

BUILDING ON OUR PROGRESS – STRIVING FOR EXCELLENCE

Volume I - External Performance Review: Inter-Provincial and International

Backgrounder

The BC Progress Board has two mandates:

- Benchmarking BC's performance over time and relative to other jurisdictions; and,
- Providing strategic advice to the Premier and government on measures to improve BC's economic performance and its social policy supports.

The Board reports in detail on **eighty-three** indicators and provides supplementary comparisons or analysis on topics of interest to explain data issues and provide further relevant information and commentary. The foundation of the Board's reporting consists of six core targets related to two overall goals for British Columbia. Twenty-six additional inter-provincial performance indicators, eleven province-state metrics, and nine international comparisons shed further light on BC's overall economic and social performance. On a regional basis, eighteen performance indicators provide an overview of urban-regional performance. These comparisons are supplemented by inter-regional comparisons where data permits.

Taken together with the investigative topic boxes, these comparisons provide the most comprehensive effort available benchmarking BC's economic and social performance externally (relative to other jurisdictions) and internally (urban versus rural and inter-regionally) on key outcome performance indicators.

Economy, Innovation and Education

In 2001, the Progress Board recommended that British Columbia work towards two overarching goals, with the first goal being: *Make BC a Leader in Economy, Innovation and Education in Canada by 2010*. To anchor this objective, the Board reports BC's progress on three core target measures: economic growth, standard of living and jobs.

- **Economic Growth**: Target 1st or 2nd among the provinces in the growth of real GDP per capita by 2010. In 2005, BC ranked second for the annual growth of real GDP per capita; revised data show BC earned the same rank in 2004, up from BC's fourth ranked performance in 2003. BC ranked fourth for the level of real GDP per capita in 2005. Over the ten-year period 1996-2005, BC was tenth in the country for annual average improvement on this basic performance measure. In addition to being above the national average growth rate of real GDP per capita since 2002, BC achieved the economic growth target in 2004 and 2005.
- **Standard of Living**: Target 1st or 2nd among the provinces for the level of real personal disposable income per capita by 2010. In 2005, BC held onto its third place rank among the ten provinces for the level of real personal disposable income per capita. BC ranked ninth for ten-year (1996-2005) improvement in this core target, up from tenth in last year's benchmarking report.
- **Jobs**: Target 1st or 2nd for the employment rate by 2010. In 2005, BC ranked fifth for the employment rate (age 15-64) among Canadian provinces, unchanged from its 2004 rank but an improvement from sixth place rank in 2003. BC's ten-year progress rank (1996-2005) remained in tenth place among the provinces, despite robust job growth in 2003, 2004 and 2005.

The report contains thirteen additional performance indicators that provide further information on BC's inter-provincial economic performance; note that the most recent year of data and the relevant rank are provided in brackets. Seven registered strong performance, ranking between first and third among the provinces:

- real average hourly wages (2005, ranked from the perspective of workers, 2nd);
- taxpayer supported debt (2005/06, 2nd);
- top personal marginal income tax rate (2006, 2nd);
- provincial deficit/surplus (2005/06, 2nd);
- net interprovincial migration (2005/06, 2nd);
- business gross fixed capital formation (2005, 3rd); and,
- university completion for those aged 25-54, (2005, 2nd).

Four performance indicators registered middling performance (ranked between fourth and seventh):

- productivity (2005, 5th);
- per capita tax burden (2005/06, 6th);
- research and development spending as a percent of GDP (2004, 4th); and,
- employment in natural and applied sciences (2005, 4th).

Two indicators registered in the weak category (i.e., ranked between eighth and tenth):

- total exports per capita (2005, 8th); and,
- secondary school graduates (2004, 8th).

This year's report includes several supplementary topic boxes on *economy, innovation and education*:

- ***Infrastructure, Market Connectivity and Economic Growth*** – The cost of infrastructure investments makes selecting the most effective and beneficial projects crucial. Of course, determining which infrastructure investments will be most effective in triggering economic growth and which have the highest return for investments of scarce public funds, is by no means a straightforward process.
- ***Canada's Infrastructure Debt and Deficit*** – The infrastructure gap is a pressing issue that must be addressed in the coming years if Canada wishes to preserve its competitiveness. In addition to being an important economic driver, infrastructure is also an essential component in preserving the quality of life for the public. An infrastructure deficit results when expenditures do not keep up with what is required to meet expected needs. The accumulation of such annual deficits has resulted in an 'infrastructure debt', the backlog of unmet construction and maintenance needs.
- ***Historical Comparison of Core Targets 1 through 3*** – Data from 1971 through 2005 for the first three Core Targets – economic growth, standard of living, and jobs – highlight that BC's performance on growth in real GDP per capita and real personal disposable income per capita deteriorated in the 1980s, and was especially weak in the 1990s. BC's performance has been especially weak relative to the national average on these two core indicators, though importantly BC has been ahead of the national average for growth in real GDP per capita since 2002 and BC's real PDI grew faster than the national average in 2004 and 2005. While BC experienced a long period of structural decline there is improvement in recent years. The last time BC was ahead of the national average on both of these important indicators prior to 2005 was 1987.
- ***Detailed Balance of Trade*** – A trade deficit is not problematic for an economy unless it becomes very large relative to what is being produced; in BC the overall trade deficit represented just 2.5 percent of GDP in 2005. Although BC's interprovincial trade deficit

