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A New Economic Narrative for BC:

BC's Fiscal Future

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A New Economic Narrative for BC: BC'S FISCAL FUTURE

Over the past three decades a massive shift has occurred as we've rapidly become a knowledge and service-driven economy. And yet our economic narrative remains grounded in the 20th century idea of BC as primarily an exporter of natural resources. We need to make a shift in how we think in the 21st century. In our July 2021 report, *A New Economic Narrative for British Columbia*, we identified 3 priority areas to guide BC's thinking on the economy.¹ This report picks up where the previous report left off, to look at the primary sources of BC Government revenue today and identify policy priorities to ensure healthy, sustainable sources of revenue into the future.

The COVID-19 pandemic highlighted the importance of both a robust social safety net and of the government having the fiscal capacity to make bold moves when needed. Healthy and stable revenue streams are needed for government to fund social programs, build critical infrastructure, respond effectively to crises, and position our economy for long-term success. This report explores BC's revenue base and trends over time, to identify the most important and most enduring sources of revenue. This report identifies 5 key features of BC government finances today:

01 BC's aging population brings fiscal risk

BC's aging population presents a significant challenge on the horizon, particularly in the 21st century where talent is the primary source of economic growth. Furthermore, we remain exposed to volatility and uncertainty in some important revenue sources.

02 An overheated housing market is an unhealthy source of revenues

BC's housing market delivers significant direct revenues into government, but an overheated housing market is an unhealthy and uncertain source of revenues, which also drives significant affordability challenges and creates a barrier to attracting and retaining talent.

03 Resource revenues are declining

Over the last 20 years direct natural resource revenues have declined, while other revenue categories have either remained stable or grown over the same period. Personal income taxes, federal transfer payments, and sales taxes have consistently been the leading contributors to BC government revenues.

04 High employment in growing sectors is key for sustainable government revenues

Sectors with high and growing employment levels and high wages drive substantial revenues to the government through the taxes paid by the employees they retain. This employment and wage growth is concentrated in the service-producing sectors, which represent 80% of jobs and are projected to add the most jobs going forward.

05 Taxes paid by individuals are BC's most significant, least volatile source of revenues

It is individuals, primarily through their personal income taxes and consumption taxes, whether received directly or via federal transfer payments, who are BC's most significant, least volatile, and most enduring source of revenue. BC's fiscal health relies fundamentally on healthy population demographics, employment, and wages.

¹BC Tech Association, A New Economic Narrative for British Columbia, July 2021, <https://wearebctech.com/a-new-economic-narrative-for-british-columbia/>

We must acknowledge that BC's economy has changed and is continuing to change at a rapid pace, and we cannot afford to attempt to chase the ghosts of economies past at a declining return on investment. BC needs to be planning ahead, ensuring that our revenues come from sources that we can rely on: sources that are stable, that support a thriving economy and the wellbeing of our people, and that are projected to grow into the future as the global economy transitions. This report recommends 3 priority policy areas to ensure long-term sustainable revenues for BC:

Priority 1 Invest in sectors with growth potential that provide high levels of employment and well-paying jobs

We need significantly more investment in the sectors that have unrealized potential for further growth and that provide high levels of employment and well-paying jobs. We must lean into the shift to a clean economy and the economic opportunities inherent in the global shift to net zero, embracing technology and innovation as critical drivers of economic growth and resilience, and investing in talent and supporting the scaleup of firms here in BC to build a strong sustainable tech ecosystem. There is a powerful leverage effect from high employment levels and high salaries throughout the economy and into the government's revenue base, through higher income and consumption taxes paid by these workers. In BC, it is the knowledge-based service sectors, and in particular BC's tech sector, which are projected to grow, and which are creating high numbers of well-paying jobs. The Innovation Economy Council estimates that the innovation economy already comprises 12% of Canadian GDP and is growing three to six times faster than traditional sectors.²

Priority 2 Prioritize education and skills training to drive growth in the knowledge-based economy

People are the greatest asset and source of value in today's knowledge-based economy, with business leaders routinely naming access to talent as the primary constraint on growth. To drive business development and economic growth, we need to prioritize investment in the skills and training needed to thrive in the knowledge-based economy. We tend to ask, when it comes to education and skills training, "how many people can we afford to train?" Instead, we should be asking how we can equip as many British Columbians as possible with the skills and training needed to realize the full potential of our talent pool – and properly quantify the economic windfall this investment would deliver.

Priority 3 Capture better data to drive decision-making

We must collect better, more balanced data about BC's economic activity, particularly in the digital economy, to inform decision-making. There is a clear link between the data that is collected and government policy and investment priorities. Where data is captured, policy and investment follow; where data is not captured, there is an absence of policy and investment. Choosing not to solve the data gap is a choice to under-invest in the future in favour of the past. As Peter Drucker famously observed, "What gets measured gets managed", and it is as true for the government as it is for business. The BC government needs to better track and report on digital and intangible-based economic growth and develop policies and investment plans appropriate for BC's 21st century economy.

²Barrie McKenna, The Post-Viral Pivot: How Canada's Tech Start-ups can Drive the Recovery from COVID-19, Innovation Economy Council, April 2020, <https://innovationeconomycouncil.com/wp-content/uploads/IEC-Report-April-2020-FINAL.pdf>.

COVID-19 and the IMPORTANCE OF FISCAL CAPACITY



Since the COVID-19 pandemic spread rapidly around the world in early 2020, governments have scrambled to protect the health of their citizens and shore up their economies against the economic shock. The public health measures required to contain the pandemic created significant impacts on BC's economy: businesses were shuttered or faced operating restrictions and people were limited in their ability to gather and to travel. These measures resulted in sharp declines in employment and significant impacts on businesses across our economy, hitting some sectors particularly hard. They also resulted in deficits, as both provincial and federal governments took steps to support individuals and businesses affected by these disruptions.

The COVID-19 pandemic has highlighted the importance of both a robust social safety net and of the government having the fiscal capacity to make bold moves when needed. We were able to respond to COVID-19 in the way that we did because of the sound fiscal footing our governments were on before the pandemic.

Beyond the measures taken to help Canadians weather the COVID-19 pandemic, our provincial and federal governments have also made significant commitments to permanent programs and major infrastructure projects, from enhancements to the social safety net, to universal childcare programs, to public transit infrastructure.

