

**Socio – Economic Impacts of Arts and Cultural
Organizations in BC:**

Grant Applicants to the BC Arts Council

For
Business Research
Tourism Development Section
Tourism Policy and Development Division
Ministry of Tourism, Sports and Arts, BC

By
G. S. Sandhu & Associates
Final Report
December 2006

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Socio-Economic Impacts of the Arts and Cultural Organizations in BC: Grant Applicants to the BC Arts Council

Introduction:

The objective of this study is to estimate the contribution to the BC economy of the arts and cultural organizations which apply for grants from the BC Arts Council. An economic impact approach based on input-output methodology is used to estimate the socio-economic impacts of expenditures by arts and cultural organizations in BC. The input-output model employed in this study generates economy-wide estimates of output, value added (gross domestic product), labour income, employment and government revenues resulting from expenditures by arts and cultural organizations in BC¹.

Arts and cultural organizations make a broad contribution to society in addition to the above impacts on the economy. These organizations help preserve heritage, facilitate arts and cultural education, identify, develop, and recognize artistic talent, and encourage local participation. Also, healthy arts and cultural communities can attract out-of-region audiences which in turn contribute spending to local economies. This study does not attempt to estimate these impacts.

The provincial government offers programs through the BC Arts Council to assist artistic and cultural activities as well as to encourage greater access to cultural and artistic experiences throughout the province². The BC Arts Council is an agency established by the Provincial Government, under the *Arts Council Act*, to provide:

- Support for the arts and cultural community in British Columbia;
- An opportunity for people to participate in the arts; and
- An open, accountable and impartially administered process for managing provincial funds.

The aim of this study is to trace the so-called expenditure benefits to the economy resulting from the expenditures made by arts and cultural organizations. The overall contribution to the BC economy of all the organizations is estimated as well as the contributions of the organizations classified with respect to the eight economic development regions of BC.

Data:

The study employs expenditure data from the financial statements of 357 arts and cultural organizations which had applied for various grants from the BC Arts Council in 2004. These organizations applied for grants under the Professional Arts Development and Cultural Development assistance programs. The 2004 expenditures of arts and cultural organizations are shown in Table 1 below. The BC Arts Council also provides grants for

¹ Definitions of key economic terms used in this study are provided in the Appendix.

² British Columbia Arts Council, Annual Report 2003-2004.

touring programs, aboriginal arts development and to individual artists, but these are not included in the study since their financial statements were not available.

**Table 1: Expenditures by Arts & Cultural Organizations
Applying for BC Arts Council Grants**

BC	Number of Organizations	Total Expenditures
Number of Grant Applicants	357	164,164,855
Successful Grant Applicants	300	155,341,636
Development Regions		
1. Vancouver Island/ Coast	69	30,398,661
2. Mainland/Southwest	198	113,124,426
3. Thompson/Okanagon	35	10,288,402
4. Kootenay	23	3,248,291
5. Cariboo	13	3,740,917
6. North Coast	8	1,611,115
7. Nechako	3	154,377
8. Northeast	8	1,598,666

There were 300 successful organizations which received \$9,569,009 in total grants.

The input-output model used for estimating economic impacts is based on input-output tables for base year 2001 (the most recent database which existed at beginning of this project) published for BC by Statistics Canada.

The study generates estimates of government revenues comprised of: indirect taxes on factors of production and products; direct personal income tax; corporate profits tax; CPP contributions, employment insurance and worker's compensation premiums. The model estimates indirect taxes using the input-output data. Additional information from the Income Statistics data published by the Canada Revenue Agency and the Provincial Economic Accounts published by Statistics Canada is utilized to estimate the other government revenue streams.

Methodology:

Input-output methodology is based on a simple economic notion that the production of an output (goods and/or services) requires inputs (goods, services and factor inputs; labour and capital). Therefore, an increased demand for goods and services because of an initial expenditure by an organization in the arts and cultural sector will generate economic activity by producers (suppliers) of those products. Production by suppliers will further increase demand for inputs and so on. Initial expenditures by arts and cultural organizations create the direct economic impacts of the arts and cultural sector. The additional impacts of domestic (provincial) spin-off economic activity are the indirect impacts. In addition, there will be an increase in household income because of these direct and indirect impacts. A portion of the increased household income will be spent to

purchase additional goods and services. The induced impacts of the initial expenditure are the value of this further economic activity.

