

# **Economic Impact Study Of the Canadian-Owned Publishing Industry**

**A Report prepared for:  
The Organization of Book Publishers of Ontario  
and  
The Ontario Media Development Corporation**

**By:**



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# Introduction

- **POLLARA is pleased to present to the Organization of Book Publishers of Ontario and the Ontario Media Development Corporation the following report of findings from the Economic Impact Study it conducted.**
- **The objective of this research program was to study the “economic impact” of Canadian-owned publishing firms based in Ontario. POLLARA conducted the study, using a systematic and recognized approach, in collaboration with Professor Peter Dungan, from the University of Toronto’s Institute for Policy Analysis.**
- **This report delivers a comprehensive analysis of the financial situation and impact of the Canadian-owned publishing industry in Ontario.**



# Methodology

- **The study was conducted on-line in December, 2003 and January, 2004.**
- **All OBPO members and other Ontario-based publishers were sent an email invitation to participate by filling in a web-based survey.**
- **The data was then tabulated, analyzed and submitted to models of economic benefits.**
- **The following section describes the methodology followed in conducting this study and analyzing the results.**

## Methodology (cont'd)

- ➔ To determine the economic impacts of a particular, or 'target' economic sector, the customary (and best, in our judgment) procedure is to distinguish three major components. Each component requires a different tool of analysis. The three components of the economic impacts are the *direct*, the *indirect or upstream*, and the *induced* impacts.
- ➔ Briefly, the *direct* impacts are the economic activity of the sector itself. The *indirect or upstream* impact derives from the need to provide inputs to the target sector; were the target sector to disappear, the industries supplying that sector back along the production chain would lose customers and reduce their production in turn. The *induced* impacts are those that are caused by the spending of wages, salaries and profits earned in the course of the direct and indirect economic activities.

# Notes on the Methodology

- The direct impacts must be obtained from a careful analysis of the sector itself. In the present case, the survey obtained detailed data on sales, wages and salaries paid, employment, and purchases made from other industries. The economic-impact results of the survey are summarized in Table 1 of this report.
- Indirect or upstream impacts are the economic activity of the sectors which supply the target sector and of those which supply the supplier industries, and so on the back along the production chain. For example, the Ontario book publishing industry purchases a significant amount of printing activity from Ontario printers. The printers in turn will purchase paper, ink and other supplies from other industries, while the paper producers in turn purchase pulp, logs and various chemicals. All of these industries will also be purchasing services like transportation and electric power.
- Fortunately, a method exists to untangle and calculate this long chain of upstream linkages in the form of the Statistics Canada's Provincial Input-Output model. The Ontario book publishing industry's initial purchases from other industries, as determined by the survey, have been fed into the model to determine the entire chain of upstream economic impacts and the effects these have on employment, Gross Domestic Product (GDP) and earnings.

## Notes on the Methodology (cont'd)

- Induced impacts are the economic activity that occurs when the wages and salaries paid out and profits earned by the book publishers themselves and their upstream suppliers are spent on consumer goods, housing or, perhaps, on new machinery or factories.
- These impacts are best determined through the use of a macroeconomic model - a computer simulation model of the economy that ties together incomes, expenditures and taxation (among other things) in the context of the entire economy.
- For this study, we have used the FOCUS and FOCUS-Ontario macroeconomic models built and maintained at the Institute for Policy Analysis of the University of Toronto.
- The induced impacts are determined by entering the direct and indirect impacts into the model and observing the results. In effect, we ask the model what would happen to the economy in the short-term if the Ontario book publishing industry were suddenly to shut down. The direct and indirect GDP and jobs would obviously be lost to the economy immediately, but as salaries and royalties are not paid out, and as profits are not earned, then there will be further impacts on GDP and employment from a fall in consumption, housing demand and business investment.

## Notes on the Methodology (cont'd)

- In addition, the model lets us calculate the impact (direct, indirect and induced) of the sector's shutdown on tax revenues by level of government.
- In pretending that the Ontario book publishing industry suddenly shuts down (in order to estimate its economic impact) we have had to make several assumptions. Perhaps the most important is that Ontario and Canadian consumers, to the extent their reduced incomes still allow, still purchase books, but that these books now come from outside the country. The alternative is to assume that the tastes of consumers change and that fewer books (and more of something else) is consumed. But this has implications for the book retailing industry (and for whatever industry would take its place providing for consumers) that is beyond the scope of this study. That is, our measure of the economic impact of the Ontario book publishing industry does not include any *downstream* impacts on book retailing.
- Of secondary importance, we further assume that the additional importation of replacement books is sufficiently small that it would have no impact on the exchange rate. Indeed, the exchange rate is assumed not to change under this shock to the economy, nor does the interest rate or any aspect of government fiscal policy.

## Notes on the Methodology (cont'd)

- The sum of the three components of economic impact – direct, indirect and induced – in our opinion represents the best measure of the contribution that a particular industry is making to the economy at a particular time. However, were a particular industry for some reason to disappear from the economy, the economic impact in terms of GDP and employment that we estimate would not be *permanently* lost to the economy. This is because there is a fourth kind of impact that can also be distinguished - what might be called the *equilibrating* impact.
- In standard of macroeconomic theory, the economy is generally thought to have the ability to respond to any economic shocks by eventually moving back to a situation of full employment and potential GDP through price, wage and other adjustments.
- For example, if an economic sector were to disappear - which in effect is how we are measuring the economic impact of book publishing in Ontario - then initially an amount of economic activity and a number of jobs would be lost – and this is what we estimate the industry's economic impact to be.