was the largest in Canada for the entire period 1981 to 2005 – in 2005 the interprovincial deficit was \$8.4 billion – as a share of GDP, BC's interprovincial deficit is smaller than all provinces except Quebec and Newfoundland and Labrador.

- ***The BC/Alberta Trade, Investment and Labour Mobility Agreement (TILMA)*** – TILMA is aimed at dismantling persistent inter-provincial barriers to trade, including overlapping regulations and policy misalignment, and further integrating the increasingly interrelated economies of BC and Alberta. It will commence April 2007 with a transition period to April 2009.
- ***Business Tax Competitiveness*** – As the economy becomes increasingly global and reaps the benefits of continual technology advances, physical location becomes less important. A brief examination of some of the world's top economic growth performers (Hong Kong, Korea, Singapore and Ireland) illustrates that BC and Canada share many of the ingredients of these jurisdiction's success: a highly educated population, advanced transportation and communications infrastructures, and export-oriented production. The only key difference appears to be effective tax rates that are far above those of competing jurisdictions.
- ***Benchmarking Key Business and Personal Tax Rates*** – Among the provinces, British Columbia's top marginal personal income tax rate is second-lowest for most people's main income source, salary and interest income, second-lowest for capital gains income and fourth-lowest for dividend income. British Columbia has the third-lowest combined federal and provincial small business income tax rates for 2006, behind Alberta and New Brunswick. BC ranked third among the provinces for its general corporate tax rate, behind Quebec and Alberta, and ranked second, behind Alberta for the tax rate on corporate investment income.
- ***Head Offices*** – Head offices are the command centre of a company, the place where strategies are developed, senior managers work, professional services are employed, and where control over business decisions reside. The number of head offices in a region, and rate of growth or decline in that number, has become an important benchmark of both a region's attractiveness to business investment and its relative economic success. Data for major cities in Canada show that Vancouver lost head offices between 1990 and 2001. Recent province-wide data show that BC's position on total head offices appears to have deteriorated in 2005 following improvements in 2003 and 2004.
- ***Size of Government*** – Research indicates that the relative size of a country's government sector may negatively affect competitiveness. Increases in the size of government beyond the "optimal point" may produce little in terms of social progress. Although BC ranked 3rd in 2005/06, its government spending as a percent of GDP (25.4%) was above Alberta's (17.5%) and Ontario's (24.0%).
- ***Population Changes in BC*** – Between 1990 and 2006, BC enjoyed the second-highest growth in overall population among the provinces, with growth of 31.0%, bettered by Alberta (32.5%) but well ahead of third place Ontario (23.2%) and the Canadian average (17.8%). British Columbia experienced a net outflow of people to other provinces in every year between 1997/98 and 2002/03 as the BC economy entered a slower growth phase and key competitors Alberta and Ontario improved their relative performance. Net interprovincial migration to BC turned positive in 2003/04 and remained positive in 2004/05 and 2005/06.
- ***Interprovincial Migration Projection*** – Statistics Canada recently updated its population projection for Canada, the provinces and the territories. The new report presents the re-

sults of six population projection scenarios from 2005 through 2031 for the provinces and territories and up to 2056 for Canada. Projections are based on assumptions that take into account the most recent trends relating to components of population growth, particularly: fertility; mortality; immigration; emigration; and, interprovincial migration. Of these components, interprovincial migration is the most volatile factor in population projections and with the projected decline in natural increase, migration will become a more important factor in population growth for several provinces.

- ***Education Spending and Outcomes*** – British Columbia spends more, on a per student basis, than most other provinces. In the last seven years, BC's real spending (\$1992) was the highest in two, second-highest in four and third-highest in one. As with health care spending and outcomes, a simple review of per student spending levels and education outcome measures does not suggest any clear causal relationship between spending and outcomes.
- ***Post-Secondary Education and Trades Training*** – The proportion of the Canadian population with some post-secondary education, regardless of credential status, has increased significantly since 1990. The proportion in Canada has increased by 15.0 percentage points, from 41.6 percent in 1990 to 56.6 percent in 2005. The proportion has not increased as quickly in BC, but BC's proportion (57.9%) was 1.3 percentage points above the national average in 2005. In 2005, 10.7 percent of Canadians aged fifteen and older had recognized trades training. The ratio in BC was an above average 11.0 percent, which earned a sixth place rank.
- ***R&D in British Columbia*** – Research and development (R&D) leads to innovation and ultimately productivity improvements and economic growth. Research and development spending in BC has long lagged behind Ontario and Quebec in both absolute and relative terms. Several factors help explain BC's historical underperformance, including: a reliance on natural resources; a large service sector; an underdeveloped venture capital market; clusters of activity outside of BC; low investment levels; and, taxation.

