

An Analysis of Public and Private Sector Employment Trends in Canada, 1990–2013

by *Livio Di Matteo*

This paper examines the evolution of public and private sector employment at both the national and provincial levels. While the public sector share of employment in Canada declined during the 1990s, its growth resumed during the first decade of the 21st century. Specifically, there was a decline in the public sector share of employment starting in 1992, from 26.1 percent to 22.3 percent by 2003. Subsequently, an increase began, with a peak of 24.4 percent reached in 2010 and then a slight decline to 24.1 percent by 2013.

The public sector share of employment today has recovered to levels not seen since the early 1990s—an era of large government deficits, debt, and then fiscal restraint. The decline in the public sector share of employment in the 1990s was a response to the fiscal crisis brought about by large deficits and debts at both the federal and provincial levels. In the wake of the 2008–09 fiscal crisis and recession, deficits have again grown at the federal and provincial levels, resulting in some measures of fiscal restraint; but the public sector share of employment has to date remained stable at its recovered level.

With the exception of Newfoundland and Labrador, which saw a decline, all the other provinces have seen an increase in their share of public sector employment over the 2003 to 2013 period. The biggest increase was in Ontario, which saw its public sector share of employment grow from 20.0 to 23.2 percent. That 3.2 percentage point increase represents growth in the share of 16.0 percent.

Canada has seen the public sector's share of employment grow because the number of public sector employees has

increased faster than the number of private sector employees. Specifically, from 2003 to 2013, Canada's public sector employment growth rate (22.6 per cent) was more than double the private sector rate (10.7 per cent). During this period, the growth rate of private sector employment was greater than the public sector rate in only one province: Newfoundland and Labrador (14.0 percent compared to 11.8 percent). In Ontario, the public sector employment growth rate (27.6 percent) topped the private sector rate (5.6 percent) by 22 percentage points.

While government spending and employment may serve as a complement to private sector activity by providing infrastructure for private sector activity, there may also be adverse effects. The balance between public and private sector employment is of policy importance given the importance of private sector wealth generation as the foundation for resources that are used for public sector service provision and subsequent employment generation.

An important dimension of this relationship is that public sector employment growth may also crowd out private

sector employment, leaving unemployment rates either unchanged or possibly higher. While correlation is not causation, simple exploratory correlations suggest that, for Canada's provinces over the 1990 to 2013 period, larger public sector employment shares are accompanied with lower growth rates of private sector employment and show a flat relationship with per-capita GDP growth rates.

A full evaluation of whether or not the public-private employment balance has an effect on employment growth and unemployment rates requires controlling for the government's budget balance, the state of the business cycle on public sector employment, as well any potential complementarities between public and private sector employment. Nevertheless, these correlations are of interest in demonstrating the importance of the public-private employment balance on economic performance and the need for further work that rigorously assesses causation and confounding factors.



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Public sector share of employment in Canada, including and excluding self-employed, 1990-2013