On top of the immediate term impacts from COVID-19, we face urgent challenges like tackling the climate crisis with the scale required to meet our targets and transitioning quickly to a clean and prosperous economy. We must also take necessary adaptation measures to pro-

tect people and infrastructure from the effects of climate change that are already here. All of this requires substantial up-front investment, but if done well and in conjunction with a sound economic plan, ambitious climate action presents a significant economic opportunity.

“Innovation in B.C.’s tech sector... helps solve problems and creates new opportunities for people and business across our province. Finding technology

solutions to the climate crisis is increasingly the focus of businesses and governments around the world.”³

*Hon. George Heyman
Minister of Environment & Climate Change Strategy*

It is clear that the government needs healthy and stable revenue streams to be able to make these investments into our people and economy: to fund social programs, build critical infrastructure, respond effectively to crises, and position our economy for long-term success.

This report explores BC's revenue base and trends over time, to identify the most important and most enduring sources of revenue to the government. It also explores other relevant economic indicators that create knock-on effects to the government's bottom line, including GDP, employment, wages, productivity, and exports. What emerges clearly from the data is that people are our greatest asset: their ingenuity, their ideas, the products they create, the services they deliver, and the taxes they pay on their income and consumption. We need to align policy to recognize this fact: to deliver the economic infrastructure that supports a knowledge-based economy, particularly through skills training and education, and to focus on growing the sectors that drive GDP, that provide high numbers of well-paying jobs in our province, and that are well-positioned to seize the economic opportunities of the 21st century economy.

³BC Tech Association, “Technology Impact Awards 2021: Innovation and Inspiration take centre stage”, Press Release, November 19, 2021, <https://wearbctech.com/technology-impact-awards-2021>

Risks to BC'S FISCAL FUTURE

There are risks facing BC's medium- and long-term fiscal health, and our ability to make necessary investments.⁴ Even prior to COVID-19, experts have been pointing to the possibility of a long-term fiscal gap and the need to increase revenues over the medium- to long-term to maintain fiscal health.⁵ One key risk to our long-term fiscal sustainability is our exposure to volatile and uncertain revenue sources.

BC faces significant uncertainty regarding global demand for some of our commodity exports as the world transitions to net zero, on top of an already declining trend of resource revenues.⁵ Our resources have a role to play in this shift, particularly when technology is brought to bear to create value-added goods that are critical to the clean energy transition. However, significant uncertainty remains. The International Energy Agency, for example, projects that fossil fuel production will contract and renewables will rapidly replace coal, oil, and natural gas as the world transitions to net zero by 2050.⁶

BC's hot housing market plays an outsize role in delivering revenues into government, and we are more reliant on the housing market for

our budget than any other province in Canada.⁷ An overheated housing market is a precarious source of revenues, one that also drives significant affordability challenges and creates a barrier to attracting and retaining talent.

Moreover, as the population ages, we will see reduced income tax revenues as people leave the workforce, alongside a significant increase in health expenditures as their health needs increase. In BC (and across much of Canada), our senior dependency ratio - the ratio of seniors to the working age population - is expected to increase significantly over the next 25 years.⁸ This will place downward pressure on hours worked and on economic growth. Immigration will need to play a key role in increasing our workforce and mitigating the economic impacts of an aging population.

Given these risks, it is essential to assess what sources of revenue we can truly rely upon and how to support a healthy fiscal position in the long-term.



⁴Trevor Tombe, “Financing the Future: Options for Long-Run Debt and Spending Sustainability in British Columbia”, December 2020, https://bcbasicincomepanel.ca/wp-content/uploads/2021/01/Financing_the_Future_Options_for_Long_Run_Debt_and_Spending_Sustainability_in_British_Columbia.pdf.

⁵Canadian Institute for Climate Choices, Sink or Swim: Transforming Canada's economy for a global low-carbon future”, October 2021, <https://climatechoices.ca/wp-content/uploads/2021/10/CICC-Sink-or-Swim-English-Final-High-Res.pdf>.

⁶International Energy Agency, Net Zero by 2050 - A Roadmap for the Global Energy Sector, 2021, https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf.

⁷Tombe, “Financing the Future”, 6; Rob Shaw, “What Happens if the Bubble Bursts?”, The Orca, November 23, 2021, <https://theorca.ca/resident-pod/what-happens-if-the-bubble-bursts/>.

⁸Office of the Parliamentary Budget Officer, Fiscal Sustainability Report 2020, February 7, 2020, https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-1920-029-S/RP-1920-029-S_en.pdf.

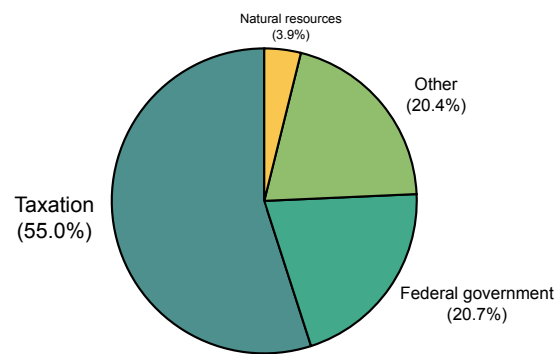
Which sources are the real REVENUE DRIVERS?

People are our Greatest Asset

In today's economy human capital is a central source of wealth. The shift to a knowledge-based economy is reflected in the makeup of our revenues, as value is created by the intellectual capacity behind the goods and services we produce, and this value is reflected in the significant contributions that individuals make to our government through their taxes. The central importance of individuals to our revenue base also means that to ensure fiscal stability, we need to support the development of a healthy, thriving, well-paid workforce as a top priority, particularly to counteract the effects of population aging. What becomes clear when we look at the data on government revenues is that individuals, whether directly or through federal transfer payments are BC's most significant, least volatile and most enduring source.

Figures 1 and 2 show BC's current tax structure and key sources of revenue. While there are some data limitations regarding how the government reports on the source of revenues in each category, clear conclusions can still be drawn about our primary revenue drivers.⁹ As we can see in figure 1, by far the biggest single source of revenues to the BC government, making up 55% of revenues in 2020/21, is taxation.

