manitoba and Saskatchewan than in Alberta and British Columbia. In fact, Manitoba and Saskatchewan have 111 public sector employees per 1,000 residents, Alberta has 79 employees, and British Columbia has 76 public sector employees per 1,000 residents. Finally, the authors draw attention to reducing the number of public sector workers, and thus government expenditures, as a means of providing substantial savings for taxpayers in Manitoba and Saskatchewan.



Introduction

In 2016, the Atlantic Institute for Market Studies (AIMS) published *The Size and Cost of Atlantic Canada's Public Sector, 2015*, showing that the public sectors in the four Atlantic provinces were unusually large in comparison with the public sectors in other provinces.¹ Obviously, the public sector is particularly larger in provinces that have federal government offices, such as Ontario and Quebec, and in provinces with federal regional offices.² But it was particularly surprising to see how large — and expensive — the public sector was in the Atlantic provinces. It could be argued that because these provinces received equalization payments from the federal government, they tended to be less cost-effective than if they'd had to raise all the money by taxing their own citizens.³

The present study extends AIMS's work by examining the size and the cost of the public sector in the four Western provinces: Alberta, British Columbia, Manitoba, and Saskatchewan. The data were obtained from Statistics Canada by researchers at AIMS.⁴ Further, this study includes an historical trend of the size of the public sector for these four provinces, showing changes in the number of provincial and municipal public employees from 1997, the earliest year for which data are available, to 2015, the latest year for which data are reported. To compare public sector wages to private sector wages, the authors calculated the share of the total employment income in each of the four provinces that public sector workers receive. Recent research shows that public sector workers receive substantially higher wages than comparable private sector workers.⁵ We calculated the cost of public sector workers in the four Western provinces, in comparison to the Canadian average. Surprisingly, if Manitoba employed the national average of 83 public sector employees per 1,000 residents, there would be over 36,000 fewer public sector workers, resulting in a saving of over \$2.2 billion a year in salaries alone.

