

November 2007

Government Lovers: Paid by Canadian Governments and Taxpayers

by Herbert Grubel

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Executive Summary

This study presents information about the size of government in Canada by accounting for the number of Canadians who are paid by governments as civil servants and beneficiaries of social insurance programs. It supplements the annual Tax Freedom Day studies published by The Fraser Institute to track the size of Canadian governments and the fiscal burdens they impose on Canadians.

It is important to track the number of recipients of government pay because these people offer politicians ready opportunities to court votes by promising more public sector employment and more generous unemployment, welfare, and retirement benefits. These political incentives lead to the expectation that the numbers of Canadians paid by government are likely to grow through time.

In fact, the numbers expressed as a percent of private employment fell between 1982 and 1989, but then rose sharply during the recession of the early 1990s. At the peak in 1992, for every 100 people working in the private sector, there were 103 Canadians who were paid by governments.

Fortunately, the propensity of politicians to court votes by promising more pay to more people is constrained by the need to finance the increased expenditure by either raising taxes or by higher spending deficits. In fact, the dramatic growth in the number of people paid by Canadian governments coincided with the development of large deficits in the late 1980s and early 1990s, when such deficits were politically acceptable.

However, when the size of the deficit and debt reached critical levels in 1993-1995, government spending was curtailed and the number of people receiving government pay as a percent of private employment fell sharply until the year 2000. Since then it has leveled off and in 2005 was around 76 percent.

The future progress of this figure needs to be watched as rapid economic growth stimulated by a global boom in commodity markets has resulted in large fiscal surpluses for Canada's federal government. These surpluses have allowed the expansion of government spending without politicians having to face the cost of explicit tax increases.

These developments may well lead to future increases in the number of Canadians paid by governments and a permanently higher level of taxation. They also carry the risk of a return of the fiscal crisis of the 1990s when the present global boom ends and Canada's economic growth slows.

Introduction

The Fraser Institute has a number of publications that document the involvement of Canada's government in the economy.¹

This study considers a special form of this involvement not documented elsewhere and of particular relevance to the behavior of politicians: the number of Canadians who are paid by governments “a major part of their income—in the sense that they would be very upset if it disappeared or shrank substantially and would oppose politicians who have any such plans” (Shilling, 2006, p. 8).

The number of Canadians who receive money from governments is worth watching and recording, since politicians will cater to voters by promising programs that increase the number of people paid by government and the money paid, or at the very least, promise not to reduce their numbers and pay. This tendency imparts an upward bias in the level of government employment and spending on social benefits.

Fortunately, this tendency is constrained by the fact that politicians have to raise taxes to pay for their vote-buying policies. Public resistance to such tax increases will increase the more the public knows about the size of these programs, which will be documented in this study.

The study focuses on the following categories of government programs that lead directly to payments to individual Canadians:

- The provision of services like education, health care, internal and external security
- Social programs that provide welfare, unemployment, and retirement benefits

Concerning the first category, it is important to recognize that public servants provide valuable services. The problem is that in principle, many of these services could be provided by the private sector, often more efficiently, but the rate of privatization is partly restrained by the voting power of these public servants who like to work for governments because their pay and working conditions tend to be more generous than they would be in the private sector. They also enjoy the protection of their interests through the existence of powerful public-sector unions.²

1 See, for example, the annual Tax Freedom Day calculations, the periodic *Spending Facts* and *The Economic Freedom of the World* annual reports.

2 Their higher pay is largely due to the power of public sector unions, whose members' jobs are safe partly because of the absence of private competition and partly because the government is able to

The second category involves nearly all Canadians as the consumers of employment, health, and retirement benefits. The rational, economic arguments for the initial creation of these social programs were that privately supplied alternatives did not exist or were too expensive for the majority of people at risk. Compulsory risk sharing, the absence of profits, and of the need to advertise were expected to lower operating costs and make the programs “affordable” to society.

At the same time, these insurance programs were popular with the public for the simple reason that they offered protection from the worst financial consequences of becoming unemployed, falling ill, or suffering poverty in retirement. Politicians who promised the creation of these programs could count on strong electoral support. Once the programs existed, politicians gained further votes by promising higher benefits and easier access to them.

Now that these programs have been in place for some years, it turns out that the lower costs have at least in part been offset by both dependency-increasing moral hazard behaviour on the part of the beneficiaries (i.e., people who would not have been needy in the absence of the social benefits have been induced to become needy by their existence) and efficiency losses due to the taxes needed to pay for the benefits. In addition, the pay-as-you-go principle that is used to fund these benefits has resulted in the imposition of unfair and large obligations on future generations.

These costs and the reduction in personal freedom created by the compulsory nature of Canada’s social programs have led to increasing demands for greater involvement of the private sector in their operation, such as health saving accounts, more generous tax-sheltered retirement accounts, welfare benefits tied to work effort, and a return of the employment insurance system to its original purpose of only assisting the unemployed rather than serving other social objectives.

The extent to which the public supports these proposed reforms and sends appropriate signals to politicians depends on access to solid and easy-to-understand empirical information about the size of these social programs. This study presents calculations showing the number of Canadians paid social insurance benefits, and in so doing provides such information.

pay for increased costs through tax increases that are relatively small given the overall size of budgets.

While I am not aware of any Canadian empirical studies on this issue, Steven Malanga (2005) has documented the growth of the public-sector union movement and its control over urban politics and the Democratic party of the United States.

Similar studies

The present study is in the tradition of one undertaken by Assar Lindbeck (1997, p. 23, table 2) who documented that more than 60 percent of Sweden's population received government checks in their capacity as government employees and as recipients of social insurance benefits.³ It is also similar in spirit to a study published by the Heritage Foundation in Washington (see Beach, 2005), but which is limited to documenting the number of persons benefiting from social programs. Gary Shilling (2006), an economist and investment adviser, provides information about conditions in the United States since 1950 that is very similar to the data presented in this study.

