

Economic Recovery in Canada before and after COVID

Job Growth in the Government and Private Sectors

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Ben Eisen and Milagros Palacios

LABOUR POLICY

Summary

- Several past analyses published by the Fraser Institute have shown that in recent years net job creation in the government sector has dramatically outstripped private-sector job creation.
- This publication updates these data, showing that during the recession brought on by the COVID-19 pandemic and the following recovery (2019–2023), government employment has increased by 13.0% while employment in the private sector (including self-employment) increased just 3.6%
- We further expand past analysis by comparing the ongoing recovery from the COVID-19 recession to past periods of economic recession and recovery.
- We find that the extent to which the current economic recovery is driven by government job growth is historically unusual. We compare the current economic environment to five past economic recessions and slowdowns and find that none of those recoveries were nearly as reliant on job creation in the government sector.
- We also compare the current recession and recovery in Canada to that in the United States, which differs sharply. In the United States, the private sector has generated a large majority of all new jobs in recent years and the rate of net job creation in the private sector has been nearly identical to that in the government sector.
- As a result of disproportionately faster growth in the public-sector employment, government's share of employment post-COVID is higher than at any point since the fiscal consolidations of the 1990s.

Introduction

During the COVID-19 pandemic and resulting recession, the Canadian economy suffered its most rapid period of job loss in history: Canada's employment rate fell from 62.3% in 2019 to 58.1% in 2020. Canada's employment rate largely recovered to pre-pandemic levels in subsequent years, reaching 62.1% in 2023 (Statistics Canada, 2024b). However, recent research published by the Fraser Institute showed that this recovery of the labour market was predominantly driven by growth in government employment rather than growth in the private sector.

An analysis published by the Fraser Institute in 2022 compared net job creation during the COVID recession in the government and private sectors. That study found that despite a growing population there had been minimal private-sector job creation and that nearly all net job creation from pre-pandemic levels up to August 2022 had occurred in the public sector (Palacios and Eisen, 2022).

A subsequent study in 2023 extended that analysis by examining developments in the job market at the provincial level, once again comparing the rate of job creation in the public and private sectors in each province (Eisen, Ryan, and Palacios, 2023). That study found that the rate of job creation in the government sector outstripped job creation by the private sector in all ten provinces.

The current study updates these earlier analyses by comparing the rate of net job creation in the private and government sectors since the onset of the COVID-19 pandemic. It uses annualized data and assesses net job growth in both sectors during the recession and recovery from 2019 to 2023. This update confirms that the rate of net job creation has been far higher in the government than in private sector.

In this study, we also compare job creation by the public and private sectors during the COVID recession and

subsequent economic recovery to previous recessions and recoveries in Canadian history. We show that the extent to which job creation has been driven by the government sector during the current labour recovery is unique in recent history. Further, we compare developments in Canada to the recession and recovery in the United States, showing that, unlike Canada's, the employment recovery in the United States has been overwhelmingly driven by the private sector.

Updating pan-Canadian data

The 2022 analysis showed that nearly all net job creation in Canada between the eve of the COVID pandemic and publication of the paper in August 2022 was the result of job gains in the public sector. Whereas there had been significant expansion of government jobs, employment in the private sector and self-employment combined were essentially flat over the course of this period. The 2023 study reached a similar conclusion, also showing that public-sector net job growth significantly exceeded private-sector net job growth in all ten provinces.

Here, we update these data and find that, although the share of total net job creation attributable to the government sector during the recession and recovery combined has fallen somewhat, government job growth has greatly outstripped net job creation in the private sector during the combined recession and recovery.

In the spring of 2020, with the onset of the COVID-19 pandemic, Canada's labour market suffered a brief but extraordinarily severe shock as a result of the public health effects of the pandemic, voluntary reductions in economic activity, and substantial government restrictions on businesses and individuals. Total employment in Canada fell by over 3 million jobs, a contraction of 16.3%. The unemployment rate climbed from 5.7% to 13.6% (Statistics Canada, 2024b).