In expenditure impact analysis of this nature, multipliers (summary statistics) are calculated to summarize economic benefits. Multipliers are defined as the ratio of total impacts to direct impacts. In this study, the following multipliers are estimated:

Output Multipliers:

$$\text{Type I multipliers} = \frac{\text{Direct output} + \text{Indirect Output}}{\text{Direct expenditure}}$$

$$\text{Type II multipliers} = \frac{\text{Direct output} + \text{Indirect Output} + \text{Induced Output}}{\text{Direct expenditure}}$$

Value Added Multipliers:

$$\text{Type I multipliers} = \frac{\text{Direct GDP} + \text{Indirect GDP}}{\text{Direct expenditure}}$$

$$\text{Type II multipliers} = \frac{\text{Direct GDP} + \text{Indirect GDP} + \text{Induced GDP}}{\text{Direct expenditure}}$$

Employment Multipliers:

$$\text{Type I multipliers} = \frac{\text{Direct employment} + \text{Indirect employment}}{\text{Direct employment}}$$

$$\text{Type II multipliers} = \frac{\text{Direct empl} + \text{Indirect empl} + \text{Induced empl}}{\text{Direct empl}}$$

Multipliers in one sector are readily comparable to those in other sectors and from other regions (as used below for regional comparisons).

The analysis and results in this study are presented in two parts:

1. ***Economy-wide impacts of expenditures by successful applicants and a comparison with Alberta results:*** Direct, indirect and induced impacts in terms of output, value added, labour income, employment (in person years) and government revenues are estimated using data from the financial statements of successful applicants. Analysis in this part of the study is based on two alternative sets of provincial economy impacts. The first set gives a conservative estimate and is the sum of direct and indirect impacts. The second set is the sum of the direct, indirect and induced impacts³. This pair of economy-wide estimates forms the range in which province-

³ To estimate induced impacts an assumption is required regarding how much (such as 50% or 70%) of increased household income will be re-spent on the purchase of goods and services. General practice is to use the data from the input-output tables. Critics of the use of induced impacts have argued that the induced impacts would be over-estimated in a situation in which the percentage of re-spent household income is lower than in the base year of the input-output table. Also, the inclusion of induced impacts in the total

wide economic benefits can be expected to fall. The results of this study are compared to those from a similar study for Alberta by Econometric Research Limited for 2004 on behalf of the Alberta Foundation of the Arts⁴. The economy-wide estimates of economic impacts in the Alberta study are calculated by summing direct, indirect and induced impacts, or the upper limit of the estimated impacts in this study.

2. ***Separate provincial economic impacts of the expenditures of organizations within each of the eight economic development regions of the province:*** The purpose of this exercise is to make regional comparisons of the economic impacts of arts and cultural organizations. Data from all organizations (357) which applied for grants is used to estimate the economic impacts. In this part, only the conservative economy wide economic impacts and Type I multipliers (direct and indirect) are estimated.

Results:

The direct output of the arts and cultural sector in BC is estimated as the initial total expenditures of the arts and cultural organizations in BC. The initial expenditures consist of the purchase of goods and services, the costs of running concession, bar and food services, and labour income (wages and salaries, and benefits) paid by the arts and cultural organizations.

1. Overall Economy-wide Impacts

The economy-wide direct, indirect and induced output and value added impacts of expenditures by the full group of successful applicants are provided in Table 2. Labour income and employment impacts are presented in Table 3, employment impacts by sector in Table 4 and government revenue impacts in Table 5.

Gross output and value added

Value added is estimated as the sum of labour income, mixed income, profit (other surplus) and net indirect taxes (indirect taxes on production and products minus respective subsidies). For full definitions of measures of value added, see the Appendix.

