

# Measuring British Columbia's Prosperity Gap



by Ben Eisen and Nathaniel Li

## SUMMARY

- By global standards, British Columbia is prosperous. British Columbians enjoy a living standard and access to opportunities that most of the world would envy. Within its own economic region, however, BC is a laggard.
- This bulletin compares overall prosperity in BC (measured as Gross Domestic Product per person) to that of neighbouring Alberta and six US states.
- We show that BC has the third lowest GDP per capita of the 8 jurisdictions we analyze. We also show that there is a large gap between BC and the four US states that have a higher GDP per capita than BC, whereas the province's advantage over the two other states—Montana and Idaho—is much smaller.

- We also analyze a second measure of prosperity—median employment income. This measure indicates the strength of labour markets and the economic well-being of each jurisdiction's residents. BC performs even worse on this indicator than on GDP per capita. BC's median employment income is the lowest of the eight jurisdictions examined.
- Of the seven other jurisdictions measured in this analysis, BC's growth rate was lower than any of the six US states between 2010 and 2019. Its growth rate exceeded only Alberta's.
- The substantial and growing prosperity gap between BC and most of its neighbours should concern British Columbians generally and policymakers particularly.

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## Introduction

By global standards, British Columbia is prosperous. Like residents of all other Canadian provinces, British Columbians enjoy a standard of living and access to economic opportunity that would be the envy of most of the world.

Still, there are good reasons to not be sanguine about the state of the British Columbia economy. If we narrow our analysis from the global scale to a regional one, it is apparent that the province is an economic laggard compared to its neighbours.

The now defunct Ontario Institute for Competitiveness and Prosperity, which occasionally published analyses comparing Ontario's overall economic well-being to various peer jurisdictions (OICP, 2002) used the concept of a "prosperity gap" in several of its studies. This bulletin uses a similar approach to compare British Columbia to a group of nearby jurisdictions in Canada and the United States to assess whether and to what extent British Columbia suffers a prosperity gap relative to the jurisdictions with which it trades and competes.

This bulletin measures the prosperity gap between BC and its peer jurisdictions on two straightforward measures of prosperity: Gross Domestic Product per person and median employment income per worker.

## Identifying BC's peer group

This report measures British Columbia's economic performance against a number of nearby jurisdictions in Canada and the United States, specifically:

- Alberta
- Washington
- Alaska

- California
- Oregon
- Montana
- Idaho

The economies of these jurisdictions have some sectoral similarities to BC's economy and extensive supply chain links exist among them. Further, BC competes with these nearby jurisdictions for talent and capital investment.

Of course, there are rationales for choosing other sets of comparators and ultimately there is some arbitrariness in the selection of any particular group. However, while recognizing that no comparator group is perfect and that other choices would be reasonable, focusing on next-door Alberta and nearby resource-rich US jurisdictions is a straightforward way to select important neighbours, trading partners, and competitors for investment.

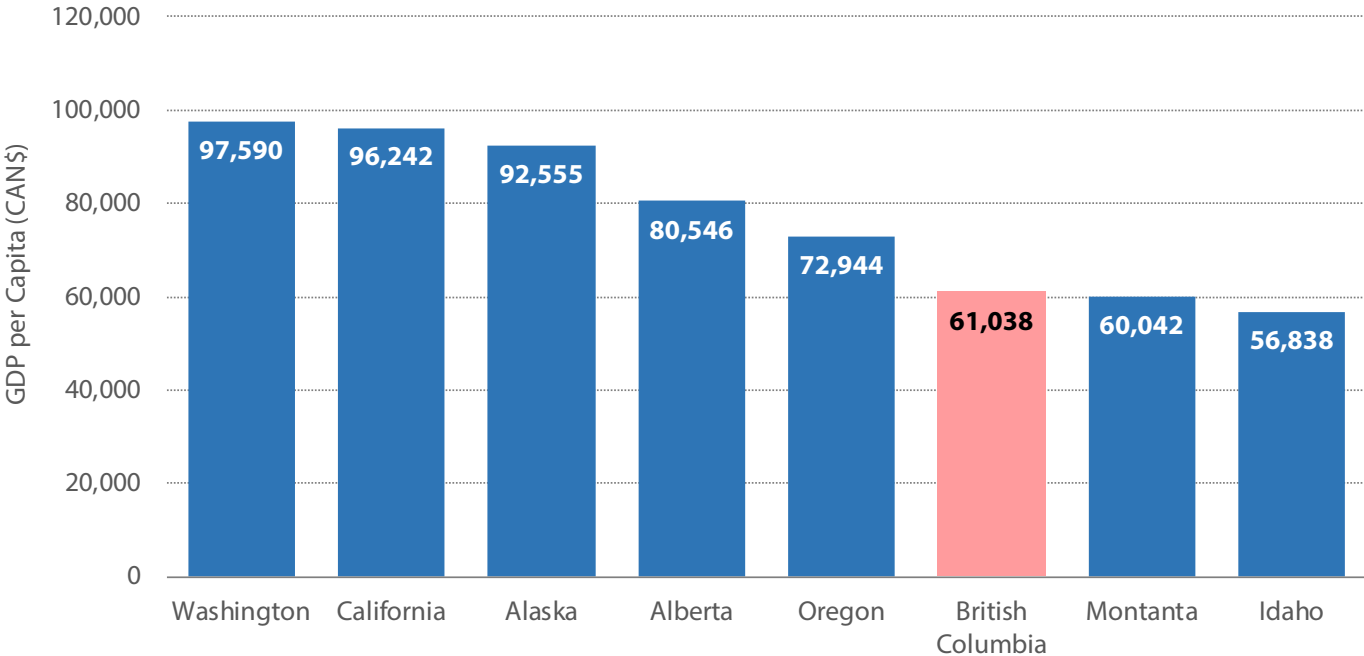
## Measuring the prosperity gap: GDP per capita using purchasing power parity

