School of Public Policy | University of Calgary

Fuelling Growth

Expert Perspectives on Canada's Productivity Challenges

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Introduction

Canada's economic prosperity is deeply tied to its productivity, shaping everything from wages and living standards to business competitiveness and government revenues. Yet, in recent decades, Canada's productivity growth has faltered. By 2024, labour productivity had fallen back to 2017 levels. Since 2015, Canadian families have seen the slowest growth in their real disposable income outside of the Great Depression or the 1990s recession.

Addressing this national decline is critical, but the challenge is complex, involving diverse factors including weak capital investment, barriers to interprovincial trade, regulatory inefficiencies and lacklustre business innovation. Without a concerted and sustained effort to reverse this trend, Canada risks falling further behind our trading partners in an increasingly competitive global economy.

In response, the University of Calgary's School of Public Policy, in collaboration with the Government of Alberta, hosted Canada's Productivity Summit in October 2024. Bringing together more than 700 experts and stakeholders — including economists, policymakers, business leaders, Indigenous representatives and community voices — the conference examined Canada's productivity barriers and explored potential solutions.

A What We Heard report released in January 2025 distilled the key themes, insights and concerns captured from a wide range of perspectives heard at the conference. The Summit was the impetus for a year-long undertaking, Canada's Productivity Initiative, to engage policy experts and business leaders across the country to develop actionable recommendations for policymakers.

As this is happening, the new Trump administration in the United States has threatened and imposed tariffs on imports from Canada and other countries, propelling economic issues to the top of the policy agenda in Ottawa and provincial capitals.

Addressing an issue as complex as productivity requires a deeper, more focused discussion among leading experts. To start this process, four invitation-only workshops were held at which leading researchers, industry representatives and policymakers post-Summit focused on 1) fiscal and monetary policy and macroeconomic reforms; 2) energy and environment policy and natural resource development; 3) innovation and technology adoption; and 4) labour markets and skills development.

This report reflects those conversations, highlighting areas of consensus but also unresolved debates and critical policy trade-offs. It serves as a foundation for future work, including issue-specific sessions across Canada in 2025. It is intended to provoke reflection, encourage additional research and lay the groundwork for a more refined policy set of recommendations for policymakers at all levels of government at the end of the process.

By fostering dialogue based on actionable insight and expertise, this productivity initiative aims to translate discussion into action and ensure Canada's economic policies drive sustained productivity growth, competitiveness and long-term prosperity.

FISCAL AND MONETARY POLICY AND MACROECONOMIC REFORMS

Fiscal and monetary policy plays a vital role in shaping the future of Canada's economy by driving productivity, investment and long-term growth. With targeted interventions, Canada can achieve long-term fiscal sustainability and maintain a strong position in the global economy.

Canada's ability to grow and innovate hinges on an effective tax policy that encourages business investment. There are several areas of potential improvement. Implementing full and immediate expensing of capital investment as a permanent feature of the Canadian business tax system was one approach, which builds on recent moves by the federal government to reverse its planned phase-out of accelerated capital cost allowances. The reintroduction of the harmonized sales tax (HST) in British Columbia was identified as a potential solution to reduce marginal tax rates, despite its political challenges.

Measures to ensure taxes do not disincentivize growth were also identified as important. Current tax provisions, such as the small-business deduction, may prevent some businesses from scaling due to higher taxes imposed as they grow beyond the small-business threshold. As a related point, growth and innovation often work in tandem and some suggest introducing tax incentives, such as patent boxes, that reward companies for profits derived from innovation.

However, tax policy alone is insufficient to drive change without better alignment between fiscal and monetary policies. While fiscal policy governs government spending and taxes, monetary policy influences the money supply and interest rates. Ensuring they do not operate at cross purposes would help stabilize future growth and inflation. Concretely, government budgets should consider the broad macroeconomic implications of taxation and expenditure decisions, which can help the Bank of Canada's efforts to keep inflation low and potentially lead to lower interest rates than would otherwise have been the case. To be clear, participants of the workshop strongly agreed that maintaining the Bank of Canada's singular focus on price stability, without introducing dual mandates such as employment targets, will help preserve its independence and credibility.

Workshop participants also supported reforming of Canada's complex regulatory environment, noting businesses often face long delays due to overlapping regulations across jurisdictions. Streamlining reviews through clearer timelines and consistent regulations would lower costs and improve efficiency by reducing bureaucratic delays and providing businesses with predictable timelines for project completion.

Workshop participants also noted that broader structural reforms to the economy must focus on supporting entrepreneurship, removing barriers for businesses and encouraging innovation.

