



Policy



Paper

The Size and Cost of the Public Sector in Atlantic Canada, 2015

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The Size and Cost of the Public Sector in Atlantic Canada 2015

By Jackson Doughart, MA
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Executive Summary

Public sector employment is a major cost for provincial governments in Atlantic Canada. This paper examines the size and cost of provincial public sectors in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and New Brunswick. It finds that according to various metrics, the sub-national public employment of the Atlantic provinces is larger than their western counterparts.

Working from the methodology of AIMS's 2014 paper on this subject, our update uses Statistics Canada sources of population and labour statistics to discern the scale of Atlantic Canada's provincial public employees. We also use Public Accounts data from the provinces for budget information.

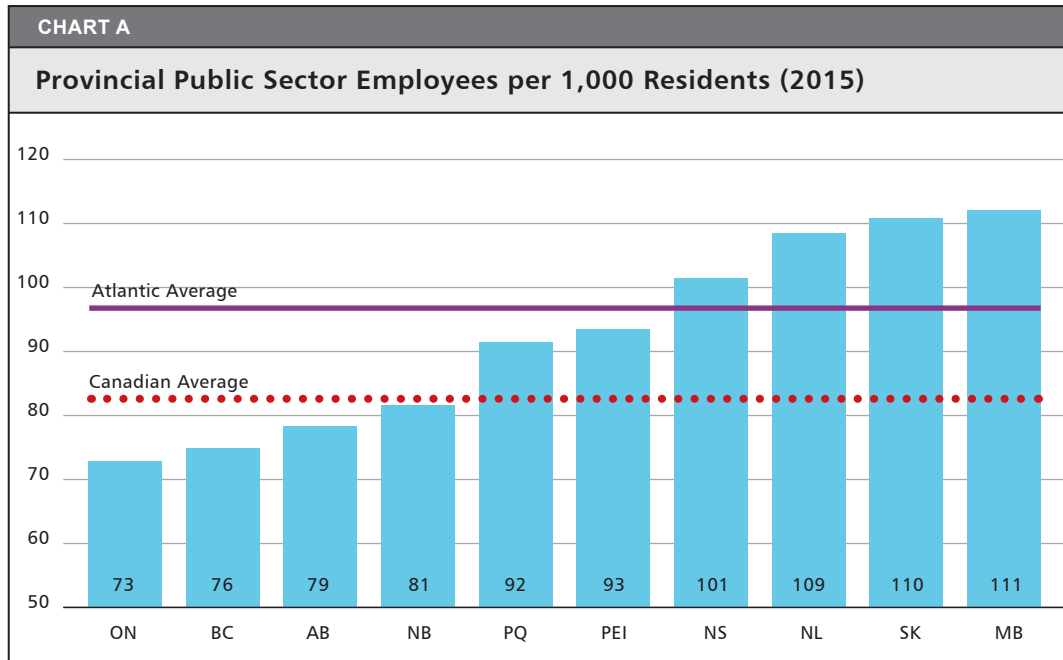
This study establishes the share of all-civilian and provincial public sector employment in the workforce, the per capita number of provincial public sector employment, the share of provincial public sector compensation in overall compensation, and the cost to the Atlantic Provinces in 2015 of employing more public servants per capita than the national average.

We reach three conclusions:

1. Three Atlantic Provinces employ a public service well above the national average in relation to population. The largest is Newfoundland and Labrador, at 109 public servants per 1,000 residents. Nova Scotia employs 101 per 1,000 and P.E.I. employs 93 per 1,000. New Brunswick, meanwhile, employs fewer public servants per capita than the Canadian average and has achieved a reduction in the size of its public employment to just above 1997 levels. By contrast, provincial public employment across Canada has grown by 10 percent over the same period.
2. Provincially-employed public servants in Atlantic Canada are compensated at significantly higher levels than their private sector counterparts. Such an employee makes, on average, \$68,600 per year. The average private sector employee in Atlantic Canada makes \$46,500, or 47.5 per cent less. On Prince Edward Island, public servants make more than twice as much as private sector workers. Atlantic Provinces have four of the five highest percentages in Canada of public sector compensation as a share of overall compensation.
3. Reducing the public sector wage bill would provide significant savings for government in Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. Had Newfoundland and Labrador employed the Canadian average number



of provincial employees (83) at its own average public sector wage (\$70,149), it would have saved nearly a billion dollars and balanced the budget. Meanwhile, New Brunswick should be commended for reducing the size of its public labour force to below the national average, which in the last completed fiscal year saved the provincial government over \$100 million.



