



## **The ProdCast with Richard Aedy**

### **Episode 1: Inside the Productivity Commission featuring Chair Danielle Wood**

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#### **Richard Aedy**

Hello. I'm Richard Aedy, and this is the podcast from the Productivity Commission, the ProdCast.

The Productivity Commission. You've heard of it. Comes up in the news a lot. It's an independent entity that's been around since 1998. But do you know what it does? That's what we're going to start with in this first episode of the ProdCast. And joining me to talk us through it is its head, the chair of the Productivity Commission, Danielle Wood. Danielle, I reckon everybody's heard of it, but what does it do?

#### **Danielle Wood (Chair)**

Well, that makes me happy that everyone's heard of the Productivity Commission, Richard. That's KPI met. What we do is we provide research and advice to the Australian government on policy. And that spans, you know, not just economic policy, which you probably get from our name, but social and environmental policy as well. So, we are on tap to provide independent, evidence backed advice in a transparent fashion.

#### **Richard Aedy**

You obviously ran a think tank when you were at the Grattan. How much of the Productivity Commission's job is being the government's think tank? Is that a fair kind of analogy?

#### **Danielle Wood (Chair)**

Yeah. I actually often use that analogy. You know, I do think of us as like the government's think tank in the sense that we are there to provide high quality research and advice, but also to advocate for policy change that we think is in the national interest.

It looks a little bit different to being an outside think tank in the sense that government can actually come to us and ask us questions. We can be commissioned to do work.

Whereas when you're in a different sort of think tank, you're really from the outside shouting in, if you like. But, you know, broadly, the nature of the work we do is fairly similar.

#### **Richard Aedy**

Yeah. Yeah. Well, we'll get in a moment actually to kind of how it divides up. But I was thinking think tanks, and this is, you know, a bit of a caricature, but they kind of divide into 'this would be a good idea' organisation or 'we're probably doing that wrong' organisation. And, you know, you got both extremes. At the Grattan, of course, you in the past, you did both.



**Danielle Wood (Chair)**

Yeah. And I would argue the PC does both. So, you know, we do put forward, you know, big new ideas, and probably the NDIS is the most iconic example that came out of a PC review into disability supports. We also sometimes need to critique policies the way they are. So, to give you an example, we're doing a review of the National Mental Health Agreement.

**Richard Aedy**

So, you've got five core functions. We'll just run through them and then dig into them a bit. Now one you've already mentioned, which is when the government comes to you and says, 'can you guys have a look at this'?

**Danielle Wood (Chair)**

That's right. So, we'll be commissioned to do what's called an inquiry that could go anywhere between six to eighteen months. At the end, we provide a report. It's put in the public domain, and then government actually has to table that in parliament and respond to it. So, they're under no obligation to pick up our recommendations, unfortunately, but they are obligated to engage with them, and they're out in the public domain for everyone to see.

**Richard Aedy**

Right. So, what's an example of one of those?

**Danielle Wood (Chair)**

So an example is we've got five reviews into productivity at the moment. The mental health one I just mentioned. We're also doing an inquiry into the circular economy and the opportunities that are created there.

**Richard Aedy**

Right. So, there's also Commission-initiated research, is this what you kind of saying? We should look at this.

**Danielle Wood (Chair)**

Yeah. That's right. I mean, it's incredibly powerful thing to have the capacity to ask your own questions. And we really do that both to try and shift the policy debate forward in certain areas, but also to add kind of context to the way the government thinks about policies.

So, a recent example was the work we did on housing construction productivity. We thought this was an area that hadn't received the policy attention that it deserved, and I think that's been really successful at advancing the conversation around some of the policy changes that are needed to help us boost housing supply.



**Richard Aedy**

You also do things like benchmarking.

**Danielle Wood (Chair)**

Yes. We assist in running what is a pretty extraordinary benchmarking exercise. It's called the Report on Government Services. Some people may be familiar with it. Each year that comes out and it benchmarks Commonwealth and State Government service provision.

