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The growing GOVERNMENT GAP

Rising costs, shrinking returns, and the productivity crisis in the public sector

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TRUE NORTH IN CANADIAN PUBLIC POLICY

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We commonly measure how much governments spend and how many people they employ but we rarely weigh the benefits taxpayers receive in return for their hard-earned dollars. This report introduces a basic framework and lays the groundwork for new indexes that will track the size and performance of governments in Canada over time, focusing on federal and provincial activities.

It finds that:

- **In the past decade, government employment has grown faster than in the private sector, with growth that has been remarkably broad-based.** Since 2015, public sector employment rose 30 per cent, compared with 18 per cent in the private sector. The federal government is leading the jobs boom, adding more than 110,000 employees in the past decade, representing average annual job growth of 4.1 per cent. Over the past decade, government employment growth has outpaced business-sector job growth in 88 per cent of government subsectors, 8 of 10 provinces, and 78 per cent of federal government organizations.
- **Government spending and taxation also increased.** Fiscal data backs up these employment trends. Adjusting for inflation and population growth, government spending and revenues both rose by over $3,000 per year, per capita, between 2015 and 2023. All 10 provinces, along with the federal government, reported increases in both revenue and expenses per capita.
- **Government workers were less productive, on average, than business-sector employees.** Since 2015, labour productivity in the government sector fell by 0.3 per cent annually, while productivity in the business sector rose by 0.5 per cent annually. As a result, the government sector went from having a slight productivity advantage in 2015 to a 4 per cent disadvantage by 2024. Further, government workers earned significantly more than private sector employees, despite working fewer hours. Indeed, government workers earned a 27 per cent premium per hour in 2024 over the private sector.

- **Weak government productivity hurts the broader economy as well as workers' compensation.** In fact, if government productivity had matched that of the business sector, Canada's GDP in 2024 would have been $32 billion (or 1.5 per cent) higher.

These findings have real consequences for fiscal policy, the quality of government services, and Canadians' long-term living standards. Citizens can't hold politicians accountable – or push for better outcomes – if they don't understand what governments do, what it costs, and what they're getting in return.

Improving government sector productivity is an important part of broader efforts to improve Canada's struggling economic performance. Closing the productivity gap between the public and private sectors has the potential to yield tens of billions of dollars in annual economic gains, while improving public trust in government performance. **MLI**

S'il est courant de calculer *les dépenses des gouvernements et le nombre de personnes à leur emploi, il est plus rare de soupeser les bénéfices que reçoivent les contribuables en contrepartie de leur argent durement gagné. Le présent rapport présente un cadre de base et jette les fondements de nouveaux indices visant à documenter la taille et le rendement des gouvernements au Canada au fil du temps, notamment en ce qui concerne les activités fédérales et provinciales.*

Il révèle les faits que voici :

- ***Au cours de la dernière décennie, l'emploi gouvernemental a présenté une croissance plus rapide que l'emploi privé et, par ailleurs, remarquablement diversifiée.*** *Depuis 2015, les progressions se sont chiffrées à 30 % pour l'emploi gouvernemental et à 18 % pour l'emploi privé. Le gouvernement fédéral a mené le bal, en ajoutant plus de 110 000 nouveaux fonctionnaires, ce qui représente une croissance annuelle moyenne de 4,1 %. La croissance a été supérieure à celle du privé dans 88 % des sous-secteurs gouvernementaux, 8 des 10 provinces et 78 % des organismes fédéraux.*
- ***Les dépenses publiques et la taxation se sont également alourdies, et les données financières viennent corroborer ces tendances de l'emploi.*** *Après ajustement pour tenir compte de l'inflation et de la croissance démographique, les dépenses et les recettes publiques par habitant ont toutes les deux augmenté de plus de 3 000 dollars par an entre 2015 et 2023. Elles ont augmenté tant dans chacune des dix provinces qu'au palier fédéral.*
- ***Les employés de l'État étaient moins productifs, en moyenne, que ceux du secteur privé.*** *Depuis 2015, la productivité du travail dans le secteur public a diminué annuellement de 0,3 %, tandis que celle du secteur privé s'est*

accrue de 0,5 %. Sur ce plan, le secteur public est donc passé d'une situation légèrement avantageuse en 2015 à un déficit de 4 % en 2024. En outre, malgré un nombre d'heures de travail inférieur, les rémunérations versées étaient nettement supérieures, les employés de l'État gagnant 27 % de plus par heure que les employés du secteur privé en 2024.

- ***La faible productivité du secteur public nuit à l'économie dans son ensemble ainsi qu'à la rémunération des travailleurs.*** *En fait, si la productivité du secteur public avait été équivalente à celle du secteur privé, le PIB du Canada en 2024 aurait été supérieur de 32 milliards de dollars (ce qui représente une augmentation de 1,5 %).*

Ces résultats ont des effets concrets sur la politique budgétaire, la qualité des services publics et le niveau de vie à long terme des Canadiennes et Canadiens. La population ne peut demander de comptes aux responsables politiques – ou exiger une amélioration des résultats – que dans la mesure où elle comprend ce que font les gouvernements, ce que ces derniers lui coûtent et les bénéfices qu'elle reçoit.

L'amélioration de la productivité du secteur public est un aspect essentiel du vaste plan destiné à redresser les résultats économiques du Canada. Combler l'écart de productivité entre les secteurs public et privé pourrait rapporter des dizaines de milliards de dollars annuellement et renforcer parallèlement la confiance du public à l'égard des gouvernements. **MLI**

Context and motivations

> Unlocking productivity in the public sector is a complex but essential task.
>
> – Michael Wernick,
> former clerk of the Privy Council, 2024

While it is common to measure how much governments spend and how many people they employ, we need to have a better idea about what taxpayers receive in return. This report is the first in a series that will develop a conceptual framework and new quantitative indexes to measure the size and productivity of the government sector in Canada over time; the reports will focus on the activities of both the federal and provincial governments.

The findings matter for fiscal policy, government service delivery, and long-term living standards. A better understanding of the specific services that governments deliver and the resources they use to do so is essential for accountability and to guide reforms.

The government sector has a major direct impact on the economy because it accounts for a significant share of overall activity – it employs more than 1 in 5 workers in Canada and government expenditures total over 40 per cent of Gross Domestic Product (GDP). Over the past two decades, the scale of government activity has expanded notably: government employment rose from 18.6 per cent of total employment in 2000 to 20.7 per cent in 2024 (Statistics Canada 2024a), while government spending as a share of GDP increased from 37.4 per cent in 2007 to 41.7 per cent in 2023 (Statistics Canada 2024b). It is therefore an opportune time to revisit this topic; over the past decade analysts and the general public have expressed increasing concerns about the expansion of the size of the government sector in Canada, as well as the perceived reduction in

its operational efficiency (for example, see Sargent and Egan 2025; Fuss et al. 2024; and Munro and Fuss 2025).

At the same time, rapid technological advances are reshaping citizens' expectations of government services. Canadians increasingly compare the speed and customization of services provided by companies such as Amazon or Netflix with slow, inefficient government processes. Some governments have begun piloting artificial intelligence to modernize service delivery, but these transformations are at very early stages.[1] Technological developments do offer some promise to address the challenging fiscal situation. With elevated government debt levels and consumers facing affordability challenges following the pandemic, citizens and governments alike want to improve government service delivery without necessarily raising taxes or increasing spending. This ultimately requires improving government sector productivity.

> *Canada's economic performance has been remarkably weak over the past decade.*

Discussions about the productivity of government operations are, of course, just one element of the larger economy-wide "productivity emergency" that the Bank of Canada (Rogers 2024) has identified. Canada's economic performance has been remarkably weak over the past decade with real GDP per capita essentially stagnating and business investment per worker falling.