There are many different ways and numerous economic indicators we could use to measure prosperity. No one single metric captures the whole picture. However, the most comprehensive measure of overall prosperity is real Gross Domestic Product (GDP) per capita.

Real GDP per capita tells us the overall per-person economic production in a jurisdiction over the course of a year. There is a strong positive correlation between a higher per-capita GDP and better performance on the vast majority of other economic indicators. Of course, per-capita GDP does not tell us everything about economic performance and living standards in various jurisdictions. For instance, it does not tell us anything about the distribution of outcome. Still, GDP growth helps drive job

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Figure 1: GDP per Capita for Selected States and Provinces, 2019 (CAN\$)



Note: US data is converted to Canadian dollars using the PPP conversion rate.

Sources: Statistics Canada (2022b and 2022c); U.S. Bureau of Economic Analysis (2022b); OECD (2022b); calculations by authors.

creation and wage growth and is therefore often used as a straightforward if imperfect measure of prosperity.

In this section, we compare our comparator jurisdictions using real per-capita GDP data from 2019, the last year unaffected by COVID-19, the shock and long-term effects from which still remain to be seen.

One complication that arises from comparing GDP per capita in Canadian and American jurisdictions is that official agencies in each country use their own currencies. There are two main methods of comparing jurisdictions with different currencies: purchasing power parity (PPP) and market foreign exchange rates. PPP compares the value of GDP in each jurisdiction, ad-

