Australian Government
Productivity Commission

Driving productivity growth – in conversation with Danielle Wood

Danielle Wood, PC Chair

Address to the Committee for Economic Development of Australia

pc.gov.au

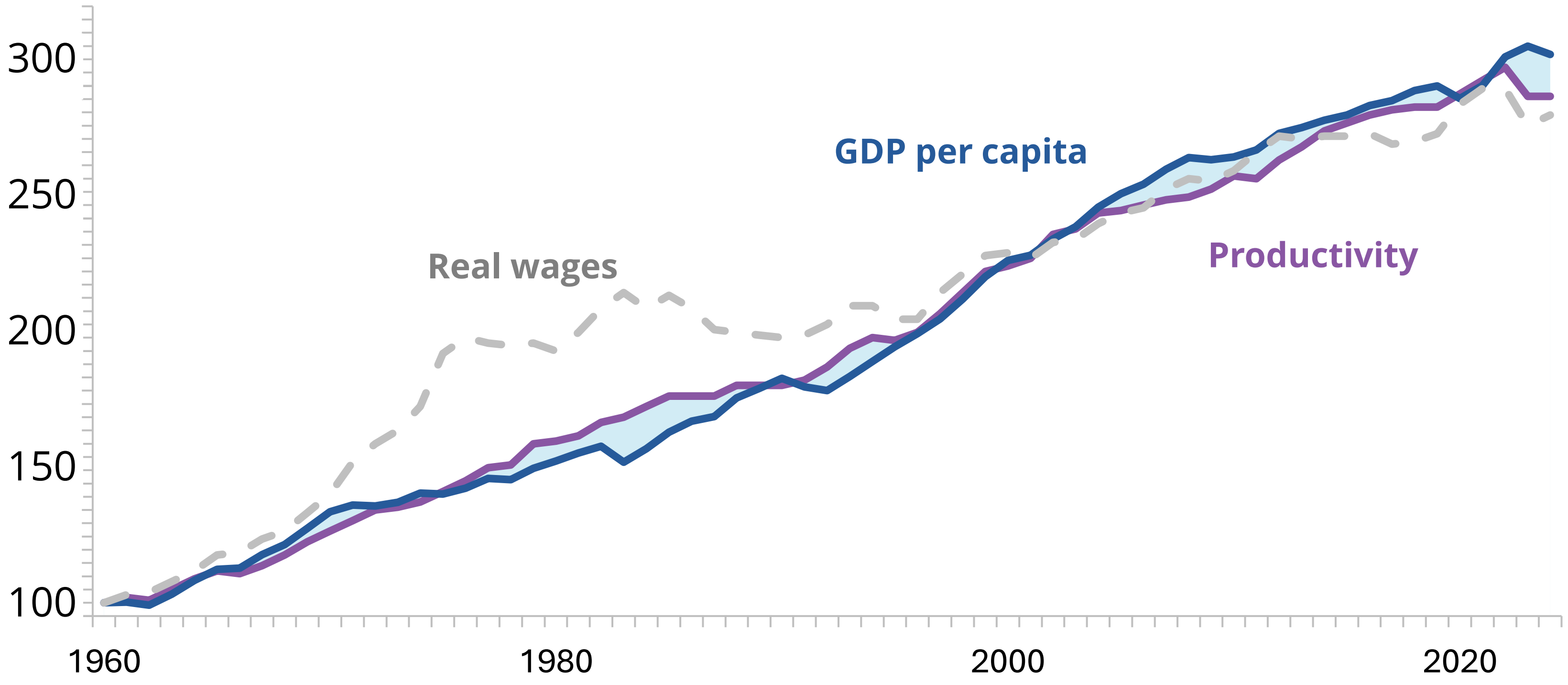
What we will cover

1. Stalling productivity: the what, the why and the how?

2. What can governments do?
   - improving regulatory decision-making
   - harnessing data and digital technology
   - investing in prevention

It's productivity that drives improvements in living standards

Index = 100 in 1960, 1960 - 2024



Notes: Consumer wages shown. Producer wages demonstrate a similar trend. See Productivity Commission 2023, *Productivity growth and wages – a forensic look*, PC Productivity Insights, Canberra, September, for more information. Source: Productivity Commission 2025, *Growth mindset: how to boost Australia's productivity*, Canberra.

Productivity isn't just about more money or more 'stuff'

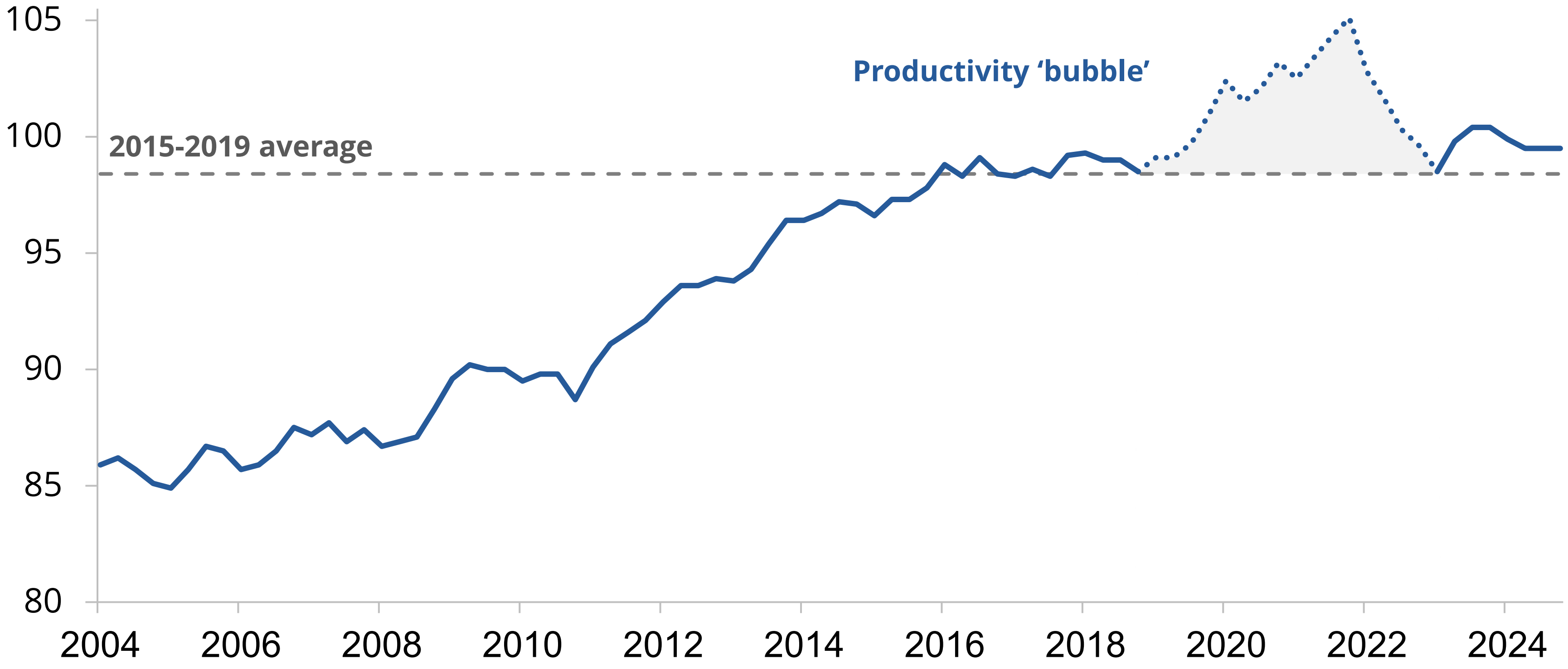
The benefits of productivity growth over time

