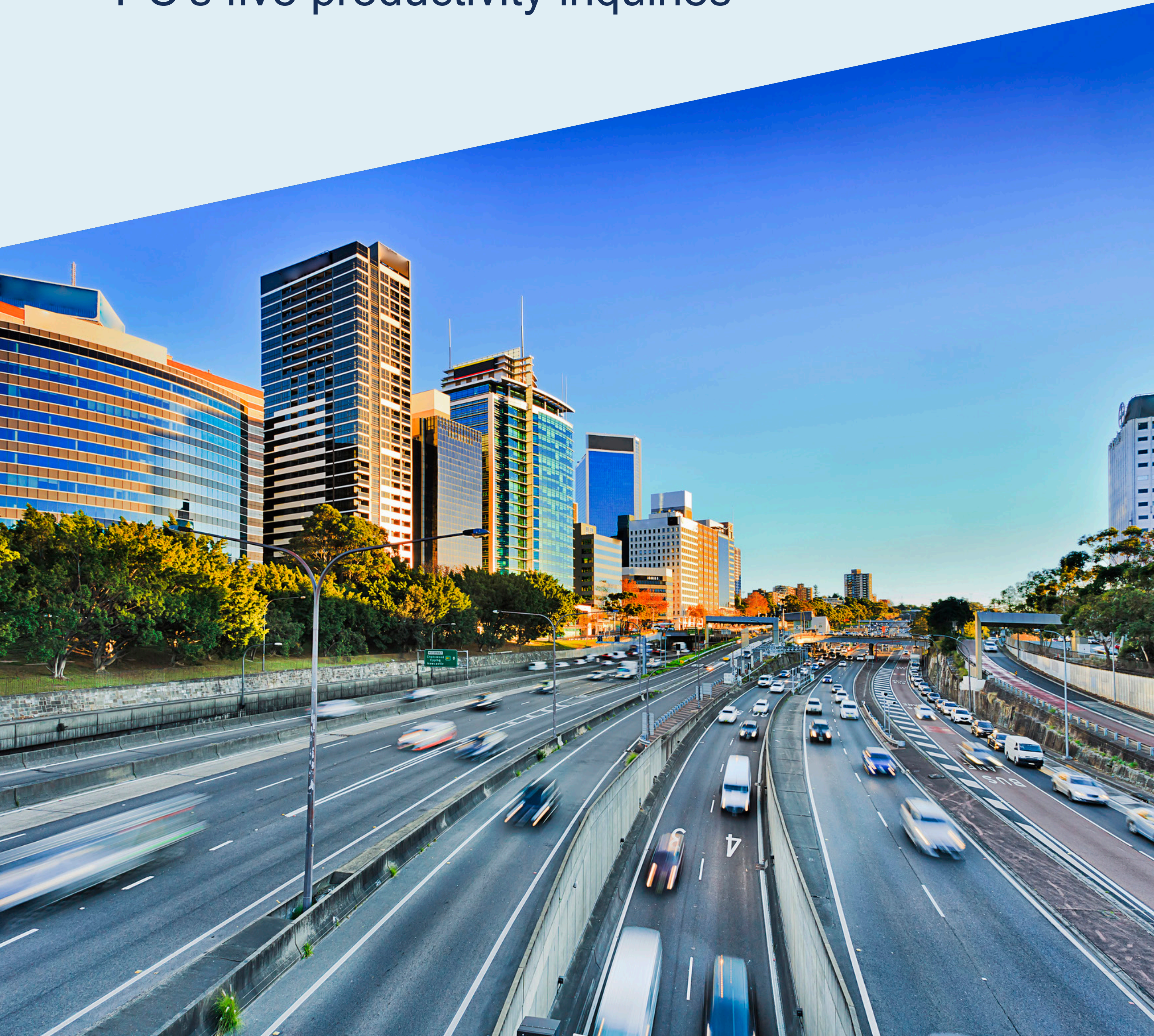
Australian Government
Productivity Commission

pc.gov.au

Meeting the productivity challenge

Reform priorities from the PC's five productivity inquiries



Meeting the productivity challenge

Productivity growth ensures future generations can live better and more prosperous lives than those that came before them. But Australia's productivity growth has stalled since 2016.