## Notes on the Methodology (cont'd)

- However, over time, the labour market would adjust through lower wages and the economy as a whole through lower prices and lower interest and exchange rates, so that eventually it would return to its previous levels of GDP and employment. In this sense, *no* economic sector has any *permanent* impact on the economy. No matter what happened, in the long run (and it could be a very long time) the economy would adjust back to full employment and its underlying potential level of output. Nonetheless, as Keynes reminded us, “in the long run we are all dead”.
- The method we have undertaken to calculate the economic impact of the book publishing sector as it is currently imbedded in the Ontario economy largely excludes these long-run equilibrating impacts, but it still gives us, we maintain, an accurate picture of the sector’s current contribution to economic activity in the province, and in Canada. It can be argued that in the long run it the industry has, in effect, no impact - but again, the same is true for any of the other in sectors of the Ontario economy.

# **RESULTS – PART I**

## **Direct Economic Impacts from the Survey Results**

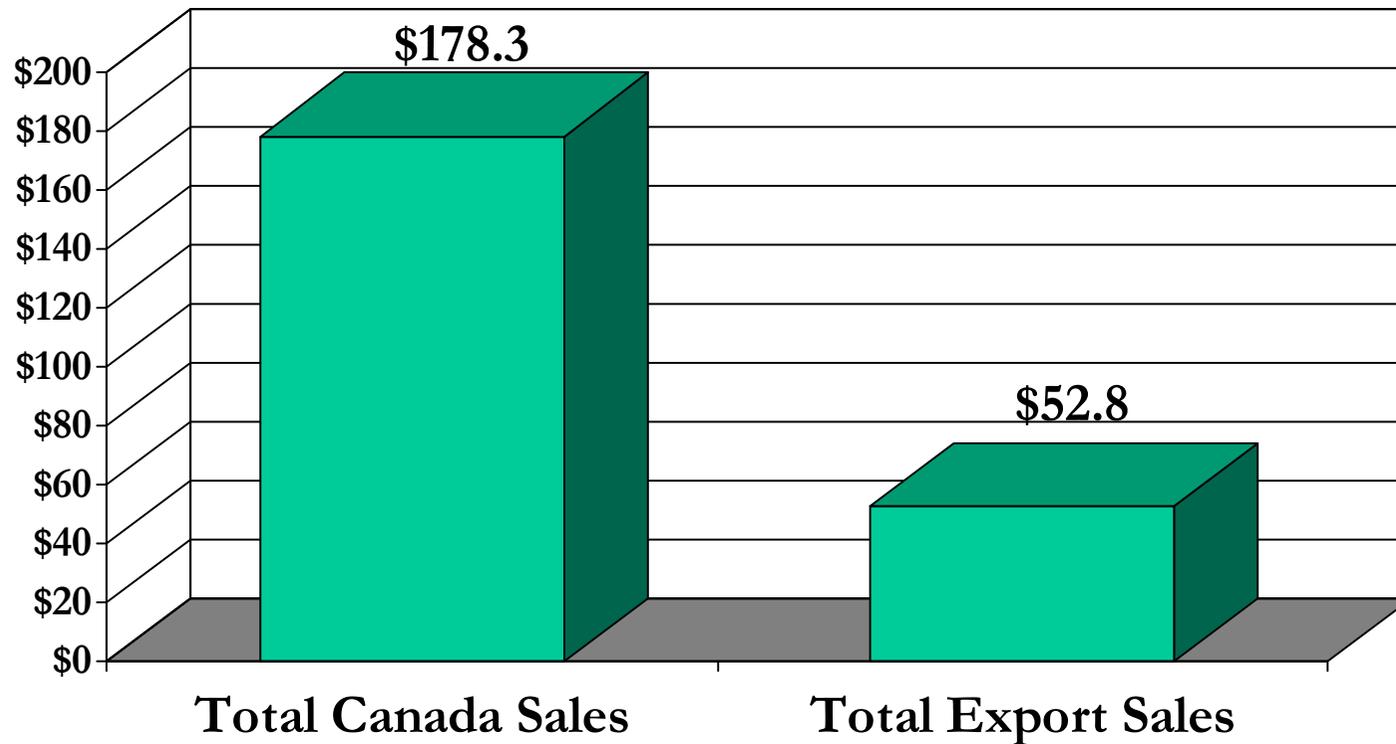


# Direct Economic Impacts from Survey Results

- ➔ The following charts in this section summarize the direct 'economic' impacts, from the survey results.
- ➔ The survey respondents, from the Canadian-owned publishing sector, sold approximately \$231 million gross in 2002/2003, with:
  - \$178 million of those sales in Canada, and
  - close to \$53 million in exports.

