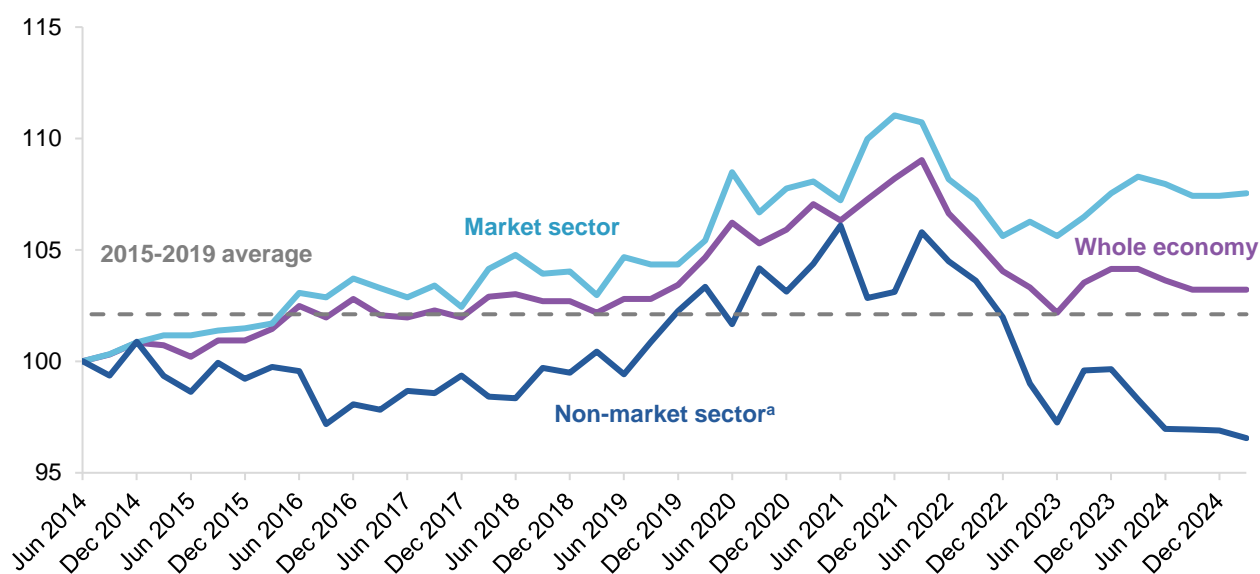


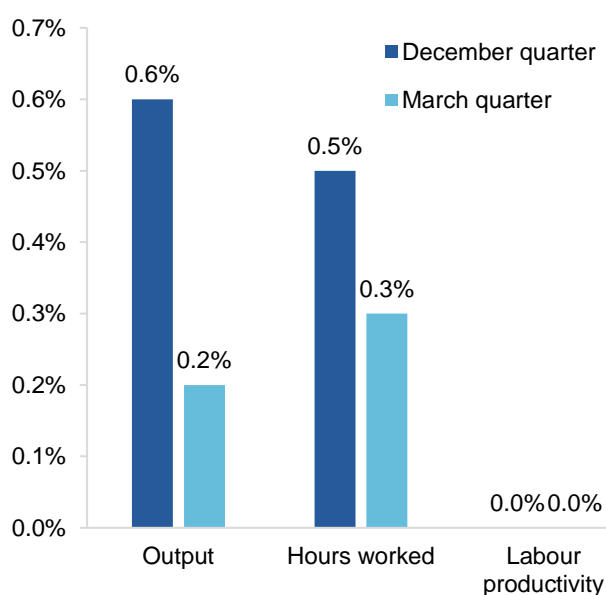


Quarterly productivity bulletin – June 2025

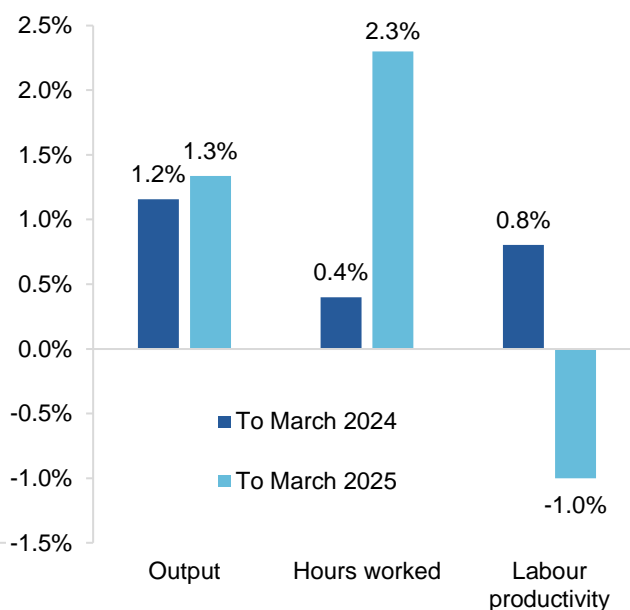
Labour productivity (index, June 2014 = 100)



Quarterly change in labour productivity



Annual change in labour productivity



a. Non-market sector labour productivity is estimated by the PC using gross-value added and hours worked from the three non-market sector industries (public administration and safety, education and training, and health care and social assistance).

Source: PC estimates based on ABS (2025a, 2025b).



Update from Alex Robson Deputy Chair, Productivity Commission

Australia's productivity woes continued in the March quarter.

This latest quarterly productivity bulletin shows labour productivity was stagnant in the March quarter and declined by 1.0% over the year.

In our last bulletin, we found that our productivity problem is no flash in the pan. It is a long-term, structural challenge that requires dedicated attention from business and government.

It's important to remember what we stand to gain by getting productivity moving again.

Productivity improves when we can work the same number of hours but produce more, which ultimately means we receive more income for each hour of work. This gives us more choice about what we do with our time – we can work more hours to increase our incomes further, take more time off or a mix of both.

In her article for this bulletin, our researcher Rusha Das looks at what Australians have done with this 'productivity dividend' over the past few decades.

She finds that with the growth in labour productivity Australia has enjoyed since 1980, Australians could have reduced their average hours worked by 15 hours per week without lowering our consumption levels. Instead, overall we used about 23% of the productivity dividend to work less, and we banked the other 77% as higher income.

The article also looks at what other countries do with their productivity gains. For example, in France, people are strongly inclined towards preserving free time – their productivity dividend tends to go towards working less, rather than consuming more. By contrast, in the United States, the productivity dividend tends to go towards consuming more. Australia sits somewhere in between these two examples.