Environment, Health and Society

The second overarching goal is: *Make BC a leader in Canada on Environment, Health and Society in Canada by 2010*. To anchor this objective, the Progress Board's report includes three specific targets:

- **Environmental Quality:** Target 1st among the provinces for environmental quality by 2010. BC's first place overall rank in 2004 on the Board's environmental quality index, which averages provincial performance on urban air quality, greenhouse gas emissions per capita, and protected areas, remains unchanged since the first Progress Board report. Data limitations continue to prevent ten-year progress reporting.
- **Health Outcomes:** Target 1st among the provinces for health outcomes by 2010. In 2003, BC ranked first among the provinces based on an average of its performance rankings for life expectancy at birth, cancer mortality, cardiovascular disease mortality, infant mortality and potential years of life lost, unchanged from its first place position in 2002 and 2001.
- **Social Condition:** Target 1st or 2nd in Canada for social condition by 2010. In 2004, BC ranked ninth in social condition based on an average of its performance rankings for the percent of families and unattached individuals with income below the after-tax low income cut-off (LICO), the low birth weight rate, the personal and property crime rate, the percent of the population on income assistance, and the percent of total unemployment designated as long-term.

There are thirteen additional indicators used to measure BC's performance on *environment, health and society*; note the most recent year of data and the relevant rank are provided in brackets. Eight of the performance indicators registered strong performance, ranking between first and third among the provinces:

- greenhouse gas emissions per capita (2004, 2nd);
- protected areas (2003, 1st);
- life expectancy at birth (2004/05, 1st);
- cancer mortality (2003, 1st);
- cardiovascular disease mortality (2003, 2nd);
- infant mortality (2003, 2nd);
- potential years of life lost (2003, 2nd), and,
- income assistance (2004, 2nd).

Two indicators registered in the middling category (i.e., ranked between fourth and seventh)

- air quality (2004, 5th); and,
- low birth weight rate (2004, 5th).

Three indicators registered in the weak category (i.e., ranked between eighth and tenth):

- low income cut-offs (2004, 10th);
- personal and property crime rate (2005, 9th); and,
- long-term unemployment (2005, 9th).

This year's report also contains a number of special topic boxes related to *environment, health and society*. Brief highlights follow:

- ***Additional Environmental Measures*** – The 'environment' is not easily summarized - especially in cross-jurisdictional comparisons - in any single indicator. For this reason, the Progress Board uses an index to measure environmental quality in its core measurement framework based on indicators available across provincial boundaries. To supplement our core environmental quality index and the three indicators that underpin it (urban air quality, greenhouse gas emissions per capita and protected areas) a number of additional measures less commonly used and frequently without comparison in other jurisdictions may enhance our understanding of BC's overall environmental performance.
- ***Climate Change*** – The economic costs of mitigating human-induced climate change are high and concentrated in the short term, while possible benefits occur in the long-run and are diffused over both time and physical area. Adaptation, in the context of climate change, refers to activities that minimize the negative impacts of climate change or encourage the development of new opportunities that may arise in the changed environment.
- ***Health Insurance Coverage by Country*** – In 2003, The public share of total health spending in Organisation for Economic Cooperation and Development (OECD) countries ranged from a low of 44 percent in the US to a high of 90 percent in the Czech Republic. Canada, at 70 percent came in just below the OECD average of 72 percent. Canada and France tied for third and fourth highest private insurance spending at 13 percent. An additional 15 percent of health spending in Canada came from out-of-pocket payments. Canada and Switzerland are the only countries where private coverage is restricted to services not covered by the public system.
- ***Comparative Wait Times*** – "Wait Times" have become a focal point in the ongoing debate over the relative success of our health care systems in meeting and treating the health needs of Canadians. Statistics Canada surveys indicate that roughly 20 percent of patients wait-

ing for care reported that they were adversely affected by the wait, indicating factors such as pain, anxiety, deterioration in their health, impairment in daily activities, and family stress.