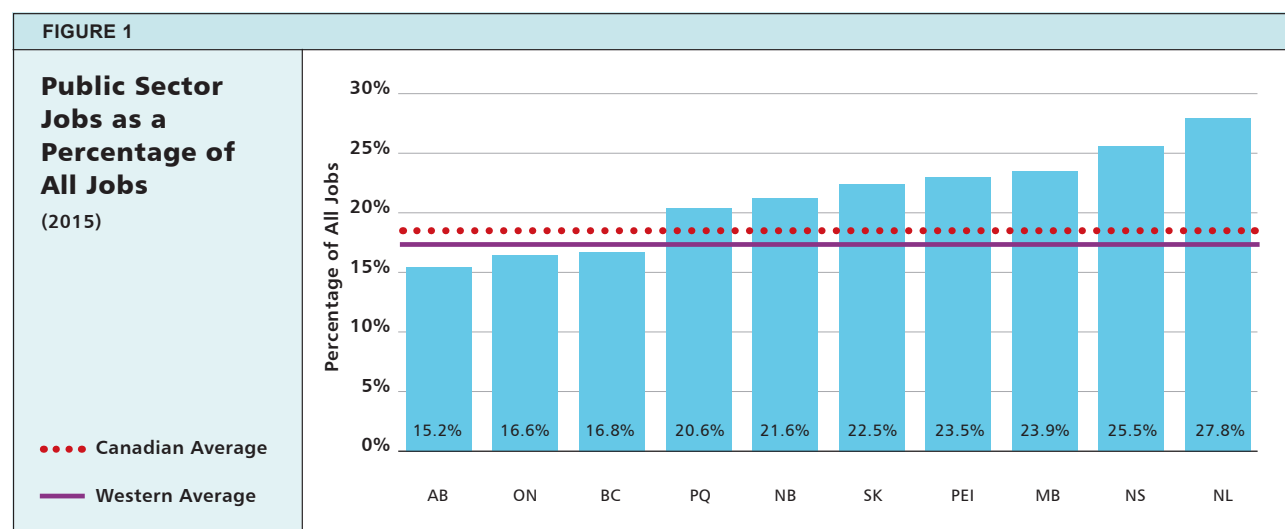


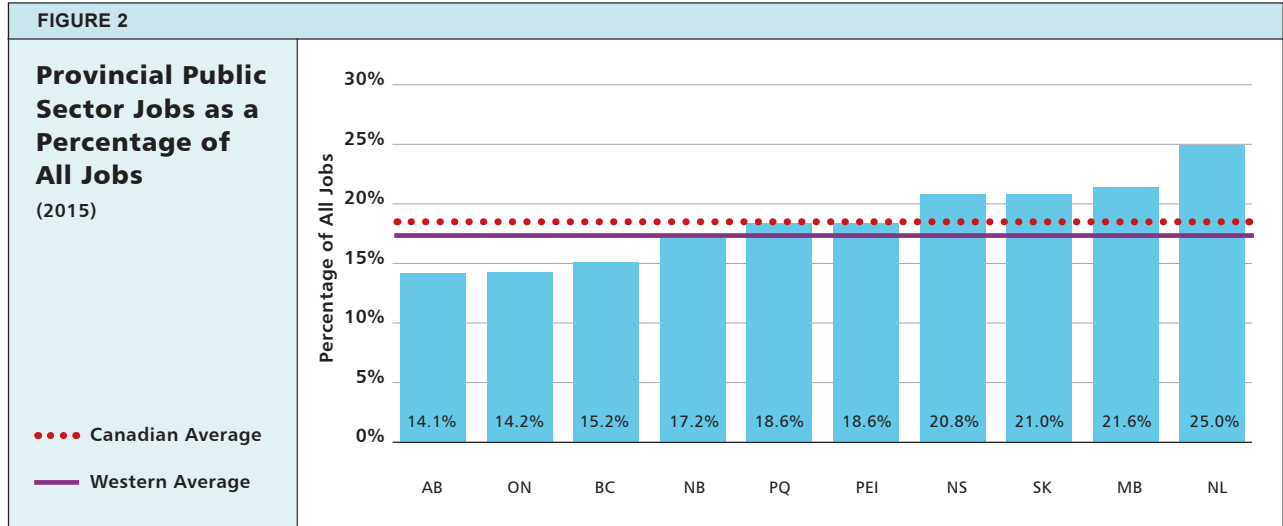
The Size of Western Canada's Public Sector

Data reported in Figure 1 show that, as a percentage of all jobs, the number of public sector employees in Manitoba and Saskatchewan is much higher than the national average, while for Alberta and British Columbia the public sector is smaller than the national average.⁶ In fact, this figure shows that 23.9 per cent of all jobs in Manitoba and 22.5 per cent in Saskatchewan are in the public sector compared with 15.2 per cent in Alberta and 16.8 per cent in B.C. Nationally, 18.4 per cent of all jobs are in the public sector. In other words, the public sector is about 5.5 percentage points higher than the national average in Manitoba and 4.1 percentage points higher in Saskatchewan. Only Nova Scotia, at 25.5 per cent, and Newfoundland and Labrador, at 27.8 per cent, have more public sector employees than Manitoba.

The public sector jobs in Figure 1 include federal employees, thus conflating the number paid entirely by provincial residents and equalization payments from the federal government. The cost of federal employees, of course, is borne by all Canadian taxpayers. As such, the combination of provincial and municipal employees is probably a better measure of the financial burden on provincial taxpayers. For this reason, federal employees have been removed from the data in Figure 2, next page.

