Centre for Independent Studies (CIS)
Level 1, 131 Macquarie Street
Sydney NSW 2000

30 June 2026

Reducing barriers to business dynamism inquiry
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003

Dear Commissioners,

Please find attached a submission to the inquiry "Reducing barriers to business dynamism", along with links to relevant research work by the CIS.

Yours sincerely

Stephen Walters
Centre for Independent Studies (CIS)

Table of contents

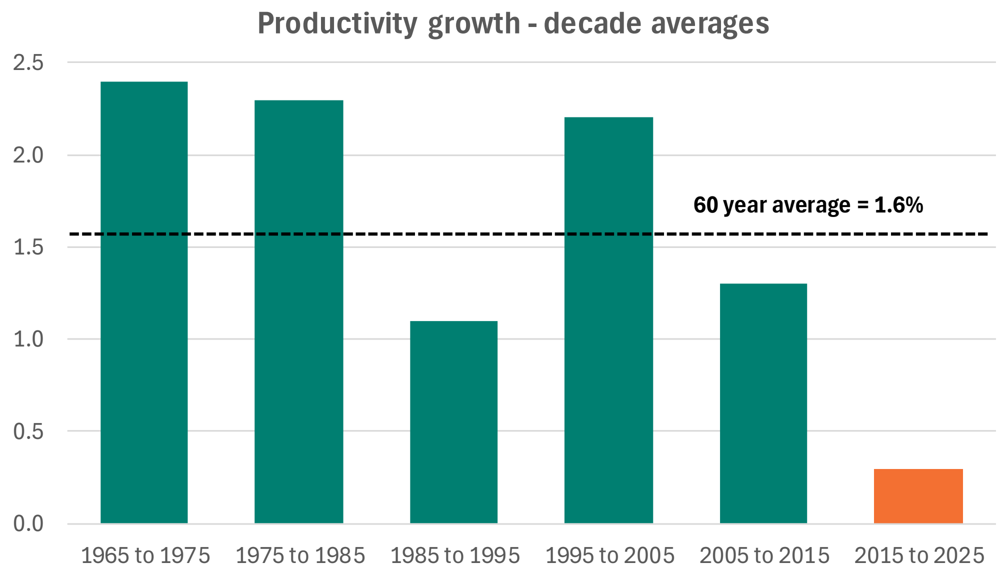
Introduction

This submission is made by the Centre for Independent Studies (CIS), an independent think tank dedicated to fostering open and respectful debate on economic, policy and cultural issues within Australian society. The CIS supports free choice and individual liberty and defends cultural freedom and open debate. The CIS aims to make sure good policy ideas are heard and seriously considered so that Australia can continue to prosper into the future.

This submission draws upon the CIS's significant body of research work completed since it was founded 50 years ago in April 1976. Links to the relevant body of CIS research work are included at the end of this submission.

Business dynamism and productivity

Business and economic dynamism are essential elements of an economy's rate of productivity growth, which currently languishes at a 60-year low.[1] This is due to a range of factors, including low business investment, a heavy burden of regulation, unhelpful workplace changes that have impeded business flexibility, the expansion of the so-called care economy and its low productivity jobs, and the absence of genuine tax reform for a generation.



Source: ABS, CIS.

Productivity, in turn, does much to determine living standards in the economy over the long term. It follows that without sufficient business dynamism, productivity will remain weak and living standards will falter. Unfortunately, economic and business dynamism

[1] Measured as the average growth over the last decade.

in Australia has been waning for some time. This has contributed to what reasonably can be described as Australia's current productivity crisis.

Economic dynamism is enhanced by labour mobility, the rate at which people move jobs. Low labour mobility means people can be marooned in low productivity, lower paying jobs. Many exchange the probability of higher wages for job security. There could be plausible reasons why people resist moving jobs — like high debt servicing obligations (which dissuade risk taking like starting a business) or binding family ties. Stamp duty imposed by Australian state governments also pose a significant barrier for people wishing to buy a home after moving for a new job.

Economic dynamism also reflects the speed with which businesses adopt new technologies, like AI. Rapid adoption quickly distributes new technology throughout the economy. The flipside — slow adoption, perhaps for regulatory reasons — inhibits diffusion of technologies that otherwise could lift productivity economy-wide. Instead, gains are confined to a small number of participants.