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.

In 2014, the Atlantic Institute for Market Studies released a leading policy study entitled *The Size and Cost of Atlantic Canada's Public Sector*, which confirmed this hypothesis. The paper earned regional attention for reporting on the efficiency and expense of the region's large public sector, according to the most current available data from 2013. Authored by then AIMS policy analysts Ben Eisen and Shaun Fantauzzo (whose methodology we have followed for consistency in this paper), the study employed Statistics Canada data tables¹ for labour and population to gauge the scale and cost of Atlantic Canadian provincial public sectors *vis-à-vis* their counterparts across the country.

This paper² constitutes an update to the numbers collected and analyzed for the 2014 paper. It includes 2015 data, the most current from Statistics Canada, and is expanded to include a historical trend line, showing the number of provincial public sector employees for Canada and the four Atlantic Provinces going back to 1997, the earliest year for which data are available.

We find that public sector employment rates in the Atlantic region, relative to population, are indeed higher than the national average in Nova Scotia, Prince Edward Island, and Newfoundland and Labrador. New Brunswick's public sector employment rate falls below the national average. Furthermore, we find that the gap in average compensation between public and private sector employees, present in all provinces, is larger in the Maritime provinces than elsewhere in the country.

To compare the size of the public sector wage bill in each province relative to its 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 public sector labour income, relative to the share of total compensation, to be 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.



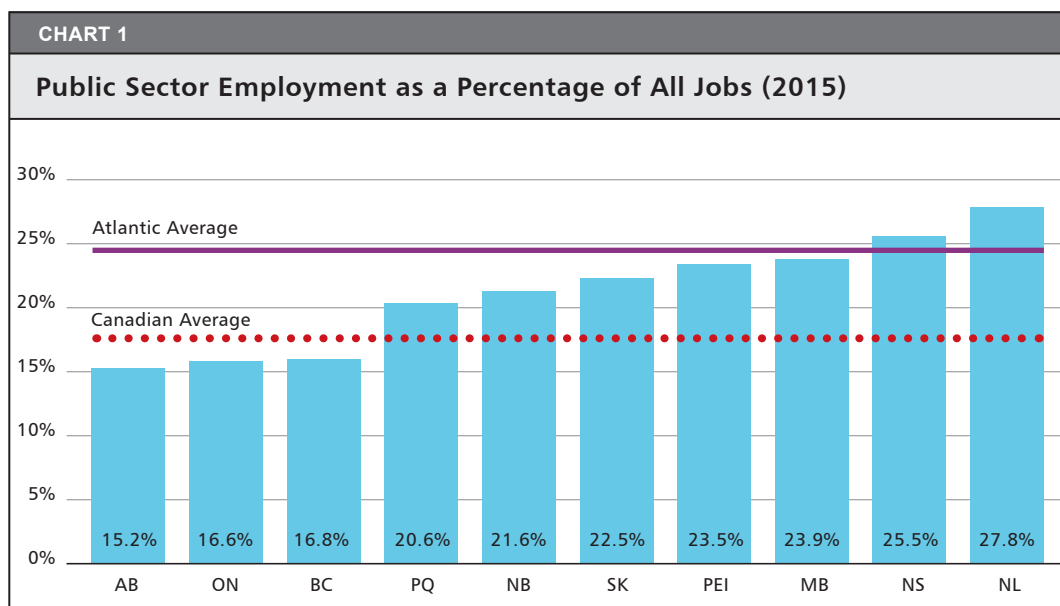
In comparison with the 2013 numbers, provinces in the Atlantic region have gone in three different directions. After a burst of growth in prior years, Newfoundland and Labrador's public sector size has remained roughly constant. Nova Scotia's sector has grown, following a steady trend of the past half-decade. P.E.I.'s public sector has declined slightly in size. Finally, New Brunswick's situation has notably improved, with the province employing four fewer public employees for every 1,000 New Brunswick residents than it did in 2013.



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 2015, 18.4 per cent of all jobs were in the civilian public sector. By comparison, in the Atlantic provinces, this figure was 24.6 per cent, more than six percentage points above the national average.