I. The Number of Recipients

Table 1 presents the most basic data allowing for an easy overview of the number of Canadians paid by governments and how these numbers changed in the period 1982-2005.⁴

Categories of recipients

The number of public sector employees from all levels of government is shown in column 1 of table 1.

Column 2 shows the number of recipients of pensions under the Old Age Security (OAS) and General Income Supplement (GIS) programs. These payments are not related to contributions individuals made to personal accounts and were designed to go to persons who, for whatever reason, receive inadequate private or public pensions.⁵

3 In a shortened version of his study, Lindbeck (1997a) ended his analysis with the question: "Is this a Point of No Return?" referring to the difficulties faced by Swedish political parties to form government on the promise to cut government spending.

4 Government of Canada publications provide the numbers used in this study. The exact source of the basic data is given in the tables in the text below. The numbers found in each of the two categories mentioned in the introduction above are straightforward and are used to produce time series for the individual categories with and without adjustments for the growth in the labour force.

5 As it turns out, the number of people who receive the income-tested OAS and GIS payments is virtually the same as the number of people who receive pensions under the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP), both of which are based on the contributions that individuals made during their working lives. The overlap is around 90 percent. Used here are the OAS/GIS numbers because they are the smaller of the two groups. They are also conceptually more

Column 3 shows the number of recipients of benefits paid to persons eligible under the federal Employment Insurance (EI) program, while column 4 shows the number of recipients of welfare benefits paid mainly by provincial and local governments.⁶

Levels and trends through time

The years 1982 to 2005 for the time series in table 1 were chosen because the data are readily available for this time period. The period is long enough to include the country's economic prosperity during the 1980s, which led to a substantial growth in government. It also includes the fiscal crisis in the early and mid-1990s, which resulted in spending cuts that reduced the absolute level of expenditures for the first time since the end of the Second World War. Included are also the years after the late 1990s, when fiscal health was restored and fiscal surpluses developed.

Figure 1 shows the data contained in table 1 for easy tracking of levels and changes through time.

- The number of recipients of pensions was the largest of any group in the graph. It rose steadily throughout the period, mainly as a result of an increase in the number of Canadians of retirement age.
- The number of public sector employees started and ended the period in second place and remained relatively constant through the period.
- The number of welfare recipients started in third place and rose sharply during the economic downturn from 1989 through about 1995, exceeding the number of public sector employees. It then fell steadily from its peak by nearly one half between 1995 and 2005, due partly to the recovery from the recession and due partly to the enactment of welfare reforms in several provinces.
- The employment insurance numbers show a time profile very similar to the number of welfare recipients, rising during the economic downturn from 1989-1993, and falling steadily thereafter until the small rise concurrent with the short-lived

appropriate since recipients may be assumed to consider the payments to be a return to contributions that, like investments in private annuities, entitle them to payments free from government influence and therefore protected from government plans to cut spending.

6 The published data for employment insurance and welfare give the average number of recipients during a month. The data in the table are the simple annual average of the monthly figures. Because there tends to be considerable turnover of persons receiving these benefits, the figures shown tend to understate the number of persons receiving them during a given year.

Table 1: Number of Canadians Paid Directly by Governments (in thousands)

Year	Public Sector Employment (1)	Old Age Pension (2)	Employment Insurance (3)	Welfare (4)
1982	2,420.7	2,403.6	1,241.7	1,832.9
1983	2,450.8	2,464.5	1,210.4	1,894.9
1984	2,477.9	2,529.1	1,197.0	1,923.3
1985	2,499.3	2,616.8	1,116.4	1,892.9
1986	2,535.0	2,706.7	1,096.9	1,904.9
1987	2,586.0	2,800.4	1,020.7	1,853.0
1988	2,653.6	2,883.0	1,019.8	1,856.1
1989	2,706.0	2,970.4	1,033.5	1,930.1
1990	2,781.3	3,059.0	1,200.7	2,282.2
1991	2,827.3	3,148.3	1,369.5	2,723.0
1992	2,842.3	3,230.4	1,379.5	2,975.0
1993	2,825.1	3,308.7	1,252.6	3,100.2
1994	2,787.9	3,721.0	1,114.8	3,100.3
1995	2,748.8	3,901.0	957.0	3,070.9
1996	2,672.2	4,055.0	911.5	2,937.1
1997	2,625.1	4,164.0	775.9	2,774.9
1998	2,610.9	4,271.0	745.2	2,577.5
1999	2,602.6	4,364.0	700.3	2,279.1
2000	2,612.2	4,485.0	654.4	2,085.1
2001	2,640.2	4,595.0	735.7	1,910.9
2002	2,583.0	4,715.0	828.7	1,842.6
2003	2,641.5	4,848.0	841.3	1,745.6
2004	2,669.3	4,998.0	826.5	1,745.6
2005	2,707.0	5,145.0	804.8	1,745.6

Sources:

For public sector employment data: Cansim 183-0002.