Governments are increasingly aware of these critical issues and are attempting to address them. In August 2024, the federal government launched a working group to look at public sector productivity (Canada 2025). In May 2025, the newly elected federal government – as outlined in Prime Minister Mark Carney's mandate letter – stated that "government itself must become much more productive" and that it intends to "spend less on government operations so that Canadians can invest more in the people and businesses" (Office of the Prime Minister 2025). Indeed, in July 2025, media reports revealed that the federal government was launching a comprehensive expenditure review to identify ways in which it could significantly reduce program spending

by up to 15 per cent in the 2028–29 fiscal year. Over the summer, ministers were "expected to bring forward ambitious savings proposals to spend less on the day-to-day running of government" (Curry 2025). South of the border, the Department of Government Efficiency (DOGE) imposed much more abrupt and dramatic spending cuts across several US departments.

Given this complex backdrop, this first report in the series lays the foundation for the future studies by reviewing some essential evidence. We start by presenting a straightforward conceptual approach for analyzing government activities. We then review some relevant theories of government and discuss the well-known challenges of measuring government output and hence government productivity. Next, we dig into the data to investigate whether Canada's government sector has, in fact, grown over the past decade, and whether the efficiency of government operations has declined. We conclude by providing a roadmap for subsequent reports in this series, which will develop new indexes to quantify and compare the size and productivity of the government sector in Canada and across the provinces.

Among the key findings, this report shows that:

- **The size of government is expanding:** Based on several different metrics, the government sector has grown over the past decade. For example, employment in the government sector grew faster than in the private sector (30 per cent versus 18 per cent), accounting for an increasing share of overall jobs. This was led by growing employment in the federal government (up by more than 110,000 jobs in the last decade) and health services, defined as health care in the government sector. Looking beyond direct employment, over this same period both government spending and taxes increased by more than $3,000 per capita (after accounting for inflation and population growth). This took place across the country, with increases in every province.
- **Government productivity is declining:** Given the measurement challenges, available Statistics Canada productivity indicators come with caveats. Nonetheless, these estimates suggest that labour productivity in the government sector has significantly lagged that of the overall business sector over the past decade. Over this period, the output per hour worked in the business sector rose by 0.5 per cent annually but *fell* by 0.3 per cent annually in the government sector.

As a result of this divergent performance, after starting the period with a lead, the level of labour productivity in the government sector is now more than 4 per cent below that in the business sector. The economic implications of this differential performance are noteworthy. A simple back-of-the-envelope calculation indicates that Canada's GDP would have been $32 billion (1.5 per cent) higher at the end of the period had government sector productivity grown at the same rate as business sector productivity from 2015 to 2024.

Conceptual framework for government activities

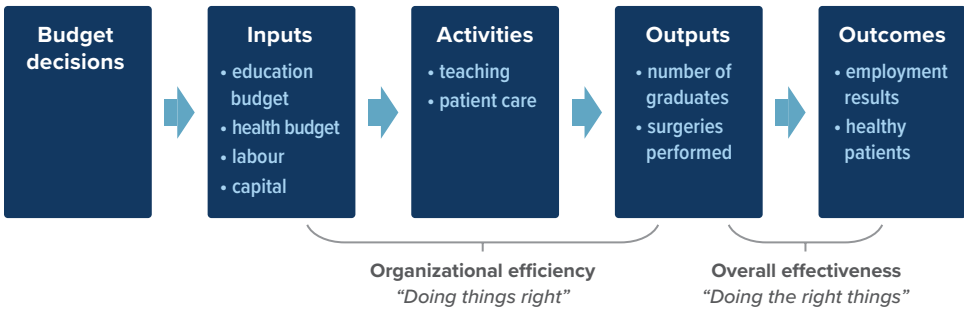
Before turning to measurement and data, this section provides a general framework for understanding public service delivery. It explains why government services can become more expensive over time relative to other sectors, why political incentives can cause governments to expand, why size metrics are important for accountability, and why productivity in this area is so difficult to measure. Appendix A details the scope of what constitutes Canada's government sector – and the broader public sector.

Understanding the value chain of government service delivery

Governments develop their budgets by making decisions: how much will they tax and spend, and how will they allocate resources to various government departments and agencies? (See the left side of Figure 1). Departments then use these resources as their inputs and from there determine what activities to undertake – such as which and how many staff to hire and pay, and what money they can spend on numerous program activities, which varies depending on the setting. In the education sector, the budget is used to pay teachers, build schools, and design curricula. In the health care sector, this money is allocated to run hospitals, purchase diagnostic equipment, and pay doctors and nurses.

Economists' typical conception of productivity passes over intermediate activities to focus on the relationship between the "outputs" produced

FIGURE 1: Illustrative value chain of government sector service delivery



Source: Adapted from van Ark (2022).

compared with the "inputs" used in production. This approach is much clearer in the business sector, where consumers typically pay market prices for relatively standardized units, whereas in many government domains there are no clear price signals and outputs are much harder to quantify (the sub-section "Government sector measurement challenges" discusses this further).

In the public sector, conventional approaches can frame "inputs versus outputs" discussions as organizational efficiency, and ask whether the government is "doing things right" by efficiently turning its inputs into outputs (Drucker 1967; Moore 1995). In the education example, for instance, outputs could be the number of graduates. In health care, it might be the number of surgeries performed. Various internal processes, rules, and regulations may collectively help or hurt a government's ability to generate tangible outputs.

Moving further along the government value chain, we go from outputs (i.e., tangible things that can be counted) to outcomes (i.e., results that may be much harder to measure, and may carry forward well into the future, but generally matter more to citizens than more outputs). Again, in our education example, this could involve analyzing the employment outcome of graduates. For health care, it could involve assessing overall patient health.

Here we should acknowledge that outputs are one factor among many that influence outcomes; context also matters. The education system may develop highly capable and motivated students who are eager to work, but if the macroeconomy falls into recession in the year that students graduate, their labour market outcomes will suffer. Similarly, a hospital can flawlessly perform

an operation, but if the patient subsequently fails to make healthy lifestyle choices, their recovery may be compromised.

At this last stage of the value chain, bigger picture government leadership questions can be raised about "overall effectiveness" and whether government is in fact "doing the right things." This simple framework enables us to raise the following important questions: Are the outputs produced effective in generating the ultimate outcomes that the government is seeking? Is a particular government organization meeting its stated mandate? Do its activities address clear market failures? Do its programs complement or substitute for other programs with similar policy goals? And finally, is the government engaging in activities for which the private sector is better suited?

Key theories of government

Academics and government practitioners have written extensively on this topic. For the purposes of this report, we narrow our focus to three fundamental theories and foundational insights that help to understand and analyze the size and efficiency of governments.

Baumol's "cost disease" helps explain rising costs in labour-intensive services

Well over half a century ago, William Baumol (1967) proposed so-called "cost disease" as an explanation for why wages, and in turn costs, in labour-intensive service sectors (such as performing arts, health care, and education) might tend to rise over time even if productivity gains are slow or non-existent in these sectors, while productivity rises faster in goods-producing sectors (which are more capital-intensive and can take better advantage of economies of scale in production).

When productivity in goods-producing sectors grows faster than in labour-intensive sectors, the increased output per hour worked allows these sectors to have higher profits and higher wages. Competition for workers across the economy indirectly bids up wages in the less productive service sectors because service workers' "outside options" are improved – they could receive higher wages if they were to move into the more productive goods sectors. The result is higher per unit production costs for services, which generally become more expensive relative to goods over time.

Since the Bank of Canada started targeting inflation in 1991, the overall consumer price index (CPI) has grown by the Bank's average annual target rate of 2.0 per cent. Consistent with Baumol's cost disease theory, inflation for the overall basket of consumer services has been consistently higher than for goods. Services inflation averaged 2.5 per cent annually versus only 1.6 per cent for goods (based on calculations using Statistics Canada 2025a, table 18-10-0005-01).

This helps explain why many government services, especially health and education, can become relatively more expensive over time relative to other parts of the economy.