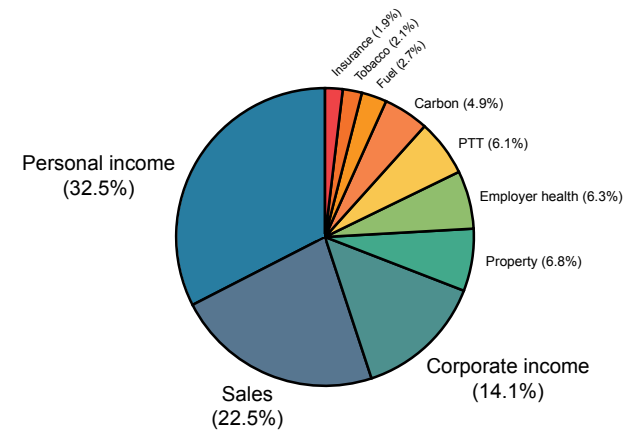
Figure 1. BC government revenue by source for the 2020/21 fiscal year¹⁰



When tax revenue is broken down into its component parts, as shown in figure 2, personal income tax is the largest source of tax revenues by a large margin, comprising approximately one third of total taxation revenues. This is followed by sales tax at 22% and corporate income tax at 14%. What also stands out is the importance of housing-related tax revenues to our revenue base: when property tax and property transfer tax revenues are taken together, they comprise approximately 13% of tax revenues.

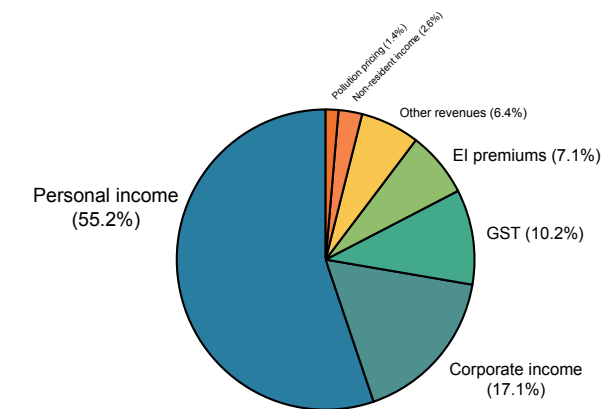
The employer health tax, a payroll tax paid on the basis of how many employees a business has, makes up just over 6% of tax revenues. All other sources are relatively minor by comparison.

Figure 2. BC government taxation revenue for the 2020/21 fiscal year



As shown in figure 3, federal revenues are notable for the extent to which they rely on personal income tax. Personal income tax alone makes up 50% of total revenues at the federal level, and individuals also pay a significant proportion of GST and EI premiums. Because federal transfers are such a substantial component of BC's revenue base, this composition is also reflected in provincial revenues.¹¹

Figure 3. Federal tax structure for the 2020/21 fiscal year



Looking at BC's government revenues as a whole reveals that it is individuals - primarily through their personal income taxes paid to the provincial and federal governments and through their consumption taxes - who deliver the most significant source of revenues to the BC government. Our fiscal health is thus primarily reliant on our population demographics, and on having high employment levels and well-paying jobs.

⁹We use the 2020/21 fiscal year for analysis. Covid has had impact on government revenues in this year, most notably through an increase in Federal transfers to the province, but the revenue structure is largely consistent with recent years.

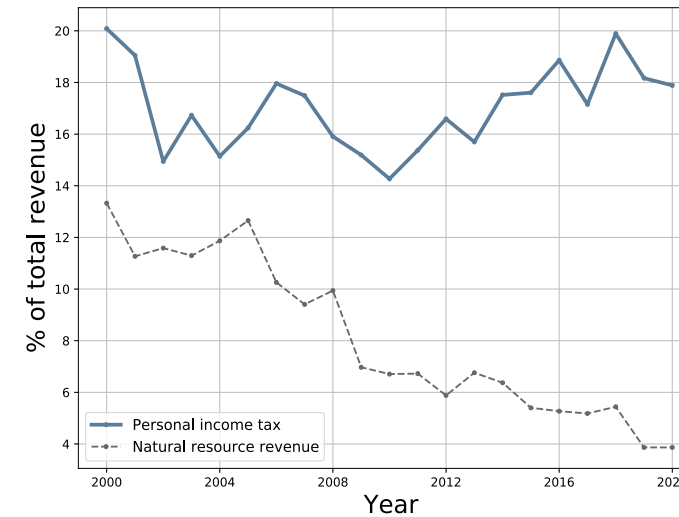
¹⁰Other comprises crown corporation revenues, post-secondary fees, healthcare and motor vehicle fees and licenses, investment earnings, and other miscellaneous fees

¹¹Federal transfer payments have increased in the 2020/21 fiscal year due to increased transfers to help the provinces respond to the COVID-19 pandemic. However, federal transfers have been a consistently high proportion of BC government revenues.

Natural resource revenues HAVE STEADILY DECLINED

Looking at the trends over time reveals the sustainability of various revenue sources and reinforces the central importance of individuals and the declining importance of natural resources to our revenue base.