In *Growth mindset: how to boost Australia's productivity*, the Productivity Commission outlined the challenges facing productivity growth in Australia. This paper sets out three reform principles and provides an overview of our recommendations in the five pillars of productivity inquiries to meet those challenges.

Reform principles

Across **five inquiries**, we have made **47 reform recommendations** to support productivity growth across the economy. Taken together, these recommendations highlight **three key principles** for productivity growth.

One: New ideas – and the way we use them – are the foundation for growth

The most important driver of productivity growth is new ideas. That's why many of our reforms aim to foster innovation and spread it across the economy.

We need policy settings that allow us to safely and responsibly capture the productivity benefits of AI. And targeted initiatives, like a national approach to education technology in schools, would help more people understand and work with these tools as they develop.

Australia also needs to make better use of the data and information we have today. Data access and sharing would enable people to make more informed decisions about the products and services they use, unlocking competition. It would also give people new insights, helping them move firms closer to the productivity frontier.

Two: Investing in people and capital brings productivity dividends

Investment – both public and private – fuels innovation and growth. Investing in people's skills helps them adopt more productive ways of working and creates better and higher-paid jobs. Investing in the care economy supports people's wellbeing and their ability to thrive in the community and at work. And encouraging business investment gives us more productivity-enhancing tools, equipment and technology.

We also need to target investment well to get the best long-term outcomes. Governments can encourage investment in areas that markets would otherwise fail to support, like the transition to net zero and long-term health outcomes.

Three: Governments should regulate with growth in mind

Regulation can make us safer and healthier, protect the environment and make markets work better so that businesses can deliver the products and services people want.

But poorly designed or implemented regulation is a handbrake on growth. The PC heard many examples of regulation getting in the way: duplicative reporting requirements that waste time for providers in the care economy, slow environmental approvals that delay the rollout of renewable energy infrastructure and overly restrictive planning rules that make housing more expensive.

We need regulatory policy that better balances the benefits and trade-offs when considering new regulation. There are also several regulatory issues requiring urgent attention.

The benefits of the PC's reform agenda

The reforms in these inquiries would strengthen the drivers of productivity growth in Australia. Increasing investment, spurring innovation, improving labour mobility and reducing unnecessary regulatory handbrakes are surefire ways to boost competition and productivity growth. The reforms would also improve wellbeing and quality of life, and some would support progress towards targets in the National Agreement on Closing the Gap.

Our reforms make the most of new technology and ideas …

AI is a game changing technology. The PC estimates that productivity gains from AI could increase GDP by about $116 billion (2023–24 dollars) by the end of the next decade (equivalent to 4.3% labour productivity growth). Our approach to **AI regulation** would see governments find and fix the gaps in current regulations, only imposing new AI specific regulations as a last resort when risks are not sufficiently addressed. This would give businesses the confidence to invest in and use this technology and enable people to benefit in ways as diverse as protecting them from fraud to planning their holiday itinerary.

New ideas can help Australians reach their potential. Access to **high-quality teaching resources** would support teachers and improve outcomes for students. We estimate this could lift NAPLAN results by 2%, increasing the future wages (and labour productivity) of these students by 1.6%. This translates to an average GDP impact of 0.4% or $11 billion after 20 years.

To improve information access and use, we've highlighted the importance of **efficient and low-cost data access** policies and **outcomes-based privacy legislation**. A mature data-sharing regime could add up to $10 billion to Australia's GDP. Creating an **outcomes-focused Privacy Act** more fit for the digital age would reduce the burden on individuals and better protect their privacy, while giving business greater ability to innovate.

Better information sharing and changes to the way organisations work together through **collaborative commissioning** in the care economy would improve the quality of care and health outcomes. Reform could reduce potentially preventable hospitalisations by 5% and emergency department presentations by 4%, equivalent to $600 million per year. It would also enable more Aboriginal and Torres Strait Islander people to access culturally safe care tailored to their needs.

