Australian Government
Productivity Commission

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Productivity in Australia: selected policy options for a more prosperous future

PC submission

Submission to the Senate Select Committee on Productivity in Australia

February 2026

Acknowledgment of Country

The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.

About us

The Productivity Commission (PC) is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long-term interest of the Australian community.

The PC's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

For more information, visit the PC's website: www.pc.gov.au

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Introduction

The Productivity Commission thanks the Select Committee on Productivity in Australia for the invitation to make a submission on the current state of productivity in Australia.

Productivity growth is the key to long-term prosperity. Broadly measured as changes in the output of an economy divided by the economy’s inputs (such as land, labour and capital), it happens when we improve our skills, technology and ways of working so that for each hour worked we produce more and higher-quality goods and services.

Since Federation in 1901, improving labour productivity has seen Australians work an average of 14 fewer hours per week while incomes have increased by more than six-fold (in real terms) (PC 2023c, p. 1). However, recent years have seen productivity growth in Australia slow – a phenomenon reflected widely internationally. Without remedy, this slowdown threatens ongoing improvements in living standards.

The PC regularly advises the government on long-term, productivity-enhancing policy recommendations and reforms and has completed an extensive body of inquiry and research reports to that end.

Most recently, the PC completed inquiries into aspects of each of the Australian Government’s five pillars of productivity. The resulting reports detailed 47 productivity-enhancing policy recommendations and were released in December 2025. These reports included:

- Growth mindset: how to boost Australia’s productivity (2025e)
- Creating a more dynamic and resilient economy (2025b)
- Building a skilled and adaptable workforce (2025a)
- Harnessing data and digital technology (2025f)
- Delivering quality care more efficiently (2025d)
- Investing in cheaper, cleaner energy and the net zero transformation (2025g).

This submission does not restrict itself to discussing these reports. It also draws upon other key PC reports and submissions – primarily those published since 2020 to ensure relevance – to respond to topics and questions outlined in the Senate Select Committee’s discussion paper. In particular, it considers topics relevant to Australia’s: performance in a global context; industry-level performance; regulation; tax; freight supply chains; competition policy; and labour markets. It also comments on challenges to measuring productivity. The submission does not comment on topics where the PC does not have recent work or where there has been significant policy change since we last considered an issue, in particular, workplace relations and the regulation of emerging forms of work.

Australia's global competitiveness

The speed at which our economy grows is a function of changes in the size of our working-age population, the number of hours people work (participation) and the amount they produce while working, or productivity. Productivity, in turn, is influenced by factors like the skills and capacity of the workforce and the capital and raw materials used in production processes.

Measures of productivity capture how efficiently labour, capital or raw materials (that is, inputs) are used to produce goods and services (outputs). Economists commonly use two main measures.

- labour productivity: measured as output per hour worked
- multifactor productivity (MFP): measured as output per unit of a combined bundle of labour and capital.

This submission uses the term productivity to refer to labour productivity, unless otherwise stipulated.

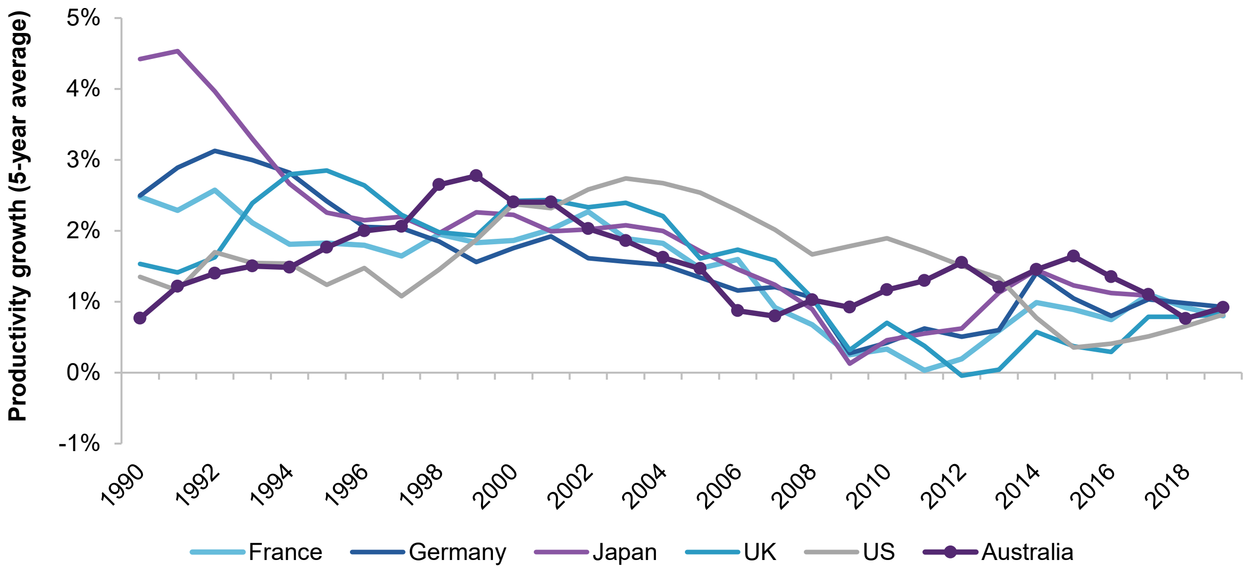
Productivity growth is driven by a range of factors:

- **Technological improvements**: New and better technologies allow firms to produce more with the same inputs.
- **Economies of scale and scope**: Large-scale or more diversified operations can reduce costs and raise productivity by spreading fixed costs and sharing systems.
- **Workforce skills**: A skilled workforce ensures labour can adapt to new technologies and changing industry needs.
- **Management practices**: Good management helps firms organise work efficiently, adopt best practice and make better use of labour and capital.
- **Competitive pressures**: Competition encourages firms to innovate and improve efficiency, causing less productive firms to exit.
- **The stage of the business cycle**: Firms adjust employment and hours in response to economic conditions.

Labour productivity growth is in decline globally

Labour productivity growth across much of the developed world is in decline. Across ‘mature’ economies, annualised growth over the past two decades has been just over 1% – about half the annualised growth of the preceding forty years (PC 2023d, p. 31). Australia is no exception, with analysis suggesting Australia’s growth rate to have slowed in the 21st century in line with the international productivity slowdown dating back to the 1990s (figure 1).

Figure 1 – Productivity growth has been declining internationally, 5-year rolling average

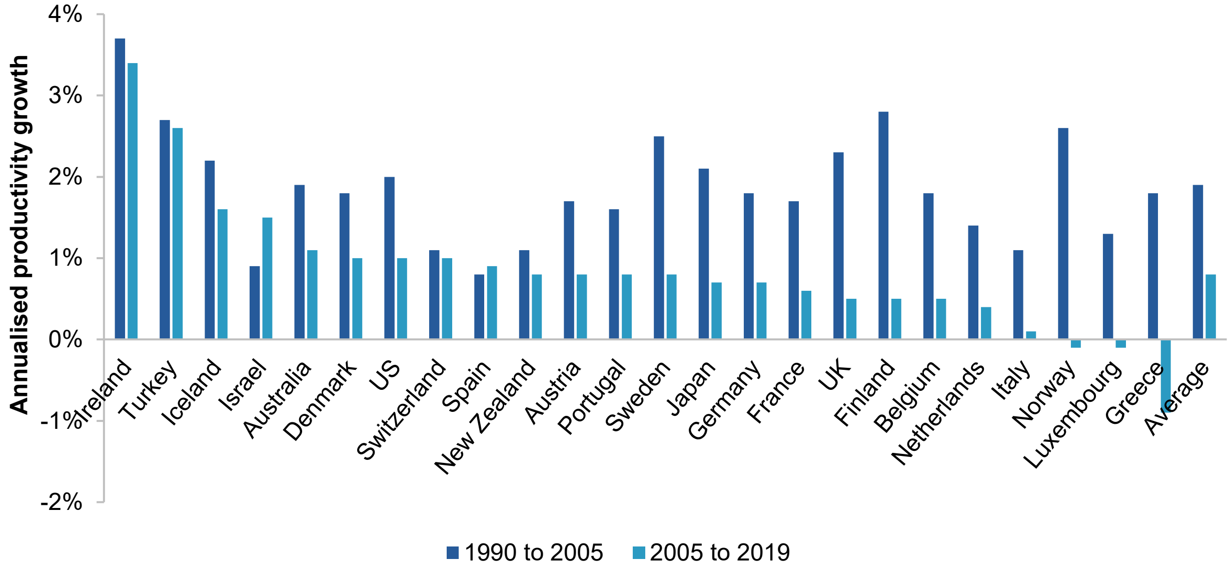


Data from the COVID-19 pandemic period (2020–2022) has been excluded. 5-year rolling average calculated using the four years prior to each given year. Chart includes select countries for interpretability purposes.

Source: PC estimates based upon Bergeaud et al. (2014, 2023).

Although the timing differs, almost every OECD nation has experienced reduced rates of productivity growth between 2005 and 2019, compared with the previous 15 years. Indeed, average productivity growth halved across the OECD in that period (figure 2).

Figure 2 – The productivity slowdown starting point varies by country



Includes only the 24 longest standing OECD countries. For some countries, the historical average annual growth rate is calculated between 1995 and 2005 due to data limitations. Data from the COVID-19 pandemic period (2020–2022) has been excluded.