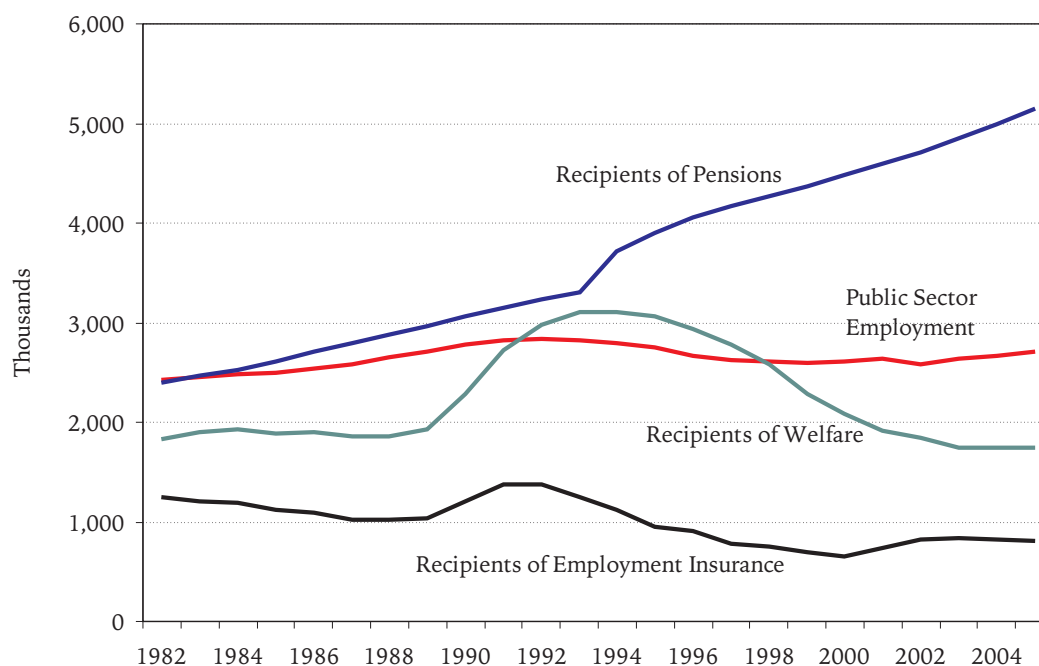
For Pensions: Human Resources and Development Canada, 2006.

For Employment Insurance: Statistics Canada, Cansim 2006081513073919486.

For Welfare: National Council on Welfare (2004). Note: data for 2005-06 are author's own linear extrapolation.

For population data: US Census, International Database.

For Employment: Table 282-0008, Labour force survey estimates (LFS), by North American Industry Classification System (NAICS), Labour Force Survey 3701.

Figure 1: Number of Canadians Paid Directly by Governments

economic slowdown of 2001-2002. The difference in the 1994 and 2004 levels is 310,000, or 28 percent. This reduction is due to general economic prosperity as well as some tightening of the rules on eligibility for benefits.

As a percent of private employment

Absolute numbers often are misleading in a growing economy. For this reason, table 2 expresses the numbers in the four categories as a percent of private employment, which is shown as column 1.⁷

7 Private sector employment rather than the population was chosen as a base here since the numbers in the four categories consist of the primary recipients of transfers. It does not include the number of their dependents. Only if they were included would it make sense to use population as the base for calculating the percentage of Canadians who depend on government pay.

Shilling (2006) included dependents in his calculations and used population as the base. However, the proper allocation of dependents to the primary recipients of government pay requires information that is not available and he assumed that all of the primary recipients had the same number of dependents. He also was not able to account for the fact that some families have more than one primary recipient of government pay, which results in an overestimate of the number of dependents for such families.

Table 2: Number of Canadians Paid Directly by Governments as a Percent of Private Sector Employment

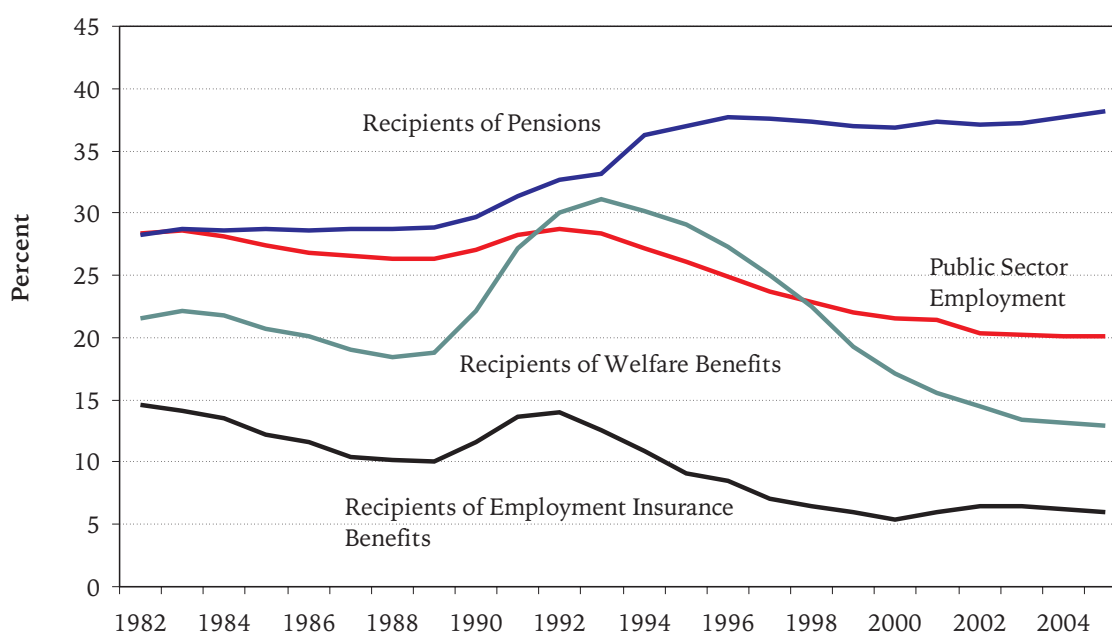
Year	Private Sector Employment (1)	As Percent of Private Sector Employment		
		Public Sector Employment (millions) (2)	Old Age Pension (3)	Employment Insurance (4)
1982	8.5	28.4	28.2	14.6
1983	8.6	28.6	28.8	14.1
1984	8.8	28.1	28.7	13.6
1985	9.1	27.4	28.7	12.2
1986	9.5	26.8	28.6	11.6
1987	9.7	26.5	28.7	10.5
1988	10.1	26.4	28.7	10.1
1989	10.3	26.3	28.9	10.0
1990	10.3	27.0	29.7	11.7
1991	10.0	28.2	31.4	13.7
1992	9.9	28.7	32.7	14.0
1993	10.0	28.3	33.2	12.6
1994	10.3	27.1	36.2	10.9
1995	10.5	26.1	37.0	9.1
1996	10.7	24.9	37.7	8.5
1997	11.1	23.7	37.6	7.0
1998	11.4	22.8	37.3	6.5
1999	11.8	22.0	37.0	5.9
2000	12.2	21.5	36.9	5.4
2001	12.3	21.5	37.3	6.0
2002	12.7	20.3	37.0	6.5
2003	13.0	20.3	37.2	6.5
2004	13.3	20.1	37.6	6.2
2005	13.5	20.1	38.2	6.0

Source: Same as table 1.