Figure 4. Personal income tax and natural resource revenues 1999/2000-2019/2020

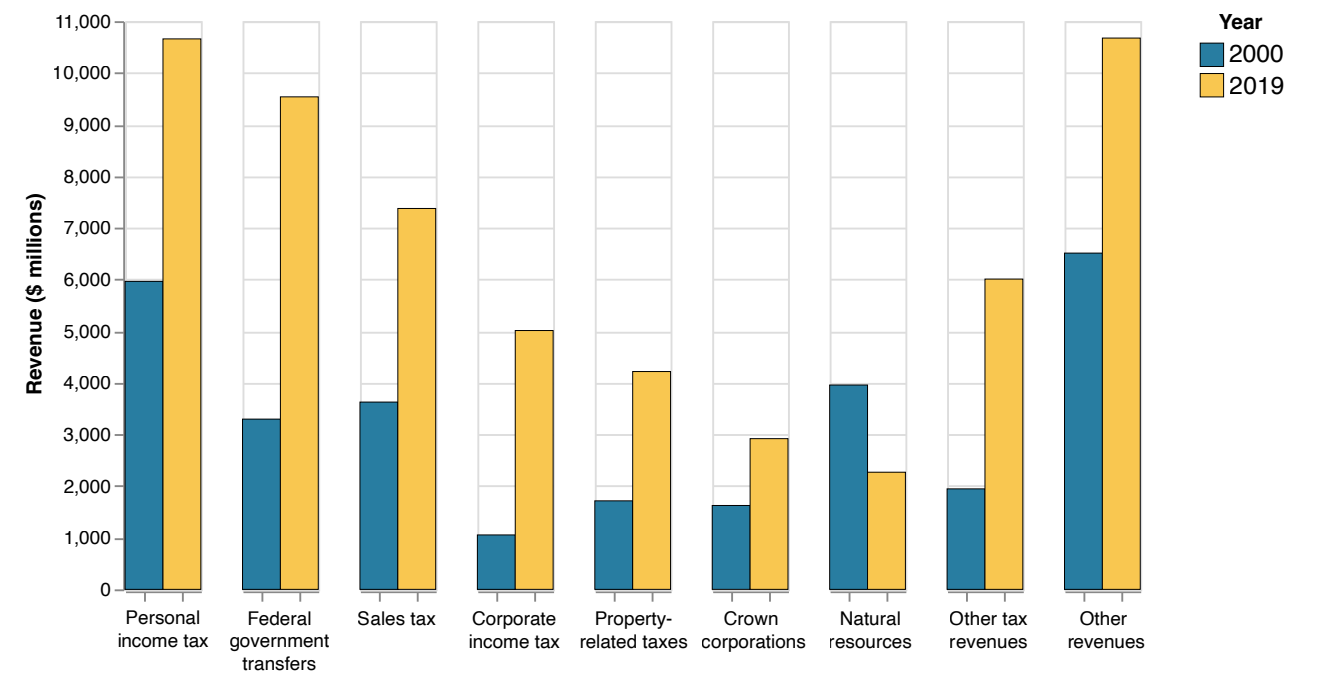


As can be seen in figure 4, natural resources as a direct source of revenue have experienced a steady decline, from 13% of total revenues in 2000 to just under 4% in 2020.

All other revenue categories have either remained stable or have grown over the past 20 years, with personal income tax, federal transfer payments, and sales tax revenues being the most important and reliable sources:

Notably, the gap between the relative revenues received from natural resources and from personal income tax has grown markedly over the past 20 years. The 2021 BC Budget shows an average annual change of -2% for natural resource revenues since 2014/15, while all other categories show stability or increasing revenues, with taxation revenues showing an average annual change of +6%.¹³

Figure 5. BC government revenue by source, nominal \$, 1999/2000-2018/2019¹²



¹²The composition of "other tax revenues" includes fuel, carbon, and tobacco taxes for both years, as well as employer health tax for the 2019/20 year. The composition of "other revenues" includes MSP premiums, post-secondary fees, healthcare and motor-vehicle fees, and other miscellaneous revenues.

¹³B.C. Ministry of Finance, Budget and Fiscal Plan 2021/22 - 2023/24, April 20, 2021, 162, https://www.bcbudget.gov.bc.ca/2021/pdf/2021_Budget%20and%20Fiscal%20Plan.pdf.

Jobs matter, and well-paying jobs in **GROWING SECTORS MATTER MOST OF ALL**

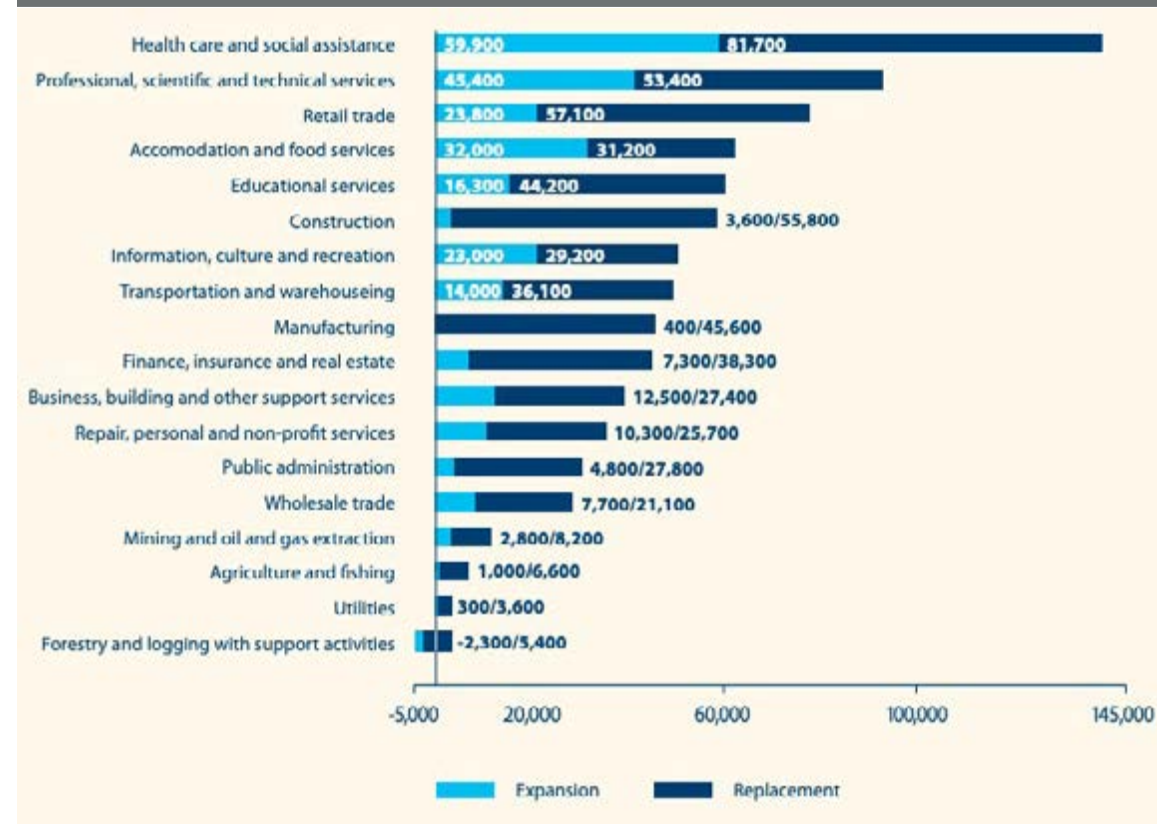
In addition to direct revenues reported by the government on its balance sheet, we must look at broader economic indicators that affect government finances. There are shortcomings in how governments track and report economic activity — in particular, we are missing the full impact that the technology sector is having on GDP, exports, and our general economy.¹⁴ Nevertheless, we can make a number of observations about the contribution of different sectors to our economy.