The estimates of economic impacts provided in Table 2 are based on the 300 arts and cultural organizations which were successful in obtaining grants for at least one program offered by the BC Arts and Council in 2004. The total value of the grants awarded to these organizations was \$9,569,009.

The 300 successful arts and cultural organizations spent \$155 million on operations, production and administration. For every \$1 of initial expenditure of these BC organizations additional spending was generated in the range of \$0.57 (if it is assumed there was no induced spending) to \$0.87 (with induced spending). The results from the

impact estimate implicitly assumes that if a worker loses a job there are no other opportunities to earn any lost labour income, which may or may not be the case.

⁴ www.cd.gov.ab.ca/all_about_us/commissions/arts/impact/Final_Report.pdf

Alberta study indicate that every \$1 of initial expenditure generates \$1.17 in additional spending. This appears to be significantly higher as compared to BC.

The gross output multiplier should be used with caution because of double counting of outputs. For example, if a portion of the output of sector ‘A’ is used as an input by sector ‘B’, that portion will be counted twice; once in the output of sector A and then as part of the output of sector B.

Table 2: The Socio–Economic Impacts of the Arts and Cultural Sectors in BC and Alberta

	BC		Alberta	
	Value (\$)	Multipliers	Value (\$)	Multipliers
Initial Expenditure	155,341,636		120,251,762	
Total Grant	9,569,009		13,000,000	
Gross Output				
Direct	155,341,636		120,251,762	
Indirect	88,454,934			
Indirect & Induced	134,661,534		140,831,762	
Total 1	243,796,570	1.57		
Total 2	290,003,170	1.87	261,083,524	2.17
Value Added (GDP at Market Price)				
Direct	80,745,059		58,445,296	
Indirect	48,265,784			
Indirect & Induced	75,035,691		94,713,748	
Total 1	129,010,843	0.83		
Total 2	155,780,750	1.00	153,159,044	1.27

Notes: Total1 = (Direct Impacts + Indirect Impacts)

Total2 = (Direct Impacts + Indirect Impacts + Induced Impacts)

The initial spending of \$155 million in the arts and cultural sector generates total valued added (GDP) in the range of \$129 to \$156 million or for every dollar of spending, the total (direct and spin-off) value added generated is in the range of \$0.83 to \$1.00.

In Alberta, an estimated total of \$1.27 in value added is created in the economy and as with the gross output impact estimates, the value added impacts are significantly higher than those estimated for BC

Labour Income and Employment

From the results presented in Table 3 below, economy-wide labour income and employment impact estimates indicate the following:

- an initial expenditure of \$155 million generated a total of labour income between \$104 million and \$117 million in the whole province. Therefore, for every dollar of expenditure by an arts and cultural organization, between \$0.68 and \$0.76 of total labour income is estimated to be generated in the whole economy;
- for Alberta, with initial expenditures of \$120 million in the arts and cultural sector, a total of \$106 million in labour income is estimated to be generated in the

province. Therefore, for every \$1 spent on production and operation by the arts and cultural organizations, 89 cents in labour income is estimated to be created in the province;

- for every direct job (person years) in the arts and cultural sector of BC there are between 1.32 and 1.5 jobs in the whole provincial economy. In other words, for every job in the arts and cultural sector, there are approximately 0.3 to 0.5 additional jobs created in the economy; and
- for Alberta, for every direct job (person years) in the arts and cultural sector, there is an estimated 0.93 additional jobs created in the province

Table 3: Labour Income and Employment

	BC		Alberta	
	Value (\$)	Multipliers	Value (\$)	Multipliers
Labour Income				
Direct	77,788,136		52,672,244	
Indirect	27,110,542			
Indirect & Induced	39,796,695		54,127,459	
Total 1	104,898,678	0.68		
Total 2	117,584,831	0.76	106,799,703	0.89
Employment				
Direct	2,125		1,816	
Indirect	682			
Indirect & Induced	994		1,692	
Total 1	2,808	1.32		
Total 2	3,119	1.47	3,508	1.93

It is worth noting that the total impact estimates for Alberta, which include induced impacts, are on the high side as compared to the analogous estimates for BC. Figures 1 and 2 depict the value added and labour income impacts for BC and Alberta of the respective initial expenditures.