Figure 2 presents the last set of figures for easy, visual interpretation. While the graph may look nearly identical to figure 1, there are some interesting differences.

Fluctuations in the series are larger, especially for employment insurance and welfare benefits, caused in part by the opposite cycles in the numerator and denominator of the ratio (in other words, whenever private sector employment decreases in a business cycle, the numbers claiming employment insurance and welfare benefits increase). On the

Figure 2: Canadians Paid Directly by Governments, as Percent of Private Employment



other hand, the line representing the recipients of pensions is flatter than in figure 1. Remarkably, after 1996 the line is virtually flat. In other words, after 1996 Canadians who receive pensions as a percent of employees in the private sector have remained constant, which implies that the burden the private sector faces for paying for public pensions has not grown during these years (aside from changes in benefits that raise the cost to taxpayers of each person's pension).

Welfare and employment insurance benefits have shown a similar long-term decline since 1982, albeit interrupted by a few years during the economic downturn of the 1990s.

This long-term decline in the number of recipients of social benefits is good news for Canadians since it means a reduction in the burden that these programs place on the tax-paying private sector. The decline is due in part to the high level of prosperity and private sector employment, caused by the global boom and the resultant higher demand for commodities and energy in recent years. As noted above, it is partly due also to reforms in the administration of the welfare and employment insurance systems (see Clemens *et al.*, 2001).

Contributing to the decline in these figures is the growth in private sector employment that was caused by the wave of privatization of government activities since the middle

1980s. This process not only decreased the number of public sector employees, it also increased the size of the denominator used in the calculation of the percentages shown in table 2 and figure 2.

In sum, the information contained in the preceding two figures is encouraging. Governments have increased the absolute number of employees over the 24 years from 1982-2005 only slightly. As a percent of private sector employment, government employment in 2005 is 8.3 points lower than it was in 1982 and its peak in 1993-94.

Similarly, the data for welfare and employment insurance show the numbers relative to private sector employment to have been on a distinct downward trend over the last 24 years. Only the figures for pensions have gone up by about 10 percentage points.

However, this downward trend has not continued to the same degree over the last few years in the figure, in spite of continuing high levels of economic and employment growth. It remains to be seen whether this means an end to the favourable developments since 1982 and possibly heralds a renewed growth in the number of people paid by governments. Recent budgets from both Liberal and Conservative governments in Ottawa have included many new spending and regulatory initiatives that are almost certain to lead to more public sector employment and are worth watching.

II. Different Types of Government Employment

Table 3 presents a breakdown of the absolute number of government employees by different functional groupings. Figures 3 and 4 show graphically the percentage that these numbers are of private sector employment.⁸

Classic government employees

Figure 3 shows the number of Canadians who work for any of the three different levels of government: local, provincial, or federal.

- Civil servants at the local level are responsible for: assisting elected officials; administering education at the elementary and primary levels; zoning; administering building codes; providing fire and police protection; public transport; water supply; sanitation; courts of law; local road building and maintenance; libraries;

⁸ Two figures are used rather than one to avoid the potentially confusing presentation of too many lines on one graph.

Table 3: Number of Canadians Paid Directly, by Public Employment Categories (in thousands)