Narrow scope of this inquiry.

This submission does not address all matters raised in the Terms of Reference for this inquiry. The comments in this submission are focused mainly on trends in business and economic dynamism, the underlying causes of weak productivity and the effects these have on growth in the economy, investment, innovation and employment. In particular, this submission focusses on how a heavy burden of regulation brings with it more complexity and cost, which is weighing on business dynamism. As a point of contrast, Australia enjoyed a significant boost to dynamism and productivity in the 1990s, driven partly by a determined effort to deregulate Australia's then cluttered, moribund economy.

The economy had been weighed down by ineffective rules and regulations that increasingly made us an insular and closed economy. The extended period of deregulation opened Australia up to more intense global competition and heralded a sustained period of rising national income, productivity and prosperity.

The CIS currently is undertaking a major piece of research to explore these themes and examine the underlying reasons for Australia's heavier regulatory burden today, both in aggregate and relative to overseas peers.

The factors driving more regulation include our high national income, which encourages decision makers to become more risk averse, something the chair of the Productivity Commission recently spoke about.[2] The richer we become as a nation, the more willing and able we are to minimise all risk through imposition of more rules and regulations.

[2] Danielle Wood, The Red Tape Impulse, June 2026.

Other reasons for the rise in regulation are the trends towards reactive and 'performative' regulation as governments feel the need to be seen to respond to events and circumstances. This is a dismal reality referred to in a recent article by the chair of the Productivity Commission[3].

There is also the increased pressure on firms to satisfy broadening societal expectations of business beyond the traditional maximization of profits for shareholders, including their environmental, social and governance (ESG) obligations. Most recently, the entrenchment of identity politics in society also has played a role in increasing the burden of regulation on business.

Related matters to be included … and for future inquiries

It is noted from the discussion paper that matters related to tax, workplace relations and mergers frameworks are not intended to be the focus of this inquiry. This condition, however, is a significant constraint on the usefulness of this inquiry. Each of these issues potentially plays a significant role in determining business dynamism and, by extension, our productivity. Their absence from discussion is likely to impede commissioners from drawing the right conclusions and recommending the most effective corrective policy measures.

In particular, the extensive changes to workplace relations legislation since 2022 have significantly reduced workplace flexibility and likely have been a significant drag on business dynamism. As an example, the reinstatement of multi-employer bargaining into the workplace relations landscape, by definition, is a barrier to competition at the firm level, where most productivity gains are determined.

The CIS urges that, at a minimum, industrial relations be included in this inquiry into business dynamism. Despite being deemed out of scope, it also would be beneficial to include matters related to the merger framework and tax, particularly given the contentious revenue changes that recently passed through the Parliament. Both issues have the potential to significantly affect business dynamism.

The CIS encourages the Productivity Commission to broaden its remit for this inquiry to also look at the underlying reasons for the increasing burden of regulation on businesses. Understanding why governments are inclined to regulate and legislate would seem to be essential in designing corrective policy responses.

A possible solution to the increasingly heavy burden of regulation that immediately presents itself (and as flagged in a recent article by the Chair of the Productivity Commission) is making the Office of Impact Analysis (OIA) more independent of

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[3] Danielle Wood, The Red Tape Impulse, June 2026.

government.[4] This would help ensure that the burden of changes to the regulatory landscape can be assessed free of complicating political considerations.

The CIS looks forward to engaging further with the Commission on any subsequent inquiries into these and related matters.

Key processes and barriers to business entry

This section of the submission relates to how the regulatory landscape for business may be hindering the ability of firms to enter and exit markets. In recent years, Australia has suffered from slower rates of business formation relative to our peers. Slow, complicated and expensive business entry and exit to markets because of high regulatory hurdles, among other factors, can contribute to low productivity.

Failing businesses without a smooth exit from a market can leave scarce resources trapped within underperforming enterprises. This entrenches underperformance, particularly if replicated across the economy. Low productivity businesses failing and freeing up resources for more effective uses is an example of 'creative destruction'[5] that is vital for a dynamic business environment.

A semi-official narrative that has become accepted in Australia is that business dynamism is suffering because of a lack of competition in markets. The contention is that a perceived increase in mark ups — the difference between retail prices and the cost of production — is evidence of increased concentration. This conclusion, however, is not supported by evidence from either regulatory or Parliamentary scrutiny.