As noted in our earlier report, *A New Economic Narrative for British Columbia*, BC's service sectors are critical to our economy. Services represent 75% of BC's GDP, and it is the service sectors that are driving most of the economic growth.¹⁵ Service-producing sectors represent 80% of jobs and are the sectors projected to add the most

jobs going forward.¹⁶ Government estimates are — if anything — on the low side: whereas the BC Government expects the tech sector to create 75,000 jobs by 2029, BC's tech industry projects double that— 150,000 by the end of the decade.¹⁷

Of course, not all jobs are created equal. We should be prioritizing well-paying jobs in sustainable sectors that will continue to grow into the future, rather than in sectors that are subject to volatile boom and bust cycles or that face inevitable decline, which creates significant uncertainty for employees and communities. Greater use of indicators that capture job quality and job years would be helpful to supplement data on job quantity, to show the types of jobs and the longevity of the jobs that are being created.

Figure 6. Projected job openings in BC, 2019-2029¹⁸



¹⁴Brookfield Institute, Just out of Reach: The Elusive Quest to Measure the Digital Economy, June 2021, https://brookfieldinstitute.ca/wp-content/uploads/DigitalEcon_FINAL.pdf; Jill Tipping and Eleena Marley, "Canada needs better economic data to inform 21st century decision-making", BC Business, July 2021, <https://www.bcbusiness.ca/Opinion-Canada-needs-better-economic-data-to-inform-21st-century-decision-making>.
¹⁵KPMG, British Columbia Technology Report Card: Tackling the Scale Up Challenge, November 2020, <https://assets.kpmg/content/dam/kpmg/ca/pdf/2020/11/bc-technology-report-card-en.pdf>; BC Tech Association, A New Economic Narrative.
¹⁶B.C. Ministry of Finance, Budget and Fiscal Plan 2021/22 - 2023/24.
¹⁷Survey of BC Tech members about expected job growth, May-June 2021.
¹⁸Government of British Columbia, British Columbia Labour Market Outlook: 2019 Edition, 2019, https://www.workbc.ca/getmedia/18214b5d-b338-4bbd-80bf-b04e48a11386/BC_Labour_Market_Outlook_2019.pdf.aspx.

It is also critical to take into account employment earnings alongside employment levels, given the importance of income and consumption taxes to the government's revenue base. Jobs in the tech sector pay 80% higher than the average, which has strong leverage effects through the rest of the economy and results in far higher-than-average personal income and consumption taxes.¹⁹

Long-term, sustainable, and well-paying jobs don't only benefit individuals - they also create benefits throughout the economy. We see their benefits in the higher taxes paid by higher income earners; to the societal benefits of stable, quality employment in communities; to the economic benefits of employees having transferable skills that enable them to meet shifting market demand and support business growth.

Company size matters, and **TOO MANY OF BC'S COMPANIES STAY SMALL**

Canada has a well-known productivity gap with other OECD members. This gap is noted often with respect to our close neighbour and largest trading partner, the United States; however, we also have a gap when compared to other small, open economies of similar size, such as Ireland, which is one of the most productive economies in the world.

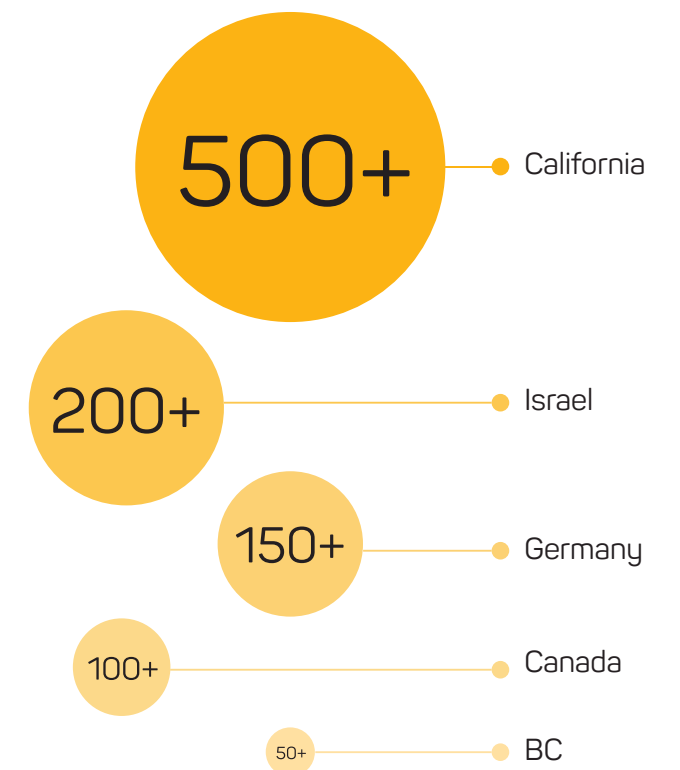
Research has shown that a key determinant of productivity and a major driver of Canada's productivity gap with the United States is company size: larger firms are generally more productive than smaller firms, and a notable structural feature of Canada's economy is the preponderance of small companies.²⁰ One of the key drivers of Ireland's productivity is larger firm size. Smaller companies tend to invest less in technology, tools and equipment than larger companies, reducing their productivity relative to their larger counterparts.

Understanding the source of Canada's productivity gap is important so that policy can be well targeted. If the issue is that too few of our companies are large enough to have the capacity to adopt the technological solutions that increase productivity, we need policy tools and programs to increase the capacity of small companies to invest in technology and innovation.

And, if we have an underlying issue with firm size, a key policy priority must be to help home-grown companies scale up, finding effective ways to support more small companies to grow into medium-sized and large companies.

98% of BC's companies have fewer than 50 employees, and even in BC's tech sector, only 2% of tech companies have 100 employees or more, a problem that is much worse in BC than it is in Ontario or Canada taken as a whole:²¹

Figure 7. Tech company size by jurisdiction



BC's Biggest tech companies are small

The threshold to be one of the largest 10% of tech companies in BC is an employee count of 50. The comparable threshold for Canada is 100 which trails Germany at 150, Israel at 200, and California at 500.

¹⁹BC Stats, Profile of the British Columbia Technology Sector: 2020 Edition, March 2021, https://www2.gov.bc.ca/assets/gov/data/statistics/business-industry-trade/industry/tech_profile_report.pdf.
²⁰John R. Baldwin, Danny Leung, and Luke Rispoli, Statistics Canada, "Canada-United States Labour Productivity Gap Across Firm Size Classes", The Canadian Productivity Review, March 2014, <https://www150.statcan.gc.ca/n1/pub/15-206-x/2014033/part-partie1-eng.htm>.
²¹Government of British Columbia, Small Business Profile 2021, https://www2.gov.bc.ca/assets/gov/employment-business-and-economic-development/business-management/small-business/sb_profile.pdf; KPMG, British Columbia Technology Report Card: Tackling the Scale Up Challenge, November 2020, <https://assets.kpmg/content/dam/kpmg/ca/pdf/2020/11/bc-technology-report-card-en.pdf>; BC Tech Association, BC's \$25 Billion Opportunity: A Transformation Agenda, Fall 2020, <https://wearebctech.com/bc-tech-policy-recommendations-fall-2020/>.

