Australian Government
The Treasury

Treasury Submission to the Select Committee on Productivity in Australia

March 2026

Contents

Executive Summary

Productivity growth is central to Australia's long term economic performance. It determines how much output can be produced from a given amount of labour and capital, making it a key driver of real wages, national income, and living standards. Stronger productivity growth expands the economy's supply capacity, allowing incomes and demand to rise without generating inflationary pressure.

Australia's labour productivity performance has been persistently weak, especially in recent decades. Productivity growth was strong in the 1960s and 1970s, slowed in the 1980s, rebounded in the 1990s, and then slowed again through the 2000s and 2010s. The COVID-19 pandemic saw an initial temporary increase in measured productivity due to sharp reductions in hours worked, followed by weaker outcomes as this effect unwound and employment grew faster than investment.

Australia's productivity growth depends on advances in the global productivity frontier and on how quickly domestic firms adopt best practice operations and technologies. For most firms, productivity gains arise primarily through diffusion rather than frontier innovation. Although Australia ranks relatively highly among advanced economies, a persistent productivity gap with the United States remains. This gap partly reflects differences in labour force participation and masks differences across industries. At the industry level, Australia operates close to the global frontier in sectors aligned with its comparative advantages, particularly mining and agriculture.

Australia's productivity slowdown reflects long standing structural challenges, many of which are shared with other advanced economies. Global labour and multifactor productivity growth have weakened since the Global Financial Crisis (GFC). Weaker business investment since the GFC has constrained capital deepening, while declining competition, firm turnover, and labour reallocation have reduced economic dynamism. Structural shifts toward services and non-market industries have also reduced measured productivity growth. However, this should be interpreted with caution given challenges with measuring the relative value of outputs to inputs in the non-market sector.

Geographic factors also play a role in Australia's productivity outcomes. High productivity activities are concentrated in major cities and mining regions. Australia's distance from major global markets and population distribution constrains the potential for economies of scale, competitive pressure, and knowledge spillovers. While technology has reduced these barriers for some activities, it remains relevant to the movement of goods and people.

There is a role for both businesses and governments to influence productivity outcomes. Governments play a critical role in shaping productivity outcomes through sound macroeconomic management, maintaining effective institutions, and delivering targeted public investment. Well-designed regulation and tax systems can support investment, innovation and efficient allocation, while direct public investment can improve efficiency in cases of market failure.

1. About this submission

1.1. The Treasury is the Australian Government's lead economic adviser. Our purpose is to provide advice to the government, and implement policies and programs, to achieve strong and sustainable economic and fiscal outcomes for Australians. We aim to help the government respond to a range of complex challenges and uncertainties, address structural challenges and pursue longer-term national wellbeing and prosperity outcomes.

1.2. This submission provides an overview of Australia's productivity performance. It examines some of the underlying economic forces, structural dynamics and institutional arrangements that can influence productivity outcomes over time.

1.3. The submission draws on established economic theory and relevant international evidence to contextualise Australia's experience. It places current productivity trends within a broader evidence base that highlights progress, challenges and opportunities.

2. Defining productivity

2.1. Productivity measures how efficiently an economy transforms inputs – labour, capital and materials – into goods and services.

2.2. At its simplest, productivity is expressed as a ratio of outputs produced to the inputs used. Productivity growth implies fewer inputs are used to produce the same or more outputs.

2.3. Consistent with most analysis of Australia's productivity trends and how productivity is reported in Australia's national accounts, this submission focuses on labour productivity at the whole-of-economy level, measured as real GDP per hour worked.

2.4. Unless otherwise specified, use of the term 'productivity' in this submission is intended to refer to labour productivity.

Drivers of productivity

2.5. In general terms, productivity growth can be explained by technological advancement, capital deepening, and allocative efficiency.

- Technological advancement underpins long-run productivity growth by enabling new and more efficient ways of producing goods and services.
- Capital deepening occurs when workers have access to more, or higher-quality, capital such as advanced machinery, equipment or digital infrastructure. This enables firms to expand their production frontier. Capital upgrades 'embed' technological advancement. For example, a new model of computer is likely to have more powerful hardware and software than an older one, enabling tasks to be completed more quickly and/or to a higher standard. The new technology will also be reflected in the price of the new computer.
- Allocative efficiency reflects how effectively labour and capital are allocated across firms, industries and activities. It boosts productivity by ensuring labour, capital, and intermediate inputs are directed toward their highest value uses, where they generate the greatest output per unit of input. In a competitive market, prices, wages, and returns on capital give firms and workers incentives to reallocate toward more productive activities and away

from low-value ones. Over time, this improves economy-wide productivity by shifting resources toward firms, sectors, and technologies that use them more effectively.

Measuring productivity

2.6. The Australian Bureau of Statistics (ABS) produces annual indexes of labour, capital and multifactor productivity for the market sector as well as for each industry division within the market sector.

2.7. Consistent with standard growth accounting frameworks, productivity growth in Australia can be analysed at a high level by decomposing labour productivity growth into two components:

- Capital deepening – which measures the change in labour productivity when the level of capital changes while labour is constant.
- Multifactor productivity (MFP) – which measures the change in labour productivity not attributable to capital deepening. This includes any changes that arise from allocative efficiency, and the effect of technological improvements not already captured in the capital deepening component (ABS, 2026).

2.8. The challenges of measuring productivity in the non-market sector are set out in section 6 of this submission.

3. The importance of productivity

Productivity raises living standards

3.1. Productivity growth is fundamental to Australia's long-run economic performance. Together with population and participation in the labour force, it constitutes one of the 'three Ps' that determine potential economic output.

3.2. While population and participation affect the quantity of labour available, the level of productivity determines the amount of goods and services that can be generated from that labour. Productivity growth allows Australians to earn more, resulting in the consumption of more, better, or new goods and services.

3.3. Policymakers typically focus on productivity growth as a key driver of real wage and national income growth, both of which support improved living standards over time. Over the past three decades, productivity growth has accounted for around 70 per cent of growth in real national income (Treasury, 2023a). And since 1900, productivity growth has allowed Australia to produce more while working less, with a 7-fold increase in economic output for the average Australian (PC, 2023a).

Productivity determines sustainable growth rates

3.4. Productivity growth is a primary driver of sustainable long-term economic growth because it expands the economy's supply capacity. This enables incomes and demand to rise without creating inflationary pressure. (RBA, 2025a).

3.5. Productivity trends have important implications for the neutral real interest rate over the longer term. Stronger productivity growth increases expected returns to capital and increases demand for investment. In theory, this means the level of the neutral interest rate is positively correlated with the rate of trend productivity growth (RBA 2022; RBA, 2025b). This effect is

likely to be smaller in an open economy like Australia, than it would be in a closed economy (McCririck and Rees, 2017).

Productivity influences fiscal policy

3.6. Higher productivity expands an economy's capacity to produce goods and services, which increases income that accrues to Australians – including, for instance, wages and profits.

3.7. Real income growth through the economy eases the constraints on fiscal policy: it improves the fiscal balance without raising tax rates or cutting spending, or alternatively, it can support higher spending on public services and investments in public infrastructure.

4. Australia's productivity performance

Australia's long run productivity performance

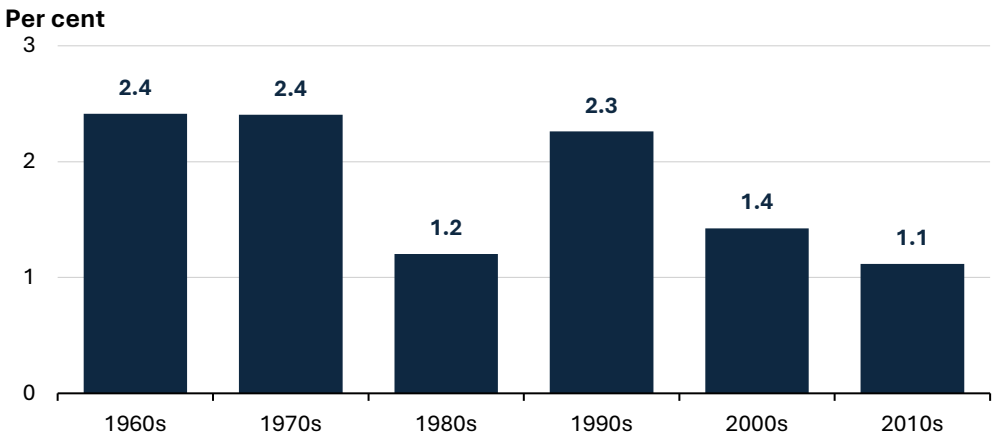
4.1. Australia's long run productivity performance has shown persistent weakness. (Chart 1).

4.2. In the 1960s and 1970s, output per hour worked grew relatively strongly, averaging around 2.4 per cent per year. However, productivity growth slowed in the 1980s, declining to an average of around 1.2 per cent per year. This slowdown reflected a combination of rapid employment growth, particularly in lower-productivity service industries, weaker capital deepening, and measurement challenges in service-sector output (Lowe, 1995).

4.3. Productivity growth strengthened in the 1990s, averaging around 2.3 per cent per year, a period widely associated with the benefits of economy-wide structural reforms, macroeconomic stability and technological innovation (PC, 2020a).

4.4. Growth subsequently moderated to an average of around 1.4 per cent per year in the 2000s and slowed further in the 2010s, when average annual productivity growth was the weakest in the previous 60 years.

Chart 1: Average annual productivity growth by decade, 1960s–2010s



Source: Treasury estimates using ABS System of National Accounts 2023–24; Penn World Table 2023.

4.5. The slowdown in productivity growth since the early 2000s reflects a combination of structural drivers. Some of these are common across advanced economies, including slower technological

innovation and diffusion, population ageing, and a long-term shift towards services-based sectors in the economy. These are explored in more detail in section 5 of this submission.

Productivity since the pandemic

4.6. Productivity outcomes have been volatile in the 2020s, particularly during the COVID-19 pandemic which temporarily distorted measured productivity outcomes (Chart 2). This has been described as a 'productivity bubble' (PC, 2025a).

4.7. During the early stages of the pandemic, sharp reductions in hours worked – particularly in labour-intensive sectors affected by restrictions – alongside a largely unchanged capital stock, led to an increase in measured capital intensity and a temporary lift in productivity.