So, we look at how efficiently governments are providing services across health, across education, across housing, across justice – a whole suite of areas, and how effective those services are. And the idea is that that is both an accountability mechanism for governments, but also to help them with their policy and planning decisions. The other area where we have a sort of reporting role is in Closing the Gap. So many people will know Commonwealth and State Government signed up to the Closing the Gap Agreement. It had a range of targets that go to socioeconomic outcomes for First Nations Australians. We report regularly on how we're progressing against those targets.

**Richard Aedy**

There's competitive neutrality complaints. Now I really do not know what that is.

**Danielle Wood (Chair)**

I think probably most people are in a similar boat. So competitive neutrality, government has a policy which basically says a government business, so think Australia Post, think NBN should not derive a competitive advantage from the fact that it is in government hands. So, it should be competing on fair terms with other businesses that are out there in the market. So, if a business feels that a government business is getting an unfair advantage, which could be cheaper finance or some other cross subsidy from government, they can come to us with a complaint. We will investigate, and we provide advice to Treasurer about whether we think there has been a breach of that policy.

**Richard Aedy**

Does that get reported on, or is that just a kind of quiet word?

**Danielle Wood (Chair)**

No. It's all public. So, we did our most recent one was into Australia Post. There was a complaint from independent logistics companies that it was favouring its own domestic packaging parcel business, and we published our review on our website.

**Richard Aedy**

Right. So that's four. There's also safeguard action investigations. Again, you find me at a disadvantage, Danielle. I do not know what that means.



**Danielle Wood (Chair)**

Look. These are pretty rare. So, safeguard actions are if the government feels that it wants to impose short term tariff or an import quota, because we're seeing a big flood of imports come in from a particular country, wants to take this short-term action to stop that creating long term damage to Australian industry. Under the World Trade Organization rules, before it can do that, it needs to send it to the Productivity Commission for an inquiry. The last one we did of this was over a decade ago.

We looked at canned tomatoes and canned fruit. And back in the nineties, we looked at pork products. So, these are pretty rare and very understandable you're not familiar with that that particular role.

**Richard Aedy**

So in among all of this, you look at productivity, which we haven't been going so well at. Let's start with a quick definition. What is it?

**Danielle Wood (Chair)**

So most typically, we're talking about labour productivity, and you can think of that just as the amount we produce per hour worked. And so, it's really important. It's not about working longer hours. I think sometimes people misunderstand that. It's about how do we, across the country, think about improving our skills. How do we increase the way we harness new technologies? How do we make sure that our business practices and processes are as good as they can be so that for each hour we're putting in, we're getting more for it?

**Richard Aedy**

This is something we've been not going well at. Now I'm going to hit you with a quote that you'll be very familiar. So, Paul Krugman, the Nobel Prize winning and very famous, maybe the most famous economist in the world at the moment, I don't know. He said, 'Productivity isn't everything, but in the long run, it's almost everything'. So, what does he mean by that?

**Danielle Wood (Chair)**

It's a beautiful quote. What he means is essentially, if we think about the ways in which we can improve our long-term living standards, productivity is the only sustainable long-term way to do that. And by that, I mean, if we think about other drivers of economic growth, we can increase workforce participation and work more hours. But you can only do that to a point. We can try and get other people to pay more for the goods and services that we sell into the world.

Sort of our terms of trade can boost growth. But that's not going to happen forever. But productivity, if we can continually improve the way we produce things, which we have, which we have over decades, we've got better at things, we can see our living standards grow.



**Richard Aedy**

So, productivity is important. We should be concerned then that despite decades of improvements in productivity, and of course, most famous example probably in Australia is agriculture. Since the turn of, say, early nineteen hundreds to now, it's been phenomenal. You have many, many fewer people. I always think that's a weird phrase, but many, many fewer people producing so much more than they ever did before. But in the last decade or so, Australian productivity growth hasn't been all that.

**Danielle Wood (Chair)**

Yeah. That's right. Essentially, we've sort of flatlined, and we had a very unusual period during COVID where we went on this roller coaster ride. But we've come out the other side pretty close to flat, which was the world that we're in in the in the few years before COVID as well.

We're not alone in that. You know, developed countries are grappling with this same challenge that you know, it's the slowdown started at different points, but around the time of the GFC and beyond, essentially, we've seen a challenge with countries growing their productivity.

