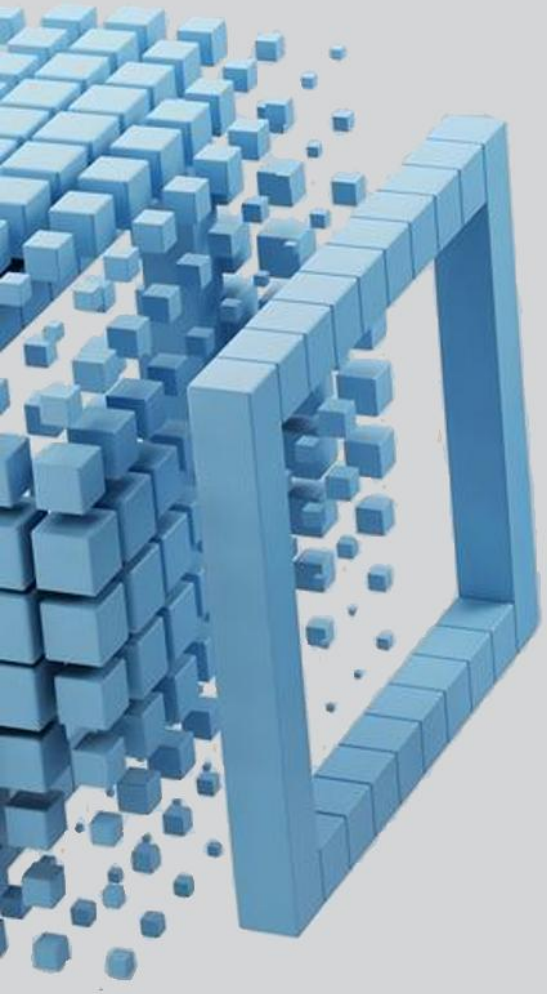


LECTURE 4

Meeting the Moment: Policy Priorities to Improve Canadian Living Standards



Stephen Tapp

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Centre for the Study of Living Standards

November 5, 2026

Waterloo, ON

Sponsor:
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“Canada has a **Productivity** problem.”

Investment

Trade

Competition

Firm size

Commercialization

Affordability

Regulation

Business dynamism

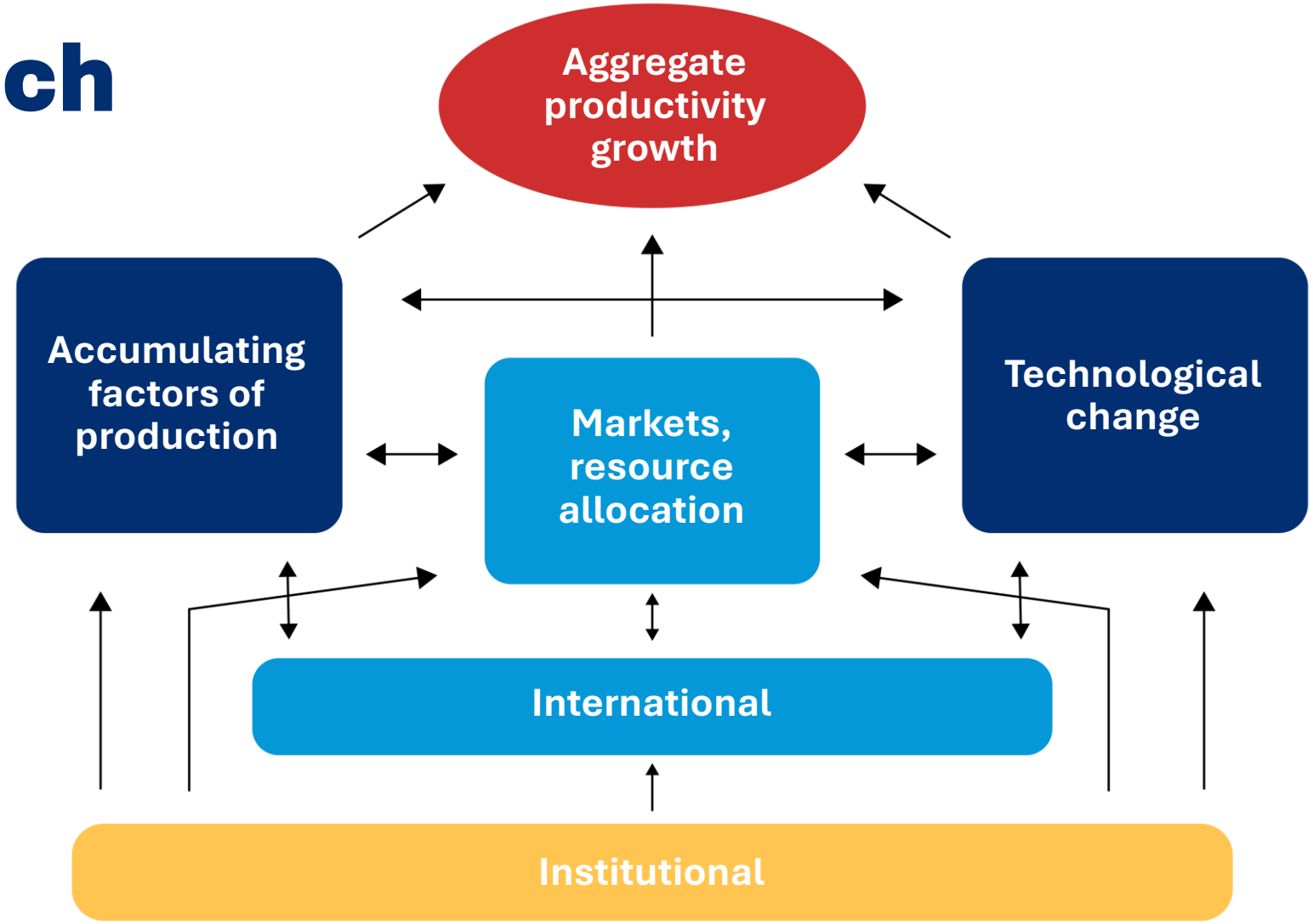
Risk aversion

Productivity

- Creating more value per hour worked
- Raises earnings, living standards, funds public services

System approach

- No single fix
- Policies work together



Source: van Ark et al. (2023)

Outline

1 Canada’s productivity problems in context

2 Trade shock

3 Artificial intelligence revolution

4 Youth economic challenges

5 Policy priorities



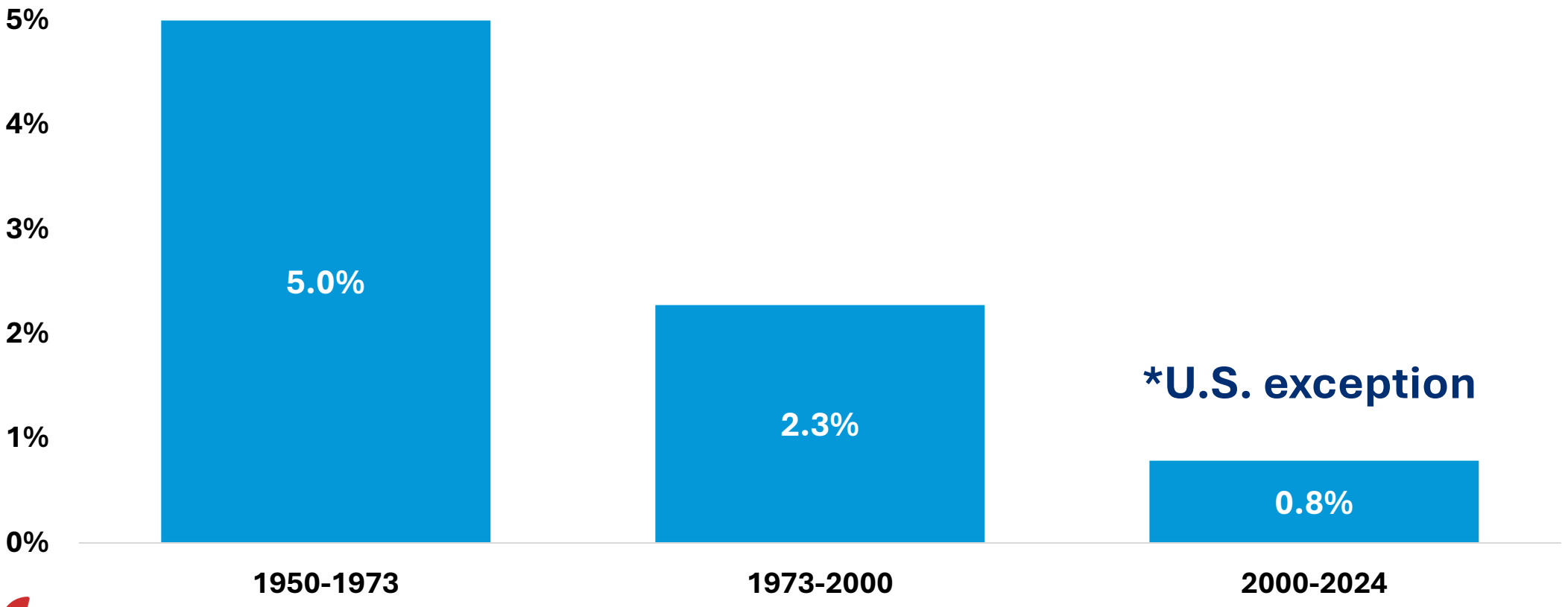
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Canada's productivity problems in context

Productivity growth slowed across the G7

Labour productivity growth, G7 average

GDP per hour worked, 2020 PPP US dollars, compound average annual growth, %



Source: Bergeaud, Cette, and Lecat (2026)

Canada's productivity rankings fell

GDP per hour worked, country rankings

	1960	2024
G7	2nd	6th
23 advanced countries	7th	17th

Source: Bergeaud, Cette, and Lecat (2026)