By 2021, simple top-line labour-market statistics frequently repeated by media outlets and politicians (Trudeau, 2021) suggested that Canada’s labour market had recovered from this shock almost entirely. However, an analysis published by the Fraser Institute (Palacios and Eisen, 2022) broke these data down further and identified a marked difference in the performance of the public and private sectors. We found that the increase between February 2020 and July 2022 in Canada’s top-line employment numbers was driven largely by a 9.6% increase in public-sector employment. By contrast, employment in the private sector (including self-employment) had grown by just 0.4% during that period. At the time of the publication of a follow-up study in 2023, net job creation in the public sector since the start of the recession stood at 11.8% compared to 3.3% in the private sector.

In this section, we update this data, comparing the extent of net job creation in Canada in the government and private sectors. In this study, we have moved to an analysis of annual rather than monthly statistics. This is due partly to the greater period of time now being analyzed and partly to facilitate comparisons with previous historical recessions and recoveries in a subsequent section of this report.

Figure 1 shows the evolution of total employment in Canada from the pre-recession year, 2019, to 2023. It uses an index to illustrate growth, setting the 2019 employment level to 100. Figure 1 shows that, by 2022, total employment exceeded 2019 levels and, in 2023, total employment had increased by 5.5% from pre-recession levels. This level of job creation approximately tracked the rate of growth of the working-age population during this period. As a result, after falling from 62.3% in 2019 to 58.1% in 2020, the employment rate recovered to 62.1% in 2023 (**figure 2**).

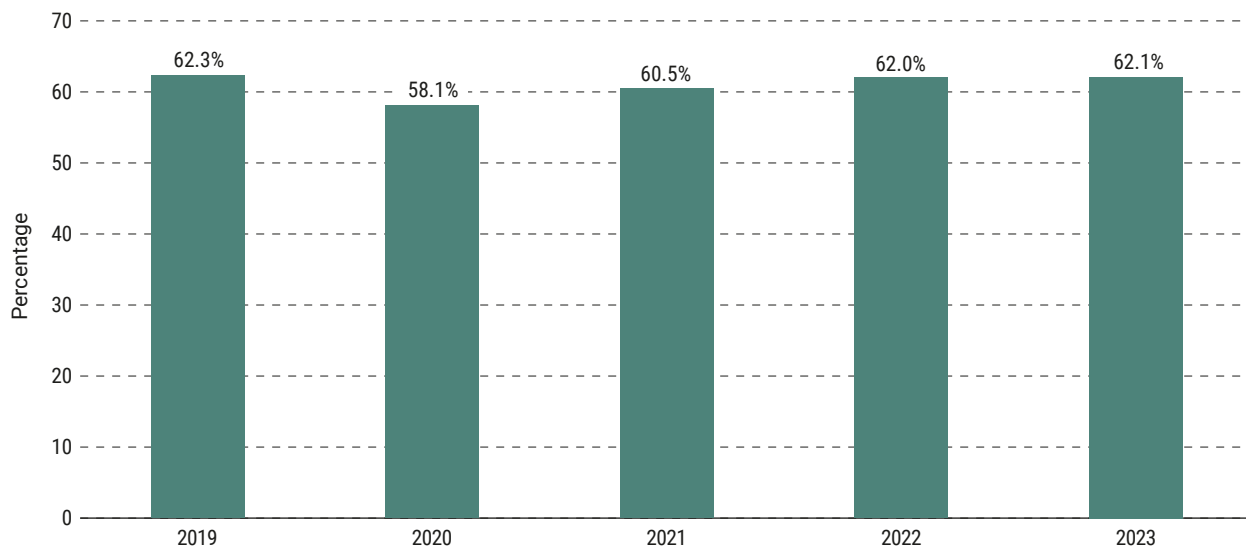
The data show that the finding from previous studies that the rate of net job creation in the government sector has greatly outpaced that in the private sector still holds. Since 2019, total employment in Canada has increased by 1,049,700 jobs in 2023. Of these, 490,000 (46.7%) are in the government sector (Statistics Canada, 2024a). Since the public sector represents 21.1% of the Canadian workforce, the rate of net job growth was far higher in the public sector: the number of government-sector jobs increased by 13.0% during this time frame while, in the private sector (including self-employment), this number was just 3.6%. **Figure 3**

