BC STATS

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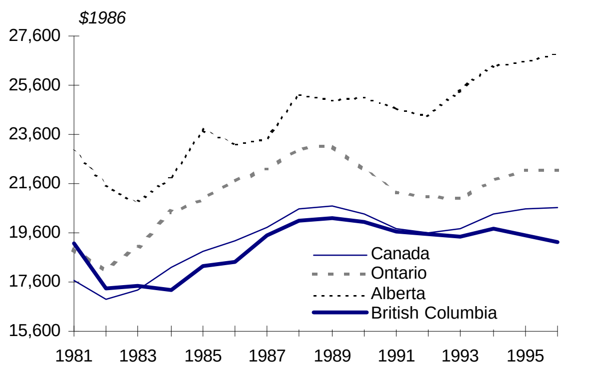
Are British Columbians Better Off Now than in 1981?

Since 1981, there has been virtually no change in labour productivity[1], and employment growth has just kept pace with increases in the population. As a result, BC's real (constant dollar) per capita gross domestic product (GDP) has shown little improvement during this period. Per capita GDP had declined at the beginning of the 1980s, when the economy was in a recession, but regained the lost ground in a growth spurt during the latter half of the decade. However, since the beginning of the 1990s, per capita GDP in the province has increased at about the same rate as the overall price level and real GDP per capita in 1996 was virtually unchanged ($19,195, compared to $19,167) from its 1981 level.

Real per capita GDP has stayed steady during the last one-and-a-half decades



Canada's real per capita GDP fell during the recession at the beginning of the 1990s, but quickly recovered and has increased almost $3,000 (from $17,676 to $20,618) since 1981. Real GDP per capita in most of the provinces has risen by comparable amounts. As a result, BC's ranking *vis-a-vis* the rest of Canada has deteriorated and per capita GDP in the province has remained below the national average.

Personal after-tax income has been declining

**Note: Real (constant dollar) income estimates are calculated using the implicit price index for personal expenditures*

Real GDP per capita is often used to measure the standard of living in a region, but some analysts have argued that a more appropriate measure of well-being is personal disposable income. The argument is based on the fact that GDP explicitly excludes income sources (such as transfer payments) which improve the standard of living of individuals resident in the province, but do not represent payment for current productive activities.

Personal income includes earned income (from wages, salaries, unincorporated businesses and investments), as well as income in the form of transfers from government, business, and other individuals. Personal disposable income is then calculated by deducting taxes and other payments to government (such as health insurance premiums) from the total.

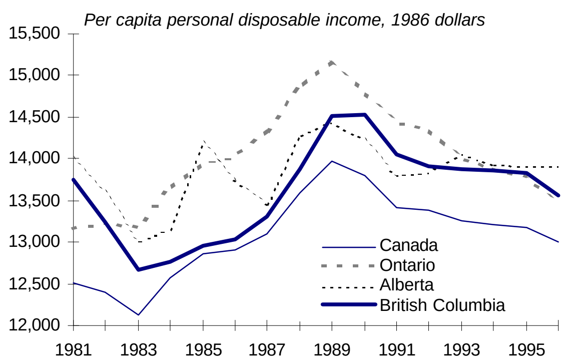
Using this measure, one comes to a different conclusion regarding BC's ranking compared to the rest of Canada. On a per capita basis, real after tax disposable income in the province has remained above the national average during the entire period since 1981. After-tax per capita income in British Columbia ($13,563) was second only to that in Alberta ($13,905) in 1996. The national average was $12,998, and Ontario ($13,464) was the only other

[1] *For a discussion of long-term trends in the province's GDP and labour productivity, see the January 1998 issue of Business Indicators.*

province where after-tax income was above the Canadian average.

Even though the longer-term trend in real personal disposable income shows considerably more volatility than that for real GDP per capita, the trends over time are quite similar. After peaking in the late 1980s, real after-tax income in the province has been declining, and per capita income in 1996 was slightly lower ($13,563, compared to $13,745) than in 1981. Alberta was the only other province where per capita disposable income declined during this period, falling from $14,004 to $13,905.

Real per capita disposable income rose during the 1980s but has since been in a downturn



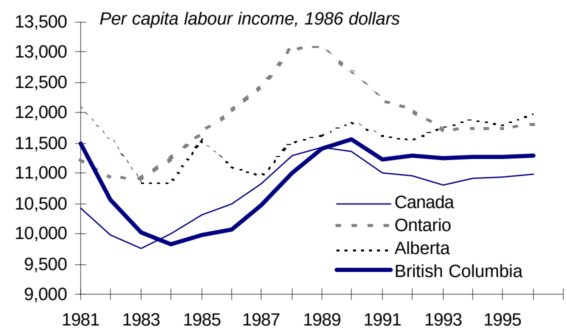
Most provinces have seen similar declines in real after-tax income during the last few years. Canadian per capita real disposable income has been in a downturn since the late 1980s. However, largely as a result of stronger growth earlier in that decade, the real after-tax income of an average Canadian was 4% higher in 1996 ($12,998) than in 1981 ($12,510).