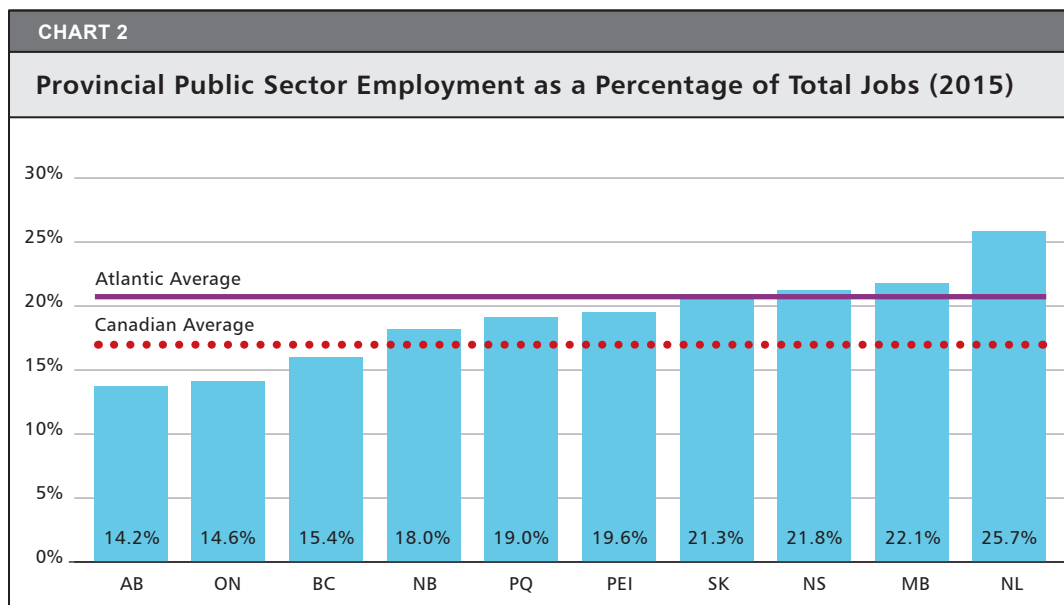
Chart 1⁴ shows that public sector employment, as a share of total jobs, is significantly higher in Atlantic Canada than in the rest of Canada. In fact, the largest public sector in the country by this metric is Newfoundland and Labrador's, which accounts for 27.8 per cent of all jobs in the province. In Nova Scotia, which has the second-largest public sector in the country, government employment constitutes 25.5 per cent. In Prince Edward Island, the fourth-largest, that figure is 23.5 per cent. New Brunswick's public servants compose 21.6 per cent of all jobs. By this metric, New Brunswick has the sixth-largest public sector in the country.



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 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 thus the taxpayers in their

jurisdictions. Sub-national, i.e. provincial, public sector employment is therefore a more useful measure in assessing the financial burden caused by high 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 jobs. A high rate of sub-national public sector employment might be problematic if it increases the cost of government for the population, through either higher tax rates or growing public debt.