Figure 1: Total growth (index 2019 = 100) in employment, Canada, 2019–2023



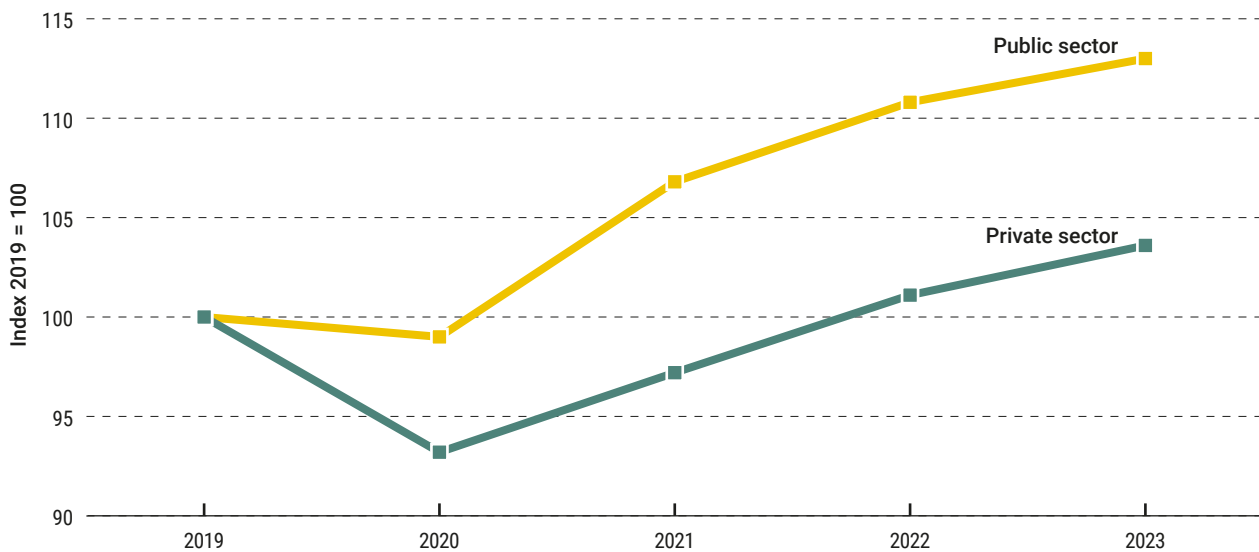
Sources: Statistics Canada, 2024a; calculations by authors.

Figure 2: Employment rate (%), Canada, 2019–2023



Note: Employment rate is the number of persons employed expressed as a percentage of the working-age population. In Canada, the working-age population comprises those 15 years and over.
Sources: Statistics Canada, 2024b; calculations by authors.

Figure 3: Growth (index 2019 = 100) in private- and public-sector employment, Canada, 2019–2023