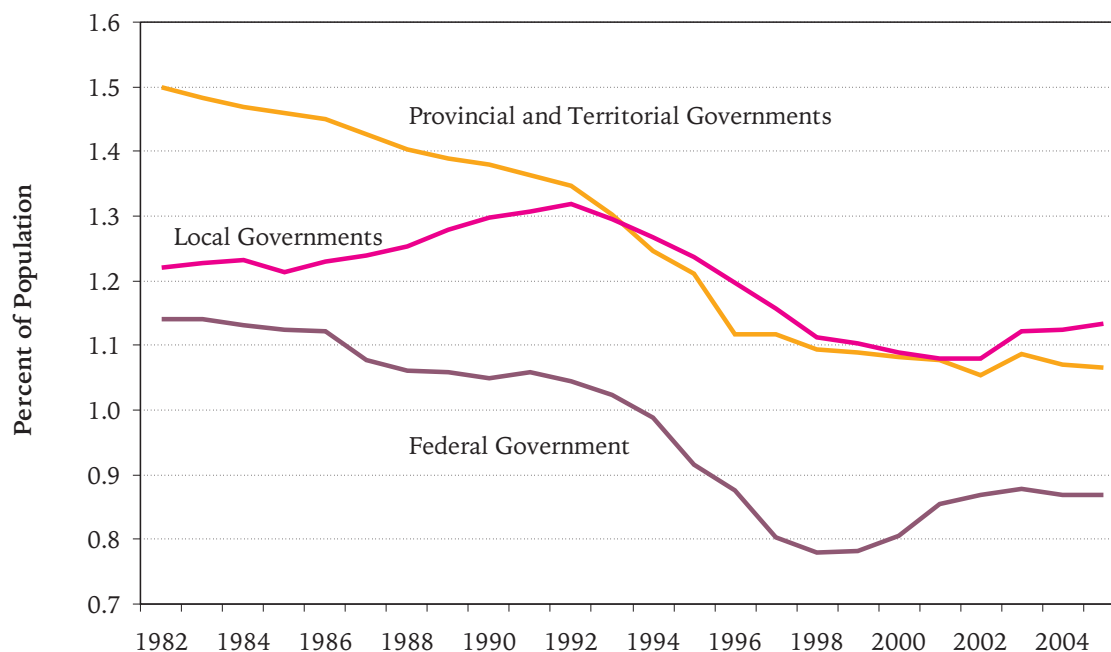
	Fed. Gov't without Military	Prov. & Terr. Gov't	Local Gov't	Health & Social Services	Universities and Colleges	Local School Boards	Military	Total Public Sector Employees	Public as Percent of Private Employment
1982	284.12	373.19	303.96	587.23	214.31	442.20	107.87	2,420.75	0.28
1983	287.40	373.79	309.35	601.78	219.44	438.25	110.41	2,450.82	0.29
1984	288.44	374.39	314.15	616.37	220.89	444.21	109.73	2,477.90	0.28
1985	289.11	374.99	312.05	628.67	225.80	447.58	110.53	2,499.26	0.27
1986	290.50	375.59	318.56	639.93	230.89	456.07	111.71	2,534.97	0.27
1987	282.56	373.54	324.60	660.74	251.71	466.02	113.40	2,585.98	0.27
1988	281.98	373.29	333.27	693.00	259.33	483.48	114.61	2,653.57	0.26
1989	284.61	373.77	344.04	704.30	263.28	501.32	117.34	2,706.00	0.26
1990	287.58	378.04	355.46	737.14	271.90	513.66	118.78	2,781.34	0.27
1991	293.98	378.72	363.22	746.19	276.83	525.51	121.41	2,827.26	0.28
1992	293.80	378.45	370.64	749.18	281.62	533.61	117.47	2,842.25	0.29
1993	291.54	371.08	368.91	744.37	281.72	541.08	113.19	2,825.09	0.28
1994	285.30	360.37	366.13	739.28	276.15	543.03	108.81	2,787.88	0.27
1995	271.18	358.42	366.47	737.23	274.80	540.93	99.88	2,748.78	0.26
1996	262.37	335.06	358.94	707.57	272.62	548.20	93.73	2,672.24	0.25
1997	243.46	338.71	350.43	692.24	270.74	541.00	94.25	2,625.09	0.24
1998	239.01	335.04	341.05	695.12	270.24	546.48	91.97	2,610.87	0.23
1999	242.13	337.04	341.78	690.02	269.14	543.34	89.56	2,602.57	0.22
2000	252.03	338.73	340.83	692.00	272.99	540.81	87.40	2,612.19	0.21
2001	269.69	340.27	341.34	697.22	275.89	540.59	87.61	2,640.23	0.21
2002	277.26	336.54	344.50	714.99	284.69	542.85	82.22	2,583.04	0.20
2003	282.66	349.75	360.98	738.53	294.44	531.35	83.77	2,641.47	0.20
2004	282.60	348.08	365.33	744.57	301.56	543.11	84.06	2,669.30	0.20
2005	284.90	349.28	371.71	755.92	308.90	550.61	85.71	2,707.01	0.20

Source: Same as table 1.

local social services, and many other activities. The percentage of these civil servants rose for ten years after 1982, dropped substantially after the fiscal crisis in 1993, and recovered only slightly after 2002.

- Civil servants at the provincial and territorial levels perform a similar set of functions as their local government counterparts: serving the elected legislature; col-

Figure 3: Civil Servants as Percent of Population

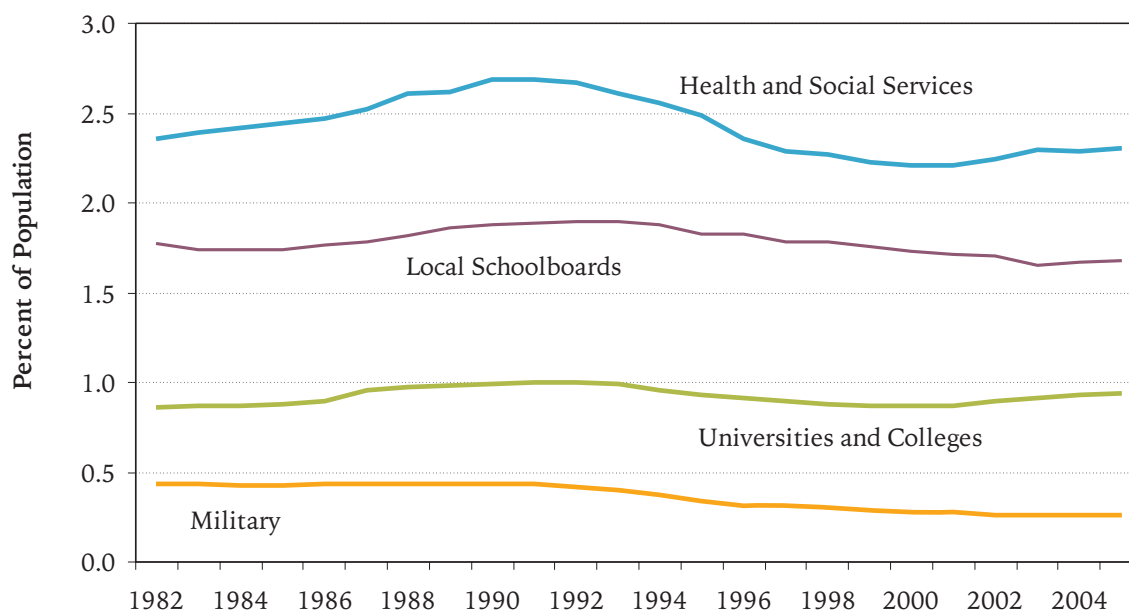


lecting taxes; providing highway construction and maintenance; police and judicial services; managing crown-owned assets such as forests, mineral deposits, and fresh water supplies. The percentage of these civil servants was on a steady and significant decline during the entire period, from a high of 1.5 percent to a low of about 1.05 percent in recent years.