Direct results since 1960	Indirect outcomes (correlates)
Real income growth 3-fold increase in GDP per capita, and almost a 3-fold increase in average wages	**Reduced poverty** 3-4-fold reduction in share of population living in absolute poverty since 2001
More goods and services Consumption of almost all household goods and services up around 3-fold	**Longer, healthier lives** Life expectancy increased by 11 years (females) and 13 years (males) since 1960
Better goods and services 3% p.a. quality-driven increase in healthcare productivity in some sectors since 2011. Goods have also improved	**Safer lives** Nearly 3-fold reduction in per-capita annual crime rate since 1990
More leisure time Average worker spends 5 fewer hours per week at work	**More satisfied lives too** Countries with higher productivity levels report higher life satisfaction

Source: Productivity Commission 2025, *Growth mindset: how to boost Australia's productivity,* Canberra.

We've been on a wild ride lately

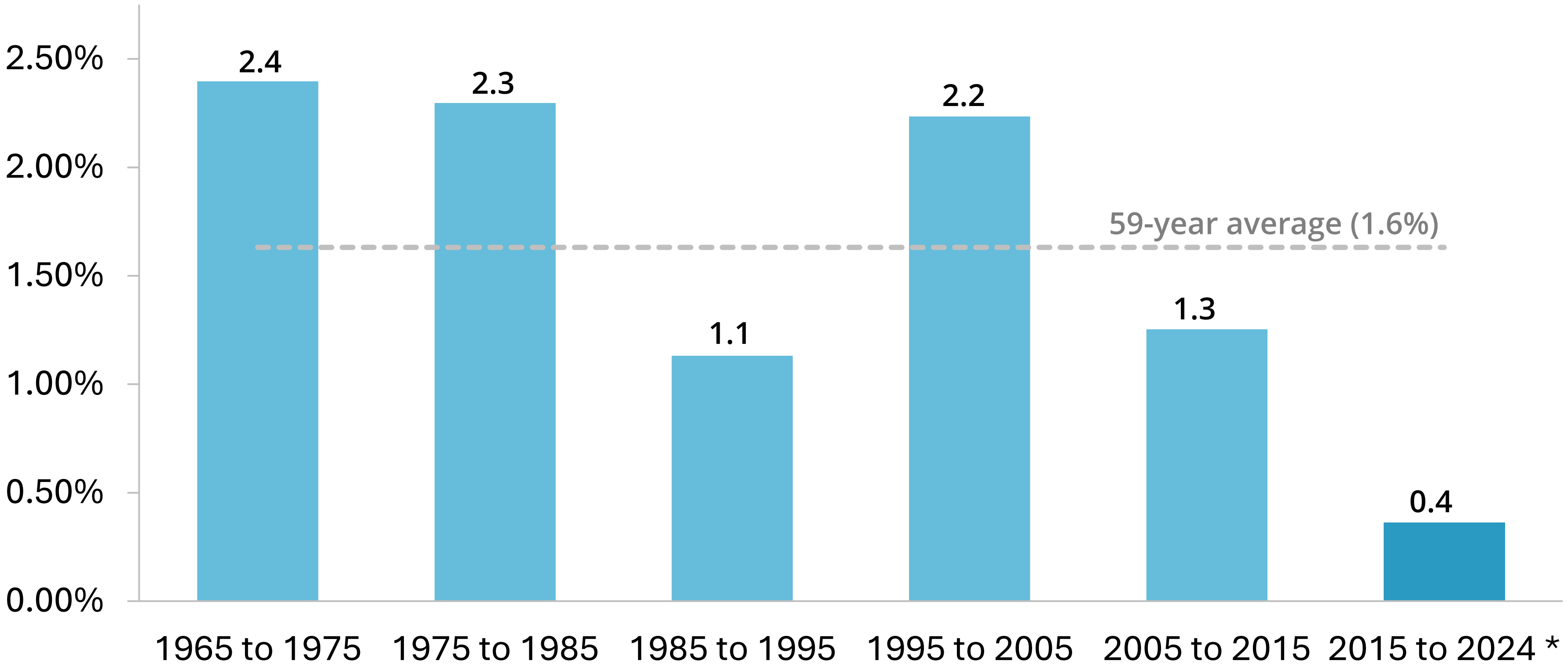
Labour productivity (index, 2024 = 100), between June 2004 and March 2025



Source: Productivity Commission 2025, *Growth mindset: how to boost Australia's productivity*, Canberra.

