

Intelligence MEMOS



From: Christina Caron and Glen Hodgson

To: Economy Observers

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Re: **CANADA HAS A PRODUCTIVITY GROWTH PROBLEM – AS DOES ALMOST EVERYBODY ELSE**

Productivity growth is at the core of our prosperity and underpins any improvement in measured living standards. Not surprisingly, Canada's poor productivity performance is attracting considerable attention. Canada's productivity growth has been sub-par compared to that of the US, Europe and the average of other advanced economies for much of the past 50 years. In the post-pandemic period, our productivity growth has been negative; Canadian labour productivity, or output per hour worked, has actually declined by about 1 percent per year since the start of 2021.

Yet we're not alone in experiencing weak productivity growth. Labour productivity growth rates have exhibited a declining trend in advanced economies for several decades (Chart). Indeed, over the past 15 years, this trend has extended to emerging and developing economies.

Much of the long-term decline in labour productivity growth has been attributed to a corresponding slowing in growth of what is called multifactor productivity (MFP) growth (sometimes also called total factor productivity, or TFP). MFP is everything that is left over after productivity growth from higher capital intensity and improved labour force composition have been accounted for. It is often interpreted as an indicator of business innovation and technological change – although it can also reflect organizational changes, sectoral shifts, and mismeasurement of capital or labour.

In advanced economies, the underlying trend in MFP growth has been downward for many decades. Indeed, academic research on long-term MFP growth in major advanced economies, dating back to 1890, found that MFP growth has been trending down since the 1940s in the US, the 1950s for the Euro area, the 1960s for Japan, and the 1980s for the UK.

While there have been periodic productivity surges, such as the bounce in the US at the turn of the 21st century largely attributed to the impact of the information and communication technology (ICT) revolution, the downward trend has generally persisted.

This is not just a phenomenon in advanced economies. In emerging and developing economies that often show strong overall real growth rates, MFP growth has been negative for most of the past 50 years, with the exception of the decade preceding the 2008-09 financial crisis.

As a result, global MFP growth has essentially flatlined since 2007. It has even moved into marginally negative territory, averaging -0.1 percent between 2008 and 2023, with negative average growth in both emerging and mature economies.

These trends are of significant concern, particularly as the demographic dividend that boosted production for many years has come to an end in most advanced economies and some emerging ones. If MFP has flatlined globally, real economic growth and higher living standards can only be achieved by continued intensification of inputs.

A wide range of explanations have been advanced for the secular declines in labour productivity and MFP growth. One [articulated](#) by Robert Gordon that has received wide currency is that the technological breakthroughs with the greatest impact are now well behind us, and subsequent innovations have not proved to be as transformative. Other analysts have suggested slower diffusion and adoption of new innovation as the root cause. Still others have pointed to shifts from higher productivity to lower productivity sectors; measurement issues; and insufficient aggregate demand.

Despite extensive analysis and debate, no clear consensus has emerged on the root cause(s). However, the pervasive and persistent nature of the declines, and stagnation across both advanced economies and emerging economies, signals that factors of global scope and extended duration are likely implicated.

Therefore, while Canadians should continue to debate and evaluate Canada-specific factors that are contributing to weak productivity growth, we also need to consider and examine global factors that are affecting productivity growth in all nations. We will return to these questions and set out a potential alternative explanation for these trends in a subsequent commentary, focusing on the role of natural capital, including climate change.



Source: The Conference Board Total Economy Database

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