Public Choice Theory describes the political incentives that encourage government expansion

Scholars James Buchanan and Gordon Tullock (1962) analyzed political processes and how they were affected by competing interests. In such a system, each actor may rationally respond based on their individual incentives in ways that are not necessarily aligned to the broader public good. For instance, politicians may focus too narrowly on their re-election, senior bureaucrats may be overly concerned with expanding their own departmental budgets and influence, and voters may not follow ongoing political developments closely. Each new government program can create vested interests that will lobby for further resources and oppose cuts.

The upshot is that governments can tend to grow larger over time because the collective incentives in the political system are much stronger for developing and announcing new programs than for ending or consolidating existing ones. These political incentives help explain why governments tend to expand and why clear size metrics are vital for accountability.

New public management can improve the efficiency of government program delivery

A literature called "new public management" emerged in the 1980s and 1990s. It emphasized that the key to improving government efficiency was to adopt private-sector approaches, such as decentralizing activities and enforcing performance-based accountability metrics (Hood 1991; Pollitt 1990; Osborne and Gaebler 1992; Pollitt and Bouckaert 2000). In Canada, governments have also been inspired by UK government approaches over

the years, including "deliverology" (Curran 2016) and, more recently, the "mission government" approach (May 2025). In one form or another, these approaches attempt to align a number of activities including incentives to work more efficiently, collaborate across departments, and combat risk-averse public sector cultures.

These insights support our index design approach by emphasizing the need for measurable outputs and performance benchmarks to improve efficiency.

Government sector measurement challenges

In the private sector, a strong profit motive generally helps guide business operations: market prices and revenues can provide a straightforward way to value outputs which, in turn, can be adjusted for price or quality changes using various agreed-upon statistical approaches.

In the public sector, the profit motive does not drive activities. Government "output" is rarely sold at significant prices that users pay directly; it may instead be provided free of charge or heavily subsidized and may be designed to address equal access considerations. The general absence of market prices makes it difficult to assign value to the outputs the public sector produces. And when activities are difficult to compare (such as instructing students and performing surgeries), without revenues it is hard to aggregate their value across activities. Sometimes national accountants attempt to do so by simply weighing underlying activities by their costs, which are often proxied by direct payments to labour.

More fundamentally, for many public administration activities, government "outputs" essentially amount to providing information (e.g., producing official statistics, developing public policy advice, generating forecasts, etc.), where quality and timeliness are essential attributes but are difficult to quantify (Wernick 2024).

A traditional approach has been to assume that government outputs grow at the same rate as government inputs. This makes measurement straightforward to implement but is unsatisfactory because it implicitly assumes that the government does not experience productivity changes (positive or negative).

Many statisticians have tried to address these challenges. The UK is a leader in the effort to improve the measurement of public sector productivity.

Two decades ago, a foundational report (Atkinson 2005) pushed for improvements with more direct measures of public sector outputs and adjustments for quality changes in the key areas of health and education. These efforts were later expanded to criminal justice and social care (Bean 2016) and, more recently, were recommended for a wider variety of government activities (Office for National Statistics [UK] 2025).

Statistics Canada's approach does not appear to make significant quality adjustments in the productivity statistics for government activities, although it reportedly does make adjustments for multifactor productivity estimates. One notable exception is its dedicated research to better measure output and account for quality changes in Canada's education sector (Gu and Wong, 2015).

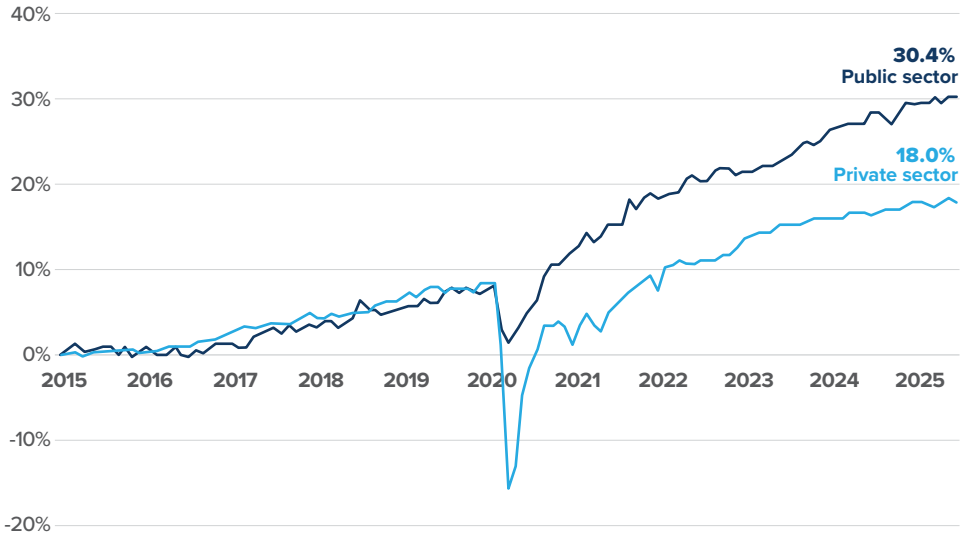
Assessing the growth in Canada's government sector

This section examines recent increases in the size of Canada's government sector, focusing on employment, spending, and taxation. The evidence clearly shows that government employment and fiscal activity have been expanding over the past decade, with increases occurring both federally and in all provinces.

Employment

From 2015 until the onset of the COVID pandemic in 2020, public and private sector employment in Canada grew at a similar rate (Figure 2). A sharp divergence occurred during the pandemic: public sector jobs were much more insulated during the 2020–2021 lockdowns while private sector jobs dropped precipitously. Since then, there has been a significant gap between public sector employment (where job counts increased by 30.4 per cent from January 2015 to July 2025) and the private sector (where employment grew by 18.0 per cent).[2] The CD Howe Institute (2024) similarly highlights that public sector job gains have accounted for a disproportionate share of total employment growth in Canada since the pandemic. The trend is not limited

FIGURE 2: Employment growth in the public and private sectors, cumulative change (%) from January 2015 to July 2025



Source: Statistics Canada (2025b), Table 14-10-0288-01.

to the pandemic: in earlier work, scholars Whalen and Globerman (2020) also found that the government sector was responsible for an increasing share of total employment from 2007 to 2018.

Analyzing the various government categories in more detail shows that this public-private sector employment growth gap is broadly-based (Table 1). From 2015 to 2024, government sector employment growth exceeded that of the overall business sector (at 2.4 per cent annually versus 1.4 per cent) in 14 of 16 government subsectors. Only employment in federal defence services (at 0.6 per cent annually) and universities (1.3 per cent) grew more slowly than the business sector.

The fastest growing segments were federal government services (excluding defense), with 3.7 per cent annual growth, followed by government health services (2.8 per cent annual growth, with rapid employment growth in hospitals and in nursing and residential care facilities). Employment growth was also surprisingly robust in the educational services subcomponent of elementary and secondary schools (2.9 per cent). These patterns reflect structural factors, such as population aging and rising demand for health care, as well as policy choices to expand certain areas of federal administration.