Ultimately, as Rusha puts it, 'productivity growth gives us the freedom to choose between more income, more leisure, or a better mix of both. When productivity stalls, those choices remain unchanged. If productivity declines, the choices shrink'.

It's a valuable reminder of what we all stand to gain by overcoming our productivity problem. The PC will be helping to meet this challenge with recommendations in the interim reports of our five productivity inquiries in July and August.

All work and no play: Productivity and the choice between money and leisure

By Rusha Das, Research Economist

Do Australians work to live, or do we live to work?

We need to work to earn income to fund the life we want for ourselves and our families. But we also enjoy non-work related activities ('leisure') such as rest, study, spending time with friends and family, volunteering, and hobbies.

This creates a fundamental *trade-off*: more work means more income, but less time for leisure; less work means less income but more time for leisure.

Productivity growth can improve this trade-off.

When labour productivity increases – or, simply put, when we work the same, but we produce more – it expands the total economic pie. All of a sudden, we may not need to trade-off as much leisure to earn more income – we have a *choice*. We can choose to:

1. Work the same hours and earn more
2. Work fewer hours and earn the same amount
3. Split the difference – work a bit less and earn a bit more.

The choice of how we spend this 'productivity dividend' is rarely presented to us in a neatly labelled package – an individual cannot readily choose to work five per cent fewer hours in response to a 5% pay rise. Instead, the effects of productivity gains are more subtly embedded in our lives, granting us more agency over how we live and work. It may be taking a half-day each fortnight, investing time in professional development rather than taking on additional clients, or deciding to expand the number of cattle on a dairy farm. All these are choices that reflect the underlying freedom that productivity growth makes possible.

How Australia spends its productivity dividend

Our productivity growth over the past few decades has produced a huge productivity dividend.