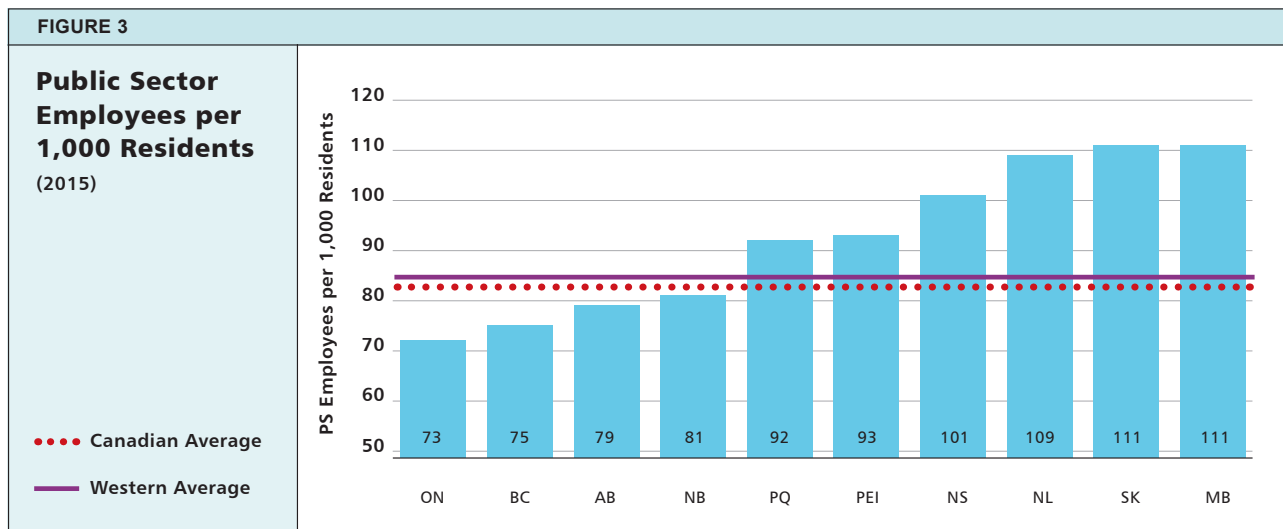
Not surprisingly, the trend in Figure 2 is similar to the trend in Figure 1. Manitoba and Saskatchewan are substantially above the national average, while Alberta and British Columbia are below average. The largest number of public sector workers is in Newfoundland and Labrador at 25.0 per cent, compared with the national average of 16.6 per cent. But in Figure 2, Manitoba replaces Nova Scotia with the second largest percentage of public sector employees at 21.6 per cent while Alberta has the fewest employees at 14.1 per cent, with BC slightly higher at 15.2 per cent.⁷





All residents of a province, not just working people, use provincial and municipal services. Consequently, another way to calculate the relative size of the public sector is to compare this sector with provincial populations. Figure 3 reports the number of municipal and provincial public sector workers per 1,000 residents in each of the ten provinces.

Manitoba and Saskatchewan now have the highest number of public sector employees in the country, each at 111 per 1,000 residents. In comparison, British Columbia has 75 and Alberta has 79 public sector workers per 1,000 residents. The Canadian average is 83 per 1,000 residents. Four provinces — Alberta, BC, New Brunswick, and Ontario — are below average, and six provinces — Manitoba, Newfoundland and Labrador, Nova Scotia, PEI, Quebec, and Saskatchewan — are above average.