Figure 1: BC Value Added and Labour Income Impacts

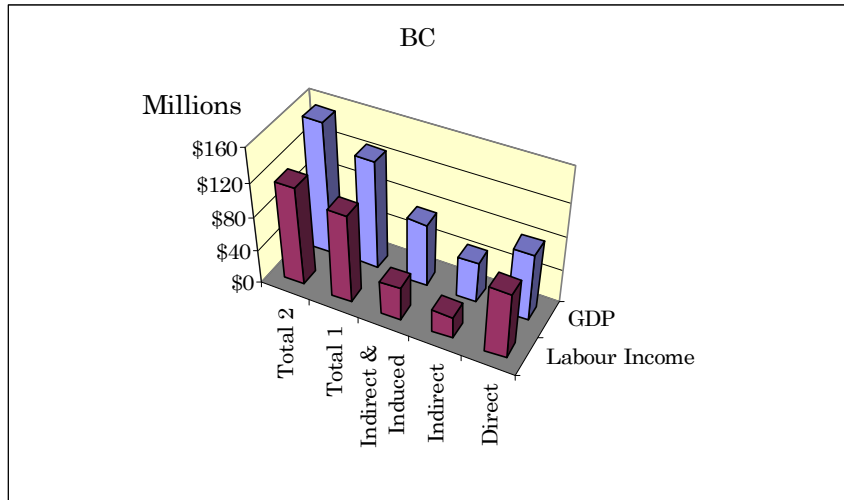


Figure 2: Alberta Value Added and Labour Income Impacts

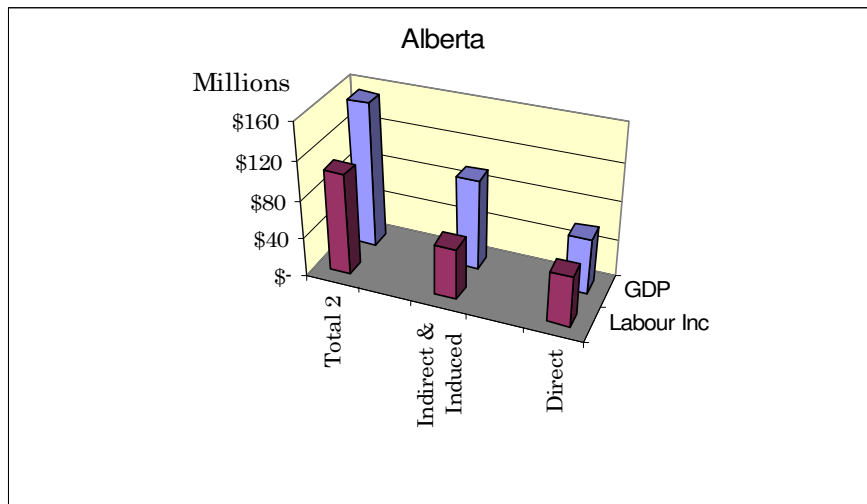
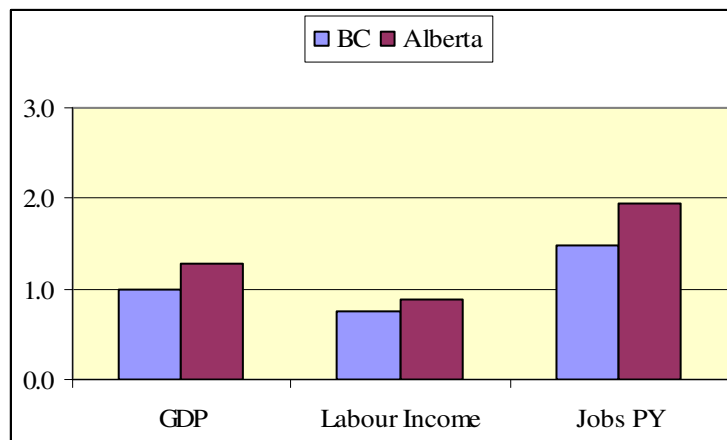