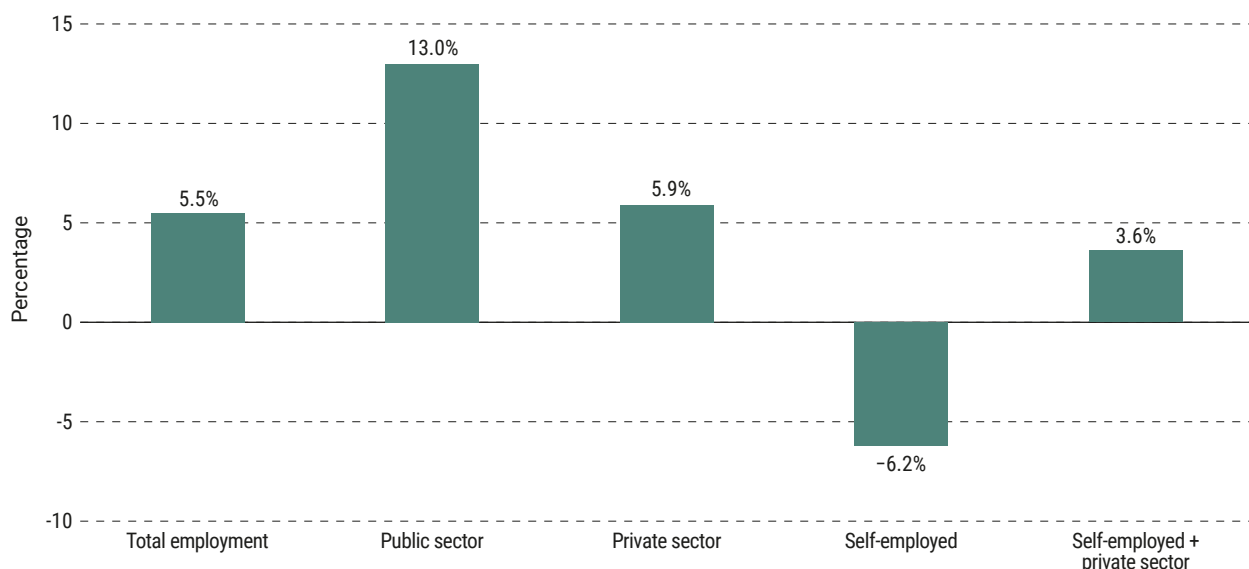


Sources: Statistics Canada, 2024a; calculations by authors.

illustrates these developments using an index, setting 2019 private- and public-sector employment levels to 100 to allow easy comparison of the rates of growth. **Figure 4** provides the same data focusing on total growth between 2019 and 2023 while also decomposing rates of net job creation in the private sector and self-employment categories.

The rate of private-sector job growth appears weaker if we consider that this has been a period of rapid population growth in Canada. During this period (2019–2023), Canada’s working age population grew by 5.9% while private-sector employment increased by only 3.6%. This means that the share of working-age adults employed in the private sector actually declined.

Figure 4: Total job creation (%) by sector, Canada, 2019–2023



Sources: Statistics Canada, 2024a; calculations by authors.

These data show that the key findings of the 2022 and 2023 analyses comparing job creation in the private and public sectors still hold. Net job creation has been much stronger in the government sector than in the private sector.

Analyzing provincial data on job creation in the private and public sectors

In this section, we extend the analysis of private- and public-sector net job creation in Canada by examining trends at the provincial level during the same period. For this analysis (as in the section above), we do not differentiate among different levels of government. Employees of provincial, federal, and municipal governments as well as government business enterprises and other government-owned entities are included in the “public sector” category. The analysis for a specific province, therefore, does not consider job growth at the provincial government level in that province but, rather, public-sector job growth overall within that provincial economy.

Table 1 shows that in eight of the ten provinces the rate of job growth in the government sector has outstripped that of the private sector. The exceptions are Nova Scotia and Alberta. There was substantial variation in the pace of job growth in both sectors across the provinces. Public-sector job growth was the fastest in Prince Edward Island (25.5%) and British Columbia (22.0%) but slower in several other provinces. The slowest rate of government job growth was in Alberta at 4.4%.

Rates of private-sector job creation also varied significantly from province to province. The fastest rate of private-sector job growth (including self-employment) was in Nova Scotia at 8.0%, followed by Alberta at 7.2%. Private-sector job growth was minimal in British Columbia at 0.5% and negative in Saskatchewan at -1.6%. The data in table 1 show that, although the rate of net job creation was greater in the government sector than in the private sector (including self-employment) in eight of ten provinces, the extent to which this was the case varied significantly from province to province.

Table 1: Change (%) in job creation, Canada and provinces, 2019–2023

	Public sector	Private sector	Self-employed	Self-employed + private sector	Total employment
Canada	13.0%	5.9%	-6.2%	3.6%	5.5%
Newfoundland & Labrador	7.2%	0.6%	6.9%	1.3%	3.0%
Prince Edward Island	25.5%	7.7%	2.9%	6.9%	11.9%
Nova Scotia	4.7%	7.7%	9.4%	8.0%	7.1%
New Brunswick	19.7%	3.9%	-8.3%	2.1%	6.3%
Quebec	10.8%	4.7%	-10.5%	2.2%	4.1%
Ontario	14.6%	7.3%	-6.1%	4.8%	6.5%
Manitoba	10.6%	7.8%	-18.5%	3.2%	5.0%
Saskatchewan	15.8%	3.6%	-19.7%	-1.6%	2.7%
Alberta	4.4%	9.2%	-1.6%	7.2%	6.6%
British Columbia	22.0%	1.2%	-1.9%	0.5%	4.3%

Sources: Statistics Canada, 2024a; calculations by authors.