… boost investment …

Our reforms would support investment that would benefit people throughout their lives. **Greater investment in prevention and early intervention** would keep us healthier for longer while limiting future growth in the costs of care. Investing $1.5 billion over the first five years of our proposed National Prevention and Early Intervention Framework could return savings to government of around $2.7 billion 10 years after the initial investment.

Smoother pathways in education and the workforce would allow people to reach their potential faster: if higher education students with a diploma finished their degrees faster, there would be around $1.5 billion in cost savings and income benefits each year.

Investing in climate change adaptation can help Australia avoid costly impacts. Better **information on climate risks and more resilient housing** is critical. Early action, such as smarter land-use planning and retrofitting existing homes, could prevent up to $240 billion in cumulative damage to housing assets by 2100.

Businesses would also benefit, particularly those that invest in growth and new technology. Our reforms would **reduce corporate taxation of normal returns**, helping firms invest, innovate and take risks. This reformed tax system would increase investment by $10.2 billion (2.2%), labour productivity by 0.5% and GDP by $13.3 billion (0.7%).

Firms investing in the net zero transition would particularly benefit from our reforms. **Faster energy infrastructure approvals** and a more **consistent and comprehensive approach to emissions reduction** would reduce the cost of meeting our emissions targets. Reducing the Safeguard Mechanism threshold from 100,000 to 25,000 tonnes of CO2-e per year could decrease abatement costs under the policy by around $900 million from 2031 to 2035. In the National Electricity Market, taking a technology- and jurisdiction-neutral approach to the location of new generation and storage infrastructure could save around $8 billion over the next 15 years, without compromising the achievement of state renewable energy targets.

… and make regulations work better for businesses, workers and care users

Our package of recommendations would lower the overall regulatory burden on the economy, allowing people and businesses to focus more time and resources on higher priorities. We have proposed the Australian Government find $10 billion in regulatory savings and have proposed several cost-saving measures to contribute to that goal.

Digital financial reporting would increase the efficiency, transparency and accuracy of reporting. Deloitte Access Economics estimated the benefit to the Australian economy in the long term could be $7.7 billion annually after five years.

Better regulation would also support outcomes for workers. **More efficient regulation** in the care economy would better safeguard care users and make it easier for care workers, most of whom are women, to work across sectors, saving care workers approximately $88 million per year. Reducing the stringency of **occupational entry regulations**, in industries where stringency is more likely to vary across states and territories, could increase annual GDP in the long run by up to $6.3 billion (0.2% of GDP).

The task ahead

No single policy reform can bring productivity growth back to its historic average. To get there, governments and businesses will have to make a lot of pro-productivity decisions that support and reinforce each other. The rewards could be significant: the average full-time worker would be at least $14,000 a year better off by 2035.

Our recommendations would support growth across the whole economy, benefiting individuals, households and businesses today and for generations to come. It's time to get started.

Boosting Australia's Productivity

Creating a more dynamic and resilient economy

Corporate tax reform to spur business investment

1.1 Pivot the corporate tax system to a more efficient mix of taxes

1.2 To implement a revenue-neutral package that promotes investment, the Australian Government should reduce company income tax for all companies and introduce a net cashflow tax

1.3 Alternative proposals such as a partial asset write off, an allowance for corporate equity, or a tax cut would boost investment but come at a cost to the budget

Regulating to promote business dynamism

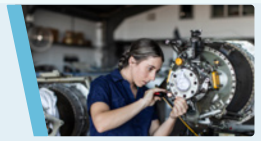
2.1 Set a clear agenda for regulatory reform and regulatory burden reduction

2.2 Set targets for regulatory burden reduction and institute a comprehensive reporting regime, to hold government to account for progress