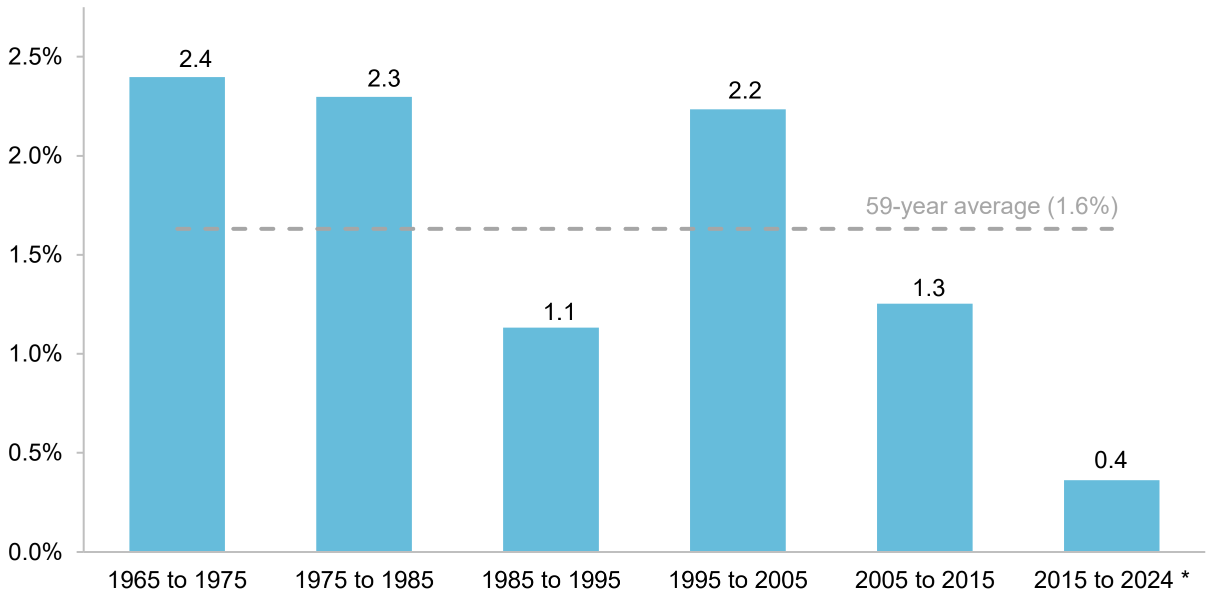
Source: PC estimates based on OECD (2022).

Regardless of Australia's position relative to the rest of the world, it is clear that Australia's labour productivity growth has slowed significantly. Labour productivity growth over the period 2015–24 was at its lowest in nearly 60 years (figure 3), which has negative implications for incomes and living standards.

Several factors have contributed to this slowing productivity growth (PC 2025e):

- **The rise (and rise) of the non-market services sector**: In the last decade, non-market (government funded) health, education and care services have grown particularly rapidly in Australia. Since these sectors have lower measured productivity, their expansion weighs on overall productivity growth.
- **Smaller gains from technology and its diffusion**: Recent technological advances have delivered smaller productivity gains than has been the case historically. In addition, Australia has become less good at adopting and adapting technologies from elsewhere, and Australian firms have increasingly fallen behind the global productivity frontier.
- **Stalling investment**: Weak growth in business investment has constrained capital deepening.
- **Declining economic dynamism could play a role**: Labour mobility has been in decline since the 1990s, and there is growing evidence that workers are less likely to move to higher productivity jobs and firms when they do switch jobs. New business formation also fell somewhat between 2005 and 2013, and has stagnated more recently.
- **Lack of appetite for economic policy reform**: Fewer structural reforms in productivity-enhancing areas have reduced economy-wide incentives to lift efficiency.
- **Other potential causes**: These include a reduction in the rate of growth of global trade (which has been shown to be a factor in other advanced economies), and declining returns from education.

Figure 3 – Australia's productivity growth is at its lowest rate in 59 years



*2015 to 2024 average is calculated over a nine-year period. Labour productivity calculated as GDP per hour worked. GDP data sourced from the ABS between 1964-65 and 2022-23. Hours worked data from Penn World Tables for between 1964-65 and 1973-74 and from the ABS between 1974-75 and 2023-24.

Source: PC estimates based upon ABS (2025a) and Feenstra et al. (2015).

Many of the same structural factors have been at play internationally. In addition to these causes, measurement issues (discussed later in the paper) play a role.

Improving many of these factors lies largely outside the control of Australian governments. The pace of ideas generation around the globe, and global trade and security policy settings, for example, as well as local factors like demographics, the structure of the economy, and the decisions and performance of Australian business leaders are factors over which Australian governments have little influence.

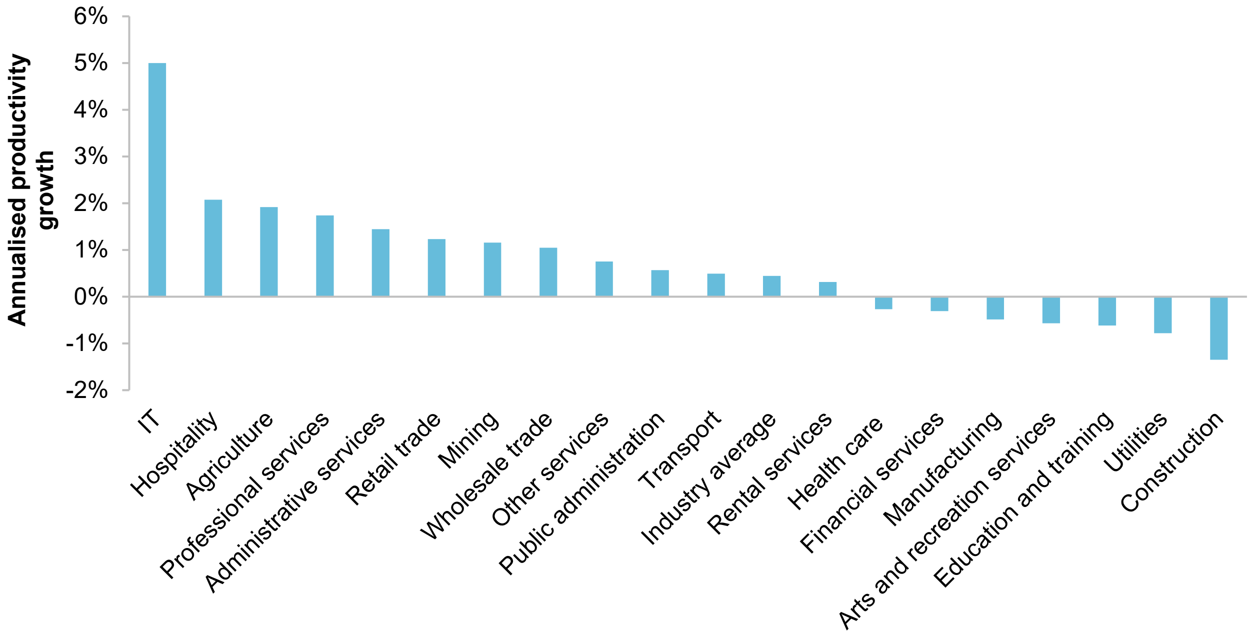
But even if they don't control everything, the policy choices governments make can shape Australia's future productivity and economic growth. Governments steward future improvements in our living standards by supporting 'enablers' of productivity growth like education, skills and training, research, and health and care services. Tax and transfer policies, regulatory and competition policy settings influence incentives to work and invest, and the movement of workers and resources around the economy. And governments fund, and sometimes deliver, infrastructure and services, meaning the productivity of government-delivered services has a direct impact on Australia's overall productivity levels.

Industry contributions to productivity growth, including in the non-market sector

Productivity growth varies across industries

Productivity growth varies significantly at the industry level (figure 4). For example, the information media and telecommunications industry has taken the lead in productivity growth since 2020, while mining, which has historically been a strong performer, has been on a general downward trend since around 2017. More recently, productivity growth in utilities has been below average, and for at least a decade, construction has consistently detracted from economy-wide productivity growth.

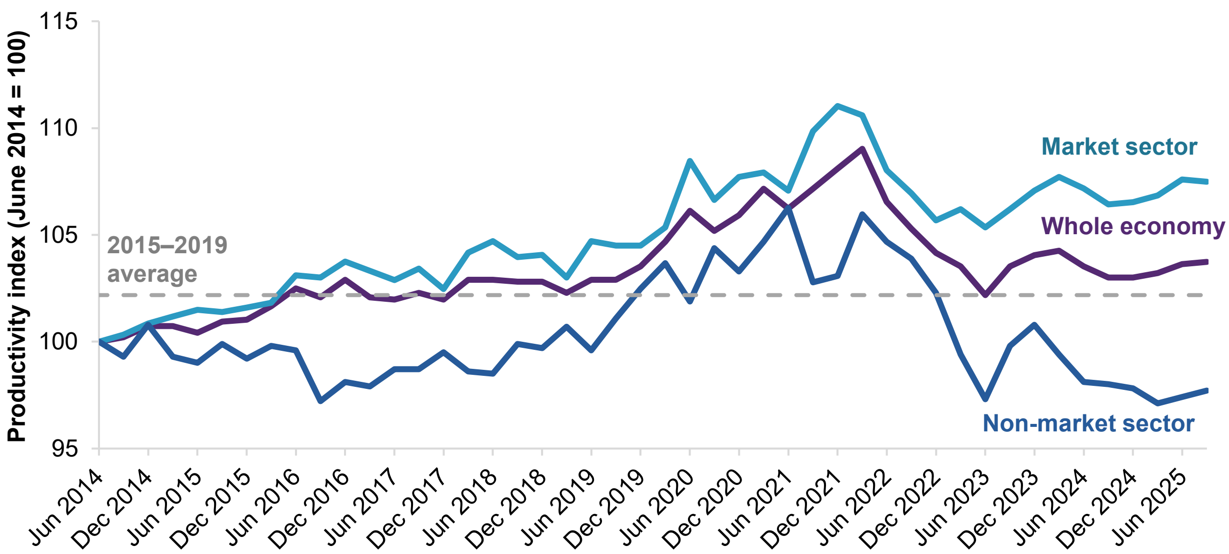
Figure 4 – Productivity growth varied significantly by industry from 2014 to 2024



Source: PC analysis using ABS (2025a, table 5).