# Direct Economic Impacts from Survey Results

REVENUES - SALES BREAKDOWN, IN \$ MILL

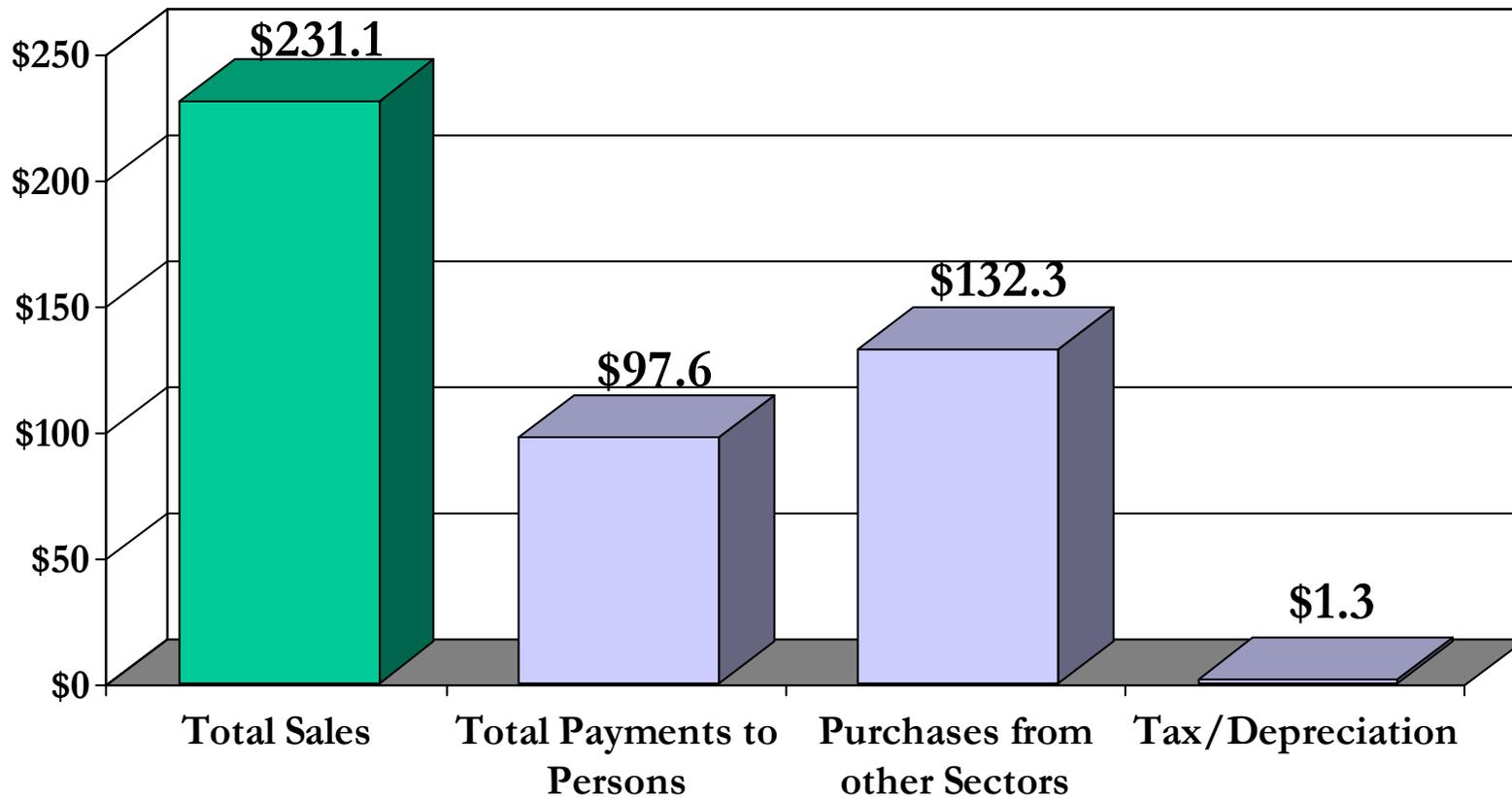


# Direct Economic Impacts from Survey Results

- How was this revenue spent?
- The survey results indicate that \$97.6 million of this revenue went in payments to persons, in the form either of wages and salaries to in-house employees (\$46.3 million), or payments to outside consultants or freelancers (\$15 million) or royalties and advances to authors or their agents (\$36.3 million). (Figures do not add due to rounding).
- On the employment side, the survey respondents indicates that 1083 individuals were employed – 900 full-time and 183 part-time.
- The average amount of wages and salaries per employee (full and part time) was therefore almost \$43,000.