From a generation to a lifetime

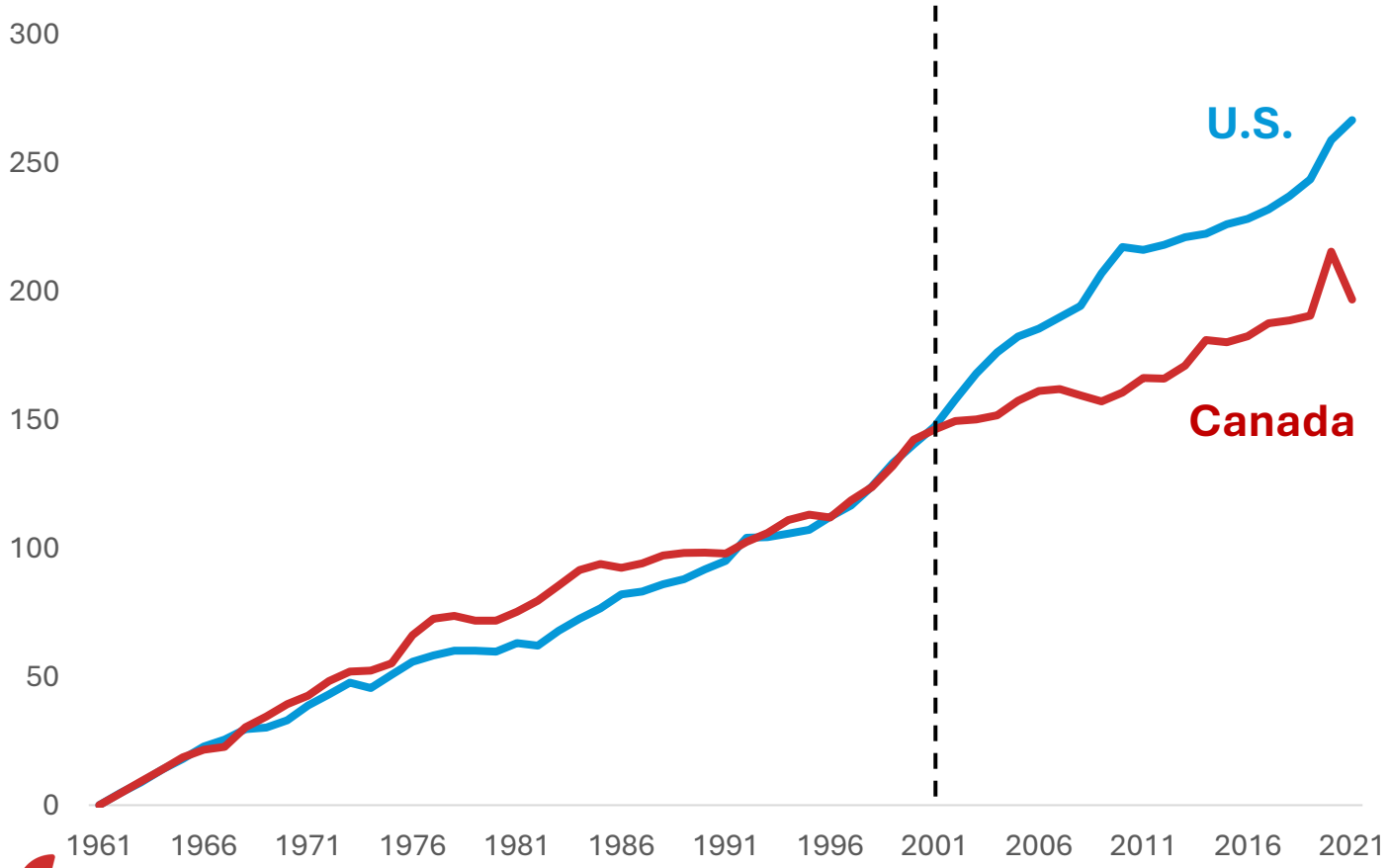


Period	Years to double productivity level
1950-1973	18
1973-2000	55
2000-2024	91

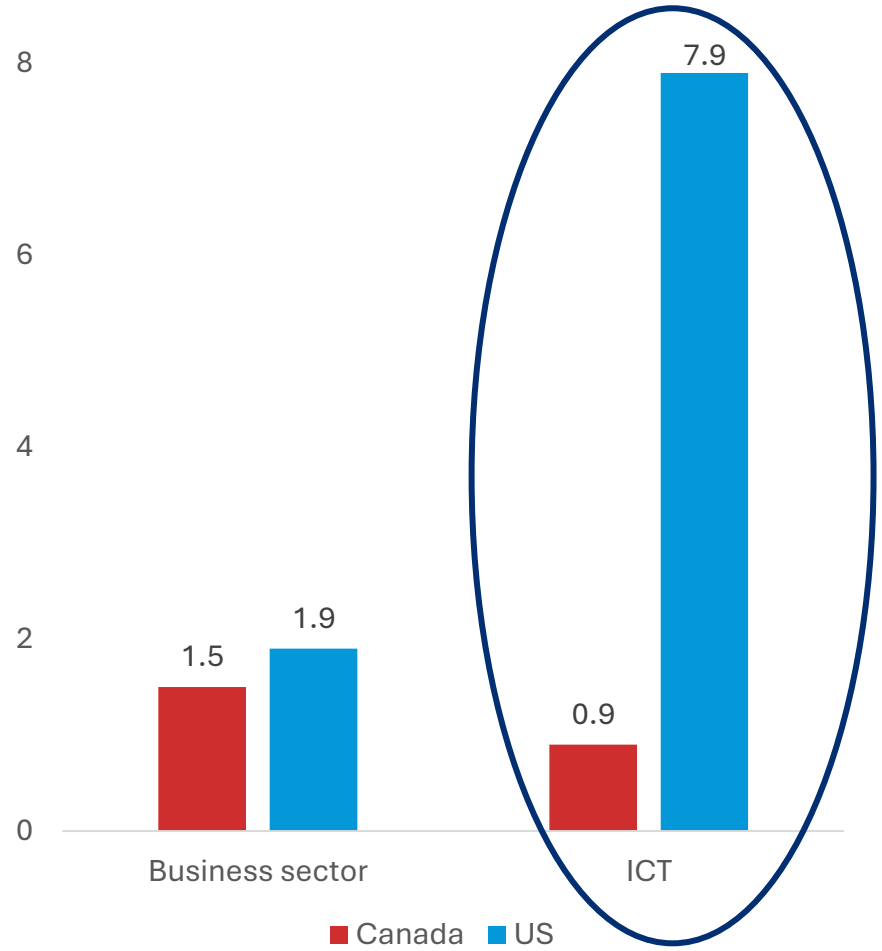
Source: CSLS calculations using Bergeaud, Cette, and Lecat (2026)

U.S. productivity lifts off after 2001 , 8x gap in ICT

Labour productivity growth
Cumulative growth 1961-2021



Labour productivity growth
2001-2019

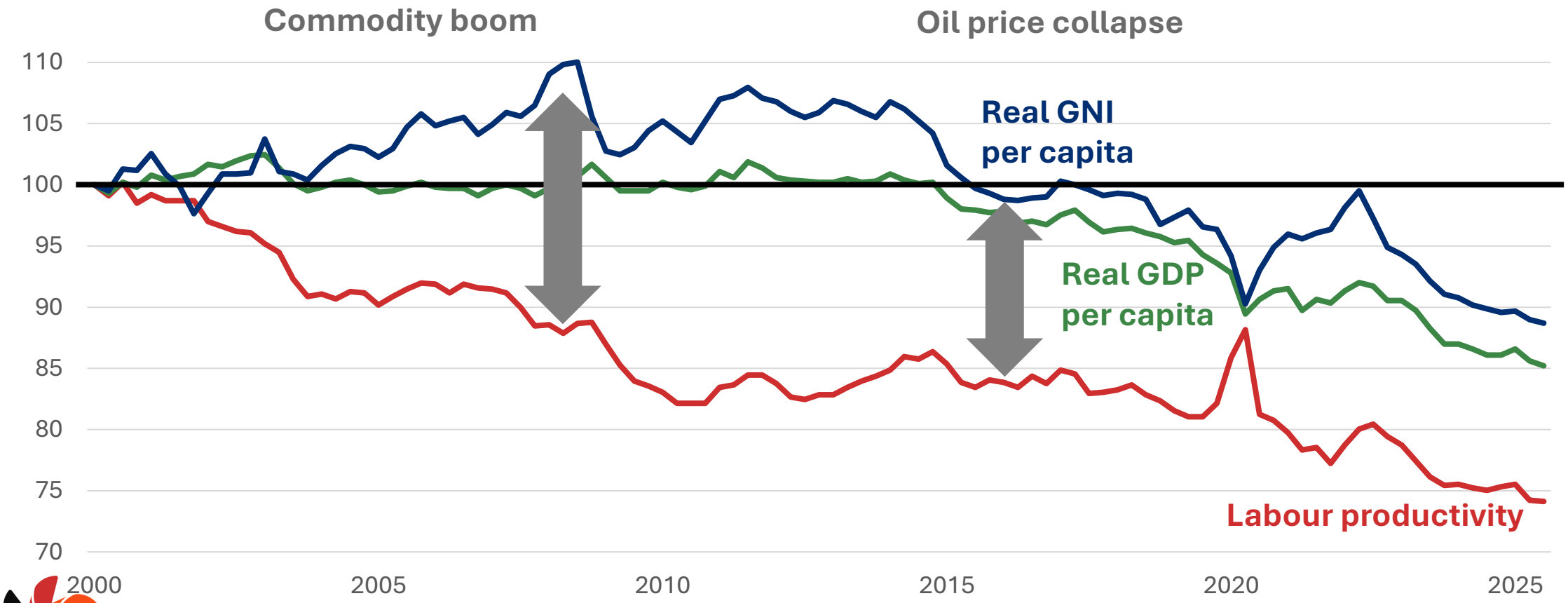


Source: Gu and Wilcox (2023)

Canada's purchasing power kept pace with U.S. until 2015 despite weaker productivity

Economic performance, Canada vs. U.S., 2000-2025

Index, 2000 Q1 = 100



Source: CSLS calculations using MacCormack and MacDonald (2026)

Top 10% of income distribution accounts for:

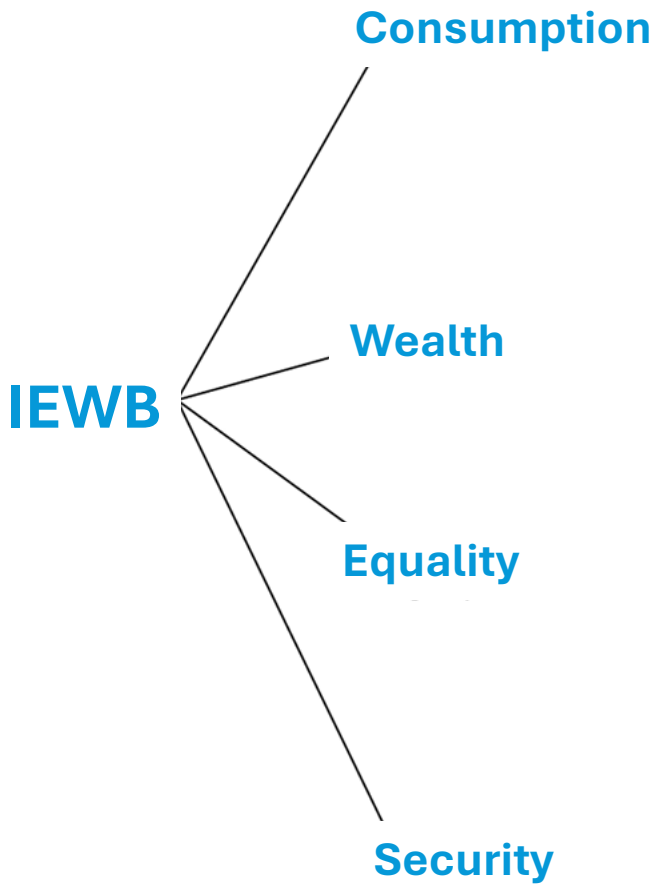
75% of Can-U.S. GDP per adult gap

66% of Can-U.S. labour productivity gap



Source: MacGee and Rodrigue (2025)

Economic well-being is more than GDP



1981-2023	Compound average annual growth, %
Real GDP per capita	1.1
Index of Economic Well-Being	0.6
Consumption	3.1
Wealth	0.6
Equality	-0.2
Security	-0.4

Source: Sharpe and Pietraru (2025)

Productivity takeaways

1) Productivity growth slowed across advanced economies.

2) Canada fell behind before 2000…

3) …but terms of trade gains masked weakness vs. U.S. until 2015.

4) After 2000, exceptional U.S. gains concentrated in top end, tech.

5) Economic well-being lags headline GDP.

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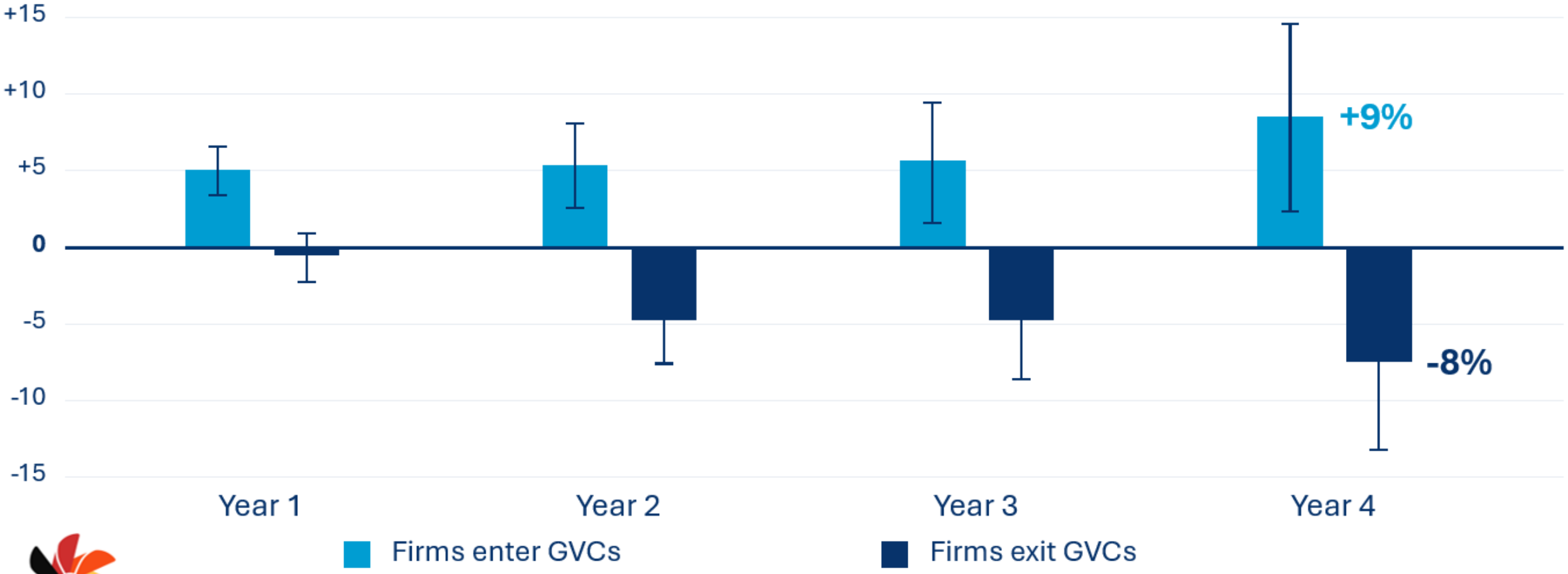