Why have Canadians seen their real incomes fall?

Possible reasons for the decline in real personal income can be identified by examining trends in the components which make up this measure. One factor contributing to the deterioration in personal income in most parts of the country is a lack of growth in real per capita labour income since the late 1980s. Labour income (wages, salaries and employee benefits) accounts for about two-thirds of total personal income.

In BC, per capita labour income has increased at about the same rate as inflation during the last few years. The province's performance has been better than the national average: Canadians in general had less labour income (in constant dollars) per person in 1996 than at the beginning of the decade.

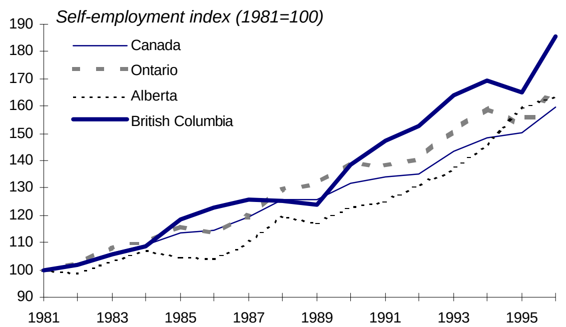
Real per capita labour income has not increased since the late 1980s



Moderate wage increases in recent years are one reason for the stagnation of real labour income per capita. Another contributing factor may be the recent growth in self-employment. Self-employment growth would have the effect of reducing labour income for two reasons: first, because individuals who work for themselves may not necessarily earn as much (in wages, salaries and benefits) as those who work for an employer; and second, because the income of self-employed workers who are not incorporated is reported as unincorporated business income rather than labour income.

In British Columbia, most of the growth in self-employment has been among those who work without any paid help. Many of these individuals operate unincorporated businesses. The number of unincorporated self-employed workers has more than doubled since 1981, growing to 215,000. During the same period, the number of incorporated self-employed individuals increased 58% to 118,500.

Self-employment has increased considerably more in BC than in the rest of the country.



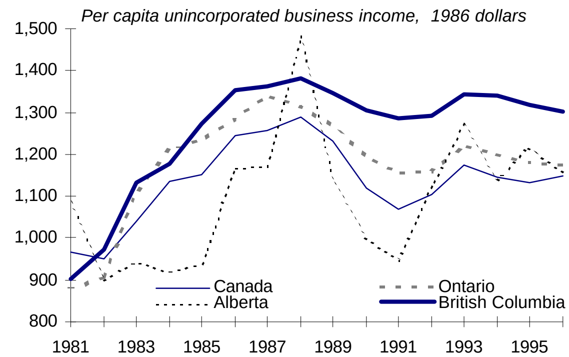
The number of self-employed British Columbians has almost doubled since 1981, with much of the growth occurring during this decade. Self-employment in British Columbia has increased considerably more than in the rest of the country, where the number of self-employed in 1996 was about 60% higher than in 1981.

Nationally, the growth in the ranks of the self-employed has followed a different pattern. Since 1981, the number of incorporated self-employed people has increased 69%, compared to a 55% increase among those who have not incorporated their businesses.

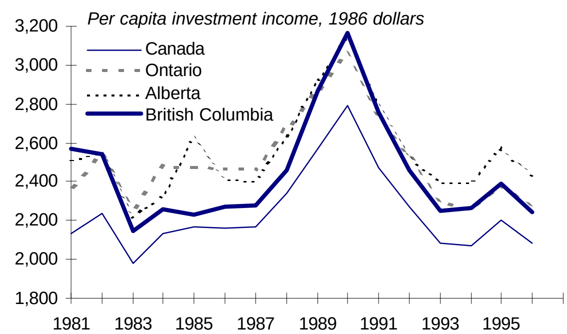
The effect of these different forces at work in BC compared to the rest of Canada is illustrated in the figure below. Real unincorporated business income in BC has remained fairly stable during the 1990s even though it has fallen in most other parts of the country.

It should be noted that other factors, such as changes in the stock (but not the value) of housing, also have an effect on this component of real personal income, as unincorporated business income includes an estimate of paid and imputed rental income.