Economist John Maynard Keynes famously predicted in 1930 that his grandchildren would work just 15 hours a week thanks to rising productivity (Keynes 1930). Things have not exactly worked out that way, but Keynes was not necessarily wrong either. You could work 15 hours a week now with a standard of living fit for the 1930s – we have just made a different choice.

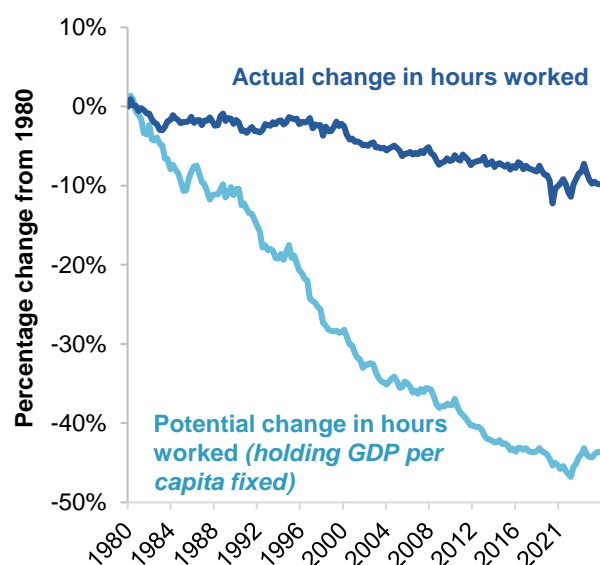
Rather than spending our productivity dividend on more spare time, we have largely traded it for higher incomes, and more and better *stuff*.

With the growth in labour productivity Australia has enjoyed since 1980, Australians could have reduced their average hours worked by 15 hours per week without lowering consumption levels. Instead, overall we used about 23% of the productivity dividend to work less, and we banked the other 77% as higher income.

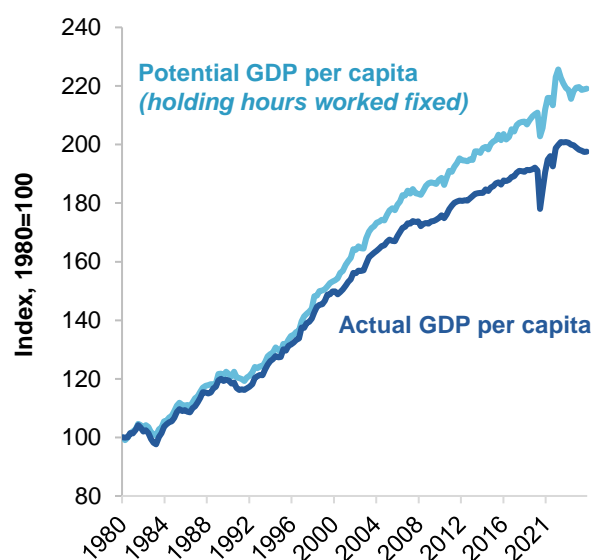
Or putting it another way – had we chosen to use our entire productivity dividend on working more and consuming more, GDP per capita would be 11% higher compared to 1980 (figure 1).

Figure 1 – Australians have largely spent their productivity dividend on more consumption
Potential changes in hours worked, holding GDP per capita fixed (left hand panel) and potential changes in GDP per capita, holding hours worked fixed (right hand panel)

Actual vs potential changes in hours worked since 1980



Actual GDP per capita vs potential GDP per capita growth (index 1980 = 100)



Source: PC estimates based on ABS (2025a).

What about other countries?

Different people in different countries make different choices about the trade-off between leisure, work and consumption. In some countries, such as France, people are strongly inclined towards preserving free time – their productivity dividend tends to go towards working less, rather than consuming more.

By contrast, in the United States, the productivity dividend tends to go towards consuming more, which suggests that Americans are more inclined to work longer hours in exchange for more and better things.

Australia falls somewhere in between these two examples. Over the past few decades, average work hours have only modestly declined – from around 34 to 31 hours per week – while incomes have risen significantly. Overall, Australians have opted to use their productivity dividend to upgrade their lifestyles, like buying fancier coffee and taking more expensive holidays, rather than shorten their workdays.