2.3 Bolster high-level scrutiny of regulations

2.4 Enhance regulatory practice to deliver growth, competition and innovation

Building a skilled and adaptable workforce



The best resources to improve school student outcomes

1.1 Establish national frameworks to assess the quality of teaching resources

1.2 Improve student outcomes by providing equal access to high-quality instructional materials

1.3 Improve student outcomes by providing better access to educational technology

1.4 Provide professional development to support teachers to implement best practice

Enabling tertiary education pathways

2.1 Ensure students have credit transfer assessed before the deadline for accepting an offer

2.2 Increase transparency of credit transfer decisions in higher education

2.3 Improve the quality and integrity of recognition of prior learning to boost skills recognition and productivity

Boosting work-related training to build skills and adaptability

3.1 Improve the recognition of work-related training

3.2 Pilot co-funded training vouchers and advisory supports to encourage small and medium enterprises to increase work-related training

Fit-for-purpose occupational entry regulations

4.1 Replace excessive occupational entry regulations with less burdensome alternatives

4.2 Better target qualification requirements to risk

4.3 Expand entry pathways into trades

4.4 Incentivise occupational entry regulation reform through National Competition Policy

Harnessing data and digital technologies

Enable AI's productivity potential

1.1 Productivity growth from AI will be built on existing legal foundations. Gap analyses of current rules need to be expanded and completed

1.2 AI-specific regulation should be a last resort

Copyright in the age of AI: finding the right balance

2.1 A review of Australian copyright settings and the impact of AI

Rightsizing data access

3.1 Rightsize the consumer data right

Outcomes-based privacy regulation

4.1 Embed an outcomes-based privacy duty in the Privacy Act

Enhance reporting efficiency, transparency and accuracy through digital financial reporting

5.1 Make digital financial reporting the default

Delivering quality care more efficiently

Reform of quality and safety regulation to support a more cohesive care economy

1.1 Align quality and safety regulation of workers across the care economy

1.2 Align quality and safety regulation of providers and services and assess the case for a single regulator

1.3 Lead the implementation process and provide relevant agencies with direction

Embed collaborative commissioning to increase the integration of care services

2.1 Establish stronger joint governance arrangements

2.2 Enable more flexible funding

2.3 Provide dedicated funding based on outcomes

2.4 Take a strategic leadership role and ensure sufficient capability

A national framework to support government investment in prevention and early intervention

3.1 Establish a National Prevention and Early Intervention Framework

3.2 Ensure better evaluation of prevention and early intervention

3.3 Enable collaboration between Australian, state and territory governments

Investing in cheaper, cleaner energy and the net zero transformation

Reducing the cost of meeting emissions targets

1.1 Introduce a policy to drive electricity sector decarbonisation

1.2 The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

1.3 Phase out fuel tax credits for on-road heavy vehicle use; phase out EV subsidies

1.4 Assess and align policies against a benchmark and improve transparency

Speeding up approvals for new energy infrastructure

2.1 Set up a specialist 'strike team' for priority projects

2.2 Appoint a Coordinator-General for priority projects

2.3 Consider if the energy transition needs more weight in approval decisions at next EPBC Act review

Addressing the barriers to private investment in adaptation

3.1 Improve access to climate risk information through a national database

3.2 Develop a nationally consistent climate resilience rating system for housing

3.3 Improve resilience through a national coordinated strategy for housing resilience

3.4 Expand the Climate Change Authority's role in national climate change adaptation policy

Implementation timeline from 2026

Australian Government only

Australian Government lead, role for states and territories

Coordination between Australian Government and states and territories

States and territories lead

	SHORT-TERM (within two years)	MEDIUM-TERM (three to five years)	LONG-TERM (five years and beyond)
 **Creating a more dynamic and resilient economy**	1.2 2.1 2.2 2.3	2.4	1.1
 **Building a skilled and adaptable workforce**	1.1 2.1 2.2 4.1 4.2	1.2 1.3 1.4 2.3 3.1 3.2 4.3 4.4	
 **Harnessing data and digital technologies**	1.1 1.2 3.1 4.1	2.1 5.1	
 **Delivering quality care more efficiently**	1.3 2.2 3.1	1.1 2.1 2.4 3.2 3.3	1.2 2.3
 **Investing in cheaper, cleaner energy and the net zero transformation**	1.1 1.3 1.4 2.1 2.2 3.1 3.4	1.2 2.3 3.2 3.3	