Recessions and recoveries before and after COVID

We have seen that the COVID-19 recession and recovery collectively have been characterized by a substantial increase in government-sector employment in Canada. Specifically, government sector jobs have increased by 13% over the four-year period from 2019 to 2023. Meanwhile, government employment as a share of total employment has risen to 21.1%, the highest level since the fiscal consolidations of the 1990s. This section compares the recent cycle to other recessions and economic slowdowns with their associated recoveries in recent decades, showing that this is not a typical pattern during economic recoveries and that the current surge in government jobs post-recession is historically unusual. Specifically, we consider the relatively steep recessions of the early 1980s, early 1990s, and late 2000s as well as the comparatively mild recession of 2015 and the economic

slowdown of the early 2000s, which did not technically qualify as a recession.¹ To compare rates of job growth during these recessions and their associated recovery, we use the year prior to the start of the recession as the baseline year, include the year of the recession's onset, and then the first three years of economic recovery. **Table 2** shows the years analyzed in each period.

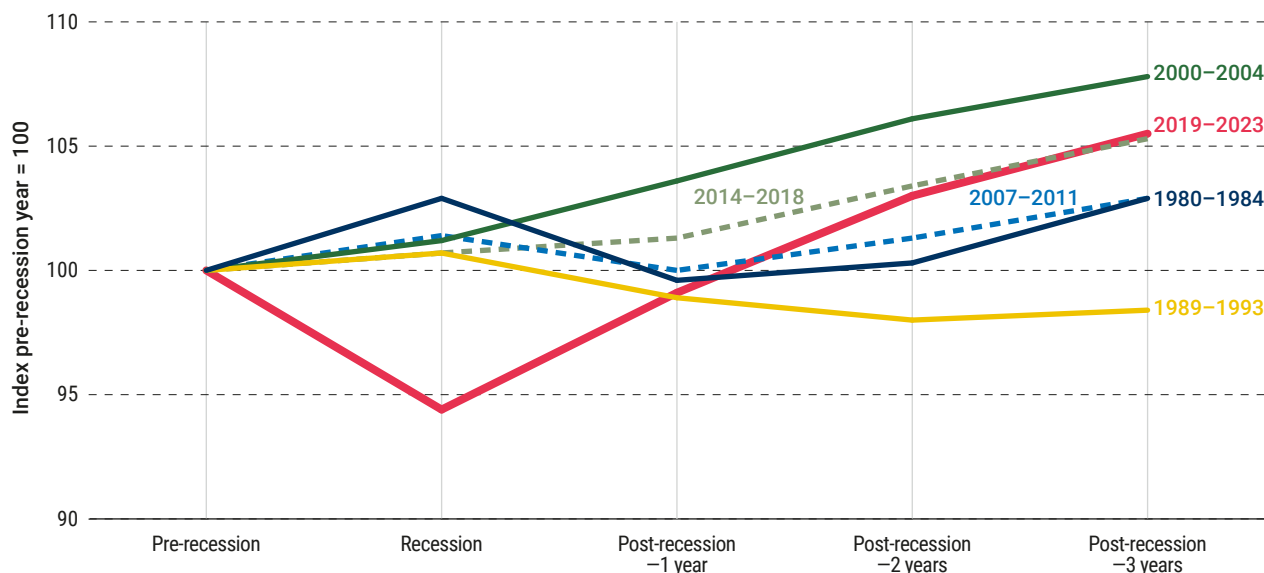
Table 2: Years analyzed in each period

Entire time period	Pre-recession year	Recession onset year	Post-recession period
1980–1984	1980	1981	1982–1984
1989–1993	1989	1990	1991–1993
2000–2004	2000	2001	2002–2004
2007–2011	2007	2008	2009–2011
2014–2018	2014	2015	2016–2018
2019–2023	2019	2020	2021–2023

Sources: Statistics Canada, 2024d; calculations by authors.

1 For a discussion of the economic circumstances and other background information of these periods of recession and weak economic growth, see Clemens, Palacios, and Veldhuis, 2021.

Figure 5: Total employment growth (index pre-recession year = 100), Canada, various periods



Sources: Statistics Canada, 2024a; calculations by authors.