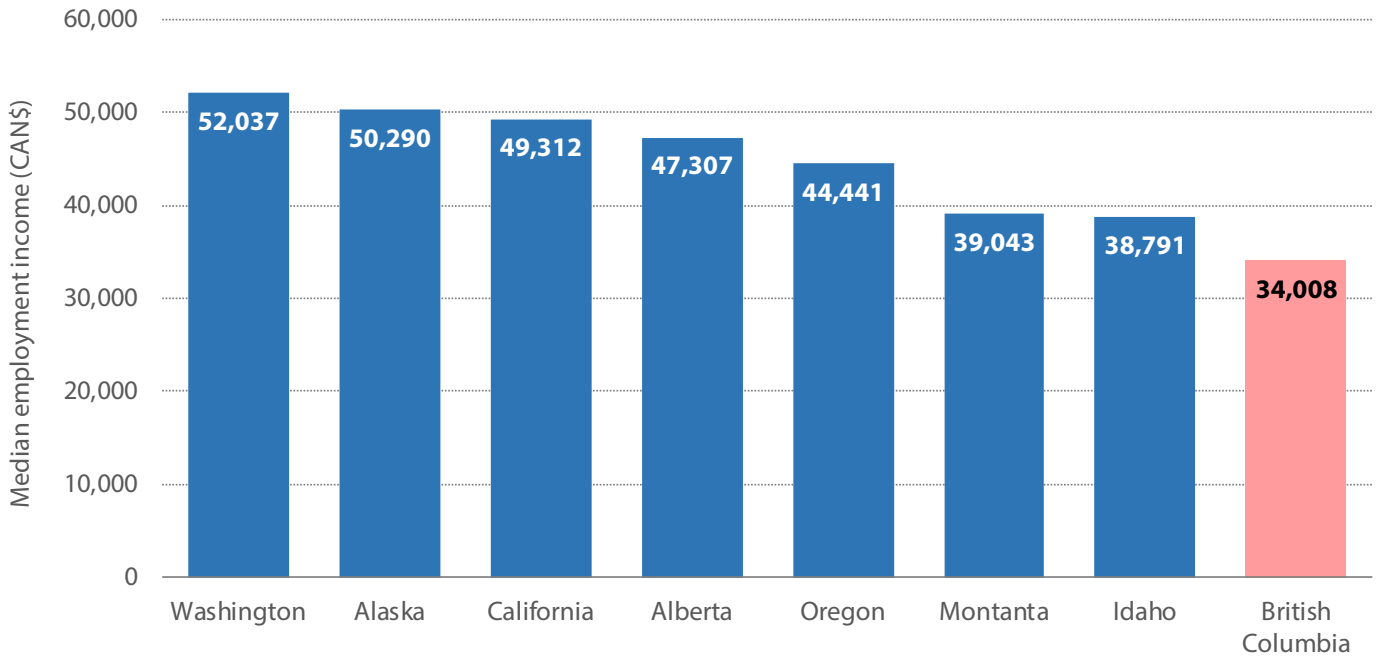
justing the value of the currency based on the price of a standardized basket of goods and services. This is the approach we use in this analysis. An advantage of this method is that foreign exchange rates can be volatile, and PPP is relatively stable compared to comparisons based on foreign exchange rates (OICP, 2002).

### Results: BC's GDP lags Alberta and most nearby states

Our assessment of comparator states and Alberta with BC shows that British Columbia has the third lowest GDP per person of the eight jurisdictions examined. Figure 1 shows that BC faces a prosperity gap of \$19,508 per person with Alberta. Alberta's per-capita GDP was 32.0 percent higher than BC's in 2019.

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Figure 2: Median Employment Income for Selected States and Provinces, 2019 (CAN\$)



Note: US data is converted to Canadian dollars using the PPP conversion rate.

Sources: Statistics Canada (2022a and 2022d); Census Bureau (2022a and 2022b), OECD (2022a); calculations by authors.

Figure 1 also shows that BC lags four of the six US states to which we compare it in this analysis. In each of these four states, the gap is substantial, ranging from \$11,906 per person with Oregon to \$36,551 with Washington. Per-capita GDP is 19.5 percent higher in Oregon than BC. (US figures are converted to Canadian dollars using the PPP method described above.)

For the two US states over which BC holds an advantage, the per-capita GDP gap is small. BC and Montana's per-capita GDP is nearly identical. The gap with Idaho is somewhat larger at \$4,200.

## Median employment income

The second indicator we examine, median employment income, gives us important informa-

tion about the strength of provincial and state economies and the economic well-being of their residents.