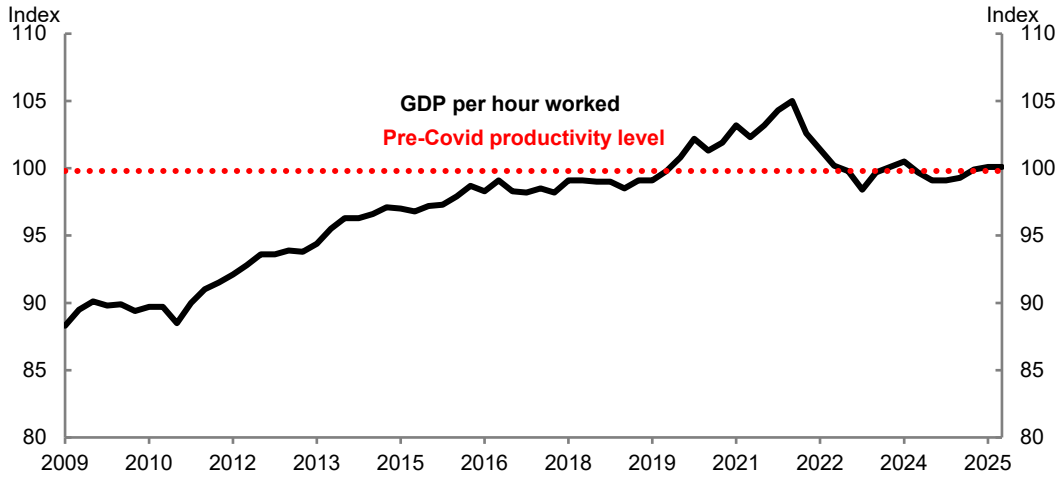
4.8. As pandemic-related distortions unwound in 2022–23, the economy experienced strong employment growth. Two key factors weighed on measured productivity during this period:

- The rapid expansion in hours worked. This resulted in capital shallowing across the economy.
- The rapid movement of people from unemployment into work lowered the average efficiency of the workforce. Newly hired workers take time to build skills and experience so, on average, new workers are less efficient than incumbents. This appears in the statistics as lower MFP.

4.9. Productivity was broadly flat in 2023–24, returning to around its pre-pandemic level. In 2024–25, productivity (reported in the 2024–25 Annual National Accounts) fell by 0.7 per cent, as growth in hours worked of 2.0 per cent exceeded growth in output of 1.4 per cent. As a result, productivity broadly stabilised around its pre-pandemic level.

4.10. More recent quarterly ABS data shows encouraging signs. Whole-of-economy productivity increased by 1.0 per cent over the year to December 2025. Market sector productivity was stronger, growing by 1.5 per cent over the year.

Chart 2: Productivity, quarterly levels, March 2009 to December 2025



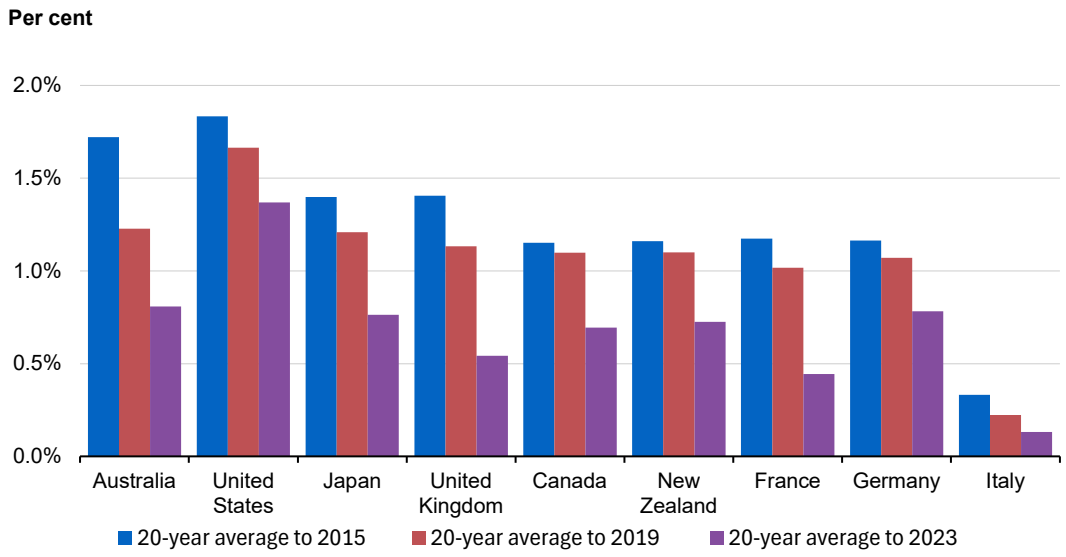
Source: ABS National Accounts 2025 December quarter: GDP per hour worked.

4.11. Abstracting from cyclical movements, the underlying longstanding trend in productivity growth remains weak. Despite swings driven by temporary factors, long-run productivity appears subdued, pointing to more persistent structural constraints rather than short-term fluctuations.

International benchmarks

4.12. Long-run productivity growth rates have also slowed significantly across the Group of Seven (G7) countries and New Zealand (Chart 3). This pattern suggests that common factors are playing a role. This is explored further in section 6 of this submission.

Chart 3: 20-year average productivity growth rates across advanced economies



Note: Averages are calculated using a compounding average growth rate. Twenty-year averages are used to average out short-term fluctuations and provide a clearer indication of underlying trends.

Source: Treasury estimates using OECD GDP per hour worked index, 1995–2023

The long-run productivity growth assumption

4.13. Productivity growth is influenced by innovation, diffusion, investment and policy settings, by both private businesses and government and both domestically and globally. This makes productivity growth difficult to predict. For instance, an unexpected innovation could drive growth, or unexpected geopolitical changes may influence investment. Accordingly, Treasury uses an assumption informed by long-run trends and international practice as the basis for expectations about productivity growth beyond the forward estimates.

4.14. Reflecting the persistence of weaker global and domestic productivity outcomes, Treasury revised down its long-run annual productivity growth assumption from 1.5 per cent (then around the 30-year average) to 1.2 per cent (then around the 20-year average) in 2022. The 1.2 per cent assumption has been maintained since 2022.

4.15. Developments in recent years have added more uncertainty to future long-term productivity outcomes. For example, pandemic-related volatility in the first half of this decade has made underlying trends harder to interpret. Downside risks, including climate change and rising barriers to trade, have the potential to hamper long-term productivity growth. The upside potential of technological innovations, including artificial intelligence, is potentially very significant, but uncertain.

4.16. Internationally, long-run productivity assumptions vary from country to country. They tend to be informed by historical averages and periodically reassessed with reference to productivity

trends and prospects. Like Australia, other agencies have revised down their assumptions over the past 5 years. Australia's assumption remains broadly consistent with the range used by other open market economies with similar institutional features:

- The United Kingdom's Office for Budget Responsibility (2025) uses a long-term assumption of 1.5 per cent.
- The United States' Congressional Budget Office (2026) uses a long-term assumption of 1.4 per cent.
- New Zealand Treasury (2025) uses a 0.9 per cent long-term assumption.
- The Canadian Department of Finance (2025) uses a 0.8 per cent long-term assumption.

5. Australia and the global frontier

5.1. In a broad sense, Australia's productivity growth is a function of the pace at which the global productivity frontier is advancing, and the pace at which Australia converges towards it. The concept of the frontier provides a useful benchmark for considering productivity performance.

The global productivity frontier

5.2. The global productivity frontier refers to the best-practice level of productivity achieved by the most efficient firms, industries, or countries at a given point in time, reflecting the current technological and organisational possibilities. It is not a fixed benchmark, but a moving one, advancing over time as firms and economies invent and innovate with new technologies, reorganise production, and improve skills.

5.3. Countries and firms behind the global productivity frontier can raise productivity either by adopting and diffusing existing best-practice production technologies and processes, or by pushing the frontier outward through innovation in their own capabilities.

5.4. At a whole-of-economy level, the United States is often regarded as the global productivity frontier economy. However, a more disaggregated view at the industry level might situate the frontier within a specific industry-leading country or multi-national firm, which leads in a specific technology or process. In this respect, the global frontier can be thought of as existing in different places for different goods and services, rather than in a single country's economy.

5.5. Over long periods, productivity outcomes across countries tend to show convergence toward an international frontier (Dolman et al. 2007). This mainly occurs through knowledge spillovers and investment from economies or firms closer to the frontier, into economies or firms further from the frontier.

5.6. Economies that start further from the frontier often grow more quickly because they start at a lower level of productivity and can adopt existing technologies and practices. Those closer to the frontier (usually advanced economies) already have a high level of productivity and grow more slowly because further gains depend on new technology and innovations. As a result, productivity growth rates need to be considered in the context of a country's initial position.

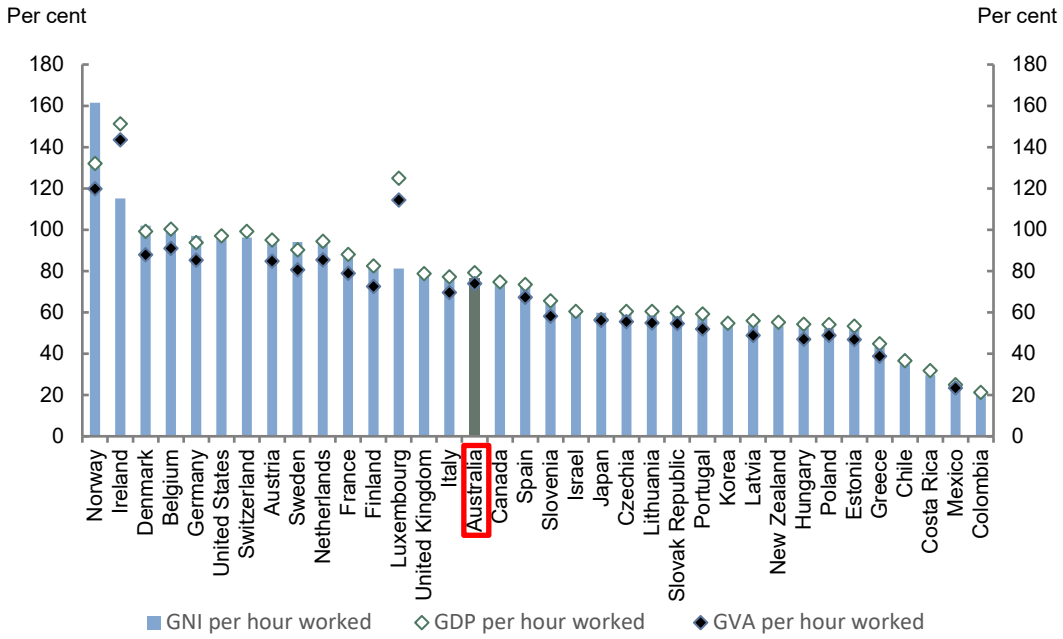
5.7. In Australia, only a small share of firms engages in new-to-the-world innovation, and around one to two per cent of businesses operate at the global frontier – broadly consistent with Australia's population size. For the vast majority of firms, productivity growth arises primarily through the diffusion of frontier technologies into the domestic economy (PC, 2023b).

Australia and the frontier

5.8. Australia ranks 16th among OECD members for labour productivity, as measured by gross national income (Chart 4).

5.9. Similarly, the Total Economy Database (developed by the University of Groningen and now maintained by the Conference Board) ranks Australia ranks 16th out of 41 mature economies in terms of productivity (Conference Board, 2025).

Chart 4: Relative labour productivity in OECD countries, 2023
(Belgium GDP per hour worked = 100)



Note: In countries such as Ireland and Luxembourg, significant differences between measures emerge due to income generated abroad, particularly by multinational enterprises. In these cases, GNI-based measures provide a more accurate reflection of national productivity. Labour productivity measures based on Gross Value Added (GVA) yield lower values than those based on GDP, as they exclude product taxes, and subsidies. Overall, GVA-based measures generally follow a distribution that mirrors GDP-based metrics.

