



The Size and Cost of Atlantic Canada's Public Sector

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Ben Eisen is the Director of Research and Programmes at the Atlantic Institute for Market Studies. Mr. Eisen has conducted extensive research on a wide range of Canadian policy issues and published influential studies on several policy topics, including intergovernmental relations, environmental policy, healthcare, and higher education. Invited frequently to comment on Canadian policy developments, Mr. Eisen has provided dozens of radio and television interviews for media outlets across the country. His policy columns have appeared in the *National Post*, the *Telegraph-Journal*, the *Winnipeg Free Press*, the *Montreal Gazette*, the *Calgary Herald*, and the *Toronto Sun*. Mr. Eisen holds a Bachelor of Arts from the University of Toronto, as well as a Master of Public Policy from the University of Toronto's School of Public Policy and Governance.

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Introduction

Observers of economics and politics in Atlantic Canada frequently assert that the region's public sector is unusually large compared with the national average, and that high levels of government employment come at a significant cost to taxpayers, while hindering economic growth.¹ In this paper, we examine Statistics Canada data to empirically assess the claim that Atlantic Canada's public sector is unusually large compared with other regions of the country.²

We find that public sector employment rates in the Atlantic region, relative to population, are indeed, higher than in the rest of Canada. Furthermore, we find the gap in average compensation between public and private sector employees, present in all provinces, is larger in Atlantic Canada than elsewhere in the country. To measure the size of the public sector wage bill in each province relative to its underlying private sector economy, we also calculate the share of economy-wide labour income that public sector workers consume in the ten provinces. We find the share of all provincial labour income public sector workers receive is substantially higher in Atlantic Canada than in any other region of the country. Finally, we measure the cost associated with high rates of public sector employment, and calculate how much each province in Atlantic Canada would save if public sector employment levels were aligned with the national average.

Measuring the Size of Atlantic Canada's Public Sector

Statistics Canada data³ clearly support the notion that public sector employment in Atlantic Canada is higher than the national average. Nationally, in 2013, 17.8 per cent of all jobs were in the civilian public sector. By comparison, in the Atlantic provinces, this figure is 22.6 per cent, nearly five percentage points above the national average.

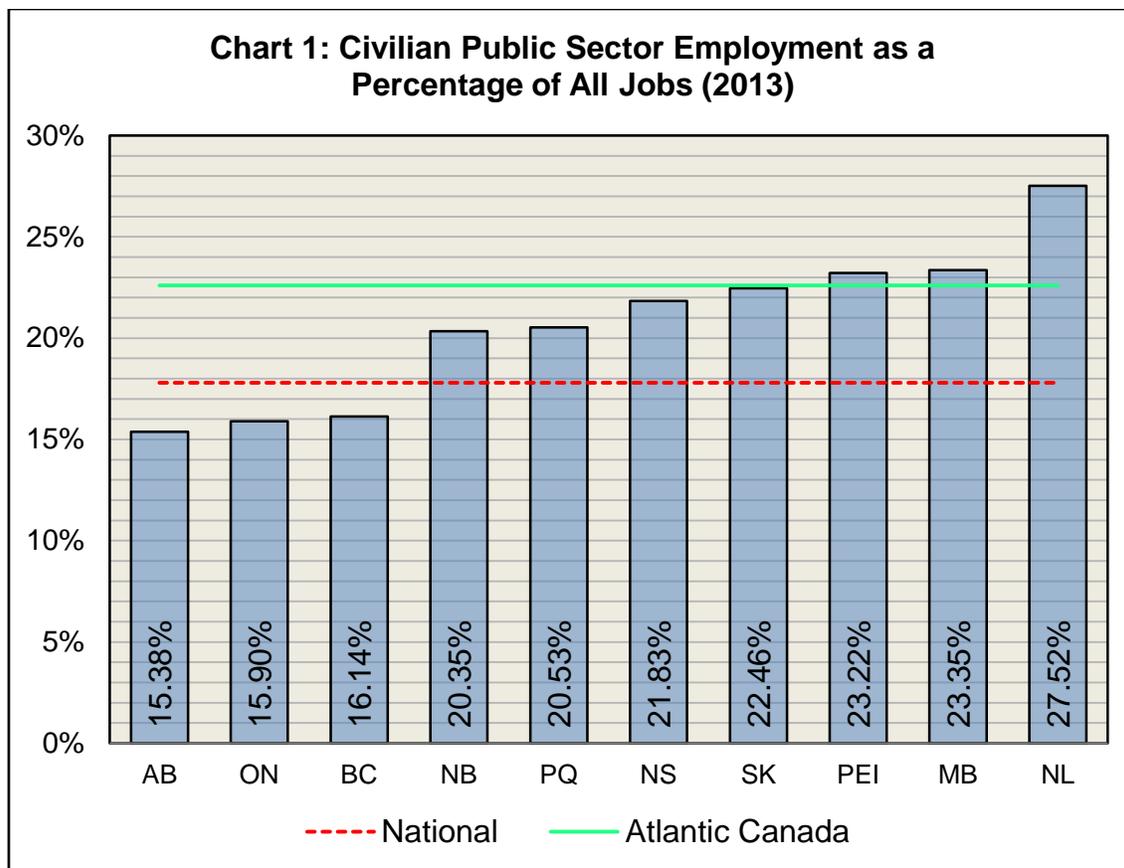
Chart 1⁴ shows that public sector employment, as a share of total jobs, is significantly higher in Atlantic Canada than in the rest of Canada. In fact, the largest public sector using this metric is that of Newfoundland and Labrador, where it accounts for 27.5 per cent of all jobs in the province; in Prince Edward Island, which has the third-largest public sector using this measure, that figure is 23.2 per cent. Public sector employment rates in Nova Scotia and New Brunswick also exceed the national average of 18 per cent, accounting for 21.8 and 20.4 per cent of all jobs.