Our productivity growth is at its slowest rate in 60 years

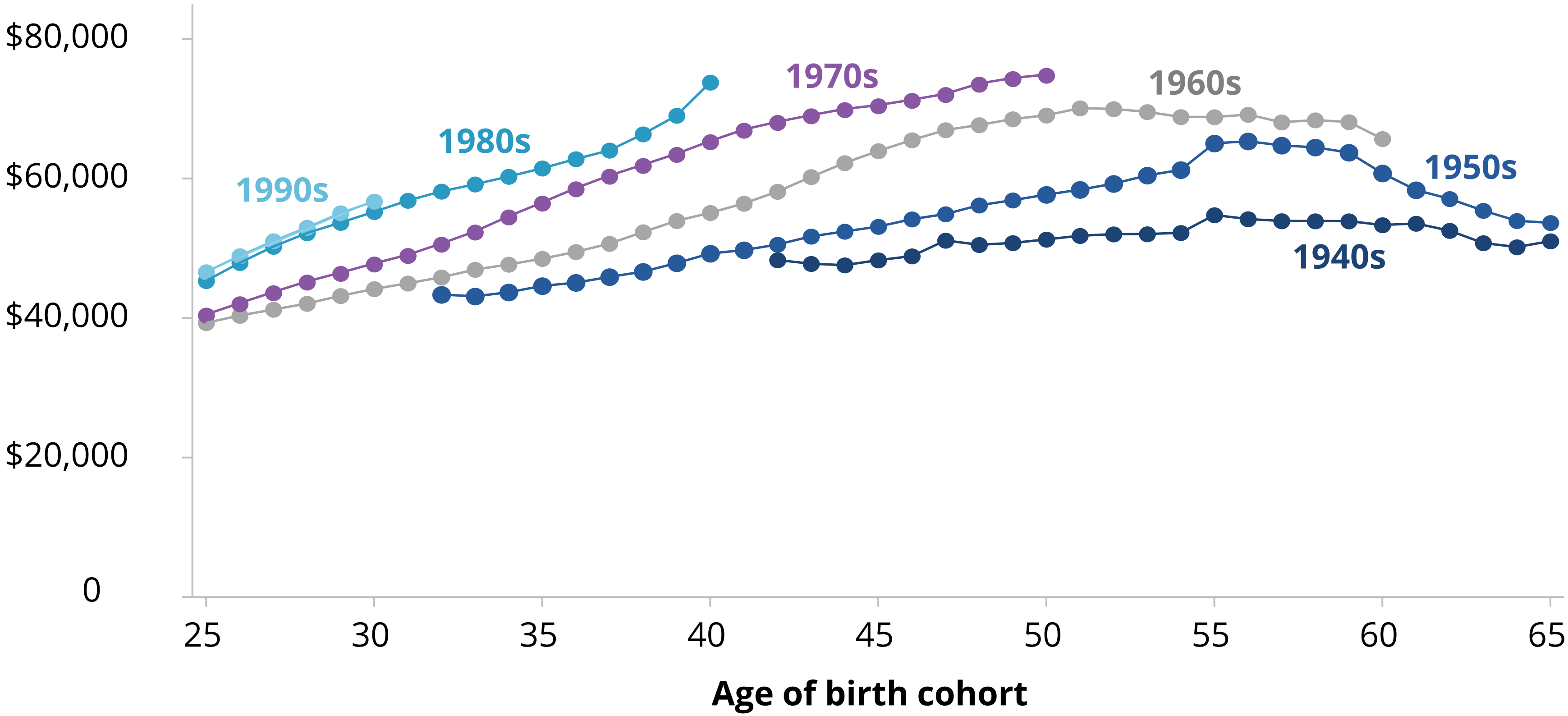
Average labour productivity growth



Source: Productivity Commission 2025, *Growth mindset: how to boost Australia's productivity*, Canberra.

Generation-on-generation income growth has stalled for Aus

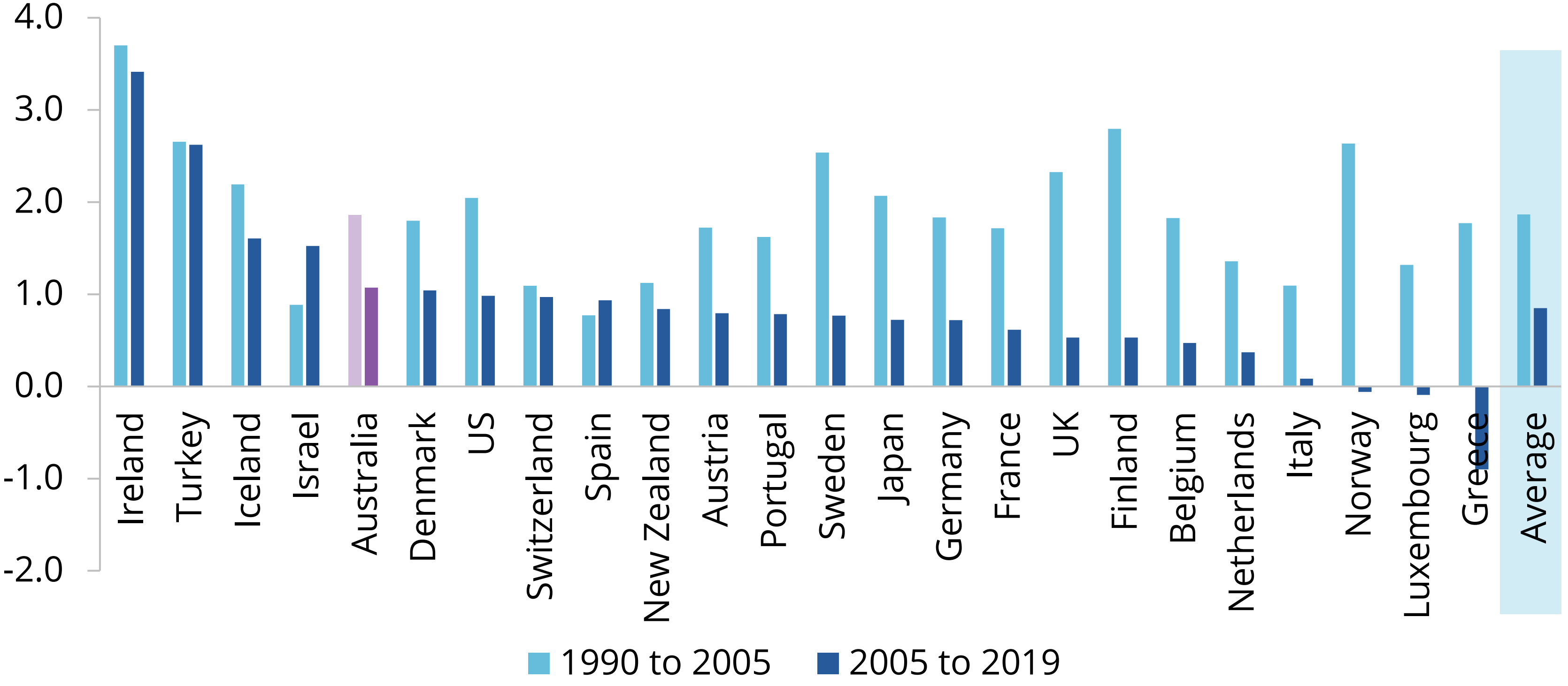
Average individual disposable income by birth decade and age



Source: Productivity Commission estimates using ALife.

This is not just an Australian phenomenon

Labour productivity growth in OECD countries, %



Note: Includes only the 24 longest standing OECD countries. The historical average annual growth rate for Austria is calculated between 1995 and 2005 due to data limitations. Source: Productivity Commission 2025, *Growth mindset: how to boost Australia's productivity*, Canberra.

Why did productivity growth slow?