Figure 3: Multipliers BC vs. Alberta

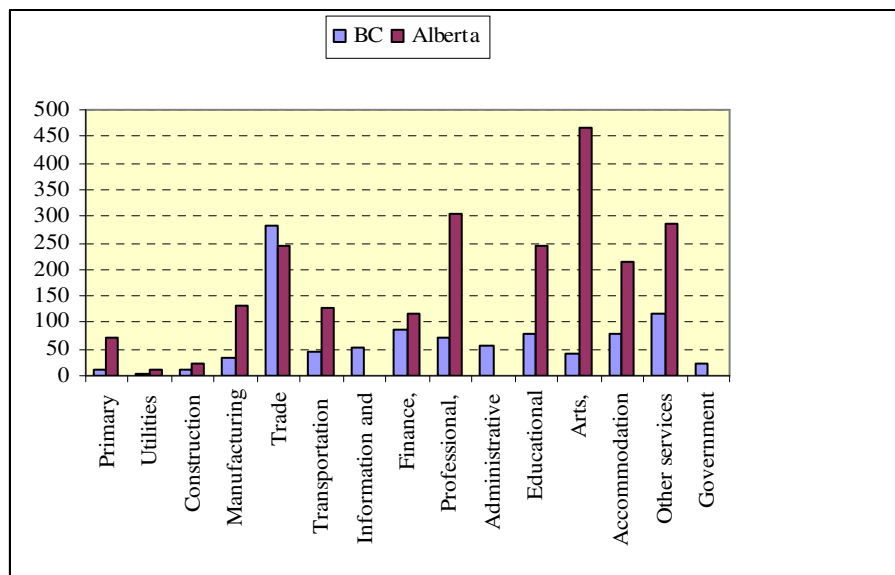


The employment impacts by sector for BC and Alberta are presented in Table 4 below and in Figure 3 spin-off employment impacts are depicted.

Table 4: Employment (in Person Years) by Sectors

Sectors	BC		Alberta
	Direct & Indirect	Direct, Indirect & Induced	Direct, Indirect & Induced
Arts and Cultural Sector (Direct Jobs)	2,125	2,125	1,265
Primary Resource Sector	5	12	73
Utilities	4	5	11
Construction	9	13	21
Manufacturing	19	33	130
Trade	189	281	244
Transportation and warehousing	30	44	126
Information and cultural industries	42	54	
Finance, insurance, real estate and rental and leasing	42	85	116
Professional, scientific and technical services	59	72	306
Administrative and other support services	47	56	
Educational services, Health	49	78	246
Arts, entertainment and recreation	36	43	468
Accommodation and food services	34	78	216
Other services (except public administration)	101	118	286
Government sector	15	22	
Total	2,808	3,119	3,508

Figure 4: (Indirect + Induced) Employment in Person Years by Sectors



The estimates in Table 4 clearly show that most of the jobs generated are in the direct sector and the arts and cultural sector expenditures primarily support the service sectors in both provinces. There are 2,125 direct jobs in BC and 1,265 in Alberta. However there are some interesting contrasts:

1. In Alberta, most spin-off jobs are generated in the travel and entertainment sectors (the equivalent industry in this study is arts, entertainment and recreation⁵). This result is peculiar in the sense that the majority of initial expenditures of the arts and cultural organizations would be expected to be on commodities produced by other industries.
2. Another curious result regarding spin-off impacts in the Alberta study is that 53 jobs are generated in the agriculture sector compared to a maximum of just three jobs in this study (these details are not shown explicitly in the tables but are included in the primary resource sector in Table 4). It is also questionable whether 16 spin-off jobs in mining and 15 in metal fabricating would be generated by the arts and cultural sector as indicated in the Alberta study; and
3. In BC, as expected, most spin-off jobs of initial expenditures by the arts and cultural sector are generated in the trade, other services, professional, scientific and technical services sectors.