Productivity growth in the market sector is significantly outpacing growth in the non-market sector (figure 5). Indeed, while aggregate productivity rose by 0.8% over the year to September 2025, the market sector rose by 1.0% while the non-market sector saw productivity decline by 0.3%.

Figure 5 – Productivity growth in the non-market sector is underperforming



The non-market sector is defined as 'Public administration and safety', 'Education and training' and 'Health care and social assistance'; the market sector is defined to include all other industries.

Source: PC analysis using ABS (2025a, table 5).

Lagging productivity in the non-market sector reflects more complex outcomes and objectives

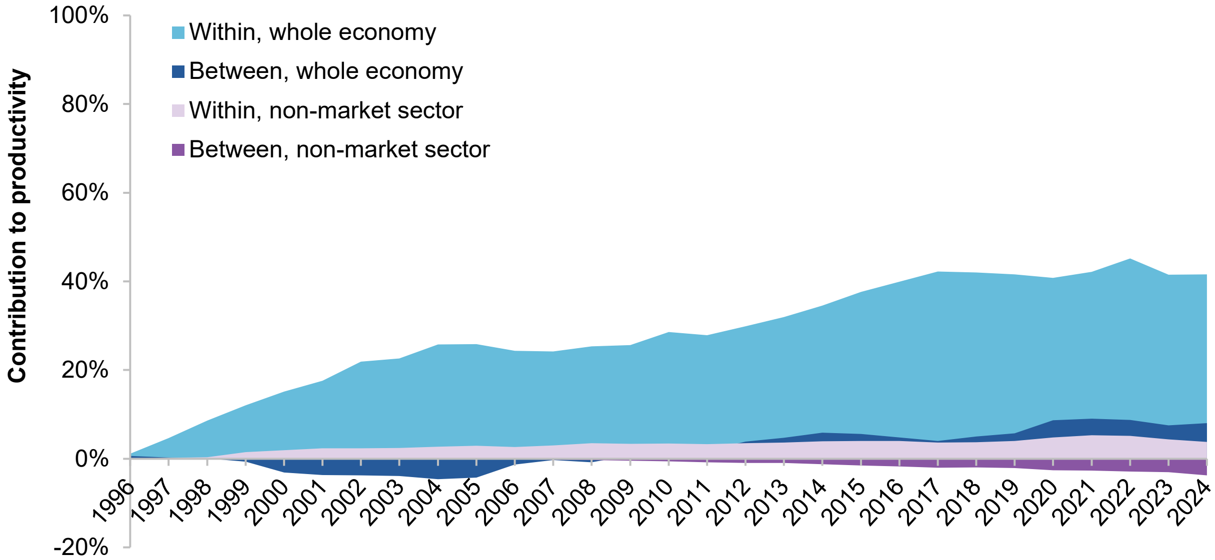
The implications of declining productivity in the non-market sector are heightened by its increasing share of the economy. Productivity gains in the non-market sector have been low, and employment growth in the sector has negatively impacted Australia's overall productivity (figure 6). This is not always a problem – growing employment in these sectors likely means more Australians are able to access a range of important supports, and some of the lower productivity in non-market services likely reflects measurement issues. Disaggregating the non-market sector by industry suggests declining productivity has primarily been driven by the health care and social assistance industry (figure 7).

The productivity performance in Australia's non-market sector has been lacklustre for several reasons. First, non-market industries are highly labour-intensive, limiting the scope for productivity gains through automation and technology compared with many market industries. While digital tools and administrative efficiencies can improve performance at the margin, service quality in areas such as early childhood education and care remains heavily dependent on human interaction.

Second, policy settings – such as minimum aged care staffing requirements and early childhood education and care staff ratios – deliberately prioritise service quality and consumer safety over measured output. Because improvements in quality or safety are not fully captured in productivity measures, reforms in these sectors will reduce measured productivity – even where they deliver substantial social value.

Third, productivity in non-market sectors is inherently difficult to measure. Output is typically proxied using inputs or costs rather than prices, which tends to understate improvements in quality over time, particularly in healthcare where technological change has been significant. These measurement challenges mean that observed productivity outcomes should be interpreted with caution and they are explored in more depth later in the section: Challenges in measuring productivity.

Figure 6 – Increased non-market sector employment has reduced productivity growth



'Within' refers to productivity improvements driven by changes in practices within the economy or sector; 'between' refers to productivity improvements driven by increased labour allocated to the economy or sector.

Source: PC analysis using ABS (2025a, 2025c).

Figure 7 – Health care and social assistance have dragged down non-market sector productivity

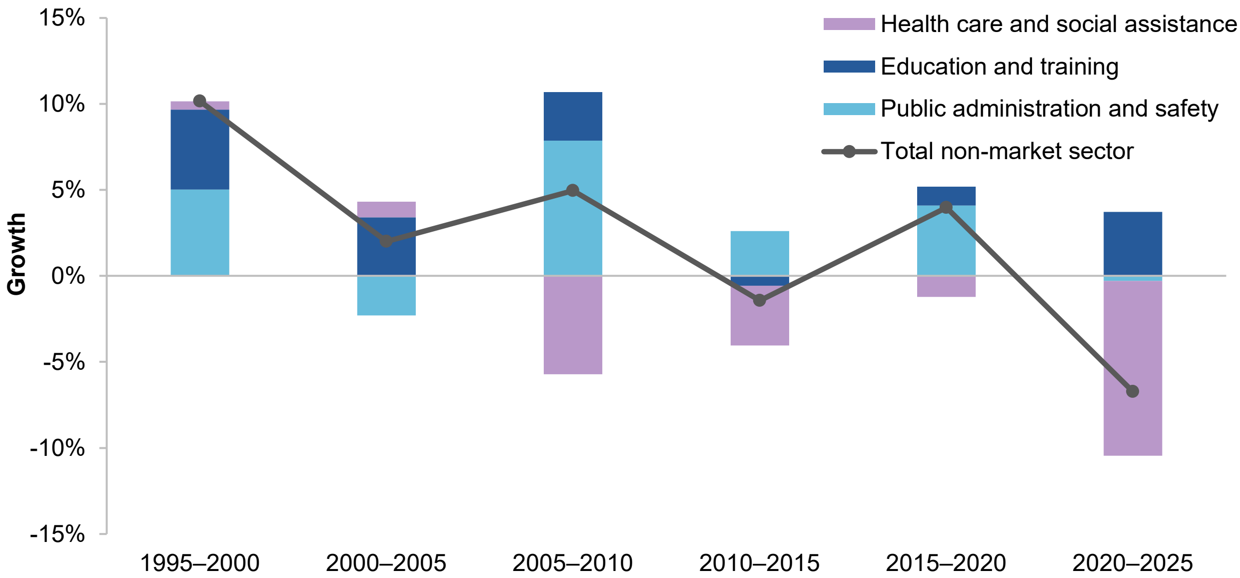


Chart reflects industry decomposition of non-market sector labour productivity growth between the March quarters of 5-year intervals.

Source: PC analysis using ABS (2025a, 2025c).

Key takeaways – Industry contributions to productivity growth, including in the non-market sector

Productivity growth varies significantly when disaggregated in different ways, including by market/non-market sectors and by specific industries. This is in-part attributable to measurement challenges, discussed later in this submission. Nonetheless, key takeaways from a more disaggregated analysis include that:

- the market sector has been systematically outperforming the non-market sector in productivity gains
- on an industry level, overperformers include the information media and telecommunications and agriculture industries, while underperformers include the construction and utilities industries
- subdued non-market sector productivity growth has been driven primarily by the health care and social assistance industry; however, this does not reflect quality improvements in the sector.

Australia's regulatory burdens that limit productivity

The regulatory burden on businesses is growing

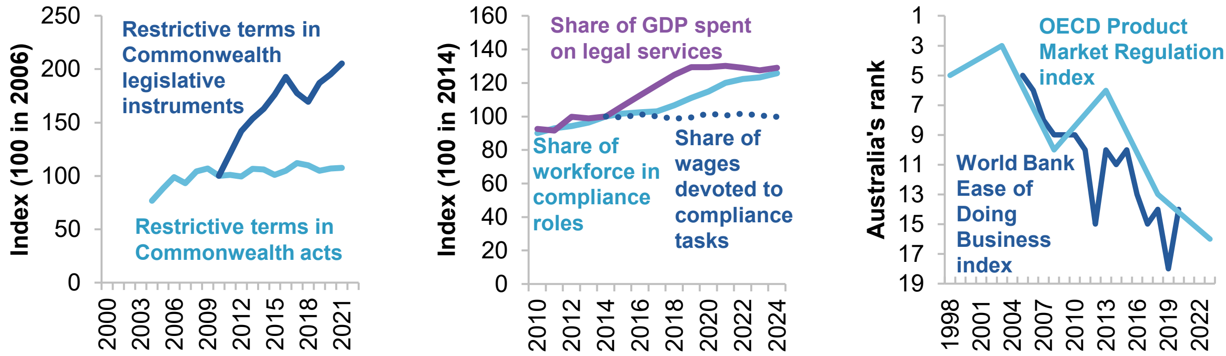
Regulation serves important purposes, including improving health and welfare, protecting the environment and ensuring markets function effectively. When designed and applied well, regulation can also support productivity growth by enabling efficient markets and reducing risk. However, excessive, outdated or poorly coordinated regulation can reduce economic dynamism and resilience.