Shift to less capital-intensive industries – the march of the services sector

Reduced boost from technological change

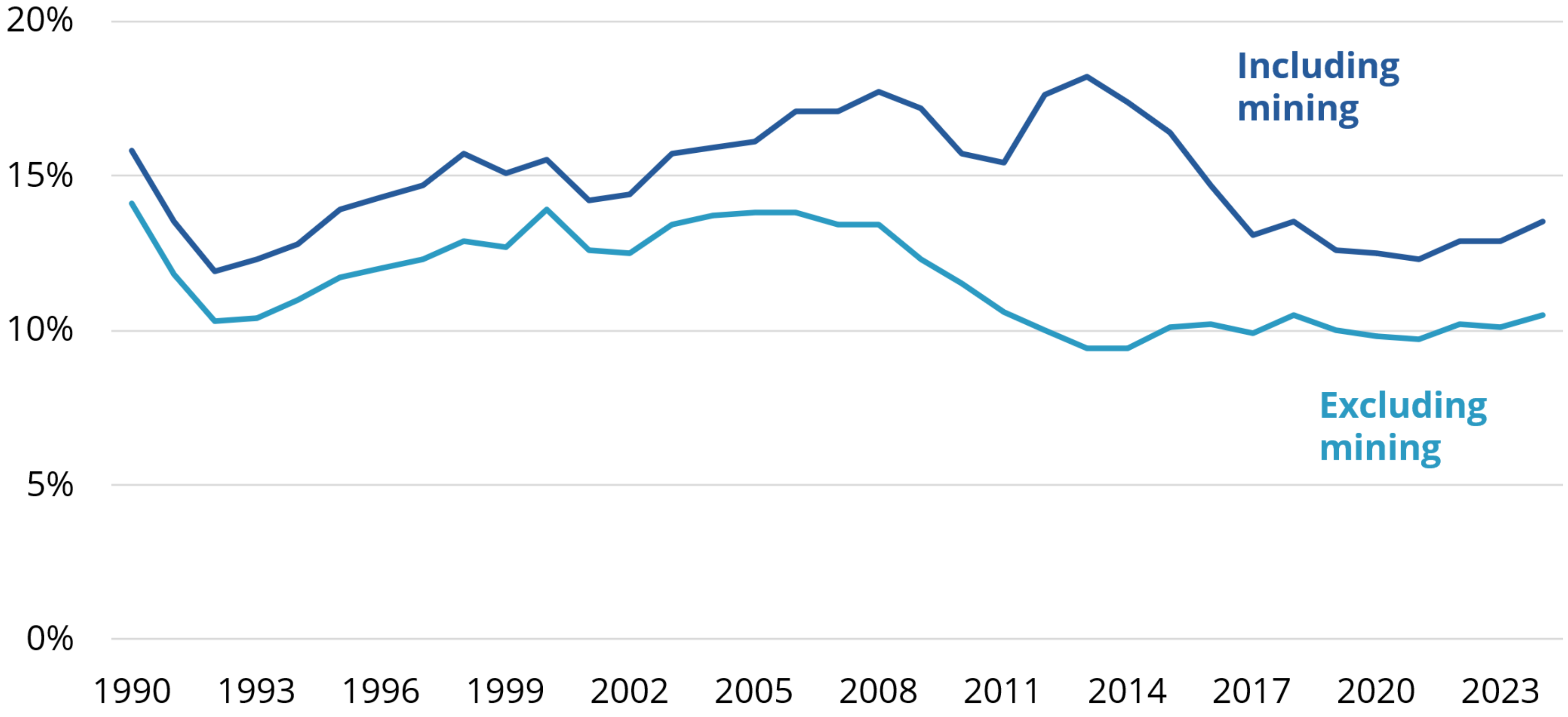
Low investment

Reduction in economic dynamism

Lack of policy reform / declining emphasis over decades

Business investment has stalled across Aus

Private investment-to-output ratio, with and without mining



Source: Productivity Commission 2025, *Creating a dynamic and resilient economy,* interim inquiry report, Canberra.

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Governments hold many levers to growth

Governments don't hold all the cards when it comes to economic growth, but policy decisions do matter –

Governments support the enablers of growth like research, education and training, and population health

Governments shape incentives to work and invest through taxes and regulatory settings

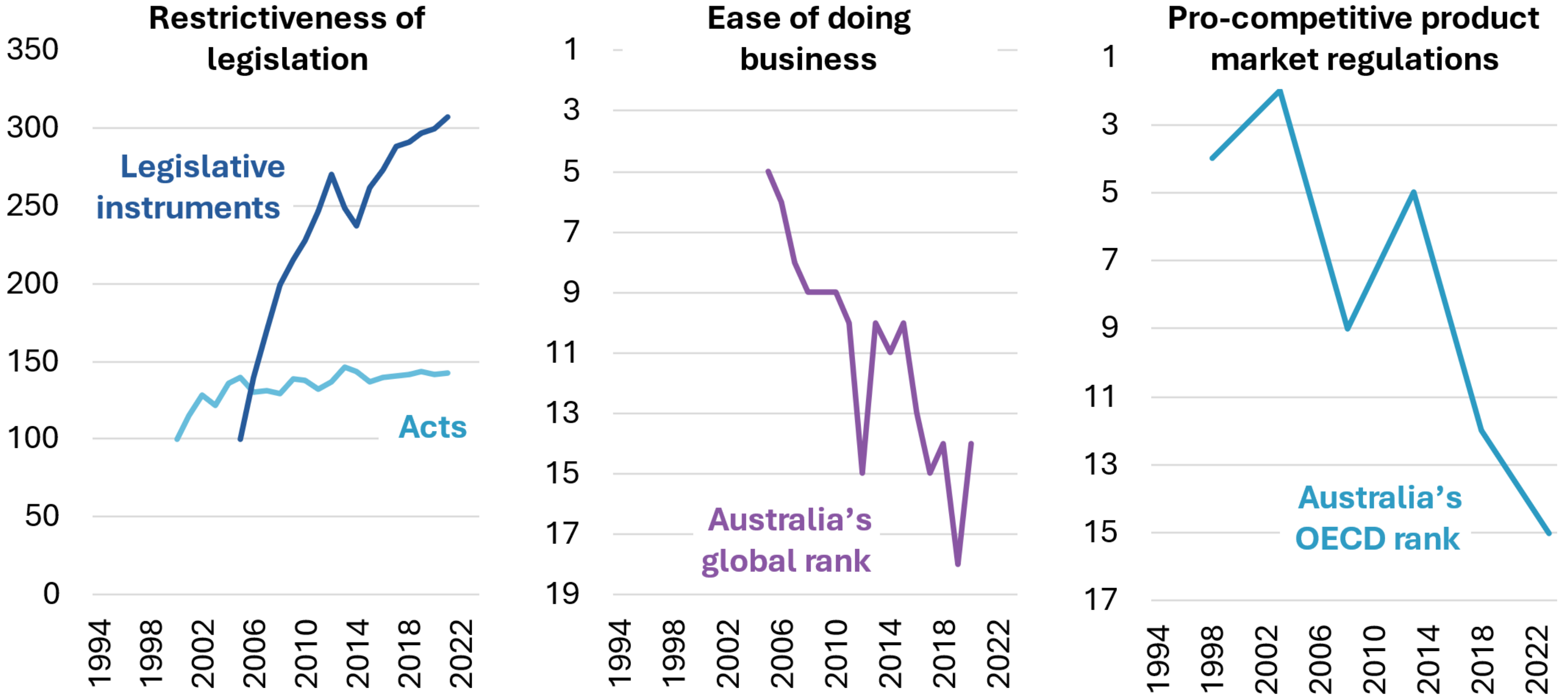
As major funders and providers of services such as infrastructure and care, governments set the pace of productivity growth across large parts of the economy

The five pillars of productivity reform: our working list

Creating a dynamic and resilient economy		Support business investment through **corporate tax reform**	**Reduce regulatory burden** through new leadership approach for government and the public service		
Investing in cheaper, cleaner energy and the net zero transformation		**Reduce the cost of meeting emissions targets**	**Speed up approvals for new energy infrastructure**	**Encourage adaptation** by addressing barriers to private investment	
Harnessing data and digital technologies		**Right size regulatory approach to AI**	**Unlock benefits of consumer data**	Reduce burden through **outcomes-based approach to privacy regulation**	Enhance reporting efficiency, transparency and accuracy through **digital financial reporting**
Building a skilled and adaptable workforce		**Improve curriculum resources and ed-tech** to boost school student outcomes	**Boost lifelong learning** by recognising prior learning/credit and providing better **workplace training incentives**	**Fit-for-purpose occupational entry regulations**	
Delivering quality care more efficiently		**More consistent quality and safety regulation** to support a more cohesive care economy	**Collaborative commissioning of health services** to improve health outcomes	A national framework to **support government investment in prevention**	

Improving regulatory decisions

It's gotten harder to do business in Australia since the early 2000s, especially compared to other countries



Notes: 'Restrictiveness of legislation' is defined as the number of restrictive clauses such as 'if', 'but', 'except' in federal acts of parliament and legislative instruments. 'Acts' series is indexed to 2000 and legislative instruments series is indexed to 2005. Ease of doing business series measures Australia's global ranking for ease of doing business, and 'Pro-competitive product market regulations' is Australia's rank among 28 OECD countries on the OECD's Product Market Regulation indicators. A falling rank for Australia suggests Australia is performing less well on these measures compared to other countries. Source: World Bank (2005, 2020, 2024) and QuantGov (n.d.).c