Eliminating interprovincial trade barriers was identified as a key priority. Significant barriers, including inconsistent regulations and standards across provinces, limit the flow of goods, services and people. This constrains Canada's economic growth. Addressing these barriers could unlock billions of dollars in annual economic gains while reducing costs for businesses. Participants highlighted mutual recognition of standards across jurisdictions as a practical and achievable solution to streamline trade. It would allow provinces to accept each other's standards, without requiring full regulatory harmonization, which could significantly enhance productivity and ease the movement of goods and services. Pilot projects within specific industries could test and demonstrate the benefits of reducing these restrictions.

Finally, strategic infrastructure investments are deemed critical to support economic growth. Public-private partnerships (PPPs) were identified as potentially effective mechanisms to fund large projects by combining public and private resources while sharing risks and rewards. Reformed procurement processes, such as implementing a standardized review framework for major projects, can help prevent cost overruns and ensure timely completion, as highlighted in discussions on streamlining energy grid expansions.

DISCUSSION QUESTIONS

1. What politically feasible tax reforms could immediately enhance productivity and competitiveness?
2. How can existing tax incentives be restructured to support scaling businesses and innovation?
3. How can intergovernmental co-ordination be improved to streamline regulatory processes?
4. What specific policy interventions could most effectively reduce interprovincial trade barriers?
5. What role should public-private partnerships play in addressing Canada's infrastructure needs?

ENERGY, ENVIRONMENT AND NATURAL RESOURCES

Public acceptance remains a major hurdle for resource extraction and energy infrastructure projects in Canada. While pipeline development has been a focal point, similar obstacles hinder the expansion of electricity transmission lines and other energy projects. Public discourse also often overlooks the critical role of energy in supporting the digital economy, contributing to indifference — or even opposition — toward resource development.

A key challenge is the perception that environmental protection requires shutting down resource extraction. While policies such as carbon pricing attempt to balance economic and environmental objectives, recent developments indicate growing public resistance to such measures. Canadians also widely under-appreciate the resource sector's economic importance. The oil and gas industry is Canada's most productive, supporting middle-class jobs and preventing a significant trade deficit. Unlike with factory closures, the public often doesn't notice the economic losses from unrealized resource projects.

Market dynamics and competitive pressures add another layer of complexity. The global energy transition is accelerating, and electricity demand is expected to rise sharply, with Ontario alone forecasting a 75 per cent increase by 2050. Expanding transmission capacity will face the same resistance that has hindered pipeline projects, as many of the arguments used to block pipelines apply to other energy infrastructure.

Canada must also contend with international competition, as countries such as India, Malaysia and China actively court investors, while organizations such as the Organization of Petroleum Exporting Countries (OPEC) take steps to protect or expand their market share. Future policy directions remain uncertain, particularly concerning carbon pricing and emissions regulations, leaving businesses unsure of how to plan long-term investments.

To address these challenges, improving public engagement and communication is essential. Greater transparency about the role of resource development in Canada's economic future can help shift public perception. Discussions must clearly articulate the trade-offs involved in energy policy, emphasizing that while environmental protection is crucial, rejecting resource development entirely is not a viable option. Reframing the issue to include critical minerals, nuclear power and other key resources rather than focusing solely on oil and gas may help build a broader national consensus. Stronger public awareness of interprovincial economic synergies could also be beneficial, as resource development in one province often contributes to economic growth in another. Enhancing Indigenous participation in resource projects would not only improve public acceptance but also advance reconciliation efforts.

Regulatory reform is another priority. Canada's impact assessment process should be reviewed to determine whether it achieves its intended outcomes. The criteria for determining public interest in project approvals require clearer definition, particularly regarding who qualifies as an intervenor. The contrast between the 60 intervenors in the 2007 Keystone pipeline approval and more than 1,000 in the 2017 Trans Mountain pipeline expansion illustrates how regulatory complexity has grown in just a decade. Establishing an independent external body to assess the costs and benefits of proposed projects might help create a more objective, streamlined process, reducing political influence and improving regulatory efficiency. Rather than simply reducing regulation outright, the focus should be on making it more effective, with broad-based policies that allow market forces to guide investment decisions.

Ensuring Canada remains a competitive investment destination also requires improvements to tax policy. Incentives for resource investment should not come at the expense of other sectors, but a more competitive tax environment is necessary. Expanding immediate expensing for capital investment could reduce financial barriers for new projects, though at a significant fiscal cost. Policy stability is equally important. Long-term commitments ideally spanning a decade or more would provide businesses with the certainty needed to undertake large-scale projects. Greater harmonization of tax policies across provinces would also reduce administrative burdens and enhance competitiveness.