Domestic customers are extremely important, and both the public and the private sector in Canada and BC could do far more to support home-grown companies through procurement. However, to build larger, resilient companies we must focus on opportunities with a large enough total addressable market (or 'TAM'), and that means looking at global market opportunities.

Canada's population is 38 million and our nearest export market, the United States, is 330 million. While it is by no means clear that in the future the USA will be as open to North American free trade as it once

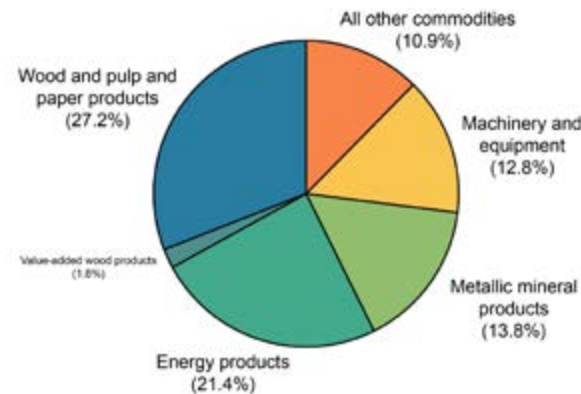
was, that still leaves many attractive export markets to explore and our proximity to Asia is a strategic advantage, given the size and growth of many Asian markets. For example, Vietnam has a population of 97 million, the Philippines has 110 million, and Indonesia has 274 million people, to name only a few examples.

We should be encouraging BC's innovators to focus on problems that are relevant to a large enough global market for their companies to grow and scale into strong, sustainable BC anchor companies.

Exports matter, and IP service exports KEEP MORE OF THE VALUE IN BC

More than 50% of BC's exports are services, with service exports comprising 69% of interprovincial exports and 44% of international exports in 2018.²² However, our ability to track what makes up our service exports is limited by a lack of adequate data at the provincial and federal levels. We have more information on goods exports, which break down as follows:²³

Figure 8. Breakdown of goods exports



As can be seen, our goods exports are made up primarily of natural resource commodity exports, with value-add manufacturing products comprising a minority of the total goods exported.

Commodities are – by definition – goods that are largely interchangeable with other goods of the same type. BC's commodity exports enjoy a relatively low carbon footprint thanks to our clean hydro-electric grid, which is increasingly valued by multinational customers with ESG commitments. But as is always the case with commodities, BC is a price taker. Since the price is set by global markets, commodity businesses must be relentless in pursuing efficiencies, keeping labour and

other costs as low as possible, as well as containing the cost of local regulations and taxes. When price is dictated by the global market, the focus of a company's management is on keeping up the volume of sales and containing costs.

The volatility of global commodity price fluctuations and the relentless cost pressures makes things tough for commodity businesses and we should be proud of the home-grown champions that continue to persevere.

But we can't focus only on commodity goods exports. To do so is bad for BC's advanced manufacturing sector where companies who are competing successfully on the global stage find that there are few policies and programs that support them to grow and scale their activities and stay anchored in BC.

To overly focus on commodity goods exports also forgoes the economic opportunities from growing and scaling our service exports, particularly in our knowledge-based, IP-centred industries.

The lack of data hampers detailed analysis and policy development, but even at an aggregate level we can see that service export sectors are growing rapidly in their importance to our economy. The parts of the service sector that are the most successful at exporting are weighted towards IP-owning, knowledge-based businesses. Our largest service exports include professional and technical services; cultural services, such as film and TV; transportation; tourism; and education.²⁴ These sectors deliver high value-add, differentiated services to a global market. While there are some similarities between, for example, a degree from a BC post-secondary institution and one from elsewhere, these are not commodities and there is no fixed global price.

²²Statistics Canada, Table 12-10-0088-01 Interprovincial and international trade flows, basic prices, summary level (x 1,000,000), November 9, 2021, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1210008801&pickMembers%5B0%5D=3.2&cubeTimeFrame.startYear=2014&cubeTimeFrame.endYear=2018&referencePeriods=20140101%2C20180101>.

²³BC Stats, Annual BC Origin Exports, November 4, 2021, 4, https://www2.gov.bc.ca/assets/gov/data/statistics/business-industry-trade/trade/exp_annual_bc_exports.pdf.

²⁴Jock Finlayson and Ken Peacock, "Export of services plays a strong and growing role in B.C. economy", BC Business Council, June 15, 2020, <https://bcbc.com/insights-and-opinions/opinion-export-of-services-plays-a-strong-and-growing-role-in-b-c-economy>

The focus in these businesses is less on cost and more on growing the customer base and finding the optimal mix of price and volume of sales. In the case of software, the extra cost of producing an additional unit approaches zero and the market maker/first mover advantage is significant. As a result, keeping costs low takes a backseat to retaining talent and scaling the customer base. Talent is seen as a creator of value, not a cost, and the priority is building a culture that nurtures, retains, and attracts talent in order to scale the business.

While not every small business can scale, many have the potential to grow into globally competitive BC-based successes. We need

only think of 1800-Got Junk, Lululemon, Arc'teryx, or the many breakout successes from BC's tech sector in 2021, such as AbCellera, Blockstream, Clio, Copperleaf, Dapper Labs, Galvanize, Geocomply, Nexii, Semios, Thinkific, Trulioo, and Visier. Large anchor company successes like these have high productivity and retain high numbers of employees who pay substantial taxes in BC. Government should direct attention and investment where the returns are greatest, such as BC Tech's ScaleUP BC platform, which will support the scale up of 800 companies over 5 years, delivering \$2.1 billion to provincial GDP and creating 10,000 jobs.²⁵

Haven't we HEARD THIS ALL BEFORE?

In recent years, several reports and consultation exercises have provided the government with information on the direction of the economy and advice on how to ensure widely shared and enduring prosperity for British Columbians as the economy shifts.

