

PRODUCTIVITY AND PEOPLE

Exploring Human Capital and Productivity

THE
Productivity
Project —

ACLMR

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THE PROBLEM

Canada has a productivity problem. While fifty years ago, Canada's productivity surpassed that of the United States (US), it currently lags 28 percent behind the US. It also trails many of the Organisation for Economic Co-operation and Development (OECD) countries, placing it 18th overall. Finally, Canada also ranks low on innovation metrics, standing at 15th out of 20 measured countries.

As productivity is the efficiency with which the inputs of production are converted into outputs, these numbers matter. Countries with substantial productivity growth benefit from higher innovation capacity, global competitiveness, and resilience against inflationary pressures. Conversely, stagnation leads to economic sluggishness, wage suppression, and declining market share.

Canada's lagging productivity is rooted in a variety of factors, ranging from weak capital investment and a lack of a competitive business environment to an increasing gap between supply and demand of the competencies required to perform the jobs in the economy.

28%

lower overall productivity in
Canada compared to the U.S.

15

Canada's rank in innovation
among 20 countries

THE SOLUTION

The productivity problem is pressing, and multiple solutions have been presented. To be effective, any solution implemented must address the current issues with Canada's human capital system. There is a significant gap between workforce supply and industry demand for the competencies required to meet the needs of jobs in the economy. While regional competitive advantage used to be shaped by factors such as proximity to natural resources, it has increasingly shifted towards human capital—the collective knowledge, skills, and abilities of the workforce.

HUMAN CAPITAL AND PRODUCTIVITY

Productivity is the result of the interplay of capital investment, business environment, and human capital. The physical infrastructure, machinery, and technology at work within regulatory frameworks, markets, and governing institutions are enhanced by the quality of the workforce—human capital. Human capital encompasses the knowledge, skills, and capabilities embedded in the workforce and is measured at the individual, organizational and regional levels.

Human capital development is achieved through a system comprising five central stakeholders: individuals, learning providers, credentialing bodies, policymakers, and employers.

Each of these stakeholders has a part to play in one or more links in a conceptual, interactive human capital value chain. In this value chain model, input resources (the tangible and intangible

resources invested) interact to produce learning and development activities, which in turn lead to incremental gains in human capital. The increased human capital then leads to improved productivity outcomes, and ultimately, value is accrued by both individuals (through wages) and organizations (through increased profits), as well as by the economy (higher Gross Domestic Product).

Canada has the highest post-secondary attainment in the OECD, but this investment in education has not translated into high levels of productivity. Furthermore, Canada has a highly educated workforce and relatively high unemployment, with 2.5 unemployed individuals for every available job. This mismatch of competencies will worsen as technological adoption progresses. Much of the misalignment of competencies stems from foundational literacies and enabling competencies, including communication, collaboration, and adaptability, all of which are essential for fully functioning in the new and evolving jobs in the economy. There is a direct link between foundational competencies and productivity. Research indicates that a one percent increase in average literacy scores could result in a five percent increase in productivity. To improve productivity in Canada, people need to work smarter.

Canada's learning system remains tied to its 19th-century industrial roots, characterized by batch processing (e.g., age-based entry), standardized delivery (e.g., classroom learning), and conventional assessments. Given its dominant market position, public postsecondary institutions lack the culture,

10-15

hours of informal learning are completed weekly by 90% of Canadians

12%

estimated productivity gain from adopting lean management practices

12%

higher return on capital investment for organizations using data-driven decision-making

incentive, and structure to introduce agile and innovative learning pathways. This, combined with the credentialism culture, which values university credentials over vocational training and other forms of learning, has contributed to a significant disconnect between labour market supply and demand. Students may choose to study

in programs for which there is little occupational demand and vice versa. By 2024, the number of degree holders in Canada outpaced available jobs requiring such qualifications by a factor of four—the mismatch in competencies is exacerbated by this emphasis on post-secondary education.

63%

Canada's postsecondary attainment rate

41%

average postsecondary attainment rate across OECD countries

53%

of Canadian small businesses report difficulty hiring qualified workers

RECOMMENDATION

The fragmentation in Canada's human capital development system also contributes to the competency mismatch. This fragmentation is evident in the lack of coordination, structural disincentives to collaboration, oversight by 13 different provinces and territories, credentialism, and an emphasis on certified learning, as well as poor alignment between programming and market needs.

At its core, productivity is about people. People influence capital investment decisions, shape the business environment, provide essential leadership necessary for innovation and perform the hands-on work of jobs created in the economy. Therefore, the overarching solution to Canada's productivity challenge lies in its people.

The solution is a reimagination of Canada's human capital system. Throughout this six-part series,

Productivity and People, we will explore the human capital challenges facing Canada. These challenges are generational, as are the opportunities. What brought us to this point can also guide us into the future. This productivity challenge presents us with a unique opportunity to reflect on and reimagine the role of people—human capital—in driving future productivity and prosperity.

However, addressing this issue requires a systemic approach by policymakers, employers, credentialing bodies, learning providers, and individuals. No single stakeholder can tackle this challenge alone. Instead, a collaborative and coordinated effort is necessary. Each of the six reports in Series 1 of *The Productivity Project* offers unique insights into reimagining a future where human capital defines Canada's competitive advantage.

SERIES 1: PRODUCTIVITY AND PEOPLE

REPORT	FOCUS
Productivity And People: Exploring Human Capital and Productivity	Report 1 establishes the foundational relationship between human capital and productivity, presenting a conceptual framework that informs the entire series. It examines how the development of human capital contributes systematically to productivity growth.
The Coming Storm: The Eight Forces Reshaping Labour Markets	Report 2 identifies and analyzes eight macro-level forces shaping labour markets, from technological disruption to demographic shifts. It evaluates their collective implications on labour productivity and proposes strategies to mitigate challenges while capitalizing on emerging opportunities.
Unlocking Productivity: Path to a Human Capital Supply Chain	Report 3 advances supply chain principles by proposing a dynamic human capital supply chain network. This model optimizes labour market alignment, ensuring competency supply meets demand efficiently to drive productivity gains across an economy.
Untapped Potential: Mapping the Human Capital Ecosystem.	Report 4 assesses the outcomes of a pilot project mapping supply and demand within an open learning system. Its findings underscore the importance of synchronizing learning outputs with labour market needs to sustain long-term productivity growth.
Finding People: A Risk Management View of Hiring	Report 5 scrutinizes hiring practices through a risk management lens, revealing systemic biases in employer decision-making. This report explores the potential role a labour market passport could place enhancing fairness and productivity in talent acquisition.
A Path to Open Learning: A Policy Framework for Enabling Incumbents and Empowering New Entrants	Report 6 evaluates Canada's public postsecondary system as a natural monopoly, exposing its constraints on innovation and competition. It introduces a framework for an open learning marketplace designed to foster flexibility and productivity growth.

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Refer to the full report for references. All Series 1 reports are available at ProductivityProject.ca

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