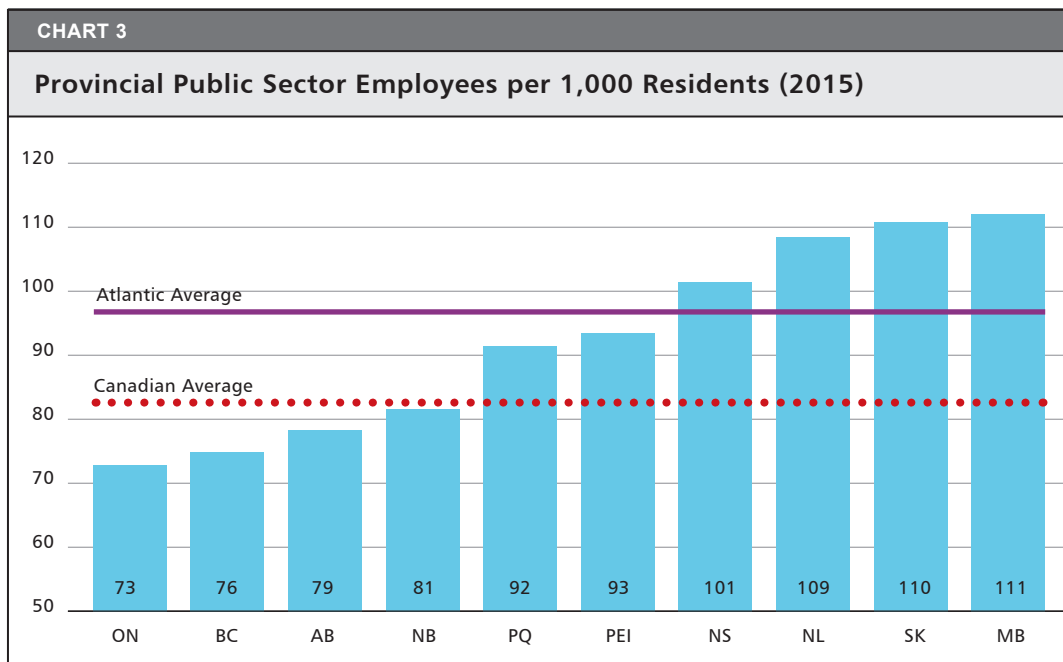
As **Chart 2** shows, sub-national public sector employment as a share of all jobs in 2015 was highest in Newfoundland and Labrador at 25.7 per cent, compared with the national average of 16.6 per cent. Nova Scotia’s sub-national public sector accounted for 21.8 per cent of all jobs in the province. This figure was 19.6 per cent in Prince Edward Island and 18 per cent in New Brunswick. Provincial public sector employment as a percentage of total jobs was 4.7 points higher in Atlantic Canada than in the country as a whole: 21.3 per cent compared with 16.6 per cent.⁵

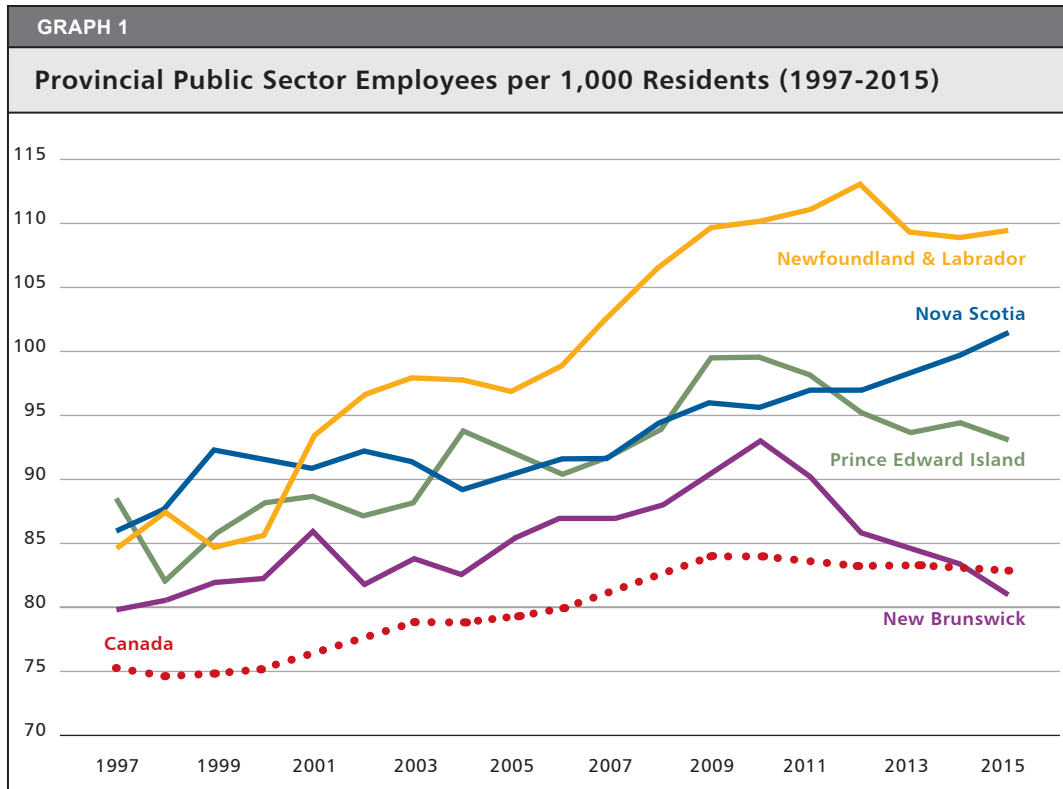


Some readers may object that measuring the size of the public sector relative to the employed workforce is not the best way to measure government employment. All residents — and not just those employed in the workforce — make use of government services: children, the elderly, and the unemployed all require,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