During his term, BC's first Innovation Commissioner published two reports with observations on the innovation ecosystem and advice for how to seize economic opportunities and grow BC companies. In his 2018 report, *Observations on Innovation in British Columbia*, Dr. Alan Winter concluded that



"British Columbia has long enjoyed the advantages of circumstance – abundant natural resources, an attractive geographic setting, and favourable access to North American and Pacific Rim markets. However, these advantages have sometimes led to competitive complacency, which has left the province behind in areas such as innovation, productivity, value added product development and business investment in research and development.

*BC has a clear choice going forward. We can hope that commodity prices, housing prices, tourism, and construction have sufficient strength to maintain the province's current level of prosperity; or we can proactively make investments in business innovation and cluster development across BC that will enhance the sustainable and clean growth of the province's emerging sectors and high-potential firms and make BC more competitive in an increasingly dynamic global market."*²⁶

Dr. Alan Winter
BC Innovation Commissioner | 2018-2020

²⁵BC Tech Association, ScaleUP BC Platform: Achieving Economic Impact, <https://wearebctech.com/wp-content/uploads/2021/11/ScaleUPBC-PartnershipPlatform.pdf>.

²⁶Alan Winter, *Observations on Innovation in British Columbia*, October 2018, https://www2.gov.bc.ca/assets/gov/data/statistics/business-industry-trade/trade/exp_annual_bc_exports.pdf.

In 2020, the Emerging Economy Task Force developed five strategic priorities:

01 Embracing Technology and Innovation

B.C. must build on its strengths in the technology sector and invest further in innovation, as well as facilitate the widespread adoption of innovation and technology across all sectors of the economy in order to improve overall business productivity, increase incomes and enable workers to thrive.

02 Leveraging B.C.'s Green Economy

The emergence of the green and circular economy, one that is low-carbon, resource efficient and socially inclusive, presents opportunities for B.C. given its existing strengths. Investments in green infrastructure and climate adaptation planning will ensure B.C.'s economy remains resilient.

03 Building a Highly Skilled and Adaptable Workforce

B.C.'s future workforce must be resilient, with the right skills in the right areas at the right time to be successful in the emerging economy. This requires new and different investments in and approaches to training and re-skilling as part of lifelong learning for workers with support from employers for work-integrated learning opportunities. Enabling workforce participation of under-represented groups will continue to be a critical issue, both for ensuring equity and addressing labour shortages.

04 Ensuring an Effective Enabling Ecosystem

Creating an enabling ecosystem for B.C.'s economy that allows for the efficient flow of products, people, technology and ideas within the province and with the rest of the world is essential. Enabling regional economic development, supporting economic hubs and equipping residents with access to the latest technology are all keys to success.

05 Demonstrating Public Sector Leadership

Given the accelerated pace of change, flexible solutions must go hand-in-hand with a new level of public sector responsiveness. In order to capitalize on the opportunities presented by this change, government and public sector agencies will need to be nimble and a catalyst for enabling the future economy by establishing best practices, stimulating innovation and mitigating risks.



Emerging Economy Task Force

Kathy Kinloch, BC Institute of Technology (Chair)

Kevin Campbell, Haywood Securities

Peter Elkins, Royal Roads University

Jock Finlayson, Business Council of BC

Raghwa Gopal, Innovate BC

Carol Anne Hilton, The Indigenomics Institute

Iglika Ivanova, Canadian Centre for Policy Alternatives

Daniel Pauly, Institute for the Oceans and Fisheries, University of BC

Coro Strandberg, Strandberg Consulting

Corinne Stavness, Independent Consultant

Eric Termuende, NoW Innovations Canada

Jill Tipping, BC Tech Association

Eric Werker, Professor, Beedie School of Business, Simon Fraser University (SFU)

Alan Winter, Former BC Innovation Commissioner (Ex-Officio)

And 22 years ago, in 1999, in Jobs and Environment: Moving British Columbia into the Twenty First Century, BC Spaces for Nature laid out the shift already occurring in BC's economy in the 1990s, namely the challenges facing commodity exports and the importance of human capital as a source of wealth in the emerging economy.²⁷



Historically, the BC economy was built on exploiting an abundance of natural resources, primarily timber, fish, and minerals.

Through the past century, BC companies were successful in extracting, moving, and marketing these resource commodities around the world. For many years this was a successful economic strategy, providing the foundation for a vibrant economy and high standard of living. But times are changing and like Oregon of 10 years ago, the resource-based economy of BC is now struggling. Resource companies increasingly face declining, or more difficult, access to resources, rising costs, and increasingly stiff competition from lower cost producers in other parts of the world.

British Columbia's traditional export products such as lumber and minerals are global commodities, products made uniformly in large quantities which must compete mainly by price with other virtually identical products from other countries. With low per unit profit margins, this means BC producers have to compete largely by reducing costs if they are to succeed in these markets. Commodity producers depend on high shipment volumes to generate profits but are increasingly undermined by lower cost producers in other parts of the world. In a time when large portions of the world such as Asia, Russia, and South America are in recession, the situation is exacerbated since these countries are forced to cut commodity prices in order to survive. At the same time, such dependency on high volume shipments places a tremendous strain on the BC landbase to produce the basic raw materials – the minerals, fish, and lumber – needed for high-volume production.

When the fundamental drivers of the economy begin to change – as they are right now in the shift from natural capital to human capital as the source of wealth in the new economy – most people's perception of what is happening tends to be tied to past patterns of economic activity. They maintain the 'rearview mirror' perspective on declining resource industries as an imminent threat but fail to see the current economy emerging. It's as if they can't see the new prospects for future prosperity that are right in front of them. This seems to be tied to a sociological response to change. When patterns of economic activity change, there is often considerable lag in the cultural adjustment. And one of the last things to change it seems is the shared collective understanding of what drives the economy.

In an economy in which resources are increasingly mobile and manufacturing industries that rely on specific resources are a shrinking share of the national economy, labour has become an increasingly powerful factor in determining the geographic distribution of economic activity.

Whereas in the old economy, workers went to where industry was located, in the new economy, workers decide where they want to live, and the industries follow them there."



Multiple reports and consultations have echoed the same observations. Yet BC government thinking on the economy has changed little. Post-COVID-19, British Columbians cannot afford for our government to continue to steer the economy based on thinking that has not caught up to the realities of the 21st century.

²⁷BC Spaces for Nature, Jobs and Environment: Moving British Columbia into the Twenty First Century, June 1999, 50, http://www.llbc.leg.bc.ca/public/PubDocs/bcdocs/339410/JE_Final_word_95.2.pdf.