Government Revenues:

Table 5 provides details of government revenue streams from various taxes at all three levels of government in BC. Government revenue estimates are shown for the direct plus indirect impacts and for direct plus indirect impacts plus induced impacts of initial expenditures of the arts and cultural organizations.

The results in Table 5 show that the 300 arts and cultural organizations which received \$9,569,009 in total grants from the government of BC generated a very significant stream of government revenues:

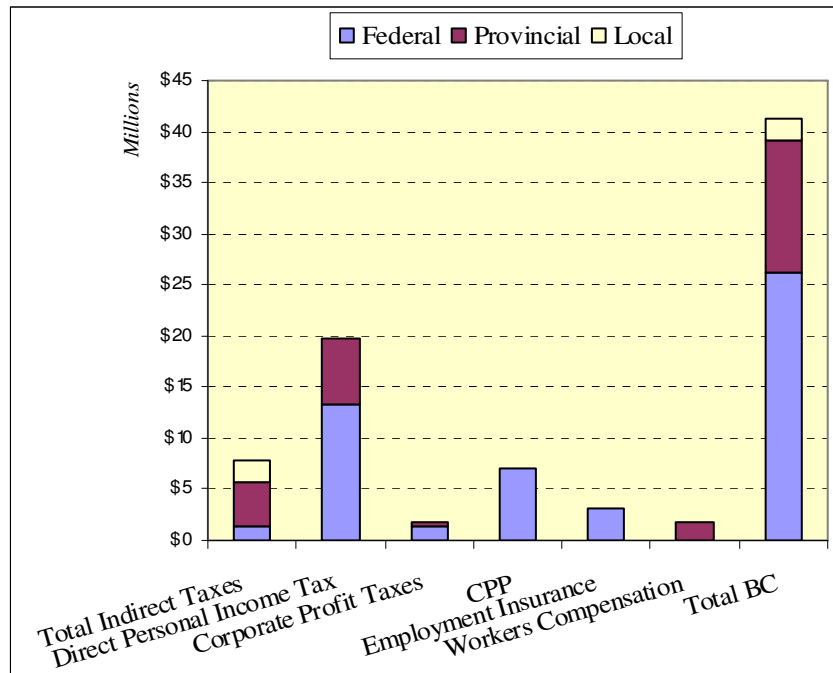
- the government of BC received in the range of \$10,040,674 to \$13,008,696 in provincial taxes in return for providing grants of \$9,569,009 awarded to the arts and cultural organizations in BC whose initial expenditures generated these government revenues;
- significant direct personal income tax and indirect taxes on production and products contributed to provincial government revenues;
- direct personal income tax makes the major contribution to federal government revenues; and
- local governments received between \$1,265,464 and \$2,156,734 in property taxes.

⁵ In this study all industries are allocated according to the small aggregation of NAICs. For the BC model in this study, no modification to Statistics Canada's standard industrial classification has been performed. However, in the Alberta model industries are disaggregated using location coefficients that may have caused these unexpected impact estimates.

Table 5: Government Revenues Streams

Direct and Indirect Impacts				BC	Alberta
	Federal	Provincial	Local	Total	
Indirect Taxes on Products	1,134,366	2,175,511		3,309,877	
Indirect Taxes on Production	21,520	981,316	1,226,214	2,229,050	
Total Indirect Taxes					
Direct Personal Income Tax	11,339,479	4,951,905		16,291,384	
Corporate Profit Taxes	783,757	423,070		1,206,827	
CPP	7,088,125			7,088,125	
Employment Insurance	2,799,200			2,799,200	
Workers Compensation		1,508,872		1,508,872	
Total BC	23,166,446	10,040,674	1,226,214	34,433,334	
Direct, Indirect & Induces Impacts					
Indirect Taxes on Products	1,349,691	2,588,465		3,938,156	
Indirect Taxes on Production	37,851	1,725,993	2,156,734	3,920,577	
Total Indirect Taxes	1,387,542	4,314,458	2,156,734	7,858,733	20,288,536
Direct Personal Income Tax	13,262,567	6,579,825		19,842,392	29,842,964
Corporate Profit Taxes	1,274,501	423,063		1,697,564	8,908,808
CPP	7,088,125			7,088,125	3,944,026
Employment Insurance	3,137,727			3,137,727	3,950,452
Workers Compensation		1,691,351		1,691,351	953,304
Total BC	26,150,462	13,008,696	2,156,734	41,315,892	
Total Alberta	41,735,278	19,590,121	6,562,691		67,888,090

