

Productivity, regulation and reform

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Thank you to CPA Australia for the invitation to speak today.

You are, as a profession, in the business of numbers. So let me start with a few that should get your attention – the most recent ones we have.

Australia's labour productivity fell by 0.6% in the March 2026 quarter. Over the year to March, it has grown by just 0.3%. Hours worked are rising strongly – up 0.9% in the quarter and 2.2% over the year.

You're all accounting experts, and here the accounting is straightforward: output is growing, but not as fast as hours worked so the ratio of output to hours – labour productivity – is falling. In aggregate, we are working harder and longer but we are not working smarter.

The results are worse when we look at the market sector specifically. Labour productivity there fell by 0.7% in the March quarter and grew by only 0.4% over the year. Non-market sector productivity fell 0.3% in the quarter and 0.1% over the year to March.

And here is the most sobering number of all. We are now 0.1% below where we were in March 2023 when the COVID-19 'productivity bubble' burst. Australia seems unable to break free from the aggregate level of labour productivity we settled into after the pandemic.

We have gone sideways, and the most recent data suggests we are going backwards.

That context matters for everything I want to say today because our productivity slump is the reason the government asked the Productivity Commission to conduct 5 separate inquiries into what is holding us back and what we can do about it.

I led 2 of those inquiries – Pillar 1 on creating a more dynamic and resilient economy, and Pillar 2 on skills and adaptable workforce. We handed our final report to the Treasurer in December last year.

Today I want to talk about Pillar 1 and do 3 things.

First, I want to briefly explain why productivity matters – not as an abstraction, but as something that directly affects living standards, wages and the quality of public services that Australians rely on.

Second, I want to walk you through what we found and recommended, particularly on regulation and the institutional settings that govern it.

And third, I will discuss how the government's recent budget productivity package responds to that work – where it picks up our recommendations, where it goes further and where further work could be done.

Why productivity is the central economic question

Let me start with the fundamentals, because they matter.

In simple terms, productivity is how much output we get from a given quantity of inputs: labour, capital, technology. When productivity grows, we produce more from the same effort. And that is ultimately the only sustainable way to raise real wages and living standards over time.

Think about it this way: if we want to earn more in real terms, more in terms of what our pay packets can actually buy, we can only do that sustainably if our effort is generating greater value, broadly defined.

Productivity growth is the engine of that process. It is not just an obsession of economists, it is the mechanism by which a society becomes better off.

The terms of reference that the Treasurer gave us put it plainly: productivity growth is the key driver of real wage growth and rising living standards over the long term.

The numbers I opened with are the most recent expression of a longer-run problem. Australia's productivity performance over the decade to 2020 was the worst in 6 decades.

This is not just an Australian story – productivity growth has been slowing across advanced economies since the mid-2000s – but Australia faces a unique mix of structural challenges that will make recovery harder unless we act.

These challenges include population ageing and the rising demand for care services. They include the transition to net zero. They include technological transformation, particularly artificial intelligence. And they include increasing geopolitical uncertainty and the fragmentation of global supply chains.

Each of these creates both pressures and opportunities. The question is whether our economy is dynamic and resilient enough to respond to them well. And the honest answer, from the work we have done, is that we must do better.

Economic dynamism is a key part of that. A dynamic economy is one where firms enter markets with new ideas and new technologies, compete aggressively, and either succeed and grow or fail and release their resources to better uses.

It is an economy where capital moves quickly to where it is most productive. Where workers can move to better jobs. Where innovation diffuses rapidly from the frontier to the broader economy. Where best practice quickly diffuses and becomes common practice in both the private and public sectors.

That is the kind of economy that generates sustained productivity growth. But by multiple measures, Australia's economy has become less dynamic over recent decades. Business entry rates have fallen. Investment as a share of GDP has declined.

Most businesses sit well below the productivity frontier, which means they are not adopting best practice techniques that are already available. Few firms grow from small to medium, and fewer still grow from medium to large.

Turning to our Pillar 1 inquiry, the rules and the cumulative burden of regulation have made it harder and slower to do almost everything.

What we found and what we recommended

Australia's regulatory sausage factory

Think about the recently completed budget process. As budget preparations unfold, ministers carefully examine tax and spending proposals in the Expenditure Review Committee. The entire process is underpinned by the Charter of Budget Honesty. Media attention is intense, public scrutiny is high and policymakers are held to account.