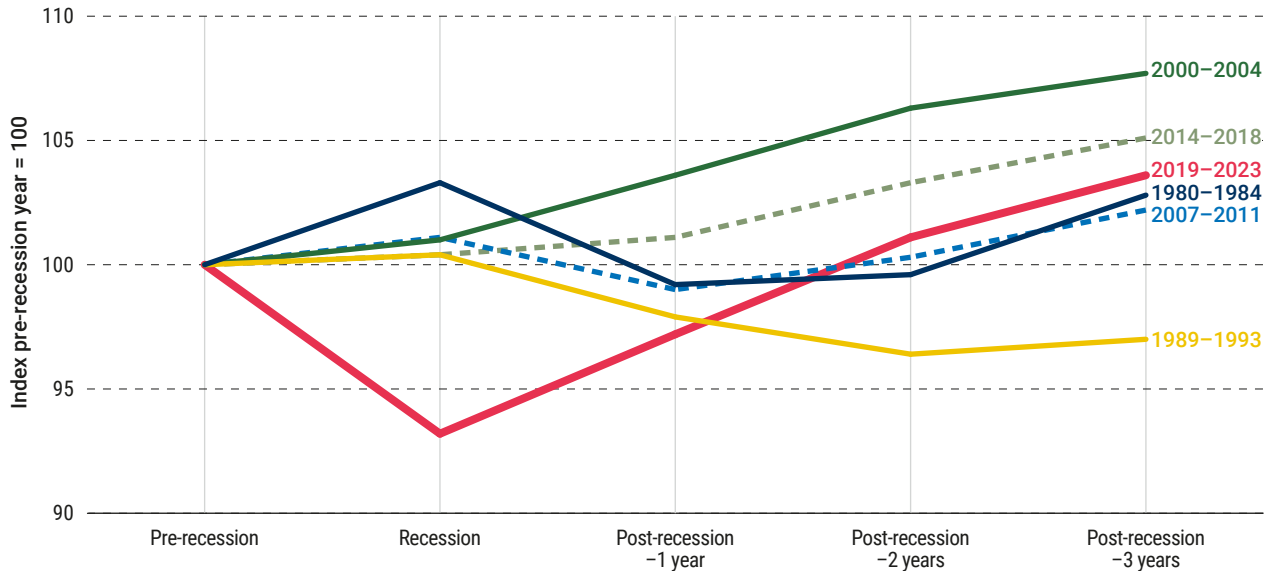
The COVID recession was unique in the severity of the job losses as well as the speed at which employment recovered. However, the most recent recession was not unique in the total rate of job creation. **Figure 5** illustrates this fact by presenting the change in total employment over the course of each time period. Again, we use an index setting total employment in the baseline year at 100 to allow a more visually accessible comparison.

Figure 5 shows that, although 2019 to 2023 was a period of rapid population growth, total employment growth during the COVID recession and recovery was slower than in the early 2000s, and almost identical to the recovery following the recession in 2015. **Figure 6** illustrates that the recovery of private-sector job creation from the most recent recession is similar to what occurred in several of the other recessions and recoveries considered here. Recent private-sector job creation was slightly lower than that during the 2014–2018 period, and very slightly more than that in the period surrounding the 2008 and 1981 recoveries.

The rate of government-sector job creation during the most recent recession and recovery period, however, is historically unique in comparison to the other periods of recession and recovery (**figure 7**). Total government employment increased by 13.0% between 2019 and 2023. All five of the other periods shown saw government job growth range from 3.0% to 8.6% (Statistics Canada, 2024a).