The trade shock

Trade enhances productivity

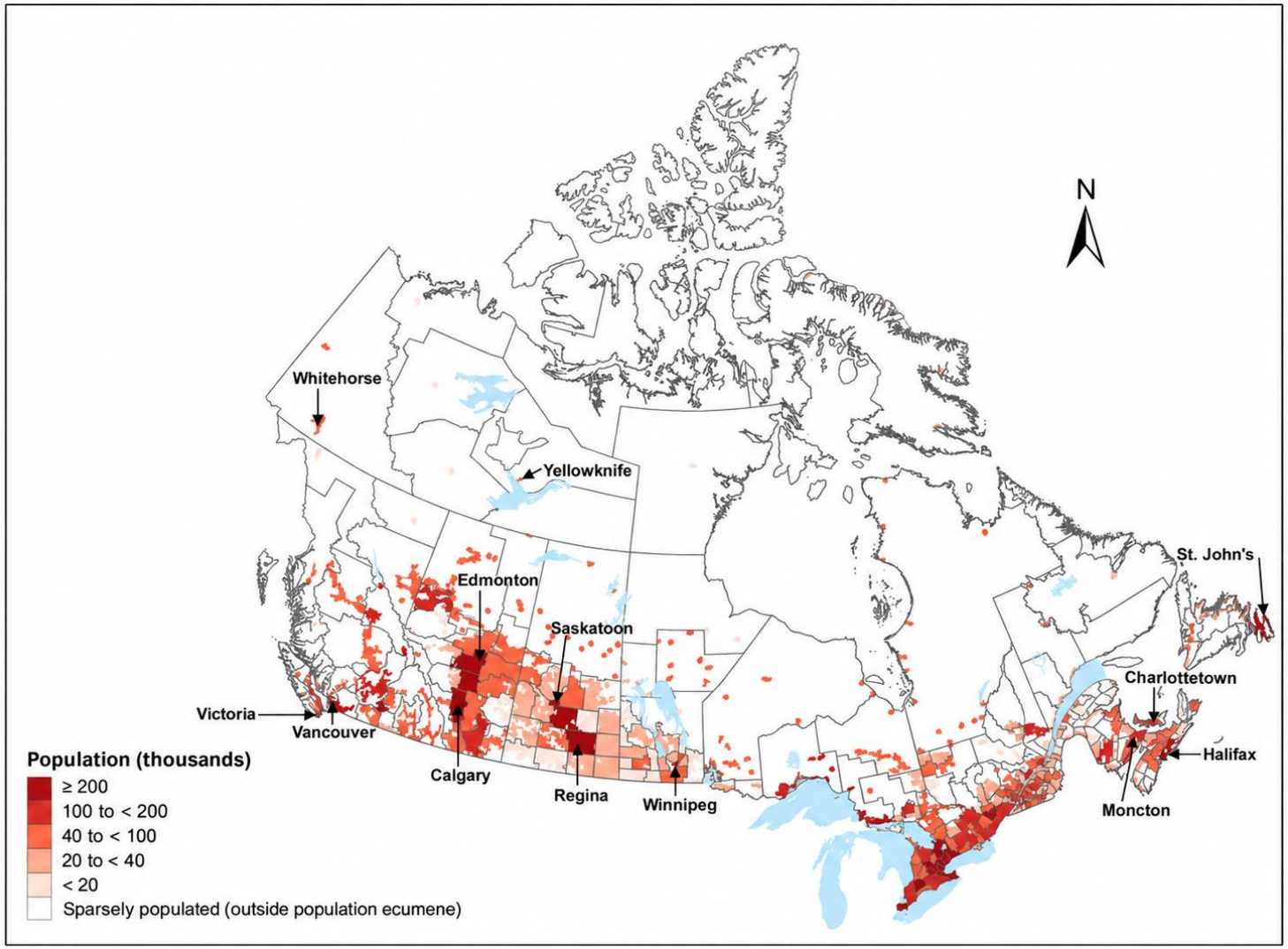
Change in trade status and productivity differences

Cumulative percent differentials



Source: Baldwin and Yan (2016)

Geography matters



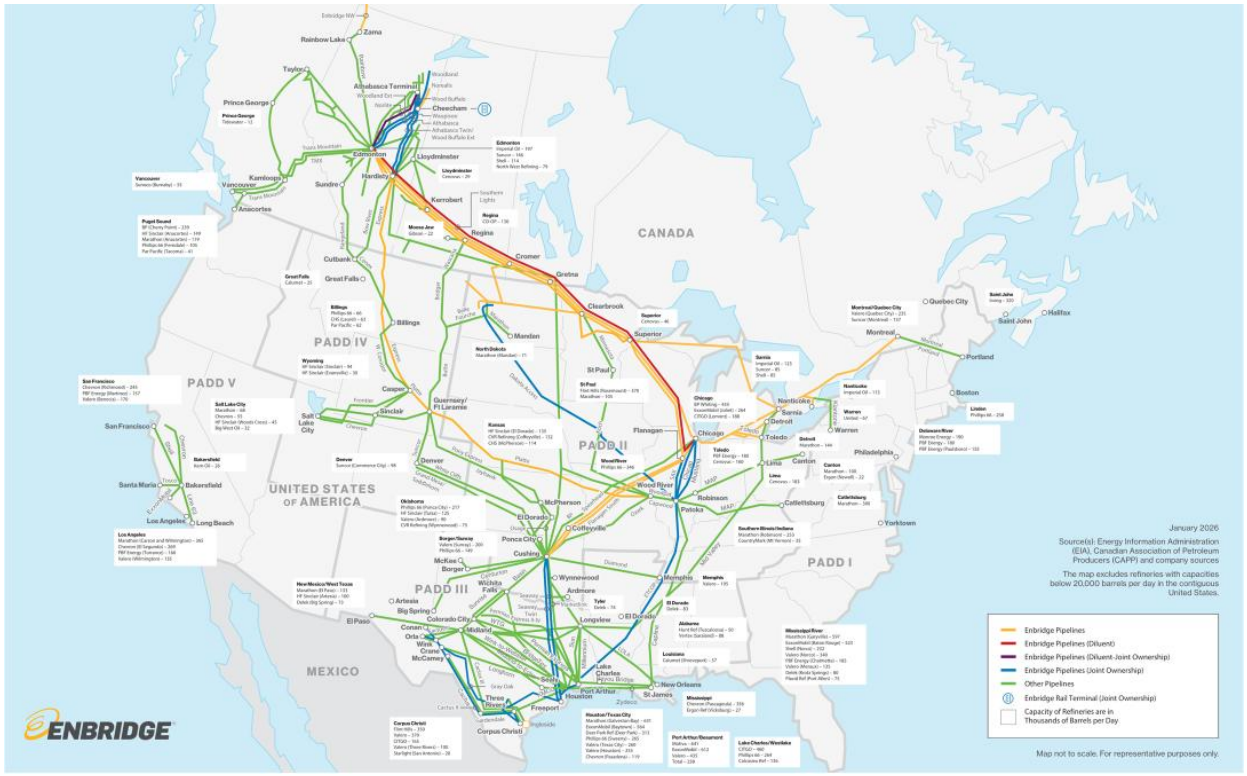
"Canada is closer to the U.S. than it is to itself"

Paul Krugman

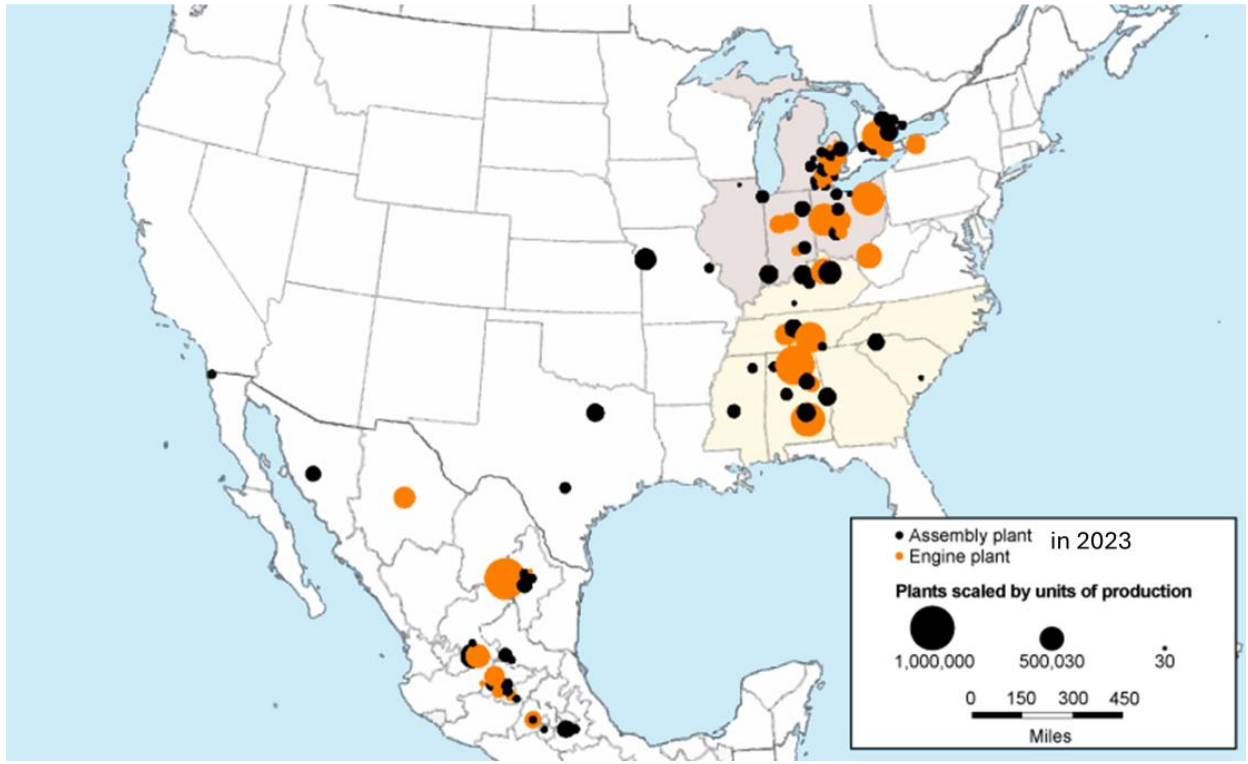
Source: Statistics Canada

Integrated energy and auto production

Oil pipelines



Auto production

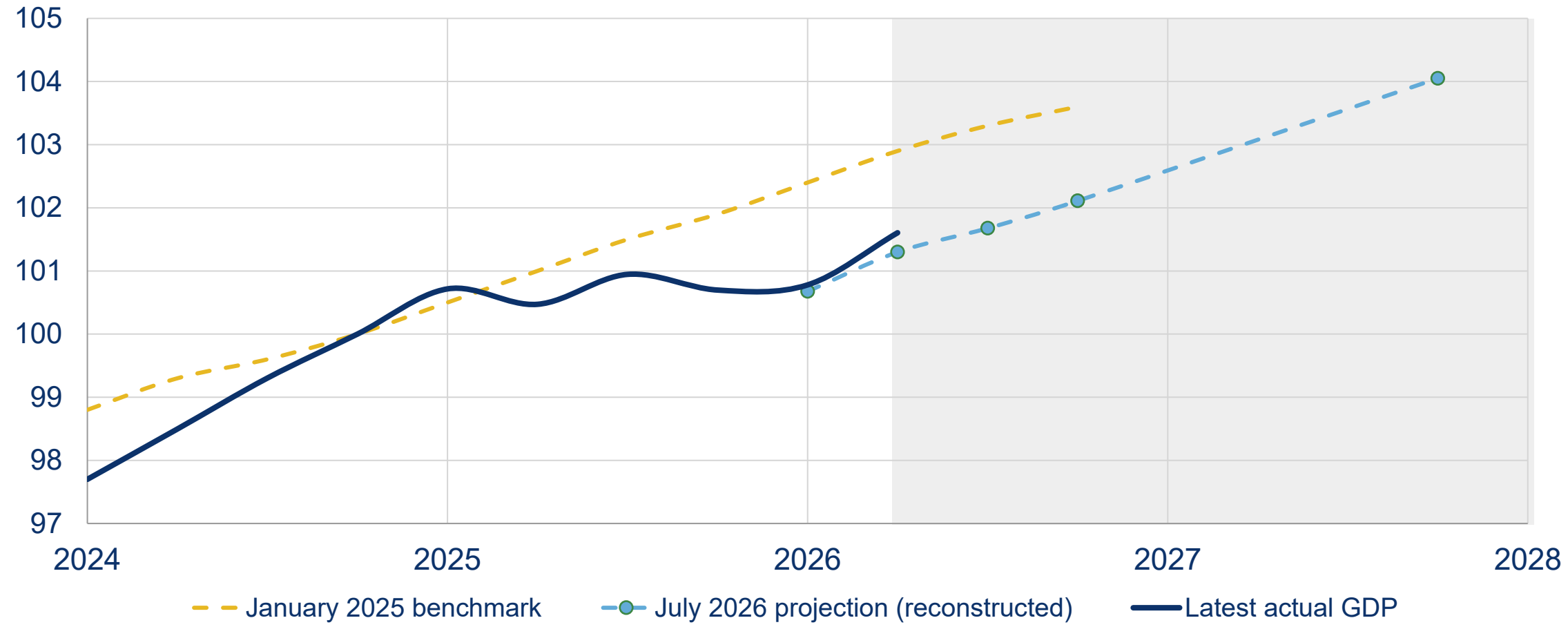


Sources: Enbridge (2026) and Klier and Rubenstein (2024)