Strengthening Indigenous inclusion in resource development requires both meaningful participation and capacity building. Integrating Indigenous perspectives into regulatory processes and ensuring equity participation in projects would help advance reconciliation and improve public support. However, the process must strike a balance between Indigenous participation and broader public interest considerations. Broad or automatic intervention rights in all projects may not always be the most effective approach, and independent Indigenous participation mechanisms could be explored as an alternative. Providing resources for Indigenous communities to engage in project discussions would also help ensure informed decision-making and stronger representation in economic development.

While national consensus on these policies may be difficult to achieve, collaboration among the provinces could be a starting point. Agreements such as the memorandum of understanding between Alberta, Saskatchewan and Manitoba on economic corridors demonstrate how regional co-ordination can lay the groundwork for broader national momentum on resource development and infrastructure investment.

DISCUSSION QUESTIONS

1. How can public engagement efforts more effectively convey the economic and social importance of resource development?
2. What policy measures could improve investor confidence in Canada's natural resource sector?
3. How should Canada reform its regulatory framework to balance efficiency, transparency and public interest considerations?
4. What strategies could help build a national consensus on energy and resource development?
5. How can Indigenous participation in resource projects be strengthened while maintaining regulatory efficiency?

INNOVATION AND TECHNOLOGY ADOPTION

Innovation and technology adoption are the primary drivers of productivity growth, yet Canada lags its peers in translating research into commercial success. While the country performs well in academic research, private-sector research and development (R&D) spending has remained below the Organization for Economic Co-operation and Development (OECD) average for decades. In artificial intelligence, Canada is recognized as a global leader in research, yet only 6.1 per cent of Canadian firms have adopted AI, a level the United States reached in 2018. Meanwhile, much of the recent productivity lead in the U.S. has been attributed to business startups and the high-tech sector.

Cultural attitudes toward risk-taking may play a role in Canada's slow technology adoption. Many entrepreneurs believe they must move to the United States to succeed, reinforcing the perception that Canadian businesses and governments are hesitant to adopt new ideas. Procurement practices further reflect this risk aversion, with firms and governments prioritizing low-risk decisions over maximizing potential outcomes. This reluctance contributes to long adoption timelines for AI and other emerging technologies — 18 months in Canada, compared with four months in the U.S. and as little as one to two weeks in the United Arab Emirates.

However, not all participants agreed risk aversion is an innate Canadian trait. Canada has long been a leader in resource extraction, an industry with significant financial risks. The difference may lie in the type of risk. Investors understand how to manage risks in resource development but may lack the necessary tools or incentives to mitigate risks in high-tech sectors. Expanding flow-through shares to the technology sector was suggested as a potential way to encourage risk-taking in new technologies, though the idea remains underdeveloped.

Beyond cultural factors, institutional and structural barriers also discourage investment in innovation. Canada's reliance on small businesses, which often lack the resources to invest in R&D, limits innovation. In several sectors, including banking, telecommunications and air travel, a lack of competition reduces pressure to innovate. Existing R&D incentives tend to be front-loaded, providing firms with initial funding but leaving commercialization entirely to market forces. Regulatory frameworks further constrain collaboration by discouraging firms from co-operating due to concerns about anti-competitive behaviour.

Access to funding remains a persistent challenge. A disproportionately high share of total investment is directed toward the housing market, diverting capital away from productive business investment. Venture capital remains insufficient and high borrowing costs, partly due to budget deficits crowding out private investment, limit firms' ability to finance innovation. Many businesses also struggle to secure bank loans due to a lack of recognition of intellectual property as collateral.

Participants proposed several policy recommendations to improve technology adoption and commercialization. Reforming government procurement is a crucial step, as the current system is static, complex and excessively risk averse. Procurement policies should prioritize outcomes over risk minimization, with shorter timelines and reduced complexity to give emerging firms a fair chance to compete. Ensuring continuity in procurement contracts would also help mitigate the risks associated with changes in government. A procurement concierge program could assist smaller firms in navigating the system, addressing a key barrier to entry.

Targeted support for R&D and commercialization was another common theme. Proposals included patent-box policies, expanding the flow-through shares program to the tech sector and reassessing the recent increase in the capital gains inclusion rate, which has significant implications for technology firms. Some speakers advocated for experimentation with short-term incentive programs modelled after those in the U.S., which include sunset clauses to evaluate their effectiveness before making long-term commitments.