This scrutiny is entirely appropriate. After all, decisions around what to spend and what to tax affect the wellbeing of millions of Australians.

But what about our system of regulations – those thousands of pieces of primary and secondary legislation that affect almost every part of our lives? Is Australia's 'regulatory sausage factory' subject to the same scrutiny and policy rigor?

The answer, I'm afraid, is no. And the consequences are becoming increasingly visible.

Between 2005 and 2020, Australia slipped from 5th to 14th in the World Bank's Ease of Doing Business Index. Between 2003 and 2023, we plummeted from 3rd to 16th in the OECD's Product Market Regulation Index. With productivity stagnating for the better part of a decade, this is simply not good enough.

The regulatory problem: 3 examples

Let me give you a few examples that illustrate what we found.

In the ACT, the median time a house builder must wait for an outcome on a significant development application – not an approval, just an outcome – is nearly 6 months.

In New South Wales, the average wait time for a decision on building a wind farm, which requires permission from multiple government departments, is now over 9 years.

In Brisbane, a would-be café owner faces so many approvals, licences, and interactions with government departments that the City Council created a checklist with as many as 31 steps before you can even think about charging five dollars for a flat white.

This is poor governance. But it is what happens when regulation accumulates over decades without anyone seriously asking whether it is working. Well-intentioned rules stack on top of other well-intentioned rules, and the cumulative burden becomes something qualitatively different from the sum of its parts. It becomes a drag on investment, on innovation on business formation – on dynamism itself.

The problem is not that individual regulations are always wrong – many serve important purposes. The problem is the system as a whole is not working.

Why the system doesn't fix itself

The underlying reason is structural. We heard that regulators and policymakers can face incentives to be overly risk averse; to underweight the burden that regulations place on businesses; and to pursue narrow goals at the expense of broader, economy-wide objectives.

When something goes wrong and there no regulation in place, there is a clear, salient accountability problem that can very quickly become an acute political problem. The system reacts and responds.

But when a regulation is added and turns out to impose costs, those costs are diffuse, slow to appear and hard to attribute. Salience is weak, accountability is weak and the response can be slow.

These productivity-sapping incentives can overwhelm the tools and procedures that stand in their way, like cost-benefit analyses and regulatory impact assessments.

So the incentive structures mainly push in one direction: to make more sausages. There is no effective counterweight. Productivity and dynamism don't have a seat at the table.

What we recommended

The evidence suggests a strong case for an overhaul. Our recommendations were designed to create that counterweight – a set of institutional reforms that change the incentives, raise the scrutiny of new regulation and actively reduce the accumulated burden.

First, a clear whole-of-government regulatory agenda. Think of this as a one-off, high-profile 'Budget night speech' for regulation — where government ties itself to the mast. A clear, public commitment to reform with concrete, measurable actions, naming regulatory reform as a core government priority and providing direction to all ministers and agencies.

Second, a \$10 billion target. We recommended a target to reduce net regulatory compliance and delay costs by \$10 billion by 2030, backed by an Annual Regulatory Review – a public report that tracks progress and holds government to account. The target must be large enough to be meaningful, measurable enough to create accountability and achievable within a reasonable time horizon.

Third, stronger scrutiny of new regulation. Just as the ERC scrutinises individual budget items, Cabinet and parliamentary committees should more closely scrutinise regulatory proposals. This would be complemented by enhanced assessment by the Office of Impact Analysis. The additional scrutiny would provide a check on regulatory overreach and help address the systemic challenges of risk aversion and tunnel vision.

Fourth, regulatory stewardship. Policymakers and regulators should develop their sense of being stewards of the regulatory systems they oversee and they should aim to leave the regulatory system in a better position than they found it. A regulator who prevents all accidents but strangles industry in the process has not succeeded. They have failed, big time. This trade-off must be explicitly managed and accounted for.

The government's regulatory reform agenda

The government's recent budget made some good progress on these areas.

The government's headline number is \$10.2 billion per year in gross regulatory burden reduction once the package is fully implemented. This is consistent with our recommended target of \$10 billion by 2030. However, we expressed our target in net terms; we recommended that individual agencies should not increase regulatory burdens, and we said that central agencies should go 'hunting' for reforms across the system to meet the aggregate goal.

We also recommended that the aggregate number be supported by concrete initiatives – 'quick wins' – and the budget adopted this stance. I know you all love numbers, so let me briefly run through the breakdown.