Canada’s lower GDP path (~1.5%) in Trump 2

Canadian real GDP projections

Indexed to 100 in 2024 Q4

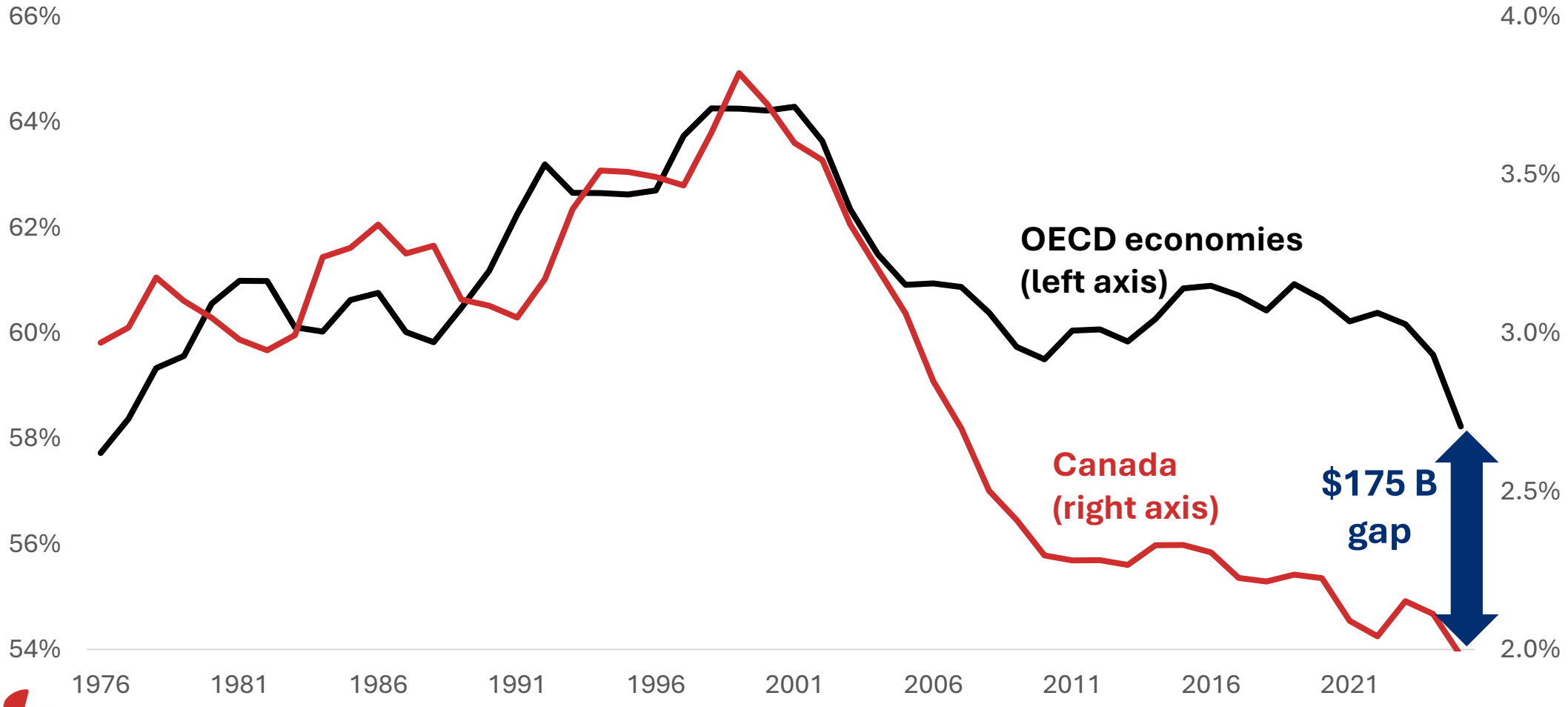


Sources: Statistics Canada (2026); Bank of Canada (2025); and Bank of Canada (2026)

Canada's exports lagged peers before Trump

Goods and services export volumes, 1976-2025

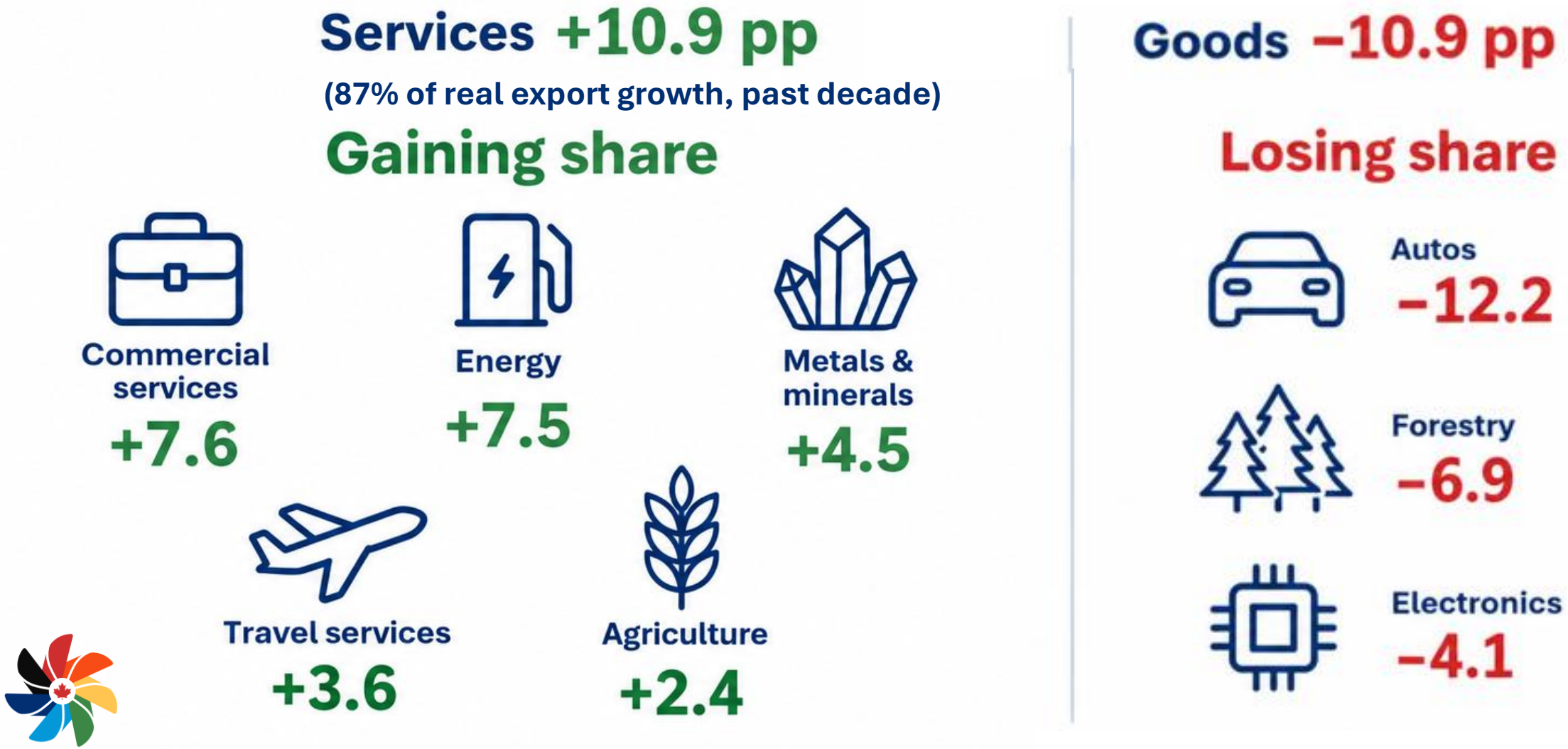
Percent of global trade, constant 2015 $USD



Source: CSLS using World Bank's World Development Indicators data.

Canada’s trade shifting to services, resources

Change in export share, 2000-2025
Percentage points



Source: CSLS calculations using Statistics Canada (2025) and Statistics Canada (2026)

Disruptions can spur experiments, find better ways



Strike



Try new routes

5%

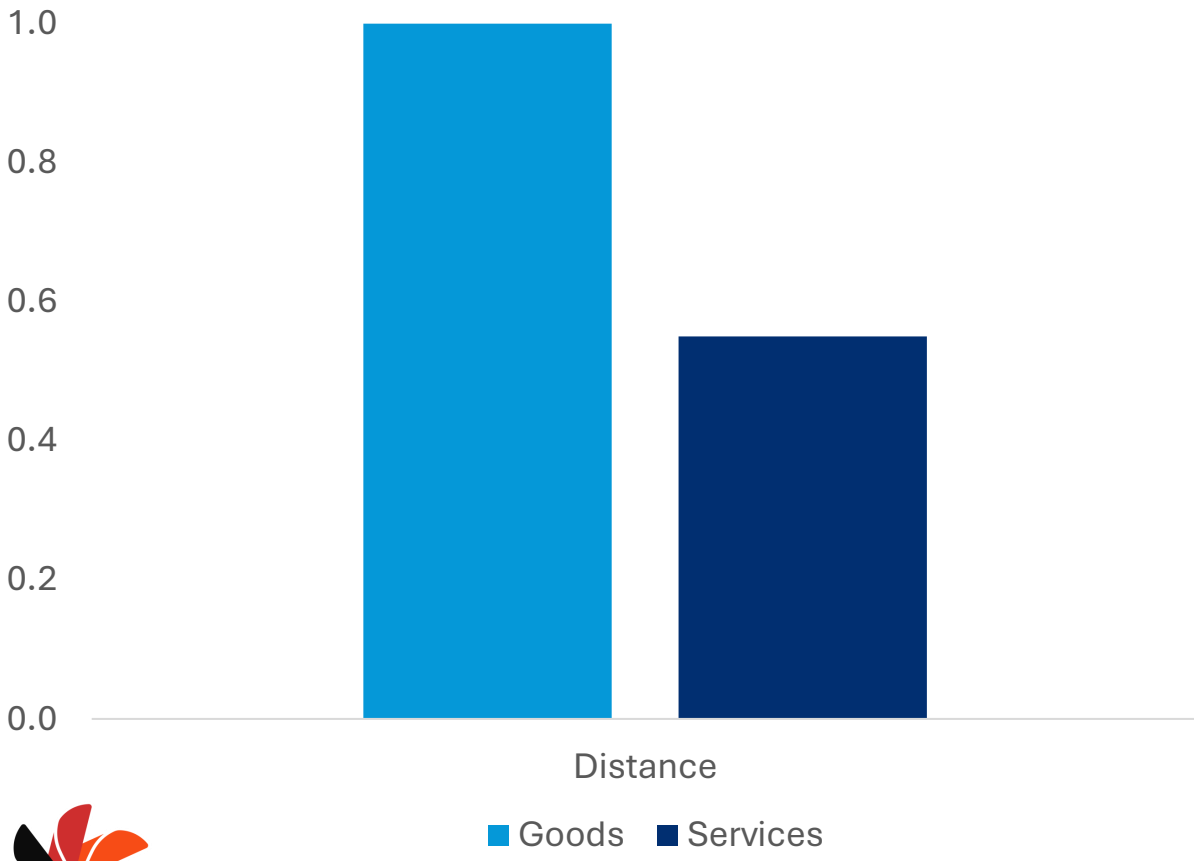
Kept a better route

Source: Larcom, Rauch, and Willems (2017)

