PRODUCTIVITY: EDUCATION, USING MARKET INCENTIVES AND IMMIGRATION

In assessing Australia's productivity, ultimately, we are asking how well does Australia allocate scarce labour and resources to maximise the wellbeing of its citizens. This is not just about how efficiently we produce goods and services but also qualities which are not routinely provided by our markets but are core to our wellbeing, such as clean air, safe climate, safe and inclusive communities, safe work places, health, longevity. Education, regulation and immigration each have a big impact on productivity. I discuss each in turn.

EDUCATION

Education is fundamental to productivity because it determines the capacity of people to understand, innovate, manage, negotiate, inspire and cooperate - and thus be productive. It is core to the productivity of labour and ultimately also to other factors of production because we need people to know how best to use and develop capital, land including its resources and inputs to production.

Australian educational outcomes have declined and are mediocre by international standards. https://www.abc.net.au/news/2025-06-26/teaching-resources-reverse-students-poor-writing-naplan/105454122 https://scienceofinstruction.com.au/insights/teacher-education-reform-where-will-all-the-experts-come-from/ The PC found: 'Far too many children in schools are struggling with the fundamentals of literacy and numeracy, … .' https://www.pc.gov.au/inquiries/completed/school-agreement#report . It also identified the growing number of maths and science teachers without tertiary qualifications in these subjects as a core failure in our education system. Fewer senior school students are taking advanced maths and hard sciences.

Our ongoing failure to provide a good education to all our children is not only tragically unfair to them but means our workforce cannot maximally contribute to our productivity. In consequence, Australia will be left behind in adapting to the dramatic changes taking place in an uncertain world including that of AI. Accessing requisite skills from overseas can at best, only be a partial solution, not least because many developed countries are now competing for the limited supply of skilled people ready, willing and able to emigrate.

recommendations

- **Set higher standards for our teachers and pay them more in order to attract appropriately skilled teachers.** Research shows that the best way to improve student performance is to have better qualified teachers. file:///C:/Users/sueho/Downloads/Teaching%20talent%20_%20the%20best%20teachers%20for%20Australias%20classrooms.pdf] **If budget constraints mean we cannot have better properly qualified teachers and small classes:**

    - **give priority to hiring higher paid, better qualified teachers**, rather than smaller classes with less qualified, lower-paid teachers. Failing this:
    - **prioritize paying more for maths and science teachers who have tertiary qualifications in maths and science.** The budgetary cost of increasing the pay of these

teachers is so much lower than the longer-term costs of low productivity. https://journalistsresource.org/education/school-teacher-pay-research/
https://theconversation.com/better-pay-and-more-challenge-heres-how-to-get-our-top-students-to-become-teachers-122271

- **Recompense universities for their loss of revenue by being prevented from accepting as many overseas students as they want.**

REDUCE REGULATORY BURDENS BY CHANGING MARKET INCENTIVES

The best way to reduce regulatory burdens is to harness the market to serve not only economic goals, but also social and environmental objectives.

In perfectly competitive markets, regulation is not needed. However, many markets are not fully competitive:

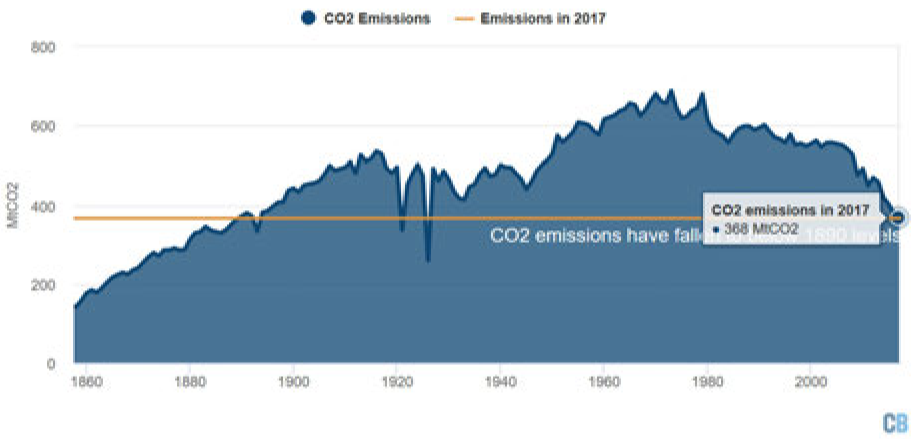
- buyers often know far less than providers so they can be duped over the quality of what they are buying
- the market does not cater for production which imposes negative impacts on others, such as pollution
- monopolies and oligopolies can over-charge consumers due to lack of competition
- where some benefits cannot be excluded from non-payers, such as defence or education or vaccination, less of these products and services will produced than is socially optimal without government intervention.

These market imperfections can be addressed via regulation or via financial incentives (taxes and subsidies). Using taxes and subsidies to discourage what we do not want (such as pollution) and subsidise what we do want (such as education, vaccination) often works best, for the following reasons:

- the revised price signals impact on everyone and there is little scope to avoid paying them whereas regulatory systems usually suffer from varying degrees of non-compliance
- regulation is often clunky and ad hoc and usually depends on extensive administration and education
- well-designed and enforced taxes lead all producers and consumers to modify their behaviour in order to make a profit or improve wellbeing, producing and buying less of what our society does not want
- revenue raised from taxing negatives can be used to compensate the less well-off for higher prices while still signalling the need to decrease use of polluting products and services.

For example, if we tax pollution (say CO2), the higher prices incentivize every consumer and producer (not just the believers) to reduce use of CO2. For example, when the UK added a carbon tax on top of the EU's system, via the Carbon Price Support the CPS tax, emissions decreased by between 20.5% and 26% per year on average. https://www.sciencedirect.com/science/article/pii/S0095069621001285

UK CO2 emissions 1858-2017



recommendations

- **Wherever possible use taxes and subsidies to encourage producers and consumers to make changes that will move Australia towards achieving to social and environmental goals.**
- **Ensure any relevant reviews assess the best ways to intervene in the market - fiscal incentives or regulation. For proposed new regulations, ensure the associated Regulation Impact Statement compares fiscal incentives versus regulation.**
- **Where regulation is the best option, in addition to Regulation Impact Statements as currently conducted throughout Australia, reduce unnecessary regulatory burdens, by**
  - reviews which compare existing regulation across the states and territories. This was previously done by the PC, which benchmarked regulation (in a number of sectors) in cooperation with the jurisdictions, thus sharing information on the least burdensome methods
  - reviews to reduce unnecessary regulatory burdens, by industry or sector. I had the pleasure of helping Malaysia set up such a program.

IMMIGRATION

While immigration is crucial to Australia's economic well-being, it presents problems which need to be managed:

- allowing many low-skilled workers into Australia, reduces the incentive of producers to improve productivity. Instead of investing in labour-saving capital or training, it becomes cheaper to employ more relatively unskilled people.

- according to the economic law of supply and demand, high levels of low-skilled workers keep wages low to the disadvantage of the workers and productivity. The focus should be on attracting immigrants with scarce high skills
- the belief, that we can fill our skill gaps by recruiting from overseas, reduces the incentive to train Australians and address the declining quality of education
- beyond a certain level, high numbers of immigrants strain our capacity to house, educate, transport and keep healthy everyone living in Australia.

recommendation

Establish a balanced assessment each year of immigration quotas based not just on what industry needs but also on the capacity of our nation to provide the extra housing, education and health care that is needed for each immigrant.

Sue Holmes