Regulatory failure comes in many forms

Band-aid regulation	Regulation that does not address underlying cause of the problem
Duplicate/inconsistent regulation	Multiple regulations that impose repetitive or inconsistent requirements on a business
Overly prescriptive regulation	Regulation that specifies processes rather than outcomes, constraining adaptation
Overly risk-averse regulation	Regulation that aims to eliminate all risk at the expense of a disproportionate regulatory burden
Regulatory delay	Where regulators do not make timely decisions
Cumulative burden	Where multiple regulations together create a disproportionate burden, even if each individual regulation is justifiable in isolation

Good regulatory governance requires leadership from ministers and parliament

Role for ministers

Whole of government **statement on regulation,** agreed by cabinet	Embed principles of good regulation Commit to concrete reforms to reduce regulatory burden Consider overall quantitative targets for regulatory burden – but should be appropriate
Enhanced cabinet scrutiny of regulatory proposals	Modelled on budget process methods, with support from central agencies
Ministerial statements of expectations	Specify appetite for risk and that regulators and policymakers should consider growth and dynamism

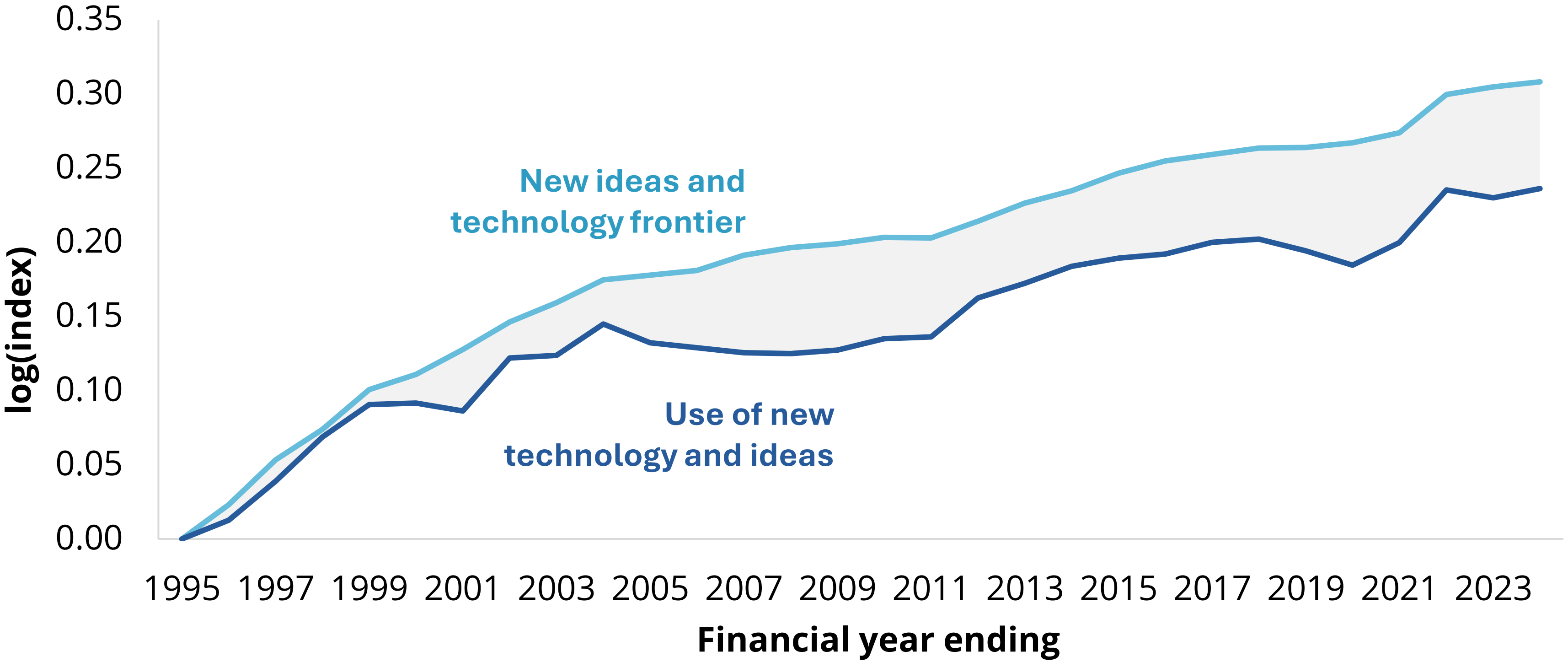
Role for others

Stronger scrutiny, review and evaluation	Independent statutory commissioner to oversee the Office of Impact Analysis Senate scrutiny committees to consider impact analysis quality PC to undertake regular stream of sectoral regulatory reviews
Support for regulatory stewardship	Central agencies to give more guidance and support to regulators and policymakers and expect greater accountability

Harnessing data and digital technology

Productivity growth via technology requires two things: innovation and take up

Decomposition of multifactor productivity (MFP), market sector excl. mining, index, log scale



Note: 'New ideas and technology frontier' series is the multifactor productivity frontier. 'Use of new ideas and technology' series is actual multifactor productivity in Australia. See PC 2025, *Annual Productivity Bulletin 2025* for more details. Data source: Productivity Commission estimates based on ABS (Australian System of National Accounts, 2023-24, Estimates of Industry Multifactor Productivity).

AI could be a productivity game changer for the Australian economy

AI is already changing Australian workplaces

Inquiry participants told us they use AI for:

- Teaching and training tools
- Writing software code
- Identifying cyber threats and maintaining cyber security
- Responding to customer inquiries
- Making scheduling and admin work easier

We found examples of it being used in many industries:

- Alerting bank customers of potential scams, and identifying if customers have been coerced
- Drafting legal material and research
- Sorting avocados
- Prioritising deliveries and routes
- Cataloguing Aboriginal rock art
- Inspecting coastlines for fishing net waste

The productivity benefits of AI for Australia are uncertain, but could be large – perhaps 4% boost to labour productivity growth over the next decade

Govts can lead the way on digital tech and AI

As service providers…

Improving digital uptake in healthcare (e.g. electronic medical records) could save the health system $5b per year

Greater consistency in use of edtech & AI in schools could ease teacher workloads and reduce variation in teaching quality

As exemplars of best practice…

The way public servants and agencies use new tech in day-to-day functioning of government can set standards for other sectors – e.g. responsible AI use