In Australia, the burden of regulation has grown over time. Restrictive terms in Commonwealth legislation increased sharply over the two decades to 2020 (figure 8a). Employment-based indicators show mixed trends: while legal services and specialised compliance roles have grown since 2010, the share of wages devoted to compliance has been flat since 2014 (figure 8b). But corporate boards report a substantial increase in time spent on risk and compliance, rising from 24% in 2015 to 55% in 2025.

Internationally, Australia is falling behind its peers on economic regulation, dropping from fifth to 14th in the World Bank's Ease of Doing Business index (2005–2020) and from 3rd to 16th in the OECD's Product Market Regulation index (2003–2023) (figure 8c). While Australia made some improvements in these measures in an absolute sense, these improvements have been smaller than in other countries.

Figure 8 – Regulation trends are headed in the wrong direction

a. Growth in legislation b. The economic burden of regulation c. Australia's international standing



'Restrictive terms' are: 'shall', 'must', 'may not', 'prohibited' and 'required'. The rank of Australia reported under the OECD Product Market Regulation index is based upon the 28 countries that reported data in every period. 'Legal services' includes external legal services only.

Source: Number of restrictive terms in Commonwealth acts and legislative instruments: PC estimates based on QuantGov (nd); share of GDP spend on external legal services and share of workforce in compliance roles: Mandala (2025); share of wages devoted to compliance tasks: OECD (2025a); World Bank Ease of Doing Business Index: World Bank Doing Business annual reports, 2005 to 2020 (World Bank Group 2019); OECD Product Market Regulation Index: World Bank (2025b).

The government should consider a series of approaches to streamlining regulation

The PC has recommended a regulatory overhaul to improve productivity outcomes (PC 2025b, p. 33). This includes the Australian Government adopting a whole-of-government statement on regulation that makes it clear that regulatory reform in a core government priority. The statement should set out concrete actions to reduce regulatory burdens, specify principles of good regulation and establish a target for regulatory burden reduction and ongoing monitoring. Regarding the target, the PC suggested that administrative, compliance and delay costs should be reduced by $10 billion by 2030 – backed by regular public reporting through an annual *Regulation review*. Heightened scrutiny will be essential to preventing and reducing unnecessary regulation, including by (PC 2025b, p. 46):

- strengthening Cabinet's scrutiny of regulatory proposals by applying similar methods used to scrutinise budget proposals
- appointing an independent statutory commissioner to oversee the Office of Impact Analysis and raise the standards for impact analyses
- mandating a post-implementation review where impact analysis suggests the effects of a policy change are highly uncertain
- expanding the terms of reference of scrutiny committees of the Australian Parliament to allow them to provide stronger scrutiny of new regulations
- commissioning external root-and-branch reviews to reduce cumulative regulatory burdens in areas where thickets of regulation have accumulated.

Finally, regulatory practices should more clearly support growth, competition and innovation alongside traditional regulatory objectives. This requires clearer expectations for regulators, reinforced through ministerial guidance, capability building, performance measures and stronger accountability for regulatory outcomes.

Accompanying this overarching approach to streamlining regulation, the PC has identified several policy areas where governments should consider regulatory reform.

In the *housing construction sector,* all levels of government regulate where housing can be built, how it is built and the standards it must meet. The PC estimated that regulation adds $135,000–$320,000 to the cost of an average new house, and that housing-related regulation costs the economy $28.6 billion per year in aggregate (around 1% of GDP) (PC 2025b, p. 45). While safety and quality benefits are important, the cumulative regulatory burden has contributed to around three decades of stagnant productivity in the housing construction sector. The PC has recommended a review of regulation in the housing construction sector (PC 2025b, p. 44).

In the *digital and technology sector*, the *Privacy Act 1998* (Cth) aims to ensure safe data use and access, but many of its requirements are not outcomes-based. This imposes significant compliance costs on businesses without delivering commensurate benefits for individuals (PC 2025f, p. 69). The PC has estimated that ongoing legal and administrative compliance costs across around 10,000 firms with at least $50 million in turnover amount to about $2 billion per year (PC 2025f, p. 72). To address this, the Australian Government should consider reform to embed an outcomes-based privacy duty within the Privacy Act and phase out the existing Australian Privacy Principles (PC 2025f).

These sorts of issues are also pervasive in the *non-market sector.* For example, the care sector faces fragmented safety and quality regulation which impacts both service provision and consumption. On the one hand, differing requirements, standards and information access points create duplication and confusion for providers and workers. On the other hand, care users can find it difficult to navigate the system or compare providers. The PC has recommended reforms to reduce duplicate and inconsistent regulation in the care economy (PC 2025d).

Key takeaways – Australia's regulatory burdens that limit productivity

The PC has recommended a regulatory overhaul to improve productivity outcomes. Recent inquiries, for example, have recommended that the Australian Government should:

- adopt a whole-of-government statement on regulation to set a clear agenda for regulatory reform and regulatory burden reduction (PC 2025b)
- set a target to reduce the compliance and delay costs of its regulation by $10 billion by 2030, and should commission an annual Regulation Review to monitor progress (PC 2025b)
- bolster scrutiny of regulations through enhanced cabinet assessment, an independent commissioner for the office of Impact assessment and mandatory post-implementation reviews (PC 2025b)
- using ministerial statements of expectation to provide guidance to regulators on how to deliver growth, competition and innovation through regulatory systems including (among other things) how much risk public servants should tolerate in pursuit of business dynamism (PC 2025b)
- undertake regulatory reviews of several policy areas, including housing construction (PC 2025b) and care economy safety and quality regulation (PC 2025d)
- Reform the Privacy Act so it is outcomes-focused, reducing unnecessary regulatory burden (PC 2025f).

Investment and productivity

Weak business investment is constraining productivity growth

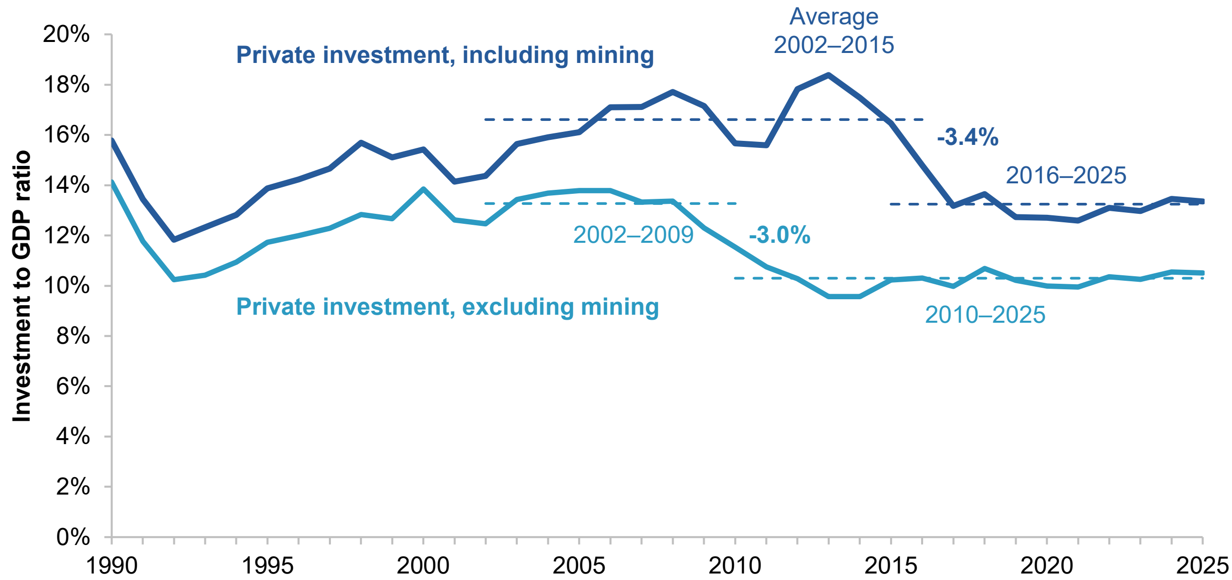
Business investment as a share of GDP has declined by more than three percentage points compared to its highs over the past 25 years – a relationship which holds even when excluding mining investment (figure 9). Declining investment risks reducing the capital-to-labour ratio (sometimes referred to as reducing 'capital deepening'), which in turn lowers output per worker – or productivity. These trends are not unique to Australia. In other advanced economies, business investment has also fallen, suggesting that broader structural factors may be at play (PC 2023a, p. 39).

Foreign investment plays a central role in Australia's capital formation, but raises policy trade-offs

Foreign investment is an important source of capital for Australia's economy. By expanding access to capital beyond what domestic savings can provide, foreign investment increases the amount of capital available to each worker and raises labour productivity. Foreign investment also means we gain access to ideas and technologies from international firms. This generates productivity-enhancing spillovers across the wider economy, including through technology transfer, stronger competitive pressures, improved management practices and workforce upskilling through training and knowledge diffusion. Foreign investment also enables multinational firms to set-up in Australia, bringing greater competition to the Australian domestic market.

However, foreign investment is not without its drawbacks. Governments face challenges in balancing openness amid global shocks, geopolitical tensions, protectionism, the climate transition and supply-chain disruptions. They must also appropriately manage risks in some cases, for example with respect to foreign acquisition and control of assets, international tax arrangements and transitional adjustment effects (PC 2020a, p. 51).

Figure 9 – Private investment in Australia has plateaued



Source: PC estimates using ABS (2025b).