TABLE 1: Employment growth within the main government sectors, 2015–2024, per cent change

Sectors	Total employment growth, 2015–2024	Average annual employment growth, 2015–2024
ALL INDUSTRIES	**15.4%**	**1.6%**
Business sector industries	**13.1%**	**1.4%**
Government sector	**23.6%**	**2.4%**
Government educational services	***22.3%***	***2.3%***
• Elementary and secondary schools	28.8%	2.9%
• Community colleges and C.E.G.E.P.s	13.4%	1.4%
• Universities	12.0%	1.3%
Other educational services	***22.4%***	***2.3%***
Government health services	***28.2%***	***2.8%***
• Hospitals	28.9%	2.9%
• Nursing and residential care facilities	26.2%	2.6%
Federal government services	***28.5%***	***2.8%***
• Federal government services (excluding defence)	38.4%	3.7%
• Defence services	5.3%	0.6%
Provincial and territorial government services	***22.5%***	***2.3%***
Local, municipal and Indigenous government services	***14.8%***	***1.5%***
• Municipal government services	13.7%	1.4%
• Indigenous government services	21.7%	2.2%

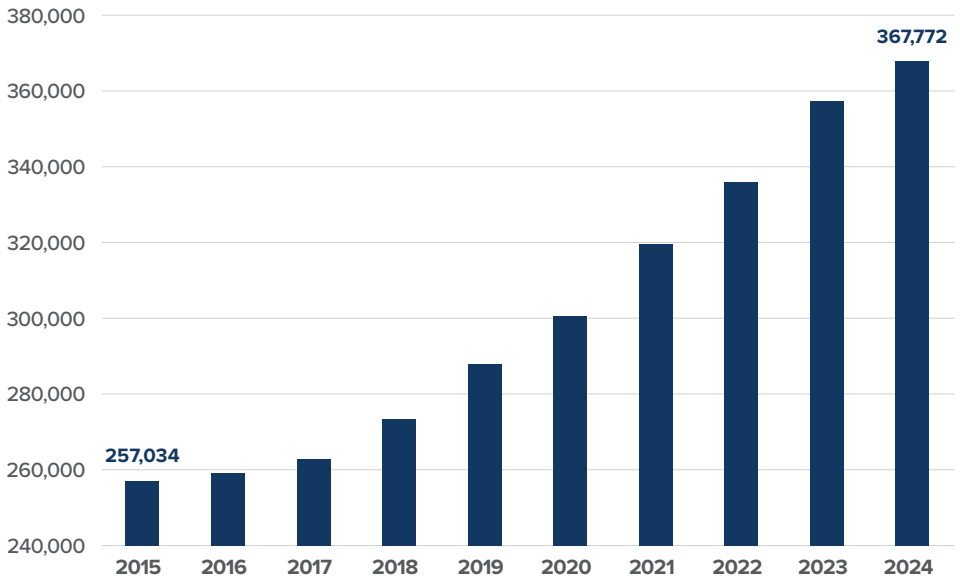
Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

Federal government employment

The Treasury Board Secretariat has more detailed data showing the extent to which the federal government led the expansion in government sector employment growth. The Treasury Board Secretariat data show that the size of the overall federal public service increased from 257,034 employees in 2015 to 367,772 in 2024 (Figure 3). This 110,738 employee increase corresponds to an average annual growth rate of 4.1 per cent over this period, slightly higher than the 3.7 per cent growth rate reported in the Statistics Canada data.

The Canada Revenue Agency had the largest increase in the number of employees. The agency added 19,096 employees for a 4.4 per cent annual growth rate. Other fast-growing departments included Employment and Social Development Canada (17,382 added employees for a 6.8 per cent annual growth rate), Indigenous Services Canada (8,637 new employees),[3] Public Services and Procurement Canada (6,869 employees; a 5.1 per cent annual growth rate) and

FIGURE 3: Federal public service employment, 2015–2024



Source: Treasury Board Secretariat.

TABLE 2: Employment growth in the government and business sectors, by province, 2015–2024, average annual change (in per cent)

	Government sector	Business sector	Difference
CANADA	**2.4%**	**1.4%**	**1.0%**
Newfoundland and Labrador	1.4%	-0.4%	1.8%
Prince Edward Island	2.4%	3.0%	-0.6%
Nova Scotia	1.6%	2.0%	-0.4%
New Brunswick	2.0%	1.4%	0.6%
Quebec	2.7%	0.9%	1.8%
Ontario	2.3%	1.7%	0.6%
Manitoba	1.8%	1.4%	0.4%
Saskatchewan	1.7%	0.4%	1.2%
Alberta	2.2%	0.7%	1.5%
British Columbia	3.3%	2.1%	1.2%

Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

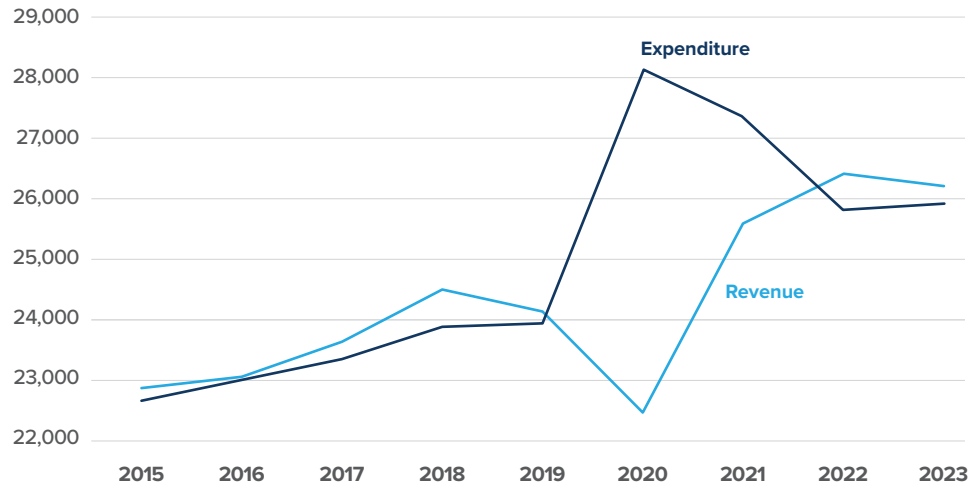
Immigration, Refugees and Citizenship Canada (6,707 employees; an 8.3 per cent annual growth rate).

It is important to emphasize that the growth in government employment was not merely driven by a few large federal departments getting larger. Instead, the pattern of expanding employment was broad-based and crossed many departments. Of the 98 entities in the Treasury Board Secretariat data, 59 of 75 departments (79 per cent) that form part of the "core public service" experienced faster employment growth than the overall business sector. The pattern was similar among government entities that operate as separate agencies, where 17 of 23 (74 per cent) grew faster than the business sector over this period.[4]

Government employment, by province

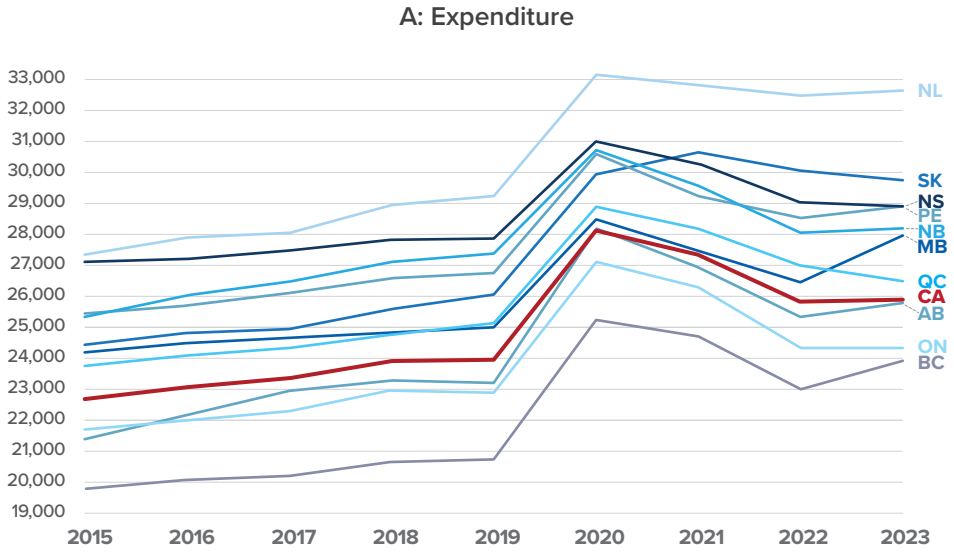
Table 2 reports the employment patterns in each province from 2015 to 2024. In 8 of 10 provinces employment grew faster in the government than the business sector. The only exceptions are Prince Edward Island and Nova Scotia, where the differential results relate more to the strength of business sector employment over this period. The divergence in the growth in government employment and business sector employment is greatest in Newfoundland and Labrador and Quebec.