Easier for services to defy gravity

Model estimates

Normalized importance scores

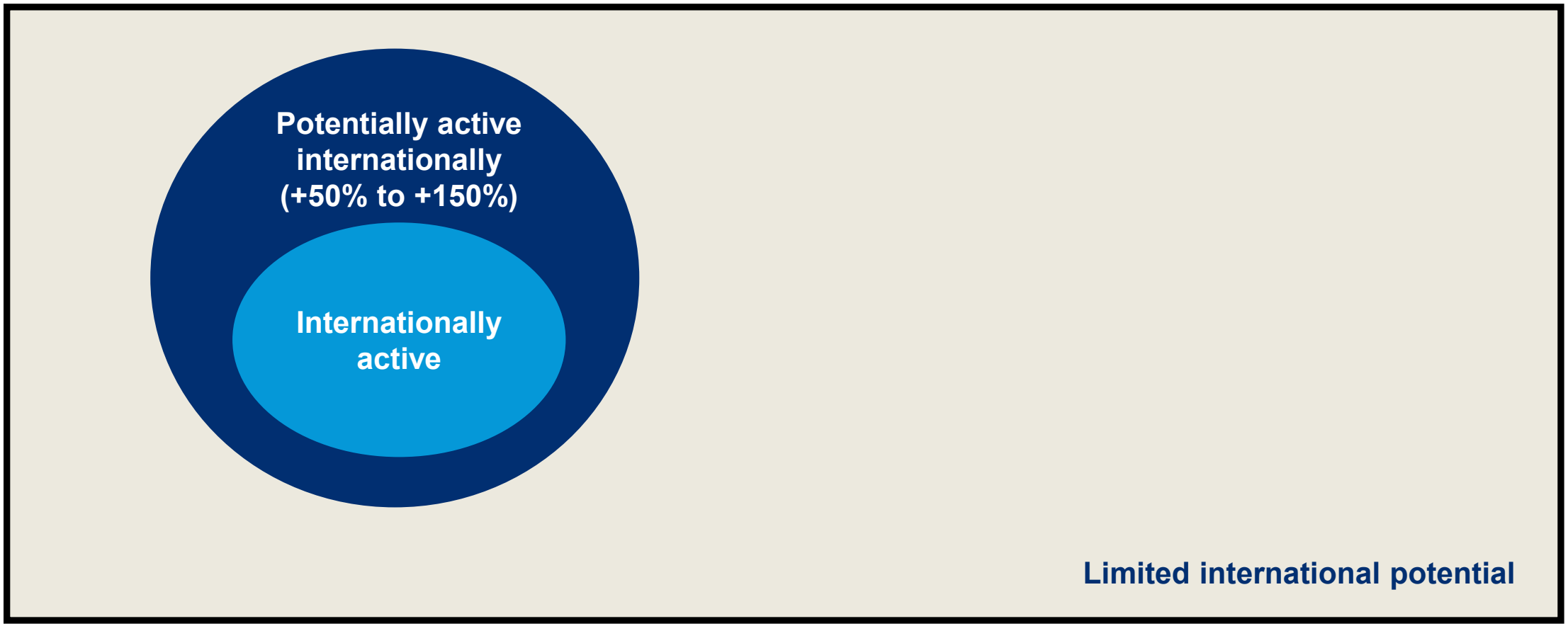


Source: Victor (2026)

Notes: Estimated for goods 1990-2024; services 1996-2023 annual data, importer fixed effects.

Untapped trade potential

Universe of firms in Canada



Source: Tapp and Yan (2021)

Trade takeaways

1) Canada’s trade performance was weak before Trump.

2) Trumpism adds a material threat to Canada’s economy.

3) Push to diversify. Opportunities in services, resources.

4) Untapped trade potential can raise productivity.

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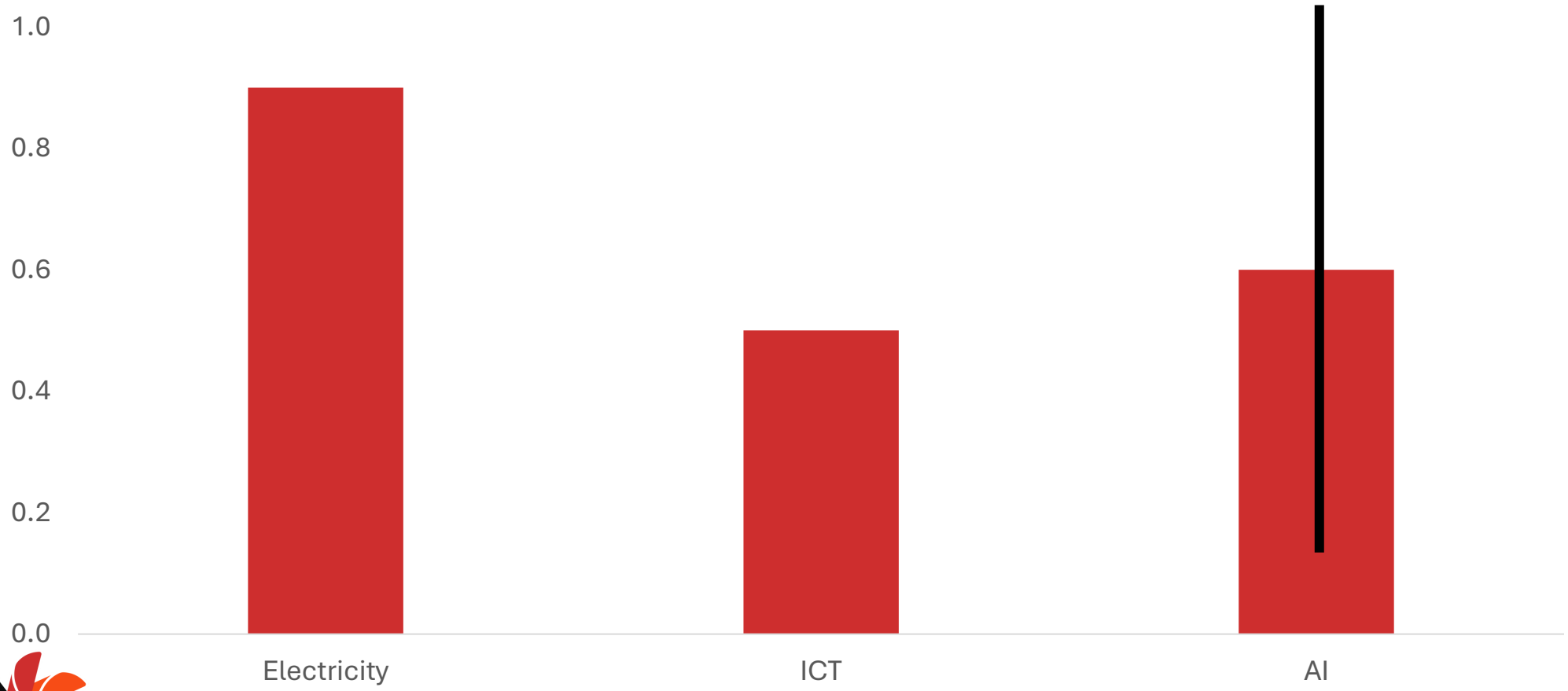


The AI revolution

Big potential productivity boost from AI

Impact on productivity growth

Percentage points, annualized over a decade



Source: World Bank (2026). Error bands indicate range of estimates.

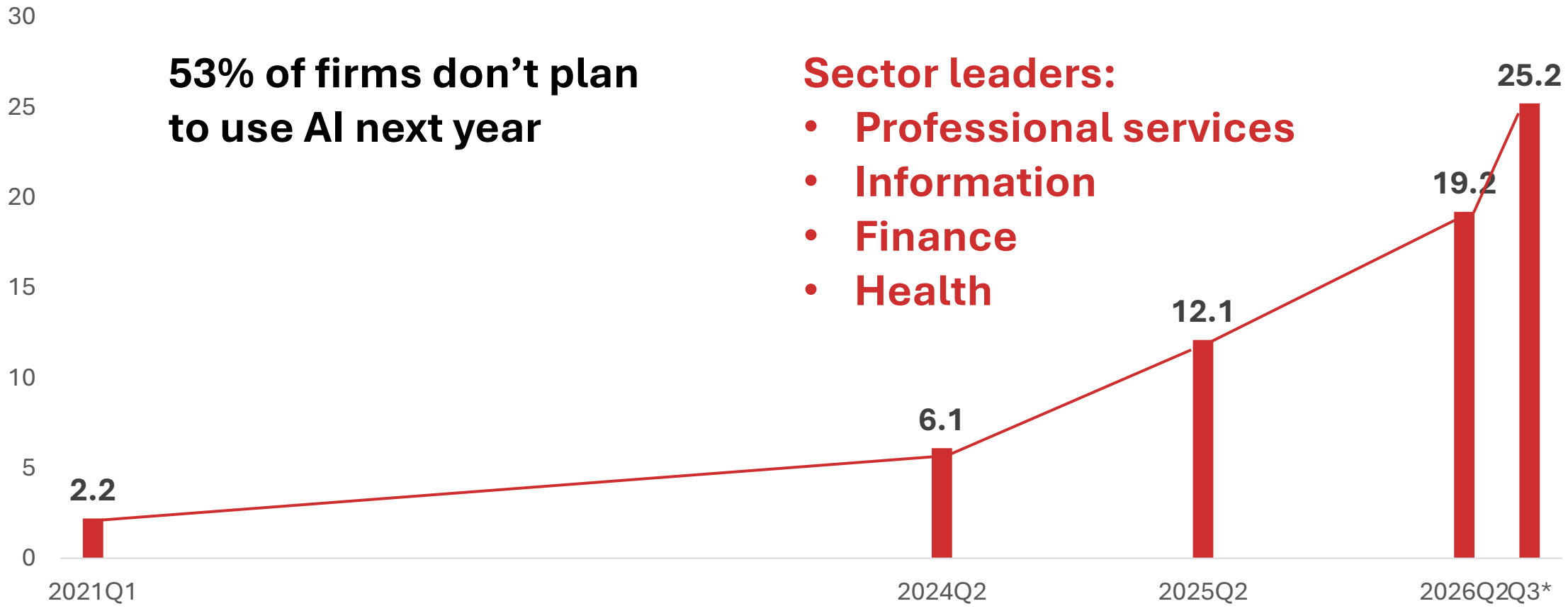
Building an AI nation

- AI could boost Canada's GDP by $200B (4%) in 2035, in a fast adoption scenario
- Canada behind the frontier
- AI spend highly concentrated (Top 2%→ 50%)

Sources: Blit, Goldfarb, Samson, and Tapp (2025); and www.firm-data-ai.com

AI business adoption accelerating

Business used AI to produce goods or services, last 12 months
Percent of total



53% of firms don't plan to use AI next year

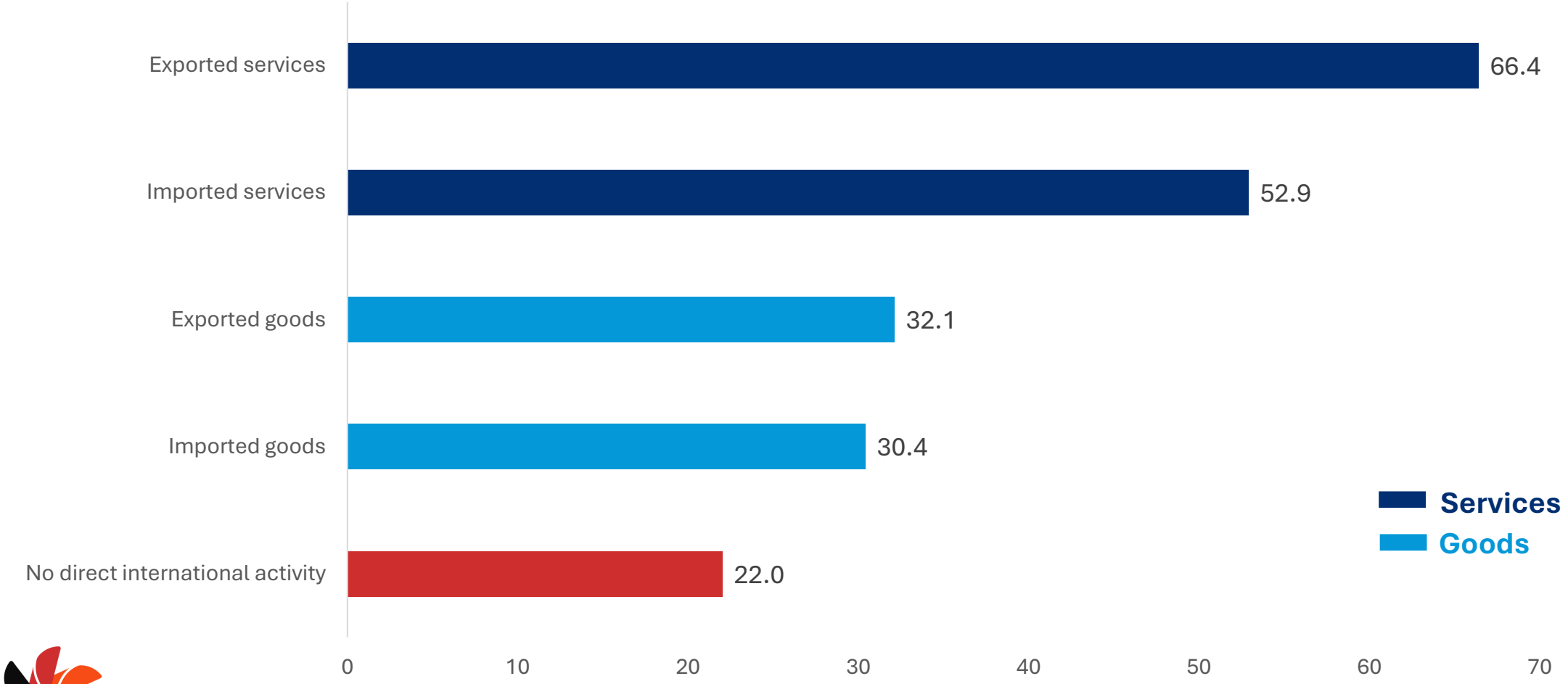
Sector leaders:
- **Professional services**
- **Information**
- **Finance**
- **Health**