As regulators…

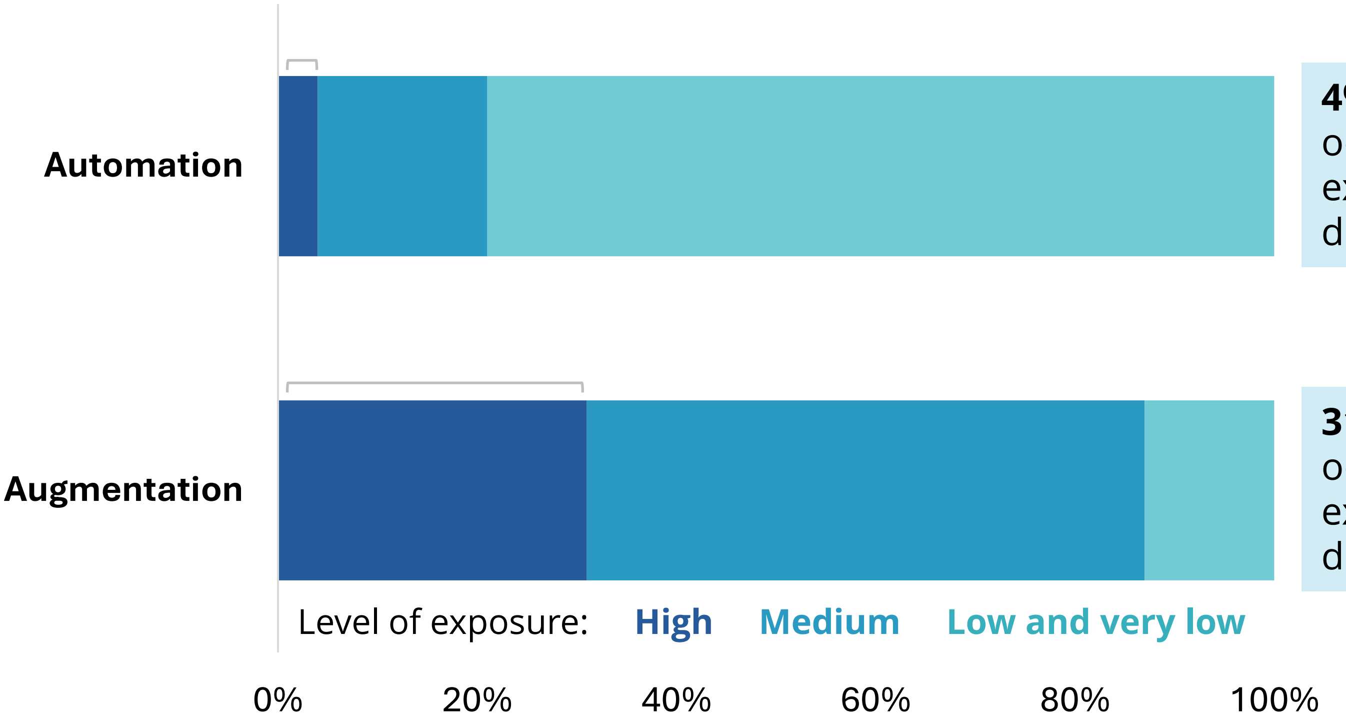
Adopting technology-neutral regulatory approaches creates space for people and businesses to adopt new ideas while meeting requirements

Making the best use of data (e.g. through mandated digital reporting & consumer access to data) improves information available to consumers and businesses

Going digital saves time and expense for people and businesses subject to regulatory requirements

Supporting training will be important as AI augments (many) and automates (some) roles

The distribution of Australia's workforce according to the exposure of their occupation to Gen AI



4% of workers are in occupations that are highly exposed to **automation** due to AI

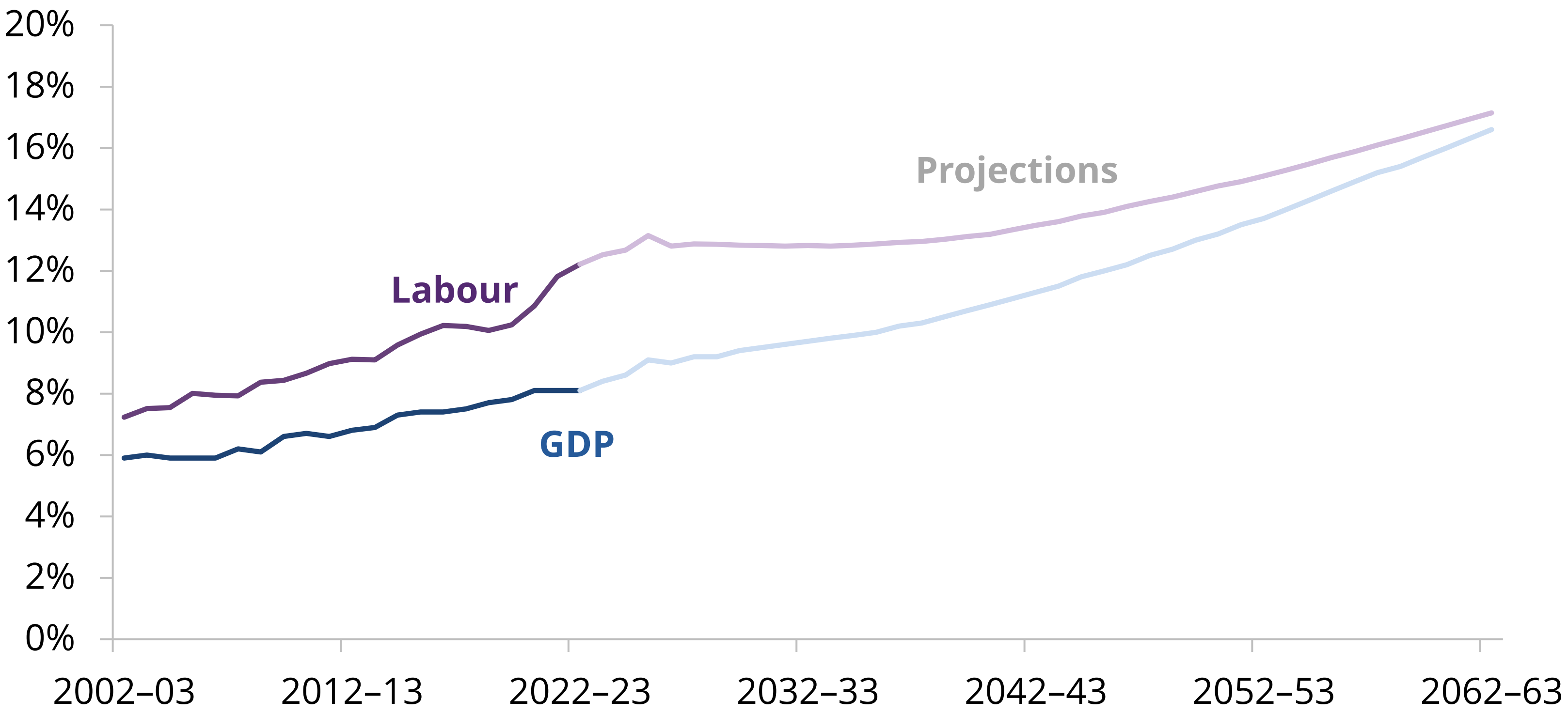
31% of workers are in occupations that are highly exposed to **augmentation** due to AI

Source: Jobs and Skills Australia 2025, Our Gen AI Transition, Final Overarching Report, Australian Government, Canberra, Table 1.