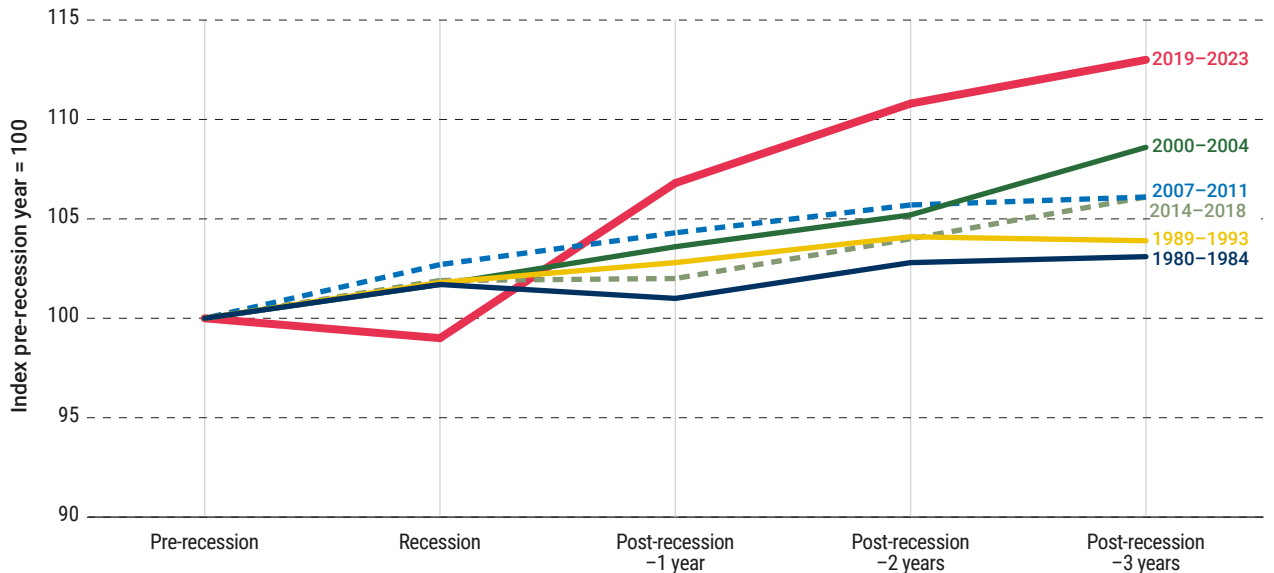
Figure 8 illustrates this point by showing total growth over the six analysis periods in both the government and private sector. It shows the extent to which the recent recession and recovery differ from previous periods in the extent to which the rate of job creation in the government sector has outstripped the private sector. These data demonstrate that, while overall and private-sector job creation during the recent recession and associated recovery period have not been unusual compared to past recessions and slowdowns, the rate at which government jobs have been created has been uniquely rapid.

Figure 6: Growth (index pre-recession year = 100) in private-sector employment, Canada, various periods



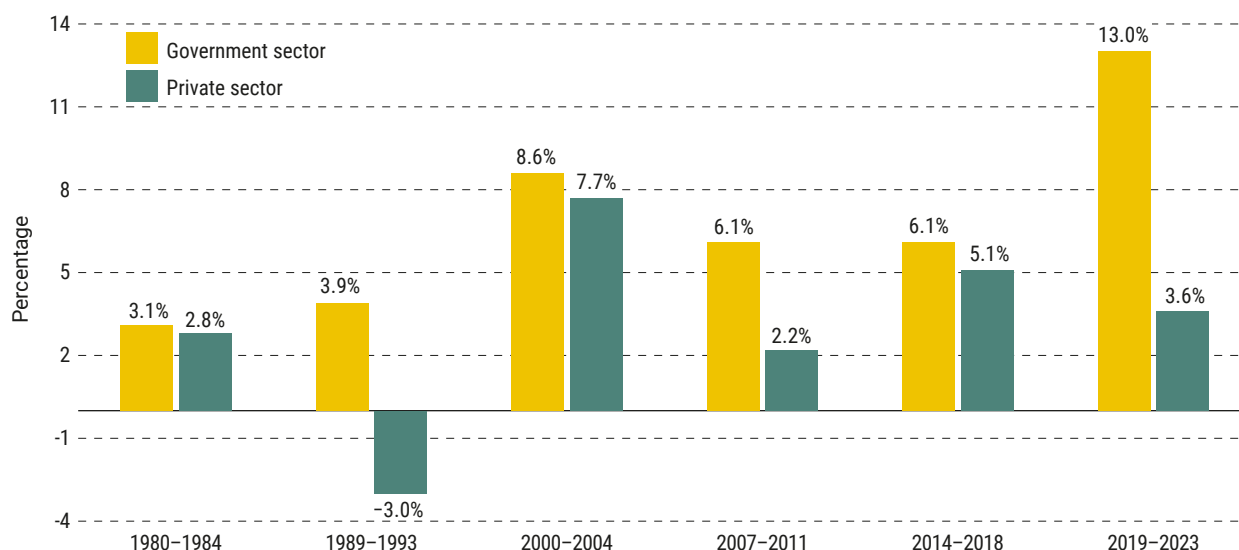
Sources: Statistics Canada, 2024a; calculations by authors.