Sources: Statistics Canada (2021); Statistics Canada (2024); Statistics Canada (2025); Statistics Canada (2026 Q2); and Statistics Canada (2026 Q3)

International services traders leading

Business plans to use AI to produce goods or services, next 12 months

Percent of total, by international activity

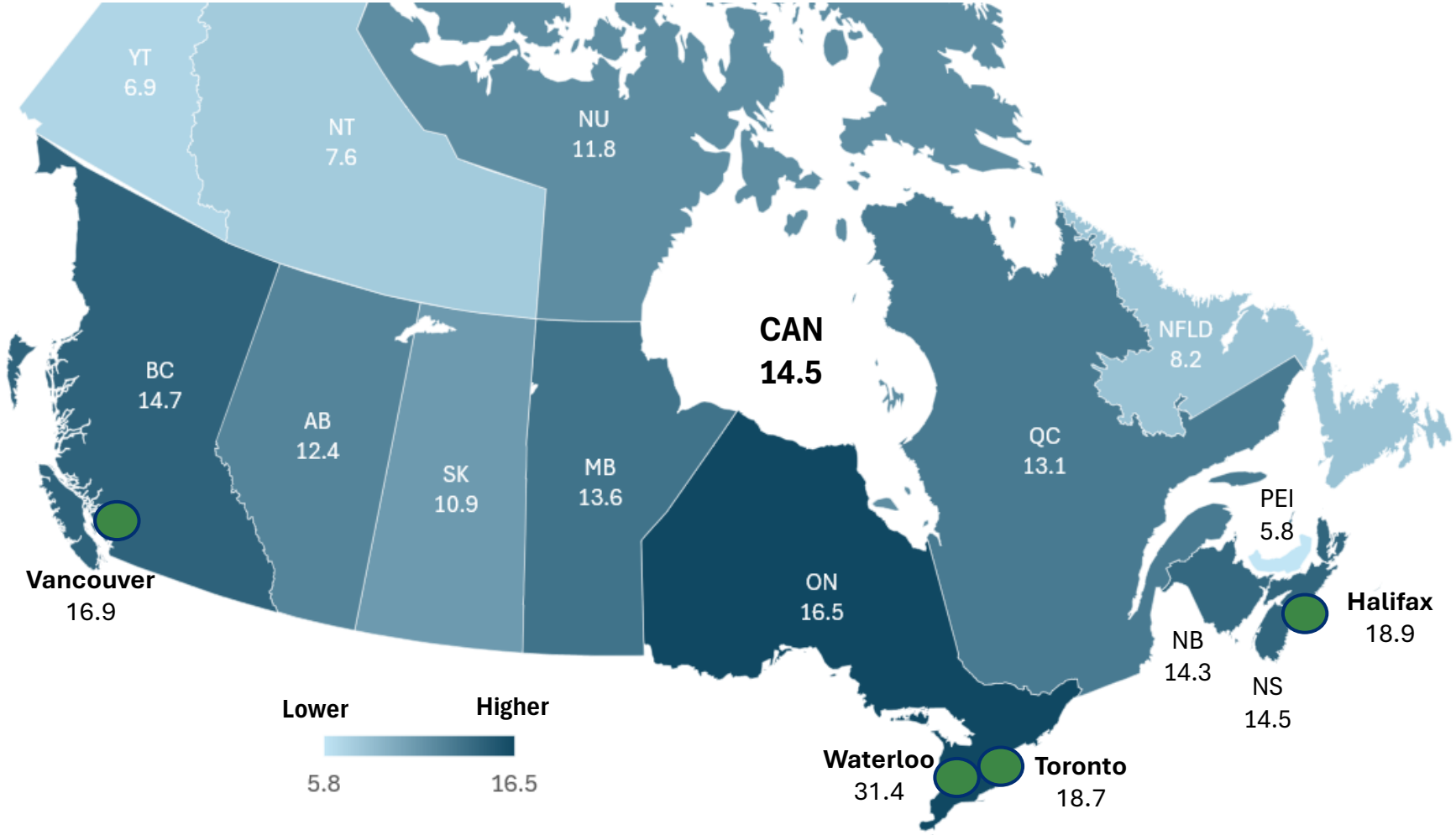


Source: Statistics Canada (2026)

Adoption concentrated in urban tech hubs

Business plans to use AI to produce goods or services, next 12 months

Percent of total, by geography

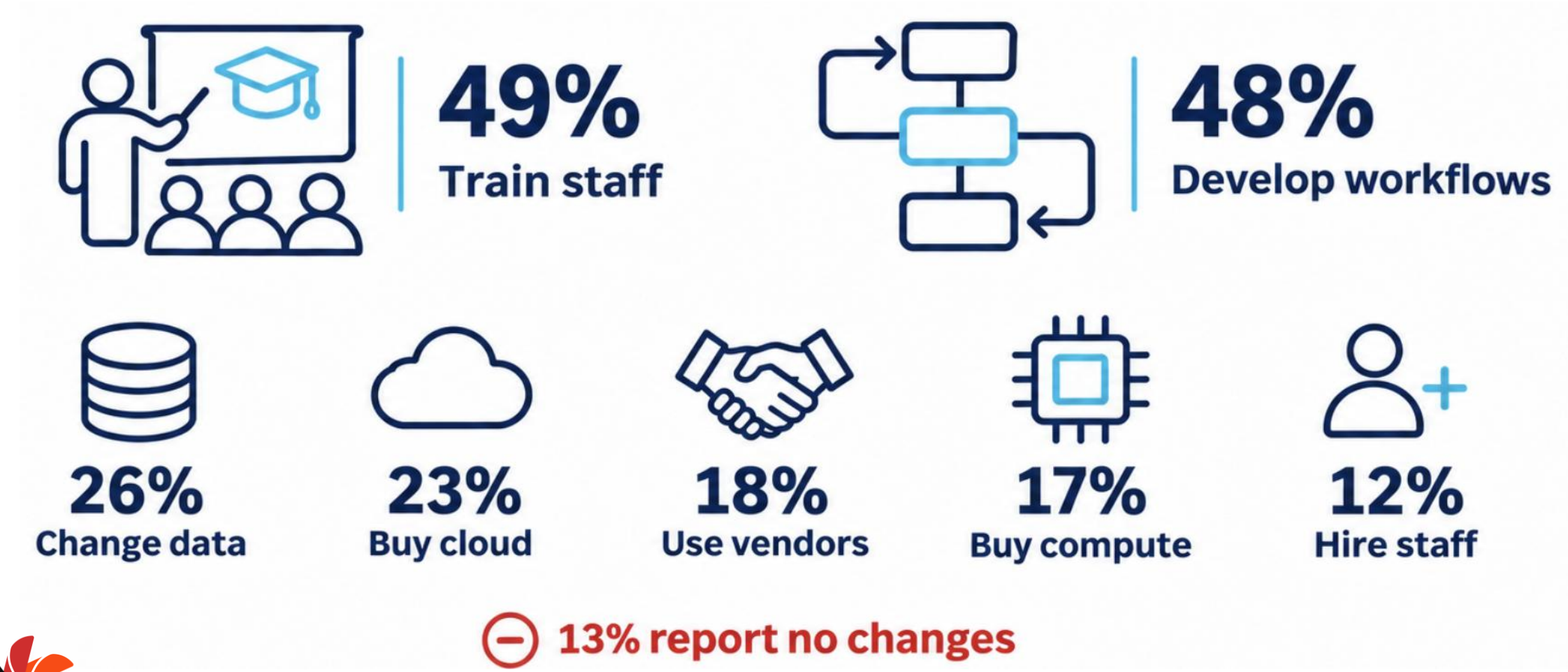


Source: Statistics Canada (2025)

AI driving organizational changes

Changes businesses make when using AI to produce goods or services

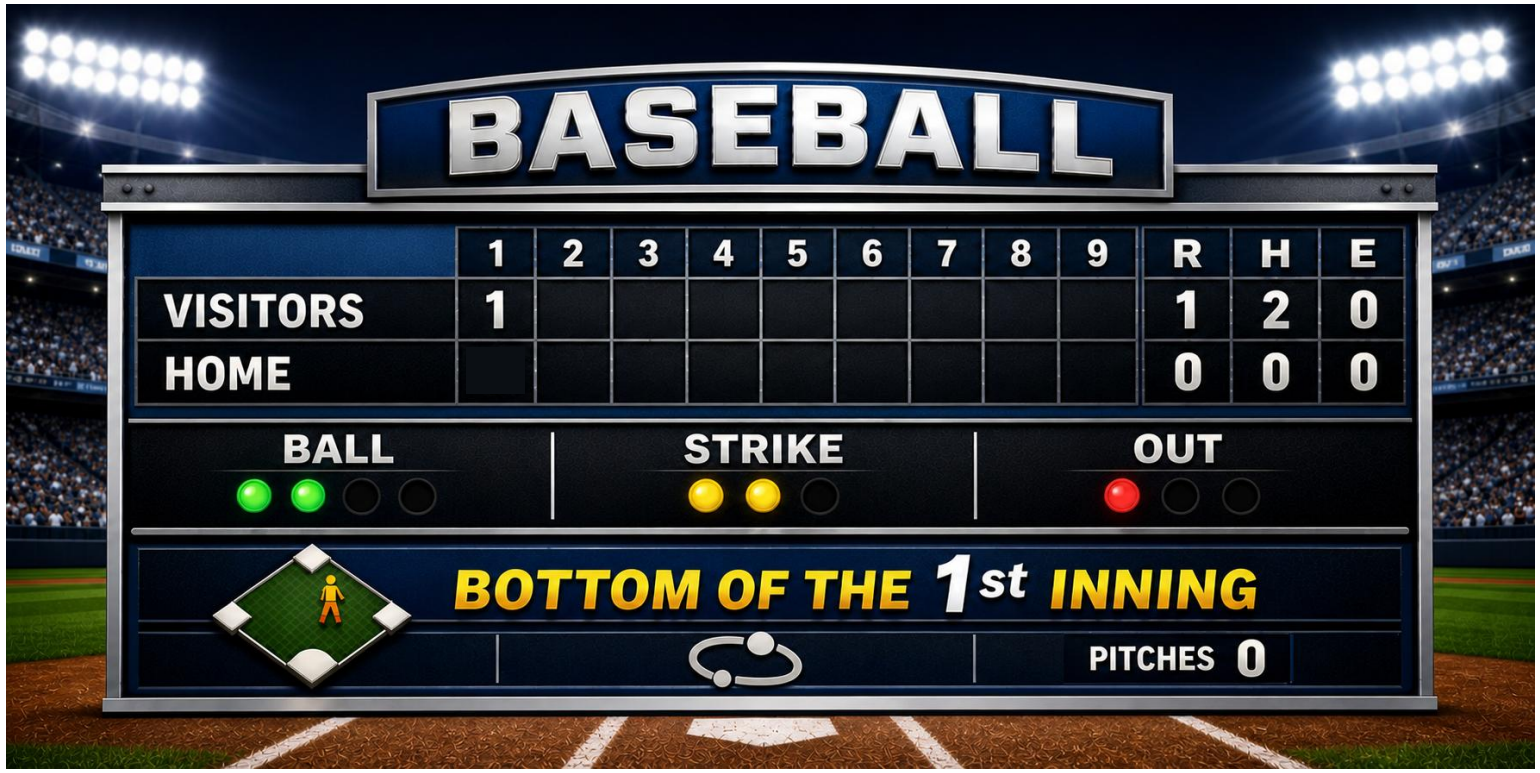
Percent of firms



Source: Statistics Canada (2026)

