

# The Outlook for Growth in British Columbia's Private Sector

*by Steven Globerman*

British Columbia's economy over the period from 2010 to 2019 enjoyed faster real economic growth than other Canadian provinces, on average. The primary source of British Columbia's economic performance was an exceptionally strong residential housing market associated with an above-average rate of population growth. Conversely, the growth of investment in machinery and equipment and intellectual property products, such as software, was slower in British Columbia than the average for the rest of Canada.

Capital expenditures in machinery and equipment and intellectual property are primary drivers of labour productivity growth. Hence, it is not surprising that, while British Columbia also enjoyed above-average growth in labour productivity from 2010 to 2019, the out-performance was quite modest relative to the substantially faster rate at which its Gross Domestic Product (GDP) grew.

This study focuses on the outlook for the British Columbia's economy over the next two or so decades. While the ongoing COVID-19 public-health emergency and its associated economic crisis makes any economic outlook uncertain, there are reasons for concern that private-sector economic growth in British Columbia will be slower, in both absolute and relative terms, over the next two decades compared with recent experience, even after the COVID-19 crisis ends. A prominent reason for concern is the potential for a significant slowdown in the growth of the province's labour force. The growth of the labour force reflects the growth of the working-age population multiplied by the share of the working-age population that is employed in the workforce. A slowing rate of growth of

the working-age population might be expected, in part, because of the province's high cost of housing and relatively low average income level.

Relatively unaffordable housing arguably has contributed to a net interprovincial out-migration from British Columbia over the recent past, which leaves the province reliant on immigration as a source of population growth. While immigration to the province has remained relatively strong, it might weaken significantly even after restrictions on international travel prompted by COVID-19 are lifted. In particular, immigration to British Columbia has been disproportionately from China. Continued rapid economic growth in China combined with steadily rising incomes in that country, especially for technology-related jobs, might render this traditional source of British Columbia's population growth less significant in future years.

To the extent that the rate of growth of British Columbia's labour force slows, real economic growth will increasingly rely on a faster rate of productivity growth. Improvements in productivity derive primarily from investments in

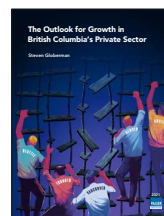
physical and human capital that foster the introduction and spread of new technology. As noted above, the province's investment in the main asset categories contributing to productivity improvements has been relatively slow. Moreover, the province performs relatively poorly on measures of technological intensity such as patenting and employment in technology-intensive industries.

Recent surveys have identified the Vancouver Metropolitan Area as having a relatively abundant supply of scientific and engineering talent, and wage rates for STEM workers are relatively low in Metro Vancouver compared to cities in the United States that are considered to be technology hubs. Indeed, a number of US companies such as Microsoft and Amazon have established regional facilities in Vancouver. However, the province has a dearth of what has been identified as anchor firms, large firms that have headquarters in a location and whose presence contributes to labour-market mobility, technology spin-offs and start-up companies, and other phenomena associated with thriving technology hubs.

The dearth of anchor firms in technology-intensive industries arguably reflects in part the province's tax structure, which imposes a substantial penalty on business growth in the form of a substantial increase in the provincial tax rate once a company reaches \$500,000 in annual revenues. The province's retail tax also increases the cost to

companies of investing in capital assets such as machinery and equipment. Appropriate changes in the tax structure facing the province's business sector would encourage the emergence and growth of local anchor firms.

As well, while relatively low wages for technology workers are a short-term incentive for firms such as Microsoft to establish regional facilities in the province, the sustained growth of a thriving technology hub requires an on-going inflow of highly skilled scientific, engineering, and entrepreneurial talent. Research suggests that expected after-tax disposable income is the most important feature of a location that matters to star scientists and engineers. In this regard, the high marginal (federal + provincial) tax rates on upper-income workers in British Columbia compared to taxes in US states is another obstacle to developing a large and thriving technology hub in the province. Relatively unattractive disposable incomes for high-quality technology talent are exacerbated by the high cost of housing in the Lower Mainland of the province.



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