The rapid rise in self-employment has boosted unincorporated business income in the province



Real per capita investment income has declined



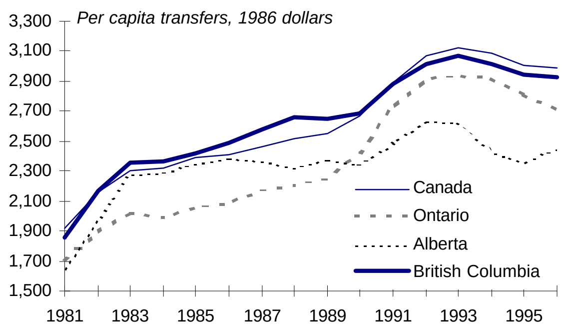
Investment income, another component of personal income, has been affected by declining interest rates and changes in behaviour which have resulted in individuals saving less of their income than they did previously. As a result, the real investment income of individuals in all provinces has been falling since 1990.

Transfer income is a more important source of personal income in BC than in the other "have" provinces

The average BC resident receives more income in the form of transfers from governments and businesses than residents of the other "have" provinces. This may be partly due to a different age structure in the province as well as other factors which influence the lifestyle choices of individuals.

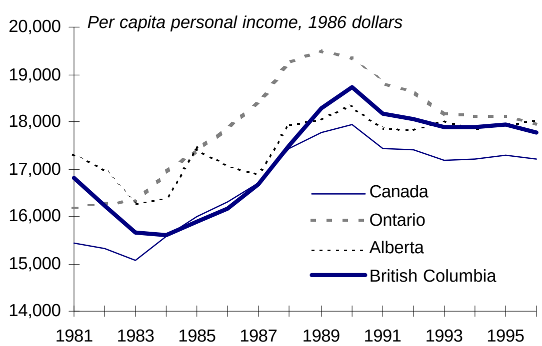
British Columbians received an average $2,922 per person (in 1986 dollars) from governments, corporations, and non-residents in 1996, up from $1,854 per person in 1981. Nationally, average transfer income per capita increased from $1,921 to $2,984 during the same period. Residents of Alberta ($2,446) had the lowest per capita transfer income in the country. Ontarians ($2,709) also received less transfer income per person than in BC.

In 1996, British Columbians received just under $3,000 (1986 dollars) per capita in transfer income



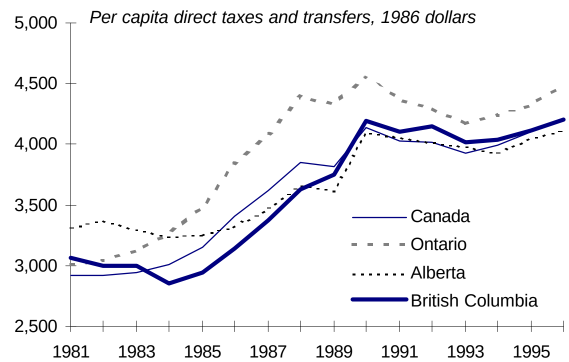
In BC, transfer income and unincorporated business income have helped boost personal income in the province despite declines in investment income and little growth in real labour income per capita. As a result, real per capita personal income in the province has remained above the national average since the late 1980s.

Real per capita personal income in British Columbia is about the same as in the other "have" provinces



Per capita direct taxes (such as personal income tax) paid by British Columbians increased during the 1980s but have remained fairly constant since the beginning of this decade. British Columbians paid $4,198 (in 1986 dollars) per person in direct taxes and transfers to federal, provincial and local governments in 1996. This does not include indirect taxes such as the GST and PST which are reported as part of personal expenditures on goods and services.

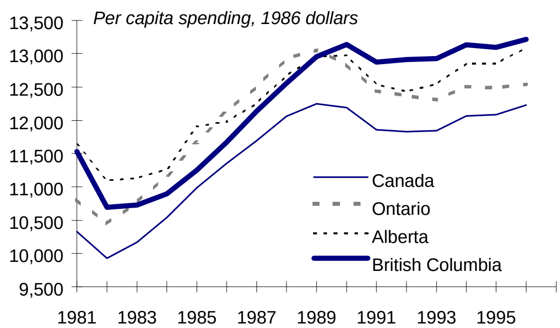
Direct taxes paid by British Columbians have been fairly stable since the beginning of the decade



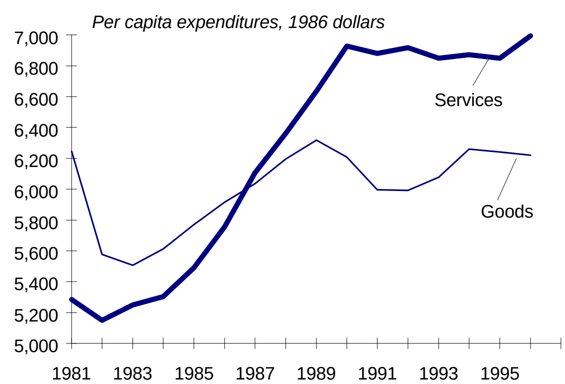
The recent decline in disposable income has not been accompanied by a decrease in spending by individuals