**Richard Aedy**

Now some of this, I wonder, if it's because we're increasingly a services-based economy, and it is proven harder to raise productivity in services than in things like manufacturing, agriculture in the past, or resource extraction. And especially if you think about our version of the services economy, we have a big healthcare sector, for example. So, productivity in healthcare, well, that could mean doctors being more efficient in terms of how they treat people, but do we want that when we go to the doctor? Do we want efficiency, or do we want to feel that we're being properly looked after?

**Danielle Wood (Chair)**

This is a very core issue that you've touched on. So, you're absolutely right that one of the theories of why productivity has slowed is that as the service sector grows as a share of the economy, because it tends to have lower productivity, that brings down productivity overall. One economist described it as being a victim of our own success. As we get richer, we want more services, but that tends to slow us down. But let me touch on a couple of issues pertinent to what you just said.

There are challenges, first of all, in measurement of productivity in services sectors. It's hard to measure quality. So, we've done a report actually looking at this healthcare question. And what we find is if you look at the official measurements of health productivity, pretty low. But if you adjust for the fact that we've got better at treating things, if we look at particular diseases we now have, with those diseases, we live longer and healthier lives than we once did.

That's productivity. It's just that we haven't taken it in terms of cost savings. We've taken it in terms of better health outcomes. So, we may be missing some of the picture in those official measurements.

But the second point is there are parts of the care sector. Maybe it is the time with your GP, it is the person in the aged care home or the early childcare centre, where that human connection is such an important part of the role.



**Richard Aedy**

It's integral to it.

**Danielle Wood (Chair)**

Exactly. So how do you get productivity in those areas? And the answer is, historically we haven't had much. But I think when you look at some of the new technologies that are becoming available, there are some opportunities, even in those care settings, to drive productivity gains.

So, we're hearing about the way AI could be used to predict which patients are most likely to fall over in an aged care setting and to put in place interventions to stop that. You know, really cool robots that can help clear plates and push laundry around. So, they're not going to replace that fundamental human connection, but that they can complement the labour and free up the labour to do more of that human work. So, I think there is actually now scope in a way that hasn't been in the past to see some more technology in care settings. And in addition, we're also doing some work thinking about how policy design and regulatory settings can feed into improving productivity.

**Richard Aedy**

You sound actually fairly optimistic, just now, that there are changes we can make that will push that up.

**Danielle Wood (Chair)**

Look, I am. I think technology has historically been the most important driver of productivity gains. I think the fact that we are seeing particularly AI as a general-purpose technology, meaning that it has applications across large swathes of the economy. You know, I can see a mechanism for which we can grow productivity, including in some of those hard-to-reach services sectors.

Our role is to think about what government can do to help facilitate that future productivity growth. But there's also an important role for business in this as well. Business investment, business adoption of these new technologies is going to be critical too. So, I always think it's really important that we say that. This isn't just a government problem.

This is an everyone problem. But my day job is to think about what it is that governments can do to help facilitate this future growth.

**Richard Aedy**

The Commission has some big reports coming out. The first is quite soon, I think, and you're going to hear a lot about them in later episodes of the ProdCast. But, Danielle, just give us super quick version of what's coming up.

**Danielle Wood (Chair)**

So, we have the review of the Mental Health Agreement coming up very soon. We have these five reports on productivity that we've got underway, which is sort of practical implementable suggestions for government under different banners that they can adopt to advance productivity.



We've also got the review of circular economy and some modelling that we're doing for the government on having a national license for electricians and adopting more consistent product standards. So, a huge diversity, which is pretty characteristic of us. We do span a lot of areas, as I mentioned, Richard. And lots of exciting stuff in the pipeline.

**Richard Aedy**

Yep. And some of those you will be hearing more about here on the ProdCast. Danielle, thank you very much for joining us today.

**Danielle Wood (Chair)**

Thank you for having me.

**Richard Aedy**

Danielle Wood is the Chair of the Productivity Commission. And as you've just heard, we've got a bit coming up on the ProdCast. In the next episode, Productivity Commissioner Selwyn Button will talk us through the review of the National Mental Health Agreement. It'll be a really interesting conversation. I hope you can join me for it.

I'm Richard Aedy.

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