Figure 7: Growth (index pre-recession year = 100) in public-sector employment, Canada, various periods



Sources: Statistics Canada, 2024a; calculations by authors.

Figure 8: Job creation (%) by sector and period, Canada



Sources: Statistics Canada, 2024a; calculations by authors.

Comparing the COVID recession and recovery in Canada and the United States

The extent to which the recovery from the COVID-19 recession has relied on growth in government employment is historically unique, and it is also fundamentally different from what has occurred in the United States during the same period. As previously noted, of the 1,049,700 net jobs created in Canada over the course of the period from 2019 to 2023, 490,000 (46.7%) were created in the public sector. While total employment in the government sector has increased by 13%, employment in the private sector has grown only by 3.6%. The combined recessionary and recovery period in the United States, by contrast, has been characterized by comparable rates of job growth in the government and private sectors.

Employment data collected by the Bureau of Labor Statistics uses a methodology that is comparable to

that employed by Canada’s Labour Force Survey,² from which the Canadian data above is drawn. It shows that total employment in the United States increased by 3,498,000 during this period. Of that, 562,000 (16%) were created in the government sector. The rate of job creation in the government sector of the United States was 2.7% during this period, slightly above the private sector rate of 2.1% (US Bureau of Labor Statistics, 2024).

The total rate of employment growth has been lower in the United States than in Canada, largely as a result of differences in the rate of population growth between the two countries. The data presented in this section show that, while Canada’s employment growth has been driven largely by much faster growth in the government sector than in the private sector, the American recovery has seen comparable job growth in the two areas of the economy.

² For more details on these data sources, please see Ketcheson, Kyui, and Vincent, 2017.

Conclusion

This study has shown that the rate of net job creation in Canada's public sector has been much higher than that in the private sector since the onset of the recession associated with the COVID-10 pandemic. This confirms the findings of previous research published by the Fraser Institute on this topic.

We have expanded this analysis by comparing the most recent recession and recovery period to several past recessions and economic slowdowns. We find that the COVID recession and economic recovery fundamentally differ from any past slowdown in the extent

to which job creation has been fueled by government hiring. While the rate of growth in private and total employment has been comparable to several past periods, the rate of government job growth has been uniquely rapid. As a result, government employment as a share of total employment has risen to its highest level since the fiscal consolidations of the 1990s.

Further, we have compared these developments in Canada to those in the United States, and shown that the American recovery has not been similarly driven by government-sector job growth. Indeed, the rate of net job creation has been similar in the private and public sector in the United States from 2019 to 2023.

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Ben Eisen

Ben Eisen is a Senior Fellow in Fiscal and Provincial Prosperity Studies and former Director of Provincial Prosperity Studies at the Fraser Institute. He holds a B.A. from the University of Toronto and an M.P.P. from the University of Toronto's School of Public Policy and Governance. Prior to joining the Fraser Institute, Mr. Eisen was the Director of Research and Programmes at the Atlantic Institute for Market Studies in Halifax. He also worked for the Citizens Budget Commission in New York City, and in Winnipeg as the Assistant Research Director for the Frontier Centre for Public Policy. Mr. Eisen has published influential studies on several policy topics, including intergovernmental relations, public finance, and higher education. He has been widely quoted in major newspapers including the *National Post*, *Chronicle Herald*, *Winnipeg Free Press*, and *Calgary Herald*.



About this Publication

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e-mail: communications@fraserinstitute.org

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e-mail: development@fraserinstitute.org

Milagros Palacios

Milagros Palacios is the Director for the Addington Centre for Measurement at the Fraser Institute. She holds a B.S. in Industrial Engineering from the Pontifical Catholic University of Peru and a M.Sc. in Economics from the University of Concepcion, Chile. Ms. Palacios has studied public policy involving taxation, government finances, investment, productivity, labour markets, and charitable giving for over 20 years. Since joining the Fraser Institute, Ms. Palacios has authored or co-authored over 150 comprehensive research studies, 100 commentaries, and four books. Her recent commentaries have appeared in major Canadian newspapers such as the *National Post*, *Toronto Sun*, *Windsor Star*, and *Vancouver Sun*.