# Direct Economic Impacts from Survey Results

## OVERALL REVENUES AND EXPENDITURES IN \$ MILL

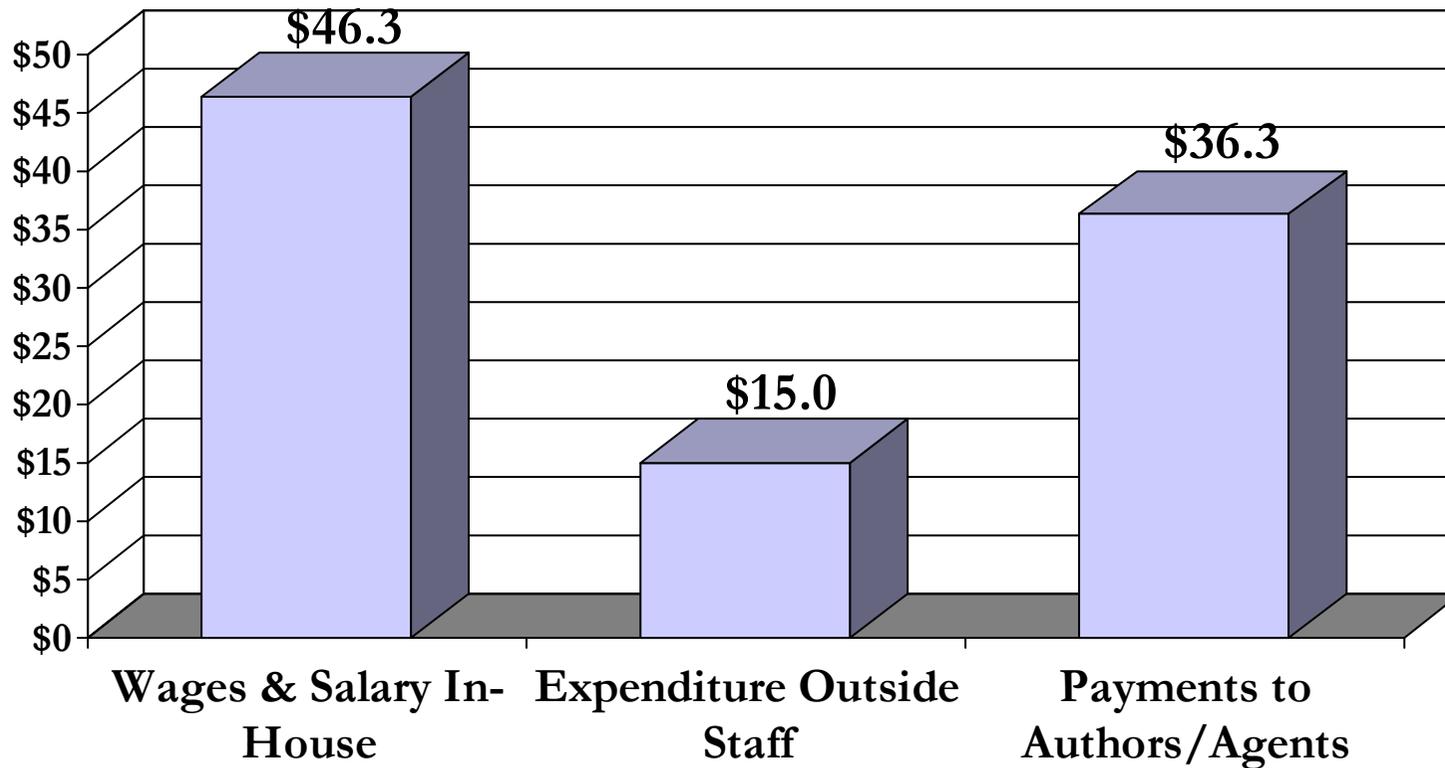


# Direct Economic Impacts from Survey Results

- No estimate could be obtained for the number of individuals employed freelance and as consultants – and there might have been considerable overlap had it been attempted to collect these data – but we can make rough estimate of the numbers involved by assuming that these individuals are paid the same average wage as employees in-house. Under this assumption, another 351 jobs are directly due to the book publishing industry.
- Finally, note that we assume no additional measured employment from payments to authors or literary agents, although this is likely to understate the amount of employment generated by the industry.
- We estimate that the total amount paid to authors and literary agents was paid out to 10,860 persons. However, it is important to note that there is likely much overlap and the actual number of individuals is smaller.

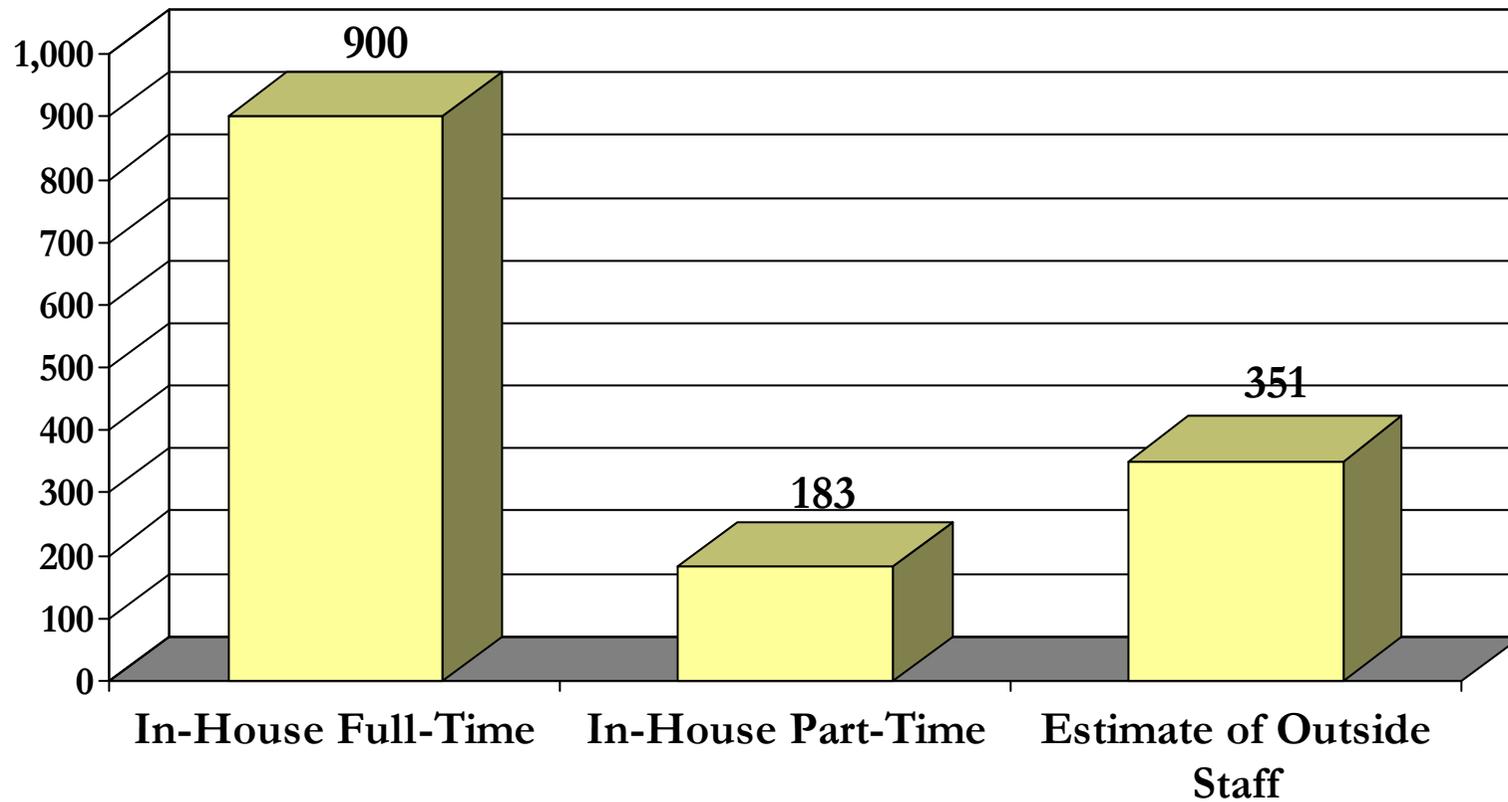
# Direct Economic Impacts from Survey Results