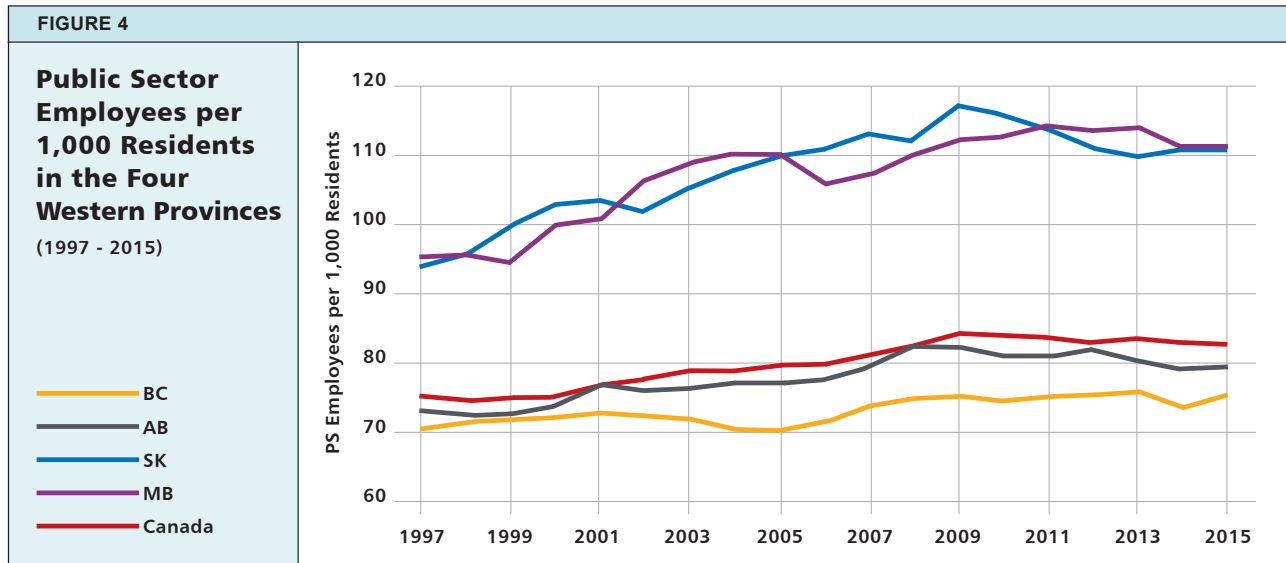
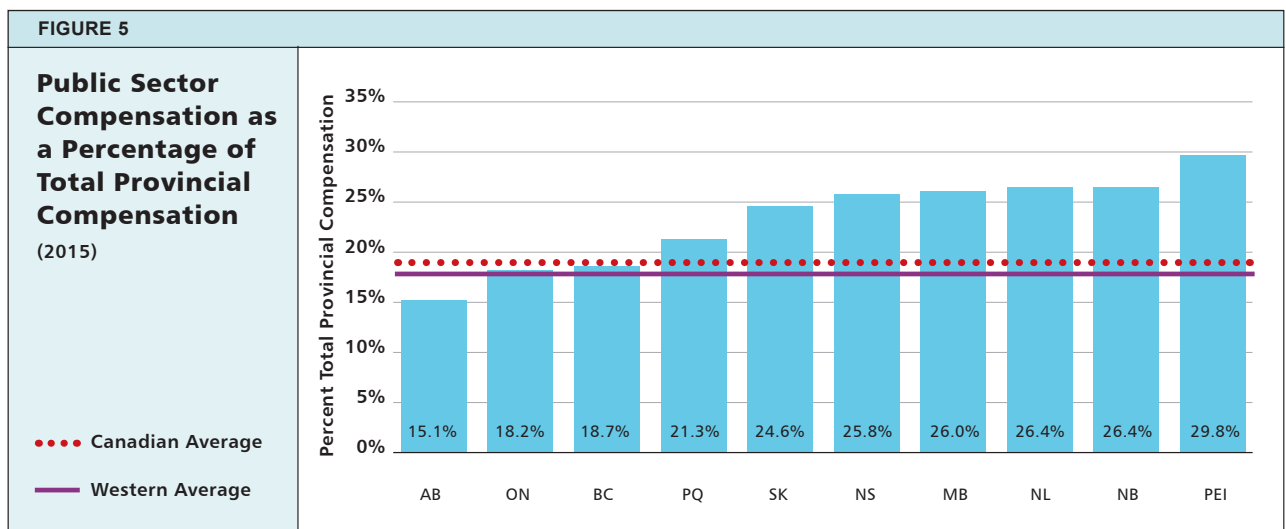


Figure 4 presents the historical trends in public sector employees for the four Western provinces along with the national average. The trends for BC and Alberta are clearly very different from the trends for Manitoba and Saskatchewan. Over the 18-year period, the public sector in British Columbia has been consistently lower than the other three provinces, increasing from 71 to 75 employees per 1,000 residents, and Alberta has maintained the second lowest percentage of public employees, only increasing from 72 to 79 per 1,000 residents. On the other hand, the proportion of provincial and municipal employees in Manitoba and Saskatchewan has been consistently high, increasing from 95 to 111 per 1,000 residents. Obviously, the public sector is much larger in Manitoba and Saskatchewan, and growing at a faster rate, than in Alberta and British Columbia.