More broadly, fostering a culture of innovation is essential. Encouraging risk-taking, celebrating success stories and promoting early entrepreneurship among students and researchers could help shift mindsets. Collaboration and knowledge-sharing should also be incentivized, as they contribute to stronger intellectual property portfolios and open new financing opportunities. Universities could play a greater role in commercialization, but this would require aligning their mandates with innovators' interests.

Canada can also learn from international best practices. The United States remains an obvious benchmark due to its leadership in commercialization, but smaller economies provide valuable lessons as well. The Netherlands has emerged as a leader in agri-food R&D, Singapore has excelled in semiconductors and Israel has built a reputation for innovation across multiple sectors, including biotechnology. As a small, open economy, Canada must be strategic in selecting priority sectors for development, with extractive resources, critical minerals, agriculture, defence, avionics and data centres highlighted as potential areas of focus.

While competition is a key driver of innovation, some speakers emphasized the importance of industrial policy. Many transformative innovations in the U.S. can be traced back to government initiatives, such as the Defense Advanced Research Projects Agency (DARPA). A critical question remains: Where should government intervention be concentrated? One possible approach is to target areas where market failures limit investment. Another is to focus on sectors where Canada has, or could develop, a comparative advantage.

A final challenge is the availability of skilled labour. Canada has traditionally benefited from high-skilled immigration, but recent shifts in policy have emphasized short-term, low-skilled labour to address immediate workforce gaps. This shift has allowed firms to reduce costs by hiring low-wage workers rather than investing in productivity-enhancing measures, contributing to Canada's declining productivity growth. Recently announced caps on the number of international student admissions could further exacerbate this problem by restricting the talent pipeline. Immigration reforms should ensure Canada remains attractive to high-skilled workers, and universities may need to revisit their funding models. Currently, a reliance on international tuition fees to cross-subsidize domestic students could be limiting Canada's ability to attract and retain top global talent.

DISCUSSION QUESTIONS

1. What steps can be taken to encourage a stronger culture of risk-taking and innovation in Canada?
2. How can government procurement policies be reformed to better support technology adoption and commercialization?
3. What fiscal or regulatory changes would make Canada's business environment more conducive to R&D investment?
4. In which sectors should Canada focus its innovation efforts, and how can industrial policy support these priorities?
5. How can Canada's immigration and education policies be adapted to ensure a steady pipeline of high-skilled talent for innovation-driven industries?

LABOUR, IMMIGRATION AND DEMOGRAPHICS

Despite labour challenges stabilizing after the COVID-19 pandemic, many businesses still anticipate workforce-related obstacles. Labour remains a key driver of economic growth, influencing productivity, innovation and long-term prosperity. Yet, while some employers face persistent shortages, Canada's productivity remains among the lowest among G7 countries. The evolving nature of work, demographic shifts and technological advancements place increasing pressure on the labour market to adapt.

However, structural barriers, including skills mismatches, regulatory complexities and interprovincial restrictions, continue to hinder workforce efficiency. Immigration plays a crucial role in alleviating shortages, but it cannot resolve these underlying structural challenges alone. A co-ordinated approach involving government, industry, educational institutions and unions is required to create a labour market that is responsive, inclusive and resilient.

Regulatory burdens were identified as a major constraint on productivity, with labour mobility challenges compounding the issue. Excessive and inconsistent regulations across provinces create administrative inefficiencies, increasing costs and limiting businesses' ability to scale. Labour mobility is further restricted by differences in certification requirements, licensing standards and regional regulations, leading to worker shortages in some regions and surpluses in others. A harmonized national framework for credential recognition could help create a more flexible and responsive labour market.

Participants also emphasized the need for a cultural shift in how work is perceived. Traditional trades are often undervalued, deterring younger generations from pursuing careers in these essential fields. A co-ordinated effort to promote the skilled trades as viable and rewarding career paths could help address skill shortages across industries. Additionally, the cyclical nature of some skilled trades, such as construction, creates instability for workers. Seasonal fluctuations and economic downturns frequently result in periods of unemployment, making long-term career planning difficult. Addressing these concerns through targeted financial incentives, training programs and infrastructure investments would contribute to a more resilient labour market.

Canada's regulatory environment, particularly for small and medium-sized enterprises (SMEs), also remains overwhelmingly complex. Businesses struggle to navigate federal and provincial requirements, leading to inefficiencies, increased operational costs and delayed growth opportunities. Participants identified standardizing regulations across jurisdictions as a key priority and called for clearer, more predictable frameworks to reduce administrative burdens while supporting business expansion.