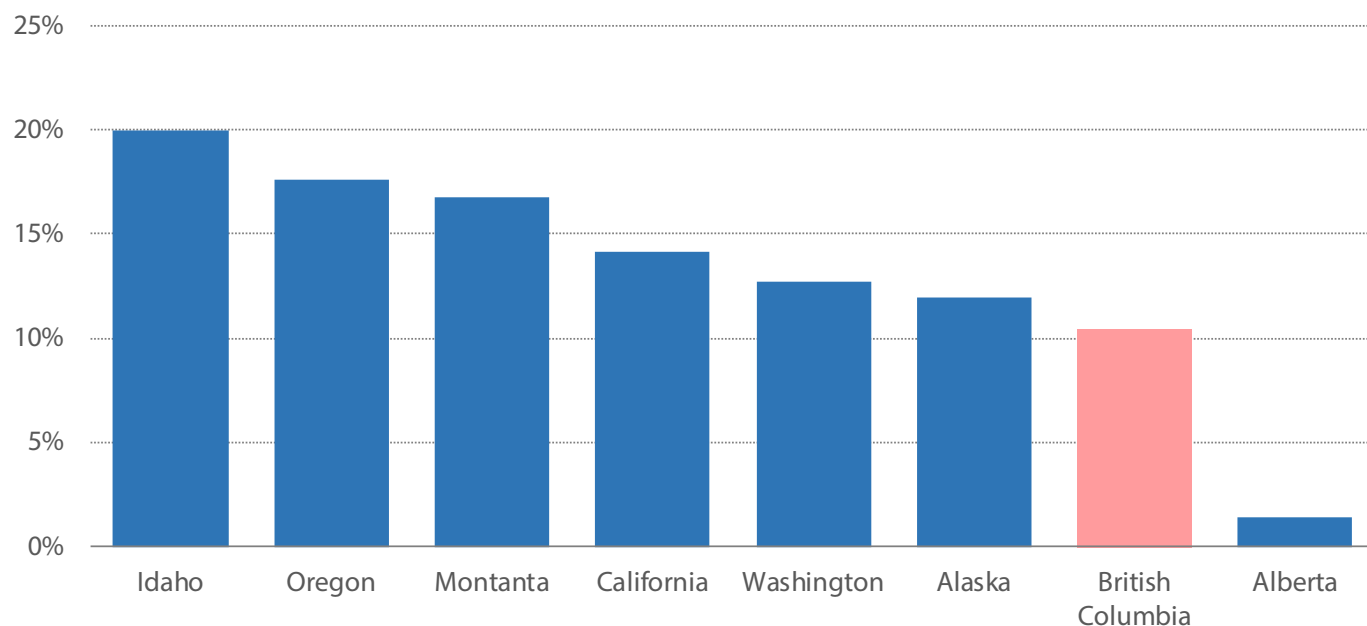
On this indicator, BC's performance is worse than on the GDP per capita measure. Figure 2 shows that at \$34,008, British Columbia has the lowest median employment income of the eight jurisdictions we examine in this study.

The size of the median employment income gap varies considerably across the comparator group. Median employment income in Alberta is \$13,299 (39.1 percent) higher than in British Columbia.

A meaningful gap exists between British Columbia and all of the American states considered in this analysis. The smallest gap is with

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Figure 3: Growth in Real Median Employment Income, 2010 to 2019



Sources: Statistics Canada (2022a and 2022d); Census Bureau (2022a and 2022b); U.S. Bureau of Economic Analysis (2022a); OECD (2022a); calculations by authors.

Idaho, at \$4,783 (14.1 percent). The largest gap is with Washington State, at \$18,029 (53.0 percent).

In addition to comparing median employment income levels, we also compare recent growth rates of real median employment income. We use data from 2010 to 2019 for this analysis of growth over time because 2010 is the most recent year of available comparable data between Canada and the United States. Median employment income growth ranged from a low of 1.4 percent in Alberta to a high of 19.9 percent in Idaho from 2010 to 2019.

Figure 3 shows that over the 2010s, British Columbia's real median employment income had the 2nd worst growth performance amongst the jurisdictions analyzed in this study. Only Alberta had weaker employment income growth

than BC. All of the US states considered in this analysis exceeded British Columbia on this indicator.

These data show that not only does British Columbia face a prosperity gap with most nearby US states, but its recent real employment income growth (between 2010 and 2019) also lags behind all US States. In fact, the smallest gap in the real median employment income growth rate was with Alaska at 1.6 percentage points. The largest gap is with Idaho at 9.5 percentage points.

## Conclusion

By global standards, British Columbia is prosperous. The provinces' residents enjoy a standard of living and access to opportunities and economic freedoms that much of the world

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would envy. Nevertheless, it would be misguided for provincial policymakers to be complacent about its economic performance.

British Columbia's per-person economic production lags most of the US peer jurisdictions identified in this study, and the gaps are generally substantial. These gaps ranged from a low of \$11,906 in Oregon to a high of \$36,551 in Washington state. BC also lags far behind neighbouring Alberta, with a per-person GDP gap of \$19,508.

For the two comparator states over which British Columbia held a per-capita GDP advantage in 2019, the gap was much smaller, ranging from \$996 with Montana to \$4,200 with Idaho.

This bulletin also examined median employment income, which is an important indicator of labour market strength and a significant contributor to living standards. On this indicator, British Columbia's performance is worse than on the per-capita GDP measure. In fact, BC had the lowest employment income per capita in the group of peer jurisdictions and, further, had had the second weakest growth rate on this indicator. All six of the American states included in this analysis had faster median employment income growth than British Columbia.

British Columbia is an economic laggard within its region. This bulletin has sought to measure the extent of the prosperity gap between BC and its peer jurisdictions in Canada and the United States to help British Columbians and policymakers recognize the scale and enduring nature of this challenge.

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