As **Chart 3** shows, there are 83 sub-national public sector employees per 1,000 residents in Canada. Below this level of employment is New Brunswick, at 81 employees per 1,000 provincial residents. In each of the other Atlantic provinces, however, sub-national employment is at least 12 per cent higher than in the country as a whole. In Prince Edward Island, there are 93 provincial public employees per 1,000 residents, and in Nova Scotia, 101 per 1,000 residents. Newfoundland and Labrador has 109 public employees per 1,000 residents — over 30 per cent higher than the national average. In total, relative to population, Atlantic Canada’s rate of public sector employment was 15.6 per cent larger than that of the country as a whole, up from 14.3 per cent in 2013.





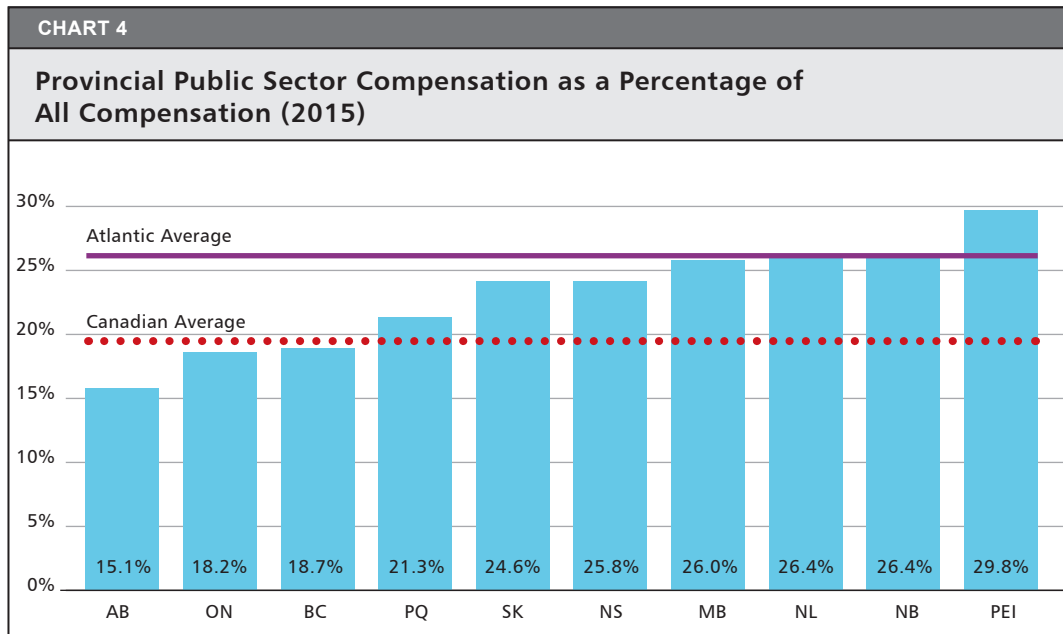
Graph 1 shows the historical trend of provincial public sector employees per 1,000 residents, from 1997 to 2015. These lines show a different story among the provinces. Public sectors in Nova Scotia, and more strongly in Newfoundland and Labrador, have grown considerably over this 18-year period. In fact, Newfoundland and Labrador’s public sector employment was actually the second smallest in the region in 1997 and is now by far the largest. Nova Scotia dipped to 89 employees per 1,000 residents in 2004 but has grown consistently ever since. New Brunswick’s public sector reached its high point in 2010 of 93 employees per 1,000 residents but has now dropped to just one additional employee per 1,000 residents above its 1997 figure. Prince Edward Island’s public sector has shrunk from its high point of 100 employees for every 1,000 residents in 2010, down to 93 today. The graph also shows that, with the exception of New Brunswick’s dip below the national average starting in 2014, public sectors in all Atlantic Canadian provinces have been above — and usually well above — the Canadian norm throughout the period examined.