Delivering quality care more efficiently

The care economy will continue to grow

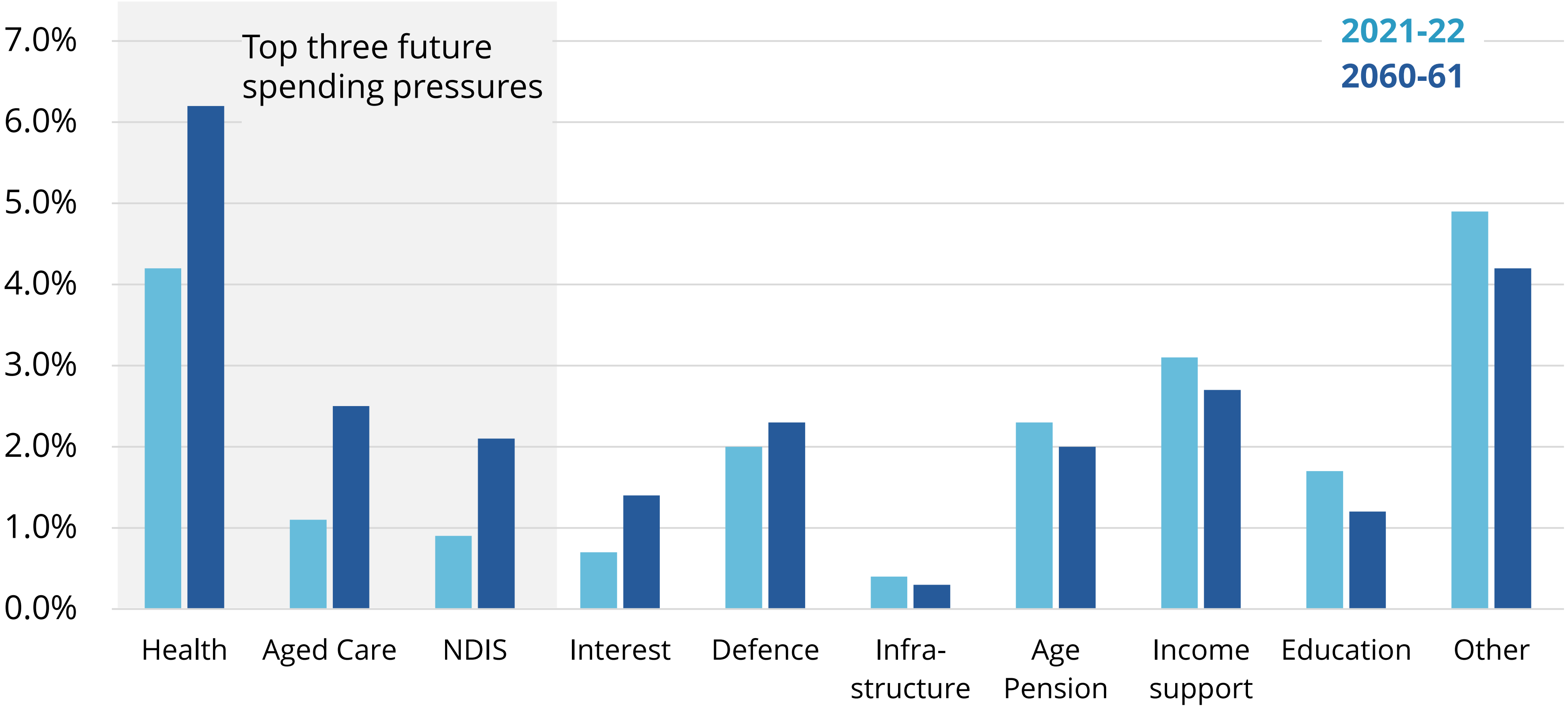
The care economy as a percent of Gross Domestic Product and share of the labour market



Note: GDP calculations are on a Gross Value-Added basis, which produces lower estimates on the size of the care economy than an Expenditure-based approach.
Source: PC estimates based on Commonwealth of Australia (IGR) data.

Care sectors will increase pressure on government budgets

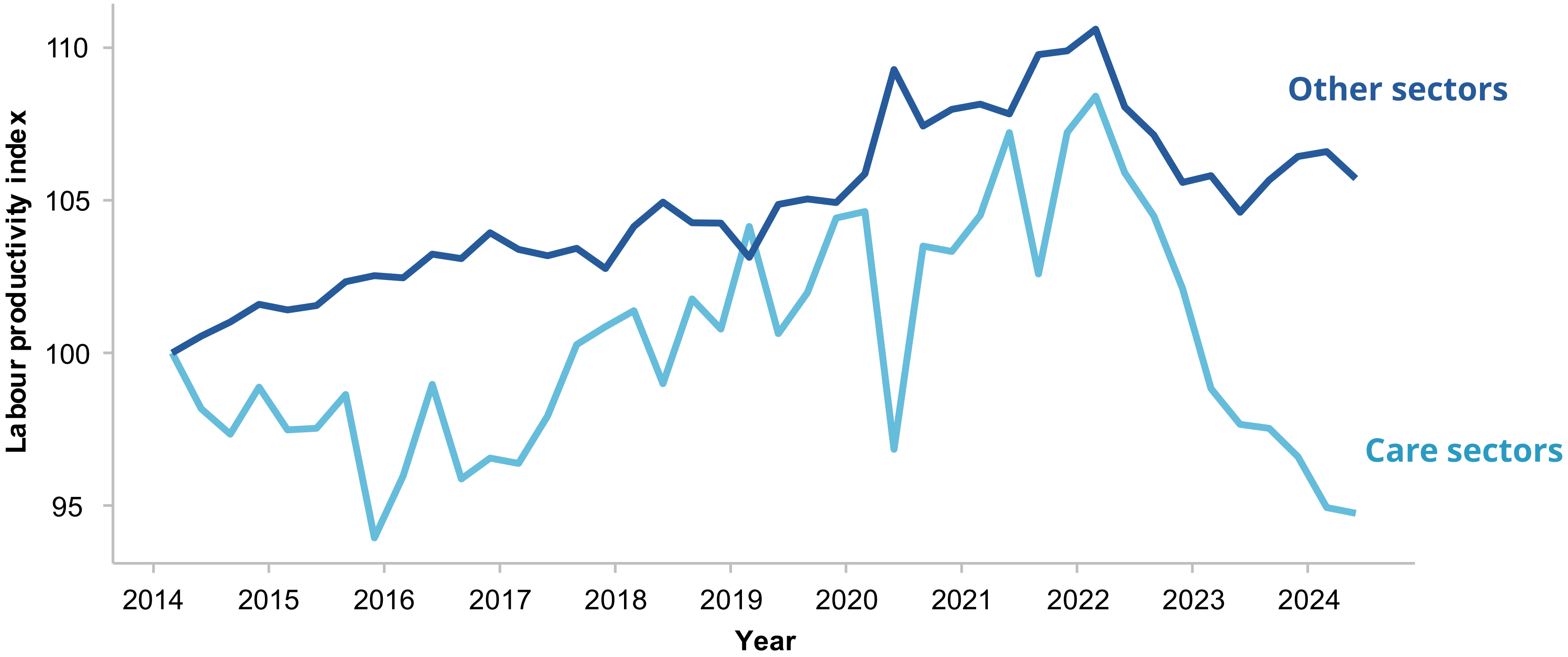
Composition of Commonwealth government spending over time, as a share of GDP



Note: Other payments in this chart includes a range of payments such as funding for the Australian Public Service, superannuation, official development assistance, law and order, the arts, community development and tourism. It excuses GST payments and state government contributions to the NDIS. Age Pension category includes Service Pensions. Income support category excludes Age Pension payments. Source: Treasury 2021, *Intergenerational Report,* Commonwealth of Australia, Chart 7.4.