Australia's investment environment requires reform to be more attractive to foreign investors

The PC's *Advancing prosperity* inquiry identified policy levers in four key areas the government could utilise to attract foreign investment: enhancing trade resilience, increasing openness to trade, ensuring an up-to-date foreign investment review framework and reducing barriers to trade in services (PC 2023a).

Efforts to enhance trade resilience should focus on maintaining open markets to reduce input cost volatility and support efficient resource allocation across the economy. Open trade allows firms to diversify suppliers, respond flexibly to shocks and access competitively priced inputs. Where vulnerabilities exist in critical supply chains, risks are best managed by firms using those supply chains (PC 2021b, p. 15) – government action should be targeted and used only as a last resort, rather than as a substitute for well-functioning markets.

The PC continues to support these principles, even given the current state of global trade policy settings. Indeed, modelling undertaken by the PC suggests that Australia would fare better economically should it choose not to implement retaliatory tariffs imposed by its trading partners – as it has so far done (PC 2025i, p. 10). Australia's best response is to continue to work towards open and free markets.

To that end, Australia should take steps to strengthen alignment with international standards to lift competitive pressures and support technology diffusion. Means to these ends include continuing to liberalise goods trade by eliminating remaining tariffs, progressively winding back anti-dumping and countervailing measures and improving recognition of international product standards (PC 2023a, 2025h). New or expanded trade protections should be subject to economy-wide cost-benefit analysis to ensure they deliver net benefits.

The foreign investment review framework should balance the management of strategic and integrity risks with the need to attract capital, skills, technology and management expertise. Reforms should aim to minimise unnecessary deterrence to foreign direct investment and ensure application fees do not function as an implicit tax, including by better aligning fees across investment categories (PC 2023a, p. 91).

Governments should also support the growing role of services trade in the global economy. Reducing barriers to services trade would enable greater scale, specialisation and knowledge spillovers, strengthening productivity and competitiveness in service industries. This will require the Australian Government to reduce barriers 'at the border' (such as tariffs and foreign investment compliance requirements) and 'behind the border' (such as regulatory rules, price controls, local ownership or foreign work regulations, rules of origin, or data storage and privacy requirements), targeting a mixture of trade policy, tax settings, occupational licensing, foreign direct investment and recognition of overseas qualifications (PC 2023a, p. 96).

The PC has also recommended reforms to Australia's tax system, in part to help attract more foreign investment. This is discussed in greater detail in the next section: Australia's tax system and impacts on productivity.

Key takeaways – Investment and productivity

The PC's *Advancing prosperity* inquiry suggested that to support foreign investment, the Australian Government should (PC 2023a):

- pursue economic resilience by harnessing open trade by reducing, removing and avoiding reciprocal tariffs
- embrace open trade and greater recognition of international standards address potential chilling effects of the Foreign Investment Review Framework
- prepare for increased global trade in services by lowering barriers across trade policy, tax settings, occupational licensing, foreign direct investment and recognition of overseas qualifications.

Australia's tax system and impacts on productivity

Taxes distort incentives, distorting labour and investment decisions

Different forms of taxation impact Australia's productivity by distorting economic decision-making, labour supply and investment choices.

The tax and transfer system has a direct influence on investment decisions. By taxing some activities at higher rates than others, the system can skew incentives and economic activity away from more productive activities (PC 2023a, pp. 49–50).

Transitioning Australia's tax system towards less distortive, more efficient approaches is an enduring policy priority. It will become more salient as governments contend with the ageing population, changing consumption patterns and the need for fiscal repair. While specific tax incentives could aim at bringing forward investment, piecemeal tax incentives alone are unlikely to boost long-term productivity growth. The effects of taxation on the incentive to invest are better dealt with via structural tax reform rather than one-off measures.

The tax system can influence productivity growth through five main channels.

Particularly through income and payroll taxes, skilled labour supply decisions can be distorted, affecting labour market participation, hours worked, incentives for further human capital investment and incentives to migrate to Australia. These effects can vary with gender, household structure, age and income. They can be compounded by aspects of the transfer system, which can lead to high effective marginal tax rates. Other payments, such as childcare subsidies, can alleviate adverse incentives over some income ranges.

Saving and investment decisions can be distorted due to the varying tax treatment of different savings and investment options. If investment and asset allocation decisions are based more on preferential tax treatment than underlying economic return, productivity can be adversely affected. Gaps between the corporate tax rate and marginal personal income tax rates, differential tax rates for large and small companies, differences in statutory depreciation rates and the non-deductibility of equity all have some potential to distort outcomes.

Ease of asset transfers and efficient capital allocation can be significantly impacted by transaction taxes like stamp duty. These taxes can hamper worker mobility and housing choice, and be a barrier to efficient transactions, which would see assets transferred to a higher value use.

Tax settings can affect the ease of entry and competition through both consolidation rules and the non-neutrality of taxation of corporate debt and equity – both of which could contribute to incumbency bias, particularly if new firms are more likely to initially be financed through equity. For example, some new firms in the services sector might have limited tangible business assets against which to borrow, relying more on equity to finance initial operations. Tax arrangements that become less favourable as businesses grow beyond a threshold size can also impede competitive pressure.

Lastly, risk management can be hampered at the margin by state insurance taxes. The asymmetric treatment of profits and losses could also work to diminish firms' risk appetite. Alternatives that have been suggested (though none are necessarily straightforward) include some loss refundability (such as via a business 'net cashflow tax'), the carry-back of losses or the indexation of losses carried forward.

The corporate tax system should be reformed to reduce the taxation of normal economic returns

The PC's recent inquiry into *Creating a more dynamic and resilient economy* considered the issue of how to improve company taxation to improve dynamism and productivity (2025b).

A core guiding principle through the inquiry was that decreasing the tax on 'normal returns' would improve the corporate tax system. Normal returns are best defined as the returns, or profits, required by a company to undertake an investment – any returns above this rate may be considered excess returns, or economic rents, and are generally considered to be less distortionary to tax.[1] Therefore, the extent to which Australia's corporate tax system targets normal returns, rather than excess returns, will materially inhibit investment and productivity growth.

Australia's corporate tax system has several features which lead to relatively high rates of taxation of normal returns.

- **Asset purchases are not immediately expensed**: Asset purchase choices are distorted through special treatment rather than expensed as any other business cost, following either depreciation schedules, capital gains rules or trading stock rules. Each of these approaches cause the purchase of assets to be expensed in a manner which is less than the true present-value of the asset, reducing investment.
- **There is a bias towards debt-financing**: The cost of financing can be treated as an expense for debt (interest costs), but not for equity (dividends). This creates a bias towards debt financing. Because smaller and more innovative firms tend to be more dependent upon equity financing, this leads to a tax system-induced bias towards larger, incumbent firms – inhibiting economic dynamism.

[1] For a more detailed overview of economic rents, see appendix B.1 of *Creating a more dynamic and resilient economy* (2025b).

- **Risk is insufficiently compensated**: Losses are insufficiently compensated by being held constant at their nominal value when carried forward, rather than being adjusted to account for the time-value of money. This has the effect of penalising companies for taking risks by increasing the impact of losses.
- **The tax rate is prohibitively high**: Australia's company income tax rate is among the highest in the OECD. This has the impact of discouraging investment and foreign entry, as well as exacerbating the distortions outlined above (PC 2025c, pp. 13–14).

Addressing these distortions would focus taxation more towards rents, improving investment, economic dynamism and productivity. While there are several approaches to reducing these distortions, the PC's recommended approach (while remaining budget neutral within the corporate tax system) is to lower the company income tax rate for all companies and partially fund the revenue shortfall with a net cashflow tax on all companies, which would better target excess profits.

If the government identifies savings opportunities elsewhere in the budget, other options include:

- introducing a partial expensing model (which allows a third of capital expenditure to be expensed)
- introducing a 2.5% allowance for corporate equity
- lowering the company income tax rate to a uniform 25%.

Key takeaways – Australia's tax system and impacts on productivity

Australia should systematically transition its tax system to be more supportive of productivity growth. To achieve this outcome, the Australian Government should:

- **reduce its reliance on more distortionary taxes** (PC 2023a): At a system-wide level, this would involve reducing dependence upon forms of taxation which: distort labour market participation decisions; treat savings and investment choices in a non-neutral manner; or inhibit capital mobility, competition and risk-taking
- **lower the taxation of normal returns** (PC 2025b): At the corporate tax level, this would involve implementing reforms by either:
  - maintaining medium-term budget neutrality by introducing a 5% net cashflow tax to fund a reduction in the company income tax rate
  - implementing either a partial expensing model, an allowance for corporate equity or a simple reduction to the company income tax rate, at a long-term structural cost to the budget.