**WAGE AND SALARY EXPENDITURES ON IN-HOUSE  
AND OUTSIDE EMPLOYEES, AUTHORS & AGENTS,  
IN \$ MILL**



# Direct Economic Impacts from Survey Results

## NUMBER OF IN-HOUSE OR OUTSIDE EMPLOYEES

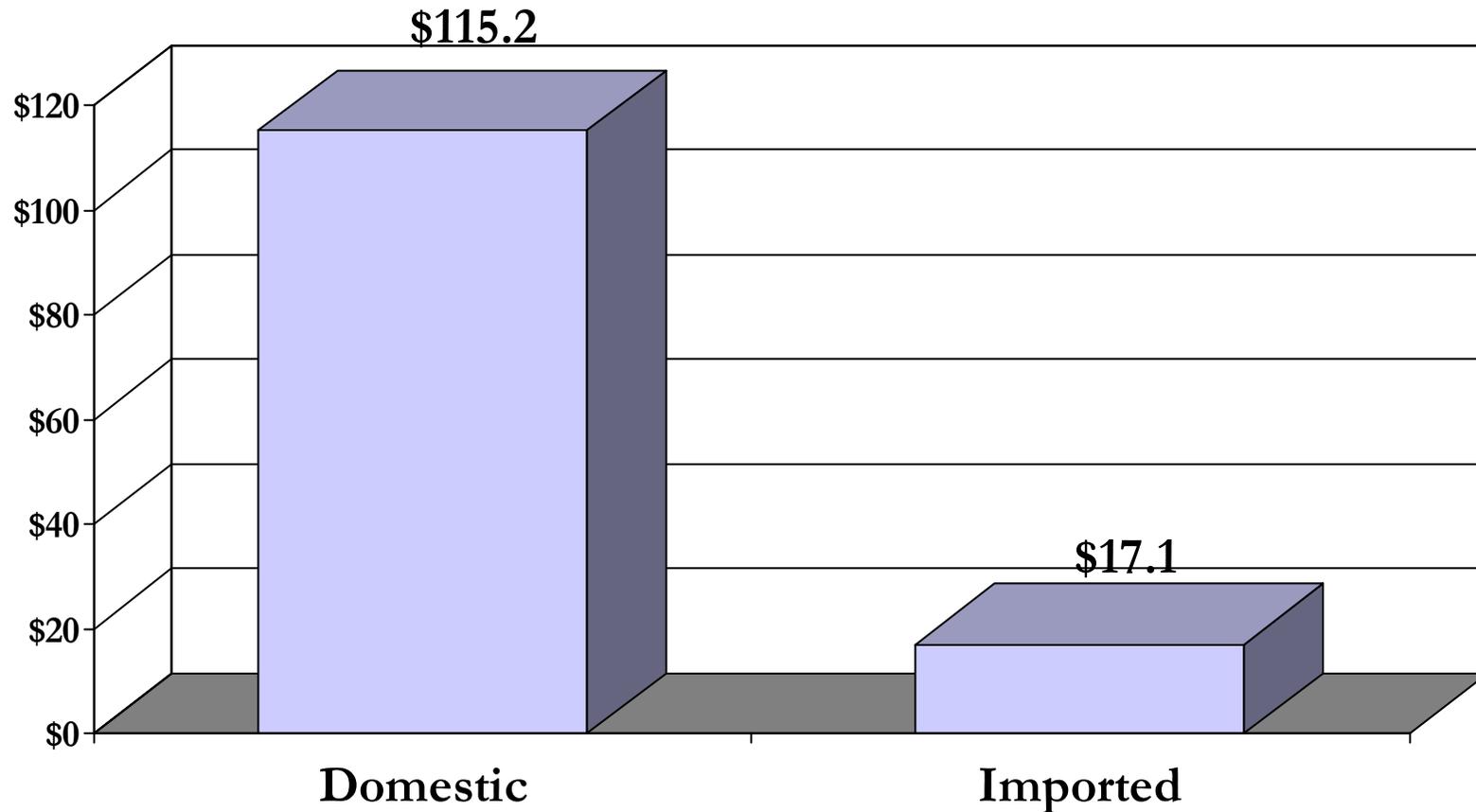


# Direct Economic Impacts from Survey Results

- **The other \$132 million in expenditures was spent on supplier and service sectors (e.g., printers, advertisers, accounting firms), with \$115 million spent in Canada and \$17 million spent abroad.**
- **This \$132 million spent on suppliers is the basis of the 'indirect' economic impact of Ontario book publishing and is part of the total impact shown in the next section, Direct and Total Economic Impacts.**

# Direct Economic Impacts from Survey Results

## EXPENDITURES - PURCHASES FROM OTHER SECTORS, IN \$ MILL



# Direct Economic Impacts from Survey Results

- ➔ **The book publishing sector had virtually no profits or returns to capital (the amount earned on sales was almost entirely spent on suppliers or payments to persons) except for a small amount of depreciation: \$0.3 Mill.**
- ➔ **The survey also indicated a relatively modest amount of property or other indirect tax paid: \$1 Mill.**
- ➔ **The book publishing industry does generate important tax revenues, as we will in the Direct and Total Economic Impacts Section that follows, but they occur primarily through the taxes paid on incomes and royalties earned by persons, and by sales taxes paid as these incomes are further spent on goods and services.**