Public Sector Compensation as a Share of Labour Income

The data we have presented to this point rather understate the dominant role that 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 2015 was 47.5 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 26.6 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 disparity by comparing the ten provinces in terms of provincial public sector compensation as a share of all labour income in the economy. Nationally, provincial government employees receive 19.4 per cent of all labour compensation. In Nova Scotia, however, public sector employees receive 25.8 per cent of economy-wide labour compensation. Provincial public sector compensation in Newfoundland and Labrador and New Brunswick accounts for 26.4 per cent of labour income in those provinces, and in Prince Edward Island, it accounts for fully 29.8 per cent of all labour income. The regional average is 26.4 per cent, seven percentage points higher than the national average.



The Cost of Atlantic Canada's Public Sector

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 Canada 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 workers are employed in each Atlantic province, when compared with the public sector employment rate in Canada (83 per 1,000 residents). The last column of the table shows the amount that 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 numbers by multiplying the number of additional employees by the average salary for public sector employees.

TABLE 1					
Provincial Public Sector Employment in Excess of the National Average					
Province/Region	Employees Per 1,000 Residents	Employees Above the National Average, Per 1,000 Residents	Excess Employees in the Government Sector Above the National Average	2015-16 Provincial Budget Deficit (Millions)	Cost of Excess Employees, based on average public sector compensation (Millions)
Newfoundland & Lbdr.	109	27	14,060	\$986	\$986
Prince Edward Island	93	10	1,502	\$20	\$108
Nova Scotia	101	18	17,437	\$304	\$1,079
New Brunswick	81	-2	-1,313	\$389	-\$101
		Total	31,686	\$1,699	2,072

Aligning sub-national public sector employment with the national average would result in significantly fewer government employees in three Atlantic provinces. If public sector employment rates matched the national average in Nova Scotia for 2015, there would have been 17,437 fewer public sector workers; and given the average employee compensation of \$61,859, it would have reduced the wage bill by \$1.1 billion. For Newfoundland and Labrador, there would have been 14,060 fewer public sector workers at an average wage of \$70,149, which would have reduced the province's wage bill by \$986 million in the 2015-16 fiscal year.



The corresponding figure for Prince Edward Island is 1,502 excess public sector workers at an average salary of \$71,701.21, producing \$107.7 million in extra cost.

New Brunswick is the exception, having reduced its public sector employment by four persons for every 1,000 residents in the last two years. It has 1,313 workers below the national average and its average salary is \$76,934.04, thus producing a saving of \$101 million.

To put these figures into perspective, the combined regional provincial-level budget deficit was \$1.7 billion in fiscal year 2015-16, and aligning public sector employment rates with the national average would have reduced the total sub-national government wage bill by \$2.07 billion in the 2015-16 fiscal year. Of course, municipalities and various other public sector institutions would capture some of such 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.



Conclusion

Opportunities to Reduce the Public Sector Wage Bill

Each Canadian 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 less-competitive 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 required number of public sector employees and their compensation.

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 \$16,800 per capita in Atlantic Canada. 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 that 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, which is to say citizens, in Atlantic Canada \$2.07 billion in the 2015-16 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 would still 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, by contrast, is already below the national average and, therefore, that province likely has less room to achieve savings in this area. Even there, however, the provincial government may be able to control expenditures through the policy of wage restraint.

There are valid reasons for which public sector employees earn, on average, more than private sector workers (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 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 to gradually 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. To be sure, maintaining such a workforce requires paying competitive wages. At the same time, responsibility to taxpayers requires the diligent use of public funds, meaning that 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. In this paper, we have shown that one source of pressure on provincial budgets in



Atlantic Canada is the public sector wage bill. Restraining and reducing this public sector wage bill is a necessary condition for maintaining fiscal stability in the years ahead.



References

Gartner, Brett. 2007. "You Get What You Pay for: Comparing Public and Private Sector Salaries." Canada West Foundation Occasional Paper 2007-2. Calgary: CWF, 2007. Available online at: http://cwf.ca/wp-content/uploads/2015/11/CWF_GetWhatYouPayFor_Report_MAR2007.pdf.

Endnotes

1. 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 2015, with the exception of the historical trend line examining 1997-2015. The data used in this study were collected in July 2016.
2. We wish to thank Ben Eisen and Shawn Fantuzzo for their initial work on this topic, and Ryan Scarth, our intern from the summer of 2016, for his help in gathering data from the Statistics Canada database for this update.
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 charts presented in this paper use manipulated data from CANSIM database, table 383-0030.
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.
6. **Table 1** uses CANSIM database, table 383-0030 and relevant provincial public accounts for 2014-15.





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