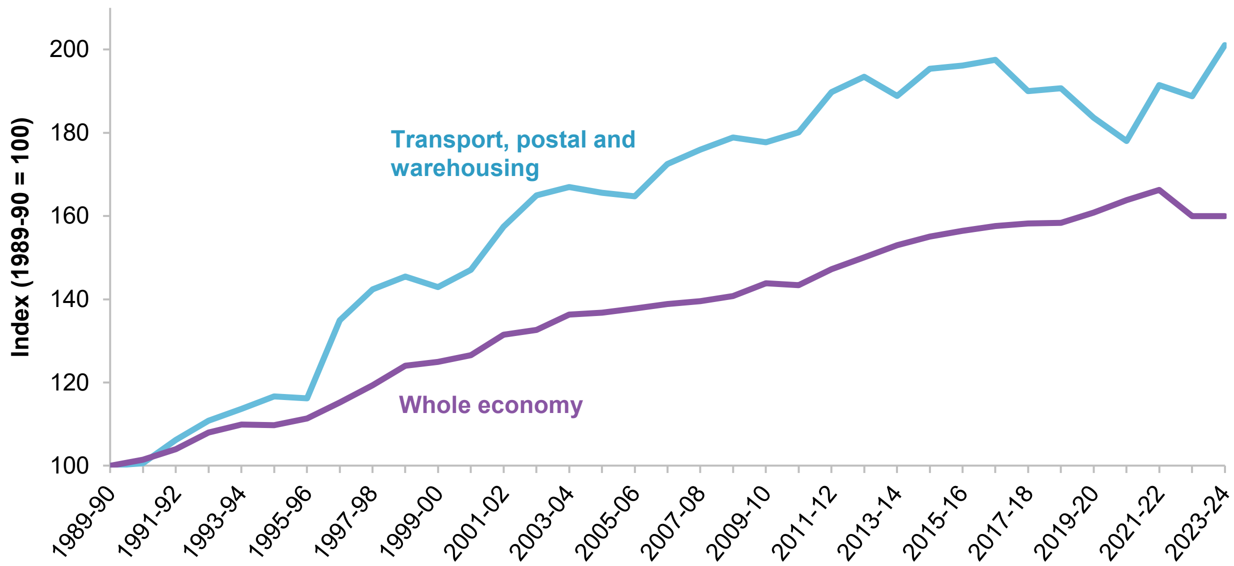
Freight supply chains

Efficient supply chains are enablers of economic growth

The physical movement of goods to and from Australia, and within Australia, is accomplished by our freight system. The domestic freight task is carried mainly by rail (57%) and road (28%), with heavy vehicles transporting over 94% of road freight (PC 2020b, p. 39). Coastal shipping accounts for a further 14%, and air freight less than 1% (PC 2020b, p. 39). Together, freight supply chains connect virtually all parts of the economy, supporting trade, production and consumption – key drivers of economic growth and productivity.

Evidence suggests that productivity has improved over the long-term in Australia's freight sector. Productivity growth in transport, postal and warehousing rose steadily from the 1990s, although has fluctuated more recently (figure 10). The sector's labour productivity growth was stronger than the economy-wide trend, though with greater variability.

Figure 10 – Productivity in the transport, postal and warehousing industry has increased more than productivity in the whole economy over the longer term



The 'transport, postal and warehousing' series includes both freight and passenger services. Therefore, it should only be considered indicative of how freight supply chain productivity has performed over time.

Source: PC estimates using ABS (2025b).

Maritime sector productivity could be improved

In 2022, the PC estimated that if Australia's container ports could achieve global average ship turnaround times, this could deliver direct cost savings of around $600 million (PC 2022, p. 88). While private firms drive productivity outcomes, governments could improve the regulatory and institutional environment to help bring about these cost savings.

The PC recommended:

- repealing part X of the Competition and Consumer Act 2010 (Cth), implementing a mandatory container terminal operator code and removing shipping contracts' exemption from unfair terms provisions in Australian Consumer Law – these recommendations were intended to improve competition
- a range of changes to workforce arrangements around ports, including prohibiting enterprise agreement content that imposes excessive constraints on productivity, increasing maximum penalties for unlawful industrial action and equipping the Fair Work Commission for an extended role in ports
- changes to Australia's coastal shipping laws to increase competition
- periodic review of the (then) proposed Maritime Strategic Fleet (the PC argued that such a fleet was not needed though.)

Risks to vulnerable supply chains are best managed by users

The COVID-19 pandemic heightened concerns about access to goods and service during international supply chain disruptions. In response, the PC was asked to examine the nature and sources of risks to the effective functioning of the Australian economy and Australians' wellbeing arising from disruptions to global supply chains. The *Vulnerable supply chains* study developed an analytical framework for identifying vulnerable, essential and critical goods and services, and considered the role of government in managing supply chain risks (PC 2021b).

The PC argued that risks are best managed by those who have direct incentives to mitigate them. Firms generally have good incentives to manage their own risks, using a variety of strategies, and governments have a responsibility and incentive to manage risks in supply chains where they purchase or deliver goods and services. Governments can also play a role where there is a divergence between the risk appetite of firms and the community, or where disruptions can have spillover effects or affect national security. The PC also argued that governments could focus their efforts on ensuring firms do not face unnecessary constraints on how they plan for and respond to disruptions – for example, removing barriers to trade can give firms greater opportunities to diversify their suppliers.

Past attempts to harmonise national transport regulation have delivered limited results

Australian governments worked collaboratively for over a decade to improve freight and passenger transport outcomes through safer and more integrated national transport markets. In this context, the PC examined the long-run economic impacts of transport regulatory reforms agreed by the Council of Australian Governments (COAG) in 2008-09 through its *National transport regulatory reform* inquiry (PC 2020b).

In 2008-09, COAG agreed to national reforms for heavy vehicles, rail and domestic commercial vessels, establishing national laws and regulators to harmonise safety regulations. These reforms aimed to reduce compliance costs arising from inconsistent regulation across jurisdictions while improving safety outcomes, though data limitations made it difficult to assess the impacts of the reforms (PC 2020b, p. 177).

The PC's recommendations collectively reinforce that lifting both productivity and safety across road, rail and maritime transport requires regulatory frameworks that move beyond rigid prescription toward flexible, risk-based, outcomes-focused approaches while improving consistency, data use and national harmonisation. In particular, select areas of recommendations from the PC included that (PC 2020b, pp. 24–35):

- national regulators be directed to adopt a risk-based approach to regulation, enforcement and compliance to better target safety risks and reduce unnecessary prescriptive detail
- Heavy Vehicle National Law be amended to clarify obligations and remove unnecessarily prescriptive elements (for example, through the removal of unjustified derogations). Similar steps should be taken with Rail Safety National Law in the case of unjustified derogations
- fatigue management regulation in heavy vehicles and rail be reformed to empower regulators with flexible, risk-based tools and acceptable means of compliance rather than rigid rules
- grandfathering provisions in maritime vessel survey requirements be ended to eliminate legacy inconsistencies, and maritime hire and drive vessel regulation be returned to the states where appropriate to ensure fit-for-purpose oversight
- Australian Design Rules and transport technologies be modernised and streamlined to allow for new transport technologies, including automated technologies, with proven productivity or safety benefits
- risk-based assessment be adopted for heavy vehicle access permits, decisions about permit access decisions be published and as-of-right heavy vehicle access networks be expanded

- reporting, data collection, investigation and research processes across heavy vehicles and maritime services be improved, for example through annualised reports and the publishing of disaggregated data.

Key takeaways – Freight supply chains

While existing PC analysis focuses on three specific areas – Australia's maritime logistics system, vulnerable supply chains, and transport regulation – freight supply chains are broader and more far-reaching. Further reform and updated analysis – including the forthcoming PC report into the impacts of heavy vehicle regulatory reform – will add to the evidence base needed to better understand the links between freight supply chain policy and productivity. At a high level, PC analysis points to the following priorities:

- reform port competition, pricing and workplace arrangements (PC 2022)
- remove regulatory barriers and modernise border systems (PC 2021b)
- shift freight regulation towards nationally consistent, risk-based frameworks (PC 2020b).

Effectiveness of Australia's competition policy

Competition is a key driver of productivity

Competition drives economic efficiency and productivity.[2] It achieves this by forcing businesses to fight for consumers by innovating to lower prices and production costs while raising quality. Successful competitors maximise the value for consumers (allocative efficiency) using the most effective means of production (productive efficiency). Competition also drives 'creative destruction', where businesses that innovate and adopt best practice flourish while laggards decline and fail (dynamic efficiency). By creating strong incentives for businesses to maximise consumer value at least cost while innovating over time, competition underpins ongoing productivity growth.

The recent National Competition Policy reforms are a step in the right direction

In 2023, the Treasurer announced a Competition Review – the first significant review since the 2015 Competition Policy Review (Harper Review). Alongside specific consideration of mergers and acquisitions and non-compete clauses, the review included a renewal of National Competition Policy (NCP). The revival of National Competition Policy is significant because it provides an avenue for the Australian government to work with states and territories to reduce regulatory barriers and inconsistencies across the federation. Early reforms being progressed include commercial zoning rules and alignment of product standards (Australian Treasury 2025).

[2] Competition is only one contributing element to efficient markets. For an overview of all elements of market failure, see the extensive discussion in the PC's submission to the Competition Policy Review (2014).

The PC's 2024 analysis of 19 potential proposed NCP reforms suggested they could grow the Australian economy in the long-run by $26–$45 billion in 2023-24 dollars (1.0%–1.7% of GDP) (PC 2024b).[3] On top of this, analysis in 2025 of reform options for occupational licensing and overseas standards adoption suggested these reforms could boost the economy by $1.1–$3.0 billion per year (or 0.04%–0.11% of GDP) (PC 2025h).[4] The latter analysis included a review of mandatory standards, finding that they should be reviewed to more closely align with international standards and that they should be made freely accessible (PC 2025h).[5]

Ultimately, these impacts should be contemplated in the context of the Australian economy of today; the big competition reforms of the 1990s, like the introduction of competition to the telecommunications and aviation industries, can only be meaningfully undertaken once. The Australian economy benefitted from and has built upon these competition policy reforms (PC 2005), and the larger and more complex economy of today will require similarly degrees of effort to successfully achieve further competition policy reform. To this end, it is notable that incentive payments to subnational governments to encourage implementation of competition reform were more than five times greater under the Hilmer reforms (while Australia's economy was half its current size) than the most recent reforms (OECD 2026, p. 90) – though this is still more than the Harper reforms which had none. There are still gains to be made by improving competition policy settings, and the Australian Government should continue its reform efforts towards this end.