## Summary of Direct Economic Impacts from Survey Results – \$ Mill

<b>A. Total Sales and Revenues:</b>	<b>\$231.1</b>
<b>Total Canada Sales</b>	<b>\$178.3</b>
<b>Total Export Sales</b>	<b>\$ 52.8</b>
<b>B. Direct Employment and Employment Expenditures:</b>	
<b>B1. Wage and Salary Expenditures, in-house employees</b>	<b>\$ 46.3</b>
<b>Total Employment numbers: full-time</b>	<b>901</b>
<b>Total Employment numbers: part-time</b>	<b>183</b>
<b>Average Wages and Salaries per employee (\$ '000) = \$ 42.7</b>	
<b>B2. Expenditure on Outside Staff</b>	<b>\$ 15</b>
<b>Estimate number of outside staff employed</b>	<b>351</b>
<b>B3. Payments to Authors or Literary Agents</b>	<b>\$ 36.3</b>
<b>C. Purchases from Other Sectors: Domestic</b>	<b>\$115.2</b>
<b>Purchases from Other Sectors: Imported</b>	<b>\$ 17.1</b>
<b>D. Property/Indirect Taxes and Depreciation</b>	<b>\$ 1.3</b>

# **RESULTS – PART II**

## **Direct and Total Economic Impacts (direct + indirect + induced)**



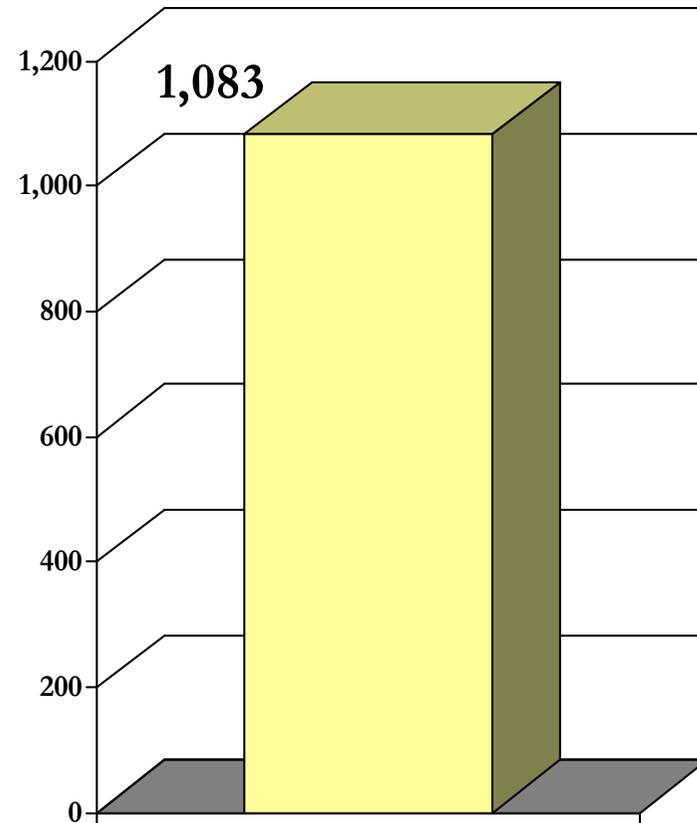
# Direct and Total Economic Impacts

- This section presents our estimates not only of the direct but also of the total economic impact (direct + indirect + induced) of the Ontario book publishing industry on the Canadian and Ontario economies.
- The charts that follow show the impacts on GDP measured in dollars of 2003, on employment, and on the revenues of the federal, provincial and local governments.
- The first chart repeats the direct employment numbers from the previous section, and summarizes the direct GDP (Gross Domestic Product) impact. At \$98.8 million, this is simply the sum of payments to persons, plus depreciation plus indirect taxes. (Again, figures do not add exactly due to rounding).

# Direct and Total Economic Impacts



Direct Impact on GDP  
in \$ Mill



Direct Impact on  
Employment (number of  
employees)