¹ See, for example, Frontier Centre for Public Policy (2011).

² Specifically, the data presented in this study are from Statistics Canada, CANSIM database, tables 383-0030, 281-0027, 051-0001, and 384-0038, and from Public Accounts data from the provinces. All data are from 2013.

³ We use data from Statistics Canada, CANSIM database, table 383-0030 in this study to report employment figures for the "civilian public sector" and the "sub-national public sector." In that table, Statistics Canada considers an employee of the "Government Sector [GS00]" as someone who works in education services (administrators, professors, teachers), health services (nurses, doctors, hospital administrators), federal government services (elected officials and Canada Revenue Agency employees), defence services (military personnel), provincial and territorial government services (elected officials and public administration), and local, municipal, and Aboriginal government services (city councillors). These data do not include employees of crown corporations and we exclude defence employees altogether from the analysis.

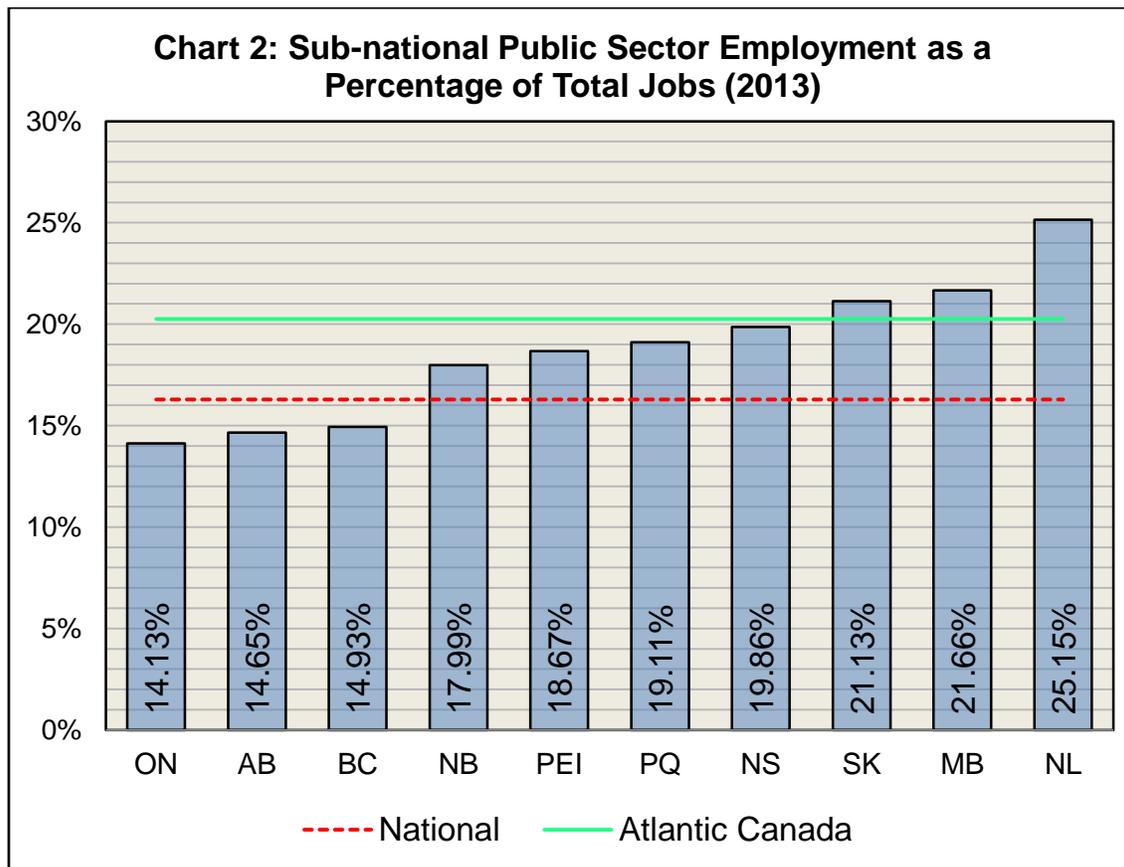
⁴ The four charts presented in this paper use manipulated data from CANSIM database, table 383-0030.



To analyze the component of the public sector that is subject to direct influence by provincial policymakers, it is necessary to remove federal employees from the analysis. The reason for this is that the cost of employing federal employees is borne by *all* taxpayers in the country, whereas the cost of employing sub-national public sector workers is a direct expense for local and provincial governments, and the taxpayers of their jurisdictions. Sub-national public sector employment, therefore, is a more useful measure for assessing the financial burden shouldered by governments and taxpayers in a specific region or province because of higher levels of public sector employment. This metric is especially important because it measures *the share of sub-national public sector employment relative to the private sector tax base that supports those public sector jobs*. A high rate of sub-national public sector employment as a percentage of all jobs might be problematic, therefore, if the cost of supporting that public sector increases the cost of government for the relatively narrow underlying private sector tax base, through either higher tax rates or growing public debt.

As **Chart 2** shows, sub-national public sector employment as a share of all jobs in 2013 was highest in Newfoundland and Labrador at 25.2 per cent, compared with the national average of 16.3 per cent. Nova Scotia's sub-national public sector accounted for 19.9 per cent of all jobs in the province. This figure was 18.7 per cent in Prince Edward Island and 18 per cent in New Brunswick. In 2013, public sector employment as a percentage of total jobs was 27 per cent

higher in Atlantic Canada than in the country as a whole: 22.6 per cent compared with 17.8 per cent. Sub-nationally, the gap was 24.5 per cent: 20.3 per cent versus 16.3 per cent.⁵