A more co-ordinated industrial policy framework was also proposed, with a focus on clarifying government roles, facilitating cross-sector collaboration and encouraging private-sector investment. Ensuring that policy interventions align with the realities businesses face would improve the effectiveness of government programs and strengthen Canada's competitive position.

Turning to immigration, participants noted that Canada's economic immigration system was built mainly on a points-based model that assesses candidates according to education, work experience and language proficiency. While recent changes to immigration policy have moved away from this, there were challenges even before then. A key concern is the emphasis on academic qualifications over practical experience and regional labour needs. Despite skilled trades accounting for 6.7 per cent of Canada's workforce, only one to two per cent of economic immigration invitations fall under the Federal Skilled Trades Program.

To improve outcomes, some noted that immigration policies should prioritize quality over quantity, ensuring better alignment between immigrant skills and employer demands. Greater industry collaboration and employer-driven selection models could help address integration challenges.

Credential recognition remains a significant barrier, and streamlining this process would support faster workforce participation. While successful municipal-led initiatives, such as Alberta's Newcomer Centre's Skill Up Program, have helped integrate immigrants into skilled trades, scaling these programs nationally remains a challenge.

Effective functioning of labour markets also involves an important role for unions and workforce training programs. Unions can play a proactive role in shaping workforce training programs and supporting occupational transitions. Their close connection to workers allows them to provide insights that government agencies may lack. Strengthening initiatives such as Canada's Union Training and Innovation Program could enhance workforce adaptability and support workers through economic shifts.

The rising number of post-secondary graduates presents both opportunities and challenges. While a highly educated workforce can drive innovation, many recent graduates struggle to find employment that matches their skills, leading to underemployment and inefficiencies in the economy. A disconnect between education and labour market needs has resulted in skill mismatches and frustration among job seekers.

Expanding financial support for technical and vocational training, apprenticeships and lifelong learning programs would help address these gaps. Strengthening partnerships between high schools and industry to provide co-op programs could expose students to career opportunities beyond traditional university pathways. Micro-credentialling was also identified as a potential tool for upskilling workers in sectors undergoing technological change. However, uncertainty remains about funding responsibilities and the role of employers in shaping curriculum. Many firms are hesitant to invest in pooled training initiatives due to concerns over employee poaching, highlighting the need for structured frameworks that balance risk and reward.

Ensuring the effectiveness of workforce training programs requires robust evaluation frameworks. While job placement rates are commonly used as a performance metric, broader indicators, such as long-term career outcomes, skill retention and economic contributions, must also be considered. Without standardized benchmarks, it is difficult to assess program effectiveness and allocate resources efficiently.

The lack of uniform performance indicators across provinces and training institutions results in inconsistent program outcomes and varying levels of accountability. Establishing national standards for evaluating training effectiveness could help address these disparities. Integrating employer feedback into assessments would also ensure that training programs align with evolving industry demands.

Greater transparency in the allocation and use of training funds was another major concern. Many workforce development programs receive significant government funding, yet there is limited public reporting on their impact. Implementing performance audits and requiring regular disclosures on key success indicators could enhance accountability and improve public trust in these initiatives.

DISCUSSION QUESTIONS

1. How can labour mobility barriers be reduced to improve workforce efficiency?
2. How can federal and provincial governments work together more effectively to develop industrial policies that support workforce needs?
3. What policy changes could better align immigration selection criteria with labour market needs?
4. How can apprenticeship and mentorship programs be expanded to support immigrant workforce integration?
5. What incentives could encourage immigrants to fill critical labour shortages in skilled trades?

6. How can unions and employers collaborate more effectively to develop responsive workforce training programs?
7. What strategies can be used to promote micro-credentialling in rapidly evolving industries?
8. What performance metrics should be used to assess the success of workforce training programs?

Conclusion and Next Steps

This report builds on the insights from Canada's Productivity Summit and the subsequent expert workshops, providing a deeper exploration of the challenges and opportunities shaping Canada's economic future. Through focused discussions on fiscal and monetary policy, innovation, labour markets and resource development, this working paper captures crucial areas of consensus and ongoing debate.

While no single solution will resolve Canada's productivity challenges, the findings presented here will help facilitate further dialogue, policy explorations, analysis and ultimately, substantive reforms.

The next phase of this initiative will combine the ideas explored in this report with novel insights from industry leaders, policymakers and researchers through a series of regional sessions in 2025. These discussions will contribute to a comprehensive final report with concrete policy recommendations, ensuring that Canada's economic policies evolve to meet the demands of an increasingly competitive global landscape. The School of Public Policy will continue to drive this conversation, fostering collaboration and informed decision-making to support sustained productivity growth and long-term prosperity.

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