- Civil servants at the federal level serve the legislature and the many federal ministries: finance, industry, foreign relations, natural resources, health, education, social services, immigration, foreign trade, transportation, fisheries and oceans, and defence. They also staff the Bank of Canada, Statistics Canada, and the Supreme Court. The percentage of this group of civil servants declined steadily between 1982 and 1998, when they rose nearly one tenth of a percentage point up to 2003 (in total over the five years between 1998 and 2003), and remained virtually unchanged in the following two years.

Figure 4 expresses the absolute numbers found in columns 4-7 of table 3 as a percent of private sector employment. Each category shows Canadians who work mainly as professionals in their capacities as the providers of health, social, education, and military services.

Figure 4: Public Employment by Categories, as Percent of Population



- The top line in figure 4 shows the providers of health and social services. These are doctors, nurses, and hospital and social workers. Some doctors are employed directly in hospitals, but most operate their own offices and bill the government for the services they provide to their patients.⁹ The percentage of these health and social care providers rose steadily between 1982 and 1990, fell steadily until 2001, and rose slightly during the last two years covered.
- The second line in figure 4 shows the percentage of employees working for local school boards. These employees are mostly teachers but also include school administrators, librarians, student advisers, and housekeeping staff. The percentages are almost completely unchanged during the years shown in the graph.
- The third line in figure 4 shows the percentage of professors and administrators working for universities and colleges. The line is virtually flat over the period under study.

⁹ The nurses and administrative personnel employed by doctors are not included in the figures used here. As employees of independent private firms owned by doctors, the government pays them only indirectly.

- The bottom line in figure 4 shows the percentage of the military in uniform.¹⁰ The line is flat between 1982 and 1991 and then shows a slow and steady decline to the end of the period covered.

In sum, the data presented in figure 3 show an encouraging long-term decline in the percentage of Canadians employed as civil servants at all three levels of government, though this trend has begun to reverse in recent years.

The percentages shown for the functional groupings in figure 4 imply that the number of teachers and professors has kept up with growth in private sector employments. The data for medical services are not as stable as those for teachers and professors but there has been virtually no change between the beginning year 1982 and the end year 2005. The only significant decline in the percentage figure is found for the military. It fell from .41 percent in 1992 to .26 percent of the population in 2005, for a decline of about 60 percent.

III. The Total Number of Canadians Paid by Governments

This section presents the total number of Canadians who are paid by government in all of the categories discussed above. The first 4 columns of table 4 repeats the basic numbers from table 1.

Column 5 shows the total of the first four columns, adjusted for the number of people who received both welfare and employment insurance benefits.¹¹

The adjusted total does not consider the fact that civil servants and the recipients of social benefits are different in several respects. One of these is that the pay of govern-

10 The number excludes persons not in uniform working at the Department of Defence. (The employees not in uniform are counted as civil servants.)

11 This adjustment is based on information extracted by Milagros Palacios from a dataset produced by Statistics Canada called Social Policy and Simulation Database and Model (SPSD/M), version 14.2, 2007, which contains, among other items, detailed information about sources of income from a representative sample of 40,000 Canadians.

The data show that in 2005, 123,200 people received both welfare and employment insurance benefits. In table 4, this number was subtracted from the sum of columns 1 to 4 and resulted in the number 10,279,300 shown in column 5 and labeled "Adjusted Total." The SPSD database allowed this procedure to be followed for the years 1992 to 2005, but not before 1992. For the years 1982 to 1991, therefore, the total of columns 1 to 4 was adjusted downward by 3.93 percent, which was the average rate over by which the adjusted total was below the simple total for the years 1992 to 1997

Table 4: Total Number of Canadians Paid Directly by Governments as Percent of Private Employment (in thousands)