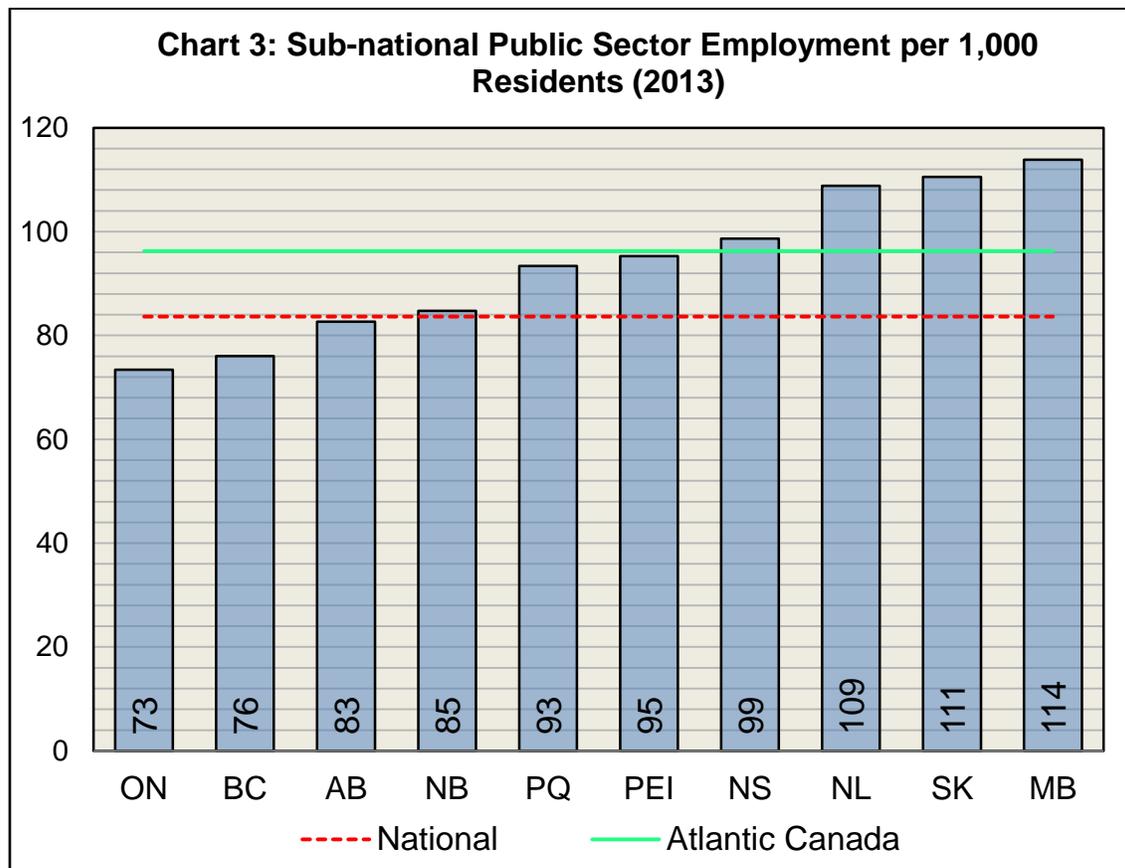


Some may object that measuring the size of the public sector relative to the employed workforce is not the best way to measure government employment because all residents—not just those employed in the workforce—make use of government services: children, the elderly, and the unemployed all require, and receive, government services. It is, therefore, also helpful to consider the size of the public sector relative to population, in addition to its size relative to the number of jobs in a given province.

As **Chart 3** shows, there are 84 sub-national public sector employees per 1,000 residents in Canada. Closely aligned with this level of employment is New Brunswick, at 85 employees per 1,000 residents. In each of the other Atlantic provinces, however, sub-national employment is at

⁵ These data include municipal and provincial employees. Local employees are included because, under Canadian law, municipalities are the creation of provinces, empowered by provincial statutes to deliver government services that are ultimately a provincial responsibility. It is, therefore, most useful to combine these sets of employees in an analysis of the size of sub-national public sector workforces. To exclude municipal-level public sector employees would cause comparisons of the relative size of different provinces' public sectors to be misleading, because provinces allocate responsibilities and expenditures between these levels of government differently. Aggregating the statistics solves this issue, and allows us to make meaningful comparisons of the size of the sub-national public sector in different provinces. Decisions made at both levels of sub-national government—provincial and municipal—influence public sector employment rates and the size of the overall wage bills we describe in this paper.

least 10 per cent higher than in the country as a whole. In Prince Edward Island, there are 95 sub-national public employees per 1,000 residents, and in Nova Scotia, 99 per 1,000 residents. Newfoundland and Labrador has 109 public employees per 1,000 residents—nearly 30 per cent higher than the national average. In total, relative to population, Atlantic Canada's rate of public sector employment is 14.3 per cent larger than that of the country as a whole.