Source: OECD (2025), *OECD Compendium of Productivity Indicators 2025*, OECD Publishing, Paris, Figure 4.8

5.10. The United States is regarded as a benchmark for the global frontier. While the precise trends differ across studies, a consistent finding is the persistence of a productivity gap between Australia and the United States. Earlier Treasury analysis suggested this gap narrowing in the 1960s and 1970s before a largely steady gap for the decades leading into the 2000s (Young et al. 2008). More recent analysis by the Productivity Commission has supported this stable pattern, with little evidence that the US-Australia productivity gap has closed over time (PC 2020b). The Total Economy Database finds that, with some caveats, the gap in productivity between the United States and Australia in 2024 was 21 per cent (Conference Board, 2025).

5.11. The gap masks important nuances across industries and dimensions of labour utilisation, suggesting that the actual gap is smaller when compared on a like-for-like basis (PC, 2024b). For example, Australia has a higher employment-to-population ratio and fewer hours worked per person on average (Conference Board, 2025). In practice, Australia's high labour utilisation brings more people into employment. This includes people in lower productivity roles who, in

other advanced economies, might otherwise be unemployed or not in the labour force. Part of the measured productivity gap therefore reflects participation differences rather than underlying firm-level productivity alone.

5.12. Whole-of-economy measures also hide differences at the industry level. Australia operates relatively close to the global productivity frontier in industries aligned with its comparative advantages. Productivity levels in mining and agriculture are high by international standards, including relative to the United States frontier (PC, 2020b). This is explored further in section 7.

6. Explanations for the slowdown

6.1. Australia's recent productivity slowdown reflects structural challenges that have developed over time, many of which are shared across advanced economies. Within Australia, these challenges include broader shifts in technological diffusion, industrial composition, investment patterns, market dynamism, and labour market dynamics.

6.2. There are a range of factors that may have contributed to the global productivity slowdown, including weaker investment levels following the GFC and a slowdown in productivity-enhancing innovation relative to the twentieth century (Dieppe, 2021). These influences are relevant to the Australian context.

Technological changes

6.3. Technological change is a key driver of productivity growth over the long run. Previous periods of high productivity growth have been driven by technological waves that have shaped the opportunities in an economy to reorganise labour, capital and ideas. These shifts alter production processes, support new business models and expand the set of productive economic activities (Bresnahan and Trajtenberg, 1992; Helpman and Trajtenberg, 1994).

6.4. There has been a broad slowdown in labour productivity and MFP growth across advanced economies since the 1990s, with productivity growth at the global frontier slowing markedly after the GFC. Between 2001 and 2007, labour productivity at the global frontier grew at around 4–5 per cent per annum, but from 2008 onwards it slowed to roughly 1 per cent per annum (OECD, 2025a).

6.5. In Australia's market sector, the contribution of multifactor productivity to labour productivity growth averaged around 0.5 percentage points per year in the 15 years following the GFC, compared with an average of around 0.9 percentage points per year in the decade prior to 2008.

6.6. There is an ongoing debate concerning the pace and economic potential of more recent technological changes, highlighting uncertainty about the extent to which new and transformative technologies will continue to expand the global productivity frontier. Some argue that the observed productivity slowdown reflects diminishing returns to innovation, contending that the most transformative breakthroughs of the 19th and early 20th centuries, such as electrification, represented one-off gains that cannot be replicated (Gordon, 2012). Others maintain that recent advances have the potential to be equally transformative, with large but as-yet unrealised productivity effects (Brynjolfsson and McAfee, 2011; Mokyr, 2013).

6.7. In considering the potential of new technology, it is important to differentiate invention from application. New general-purpose technologies, such as artificial intelligence, have a lagged impact as commercial innovation and widespread application takes place. They require significant investments in physical capital, along with co-development of new processes,

products, business models and human capital. If these lags are substantial, there may be no material uplift to productivity growth from adoption for some time – even if there is inherent potential for this to occur. Examples of this 'productivity paradox' include the lagged productivity gains associated with the invention of the personal computer (Solow 1987; Brynjolfsson, 1993), the electric dynamo (David, 1990) and the steam engine (Crafts 2004).

6.8. Unlike these older technologies, AI can be purchased by most firms as a service rather than as a capital investment in physical production technology. This lowers barriers to entry and the cost of experimentation. These factors may mean the productivity lag from AI – while still likely – is not as pronounced as was the case for earlier technologies. Research suggests that new technologies have tended to diffuse more rapidly, particularly those based on scalable intangibles like software (Comin and Hobijn, 2010; Haskel and Westlake, 2018).

6.9. There is not yet a consensus on the magnitude of AI's current or likely future contribution to productivity growth in advanced economies (see OECD, 2025c and PC, 2025b). Arguably, the productivity effects would be evident in the United States first, given that it sits at the frontier of AI development and deployment. The contribution of AI to the high rates of aggregate productivity growth in the United States in recent years is contested and still an active area of research (Brynjolfsson 2026; Slok, 2026; WEF, 2026).

Slower diffusion

6.10. Regardless of the pace of frontier innovation, the primary channel through which technological advances translate into productivity growth in non-frontier economies, including Australia, is diffusion. Diffusion refers to the broad adoption and effective use of existing technologies. As a small open economy, much frontier innovation in digital and data-driven technologies originates overseas, and domestic productivity growth therefore depends on how effectively these innovations are adopted by Australian businesses (PC, 2023b).

6.11. Analysis of frontier firms globally suggests that productivity growth among the most productive firms has remained relatively strong, while the gap between frontier and non-frontier firms has widened. This indicates a slowdown in technology diffusion rather than frontier innovation itself (Andrews et al., 2016).

6.12. Treasury analysis finds similar patterns in Australia, showing that Australian firms have increasingly fallen behind the global frontier because catch-up and diffusion have weakened over time. This pattern is evident across the non-resource, non-financial market sector and is more pronounced in services industries where competitive pressures are lower (Andrews et al., 2022).

Shifts in industrial composition

6.13. Australia, like many other advanced economies, has experienced a structural shift towards services. This trend is consistent with population ageing and rising income per capita (Baumol, 2012).

6.14. The growing dominance of services has important implications for productivity growth. Unlike goods-producing industries, many services activities are not capital-intensive. This implies there is lower potential for efficiencies to be gained through technological development or capital deepening.

6.15. In Australia, the reallocation of labour towards the services sector over the past three decades detracted around 0.14 percentage points from annual productivity growth over that period.

This is equivalent to around half of the 2022 downgrade in Treasury's long-run annual productivity growth assumption.

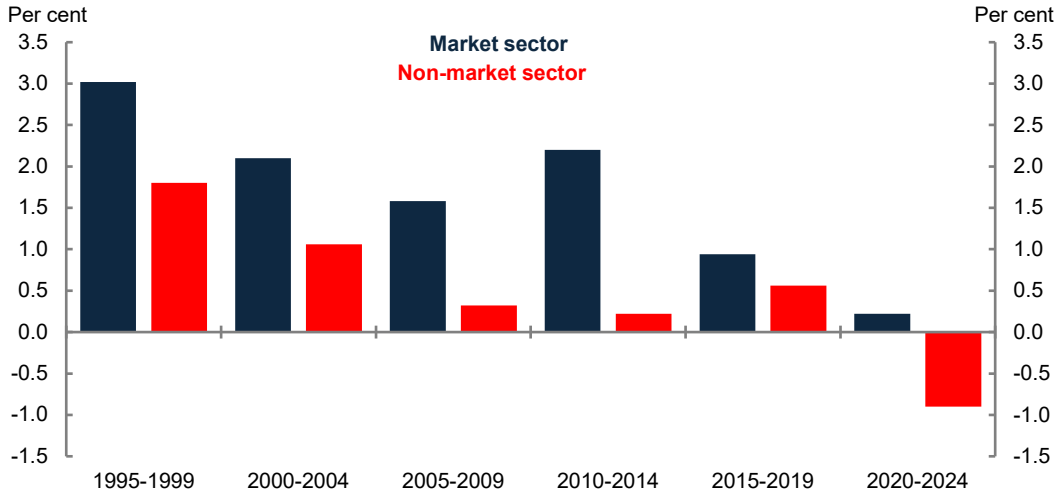
6.16. Within the shift to a more services-heavy economy in Australia, there has been a shift towards non-market services. These are industries where government plays a significant role in setting prices, funding services, and/or directly delivering services. However, "non-market" does not equate to "public sector". According to the ABS (2025):

- About 55 to 60 per cent of the health care industry is market-based;
- About 30 to 35 per cent of the education industry is market-based; and
- Less than 10 per cent of the public administration and safety industry is market-based.

6.17. The shift towards non-market services is underpinned by rising demand for care and support services associated with an ageing population (Treasury, 2023a). The relative share of care and support industries has increased, from 8 per cent of the workforce in 1984 to 16 per cent today. This makes it Australia's largest industry segment, employing 2.4 million people.

6.18. Measured productivity growth in care and support industries – and across the non-market sector generally – is weaker on average compared with the market sector (Chart 5). As such, an increase in the share of GDP produced by the sector will lower aggregate productivity growth, holding other factors equal.

Chart 5: Five-year average productivity growth in the market and non-market sectors, 1995–2024



Note: Averages are calculated using a simple average growth rate during the financial years.

Source: Treasury estimates using ABS System of National Accounts: GVA per hour worked (market sector and non-market sector), 1995–2024.

6.19. There are well-recognised challenges in measuring productivity in care and support industries, reflecting difficulties in accurately capturing outputs and economic value where services are not priced in markets. As a result, conventional productivity measures tend to underestimate true productivity growth and value creation in these industries, particularly where improvements occur through quality, access or outcomes rather than cost reductions (OECD, 2012; ABS, 2025).

6.20. By way of an example of this challenge, analysis finds that quality-adjusted multifactor productivity in a subset of the health care industry grew by around 3 per cent per year between

2011–12 and 2017–18. Over the same period, multifactor productivity growth in the market sector was estimated to be around 0.8 per cent per year (PC, 2024a).