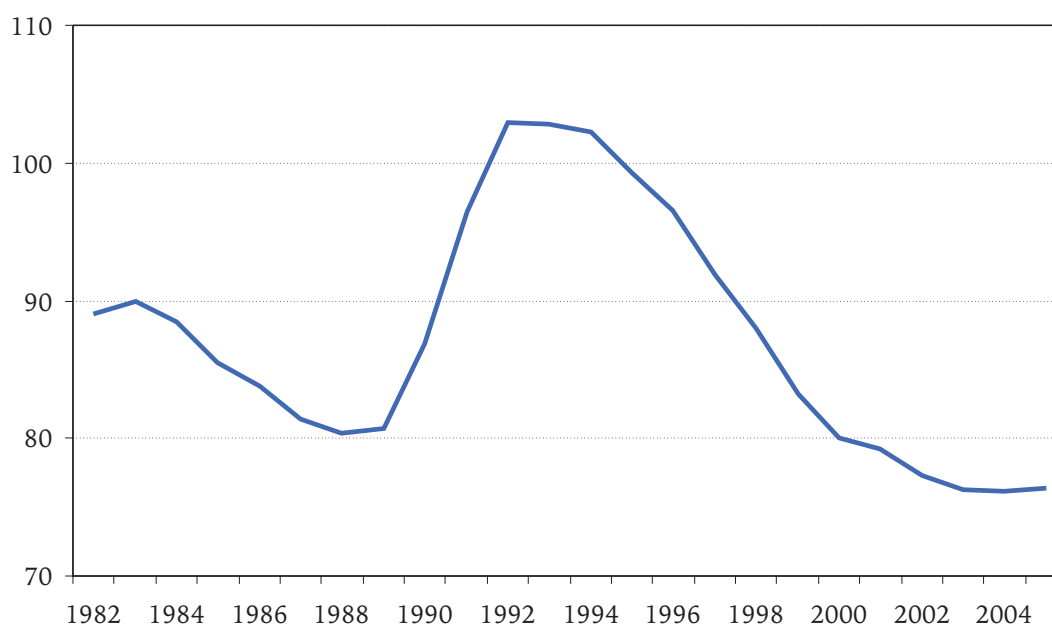
Year	Public Sector Employment (1)	Old Age Pension (2)	Employment Insurance (3)	Welfare (4)	Adjusted Total (5)	Private Sector Employment (6)	(5)/(6) (Percent)
1982	2,420.7	2,403.6	1,241.7	1,832.9	7,588.5	8,523.0	89.04
1983	2,450.8	2,464.5	1,210.4	1,894.9	7,705.4	8,571.2	89.90
1984	2,477.9	2,529.1	1,197.0	1,923.3	7,807.9	8,823.8	88.49
1985	2,499.3	2,616.8	1,116.4	1,892.9	7,806.0	9,128.0	85.52
1986	2,535.0	2,706.7	1,096.9	1,904.9	7,919.5	9,451.6	83.79
1987	2,586.0	2,800.4	1,020.7	1,853.0	7,935.4	9,747.0	81.41
1988	2,653.6	2,883.0	1,019.8	1,856.1	8,081.9	10,056.0	80.37
1989	2,706.0	2,970.4	1,033.5	1,930.1	8,300.4	10,290.2	80.66
1990	2,781.3	3,059.0	1,200.7	2,282.2	8,956.9	10,305.1	86.92
1991	2,827.3	3,148.3	1,369.5	2,723.0	9,672.5	10,030.1	96.43
1992	2,842.3	3,230.4	1,379.5	2,975.0	10,176.7	9,888.6	102.91
1993	2,825.1	3,308.7	1,252.6	3,100.2	10,245.7	9,967.6	102.79
1994	2,787.9	3,721.0	1,114.8	3,100.3	10,499.9	10,270.8	102.23
1995	2,748.8	3,901.0	957.0	3,070.9	10,470.8	10,546.6	99.28
1996	2,672.2	4,055.0	911.5	2,937.1	10,380.2	10,749.2	96.57
1997	2,625.1	4,164.0	775.9	2,774.9	10,180.0	11,080.9	91.87
1998	2,610.9	4,271.0	745.2	2,577.5	10,059.2	11,435.3	87.97
1999	2,602.6	4,364.0	700.3	2,279.1	9,818.8	11,804.1	83.18
2000	2,612.2	4,485.0	654.4	2,085.1	9,718.6	12,152.0	79.98
2001	2,640.2	4,595.0	735.7	1,910.9	9,750.9	12,306.0	79.24
2002	2,583.0	4,715.0	828.7	1,842.6	9,832.2	12,727.4	77.25
2003	2,641.5	4,848.0	841.3	1,745.6	9,936.4	13,030.8	76.25
2004	2,669.3	4,998.0	826.5	1,745.6	10,108.4	13,277.7	76.13
2005	2,707.0	5,145.0	804.8	1,745.6	10,279.3	13,462.7	76.35

Source: Same as table 1.

ment employees is typically equal to their total income from full-time work, while the funds from social benefits tend to be only a part of the income their recipients receive.

On the other hand, the numbers for the recipients of employment and welfare benefits are biased downward because there is a turnover of the individuals recorded as receiving the benefits during a year. Many of these recipients get off the welfare roles or find work within periods well short of a year. Since the published data are monthly averages of daily numbers, which in turn were averaged over calendar years shown here, this turn-

Figure 5: Total Number of Canadians Paid by Government as Percent of Private Sector Employment



over is not accounted for. For example, if recipients get employment insurance benefits on average for only 6 months, then the annual numbers of individual recipients would be twice the number receiving benefits calculated from the published data.¹²

The total number is not a weighted average of the different component series because the data needed for this purposes are not readily available. In addition, there are questions about the merit of doing so since the construction of all indices inevitably runs into the so-called index number problem. No one weighting scheme is proper for all purposes of analysis to which the index is put.¹³

12 Follow-up studies might consider obtaining time series of the average times over which employment insurance and welfare benefits are received and adjust the number accordingly.

13 The well-known Fraser Institute publications *Economic Freedom of the World* and the school report cards also do not use weights in the construction of indices that reflect a number of variables, after much experimentation with and discussion of different weighting schemes. In the end it was deemed that a simple arithmetic average of the variables was the most general and transparent approach.

Researchers who feel that such a weighting scheme is suboptimal can readily use the raw data and employ weights of their own choosing.

Lindbeck and Shilling also used the methodology employed here, which allows the results of the three studies to be compared.

Figure 5 conveys some interesting facts about the level and trend of the total number of Canadians paid by governments expressed as percentage of private sector employment.

- First, this percentage has fluctuated widely over the period under study. It fell from 90 percent in 1982 to 80 percent in 1989, then rose sharply to 103 percent in 1992, where it stayed for three years before declining steadily to around 77 percent in 2003, where it stayed until 2005. Columns 3 to 5 in table 4 show that the dramatic increases and high percentages in the middle 1990s were due to two influences: the number of Canadians receiving employment insurance and welfare benefits rose sharply, while at the same time private employment fell somewhat. These developments are due to the fiscal crisis and economic downturn that afflicted Canada during these years and they are typical of all such economic cycles.
- Second, in the middle 1990s, fewer Canadians were employed in the private sector than were receiving government pay. This ratio represents an interesting landmark in the light of the theory about the likelihood that persons receiving a substantial part of their income are most likely to vote for political parties that promise to retain or even increase these payments. During these years, the absolute number of Canadians receiving such payments exceeded the absolute number and voting power of those in the private sector employment, whose motives for voting were not influenced by their dependence on government pay.
- Third, it is heartening for taxpayers, and encouraging of incentives for work and investment—and therefore the prospects for future economic growth—that the percentage has fallen since 1995 and after 2000 has been at historic lows.
- Fourth, since about 2003 the index has been level. It remains to be seen and is worth tracking what will happen thereafter. Rapid economic growth tends to drive it down, but the federal government's budget surpluses in recent years have been used in large part to finance the expansion of government activities, many of which will show up in the statistics in the future. In addition, the Conservative government's heavy use of tax credits and targeted subsidies, as well as the environmental policies announced in 2007, will require the creation of many more jobs for civil servants.¹⁴

IV. Possible Extensions

The number of Canadians who are paid by governments is greater in reality than indicated by estimates presented in the preceding sections because there are several other important ways that governments pay Canadians directly or indirectly, but which were not quantified here.