- **Health Care Spending and Health Outcomes** – Government spending on health care has been growing in real terms for decades and it is likely to continue to grow as Canada’s population ages. In 1976, BC spent \$3.5 billion on health care (all figures in 1997 dollars). By 1986, BC’s expenditure had reached \$5.1 billion and by 2005 it had reached \$9.8 billion. As a percent of GDP, BC’s health expenditure has gone from 5.5% in 1982 to 7.2% in 2005. As a percent of provincial government program spending, BC’s health care spending went from 26.6% in 1976 to 40.9% in 2005.
- **Health Risk Factors** – Cancer and heart disease remain the biggest killers in Canada overall and in British Columbia. In 2004, cancer was responsible for 28.3 percent and heart disease 22.6 percent of all deaths in BC; together they account for the majority of deaths in BC. Both share common risk factors – obesity, inactivity, poor eating habits, and tobacco use. These health risk factors are common, but are controllable through changes in habits and lifestyle.
- **Low Income Incidence Measures** – There are several accepted measures of low income used by Statistics Canada to gauge the proportion of a population in a particular area living below a defined income threshold, and to compare the incidence of low income across demographic groups (e.g. individuals under 18, elderly families and lone-parent families, both male and female-led). The Low Income Cut-Off or LICO is the most established measure and is the one the Progress Board currently uses as a component of its Social Condition Index. A new approach, the Market Basket Measure (MBM) was recently developed, though MBM results are available for only the 2000 through 2002 period.
- **Crime Rates in North American Metropolitan Centres** – A common way to monitor crime levels is to examine police reported crimes. Beyond top level crime categories, detailed information is available by province, state and major metropolitan areas. Statistics Canada recently investigated crime data reported in Canada and the United States and found that among eight “offense level” categories of crime, only minor differences existed in seven and one, sexual assault, (Canada) was not comparable to the US category of forcible rape. Consistent with ranks reported for British Columbia, Vancouver has the highest combined violent and property crime rate among major Canadian and American cities.

Supplemental US Comparisons

The Progress Board has continued its supplemental comparisons of BC performance relative to the states of Washington, Oregon and California and the provinces of Alberta, Ontario and Quebec, where there is comparable cross-jurisdictional data. The most recent year of data and the relevant rank are provided in brackets in the following list.

On eight indicators of **economy, innovation and education**, none placed in the strong category (i.e., first or second place). For five indicators, BC placed in the middling category (rank between three and five):

- economic growth (real GDP per capita, 2005, 3rd);
- jobs (employment to population ratio, 2005, 5th);
- per capita tax burden (2003/04, 5th);
- top marginal personal income tax rate (2006, 3rd); and,
- net inter-provincial (state) migration (2005, 4th).

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BC registered weak performance (sixth or seventh rank) on three indicators:

- standard of living (real personal disposable income per capita, 2005, 6th);
- surplus/(deficit) (2003/04, 6th); and,
- research and development spending as a percent of GDP (2003, 6th).

Turning to supplemental US comparison measures for *environment, health and society*, comparable data are available for three indicators. The most recent year of data and the relevant rank are in brackets. British Columbia placed in the strong category for:

- urban air quality (2004, 1st); and,
- the low birth weight rate (2004, 1st).

British Columbia placed in the weak performance category for personal and property crime (2005, 7th).

Supplemental North American Comparisons

Supplementing the US State and Key Competitors comparison, are further indicators using all sixty-one sub-national jurisdictions in North America, i.e., the Canadian provinces, the 50 US states and the District of Columbia. Comparisons are presented for three core targets and four performance indicators. The classification categories range from first place to twentieth for strong, twenty-first to fortieth for middling and forty-first to sixty-first for weak.

British Columbia had a strong rank for the low birth weight infant rate (5th, 2004).

British Columbia had middling ranks for:

- economic growth (28th, 2005);
- employment rate (40th, 2005);
- net inter-provincial (state) migration (28th, 2005); and,
- research and development as a percent of GDP (39th, 2003).

British Columbia earned weak designations for two indicators:

- real personal disposable income per capita (54th, 2005); and,
- personal and property crime rate (60th, 2005).

Supplemental International Comparisons

This year's report continues to include supplemental international indicators benchmarking BC against the 30 member nations of the Organisation for Economic Cooperation and Development. Similar to US supplemental comparisons, the Progress Board has benchmarked BC where comparable data are available. The most recent year of data and the relevant rank are in brackets.

For *economy, innovation and education*, BC's performance is strong on two indicators:

- economic growth (real GDP per capita, 2004, 9th); and,
- jobs (employment to population ratio for the working age population, 2005, 9th).

BC's performance is middling on the other three:

- international exports of goods and services (2004, 18th);
- gross fixed capital formation (2005, 12th); and,
- R&D as a percent of GDP (2004, 19th).

For *environment, health and society*, BC placed strong on three performance indicators:

- life expectancy at birth (2004, 4th);
- low birth weight rate (1995 - 2004 average, 8th); and,
- long-term unemployment (2004, 3rd).

BC's performance for greenhouse gas emissions was weak in an OECD context (2003, 21st).