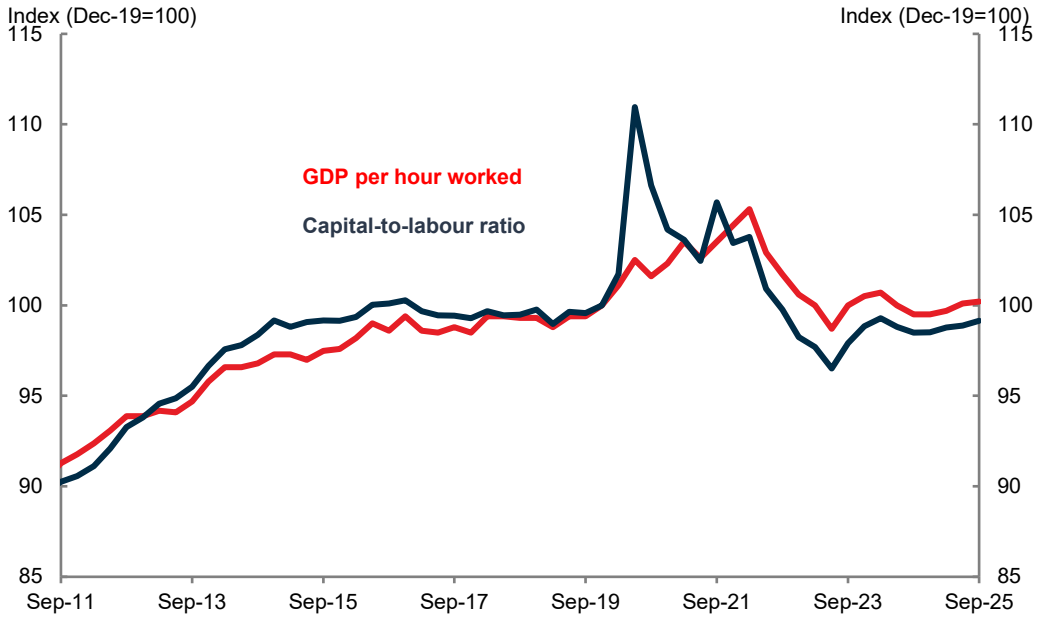
6.21. Measured productivity growth does not fully reflect the contribution of the non-market sector to Australia's long-term economic potential. In particular, the expansion of high-quality formal care and health services has supported higher labour force participation among women and older Australians by facilitating stronger workforce attachment and longer productive working lives.

6.22. It is also important to acknowledge the heterogeneity across different services. The more knowledge-intensive services, such as finance, are better positioned to harness new technologies to lift productivity, but realising this potential depends on a skilled workforce, reduced market frictions, and inventions that make services more tradable (Sorbes et al., 2018).

Changes in investment patterns

6.23. Investment has long played a central role in shaping Australia's productivity performance through capital deepening. Over the long run, increases in the capital-to-labour ratio have been strongly correlated with productivity growth (Chart 6).

Chart 6: Capital-to-labour ratio and productivity level



Note: Treasury estimates quarterly capital stock using annual capital stock data published by the ABS. September 2025 observation for the capital stock is a projection.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; ABS Labour Account; and Treasury.

6.24. Standard growth models imply that investment is induced by gains in MFP, which raises production possibilities and the expected returns on investment. This view is consistent with technological change being the key driver of productivity growth over the long run and embodied in new capital.

6.25. There has been a broad-based decline in business investment intensity following the GFC, particularly in advanced economies. This has been attributed to weaker expected demand

growth, heightened uncertainty and structural shifts towards less capital-intensive service activities (OECD, 2025b).

6.26. Analysis using Australia and the United States data suggests weak investment since the GFC reflects a higher risk premium, with firms applying elevated hurdle rates despite low interest rates, weighing on capital deepening and productivity (Farhi and Gourio, 2018; Evans et al., 2024). Similarly, the Australian Heads of Treasuries (2017) found that post-GFC uncertainty and the enduring scars of the crisis had lowered firms' risk appetites, contributing to boards favouring defensive strategies and lifting required rates of return. This suppressed non-mining business investment, despite then-accommodative financing conditions.

6.27. Many have also pointed to weaker potential output growth as a constraint on business investment (RBA, 2022). This may reflect a reduced pipeline of innovative projects, stemming either from global trends in technological development or from firms' relatively slow adoption of new technologies in Australia.

6.28. In Australia, investment as a share of GDP fell from around 18 per cent in the late 1960s to a little over 12 per cent in recent years – split between around 3 per cent for mining investment and 9 per cent for private investment excluding mining.

6.29. Business investment outside mining has declined as a share of GDP over the long run. A major driver of this long-run trend is the change in Australia's industry structure, including the decline in the share of the economy in agriculture and manufacturing, towards less capital-intensive services. Since the 1990s, reduced depreciation rates, the shift towards IT as a service, and falling electronics prices have also played a role (van der Merwe et al., 2018).

6.30. By contrast, investment in mining rose substantially from the early 2000s, expanding the resource sector's capital stock and contributing to strong productivity growth within mining. After a sharp decline in the early 2010s, following the completion of several large resource projects and the transition from the construction phase of the mining boom to the production phase, mining investment has been steady since around 2015–16 (Jenner et al. 2018). Mining investment is increasingly oriented toward sustaining existing capacity rather than expanding it, moderating the contribution of new mining investment to aggregate productivity growth.

6.31. More recent National Accounts show that business investment has strengthened. This reflects a lift in building and structures investment, including data centre projects, alongside improving investment intentions.

Declining economic dynamism

6.32. Economic dynamism, defined as the capacity of an economy to innovate, adapt and reallocate resources efficiently, is a critical mechanism for sustaining long-term productivity growth.

6.33. Advanced economies experiencing lower competitive pressures and weaker firm turnover tend to exhibit slower adoption of frontier technologies, and widening productivity disparities between leading and lagging firms (OECD, 2025c).

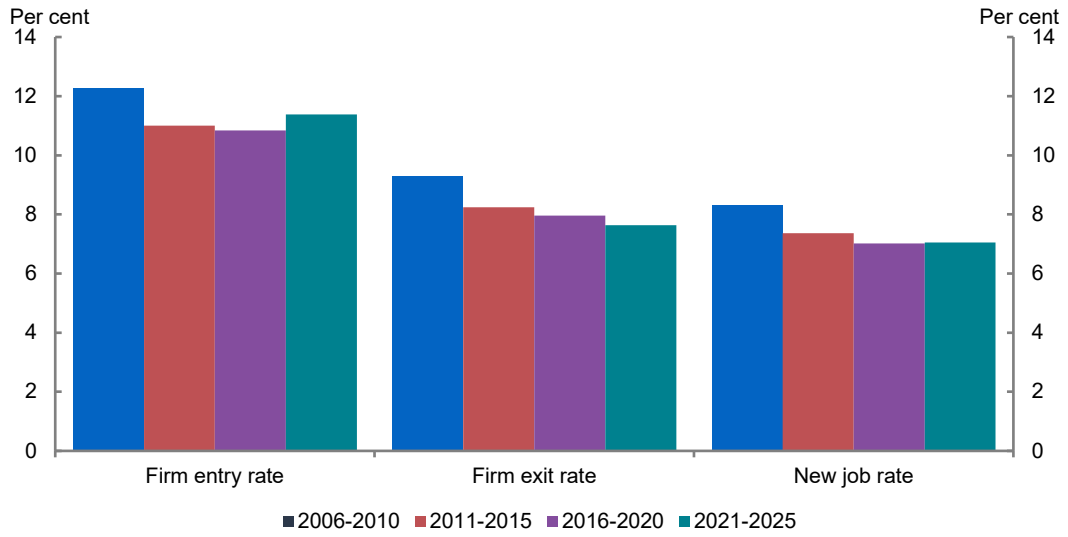
6.34. A range of indicators suggest that economic dynamism has weakened in Australia and other advanced economies, particularly measures related to competitive intensity and the reallocation of labour and capital toward more productive firms.

6.35. Rising mark-ups, greater persistence of incumbent firms, and increasing concentration across many industries suggest a decline in competitive pressure, which dampens incentives for investment, innovation, and efficiency-enhancing change. As a result, there are fewer new

entrants and less displacement of dominant firms (Hambur and Andrews, 2023; Day et al., 2022).

6.36. There was a decline in firm entry and exit rates between the mid-2000s and early 2010s (Chart 7).

Chart 7: Decline in dynamism measures



Note: Entry and exit rates are for employing firms.

Source: Treasury analysis of ABS Counts of Australian Businesses data and ABS Labour Force microdata.

6.37. At the same time, evidence points to a broad slowdown in the reallocation process. The reallocation of market share from less productive to more productive firms has slowed, alongside reduced rates of firm-level innovation and declining labour mobility across firms and industries.

6.38. Treasury estimates suggest that the slower pace at which labour is reallocated from low to high productivity firms accounted for a quarter of the slowdown in productivity growth from 2012 to 2016 (Andrews and Hansell, 2019).

6.39. A reduction in competitive pressures has also led to more dispersion in mark-ups, as firms facing less competition are able to restrict their output and raise prices. This results in a misallocation of resources and production across firms and lower aggregate productivity. If the degree of competition in the Australian economy had not declined from mid-2000s levels, productivity would likely be 1–3 per cent higher (Hambur and Freestone, 2025).

6.40. These dynamics do not occur in isolation. Instead, they interact with broader market structures and institutional settings that shape incentives for risk taking and technological adoption. Barriers to entry, regulatory burdens and constraints on labour mobility can weaken competitive pressure and slow the reallocation of resources to more productive firms.

6.41. OECD studies note that more rigid product-market regulations and labour market frictions have been associated with lower firm entry and diminished labour mobility, which can blunt competitive forces and slow productivity growth by reducing opportunities for dynamic resource reallocation (Andrews and Garnero, 2025).

6.42. The growing non-market sector also has important implications for competition, as health care, education and care services account for a larger share of economic activity. A rising proportion

of output is being delivered in settings where competitive pressures are inherently weaker and where prices, entry and firm expansion are shaped by regulation and public funding rather than market competition (King, 2025).

Labour force matching

6.43. Australia's historically strong productivity performance has been supported by a relatively skilled labour force, underpinned by rising educational attainment, migration-driven skills inflows and sustained investment in human capital (Bruno et al., 2025).

6.44. However, productivity growth depends not only on the skills of the workforce, but also by how well workers' skills are matched to their jobs. When individuals' abilities closely align with the job requirements, tasks are performed more efficiently, leading to higher output. Improving labour market matching ensures that skills are allocated to their most productive uses, enabling Australia to generate greater output from the same workforce.

6.45. Labour market mismatch can take several forms, and it changes over time depending on occupational structures, the skills required within occupations and the composition of the workforce. The processes by which workers are matched to jobs are all evolving:

- Vertical mismatch occurs when a worker's level of education or qualification is higher or lower than that required for their role. While over-skilled workers may not directly reduce a firm's productivity, they create inefficiencies in skill allocation, as other firms may use these mismatched workers more effectively.
- Horizontal mismatch arises when the type of education or skills does not align with the demands of the job. Technological progress can render certain skills obsolete, while creating demand for others. Education and training pathways equip workers with skills aligned to evolving occupational and industrial demands.
- Geographic mismatch happens when suitably skilled jobs are not available in a worker's region, forcing them to accept lower-skilled roles or leaving higher-skilled positions unfilled. Geographic mobility, with workers moving to regions where their skills are in demand, reduces local labour shortages and surpluses.

6.46. Job mobility plays a crucial role in effective labour force matching. Higher rates of job-to-job movement allow workers to transition into roles that better match their skills and offer higher wages but job mobility rates have fallen over time (Deutscher, 2019). Workers who change jobs tend to move to firms that are, on average, 13.1 per cent more productive than the firms they leave (Buckley, 2023).

6.47. According to a study by Mackey (2024), matching efficiency of unemployed job seekers was high between 2004 and 2009, but fell quickly during the GFC and was relatively low between 2010 and 2019. Labour market tightness had a partial rebound after falling in 2009, but job finding rates remained below pre-GFC peaks across all unemployment groups. Matching efficiency improved between 2019 and 2023.