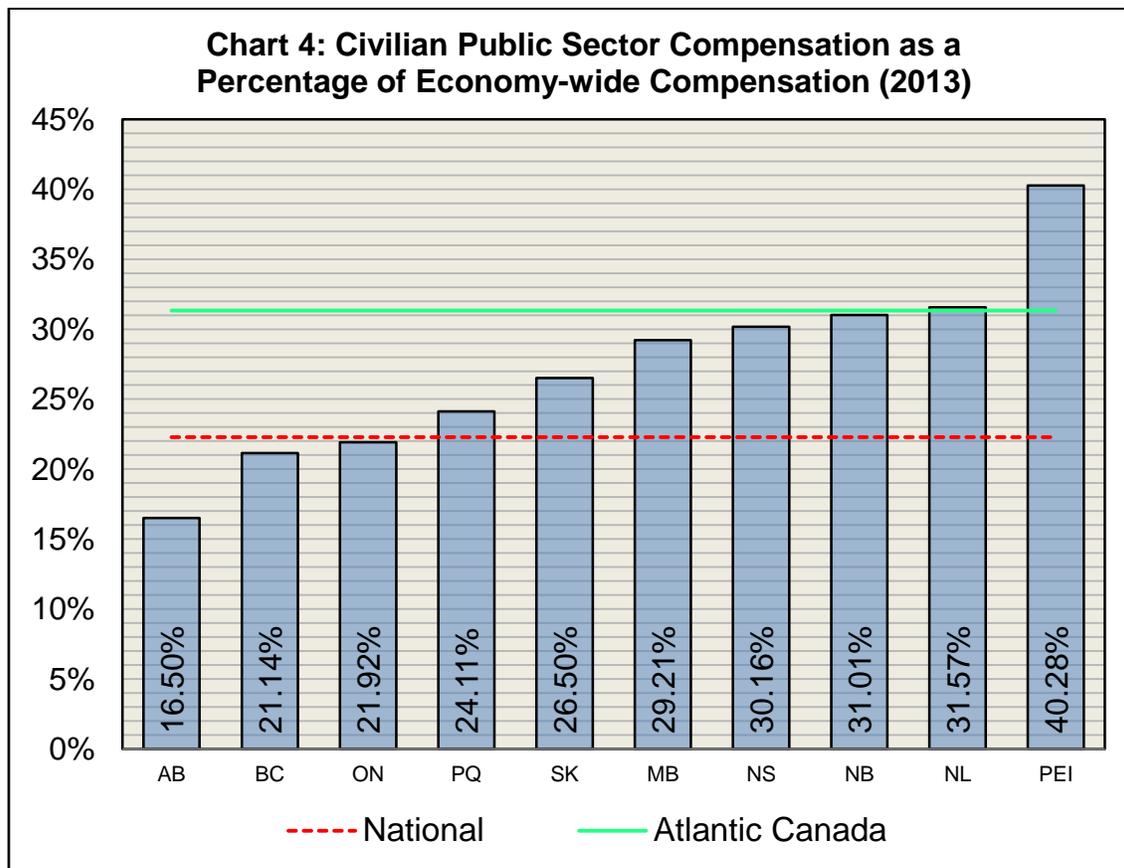


Public Sector Compensation as a Share of Labour Income

The data we have presented to this point actually understate the dominant role the public sector plays in Atlantic Canada's labour market. In addition to high rates of public sector employment, the gap in average pay between public and private sector workers, which exists in all provinces, is larger in Atlantic Canada than in other regions of the country. In Atlantic Canada, average annual compensation of workers in the sub-national government sector in 2013 was 61.8 per cent higher than that of workers in the private sector. By contrast, the national average annual compensation gap between sub-national public and private sector workers was 29.5 per cent in the same year.