Figure 5: Composition of Government Revenues



In Tables 6 and 7 below, province-wide economic impacts of all 357 arts and cultural organizations that applied for grants are estimated according to the development region (DR) of BC in which initial expenditures occurred. Only conservative (direct +indirect)

impacts are calculated. This is because the re-spending habits of households with increased income are expected to vary among households from different development regions. For example, the propensity to consume among households from the Mainland/Southwest or Vancouver Island/Coast and those residing in Northeast or Nechako regions may vary significantly. Therefore, comparisons among the different development regions based on direct plus indirect effects may be more valid than those based on direct plus indirect plus induced impacts. The objective is to capture the variation in economy-wide impacts due to the composition of initial expenditures rather than the variations due to re-spending of increased household income. The composition of initial expenditures of the arts and cultural organizations from different economic development regions are expected to vary because of differences in the types (theatre, museums etc.) and size of organizations.

Table 6: Regional Economic Impacts

Region	Direct	Indirect	Total	Multipliers
Gross Output Impacts				
BC	164,164,855	93,478,593	257,643,448	1.57
DR 1	30,398,661	16,477,545	46,876,206	1.54
DR 2	113,124,426	63,707,803	176,832,229	1.56
DR 3	10,288,402	5,972,518	16,260,920	1.58
DR 4	3,248,291	2,727,996	5,976,287	1.84
DR 5	3,740,917	2,378,483	6,119,400	1.64
DR 6	1,611,115	1,143,497	2,754,612	1.71
DR 7	154,377	102,754	257,131	1.67
DR 8	1,598,666	967,996	2,566,662	1.61
Value Added (GDP at Factor Cost)				
BC	83,216,435	47,246,376	130,462,812	0.79
DR 1	16,170,438	8,144,275	24,314,713	0.80
DR 2	57,576,794	32,312,699	89,889,493	0.79
DR 3	5,192,974	3,031,117	8,224,091	0.80
DR 4	1,005,695	1,400,532	2,406,227	0.74
DR 5	1,702,714	1,229,573	2,932,287	0.78
DR 6	718,967	575,479	1,294,446	0.80
DR 7	64,949	52,493	117,442	0.76
DR 8	783,903	500,209	1,284,112	0.80
Labour Income				
BC	82,414,831	28,502,757	110,917,588	0.68
DR 1	16,093,519	4,926,848	21,020,366	0.69
DR 2	56,943,386	19,451,769	76,395,154	0.68
DR 3	5,135,261	1,836,673	6,971,935	0.68
DR 4	989,089	866,865	1,855,954	0.57
DR 5	1,701,235	709,048	2,410,282	0.64
DR 6	718,675	373,778	1,092,453	0.68
DR 7	64,689	31,922	96,610	0.63
DR 8	768,977	305,855	1,074,832	0.67

From Table 6, the Type I multipliers for organizations by regions indicate:

- the Kootenay region (DR4) has the highest output multiplier and lowest value-added and labour income multipliers among all regions in BC. This implies that

- initial expenditures of the arts and cultural organizations in the Kootenay development region created activity in goods and services inputs intensive sectors (rather than factor inputs) of BC;
- the value added and labour income multipliers are the largest for the arts and cultural organizations from the Mainland/Southwest region (DR 2) and one of the lowest for gross-output. Therefore, initial expenditures of the arts and cultural organizations in the Mainland/Southwest region appear to generate more activity in labour-intensive sectors of BC.
 - the above two conclusions are as expected and there appear to be variations among the multipliers of development regions.