Priorities for prosperity IN THE 21ST CENTURY

The data clearly shows the central importance of individuals to our economy, to government revenues today, and to the stability of government revenues going forward. It follows that the most promising way to support enduring and healthy government revenues is to support a healthy and growing tax base. We must focus on expanding the sectors of our economy that have strong growth potential amidst the global economic transition, and that provide high levels of employment and well-paying jobs.

In BC, in Canada and around the world it is IP-owning, knowledge-based sectors, and in particular the tech sector, which are projected to grow, and which create high numbers of well-paying jobs across the economy. The Innovation Economy Council estimates that the innovation economy already comprises 12% of Canadian GDP and is growing three to six times faster than traditional sectors.²⁸

We must also recognize the central importance of human capital to wealth and prosperity. This means continuing to attract newcomers to BC and retaining homegrown talent. This is especially important as we grapple with our aging population and the corresponding fiscal impacts. Attracting and retaining talent requires that we prioritize the

economic infrastructure needed for a knowledge-based economy, including expanding the availability and affordability of childcare, improving housing affordability, and investing in public transit. All of this makes BC a more attractive place to live and work, something that is particularly important for highly talented and highly mobile workers who have a significant amount of choice in where they choose to work. Our natural beauty in BC is a significant draw, but on its own is not enough: we must prioritize building attractive and liveable communities for people to live, work and play.

It is also critical that we grow our investment in skills training to ensure that British Columbians have the skills needed to fulfil high-demand occupations. We need to reframe how we approach education and skills training, away from asking what we can afford to fund, and towards seeing education as a powerful investment that can generate significant returns to our economy. In the 21st century where talent is the primary driver of wealth, we can't afford not to invest in our workforce of today and tomorrow through significant investments into education.



To be able to plan effectively and craft forward-thinking policy, we must also collect better data about government revenues and economic activity, particularly in the digital economy, to inform long-term decision-making. We are missing an accurate picture of the drivers of our economy, as governments have struggled to adapt to the challenges of high-quality data in the digital age. This gap impedes our ability to make long-term, evidence-based decisions to support economic resilience and prosperity. We need to better track and report on digital and intangible-based economic growth, and the policies that reinforce business investment in research development.

Perhaps most fundamentally, we must acknowledge that the economy has changed and is continuing to change. In the current economic context, competitiveness does not mean a race to the bottom for commodity exports, where we get less and less of a

return on our investment. We cannot attempt to chase the ghosts of economies past. Instead, as the world changes rapidly, BC needs to be planning ahead, ensuring that our revenues come from sources that we can rely on: sources that are stable, that support a thriving economy and the wellbeing of our people, and that are projected to grow in the 21st century. This means investing in our people, facilitating the integration of technology through the economy to increase the value of what we produce here in BC, and supporting BC companies to grow and flourish. It is the creative and innovative activities of individuals and BC companies that are driving economic growth today, and ultimately driving a healthy return to the government through stable revenues.

²⁸Barrie McKenna, The Post-Viral Pivot: How Canada's Tech Start-ups can Drive the Recovery from COVID-19, Innovation Economy Council, April 2020, <https://innovationeconomycouncil.com/wp-content/uploads/IEC-Report-April-2020-FINAL.pdf>

Bringing it ALL TOGETHER

Traditional industries have played a critical role in building BC's economy. But the world has changed, and the pace of change is accelerating. Economic opportunities today do not lie in chasing the economy of decades past - they lie in leaning into the changes that we're seeing in the economy and supporting already growing and flourishing sectors to reach their full potential. To seize the economic opportunities in today's economy, we must:

Priority 1 Invest in sectors with growth potential that provide high levels of employment and well-paying jobs

We need significantly more investment in the sectors that have unrealized potential for further growth and that provide high levels of employment and well-paying jobs. We must lean into the shift to a clean economy and the economic opportunities inherent in the global shift to net zero, embracing technology and innovation as critical drivers of economic growth and resilience, and investing in talent and supporting the scaleup of firms here in BC to build a strong sustainable tech ecosystem. There is a powerful leverage effect from high employment levels and high salaries throughout the economy and into the government's revenue base, through higher income and consumption taxes paid by these workers. In BC, it is the knowledge-based service sectors, and in particular BC's tech sector, which are projected to grow, and which are creating high numbers of well-paying jobs. The Innovation Economy Council estimates that the innovation economy already comprises 12% of Canadian GDP and is growing three to six times faster than traditional sectors.²⁹

Priority 2 Prioritize education and skills training to drive growth in the knowledge-based economy

People are the greatest asset and source of value in today's knowledge-based economy, with business leaders routinely naming access to talent as the primary constraint on growth. To drive business development and economic growth, we need to prioritize investment in the skills and training needed to thrive in the knowledge-based economy. We tend to ask, when it comes to education and skills training, "how many people can we afford to train?" Instead, we should be asking how we can equip as many British Columbians as possible with the skills and training needed to realize the full potential of our talent pool – and properly quantify the economic windfall this investment would deliver.

Priority 3 Capture better data to drive decision-making

We must collect better, more balanced data about BC's economic activity, particularly in the digital economy, to inform decision-making. There is a clear link between the data that is collected and government policy and investment priorities. Where data is captured, policy and investment follow; where data is not captured, there is an absence of policy and investment. Choosing not to solve the data gap is a choice to under-invest in the future in favour of the past. As Peter Drucker famously observed, "What gets measured gets managed", and it is as true for the government as it is for business. The BC government needs to better track and report on digital and intangible-based economic growth and develop policies and investment plans appropriate for BC's 21st century economy.

Building a strong 21st century economy means doing different things than we did in the 20th century. It means change and change can be intimidating. But it is also a given. The only question is whether we will seize the inherent opportunities or wait to be impacted by the changes we tried to resist. In today's world, with what we've learned from the pandemic and the pace of change in the world, does standing still feel like a winning strategy? The reality is that playing it 'safe' is risky. It's time to embrace the realities of the 21st century and choose a vibrant, resilient economic future for BC.

²⁹Barrie McKenna, The Post-Viral Pivot: How Canada's Tech Start-ups can Drive the Recovery from COVID-19, Innovation Economy Council, April 2020, <https://innovationeconomycouncil.com/wp-content/uploads/IEC-Report-April-2020-FINAL.pdf>

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