6.48. The permanent skilled migration program can contribute to productivity growth, fill skills gaps and support increased labour force participation (Parkinson, Howe, and Azarias, 2023). Permanent skilled migrants tend to be younger, highly skilled and have high participation rates. Their presence also has positive spillover effects: on average, a region with a 10 per cent larger share of migrants is associated with a 1.3 per cent higher regional wage differential (OECD, 2023).

7. Geographic factors

7.1. The geographic distribution of Australia's productivity is shaped by agglomerations and natural endowments. Specifically, productivity is highest in central business districts, where high-value knowledge work is concentrated, and in regional areas where mining and agriculture generate high levels of output with relatively small workforces.

7.2. Overlaying this, Australia's geography poses structural challenges in the form of distance from major global markets and a relatively small, dispersed population (OECD, 2026).

Australia's distance from large markets

7.3. Several enduring features help explain the productivity gap between Australia and the global frontier. Prime among these is Australia's geography, which has long been recognised as a defining influence on its economic and national development (Blainey, 1966).

7.4. Australia's remoteness from traditional economic hubs in Europe and North America has historically raised the costs of trade, capital flows and knowledge diffusion, constraining productivity growth relative to frontier economies. Distance from major global markets also reduces some opportunities for trade and positive spillover effects compared to economies located in larger, closely integrated economic regions. Geography remains an important determinant of comparative advantage, notably for certain minerals and fuels (Robertson and Robitaille, 2017). Estimates using data from the late 1900s to the early 2000s suggest that as much as 45 per cent of Australia's productivity gap relative to the United States could be attributed to distance from major markets (Battersby, 2006).

7.5. At the same time, shifts in the global economic centre of gravity provide a more nuanced outlook. The rising economic weight of China and ASEAN economies has increased Australia's proximity to faster-growing regional markets, creating new opportunities for trade, investment and technology spillovers. Over time, deeper integration with the Indo-Pacific region may partially offset the disadvantages associated with distance from traditional advanced-economy hubs.

Geographic influences on the domestic market

7.6. Domestically, Australia's population distribution and large land mass shape productivity outcomes through spatial frictions. Large internal distances between major population centres increase distribution costs, limit economies of scale, and can constrain market integration.

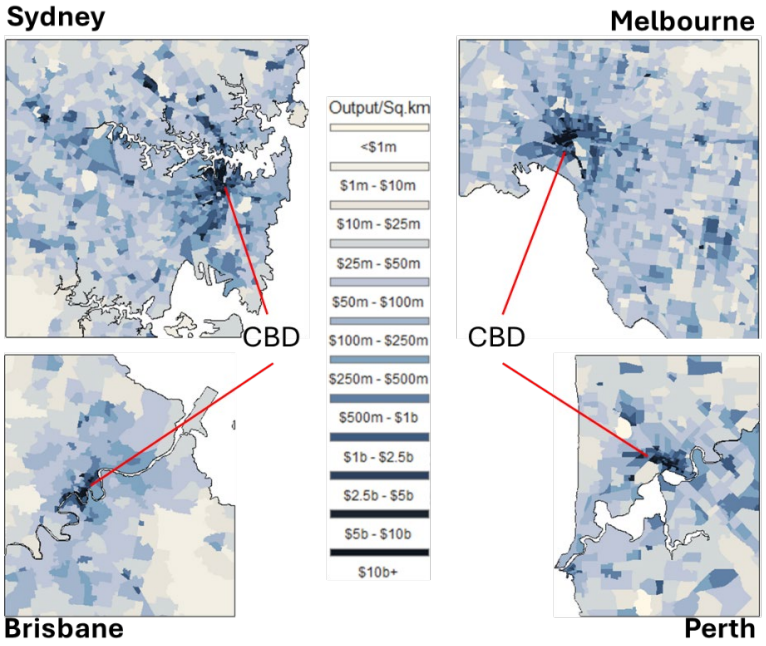
7.7. Australia's comparatively small domestic market can limit opportunities for competitive pressures to drive economic efficiency. The limited size of Australia's domestic market constrains the realisation of economies of scale, particularly in industries characterised by high fixed costs. As a result, efficient production may be concentrated among a small number of large firms that are able to reach minimum efficient scale and remain globally competitive. In high fixed-cost industries where efficiencies could be realised, barriers to new entrants tend to be high. This highlights the importance of open trade and investment for the Australian economy – it provides access to larger markets and helps reduce barriers to entry.

Cities

7.8. It is well-established that agglomeration, or the geographic concentration of economic activity, is associated with higher productivity for firms and workers.

7.9. In Australia, economic output concentrates in and around central business districts (CBDs) due to the concentration of workers combined with high-productivity industries such as financial and professional services (Figure 1).

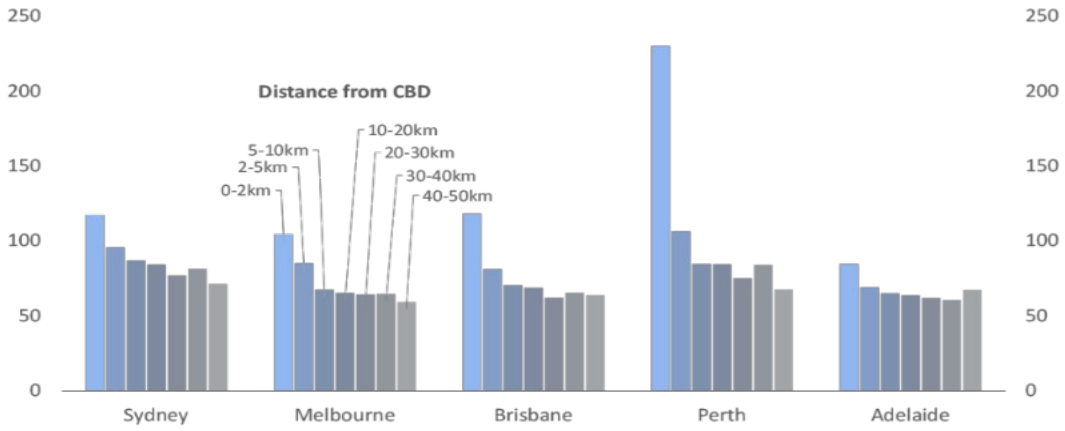
Figure 1: Output per square kilometre across urban centres



Note: Destination zone productivity levels are Treasury estimates.

Source: Treasury microdata analysis using ABS System of National Accounts 2021–22, ABS Labour Account 2021–22 and Census 2021 (accessed through TableBuilder).

Chart 8: Productivity distribution by distance from CBDs
(Average wages in dollars per hour)



Note: Distance from CBD is based on straight line distances from destination zones to CBD midpoint coordinates. Each distance bin represents average productivity measured by wages in dollars per hour.

Source: Treasury microdata analysis using ABS System of National Accounts 2021–22, ABS Labour Account 2021–22 and Census 2021 (accessed through TableBuilder).

7.10. Major CBDs are among the most productive areas in Australia's economy. The four largest CBDs (defined as within a 2km radius from the CBD centre) Sydney, Melbourne, Brisbane and Perth account for 16.3 per cent of Australia's output, and average productivity within these CBDs is 18.5 per cent higher, on average, than other areas (Chart 8).

7.11. Australia is a highly urbanised society. In 2023–24, the population of Australia's capital cities was 18.4 million, representing 68 per cent of the total population. The population in the rest-of-state areas was 8.8 million. The rest-of-state population share, compared to the respective capital cities in that state, is declining in all states except Queensland.

7.12. This urbanisation trend is expected to continue over the long term. Treasury's Centre for Population projects capital cities to grow nearly twice as fast as the rest-of-state areas over 2023–24 to 2035–36, with average annual growth of 1.4 per cent in capital cities compared to 0.8 per cent in rest-of-state regions. Factors such as rising congestion, housing affordability pressures and infrastructure constraints could limit productivity gains from additional agglomeration (NSW Productivity Commission, 2021; Infrastructure Australia, 2010).

Regional Areas

7.13. As noted in section 5, Australia operates relatively close to the global productivity frontier in industries aligned with its comparative advantages. Productivity levels in mining and agriculture are high by international standards.

7.14. Australia's leading mining companies are at, or very close to, the global productivity frontier in their industries (Andrews et al., 2022). In addition, the mining industry's productivity levels are significantly higher compared to other Australian industries. This is represented by the mining industry's productivity (GVA per hour worked) which is significantly higher than other industries, despite declines in within-industry mining productivity growth in recent years.

7.15. Australia has highly competitive farm businesses and one of the lowest levels of farm subsidies in the OECD (ABARES, 2024). From 1977–78 to 2023–24, annual productivity growth averaged 1.0 per cent for broadacre industries, 1.2 per cent for dairy, 0.6 per cent for beef and 0.5 per cent for sheep (ABARES, 2025). Year-to-year productivity outcomes in agriculture are influenced by weather, the effect of which is captured in MFP statistics (ABS, 2023).

7.16. Australia's comparative advantage in low-cost renewable energy and critical mineral resources also presents longer-term opportunities to lift productivity. The combination of abundant solar and wind resources, land availability, and access to key inputs for clean-energy technologies positions Australia to develop globally competitive industries in renewable energy (Garnaut, 2022). However, realising these opportunities will depend on complementary investment in infrastructure, skills and regulatory frameworks that support efficient project development and integration with global markets.

7.17. Despite these advantages, regional areas also face challenges. These include constraints on technology adoption and firm scaling, due to the smaller size of agglomerations outside the major cities. They also include spatial frictions that constrain production efficiencies in some industries.

8. A framework for the role of Government

8.1. The terms of reference for this inquiry include the role of states and territories in driving productivity growth, the impact of regulatory and tax burdens on productivity, and priority opportunities for productivity growth across the market and non-market sectors. This section discusses economic frameworks for each of these issues.

8.2. Governments play an important role in shaping the economic environment in which productivity growth occurs. The role of government in supporting productivity can be broadly classified into three areas:

- promoting macroeconomic stability,
- providing appropriate microeconomic and institutional frameworks, and
- undertaking direct public investment where it is warranted.

Promoting macroeconomic stability

8.3. At a broad level, macroeconomic stability is a precondition for productivity growth. Stable economic conditions support investment, innovation and workforce participation by providing households and businesses with greater certainty. Sound macroeconomic management enhances the effectiveness of price signals, enabling firms to make better long-term decisions about capital, technology and skills, and supporting efficient resource allocation across the economy.

Providing appropriate microeconomic and institutional frameworks

8.4. Well-functioning markets, characterised by competition, openness and flexibility, create incentives for firms to improve efficiency, adopt new technologies and innovate.

The role of regulation

8.5. Government regulation exists to manage risks that markets on their own tend to underprice or ignore, such as harm to consumers, the environment, or economic stability. Many regulations aim to prevent these harms. When they succeed, the result is often something avoided, rather than something tangibly achieved, which makes the benefits of good regulation hard to quantify. Good regulation must carefully balance expected benefits against compliance costs, since both over- and under-regulation can reduce overall welfare.

8.6. Optimising regulations that may serve as barriers to investment, innovation, dynamism and competition can support productivity by allowing labour and capital to move toward higher value activities. Conversely, poorly designed regulation can impede adjustment and lock resources into less productive uses, highlighting the importance of regulatory quality and stewardship.