In particular, various official examinations of Australia's supermarkets have demonstrated there has been no use of market power to price-gouge shoppers, as CIS Executive Director Michael Stutchbury recently pointed out.[6] In fact, competition in supermarkets remains healthy, partly because of new players via their physical and digital presence.

Moreover, the proposed official solution to the false premise of increased market concentration has been the introduction of even more regulation, such as the ACCC's complex new mergers regime. Another misguided response is the new regulation of supermarkets' behaviour and pricing, despite multiple official findings that there was no obvious problem to solve.

If anything, Australia's economy has been more open to competition through lower trade barriers and more widespread use of digital technology. There is demonstrated

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[4] Danielle Wood, The Red Tape Impulse, June 2026.
[5] A concept conceived by economist Joseph Schumpeter in *Capitalism, Socialism and Democracy*, 1942.
[6] Michael Stutchbury, Chalmers' shopping bag of regulatory harassment doesn't check out, AFR, 20 June, 2026

and vibrant of disruptive competitive pressures in industries including department stores, traditional media and car manufacturing, among others.

The CIS contends that the primary cause of lost business dynamism, in fact, is increased regulation, the thicket of rules or 'hairballs' choking activity in the economy. Perversely, the growing burden of rules and regulations has created an unhealthy market for compliance in which firms compete to become the best at compliance. This may have some secondary payoff for market incumbents but creates high barriers to entry for new participants unable to match the established phalanx of lawyers and risk and compliance specialists.

The worsening burden of regulation clearly is a key contributor to Australia's recent poor productivity performance. Compliance with the worsening burden of rules and regulations is time-consuming and expensive for business. It distracts employees from what could be more innovative, creative and strategic activities that drive the performance of a business.

Where Australia compares well … and poorly

According to the latest academic and industry research, Australia compares well to international peers on some regulatory metrics, including the relative stability of the rule of law, institutional integrity (eg. Reserve Bank independence), judicial independence, stability of tax policy and our system of education. This is not to say that our education system delivers satisfactory results; just that the associated regulatory burden compares well with our peers.

But Australia ranks poorly in the extent of barriers to trade and investment, post implementation evaluation of regulation and the degree of stakeholder engagement with regulatory decisions. Overall, Australia is below average and our trajectory is poor, including in key areas where Australia underperforms our international peers.

In 2023, the OECD found Australia was the fourth most burdensome country for regulatory setup as it relates to administration and compliance, behind only Iceland, Switzerland and Austria.[7] The best ranked countries — that is, the least burdensome on this OECD metric — were Denmark, Sweden, the UK and Ireland. Of OECD countries, Australia was last on rankings for barriers to foreign direct investment and also had lowly positions for licensing and permitting, for communication of regulatory arrangements, and for barriers to entry.

Australia has a relatively smaller share of young firms than does the US. Australia's business landscape, while evolving, remains dominated by large, legacy firms among the banks, industrials and miners. Younger firms are usually better able to disrupt markets — aiding competitive pressures — and are more likely to innovate. Without

[7] OECD, Product Market Regulation, 2023.