FIGURE 4: General government revenue and expenditure per capita, per annum, 2015–2023, chained 2017 dollars

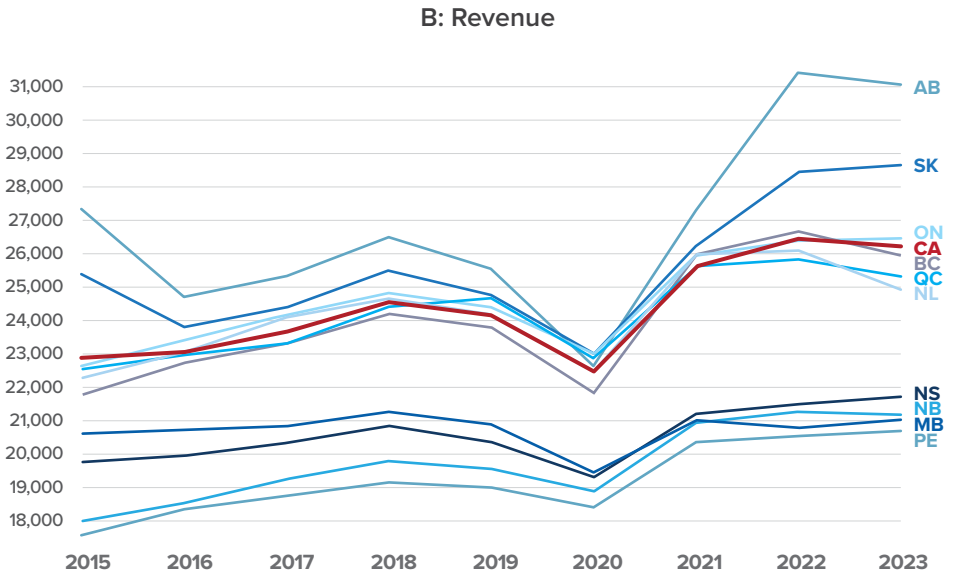


Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0450-01; (2024c), Table 36-10-0223-01; and (2025d), 17-10-0009-01.

FIGURE 5: Government revenue and expenditure per capita by Canada and provinces, 2015–2023, chained 2017 dollars



	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2015	22,686	27,374	25,460	27,097	25,390	23,755	21,708	24,202	24,456	21,402	19,769
2023	25,932	32,662	28,907	28,907	28,220	26,520	24,329	27,986	29,765	25,786	23,923



	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2015	22, 864	22,277	17,565	19,756	18,009	22,542	22,624	20,623	25,365	27,328	21,776
2023	26,231	24,930	20,681	21,724	21,182	25,280	26,456	21,037	28,626	31,057	25,935

Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2024d), Table 36-10-0450-01; (2024c), Table 36-10-0223-01; and (2025d), Table 17-10-0009-01.

Government spending and taxation

Fiscal data reinforce the picture of government expansion revealed in the employment trends.[5] As Figure 4 shows, real per capita government spending and revenues both increased by more than $3,000 per year between 2015 and 2023, rising from roughly $23,000 to $26,000 after adjusting for inflation and population growth. When expressed relative to the size of the overall economy, these shares climbed by two percentage points (from 40 per cent in 2015 to 42 per cent in 2023).

The growth in government was geographically broad-based; the increases in both real per capita government spending and taxation occurred in all 10 provinces (Figure 5). On the spending side, current per capita levels show that government sector spending was consistently highest in Newfoundland and Labrador and least in British Columbia and Ontario. Further, the changes in spending over the period were greatest in Newfoundland and Labrador ($5,288 increase per capita), outpaced only by Saskatchewan ($5,310).

On the revenue side, Alberta contributes the most to government coffers, followed by Saskatchewan (both mainly as a result of resource revenues), while the Maritime provinces and Manitoba contribute the least. These differences reflect variations in provincial fiscal capacity, the economic structure of each, demographic pressures, and policy priorities.

Employment numbers and fiscal data both show that Canada's government sector has been expanding since 2015. Employment increases have been broad-based across government departments, though growth has been particularly rapid in federal government services and health care (which is largely, but not exclusively, a provincial responsibility). Spending and revenues have risen across all provinces, with notable variations. These trends set the stage for the next section, which examines whether this growth was accompanied by any notable changes in the government sector's productivity over this period.

> *Canada's government sector has been expanding since 2015. Growth has been particularly rapid in federal government services and health care.*

Measuring government productivity

This section starts by looking at Canada's overall productivity challenge before focusing on the relative performance of the government sector over the past decade.

Canada's productivity challenge

Canada's productivity challenge has been a key focus of the business press and featured prominently in the 2025 federal election campaign. The concerns stem from the country's disappointing economic performance over the past decade – a period that began with a sharp drop in global oil prices from mid-2014 to early 2016. The resulting collapse in investment in Canada's energy sector created a significant drag on the economy even as trade protectionism and policy uncertainty rose (largely due to actions under the Trump presidencies). Unfortunately, no other sectors were able to fill the gap.

The outcome has been a prolonged period of weak business investment. Canada's real GDP per capita – a key metric that has received significant media attention – was essentially stagnant over the past decade, rising by only 0.2 per cent per year on average from the first quarter of 2015 to the first quarter of 2025 (Figure 6). This was less than one-third the pace of the previous decade (0.7 per cent average annual growth).[6]

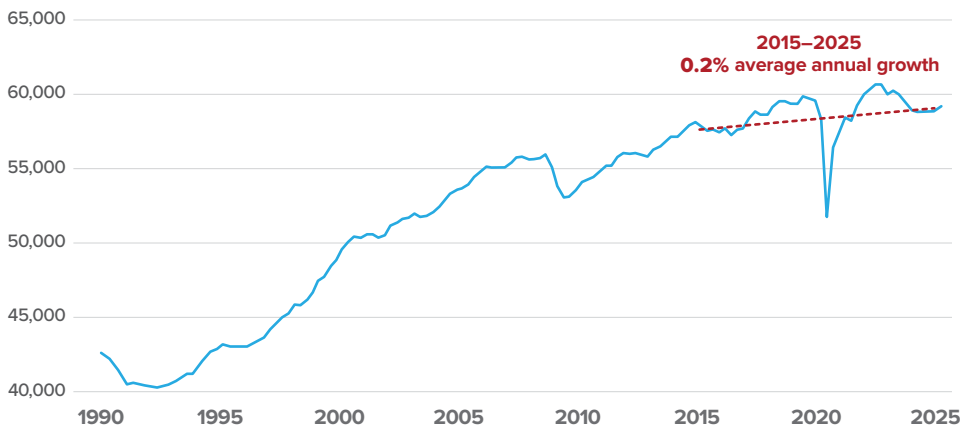
Government productivity

We noted that measuring productivity in the government sector presents unique challenges given the lack of market prices for most outputs. Nevertheless, the paper would benefit from insights into this important issue, so we developed the following analysis using Statistics Canada's official productivity estimates.