The tax framework

8.7. Tax systems can improve long-term productivity growth and welfare. This can involve complex trade-offs.

8.8. Taxation enables Governments to invest in goods and services, such as education and infrastructure, that play a key role in enabling productivity growth. The design of the tax system can also help address market failures by incentivising activities with positive spillovers such as

research and development, the accumulation of education and skills, and discouraging activities with negative externalities.

8.9. Taxes also change the relative prices of factors of production, such as labour and capital, and the prices of the final goods and services. This changes the decision making of households, firms and investors from what it would have been without the tax, potentially leading to misallocation of resources in the economy.

8.10. In general, taxes levied at high rates, on narrow bases, or in ways where it is easier for a person or entity to reduce tax by changing behaviour, have higher economic costs. One of the rationales for broad-based taxes is that they are generally less distortionary than more narrowly-based taxes. The raising of revenue in a less distortionary manner limits the adverse effect of tax settings on economic incentives to investment, participation or allocation of resources.

Federal considerations

8.11. In Australia's federated system, policy levers are often dispersed between levels of government. To achieve policy objectives efficiently, governments often need to coordinate. For example, intergovernmental agreements are often used to ensure spending is well-targeted and well-coordinated despite the vertical fiscal imbalance, which refers to the Commonwealth's greater taxation powers and the states' significant spending responsibilities. States and territories also have primary responsibility for the delivery of many non-market services, including health care and education, as well as planning and zoning systems that shape housing supply. The Commonwealth also plays a regulatory and funding role in many non-market industries. Effective Commonwealth–state cooperation is therefore essential to improving productivity outcomes.

Undertaking direct public investment where it is warranted

8.12. The role of government is particularly significant where markets alone do not deliver efficient or equitable outcomes. For example:

- Health services play a critical role in shaping productivity outcomes, as better population health supports sustained human capital accumulation over the life cycle and can allow workers to work more productively for longer, should they choose to. Improvements in how health services are designed and delivered can raise productivity by improving outcomes for users and easing long term fiscal pressures.
- Individuals may underinvest in education because it generates positive externalities that are not fully captured in private returns. As a result, public investment in education can support a more skilled workforce than would arise if investment decisions were left solely to the market.

8.13. The Government also has an important role at times of major structural change, where the economic incentives in the market are not fully aligned with broader national interest. In these circumstances, direct public investment may be needed to incentivise private investment at scale (Treasury, 2024). Examples include:

- Where, in the transition to net zero, negative externalities from more emissions-intensive production methods are not appropriately priced into global markets, and cleaner production methods that present cost-effective abatement opportunities are not able to compete on a level playing field.

- Where private firms fail to appropriately price in the required level of economic resilience and security in critical sectors and supply chains, resulting in unacceptable levels of risk to Australia's national interest or broader economy.
- When technologies that are critical to the national interest are nascent, and first movers generate important new knowledge that helps those that come later to produce at a lower cost. This knowledge is a positive externality that, without government investment, would not be produced at the optimal level.

9. The Government's agenda

The Five Pillar agenda

9.1. The Government has a five pillar productivity agenda, which focuses on creating a more dynamic and resilient economy; building a skilled and adaptable workforce; harnessing data and digital technology; delivering quality care more efficiently; and investing in cheaper, cleaner energy and the net zero transition. Progress across these areas involves actions by the Commonwealth and state and territory governments. Examples of policies under each pillar follow.

<u>Creating a more dynamic and resilient economy</u>

9.2. Creating a more dynamic and resilient economy lifts productivity by encouraging innovation, increasing competition, removing trade frictions, and enabling the efficient reallocation of resources toward their most productive uses. Greater resilience also reduces the economic costs of shocks, allowing firms and workers to adapt quickly and sustain investment, skills, and output over time.

Competition

9.3. Greater competition lifts business dynamism and is a core focus of the Government's agenda.

9.4. Reforms to mergers and acquisitions laws, passed by Parliament in 2024 and 2025, target anti-competitive mergers more efficiently and effectively, while enabling pro-competitive mergers.

9.5. The Government has also revitalised National Competition Policy and established a $900 million National Productivity Fund, which provides payments to states to incentivise reforms that drive productivity growth. The National Competition Policy agenda is currently focused on:

- Creating a single national market for goods, where products can freely and seamlessly move across borders without entering a new regulatory system. Reforms include standards reform for waste and recycling, and household electrical consumer products, and facilitating the adoption of overseas and international standards in legislation.
- Creating a single national market for workers, so that Australians can use their skills where they are most valuable without needing to wait for a new licence or pay a new fee. Reforms include progressing national licensing for the electrical trades and other occupations critical for housing and energy, and establishing a national approach to worker screening in the care and support economy.
- Banning non-compete clauses for low- and middle-income workers that restrict mobility, innovation and wages. Non-compete clauses often hinder productivity by reducing labour mobility, restricting worker career progression, and suppressing wage growth.

- Streamlining and aligning regulation, in areas including modern methods of construction, commercial planning and zoning, heavy vehicle productivity reform, and health practitioner scope of practice.

Regulatory reform

9.6. As noted above, optimising regulations can support productivity by allowing labour and capital to move toward higher value activities. The Government is delivering a significant regulatory reform agenda, including initiatives to streamline, harmonise and improve regulation. For example:

- The *Regulatory Reform Omnibus Act 2025* commenced in December 2025. The Act contains measures to improve the operations of government agencies, including supporting Services Australia to shift towards a 'tell-us-once' approach, reducing the need for Australians to repeatedly provide the same information.
- The financial sector regulatory initiatives grid (RIG), first published in December 2024, to help streamline and coordinate regulation. Following requests from industry for greater transparency, the Government committed to publishing the RIG twice a year, in March and September. The RIG promotes greater transparency of the Government's planned reforms and regulator initiatives that are expected to materially affect the financial sector over a 24-month period.
- The Government has strengthened and streamlined Australia's national environmental laws, following the passage of the *Environment Protection Reform Bills* in November 2025. The reforms implement the recommendations of the 2020 Samuel Review and establish Australia's first independent national Environmental Protection Agency. The Government is also working with States and Territories to reduce duplication in processes and increase efficiency between State, Territory and Federal systems.

Trade and investment

9.7. Trade and investment boosts productivity growth by deepening our capital markets, giving Australians access to frontier technologies, goods and services, and enhancing our global competitiveness.

9.8. Examples of policies to support trade include:

- The Simplified Trade System (STS) reforms, which aim to create a simpler, more effective, and sustainable cross-border trade environment for Australia. The reforms are designed to simplify the processes and systems that enable Australian exporters to trade more efficiently, and make it easier for Australia to do business across international borders.
- The Australian Trusted Trader (ATT) Program, which is a partnership with Australian business to secure our borders and facilitate legitimate trade through assessment and accreditation of businesses against World Customs Organization standards. ATT reduces red tape for Trusted Traders at the border, improves certainty in export markets, and expedites the flow of their cargo in and out of Australia, which means faster access to market.
- Tariff reform: In addition to the 457 nuisance tariffs abolished in July 2024, the Government has announced an intention to abolish around another 500 nuisance tariffs. These tariffs raise little revenue, have negligible benefits for Australian producers, and impose compliance costs on Australian businesses. Abolishing them eliminates these inefficiencies and reduces compliance costs for businesses.

9.9. The Government has also committed to streamlining and strengthening Australia's foreign investment framework, with progress in reducing processing times for low-risk investment proposals, sharpening scrutiny of proposals in sensitive sectors, strengthening compliance activities, and enhancing transparency and engagement with investors.

9.10. The Government is also attracting and coordinating investment in priority areas through the National Reconstruction Fund, the Clean Energy Finance Corporation (CEFC), the new Investor Front Door pilot, and Investor Roundtables.

Financial system

9.11. A mature and well-functioning financial system supports productivity, including by allocating capital efficiently, lowering transaction and information costs, and encouraging innovation. Fit for purpose regulatory frameworks support these outcomes, including by encouraging competition, providing transparency and managing systemic risk. For example:

- The Strategic Plan for Australia's Payments System provides businesses with certainty and clarity on the Government's approach to important issues in the payments system, allowing businesses to invest with certainty and innovate. It also outlines the Government's commitment to ensuring that Australia's payments system is safe, affordable, can be trusted and will remain readily accessible.
- The Competition in Clearing and Settlement reforms in 2023 created a more competitive and contestable environment for essential post-trade services. These reforms include requirements around responsiveness to users, technical interoperability and external assurances on pricing and barriers to competition.
- The 2024 Financial Market Infrastructure regulatory reforms established a comprehensive crisis management and resolution regime and strengthened and streamlined licensing, supervisory and enforcement powers of the Australian Securities and Investments Commission (ASIC) and the Reserve Bank of Australia (RBA).
- Post-GFC derivatives reforms improved transparency and reduced interconnected risks across the system by introducing mandatory trade reporting, central clearing and platform trading for key over-the-counter products.
- The RBA is leading work to explore the role of digital money in wholesale tokenised asset markets. Industry stakeholders are exploring the potential for asset tokenisation for a variety of reasons, including its potential to increase efficiency and reduce risk in the issuance, trading, clearing, settlement and servicing of assets.

9.12. Strong consumer policies enable consumers to make more informed choices. This intensifies competitive pressure on firms, rewarding those that innovate, improve quality and operate efficiently, and in turn driving productivity growth across the economy. For example:

- The Government has introduced legislation (*the Corporations Amendment (Digital Assets Framework) Bill 2025*) to manage consumer risks associated with digital assets and to provide a clearer regulatory framework.
- In parallel, draft legislation was released in October 2025 and March 2026, proposing revisions to the existing payment licensing regime for non-cash payment facilities. The proposed approach would ensure the regime appropriately covers the wide range of payment products and services now provided in Australia, including payment stablecoins.
- Making unfair contract terms (UCTs) illegal strengthens consumer and small business protections by preventing the use of one-sided contract terms and improving fairness in

standard form contracts. Where businesses once faced only the risk of a term being void, the prospect of substantial penalties now creates a strong incentive to ensure contracts are fair.

- Imminent unfair trading practices (UTP) legislation will prohibit harmful commercial conduct that distorts consumer choice or causes detriment, closing gaps in the existing consumer protection framework.
- Reforms to consumer guarantees and supplier indemnification clarify responsibilities across supply chains, ensuring consumers receive timely remedies while improving cost recovery for businesses.
- The Scams Prevention Framework strengthens consumer protection by introducing consistent, enforceable obligations for businesses in sectors targeted by scammers.

Cyber security

9.13. The continued adoption of safe and secure digital platforms, technologies and online services is critical for Australia's resilience and future prosperity. To support this objective, the Government released Australia's first Cyber Security Strategy in 2023. It sets out steps to improve our cyber security, manage cyber risks and better support citizens and Australian businesses to manage the cyber environment around them.

Building a skilled and adaptable workforce

9.14. Building a skilled and adaptable workforce improves productivity by improving human capital, enabling Australians to work more efficiently and use new technologies more effectively, move into higher-value roles, and apply their skills where they generate the greatest return. Adaptability also helps firms and workers to adjust to change more quickly, reducing downtime and labour mismatches, and supporting sustained improvements in efficiency and output.

