

Intelligence MEMOS



From: Don Wright
To: Canadians Concerned About Prosperity
Date: September 4, 2024
Re: **SOME BASIC LIVING STANDARD ARITHMETIC FOR GOVERNMENTS**

Governments often talk about “creating jobs,” but what they really do is choose some jobs at the expense of others. With their myriad spending, taxing and regulatory decisions, all governments try to direct job growth to different sectors – public or private, services or goods, resources or non-resources, and so on.

We all hope governments choose wisely. It would help if they started paying more explicit attention to one factor: The impact of their decisions on Canadians’ standard of living.

A country’s standard of living is largely determined by the wages and net government revenue its tradeable goods and services sector can pay while remaining competitive against international competitors. If a company or sector is uncompetitive, it will have to either lower its wages, pay less tax or go out of business. These pressures on companies are never-ending. They determine both the wages a sector can afford to pay, and, through the interconnectedness of labour markets, average wages across the economy.

Some industries are so productive they can pay relatively high wages and significant taxes and yet remain competitive. Industries that aren’t as productive can only pay lower wages and less tax. Governments whose policies have the effect of moving labour from one sector to another had better pay attention to such facts.

Canadians may not like it but many of the country’s best-paying and most tax-rich jobs are found in natural resources. I was head of British Columbia’s public service. For most of B.C.’s history the province’s economic base has been dominated by natural resource industries – forestry, mining, oil and gas, agriculture and fishing. For a variety of reasons, these industries face strong political headwinds. Many groups press to constrain them and diversify away from them. The alternatives proposed include technology, film and tourism.

A few years ago, I asked officials in the province’s finance ministry to assess the relative performance of these different industries along the two key dimensions of average wages and net government revenue. In 2019-20 B.C. spent approximately \$11,700 per citizen. Half the population was employed that year. So, to “break even” (i.e., have a balanced budget), the province had to collect \$23,400 per employed person. If you look at things this way, each industry’s “profit” or “loss” is simply its revenue per employee less \$23,400.

No such calculation will be exact, of course. Several assumptions have to be made to get to an average “profit” or “loss” per employee. But, with that caveat, the numbers the officials brought back were telling. The industry with the biggest return to the province was oil and gas, at \$35,500 per employee. Forestry was next, at \$32,900. Then mining, at \$14,900, and technology, though only at \$900.

By this measure of profit and loss, however, film was a money loser, at -\$13,400, and so was tourism, at -\$6,900.

The negative numbers for the film industry reflect the very significant subsidies that B.C. (like many other provinces) provides to this sector. The negative number for the tourism sector primarily reflects low average wages per employee, which translate into relatively low personal income tax, sales tax and other taxes paid by employees.

These “profit or loss” numbers are not in any way a judgment about workers in these sectors. People find the best employment available to them in the labour market. Relative demands in that market are determined by many factors, none of which workers control. That said, if governments consciously move resources from the “profit” industries to the “loss” industries, they had better be aware of the consequences for wages, taxes and the overall standard of living.

The numbers I’ve cited were for a single year in British Columbia. The same analysis for other provinces or for Canada as a whole would likely produce different numbers – though I’d be surprised if the overall pattern were much different. Voters will draw their own conclusions about the impact on British Columbians’ standard of living from constraining the resource industries and promoting other industries instead.

Unfortunately, this type of analysis is rarely done when Canadian governments make decisions about what types of jobs they want to give preference to through their taxation, spending and regulatory decisions. They should do more of it. Ultimately, if we care about Canadians’ standard of living, governments need to start paying attention to the basic arithmetic of that standard of living.

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A version of this Memo first [appeared](#) in the Financial Post.