Care sectors have lower measured productivity

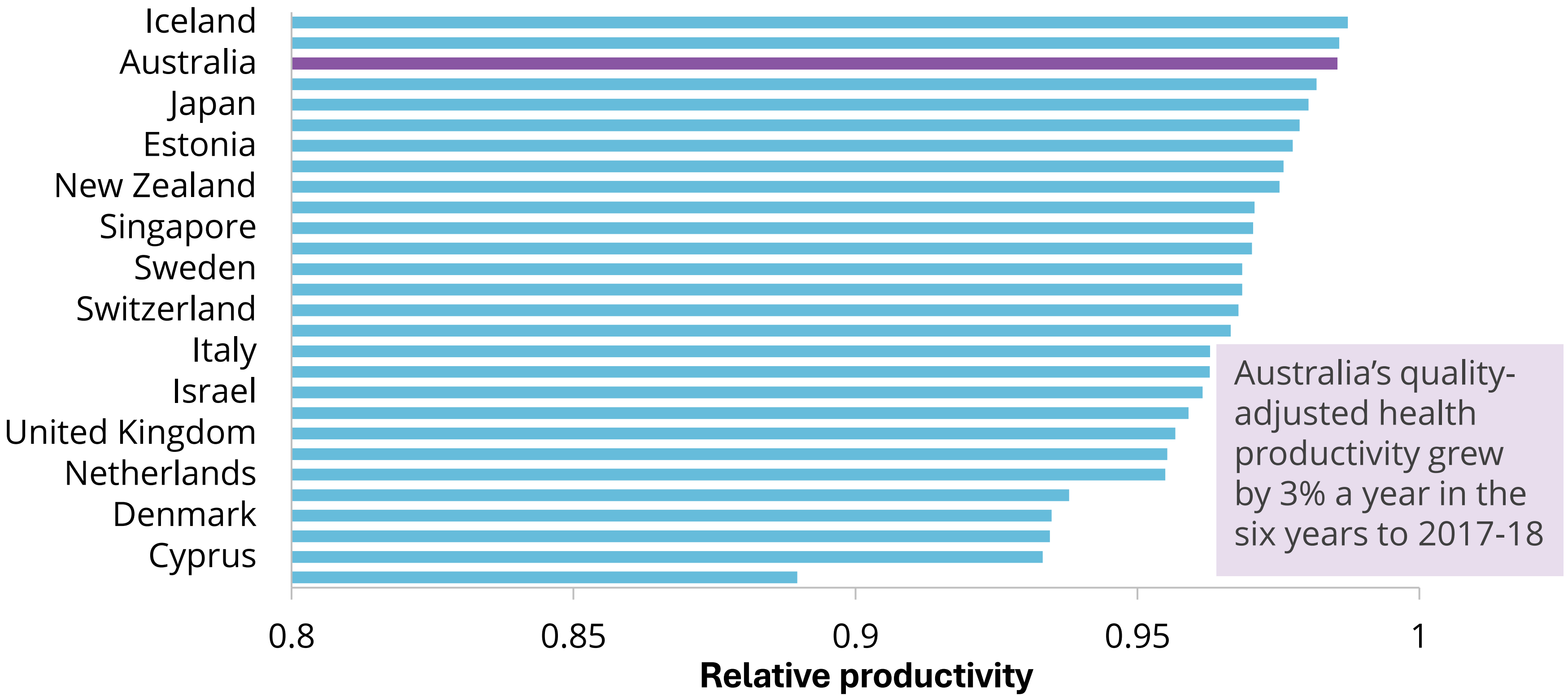
Labour productivity, index (March 2014 = 100)



See Productivity Commission 2025, *Productivity before and after Covid-19,* Research paper, Canberra, June, for more information Source: PC estimates using ABS 2024, Australian National Accounts: National Income, Expenditure and Product, June 2024 and ABS 2024, Labour Account Australia, June 2024

Sometimes productivity brings quality gains, not savings

Relative healthcare productivity by country, quality adjusted, 2010 to 2019



Note: Estimates are for selected parts of the health sector. Not all country names shown. See source for details. Source: Productivity Commission estimates, Productivity Commission 2024, *Advances in measuring healthcare productivity*, Research Paper, Canberra.

Benefits of prevention

Health

More than a third of Australia's health burden is preventable through a reduction in modifiable risk factors

Child maltreatment

Child maltreatment is widespread and is linked to risky adult behaviours

Disability

Some forms of disability like foetal alcohol syndrome and diabetes complications are preventable

Homelessness

Long-term homelessness and associated issues can often be prevented with early action

- **Prevention generates economic and social benefits**
- **Many preventive actions are cost-effective and reduce overall costs to govt**

Barriers lead to underinvestment in prevention

Benefits and costs are misaligned

Benefits from prevention can be spread across policy areas and tiers of government

Short term thinking

Prevention benefits can take years to show but costs are upfront

Budget processes impede cross-portfolio or long-term gains

Evaluation gaps

It is hard to track long-term impacts & linked data can be hard to access

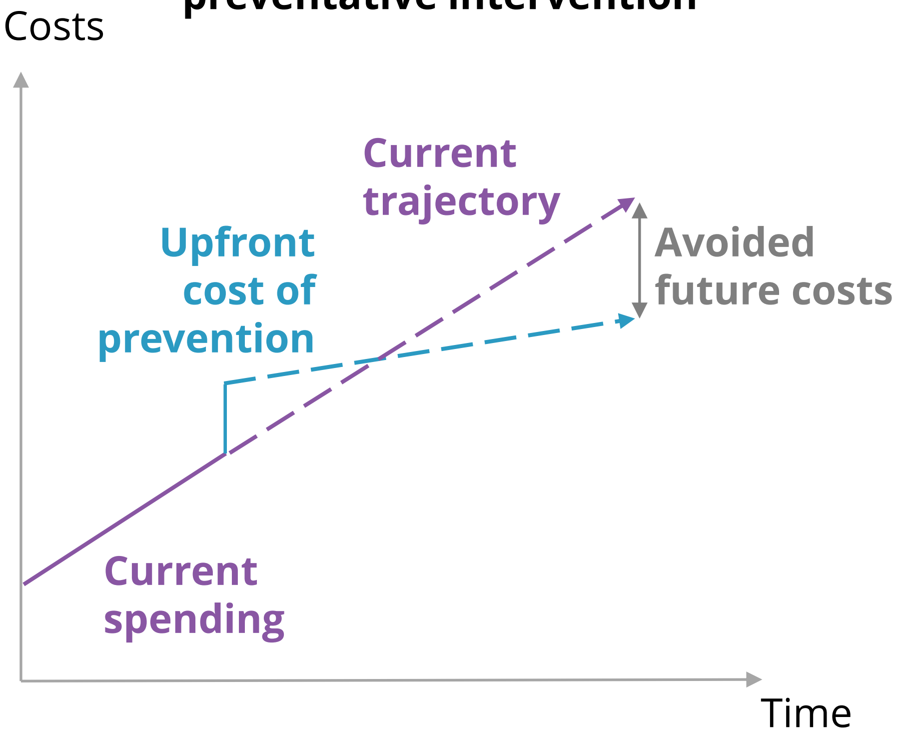
Without better tools to show what works, cost-effective programs risk being overlooked.

PC's recommendations will support investment in prevention

PC will recommend a new approach to preventative interventions that aims to:

- Ensure government receives **independent advice on preventative interventions**
- Provide a more systematic method for **funding preventative interventions** that will support investment across government silos
- **Improve assessment and evaluation** to make sure governments are properly informed

Expenditure with and without preventative intervention



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