As noted earlier, real per capita disposable income in BC was slightly lower in 1996 than in 1981. However, the decrease over the entire period is the result of two opposing trends–growth during the 1980s, followed by declining real after-tax incomes in this decade–which are evident to a greater or lesser degree in most provinces. Between 1981 and 1990, real personal disposable income increased in almost every province, growing 5.7% in BC and 10.3% at the national level. Since 1990, however, after-tax incomes have been falling in most parts of the country. British Columbia's 6.7% decline between 1990 and 1996 was comparable to a 5.8% decrease nationally. The decline can be attributed to a combination of factors: real personal income has fallen slightly during a period when direct taxes paid by individuals (adjusted for inflation) have remained virtually unchanged.

Per capita spending has continued to increase despite the decline in disposable income

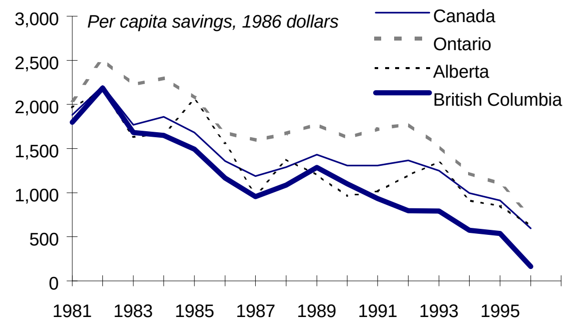


The average British Columbian spent almost $1,000 more on services than on goods in 1996



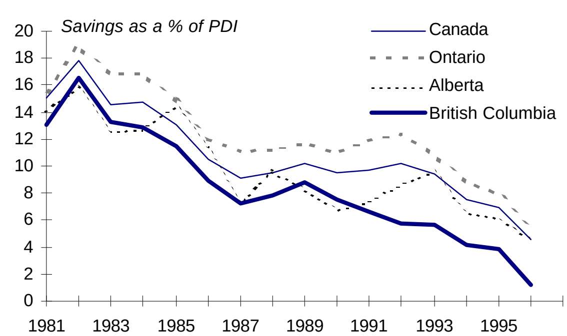
The increase in personal expenditures has been accompanied by a shift in the spending habits of consumers. In 1981, the average British Columbian spent $6,246 on purchases of goods, and $5,285 on services. By 1996, average spending on goods ($6,221) was lower than spending on services ($6,995).

British Columbians save significantly less than other Canadians



The result of continued expenditure growth that has outpaced increases in after-tax income has been that a constantly dwindling share of personal income is going into savings. Real per capita savings in BC fell from $1,796 in 1981 to just $160 per person in 1996. Although the decline in savings is not unique to BC, Nova Scotia ($91) was the only province with lower real savings per person in 1996. The national average was $595 per capita, in 1986 dollars.

The province's savings rate has fallen to 1% of disposable income



This downward trend in savings could have worrisome implications for the province. Personal savings are used to fund capital investment by business and government. If British Columbians and other Canadians continue to save less and less of their incomes, it could become increasingly difficult to obtain domestic capital for investment and other purposes.

Are British Columbians better off now than in 1981?

British Columbians have seen marginal declines in real after-tax income since 1981. Factors contributing to the lack of growth include a drop in real labour income and income from investments, combined with a larger tax bite. Offsetting these factors are more income from operating unincorporated businesses and steady growth in transfers to individuals from government and business.

British Columbia's situation is not unique. Residents of other provinces have also been affected by these changes, but stronger growth during the period from 1981 to 1990 (personal after-tax income in BC grew only half as much as Canada's during this period) has helped mitigate their effects in the rest of the country. As a result, the average Canadian has experienced a slight improvement in real disposable income over the entire period even though real income has fallen in most parts of the country since 1990. The decline in BC during recent years is not inconsistent with that in other provinces.

The effect of historical revisions

Statistics Canada is in the process of revising the provincial economic accounts based on national historical revisions published by the agency in December 1997. Included in the changes to the definitions and concepts which underlie Canadian economic accounts estimates is a reclassification of universities and some residential care facilities from the personal to the government sector. What effect this change will have on the estimates of savings rates and personal income at the provincial level is as yet undetermined.

All of the data in this report are based on information from Statistics Canada Catalogue 13-213 (Provincial Economic Accounts), published in May 1997. The constant dollar estimates of personal income and its components were calculated by BC STATS.

This article is an excerpt from the introductory text of the British Columbia Economic Accounts, 1987–1996. Copies of the publication, including the complete article, plus annual and quarterly tables of data, are available from BC STATS for $20. Contact Kris Ovens (387-0359) to order.