Productivity levels

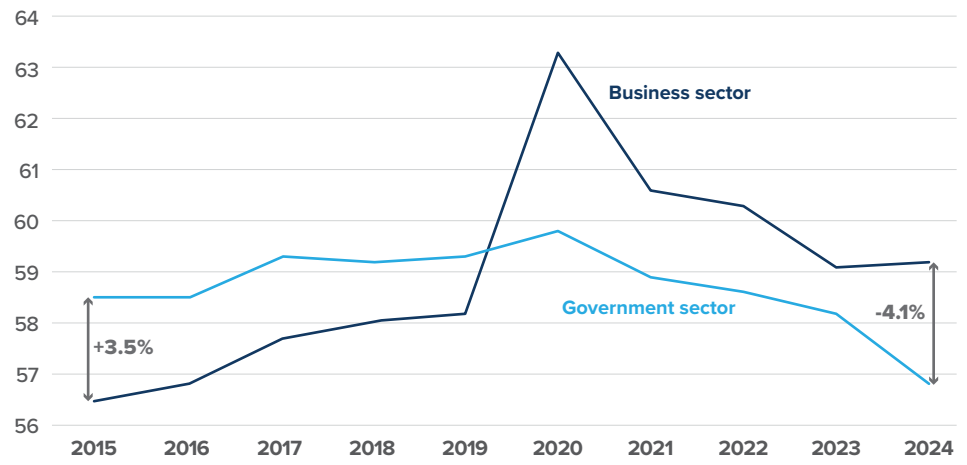
The key headline measure of labour productivity is real output per hour worked. As the Bank of Canada's Senior Deputy Governor Carolyn Rogers recently said, "Increasing productivity means finding ways for people to create more value during the time they're at work. This is a goal to aim for, not something to fear" (Rogers 2024).

FIGURE 6: Canada's real gross domestic product per capita, 1990–2024, chained 2017 dollars



Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025e), Table 36-10-0706-01

FIGURE 7: Labour productivity, 2015–2023, chained 2017 dollars



Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

Figure 7 shows that in 2015, official measures showed that the government sector was slightly (3.5 per cent) more productive than the business sector. By 2024, however, the government sector's labour productivity was 4.1 per cent lower than in the business sector (at $56.80 in output per hour worked vs. $59.20, respectively, in chained 2017 dollars).

Note that the substantial increase in business sector productivity in 2020 partly reflects compositional impacts, as pandemic restrictions hit several lower-productivity sectors (such as accommodation and food services) hardest, which provided a temporary lift to business sector productivity.

If instead of the typical output *per hour worked*, we use output *per worker*, the productivity gap widens significantly to 11.6 per cent in 2024, reflecting the longer average annual hours worked in the business sector.

Table 3 reports more details on 2024 labour productivity levels (expressed as share of the overall business sector) and average annual productivity growth rates from 2015 to 2024. This shows that government subsectors like nursing ($31.00 of real output per hour worked) and Indigenous government services ($34.50 of output per hour) are well below (slightly more than half of) the business sector benchmark on this measure, while the federal government ($80.70 of output per hour) and provincial/territorial government administrations ($81.40) have real outputs per hour worked that are more than 35 per cent above the business sector average.

Productivity growth trends

The last column of Table 3 shows average annual productivity growth from 2015 to 2024. The main takeaway is that estimates of overall labour productivity fell by 0.3 per cent annually in the government sector, while productivity in the business sector grew by 0.5 per cent per year.

Figure 8 shows that productivity in several of the initially lagging sectors (Indigenous government and nursing) grew faster than the economy-wide average, showing signs of "catching up." Conversely, measured productivity growth dropped in several government subsectors that began the period with above-average productivity levels, such as federal and provincial territorial government administration.

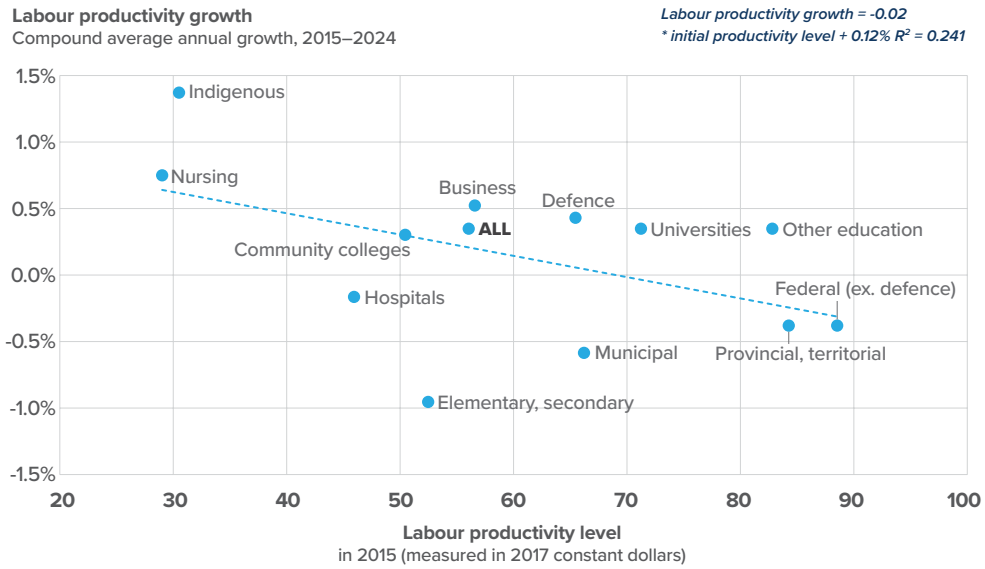
To put these data points into perspective, a simple counterfactual exercise illustrates the potentially large economic benefits of improving government productivity. Canada's GDP would have been $32 billion (1.5 per cent) higher if government sector labour productivity had matched the business sector's growth from 2015 to 2024.

TABLE 3: Labour productivity statistics, by sector

Sectors	Real output per hour worked, 2024 (2017 chained dollars)	Labour productivity, relative to the business sector, 2024 (per cent)	Average annual labour productivity growth, 2015–2024, (per cent)
ALL INDUSTRIES	**57.90**	**97.8%**	**0.4%**
Business sector industries	**59.20**	**100.0%**	**0.5%**
Government sector	**56.80**	**95.9%**	**-0.3%**
Government educational services	***55.30***	***93.4%***	***-0.5%***
• Elementary and secondary schools	48.10	81.3%	-1.0%
• Community colleges and C.E.G.E.P.s	51.80	87.5%	0.3%
• Universities	73.60	124.3%	0.4%
Other educational services	***85.40***	***144.3%***	***0.3%***
Government health services	***41.90***	***70.8%***	***-0.0%***
• Hospitals	45.30	76.5%	-0.2%
• Nursing and residential care facilities	31.00	52.4%	0.7%
Federal government services	***80.70***	***136.3%***	***-0.0%***
• Federal government services (excluding defence)	85.40	144.3%	-0.4%
• Defence services	68.00	114.9%	0.4%
Provincial and territorial government services	***81.40***	***137.5%***	***-0.4%***
Local, municipal and Indigenous government services	***58.30***	***98.5%***	***-0.5%***
• Municipal government services	62.70	105.9%	-0.6%
• Indigenous government services	34.50	58.3%	1.4%

Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

FIGURE 8: Labour productivity grew faster in sectors with lower initial labour productivity levels



Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

Government compensation

Now that we have looked at measures of output per hour worked, Table 4 compares total compensation per hour worked in the government and private sectors. The table shows that despite the government sector having lower productivity growth than the business sector, total compensation per hour worked in government remained well above that of the business sector; government workers earned a 27 per cent premium in 2024. Once again, these differences were broad-based. Only two government subsectors received lower hourly compensation than the business sector: nursing and residential care facilities; and Indigenous government services.