This compensation gap, in addition to the high rates of government employment in the region, ensures that Atlantic Canada's public sector plays a disproportionately larger role in regional labour markets than the national average. **Chart 4** illustrates this by comparing the ten provinces in terms of public sector compensation as a share of all labour income in the economy. Nationally, government employees receive 22.3 per cent of all labour compensation. In Nova

Scotia and New Brunswick, however, public sector employees receive 30.2 and 31 per cent of economy-wide labour compensation. Public sector compensation in Newfoundland and Labrador accounts for 31.6 per cent of labour income in that province, and in Prince Edward Island, it accounts for fully 40.3 per cent of all labour income. The regional average is 31.3 per cent, nearly ten percentage points, or 40 per cent, higher than the national average.



The Cost of Atlantic Canada's Large Public Sector

Public sector salaries are the single largest expense for provincial governments, and Atlantic Canada's large public sector wage bill relative to the size of the underlying economy is a significant expense for taxpayers in the region. In this section, we analyze the cost to Atlantic Canadian taxpayers of maintaining a larger-than-average public sector by calculating how much each province's public sector wage bill would decrease if its public sector employment rate were in line with the national average.

Table 1⁶ shows how many more sub-national public sector employees each Atlantic province has compared with what would be the case if the public sector employment rate in that province were in line with the national average (84 per 1,000 residents). The final column of the table shows the extent to which the public sector wage bill in each province would decrease if the public sector employment rate were in line with the national average. We calculated these

⁶ **Table 1** uses CANSIM database, table 383-0030 and relevant provincial public accounts for 2012-13.

numbers by multiplying the number of additional employees by the average salary for public sector employees in Atlantic Canada.

Aligning sub-national public sector employment with the national average would result in significantly fewer government employees in all four Atlantic provinces. If public sector employment rates matched the national average in Newfoundland and Labrador, there would be 13,253 fewer public sector workers than is currently the case, which would have reduced the province's wage bill by \$880 million in the 2012-13 fiscal year. In Nova Scotia, there would have been 14,127 fewer public sector workers, reducing the wage bill by \$836 million. The corresponding figures for Prince Edward Island are 1,686 public sector workers and \$112 million, and for New Brunswick, 834 public sector workers and \$58 million.

To put these figures into perspective, the regional provincial-level budget deficit was \$1.08 billion in fiscal year 2012/13, and aligning public sector employment rates with the national average would have reduced the total sub-national government wage bill by \$1.89 billion in the 2012-13 fiscal year. Of course, municipalities and various other public sector institutions would capture some of these savings, but these statistics, nonetheless, demonstrate that maintaining a large public sector in each Atlantic province represents a significant expenditure for taxpayers in the region.

| Table 1: Spending on Public Sector Employment in Excess of the National Average | | | | |
|--|--------------------------------------|--|--|---|
| | <i>Employees per 1,000 Residents</i> | <i>Additional Employees Above the National Average per 1,000 Residents</i> | <i>Total Additional Employees in the Government Sector</i> | <i>Additional Spending on Public Sector Wage Bill (in Millions)</i> |
| Newfoundland and Labrador | 109 | 25 | 13,253 | \$880 |
| Prince Edward Island | 95 | 11 | 1,686 | \$112 |
| Nova Scotia | 99 | 15 | 14,127 | \$836 |
| New Brunswick | 85 | 1 | 834 | \$58 |
| | | Total | 29,900 | \$1,886 |

Conclusion: Opportunities to Reduce the Public Sector Wage Bill

Each province faces a unique set of circumstances in the form of economic development challenges, demographic restraints, and the urban-rural divide. For instance, it is sometimes noted that, since Alberta, British Columbia, and Ontario have larger populations than all the Atlantic provinces combined, they might benefit from economies of scale that enable them to deliver public services at lower costs and with fewer employees. On the other hand, provincial governments in Atlantic Canada generally face relatively slack labour markets compared with these jurisdictions and, therefore, may have an advantage in securing qualified public sector employees at lower wages. Nevertheless, due to multiple confounding factors, each province

faces advantages and disadvantages that influence the number of public sector employees it needs to provide services and how much it must pay them.

Despite these differences among provinces, the stubborn fact remains that the large public sector wage bills we have documented constitute a significant expense for provincial governments and taxpayers in the region. All four Atlantic provinces face significant fiscal challenges. Net public debt, for instance, is approximately \$15,000 per capita in Atlantic Canada—much higher than in most other provinces. Given these fiscal challenges, all of the factors that drive government spending in the region, including its large public sector wage bill, need to be examined and savings achieved wherever possible.