Key takeaways – Effectiveness of Australia's competition policy

Australia should continue to engage with competition reform. Doing so will enhance the incentive for firms to reduce costs, reduce prices and introduce new products to the market, with the potential to boost Australia's GDP, productivity and broader consumer welfare (PC 2024b, 2025h).

Dynamism of Australia's labour market

Australia's strong labour market is in part the flipside of low productivity growth

Since the COVID 19 pandemic, Australia's labour market has been at its strongest on record by a number of metrics. Vacancy rates are at their highest (figure 11a) and unemployment rates at their lowest levels in the past three decades. Employment to population ratios reached a record high in January 2025, and growth in total hours in hours worked has been at its fastest on record between December 2021 and December 2022. While this is in part reflective of broader trends across the OECD which, at the aggregate, has recently reached record high participation and employment rates, Australia is performing above the OECD average.

The strength in labour markets has resulted in a bounce-back in nominal wages; however, significant inflation has impeded real wage growth (chart 11b). Recent data from the ABS suggests annual real wage growth again turned negative at the end the 2025 calendar year.

[3] The PC analysed 26 reforms, but only 19 were amenable to economic modelling.

[4] Notably, the impact of occupational licensing reforms was suggested to have a more subdued economic impact.

[5] PC analysis has excluded consideration of other competition reforms being considered or pursued through the NCP process, such as aviation and merger and acquisition reform.

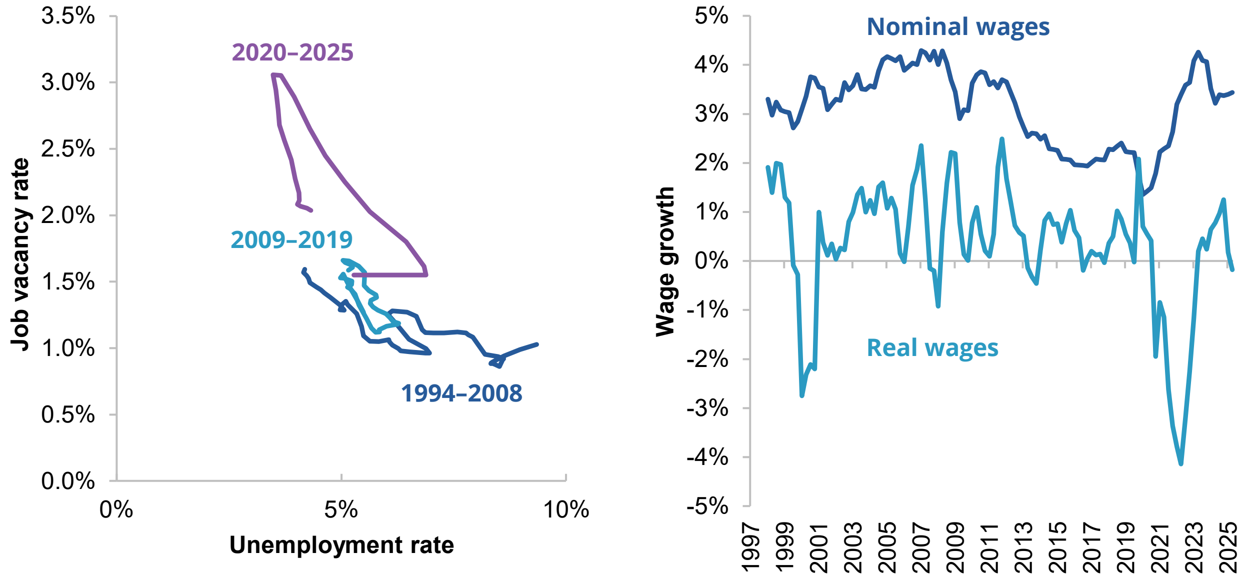
Australia's strong labour market in part reflects Australian government policy choices through the COVID 19 pandemic, which were designed to protect jobs and businesses. This included maintaining employees' attachment to their jobs (through the JobKeeper scheme) or helping temporarily illiquid businesses stay afloat (through changes to insolvency laws). Policies which supported the workforce through the pandemic are worth celebrating, as they are generally associated with a range of social benefits such as reducing inequality and supporting the health and wellbeing of Australian's who managed to stay attached to their job.

However, the strong labour force outcomes likely explain part of Australia's recent weak productivity performance.

Figure 11 – Australia's labour market is tight, but real wage growth is struggling

a. Job vacancies are historically high and unemployment is historically low

b. Nominal wage growth has bounced back, but real wage growth is faltering



Job vacancy rates calculated as total vacancies divided by total jobs. Vacancy rate data are not available for some quarters from 2008 to 2009. Wage growth calculated as year-on-year change in wage price index. Real wage growth calculated by scaling the wage price index against growth in the Australian consumer price index.

Source: PC estimates based upon ABS (2025c; 2026a; 2026b; 2026c).

The unprecedented growth in Australian employment reduced the capital per worker in the short term. The capital stock is inherently slower to move than hours worked because many forms of capital (like equipment or infrastructure) are lumpy, long-lived investments that cannot quickly be built up or scaled back in response to short-term economic changes. That meant the growth in Australia's capital stock did not keep pace with our labour market.

Further, by minimising labour market disruptions through the pandemic, the COVID-19 policy responses may have affected productivity growth by preventing the reallocation of labour away from less productive firms, and towards more productive firms.

This presents some apparent trade-offs in our productivity performance recently. Through the pandemic, Australia prioritised job security; and promoting high levels of participation and low levels of unemployment is broadly associated with positive social outcomes. However, this possibly occurred at the expense of productivity growth. This underscores the difficult decisions policymakers faced in obtaining the 'right' balance.

Australia has also seen a significant increase in the number of people working from home – a response to the COVID-19 pandemic. The emerging literature suggests well managed hybrid arrangements do not tend to have a negative impact on firm productivity and can generate considerable benefits to workers. Both businesses and workers have incentives to land on these arrangements where they make sense. We have warned that a legislated right to request working from home may impede or add cost to firms reaching these beneficial arrangements, depending on how it is applied (PC 2026).

Efficient labour markets are enablers of productivity growth and can be impeded by supply constraints and restrictive labour laws

More broadly, well-functioning labour markets are a key driver of productivity growth and wellbeing. A well-functioning labour market leads to an efficient allocation of labour – where workers are able to find jobs that align with their skills and preferences, and firms can find workers with the skills and knowledge to meet their demands.

Recent PC work has addressed key barriers to labour market productivity in Australia due to insufficient supply of appropriately skilled workers, with issues encompassing education and workforce training, migration settings and occupational licensing.

Lagging outcomes in education and workforce training are impeding workers' productivity potential

Improving the skills of the workforce is one of the most important levers to improve productivity – as high-skill economies such as Singapore attest. Workers with better skills are more productive and more innovative, boosting our ability to innovate and to harness overseas innovation.

There are three dimensions that policymakers can influence. First, the total quantity of skills can be boosted. Many have stressed the importance of boosting the share of the population with vocational and university qualifications (Department of Education 2024; PC 2023b).

But expanding post-secondary attainment relies on more students leaving school with strong foundation skills in literacy and numeracy, so they can be successful. One in five Australians have low basic skills, which limits their job opportunities, versatility, capacity to acquire further skills and lifetime wages (PC 2023d, p. 1). The PC has recommended that schools have better access to high-quality instructional materials and educational technology (PC 2025a). These materials will support teachers at all levels of experience and allow struggling students to catch up with tailored help.

Young people also need easy pathways back into post-secondary education, or into further study, through improved credit recognition between institutions and robust recognition of prior learning. Many tertiary education providers do not allow students to apply for credit before enrolment, which can restrict choices and movement towards alternative tertiary pathways; and recognition of prior learning is cumbersome and expensive.

The quantity of skills is not only about formal education. Work-related training is an important channel by which workers deepen their skills and keep up-to-date with new technology. Yet Australia's training rates are low compared with other major economies, despite a small uplift since 2019. The PC recommends co-funding vouchers for work-related training and advisory supports for firms to choose training. The vouchers would be available to small and medium enterprises, where the rates of training are low.

Second, the quality of skills can be improved. Curriculum materials in schools and tailored educational technology has been shown to boost the quality of learning in each grade. In post-secondary education, the University Accord called for a greater focus on the quality of teaching, as did the PC (Department of Education 2024; PC 2023b). The mission-based compacts between universities and the Australian Tertiary Education Commission, the fruit of the University Accord process, are an opportunity to negotiate over the quality of learning outcomes (as measured through the satisfaction of graduates and employers, regulatory outcomes, and complaints to the National Student Ombudsman). Measures of quality can be made more salient to students (PC 2023b).

Third, policymakers can boost the adaptability of the workforce, by increasing the flexibility with which workers are used. Lowering the barriers to entering new occupations allows workers to find the occupation with the best fit. This is discussed in more detail below.

Improving productivity through skilled migration

Skilled migrants stimulate productivity and make net fiscal contributions over their lifetimes. They bring new ways of working and specialised technical know-how, important channels for innovation to spread from overseas. And they can push all workers to hone their skills and specialise more.

Skilled migrants' labour market outcomes, productivity, and fiscal contribution vary substantially across visa subclasses (PC 2023b, p. 18). There is a significant opportunity to improve the permanent migration program by adjusting the intake to favour the better-performing visa subclasses, such as employer nominated and skilled independent visas. In addition, the selection process within visa subclasses could be improved. The points test for skilled visas should be adjusted to ensure the points allocated to different characteristics line up with evidence on the factors that predict better labour market and fiscal outcomes down the track.