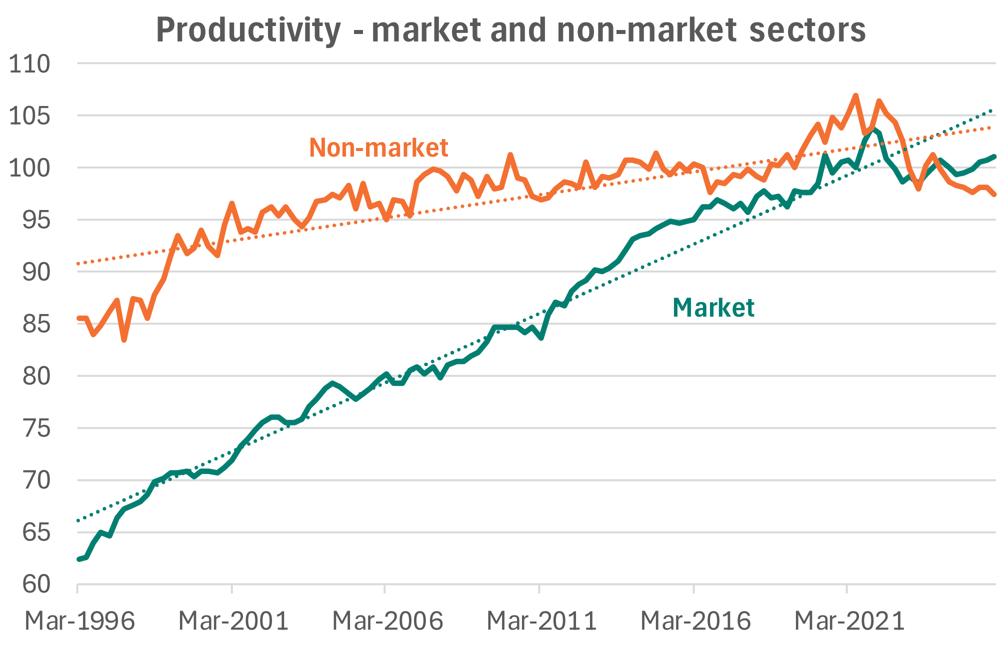
them, established markets can atrophy and become dominated by inefficient, low productivity businesses.

Australian businesses also suffer from a stigma associated with business failure. Unlike in the US, in particular, where failure is more easily forgiven, corporate failure in Australia is heavily punished both formally and informally. The unforgiving way in which failure is treated in Australia — whatever the causes — can close off vital avenues for capital and labour to embark on new adventures.

Economic impacts of these barriers and processes

Falling business dynamism and the rising cost and complexity of rules, red tape and regulation have clear detrimental impacts on the economy via lower productivity, slower rates of innovation and uptake of new technologies, and weaker business investment and employment growth. Some level of regulation is necessary in most cases to set guardrails for free market enterprise, but too often strays into market operation and more, adding to complexity.

The mounting evidence of our underperformance is clear. Australia's productivity today is roughly the same as it was in 2019, compared to a 20% rise in the US over the same period. Australia's per capita GDP has fallen in nine of the last 11 quarters, including seven straight declines up to the end of 2024. We have a long way to go to get back to the halcyon days of healthy productivity growth above 2% each year — a rate we achieved consistently in the 1980s and again in the 1990s.



Source: ABS, CIS.

An even heavier burden of regulation

A recent study by the OECD[8] found a clear inverse link between the rising cost of regulation — measured by the wage cost components of roles associated with regulation and compliance — and lower productivity growth. It follows that easing the burden of regulation could help to lift Australia's lagging rate of productivity growth by lowering costs on business, freeing up more capital for investment and innovation.

The burden of Australia's heavy regulatory landscape falls heavily upon the small business community. Smaller firms do not have the same access to capital as do larger enterprises, which allows them to more readily navigate the thicket of regulation that confronts them. Smaller enterprises do not have the dedicated risk, compliance and legal personnel available to larger businesses.

One area of potential harmonisation is reforming the different payroll tax regimes that operate across the various state and territory jurisdictions. An Australian business operating nationally must navigate eight distinct systems with different thresholds, tax rates and related complexities. This complexity not only adds costs but is a clear disincentive for expansion across jurisdictional boundaries.

Previous and ongoing CIS research related to this inquiry

This submission primarily is intended to direct the Commission's attention to the extensive body of work CIS researchers have compiled over many years, which ranges from investigations of productivity, regulation, economic efficiency, tax reform, housing and social cohesion, and many matters in between.

Please find below a list of references to previous work that expand on the matters raised in this submission, including previous submissions to the Productivity Commission.

Our Prosperity is Slipping: Submission to Economic Reform Roundtable - The Centre for Independent Studies

Australia and New Zealand: Reform, prosperity and retreat - The Centre for Independent Studies

An economic walk on the supply side - The Centre for Independent Studies

Addressing Australia's Productivity Problem. Blueprint to Unshackle Growth - The Centre for Independent Studies

IR system killing worker productivity to economic detriment of all - The Centre for Independent Studies

[8] Regulatory compliance costs and productivity: new task-based evidence, OECD, 2026.

[Submission to the Productivity Commission 5 year productivity review: Increasing Australia's Future Prosperity - The Centre for Independent Studies]