Early in AI adoption

Consumer-facing apps spreading faster than enterprise



1. Replace

2. Reimagine

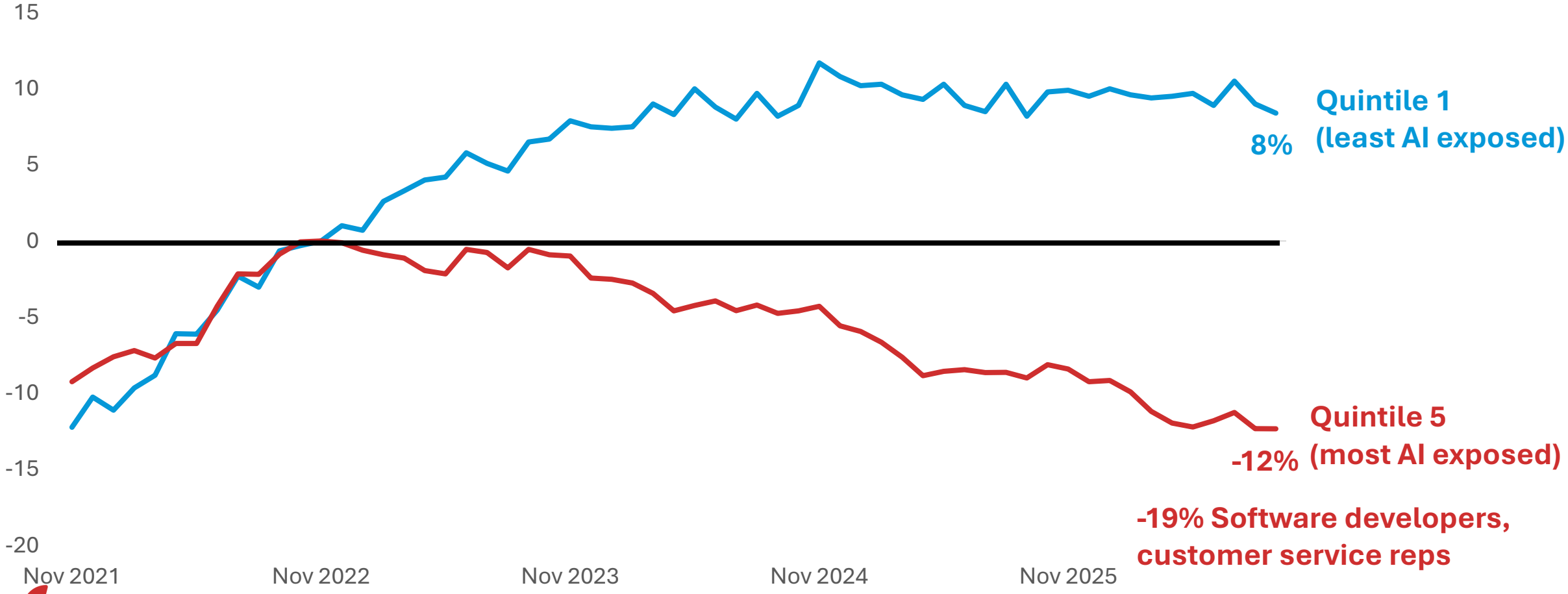
3. Recombine

Source: Blit (2026)

Canaries in the coal mine?

U.S. employment for 22–25-year-olds, by AI exposure

Percent change since Nov 2022



Source: Brynjolfsson, Chandar, and Chen (2026)

AI takeaways

1) AI could boost productivity.

2) Adoption is highly concentrated.

3) Wider adoption needed to spread gains beyond frontier.

4) Key bottlenecks: Firm reorganization, worker skills.

5) Early signals of weak hiring in some U.S. entry-level jobs.

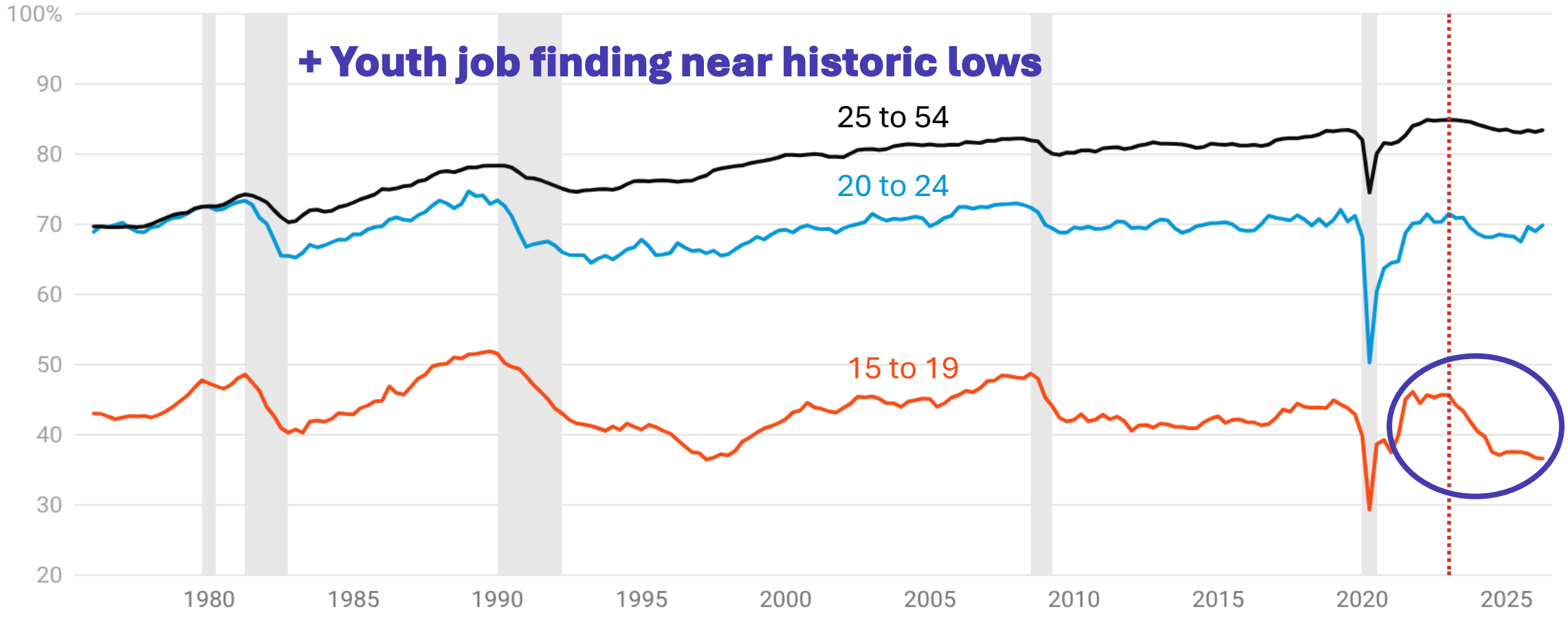
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Youth economic challenges

Lowest teen employment rate outside pandemic

Employment rate by age group
Percent, quarterly



Source: CSLS using Statistics Canada (2026)

Canada’s falling happiness ranking

2023–2025 average

25th

Overall

Down from 6th a decade ago

71st

Youth (Under 25)

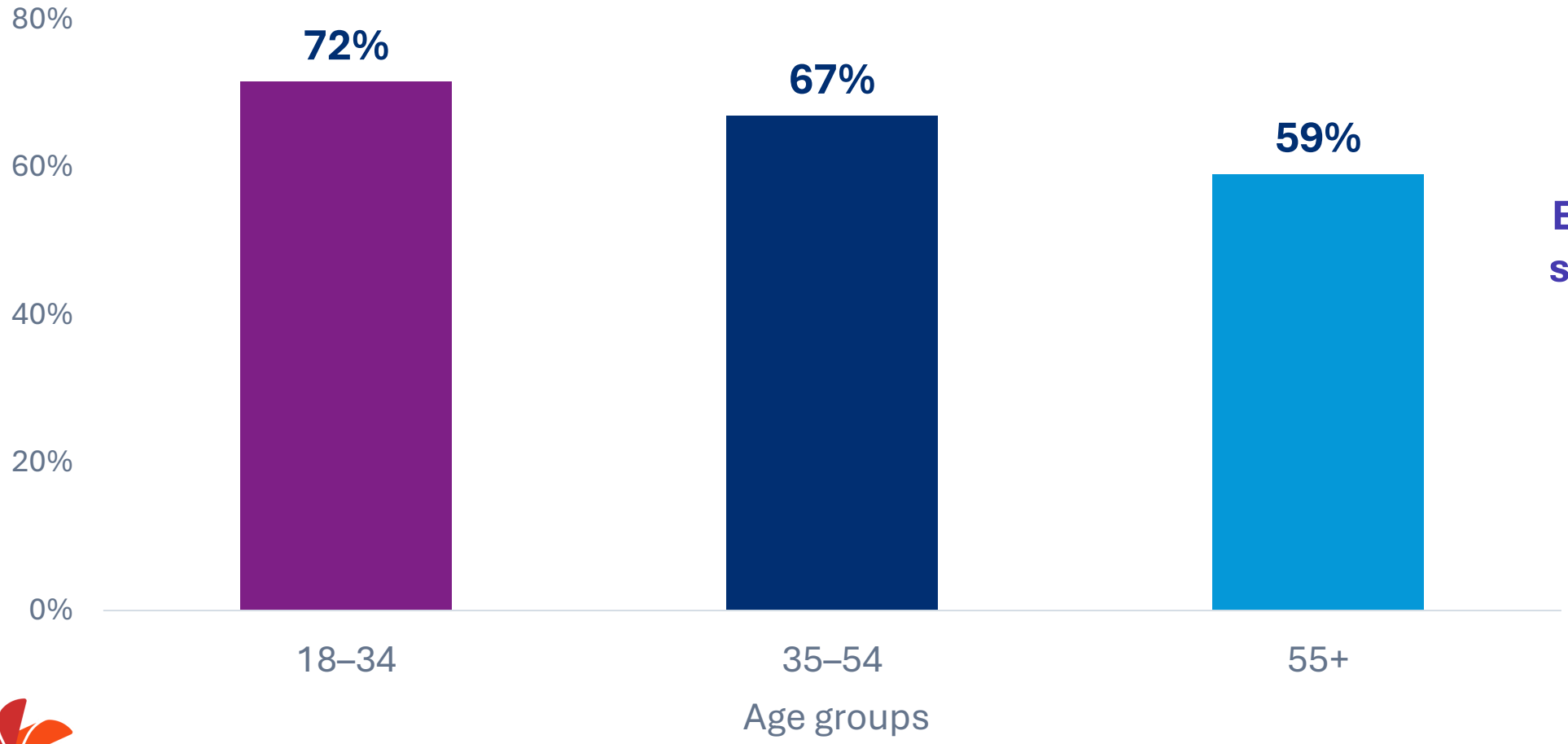
Economic stress accounts for ~half of youth well-being decline

Sources: World Happiness Report and Huang and Helliwell (2026)

Young Canadians pessimistic about the future

Expect the next generation to have lower living standards

Share of total in 2025, by age



Expect lower living standards next gen

2025: 65%

2012: 37%

Source: Nanos Research, December 2025; n=1,009.

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Policy priorities

Policy priorities within a system approach

1

Improve, diversify trade

2

Broaden tech adoption

3

Restore hope for future generations

1. Improve and diversify Canada's trade

- U.S. remains top market, try to preserve preferential access
- Focus on services, resources
- Improve infrastructure, transportation reliability
- FTAs: Increase use, India
- Work with allies to maintain rules-based system (dispute settlement)

2. Broaden tech adoption

- Encourage investments in AI, software, data, equipment
- Strengthen workforce, management skills
- Build firms' absorptive capacity

3. Restore hope for future generations

- Clearer paths from education to work
- Work-integrated learning for experience and skills
- Improve affordability

“Productivity provides hope and choices to society.”