Another priority is ensuring migrants are able to fully use their skills when they arrive in Australia. In 2021, about 44% of recent permanent migrants were working below their nominated skill level or were unemployed (Settlement Services International 2024, p. 6). Processes to obtain occupational licenses can duplicate visa assessment processes, and there can be lengthy delays and costs while migrants undertaken Minimum Australian Context Gap training (PC 2025a). For example, the gap training for a refrigeration and air conditioning qualification costs at least $7,000 and can take 6 to 12 months to complete (Get Skilled Training 2023; Superior Training Centre 2025).

Further work to better recognise the skills and qualifications of migrants emerged from the recent Economic Reform Roundtable, with Treasurers agreeing to work on embedding occupational licensing within the skills assessment process required for skilled visas (Chalmers 2025). The PC continues to endorse progress in this direction. And broader reforms to the occupational licensing system, such as practical assessments for experienced candidates, would help skilled migrants get to work faster.

Imbalanced and inconsistent occupational licensing limit labour market adjustments

Cross-country analysis by the OECD has found that stronger occupational entry regulation is associated with lower firm dynamism and reduced labour mobility, because it makes it harder for workers to move to different jurisdictions for work (PC 2023b). In Australia, occupational licensing affects around one in five workers; however, considerable variation exists in terms of minimum requirements, regulatory frameworks, terminology and legislative instruments. Further still, occupational licencing varies across jurisdictions. While designed to protect consumers and manage health and safety, licensing can inadvertently exacerbate shortages in key sectors and constrain productivity growth.

To address these issues, the PC has previously recommended expanding the default recognition of international licences, address overly restrictive scope-of-practices, and improve the process for regularly reviewing and measuring occupation licencing settings (PC 2023b). The PC has also recommended expanding entry pathways into trade and incentivising occupational entry regulation reform through National Competition Policy (PC 2025a, 2025h). Reform can better support labour mobility by focusing regulation on genuine risks, expanding scope-of-practices, improving evidence and evaluation, simplifying licensing processes, and reviewing mutual recognition arrangements.

Key takeaways – Dynamism of Australia's labour market

Governments can influence labour market dynamism by ensuring the workforce can acquire required skills, regulatory settings are proportionate and labour can be allocated efficiently. PC analysis identifies several key areas for policy in the labour market:

- improving access to high-quality instructional materials and educational technology (PC 2025a)
- increasing the quality and integrity of recognition of prior learning and improving recognition of work-related training (PC 2025a)
- co-funding training vouchers and advisory supports to encourage small and medium enterprises to increase work-related training (PC 2025a)
- better aligning skilled migration with labour market needs through employer-led selection, streamlined skills recognition and clearer permanent pathways (PC 2023b)
- reforming occupational licensing by focusing on genuine risks, expanding scope-of-practices, boosting entry pathways into trades, simplifying licensing and evaluating mutual recognition arrangements (PC 2023b, 2025a, 2025h).

Challenges in measuring productivity

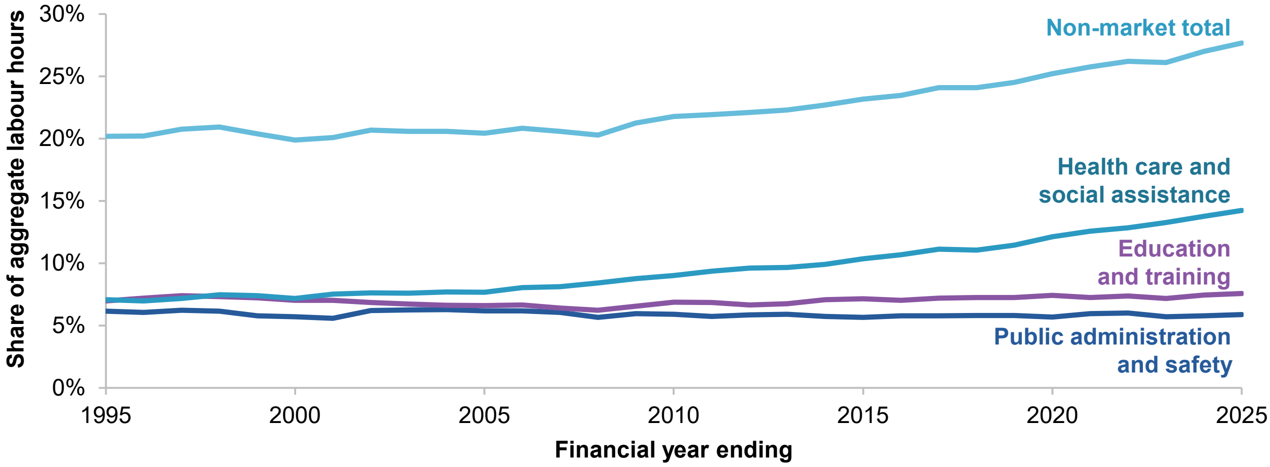
Productivity statistics are an imperfect attempt to capture the economic value generated by innovation and efficiency improvements across the economy. Such estimates will always be prone to some degree of measurement error. That said, it is likely that measurement error has increased over time and contributed to the apparent decline in advanced economy productivity growth since 2005.

The rise of non-market sector activity challenges standard approaches to measuring productivity

The expansion of the 'non-market' sector (health care and social assistance, education and training, public administration and safety) poses an increasing challenge to Australian productivity measurement. The non-market sector expanded as a share of hours worked across the economy from about 20% in 1994-95 to about 28% in 2024-25 (with this almost entirely being driven by the expansion of hours worked in health care and social assistance) (figure 12). In non-market industries, the absence of meaningful market prices (due to government subsidies) and an assumed zero return on capital mean that economic statistics do not reflect the productivity changes in these industries (ABS 2020). The methods used by the ABS to estimate non-market sector productivity vary by industry (and sub-industry). But broadly, estimates of non-market productivity are thought to underestimate the level of innovation and efficiency improvement in these industries (ABS 2026).

For example, the PC measured expenditure on health care and valued the outcomes received from care, for diseases that form a third of healthcare expenditure, to develop a measure of multifactor productivity. From 2011-12 to 2017-18, productivity growth in that subset of healthcare was found to be higher than measured productivity in any sector (2024a).

Figure 12 – Non-market employment has grown, mainly due to health care and social assistance



Source: ABS (2025c, tables 1, 16–18).

Even in the market sector, measuring productivity is challenging

In the market sector, the main measurement challenges relate to improvements in the quality of goods and services or the introduction of new goods and services. In the case of new or improved products, consumers benefit substantially, often at no extra cost. But statistical agencies have great difficulty adjusting productivity estimates for quality improvement and are slow to incorporate new goods and services into estimates (by the time they are included, most of the welfare effect of their introduction has already been missed) (Hausman 2003, pp. 25–35). Overseas estimates suggest that the consumer price index is overestimated by between 0.37 and 0.6 percentage points annually due to improvements in quality and the introduction of new goods (which has the effect of causing productivity growth to be underestimated) (table 1).[6]

Table 1 – Quality improvements and new products bias economic statistics

Estimated CPI bias (annual percentage points) due to quality improvements and the introduction of new products

Paper	Estimated bias (percentage points)
Boskin Commission (1996)	0.6
Lebow and Rudd (2003)	0.37
Gordon (2006)	0.4
Moulton (2018)	0.37
Total range	**0.37–0.6**

Source: Boskin Commission (1996); Gordon (2006); Lebow and Rudd (2003); Moulton (2018).

As the economy has become dominated by services, innovation in the form of quality or novel products has likely become more important (PC 2021a, p. 2). Service innovation often takes the form of improved quality rather than quantity. Likewise, digital products are also subject to measurement challenges. For example,

[6] The various price series that comprise the consumer price index data are typically used as inputs in the construction of productivity statistics, so these biases have a downstream effect on productivity estimates.

one study found that improvements in smartphones alone – whose effect cannot be captured under current statistical agency methods – created economic wellbeing equivalent to an additional 0.68 percentage points of annual GDP growth between 2008 and 2017 (Brynjolfsson et al. 2025, p. 331). Many digital services – like non-market goods – are provided at low (below production cost) or no price due to being funded by advertisement. This means that their economic contribution is likely underestimated.

No consensus about how much measurement issues have contributed to the current productivity slowdown

There is no consensus about how much, if at all, measurement error has contributed to the most recent slowdown in advanced economy productivity growth. Some studies argue that while mismeasurement has become more of an issue, the timing of the slowdown appears difficult to explain using mismeasurement alone. They argue that a productivity slowdown caused predominately by measurement error would be expected to slowly become an issue as errors steadily increase. However, the current productivity slowdown occurred quite suddenly in about 2005 and followed a period of above average productivity growth (Syverson 2017).

That said, even if measurement error is not the main contributor to the most recent slowdown in measured advanced economy productivity growth, the issue is still becoming more important over time. Addressing these measurement challenges is difficult and no statistical agency in any country has yet solved the issue completely. The United Kingdom has taken steps towards improving measures of non-market productivity (Office for National Statistics 2025) and the US has for many decades used ‘hedonic pricing’ to adjust for the changing quality for a wide variety of products (Bureau of Labor Statistics 2022, 2025). The ABS has relied on the hedonically adjusted PPI series on personal computers produced by the US Bureau of Labour Statistics as a source of price information for the Australian CPI (ABS 2025d). Further steps toward improving measurement of non-market productivity and adjusting for quality improvements, are likely to require additional resources. Policymakers would need to balance the desire for more accurate economic statistics against competing budgetary priorities.

Key takeaways – Challenges in measuring productivity

Measurement issues are pervasive in productivity statistics, both for non-market and market activity. And this issue has likely worsened over time as the structure of the economy has changed. This does not imply measurement is without merit, but it does demonstrate room for methodological advancement both in Australia and internationally. The Australian Bureau of Statistics should continue to monitor national and international progress in productivity measurement, adopting new approaches as they develop and become increasingly evidenced.

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