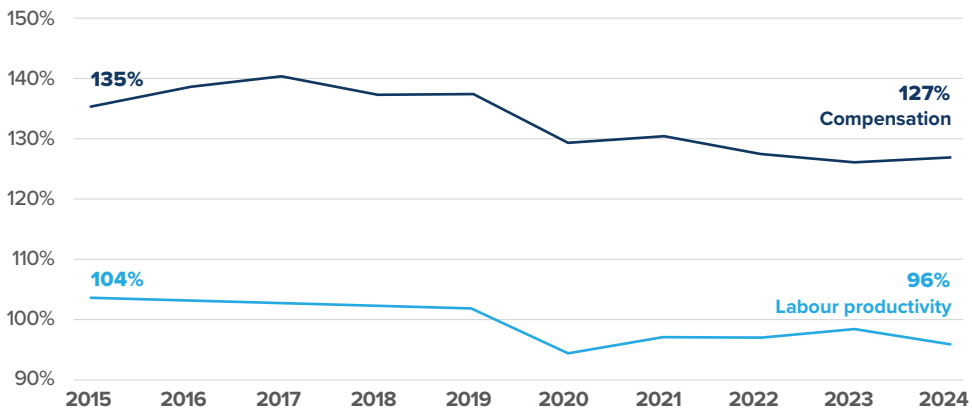
An important caveat is that these simple averages across groups do not control for compositional differences (gender, formal education, years of work experience, unionization coverage, etc.) or differences in job security (which is generally higher in the public sector).

TABLE 4: Total compensation per hour worked, 2024, per cent, relative to the business sector, current dollars

Sectors	Total compensation per hour, 2024	Total compensation per hour, relative to the business sector, 2024	Total compensation growth per hour, 2015–2024
ALL INDUSTRIES	**46.01**	**104.8%**	**3.3%**
Business sector industries	**43.92**	**100.0%**	**3.4%**
Government sector	**55.77**	**127.0%**	**2.7%**
Government educational services	***54.95***	***125.1%***	***2.4%***
• Elementary and secondary schools	56.23	128.0%	2.4%
• Community colleges and C.E.G.E.P.s	52.93	120.5%	2.1%
• Universities	52.23	118.9%	2.5%
Other educational services	***90.22***	***205.4%***	***3.0%***
Government health services	***45.66***	***104.0%***	***2.3%***
• Hospitals	49.27	112.2%	2.2%
• Nursing and residential care facilities	34.20	77.9%	2.7%
Federal government services	***79.26***	***180.5%***	***3.3%***
• Federal government services (excluding defence)	86.77	197.6%	2.8%
• Defence services	59.30	135.0%	3.6%
Provincial and territorial government services	***71.69***	***163.2%***	***2.7%***
Local, municipal and Indigenous government services	***51.48***	***117.2%***	***3.1%***
• Municipal government services	54.35	123.7%	2.9%
• Indigenous government services	35.91	81.9%	5.2%

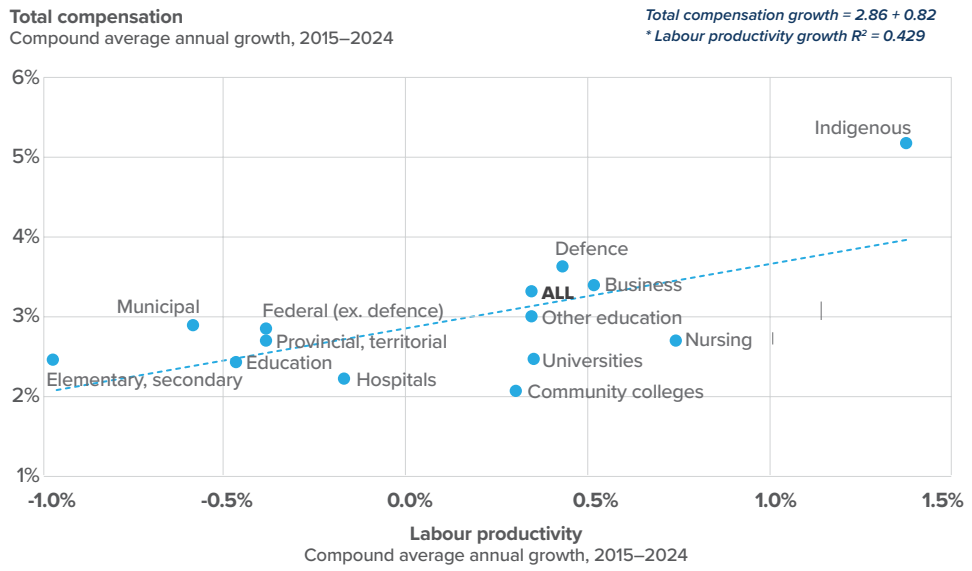
Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

FIGURE 9: Government sector compensation and productivity relative to the business sector in Canada, 2015–2024, per cent of business sector



Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

FIGURE 10: Total compensation growth vs. labour productivity growth, 2015–2024, compound average annual growth rates



Source: Centre for the Study of Living Standards' calculations using Statistics Canada (2025c), Table 36-10-0480-01.

Figure 9 tracks the difference between government and business sector compensation and productivity over the period. In both cases, there is a slight downward drift over time.

Combining the productivity and total compensation results reveals a clear positive relationship over this period and underscores the importance of

improved productivity for the average worker. Specifically, in Figure 10 we see that for government workers, total compensation grew faster, on average, over this period, in government sub-sectors with where labour productivity growth rose more quickly than in other sub-sectors.

It is clear that over the past decade, Canada's government sector has moved from having a slight productivity advantage over the business sector to having a modest disadvantage. Productivity declines in several subsectors that had had higher productivity contributed to this reversal. At the same time, government compensation levels remain higher than in the public sector, on average, and compensation growth tends to follow productivity growth at the subsector level. Our estimates suggest that efforts to improve government sector productivity have the potential to deliver substantial economic gains for the country.

Constructing indexes of the size and productivity of governments in Canada

A future report in this series will bring together a variety of relevant metrics to more systematically measure and compare the size and productivity of governments in Canada. The results will provide transparent, data-driven indexes to help policymakers, the media, and the general public evaluate government performance.

The main government activities that we will examine include the most important, big-ticket spending categories such as health care, education, social services, justice, defence, and public safety, as well as federal and provincial government administration.

The report will feature separate indexes for the size of government and the productivity of government.

Size of Government Index (SGI)

Our Size of Government Index will measure the share of economic resources under direct government control; a higher score on the index equals more government involvement in the economy. It will specifically look at:

- **Employment** (share of the economy): How large is the public sector workforce relative to the overall economy?
- **Compensation** (share of the economy): How much do government employees receive in compensation as a share of the total economy?
- **Value-added** (share of the overall economy): How much measured "output" does the government produce?
- **Government spending and taxation** (total, per capita, and as a share of GDP): How much does the government spend and tax?

Government Productivity Index (GPI)

Our Government Productivity Index will measure

- **Productivity** (output per hour worked, output per worker): How productive is the government sector, measured per hour worked, and per worker, relative to the business sector?

Conclusions

Canada's government sector has grown considerably over the past decade, both in the numbers of people employed and in the amount of revenue it extracts from taxpayers and spends on programs, but its relative productivity has slipped and now lags that of the private sector. These shifts have important consequences for overall fiscal pressures, government service delivery, and longer-term living standards.

Federally, the government has recently launched a comprehensive expenditure review, and provincial governments may implement similar exercises. Expenditure reviews need to be strategic and fundamentally reimagine what is possible in the government sector. They need to recommend a reallocation of resources from low-priority areas to highest priorities, rather than simply resorting to across-the-board reductions to headcounts that may reduce service quality rather than improving outcomes.

The expenditure review is likely to show that the government sector needs to carry out complementary reforms across management, procurement

processes, and workforce skills. On the latter, while ongoing retraining of existing staff is important, so too is targeted recruitment to modernize the talent mix by increasing technological know-how, digital literacy, data proficiency, and analytical skills.

This introductory report has shown that improving government sector productivity is an important part of broader efforts to improve Canada's struggling economic performance.

Canada faces a major productivity challenge, but it also needs to provide high-quality public services while managing fiscal budgets and supporting broader economic growth.

The evidence in this report demonstrates that the government sector has expanded in size but fallen behind in efficiency. Addressing this gap requires not only expenditure reviews, but clear and transparent reforms to modernize public administration, leverage technology, and realign incentives.