The Financial Burden of the Public Sector

Figure 5 compares the provincial and municipal public sector compensation as a proportion of the total compensation of all employees in each of the provincial labour forces. These data confirm the widely-held belief that public sector workers receive higher incomes, on average, than private sector workers.⁸ In Manitoba, for example, the average public sector worker earned \$62,141 in 2015, while the average private sector worker made \$46,500, 25 per cent less. This figure shows that nationally public sector employees earn 19.4 per cent of the total compensation, while in Manitoba they earn 26.0 per cent and in Saskatchewan they earn 24.6 per cent. In stark contrast, public sector employees earn 15.1 per cent of the total compensation in Alberta and 18.7 per cent in BC.

The size of the public sector in Manitoba and Saskatchewan doubtless places a substantial burden on provincial taxpayers unless the expenses are offset by equalization payments, in which case it places a burden on all Canadian taxpayers. In order to estimate the tax burden, we calculated the number of public sector employees and the savings that would accrue if Manitoba and Saskatchewan employed workers at the average national rate of 83 per 1,000 residents.

The third column in Table 1 shows that Saskatchewan and Manitoba had 28 more public sector employees per 1,000 residents than the national average, while Alberta had 4 fewer and BC had 8 fewer than the national average. The fourth column shows the total number of public sector employees, above or below the national average, relative to the provincial population. Surprisingly, BC would need almost 35,000 more public sector workers and Alberta would need over 15,000 more workers to reach the Canadian average. On the other hand, Saskatchewan had over 31,000 more and Manitoba had over 36,000 more provincial and municipal employees than the national average.

The Number and Cost of Public Sector Salaries, in Comparison with the National Average, in the Four Western Provinces					
Province	The Number of Public Sector Employees per 1,000 Residents	The Number of Employees per 1,000 Residents Above or Below the National Average	The Total Number of Public Sector Employees Above or Below the National Average	The Average Salary of Public Sector Employees	The Cost of Salaries for Public Sector Employees Above or Below the National Average (\$ Millions)
BC	75	-8	-34,962	\$69,561	-\$2,432
AB	79	-4	-15,119	\$81,141	-\$1,227
SK	111	28	31,428	\$68,299	\$2,147
MB	111	28	36,659	\$62,141	\$2,278

Finally, column 6 shows the potential savings for the provinces that employ either more or fewer public sector workers than the national average. Here we see that B.C. spent \$2.4 billion less than it would have if its public sector was at the national average, and Alberta spent \$1.2 billion less. On the other hand, Saskatchewan spent \$2.1 billion more and Manitoba spent \$2.2 billion more than they would have if their public sectors were at the national average.⁹ In other words, these two provincial governments spent over \$1,500 per resident on the salaries of excessive public sector workers in 2015. These analyses demonstrate that employing more public sector workers puts substantial demands on taxpayers, who ultimately pay their salaries.



Conclusion

Canadian provinces are unique in many ways. The federal government has the majority of its offices in Ontario and Quebec. Moreover, Alberta, British Columbia, Ontario, and Quebec individually have more residents than the four Atlantic provinces together. As a consequence, these relatively large provinces may benefit from economies of scale; that is, they may be able to deliver public services with fewer provincial and municipal public servants than provinces with fewer residents.

Despite these differences, all provinces have relatively large public sector wage bills. In Western Canada, Manitoba and Saskatchewan have substantially larger and more expensive public sectors than Alberta and British Columbia. There is, however, little or no evidence that provincial and municipal services are better in Manitoba and Saskatchewan, which suggests that the number of public sector workers in these two provinces could be reduced without affecting the services delivered to citizens. Because the public sector in Manitoba and Saskatchewan is largely unionized, it will be difficult — but not impossible — to reduce the size of this sector. Manitoba, specifically, has a \$1 billion deficit this year that could be eliminated by reducing the excessive number of public sector employees.¹⁰ Consequently, the provincial governments in both provinces should examine the employment levels in all their government departments, education, health care, justice, social services, etc., to enhance efficiency and effectiveness with fewer employees.