The significant cross-country variation in preference for leisure can be attributed broadly to three key factors – timing, cultural values and government policy.

Timing

Whether a wage increase is temporary or permanent changes people's choices.

Some evidence shows that with a *temporary* increase in wages, people will work more and enjoy less leisure. This is because a short-term increase in wages make working more lucrative for a limited period and, as a consequence, leisure more expensive.

In response to a *permanent* wage increase however – such as one driven by long-term technological progress that boosts productivity and output per hour worked, individuals often choose to spend less time working, not more (Rogerson 2006).

Cultural values and social norms

Different cultures hold varying attitudes to who, and how many hours, people should work. For example, there is a saying that in the UK the last one to leave the office is seen as the hardest working, whereas in Germany the last one to leave is seen as the least efficient.

More generally, social pressures from colleagues, family, friends and society can have a major effect on people's choices between work and leisure (Alesina, Glaeser and Sacerdote 2005). Cultural and social norms, such as attitudes towards gender roles and responsibilities, race, or age, can also affect these decisions. Culture and social norms can change over time (for example, rules around a five-day work week), and therefore so too can people's choice in how to spend their productivity dividend.

Government policy

Lastly, government policy can influence how people respond to productivity growth.

For example, workplace regulations and industrial relations laws can directly restrict the maximum (and minimum) number of hours that individuals can work, the wages that can be paid, and other workplace conditions.

Further, taxes on labour, consumption and savings also impact people's choice of whether and how much to work. Prescott (2004) argues that income tax differences can help explain why people in the US worked more hours than people in many European countries between the 1970s and 1990s as higher taxes in Europe disincentivised people from working.

But people's responses to increases, or decreases, in taxes are influenced by whether changes in government spending are *temporary or permanent* – a temporary change in government spending is unlikely to influence someone's long-term decision of how long they should work (Barro 1981). Further, *the way* in which government spends this tax revenue will affect people's choices (Rogerson 2010). For example, if the government uses the revenue to fund services people need, such as universal education or health care, people will be less likely to work (Barro 1981). The logic being that, as the government is providing things, people no longer need to earn money to consume them – they can consume them for free (or at a reduced price).

Why it matters: the productivity slowdown

Declines in hours worked per person are among the most unsung benefits of economic development and productivity growth. In the last 150 years, rising income in the industrialised world has been accompanied by a steady drop in working hours by almost 50% (Giattino and Ortiz-Ospina 2020). When Keynes wrote in the 1930s about 15-hour work weeks for his grandchildren, the average working week was 48 hours long in Britain. Productivity growth has helped people find thousands of extra hours of free time each year.

But over the past decade, as productivity growth has stagnated, the rewards have been far less generous. Since the end of 2016, there has been virtually no improvement in how much we produce per hour of work in Australia. We have seen no decline in average hours worked since the end of 2016, although the adoption of working-from-home arrangements since the COVID-19 pandemic may have had some positive impact on leisure through reduced commute time for a portion of the workforce. Indeed, our incomes would actually have stagnated over this period, if it wasn't for more and more people joining the workforce.

Maintaining our high levels of hours worked could be a good thing if it reflects greater voluntary participation in the workforce, such as if individuals choose to work to improve their living standards, or if it results from

the removal of long-standing barriers to employment for historically underrepresented groups. But it is concerning if Australians have been working more out of sheer necessity, sacrificing study, rest, or time with loved ones just to maintain their standard of living. For example, people may need to work more just to keep up with rising house prices, which has outpaced wage growth over a long period of time.

Productivity growth is the engine that gives us the freedom to choose between *more income, more leisure, or a better mix of both*. When productivity stalls, those choices remain unchanged. If productivity declines, the choices shrink.

This is why implementing policies to ensure Australia works smarter, not longer and harder, should remain a priority for policy makers. Without it, we cannot afford to reclaim our evenings, shorten our work weeks, or spend more time with family and community. In the absence of a growing productivity dividend, the dream of a more balanced life – one that Keynes envisioned nearly a century ago – risks slipping out of reach for many Australians.

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Publication enquiries: phone 03 9653 2244 | email publications@pc.gov.au

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