9.15. When schools, the vocational education and training sector, higher education and other private education providers are effective at meeting skills needs, they expand opportunities for employment and support productivity growth by strengthening human capital. A more skilled workforce enables workers and firms to adopt new technologies, improve how capital is used, and support long-term productivity growth. Examples of policies to support these outcomes include:

- Schools: The Government continues to work with state and territory governments on improving the school education system, including putting every public school on a path to full funding under the Schooling Resource Standard by 2034. All states and territories have signed 10-year Better and Fairer Schools Agreements, which will see additional Commonwealth funding over the life of the agreements, with new funding tied to reforms to help lift student outcomes.
- Vocational Education and Training: Through the National Skills Agreement, the Government is making investments across five years, and working with the states and territories, to strengthen the vocational education and training sector.
- Tertiary Education: The Government is also implementing recommendations of the Universities Accord to increase the tertiary education attainment rate to 80 per cent of the working age population by 2050. This includes establishing a new university funding and governance model for the tertiary education sector.

9.16. Migration increases the stock of skills and talents in Australia's workforce, contributes to knowledge spillovers, and increases the productivity of the Australian-born workforce (OECD, 2023). The Government is reforming Australia's migration system to drive greater economic prosperity. Key actions taken under the Migration Strategy include the introduction of the new Skills in Demand and National Innovation visas, and a targeted Core Skills Occupation List. The Government is also continuing to work with states and territories to better align migration with government investments in infrastructure, housing and service delivery.

9.17. Policies that reduce barriers to participation and labour market mismatches could improve productivity outcomes by enabling workers to move into jobs that better match their skills. For example:

- The Government's combined tax cuts are expected to support labour force participation, increasing total hours worked by about 1.3 million hours per week compared to 2023–24 tax settings, equivalent to more than 30,000 full time jobs.
- The Government has improved access to affordable early childhood education and care by replacing the Child Care Subsidy Activity Test with a 3 Day Guarantee. This will enable parents to access the Child Care Subsidy and participate or increase their participation in work, study, or volunteering, to their preferred levels.
- The National Housing Accord, including the New Homes Bonus, is bringing together all levels of government, industry and investors to unlock housing supply, while the build-to-rent tax concessions will help increase the supply of new rental housing. Together, well-targeted housing policies will help reduce barriers to labour mobility and participation.

Harnessing data and digital technology

9.18. Harnessing data and digital technology improves productivity by enabling automation of routine tasks and more efficient use of time and resources. Access to data and digital tools also supports further innovation and scale, allowing firms and governments to streamline processes, reduce costs, and deliver higher-value goods and services.

9.19. Artificial Intelligence (AI) has the potential to have wide applications across the economy and affect productivity through multiple channels. Although there is significant uncertainty around the scale and timing of these effects, it is likely that AI will automate routine tasks, augment worker capabilities, and improve organisational processes across business and government. The key elements of the Government's approach to AI are set out in:

- Australia's National AI Plan, which provides a framework to coordinate action across government, industry, and the community to capture the economic opportunity of AI, spread its benefits, and manage its risks through appropriate safeguards. Its intended outcome is that AI is adopted widely and responsibly to lift productivity, improve services, and deliver broad-based benefits across Australia while upholding value and safety expectations.
- The Australian Public Service (APS) AI Plan, which sets out the approach to increasing the use of AI across the APS. This aims to support improvements in government service delivery, efficiency and productivity, while strengthening governance to ensure AI is used safely and responsibly. The Government is also building the foundational capability of public services to use AI responsibly including AI literacy training mandated for all staff, and practical training such as GovAI interactive learning.

9.20. The process of generating new knowledge and enhancing Australia's capacity to adopt, adapt and diffuse existing technologies is supported by well-functioning research and scientific institutions.

- The Government has made investments in Australia's scientific institutions and infrastructure, including in CSIRO, the National Measurement Institute, Australian Nuclear Science and Technology Organisation (ANSTO), Australian Space Agency, Square Kilometre Array, and Geoscience Australia to support innovation and R&D.
- The Government has released a Critical Technologies List and the National Science Research Priorities, providing a focal point for government effort and investment.

9.21. Productivity benefits of technology adoption also depend on the availability of enabling infrastructure and foundational skills, which best support businesses and workers' capability to translate investments into productive gains.

- More investments in expanding full-fibre NBN access are providing internet connectivity to additional premises in regional and rural areas. This supports growth by enabling investment, skills development, innovation and diffusion.
- Improving access to foundational digital skills is included in the Government's actions on building a skilled and adaptable workforce. Ensuring Australia's digital and technological capability is an agreed national priority under the National Skills Agreement.

9.22. Government can support the realisation of the benefits of new technologies by helping to lower barriers to adoption, improving trust, and enabling interoperability. For example:

- The Government is implementing a reset to the Consumer Data Right (CDR) to improve cost effectiveness and increase uptake by addressing key barriers to use. This has led to higher rates of consumer uptake. Consumer uptake increased from around 225,000 to over 800,000 over the 12 months to 30 June 2025. At the same time, costs to CDR participants have fallen as the frequency of data standard changes has reduced, due to better targeting of the scope of data included in the CDR.
- Investment in Digital ID is improving the safety of Australians by reducing collection of their identity information, while realising wider productivity gains and efficiencies for government services. Government services adoption of Digital ID increased to 93.6 million transactions in 2025 from 25.1 million in 2024 – including state and territory services. The private sector will be able to apply to join the Government system from December 2026.

Delivering quality care more efficiently

9.23. Delivering quality care more efficiently improves productivity by achieving better outcomes with the same or fewer resources in the care economy, freeing capacity for workers and systems to focus on activities that create higher value for care recipients. Efficiency gains also reduce avoidable costs and downtime, supporting a healthier workforce and more sustainable long-term growth.

9.24. One way these efficiency gains can be achieved is by ensuring that the right care is delivered in the right setting at the right time. This improves outcomes for care recipients, while reducing time and costs across the system. For example:

- Investments in primary care and alternative pathways for acute care can reduce the cost of healthcare while increasing system-wide productivity. The launch of a 24/7 telehealth

service (1800Medicare) and the continued roll out of the network of urgent care clinics nationwide can help avoid unnecessary presentations to hospital emergency departments.

- The new Chronic Conditions Prevention and Integrated Care Program provides ongoing, competitive grants to support evidence-based prevention, early intervention and integrated care for people living with, or at risk of developing, chronic conditions.
- The Government has continued to invest in mental health prevention and early intervention, and recently launched Medicare Mental Health Check-In service, which focuses on low intensity digital services for early intervention and prevention.
- Regulatory and advisory bodies undertake health technology assessments to evaluate the safety, quality, effectiveness and cost-effectiveness of medicines, medical devices and other health technologies. These assessments inform decisions on market access and government subsidy, ensuring public funding supports safe and effective improvements to healthcare. The Health Technology Assessment Review report, delivered in 2024, made 50 recommendations intended to make the system more efficient, equitable, and capable of keeping pace with modern, complex therapies. The Government is working with expert advisers and stakeholders to implement reforms in response to the report.
- Changes to maximum dispensing quantities to allow 60-day prescribing has reduced the regulatory barriers and improved the supply and accessibility of medicines to patients with stable chronic conditions. This change will reduce the number of visits to pharmacies and general practitioners, reducing both time spent and costs to individuals.

9.25. More broadly, the Government is working to identify where the same or better outcomes for care recipients can be achieved more efficiently. For example:

- Structural reforms are underway to make aged care and disability programs more sustainable. National Disability Insurance Scheme (NDIS) growth is on track to meet the 8 per cent financial sustainability target with further agreements to target annual NDIS cost increases of 5 to 6 per cent, or lower. This includes National Cabinet agreeing to deliver Thriving Kids, the first phase of Foundational Supports, which will support children with developmental delay and/or autism with low to moderate support needs outside the NDIS.
- Aged care reforms introduced means-tested contributions to the cost of aged care at home. The reforms are expected to reduce the cost of aged care, while delivering more choice and allowing older people to remain independent, in their home and community, for longer.

9.26. A suite of national reforms is underway to strengthen the health workforce by reducing regulatory barriers, while maintaining patient safety and care quality.

- Commissioned by National Cabinet in 2022, the Independent Review of Health Practitioner Regulatory Settings examined ways to streamline health practitioner regulation, particularly registration and skills recognition. The Health Workforce Taskforce was established to coordinate implementation of the Review's recommendations across jurisdictions to address workforce shortages.
- In parallel, National Competition Policy is progressing reforms to enable practitioners to work to their full scope of practice.

Investing in cheaper, cleaner energy and the net zero transition

9.27. Investing in cheaper, cleaner energy and the net zero transition improves productivity by lowering energy input costs. It also drives innovation and capital investment, enabling firms to adopt cleaner technologies that raise efficiency and support long-term, sustainable growth.

9.28. The Government's Net Zero Plan sets out how Australia will achieve a fair, orderly and efficient transition to net zero. It demonstrates how Australia can transition while growing the economy, reducing cost pressures on households and businesses, and creating new jobs.

9.29. Efficient emissions reduction supports productivity growth by minimising abatement costs and uncertainty, while mobilising investment and market mechanisms to deliver the net zero transition at least cost. The Government has a suite of policies aimed at achieving this:

- The Capacity Investment Scheme is incentivising investment in new energy and storage projects to help achieve the Government's 82 per cent renewable energy target. The scheme ensures cost-efficiency by operating competitive tenders for 40 gigawatts of renewable energy projects to be delivered across Australia by 2030.
- The Rewiring the Nation program is investing to modernise Australia's electricity transmission infrastructure to connect new renewables and storage to the grid.
- An expansion in funding of the Clean Energy Finance Corporation is expected to unlock additional investment in renewable energy and low emissions technologies.
- The Safeguard Mechanism drives emissions reductions at Australia's largest industrial facilities by placing a declining limit on facility emissions. The scheme will be reviewed in 2026–27 to ensure settings remain appropriately calibrated.
- Legislated climate financial disclosure requirements provide investors and companies the transparency and certainty they need to invest as part of the net zero transformation.

9.30. Strengthening Australia's competitiveness in emerging green industries will be key to capturing future growth opportunities as the global economy decarbonises. The Future Made in Australia (FMA) agenda will encourage innovation in cleaner production processes, supporting adoption and diffusion of new ideas and promoting capital deepening. Initiatives under the FMA agenda include:

- hydrogen and critical minerals production tax incentives
- the FMA Innovation Fund
- the Green Aluminium Production Credit
- the Green Iron Investment Fund
- the Cleaner Fuels Program to support Low Carbon Liquid Fuel Production
- the Hydrogen Headstart program
- the Solar Sunshot program
- the Battery Breakthrough Initiative.

Economic Reform Roundtable

9.31. The Economic Reform Roundtable was held in August 2025.

9.32. At the conclusion of the Roundtable, the Treasurer outlined ten areas of consensus:

- progressing work towards a single national market
- simplifying trade and tariffs
- better regulation to cut the clutter
- speeding up approvals in national priority areas
- building more homes, more quickly
- making AI a national priority
- attracting capital and deploying investment
- building a skilled and adaptable workforce
- a better tax system
- modernising government services.