Realistically, no government, not even a prudent and fiscally-responsible government, could eliminate over 30,000 provincial and municipal public service positions in the short term. Nevertheless, a government can slowly reduce the number of positions by not hiring new employees and by not replacing employees who resign or retire. If, for example, the public sector in Manitoba could be reduced by two per cent a year, with about one-per cent growth in the provincial population, it would only take three years for Manitoba to reach the level of Nova Scotia (101 per 1,000), six years to reach the level of Prince Edward Island (93 per 1,000), and eight years to reach the national average (83 per 1,000). Obviously, getting the public service down to the national average would be a relatively slow and painful exercise. Yet, such cost-cutting is necessary, in contrast with allowing spending to increase as it has over the last 18 years.

This recommendation is especially important in all the so-called “have-not” provinces that, like Manitoba, receive significant equalization payments from the federal government.¹¹ What if federal transfers decline, perhaps because of economic



stagnation in the “have” provinces? In this case, spending restraints would no longer be optional, and the have-not provinces would be forced to reduce the size and cost of their public services without the luxury of careful and strategic planning.

Nevertheless, there are good reasons for the salaries of public sector employees to be generous.¹² All provinces need high-quality public sector workers, and holding onto excellent employees means paying salaries and benefits that are competitive across the country and even internationally. At the same time, responsible governments must not squander public funds. Unfortunately, it seems relatively easy for “have-not” provinces, like Manitoba, to overspend because they receive federal equalization grants.¹³

Essentially, these analyses show that the Manitoba and Saskatchewan governments are paying too much for the public services their citizens receive. As noted, we have not included the employees of federal and provincial crown corporations in these analyses which would make the public sector considerably larger and much more expensive. Nevertheless, the stark reality is that large debt loads and debt-servicing costs may rise if, as expected, interest rates increase, placing additional strain on provincial budgets. For Manitoba and Saskatchewan, reducing the number of public sector employees and restraining their wages will become necessary — even if undesirable — in the years to come.



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1. Jackson Doughart and Marco Navarro-Genie, *The Size and Cost of the Public Sector in Atlantic Canada*, 2015, (Halifax, NS: Atlantic Institute for Market Studies, November 2016). See also Ben Eisen and Johathan Wensveen, *The Size and Cost of Manitoba's Public Sector*. (Winnipeg, MB: Frontier Centre for Public Policy, 2011).
2. Ben Eisen, *Stealth Equalization: How Federal Government Employment Acts as a Regional Economic Subsidy in Canada*, (Winnipeg, MB: Frontier Centre for Public Policy, November 2010).
3. See Eisen, 2010.
4. Doughart and Navarro-Genie, 2016.
5. Charles Lammam, Milagros Palacios, Feixue Ren, and Jason Clemens, *Comparing Government and Private Sector Compensation in Canada*, (Vancouver, BC: Fraser Institute, December 2016).
6. In this report, the federal public sector includes all services provided by the government except for military personnel. Provincial and municipal public sectors include all services provided in colleges and universities, elementary and secondary schools, health care, justice, social services, etc. Neither federal nor provincial crown corporations are included in these analyses.
7. Comparing the data in figures 1 and 2 shows that three of the four Atlantic provinces, PEI (4.9 per cent), Nova Scotia (4.7 per cent), and New Brunswick (4.4 per cent), have the highest percentage of federal employees which, surprisingly, is higher than in Ontario (2.4 per cent) or Quebec (2.0 per cent).
8. See Eisen, 2010.
9. The authors calculated these data by multiplying the number of public sector employees, above or below the national average, by the average public sector salary in each of the four provinces.
10. Nick Martin, "Manitoba's deficit climbs to \$1 billion," *Winnipeg Free Press*, December 21, 2016.
11. Diane Francis, "Slay sacred cows before populists do," *Financial Post*, February 11, 2017.
12. See Eisen, 2010.
13. See Francis, 2017,



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