Don Drummond

Source: Drummond (2011)



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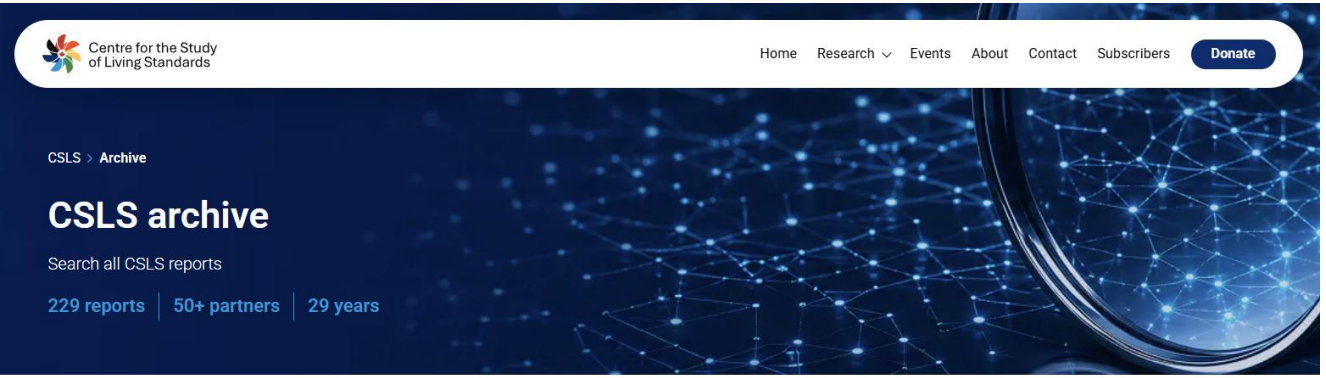
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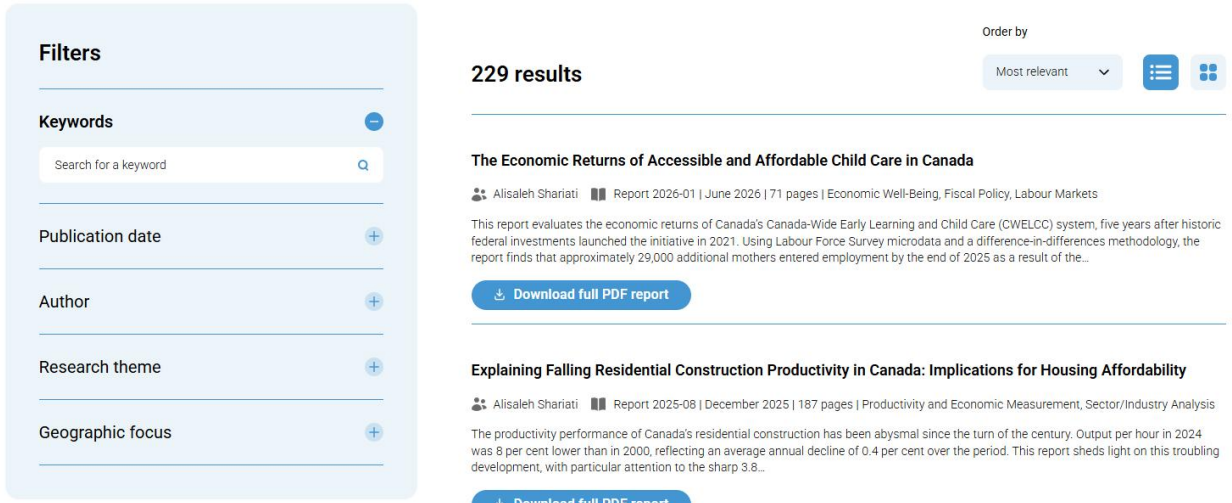
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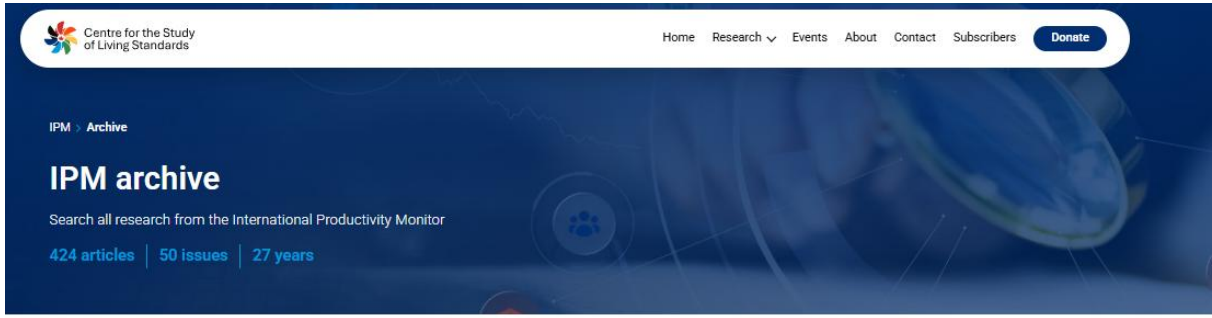
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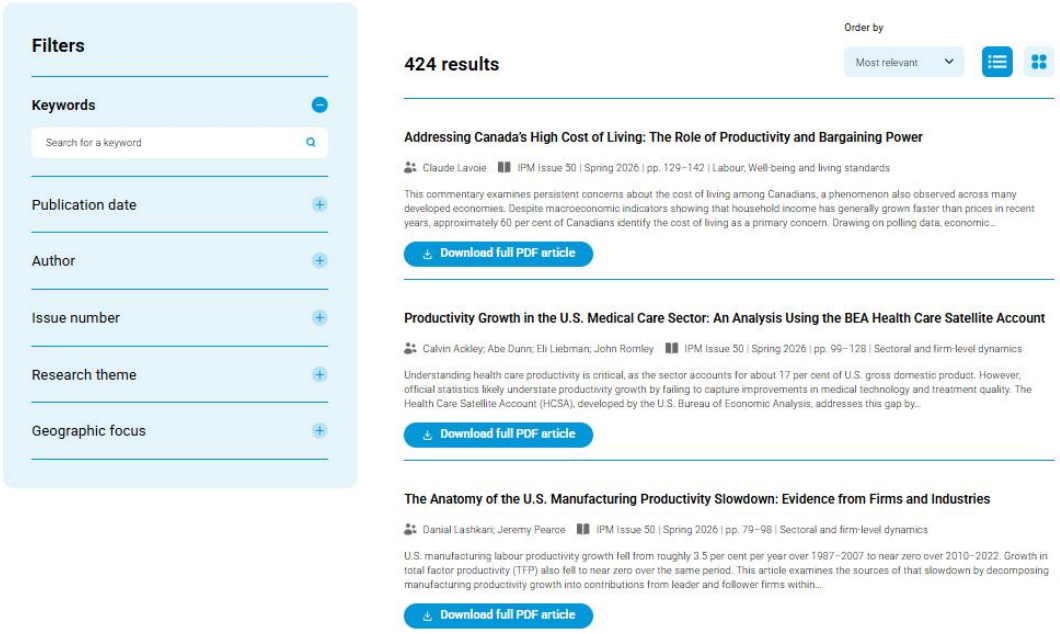
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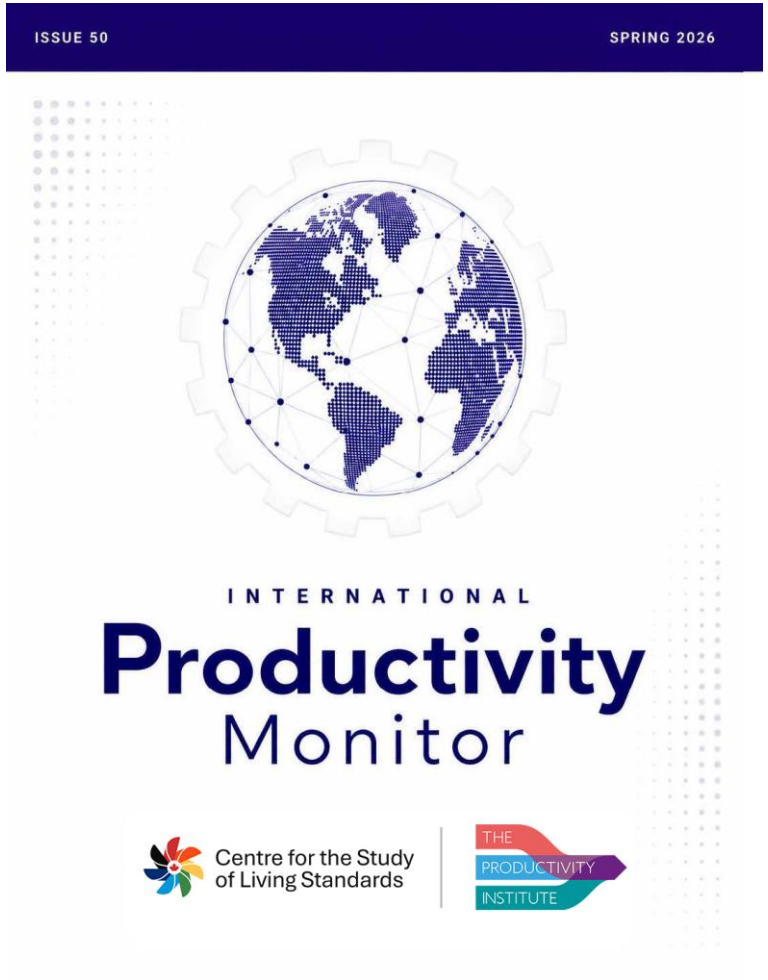
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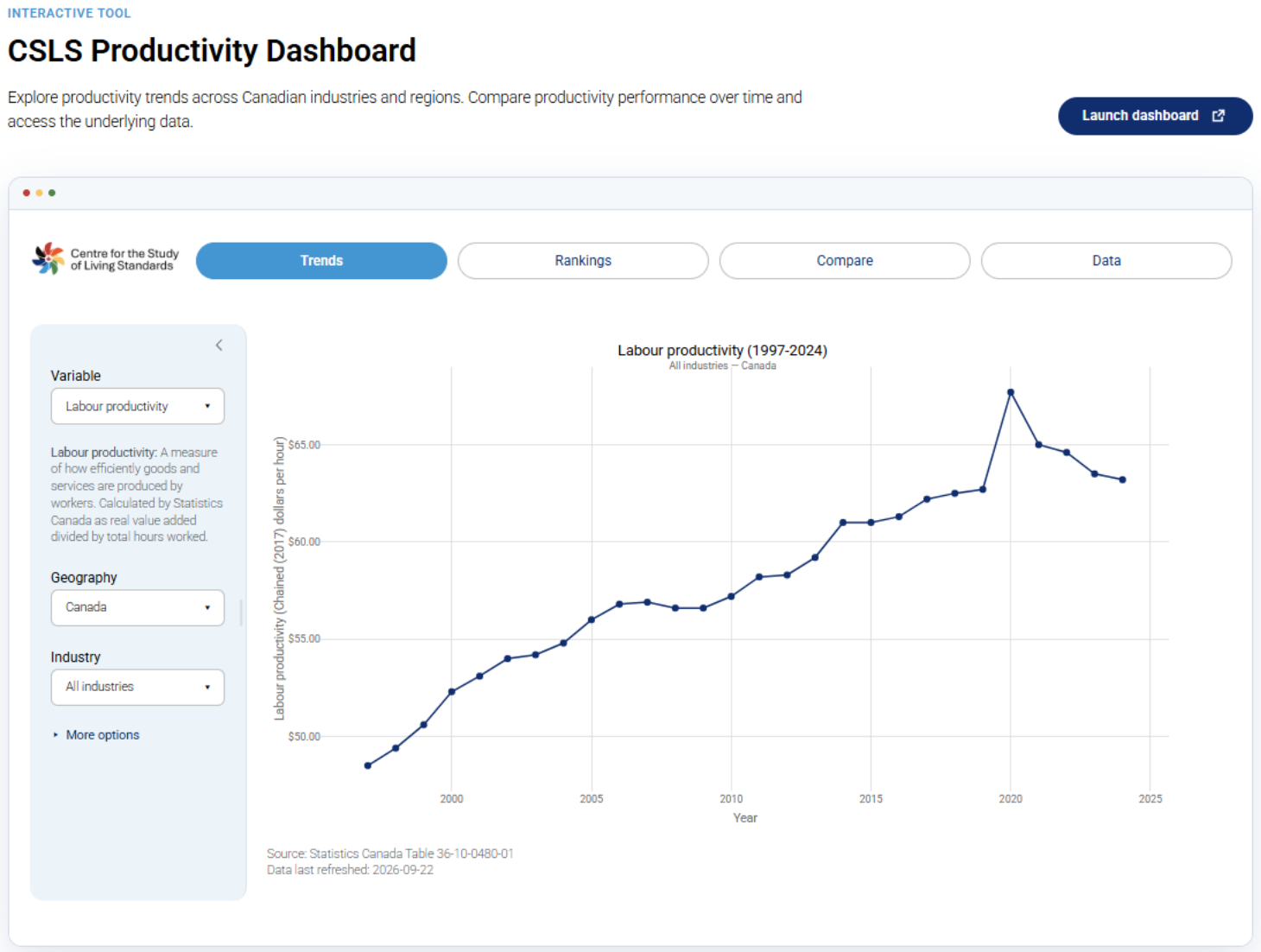
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Data

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irpp.org/diversifying-canada-trade

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