9.33. The Treasurer also announced ten immediate actions:

- abolishing more nuisance tariffs, subject to consultation
- reducing complexity and red tape in the National Construction Code
- accelerating *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) reform in line with the principles from the Samuel Review
- dealing with the backlog of environmental approvals for new homes
- releasing the letters for regulators on opportunities for better regulation, with the Council of Financial Regulators to coordinate actions and lift ambition for financial sector regulators
- introducing a bill on regulatory reform, including 'tell us once'
- developing an APS AI plan
- accelerating work on a national AI capability plan, including national interest principles for data centres
- commencing the Investor Front Door pilot in September
- working with the states on road user charging.

9.34. Since the Roundtable, progress includes reforms to the *Environment Protection and Biodiversity Conservation Act 1999*, streamlining regulations for builders to build more homes more quickly, committing to abolish more nuisance tariffs, legislating the *Regulatory Reform Omnibus Act 2025*, releasing a National AI Plan and piloting the Investor Front Door.

9.35. Significant further work is also underway, including working through more than 400 regulatory reform ideas proposed by 38 regulators, advancing a further round of national competition policies with states and territories to build a single national market, further work to streamline approvals, and better coordinating and facilitating private investment through the Government's suite of Special Investment Vehicles.

10. References

ABS (Australian Bureau of Statistics) (2023) *Interpreting ABS productivity statistics*, ABS.

ABS (2025) *A Primer on labour productivity*, ABS.

ABS (2026) *Estimates of Industry Multifactor Productivity methodology*, ABS.

ABARES (Australian Bureau of Agricultural and Resource Economics and Sciences) (2024) *Productivity drivers*, Department of Agriculture, Fisheries and Forestry

ABARES (2025) *Australian Farm Productivity - Broadacre and Dairy Estimates*, Department of Agriculture, Fisheries and Forestry.

Andrews D, Criscuolo C and Peter NG (2016) *The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy*, OECD Productivity Working Papers, OECD.

Andrews D and Garnero A (2025) *Five facts on non-compete and related clauses*, OECD Economics Department Working Papers, OECD.

Andrews D, Hambur J, Hansell D and Wheeler A (2022) *Reaching for the stars: Australian firms and the global productivity frontier*, Treasury Working Paper, The Australian Treasury.

Andrews D and Hansell D (2019) *Productivity-enhancing labour reallocation in Australia*, Treasury Working Paper, The Australian Treasury.

Australian Heads of Treasuries (2017) *Intergovernmental Review of Business Investment*, Australian Government.

Battersby B (2006) *Does distance matter? The effect of geographic isolation on productivity levels*, Treasury Working Paper, The Australian Treasury.

Baumol WJ (2012) *The cost disease: Why computers get cheaper and health care doesn't*, Yale University Press, New Haven.

Blainey JG (1966) The *Tyranny of Distance: How Distance Shaped Australia's History*, Sun Books, Melbourne.

Bresnahan T and Trajtenberg M (1992) *General purpose technologies: Engines of growth?*, NBER Working Paper No. 4148, National Bureau of Economic Research.

Bruno A, Hambur J and Wang L (2025) *A (Closer to) Real Time Labour Quality Index*, *RBA Bulletin*, Reserve Bank of Australia.

Brynjolfsson E (1993) 'The Productivity Paradox of Information Technology', *Communications of the ACM*, 36(12):67-77

Brynjolfsson E (2026) 'The AI productivity take-off is finally visible', *Financial Times*, 16 February 2026

Brynjolfsson E and McAfee A (2011), *Race Against the Machine: How the Digital Revolution is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy*, Digital Frontier Press, London.

Buckley J (2023) *Productivity in motion: The role of job switching*, e61 Institute.

Comin D and Hobjin B (2010) 'An Exploration of Technology Diffusion', *American Economic Review*, 2010, 100(5):2031-2059.

Conference Board (2025) *Total Economy Database: Summary tables and Charts May 2025*, The Conference Board.

Congressional Budget Office (2026) *The Long-Term Budget Outlook Data: 2026 to 2056*, supplementary data, Congressional Budget Office.

Crafts N (2004) *Steam as a General Purpose Technology: A Growth Accounting Perspective* *The Economic Journal*, 114(495): 338–351.

David P (1990) *The Dynamo and the Computer: An Historical Perspective On the Modern Productivity Paradox*, *American Economic Review*, 80(2):355-61.

Day I, Duretto Z, Hartigan P and Hambur J (2022) *Competition in Australia and its impact on productivity growth,* Treasury Round Up, The Australian Treasury.

Department of Finance Canada (2025) *Canada Strong Budget 2025*, Department of Finance Canada.

Deutscher N (2019) *Job-to-job transitions and the wages of Australian workers*, Treasury Working Paper, The Australian Treasury.

Dieppe, A (2021) *Global Productivity: Trends, Drivers, and Policies*, World Bank.

Dolman B, Parham D and Zheng S (2007) *Can Australia Match US Productivity Performance?*, Staff Working Paper, Productivity Commission.

Evans S, Kamil J, Thiris J, Lipp J and de Fontenay C (2024) *Why are investment hurdle rates so high? Risk or market power?*, Staff Working Paper, Productivity Commission.

Farhi E, and Gourio F. (2018) *Accounting for macro-finance trends: Market power, intangibles, and risk premia*, Brookings Papers on Economic Activity, Fall 2018, pp.147–223.

Garnaut R (2022) *Superpower: Australia's low-carbon opportunity*, La Trobe University Press, Melbourne.

Gordon RJ (2012) *Is US Economic Growth Over? Faltering Innovation Confronts Six Headwinds*, NBER Working Paper No. 18315, National Bureau of Economic Research.

Hambur J and Andrews D (2023) *Doing Less, with Less: Capital Misallocation, Investment and the Productivity Slowdown in Australia*, Research Discussion Paper, Reserve Bank of Australia.

Hambur J and Freestone O (2025) *How Costly are Mark-ups in Australia? The Effect of Declining Competition on Misallocation and Productivity*, Research Discussion Paper, 2025-06, Reserve Bank of Australia.

Haskel J and Westlake S (2018) *Capitalism without capital: The rise of the intangible economy*, Princeton University Press, Princeton

Helpman E and Trajtenberg M, *A time to sow and a time to reap: Growth based on General Purpose Technologies*, NBER Working Paper No. 4854, National Bureau of Economic Research.

Infrastructure Australia (2010), 'Productivity of Australian cities', *State of Australian Cities 2010*, Department of Infrastructure and Regional Development

Jenner K, Walker A, Close C and Trent Saunders (2018) *Mining Investment beyond the Boom*, *RBA Bulletin*, Reserve Bank of Australia.

King S (2025) *Competitive care: Why, when and how competition can improve human services*, Conference Paper, Productivity Commission.

Lowe P (1995) *Labour-Productivity Growth and Relative Wages: 1978–1994*, Research Discussion Paper, Reserve Bank of Australia.

Mackey W (2024) Labour market matching across skills and regions in Australia, *Treasury Roundup*, The Australian Treasury.

McCririck R and Rees D (2017) *The Neutral Interest Rate,* RBA Bulletin, Reserve Bank of Australia.

Mokyr J (2013) *Is technological progress a thing of the past?*, VoxEU column, Centre for Economic Policy Research.

NSW Productivity Commission (2021) *Productivity Commission White Paper*, NSW Government.

New Zealand Treasury (2025) *Long-term Fiscal Statement 2025*, New Zealand Treasury.

OECD (2012) *OECD Compendium of Productivity Indicators 2012*, OECD.

OECD (2023) *Migration and regional productivity: Evidence from individual wages in Australia*, OECD Regional Development Papers, OECD.

OECD (2025a) *The Global Forum on Productivity at 10: Past and Future Perspectives on Reviving Productivity Growth*, OECD.

OECD (2025b) *Understanding the weakness in business investment: A cross-country analysis*, OECD Economics Department Working Papers, OECD.

OECD (2025c) *The best versus the rest: The global productivity slowdown, divergence across firms and the role of public policy*, Global Forum on Productivity, OECD.

OECD (2026) *OECD Economic Surveys: Australia 2026*, OECD.

Office for Budget Responsibility (2025) *Economic and Fiscal Outlook – March 2025*, supplementary data, Office for Budget Responsibility.

Parkinson M, Howe J and Azarias J (2023) *Review of the Migration System*, *Final Report*. Department of Home Affairs.

Productivity Commission (2005) *Review of National Competition Policy Reforms Inquiry Report*, Productivity Commission.

Productivity Commission (2020a) *Australia's long term productivity experience*, PC Productivity Insights, Productivity Commission.

Productivity Commission (2020b) *Can Australia be a productivity leader?*, PC Productivity Insights, Productivity Commission.

Productivity Commission (2023a) *5-year Productivity Inquiry: Advancing Prosperity Inquiry Report*, Productivity Commission.

Productivity Commission (2023b) *5-year Productivity Inquiry: Innovation for the 98% Inquiry Report*, Productivity Commission.

Productivity Commission (2024a) *Advances in measuring healthcare productivity*, Research Paper, Productivity Commission.

Productivity Commission (2024b) *Quarterly Productivity Bulletin – December 2024*, Productivity Commission.

Productivity Commission (2025a) *Productivity before and after COVID-19*, Research paper, Productivity Commission.

Productivity Commission (2025b) Harnessing Data and Digital Technology Inquiry Report, Productivity Commission.

RBA (Reserve Bank of Australia) (2022) *The Neutral Rate: The Pole-star Casts Faint Light*, Speech by Assistant Governor (Economic) Luci Ellis, 12 October, Reserve Bank of Australia.

RBA (2025a) *Why Productivity Matters for Central Bankers*, Speech by Sarah Hunter, Assistant Governor (Economic), Citi Australia and New Zealand Investment Conference, 15 October 2025, Reserve Bank of Australia.

RBA (2025b) *Statement on Monetary Policy – August 2025: In Depth – Drivers and Implications of Lower Productivity Growth*, Reserve Bank of Australia.

Robertson P and Robitaille M (2017), 'The Tyranny of Distance and the Gravity of Resources', *Economic Record* 93(303):533-549

Slok T (2026) *Waiting for the AI J-Curve*, Apollo Global Management, 2026.

Sorbe S, Gal P and Millot V (2018) *Can productivity still grow in service-based economies?*, OECD Economics Department Working Papers, OECD.

Solow R (1987) "We'd better watch out", *New York Times Book Review*, July 12, 1987, page 36.

Terrill M and, Batrouney H (2018) *Remarkably adaptive: Australian cities in a time of growth*, Grattan Institute.

Treasury (2023a) *Intergenerational Report 2023: Australia's future to 2063*, The Australian Treasury.

Treasury (2024) *Future Made in Australia – National Interest Framework supporting paper*, The Australian Treasury.

van der Merwe M, Cockerell L, Chambers M and Jääskelä J (2018) *Private Non Mining Investment In Australia*, RBA Bulletin 2018, Reserve Bank of Australia.

WEF (World Economic Forum) (2026) *Chief Economists Outlook, 2026*, World Economic Forum.

Young A, Wilkie J, Ewing R and Rahman J (2008) *International comparison of industry productivity*, Treasury Round Up.