This is especially true because provincial governments in the region must face these fiscal challenges in the context of declining federal transfers as a share of gross domestic product (GDP), driven partly by economic weakness in Ontario. Spending restraint in the near future will be necessary, and provincial governments must reduce costs wherever possible. The data in this paper, which show that regional public sector employment substantially exceeds the national average in terms of size and cost, suggest the public sector is an area where Atlantic Canada's governments could achieve meaningful savings.

Achieving these savings may be difficult due to the small populations of the Atlantic provinces, which hinder gains from economies of scale. This issue, however, is resolvable. Alberta and British Columbia, for instance, have much smaller populations than Quebec, and significantly smaller public sector workforces relative to population. Within Atlantic Canada itself, it is noteworthy that New Brunswick provides public services with a significantly smaller public sector workforce than does any of the other three Atlantic provinces. (New Brunswick does not benefit from substantial economies of scale compared with Nova Scotia or Newfoundland and Labrador.)

As we have seen, public sector employment rates in excess of the national average cost governments in Atlantic Canada \$1.89 billion in the 2012-13 fiscal year. Even if complications related to economies of scale make it difficult to align public sector employment levels with the national average, reducing the gap somewhat still would produce significant savings. If provincial governments in Newfoundland and Labrador, Nova Scotia, and Prince Edward Island could cut the gap in half, or even reduce it by a quarter over a ten-year period through attrition, wage restraint, and other frugal management options, they would save hundreds of millions of dollars, with significant positive implications for their fiscal outlook. Public sector employment in New Brunswick, in contrast, already closely aligns with the national average and, therefore, that province likely has less room to achieve savings in this area.⁷ Even there, however, the provincial government may be able to control expenditures through the policy of wage restraint it has followed over the past few years. Indeed, it has already implemented a public sector wage freeze as a cost-saving strategy (New Brunswick 2012), which suggests a recognition that gradually closing the gap in average compensation between public and private sector workers is a promising strategy for saving money and improving the province's fiscal position.

⁷ The New Brunswick government, as all provincial governments, likely could tackle inefficiencies that would result in fewer personnel and lower costs, thus helping to address the province's fiscal challenges. We interpret these data narrowly to suggest that there might be somewhat less scope for these types of savings in New Brunswick than in the other three Atlantic provinces.

There are valid reasons public-sector employees earn, on average, more than do private sector workers (see Gartner 2007). The fact that this gap is much larger in Atlantic Canada than elsewhere, however, places a strain on the region's private sector taxpayers and contributes to rising regional debt. This large compensation gap is, therefore, worthy of attention from policymakers in the region who may be able to find opportunities for savings through detailed "apples to apples" examinations that compare compensation levels for similar jobs in the public and private sectors. If considerable gaps exist, the government could reduce real wages for those positions gradually to bring them in line with market levels.

A high-quality public sector workforce that delivers public services efficiently and effectively can contribute to economic prosperity and maintaining such a workforce requires paying competitive wages. At the same time, responsibility to taxpayers requires the diligent use of public funds, meaning the government should keep public sector employment levels and compensation rates within reasonable bounds. The key is to find ways to deliver high-quality public services while ensuring that taxpayers receive the maximum value for their money.

The governments of all four Atlantic provinces face the stark reality of large debt loads and the risk that debt-servicing costs will rise should interest rates increase. They must manage that fiscal risk, moreover, in the context of Ontario's economic weakness, which is resulting in declining equalization payments as a share of regional GDP. In this paper, we have shown that one source of pressure on provincial budgets in Atlantic Canada is the public sector wage bill. Due to high rates of public sector employment in the region, and a compensation gap between private and public sector employees that is wider than the Canadian average, the four Atlantic provinces face the largest public sector wage bills relative to labour income in the country. Since public sector wages and benefits are the single largest expenditure for these governments, restraining the growth of the public sector wage bill is a necessary condition for maintaining fiscal stability in the years ahead.

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