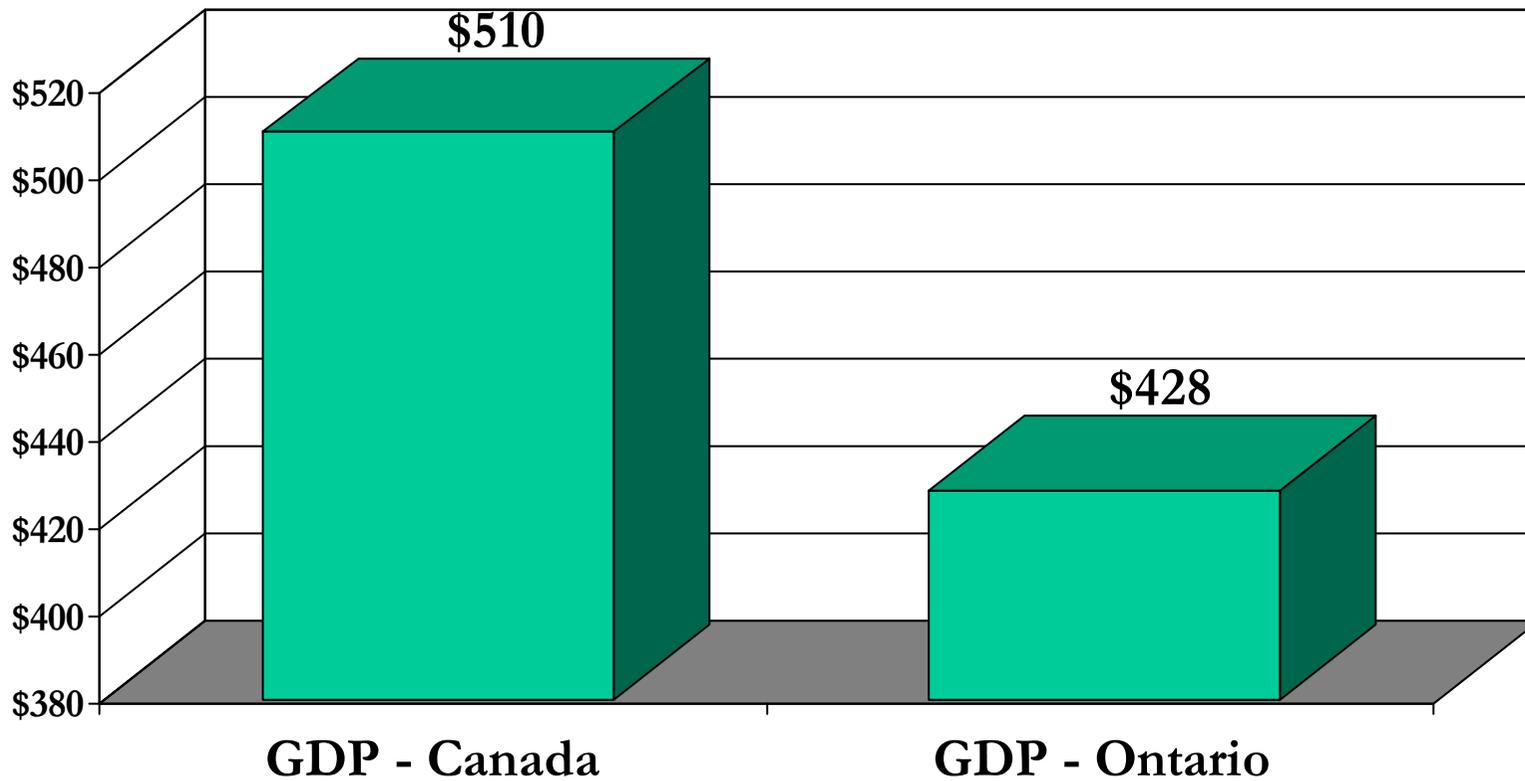


# Direct and Total Economic Impacts

- **The sum of direct plus indirect plus induced impacts of the book publishing industry are shown on the next two charts.**
- **As can be seen, the total GDP impact is estimated to be close to \$510 million for Canada and about \$428 million for Ontario.**
- **The corresponding employment figures are 5,066 jobs for Canada and 4604 for Ontario.**