Employees of publicly owned firms, the so-called crown corporations, have their incomes determined indirectly by governments. Statistics Canada presents the number of employees of these firms as part of “Public Sector Employment.” In 2001, the employees numbered 266,700, or 20 percent of total public sector employment.¹⁵ Examples of such crown corporations have been airlines, railroads, ferries, and Canada Post. In recent years, many of them have been privatized, but at 20 percent of total public sector employment, they remain important.

Governments also influence indirectly the pay of workers and the owners of firms that are protected from competition through regulation and import restrictions. Examples are firms subject to agricultural supply management, cultural industries, and the telecommunications and the automobile sectors. Estimates of the number of Canadians working in these industries is possible but beyond the scope of the present study.

Governments directly pay the salaries of Canadians who work for them as consultants providing specialized services not available in the bureaucracy or meeting unexpected or temporary demands. As a result of government downsizing in the mid-1990s, many civil servants lost their positions but were allegedly re-employed as consultants. There are no publications providing the number of such consultants.

Governments indirectly pay the employees of private firms from which they buy goods like office equipment and supplies, military hardware and vehicles, and services like utilities, accounting, computing, legal, and janitorial. No data exist on the number of employees of the firms selling to governments, but estimates of total outlays exist and can be converted into the number of employees by considering conditions in the relevant industries and firms.

14 Examples are the Conservative government’s tax policies that give tax credits for children’s enrolment in sports and to the users of public transit and that make payments to families with children. The government’s plans for dealing with pollution and greenhouse gas emissions will require many new micro-management and surveillance activities.

15 The source for these data is the same as found in the footnote to table 1.

Governments have many subsidy programs directed at private organizations, which in turn hire employees with this money. Subsidies consist of outright cash grants, repayable loans, guaranteed loans, and tax concessions. Private sector firms benefiting from such subsidies in recent years are found in the aviation and other-high tech industries; the producers of arts, entertainment, films and other cultural products; and services and businesses that qualify for the receipt of regional federal development support, as in the Maritimes.

Subsidies also go to many non-governmental organizations that serve the public interest, such as legal aid to the indigent; charitable aid to the addicted and indigent; services to special interest groups of women, natives, immigrants and the victims of special diseases; think tanks that produce information useful for policy makers and the shaping of public opinion¹⁶; cultural institutions like museums, orchestras, theatres and heritage sites; the providers of public “affordable” housing; research chairs at universities; students through loan guarantees; promoters of the rights of women, the handicapped, immigrants and many other minorities.

Statistics on the value of these government subsidies and the number of Canadians paid through them is not available publicly. It would require considerable resources to extract the relevant information from published government spending accounts.

Government legislation requires that sufficient funds be provided to native bands for an adequate standard of living. The numbers of natives who thus are paid indirectly by governments are not published but exist in the books of relevant government departments, from where they can be retrieved only at great expense.

In sum, the number of Canadians who depend directly or indirectly on pay handed out by governments is much larger than the number of civil servants and recipients of social benefits noted above. Given the numbers presented above and general knowledge about the number of individuals falling into these six categories of indirect recipients of government pay, there is a strong likelihood that the total number of people receiving such benefits directly and indirectly exceeds the total number employed in the private sector. However, this proposition can only be verified by appropriate future research.

16 The Fraser Institute is not among those receiving government subsidies.

V. Summary and Conclusions

This study presents the number of Canadians who were paid by governments as employees in the public service, or as recipients of social benefits, from 1982 to 2005.

The total number of recipients of government pay as a percent of private sector employment fluctuated widely from 1982 to 2005, from the peak of 103 percent at the height of the fiscal crisis in the mid-90s to 77 percent in recent years.

These estimates, which are based on the number of civil servants and recipients of social benefits, underestimate the total number of Canadians who are paid directly and indirectly by governments under other spending programs for which data are not readily available.

The findings of this study supplement other studies produced by The Fraser Institute including *Tax Freedom Day*, *Tax Facts*, *Government Spending Facts* and *Economic Freedom of the World* to remind Canadians of the large size of their governments and the associated high levels of taxation. These studies keep Canadian voters informed and may make them more inclined to ask politicians to reduce or at least slow down the growth in government.

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Acknowledgements

This study presents the views of the author and not necessarily those of the Fraser Institute's supporters or trustees. The author thanks Mike Walker, Jason Clemens, Niels Veldhuis and Milagros Palcios for comments on an earlier draft and for help with some statistical compilations. Professors James Dean and Zane Spindler also provided useful comments. The term "government lovers" used in the title is borrowed from Shilling (2006).

About the Author

Herbert Grubel is Emeritus Professor of Economics from Simon Fraser University in British Columbia. He has a BA from Rutgers University and a Ph.D. in economics from Yale University. He has taught full-time at Stanford University, the University of Chicago, and the University of Pennsylvania. He has also had temporary appointments at universities in Berlin, Singapore, Cape Town, Nairobi, Oxford, and Canberra. Dr. Grubel was the Reform Party Member of Parliament for Capilano-Howe Sound from 1993 to 1997, serving as the Finance Critic from 1995 to 1997. He has published 16 books and 180 professional articles in economics dealing with international trade and finance and a wide range of economic policy issues.

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ISSN

1714-6739

Date of issue

November 2007

Editing, design, and production

Lindsey Thomas Martin and Kristin McCahon

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