Table 7 below provides estimates of employment impacts. As expected, the majority of direct jobs (PY) are in the Mainland/Southwest region (DR2) followed by the Vancouver Island/Coast region (DR1). For every job (PY) in the arts and cultural sector, 1.32 jobs are generated in the BC economy. As with the output multiplier, the employment multiplier is largest for the Kootenay region (DR4) and lowest for the Vancouver Island/Coast region (DR1).

Table 7: Regional Employment (Person Years) Impacts

Region	Direct	Indirect	Total	Multipliers
BC	2,252	719	2,971	1.32
DR 1	440	123	563	1.28
DR 2	1,556	490	2,046	1.32
DR 3	141	46	187	1.33
DR 4	27	23	50	1.84
DR 5	46	17	63	1.37
DR 6	20	10	30	1.52
DR 7	2	1	3	1.47
DR 8	21	8	29	1.38

Conclusions:

This study is based on data from 357 arts and cultural organization of BC which applied for grants to the BC Arts Council. 300 of these were successful applicants and received \$9,569,009 in awards. The economy-wide economic impacts (benefits) of initial expenditures by the successful organizations are calculated. These organizations spent \$155 million on initial expenditures. For every dollar of initial expenditure, additional spending in the range of \$0.57 (without induced impacts) and \$0.87 (with induced impacts) are generated in the BC economy.

The initial spending of \$155 million by the arts and cultural organizations generated a total value added (GDP) in the range of \$129 to \$156 millions. For every dollar of initial spending:

- the total (direct and spin-off) value added is in the range of \$0.83 and \$1.00;

- the total value of labour income generated is in the range of \$0.68 to \$0.76 in the provincial economy.

There are 2,125 direct jobs (based on data of the 300 successful applicants) in the arts and cultural sector. For every direct job (person years) in the arts and cultural sector of BC between 1.32 and 1.52 jobs are created in the whole economy, or 0.3 to 0.5 additional jobs. The majority of spin-off jobs are in the trades, other services, professional, scientific and technical services sectors of BC.

The 300 arts and cultural organization in BC which received \$9,560,009 in total grants from the government of BC generated a very significant stream of government revenues:

- the government of BC received in the range of \$10,040,674 to \$13,008,696 in provincial taxes;
- local governments received between \$1,265,464 and \$2,156,734 in property taxes;
- the federal government received revenues in the range of \$23,166,466 to \$26,150,462;

Estimated benefits resulting from expenditures by arts and cultural organizations are lower than comparable estimates for Alberta. Benefits for BC are nonetheless substantial and some of the results for Alberta may be questionable.

There is a large variation in economy-wide impacts of initial expenditure of the arts and cultural organizations in the eight development regions of BC.

Appendix

Glossary of Economic Impact terms used in the study:

Gross Domestic Product or Value Added is measured at factor cost, basis prices, or market prices.

GDP(at factor cost) = Labour Income + Mixed Income + Other Operating Surplus

GDP(at basic price) = GDP(factor cost) + Indirect Taxes on factor of production
- subsidies on factor of production

GDP(market price) = GDP(at basic price) + Indirect Taxes on factor of products
- subsidies on factor of products

Indirect Taxes on factor of Production include property and payroll taxes. **Subsidies on factor of production** are labour related subsidies (for example training subsidies)

Indirect Taxes on Products are excise, gasoline, GST, PST etc. **Subsidies on Product** are subsidies to business for example agricultural subsidies etc.

Labour Income is the sum of wages and salaries and supplementary labour incomes

Supplementary Incomes is the f employers' contributions (compulsory or voluntary) it includes CPP, QPP, contributions to employment insurance, workers' compensations medical insurance et..

Mixed Income is the sum of net income of farm operators from farm production and net income of non-farm unincorporated businesses including rent.

Other Operating Surplus is the sum of Corporation profit before taxes, interest and investment income, inventory valuation adjustment and capital cost allowances