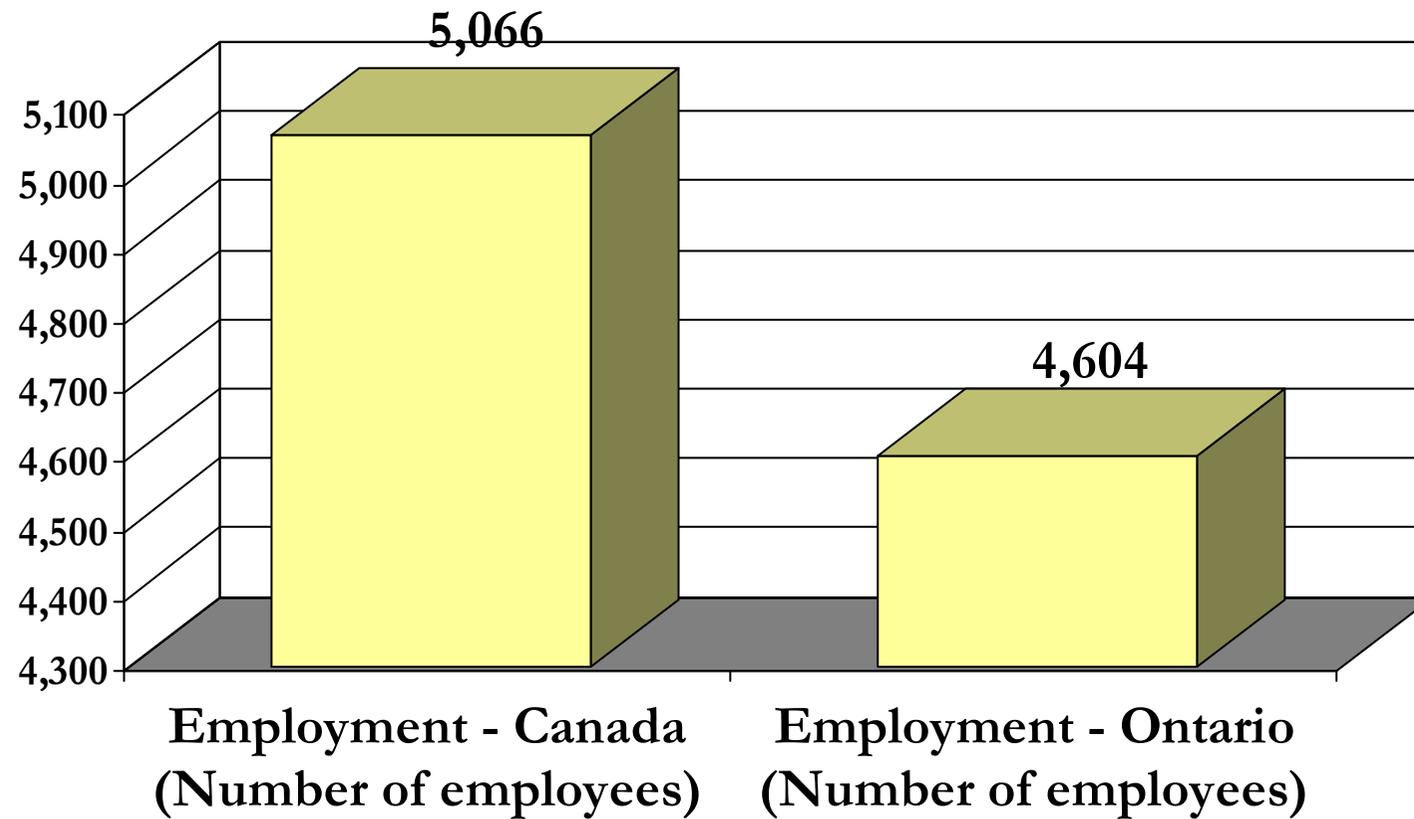
# Direct and Total Economic Impacts

**TOTAL DIRECT+INDIRECT+INDUCED IMPACTS  
ON GDP IN \$ MILL**



# Direct and Total Economic Impacts

## TOTAL DIRECT+INDIRECT+INDUCED IMPACTS ON EMPLOYMENT

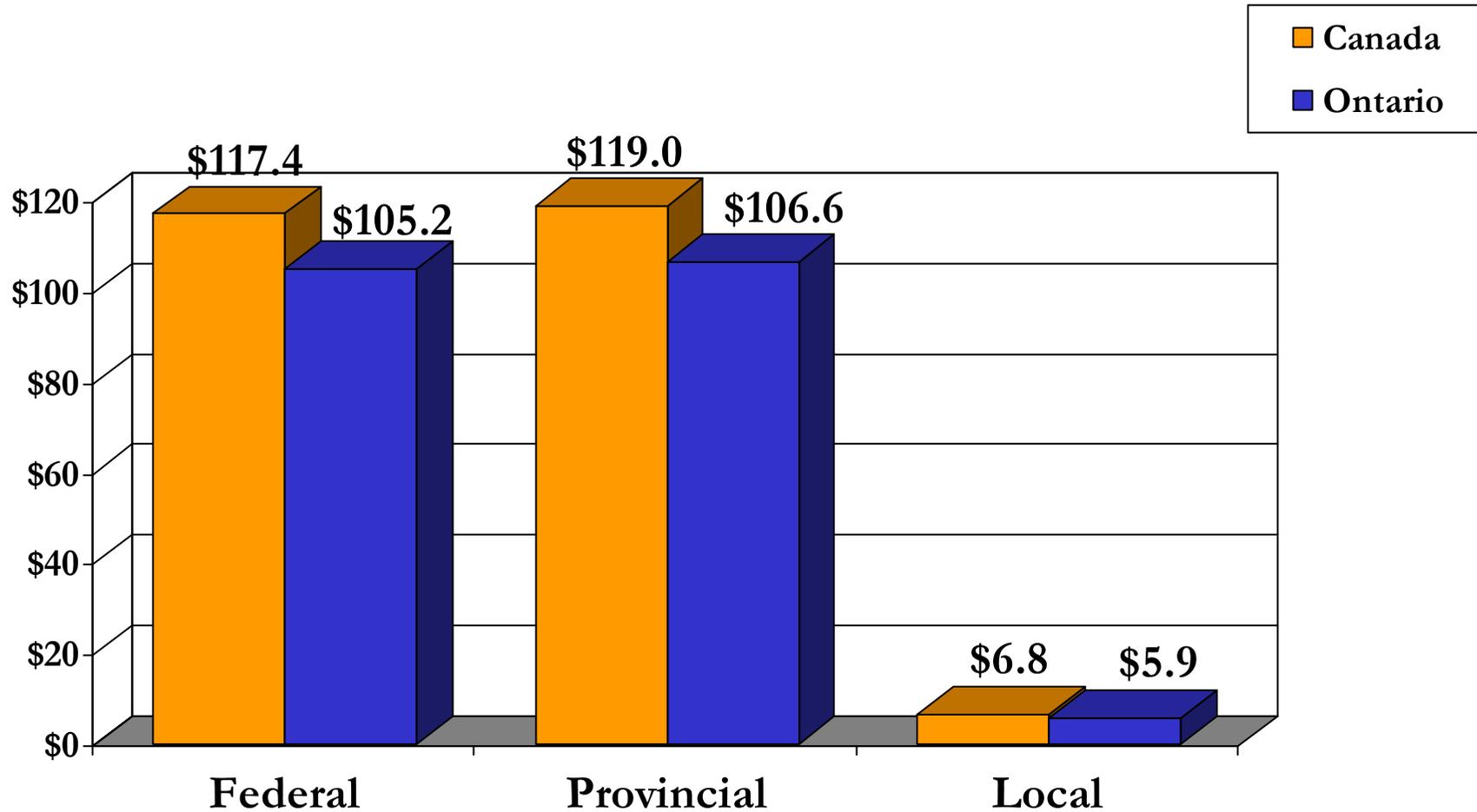


## Direct and Total Economic Impacts (cont'd)

- **The incomes paid out by the book publishing industry itself, by its suppliers and their suppliers back along the product chain, and by those producing goods on which individuals spend their incomes, all generate income and sales taxes for both the provincial and federal governments. Some additional property taxes also accrue to the local government level.**
- **The total tax collection in Canada is just over \$243 million, and approximately \$218 million in Ontario. Most of this is split almost evenly between the federal and provincial government levels, with a smaller amount to local governments via extra property taxes.**

# Direct and Total Economic Impacts

## GOVERNMENT REVENUES IN \$ MILL



# Summary of Direct and Total Economic Impacts - \$ Mill

<b>A. Direct Impacts on:</b>		
<b>Gross Domestic Product (GDP)</b>		<b>\$ 98.8</b>
<b>Employment</b>		<b>1083</b>
<b>B. Total Impacts (Direct+Indirect+Induced) on:</b>		
<b>Gross Domestic Product (GDP)</b>		<b>\$509.7</b>
<b>Employment</b>		<b>5066</b>
<b>Government Revenues:</b>	<b>Canada</b>	<b>Ontario</b>
<b>Federal</b>	<b>\$117.4</b>	<b>\$105.2</b>
<b>Provincial</b>	<b>\$119</b>	<b>\$106.6</b>
<b>Local</b>	<b>\$ 6.8</b>	<b>\$ 5.9</b>
<b>Total</b>	<b>\$243.2</b>	<b>\$217.7</b>