Closing the productivity gap between the public and private sectors has the potential to yield tens of billions of dollars in annual economic gains while improving public trust in government performance. This is certainly a very worthwhile Canadian initiative. MLI

About the author

Stephen Tapp is the CEO and chief economist at the Centre for the Study of Living Standards (CSLS). Established in 1995, CSLS is Canada's leading think tank focused on productivity, living standards, and economic well-being.

Tapp was previously the chief economist and SVP of Research, Data, and Analytics at the Canadian Chamber of Commerce. In that role, he successfully launched and managed the Business Data Lab as well as economic analysis and research, and was a key member of the executive leadership team.

Tapp is currently the president of the Canadian Association for Business Economics and a member of the Canadian Statistics Advisory Council. He has 25 years of diverse experience at many of Canada's top economic organizations including at: Export Development Canada as the deputy chief economist, the Bank of Canada, Parliamentary Budget Office, Finance Canada, academia as well as think tanks such as the Institute for Research on Public Policy and the C.D. Howe Institute.

His research was awarded the Purvis prize for Canadian economic policy and has been published in academic journals, including the *Canadian Journal of Economics* and *Canadian Public Policy*.

He has a PhD and MA in Economics from Queen's University and an Honours BA in Economics with Distinction from Western University. MLI

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Endnotes

1 For example, in July 2025 the United Kingdom signed a strategic partnership agreement with OpenAI that included commitments to adopt AI technologies across public services, such as justice, defence, and security as well as education (Heikkilä 2025). In August, Canada's federal government signed a memorandum of understanding with the AI start-up Cohere to integrate AI into the public service (Castaldo 2025).

2 In Statistics Canada's *Labour Force Survey*, the public sector includes those who work for a local, provincial, or federal government, for a government service or agency, a Crown corporation, or a government funded establishment such as a school (including universities) or hospital. The private sector includes those who work as employees of a private firm or business. Also see Appendix A.

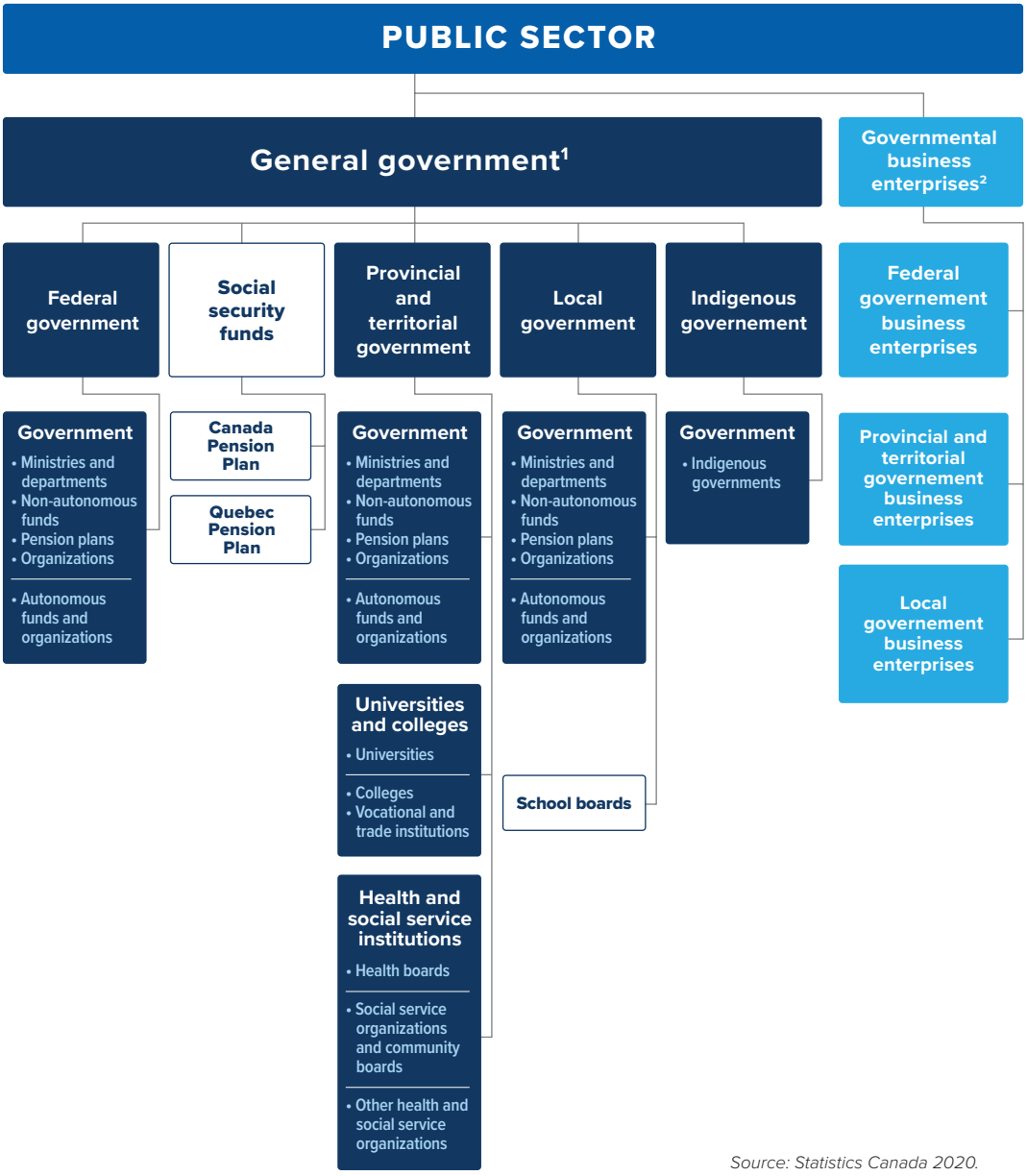
3 The government dissolved the Department of Indian Affairs and Northern Development in 2019, creating in its place Indigenous Services Canada, and Crown-Indigenous Relations and Northern Affairs Canada. Grouping these two departments back together suggests that employment in that area grew by 9.6 per cent annually.

4 Note that the list of separate agencies does not include Crown corporations, such as the Bank of Canada, Export Development Canada, etc.

5 Sheikh (2014) argues that measures of the true size of government would be significantly higher if they included tax expenditures (i.e., revenue losses due to provisions in the tax code that provide special tax exemptions, deductions, tax credits, and deferrals) – which are an alternative form of government support with financial implications similar to direct expenditures – while Cross (2014) attempts to account for the added impacts of government regulation that increase the overall government footprint.

6 For several relevant papers, see the symposium on Canada's productivity performance in the Fall 2023 issue of the International Productivity Monitor (Centre for the Study of Living Standards and the Productivity Institute 2023).

APPENDIX A
Defining the boundaries of the public sector in Canada



Source: Statistics Canada 2020.

The general government sector is composed of all governments as well as the non-profit entities that public administrations create to deliver services for the benefit of society. This contains federal, provincial, and territorial government ministries and departments; municipalities; Indigenous governments; public universities and colleges and public school boards; public health and social service institutions; government business enterprises; and the Canada and Quebec Pension Plans (CPP/QPP). **MLI**

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MLI has been active in the field of indigenous public policy, building a fine tradition of working with indigenous organizations, promoting indigenous thinkers and encouraging innovative, indigenous-led solutions to the challenges of 21st century Canada.

– The Honourable **Jody Wilson-Raybould**

I commend Brian Crowley and the team at **MLI** for your laudable work as one of the leading policy think tanks in our nation's capital. The Institute has distinguished itself as a thoughtful, empirically based and non-partisan contributor to our national public discourse.

– The Right Honourable **Stephen Harper**

May I congratulate **MLI** for a decade of exemplary leadership on national and international issues. Through high-quality research and analysis, **MLI** has made a significant contribution to Canadian public discourse and policy development. With the global resurgence of authoritarianism and illiberal populism, such work is as timely as it is important. I wish you continued success in the years to come.

– The Honourable **Irwin Cotler**

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