EPBC Act¹ reforms: \$3 billion per year. Streamlining environmental approval pathways – the single largest item and a long-overdue response to one of Australia’s most significant sources of project delay.

Housing supply reforms with states and territories: \$3 billion per year. Based directly on our Pillar 1 modelling of housing construction regulatory burden, which estimated aggregate costs of between \$18 billion and \$47.5 billion per year. Real money, but conditional on state and territory negotiations.

National Competition Policy reforms: \$2.05 billion per year. Occupational licensing, labour mobility, standards harmonisation, retail tenancy, and payroll tax administration – the building blocks of a single national market. Also depends on state and territory action.

Financial sector regulatory reform: \$961 million per year. Perhaps the most directly relevant for people in this room – \$780 million from 14 legislative reforms plus \$181 million from the Council of Financial Regulators’ Better Regulation Roadmap, covering raised company reporting thresholds, simplified group entity reporting, and streamlined compliance requirements.

Simplifying the tax system: \$415 million per year. The Board of Taxation’s Red Tape Reduction Review, with a final report to the Treasurer by 30 June 2026.

TGA using AI to evaluate medicines: \$340 million per year. AI applied directly to reducing approval friction – a model for what can be done across other regulatory domains, and consistent with the PC’s emphasis on AI and regulatory modernisation.

Tell-us-once reforms and the Regulatory Reform Omnibus Act: \$190 million per year. The first Omnibus Act passed with 60 measures, amending 28 Acts and improving 13 government agencies. A second Omnibus Bill is in development.

Abolishing 497 nuisance tariffs: \$127 million per year. Bringing total tariff abolitions to around 1,000, drawing directly on the PC’s 2022 work on the nuisance cost of tariffs.

The government has organised its regulatory reform agenda around five pillars: better regulation, a single national market, faster processes, modernising regulation, and regulatory stewardship. This framework closely echoes our Pillar 1 analytical framework.

A new productivity policy objective has been embedded in Ministerial Statements of Expectations for all 35 Commonwealth regulators, reflecting our recommendation 2.1. The Impact Analysis framework is being improved from 1 July 2026. The Regulator Maturity Model, Self-Assessment Tool, and reinvigorated Regulator Leadership Cohort all reflect our recommendation 2.4. Six regulatory deep dives are underway, and the government has tasked the PC to complete 2 new inquiries on housing and on business dynamism reflecting our recommendation 2.3.

Conclusion: the road ahead

The budget’s regulatory reform package is a very promising start.

But if there is one key lesson of Australia’s history of economic reform over the last few decades, it is this: enhancing productivity growth is never a ‘set and forget’ exercise. So let me close with a few reflections.

¹ *Environment Protection and Biodiversity Conservation Act 1999* (Cth).

The package is substantial and is grounded directly in the PC's work. The structure reflects our analytical framework, and the \$10.2 billion target and the measures are consistent with the spirit of – and in some cases reflect very directly – our Pillar 1 recommendations.

If the stewardship measures can be landed, they will represent a genuine institutional and cultural shift. And the new housing and business dynamism inquiries signal that the reform agenda is ongoing, not concluded.

But we also need to secure these reforms and make them stick. The 3 biggest line items – EPBC reforms, Housing, and National Competition Policy – total \$8.05 billion, and all 3 depend, in whole or in part, on state and territory cooperation. That is not a reason for pessimism, but it is a reason for sustained effort and vigilance.

That is why the institutional mechanisms we recommended are so important: they are designed precisely to maintain that ongoing vigilance and attention beyond the budget cycle.

With clear leadership, hard targets and serious scrutiny, regulation can support economic growth while protecting the public and the environment. By reducing costs and overhauling the system, we help people start new businesses and help existing businesses prioritise growth and innovation.

For the accounting and finance professionals in this room, the reforms are not abstract. Raised company reporting thresholds, streamlined financial sector compliance, the Board of Taxation review of red tape, Digital ID, improved R&D incentives – these will change the environment you and your clients operate in, and most of them will do so within the next 2 years.

Budgets are carefully probed page by page, line by line, because they matter. Regulation matters just as much and it's time we treated it that way.

The framework is now in place. The next steps will involve implementation, sustained effort, and careful evaluation. And there is always more to do. Reform is never easy and is never finished.

This is exactly the kind of challenge your profession confronts every day. You hold numbers to account. You insist on measurement. You know that what gets measured gets managed.

The same principle applies here.

At the PC, we are cautiously optimistic.

Thank you.