



Australian Government
Productivity Commission

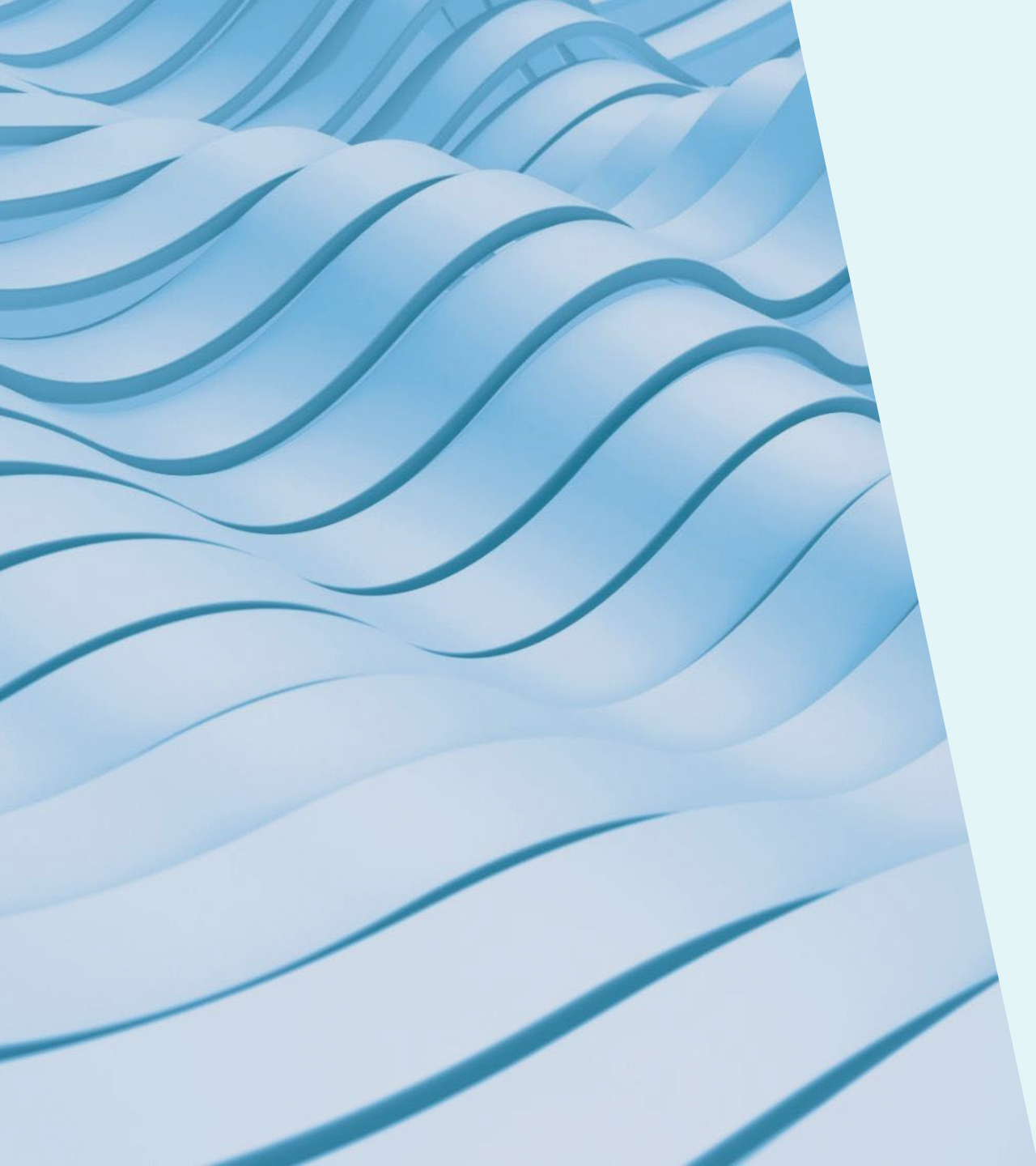
Productivity: an introduction

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RBA Teacher Immersion Event, 2025

pc.gov.au





The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on economic, social and environmental issues affecting the welfare of Australians

Our mandate

Improve productivity

Reduce unnecessary regulation

Enhance international competitiveness

Facilitate adjustments to structural changes

Consider community, ecological and international factors

Our core functions

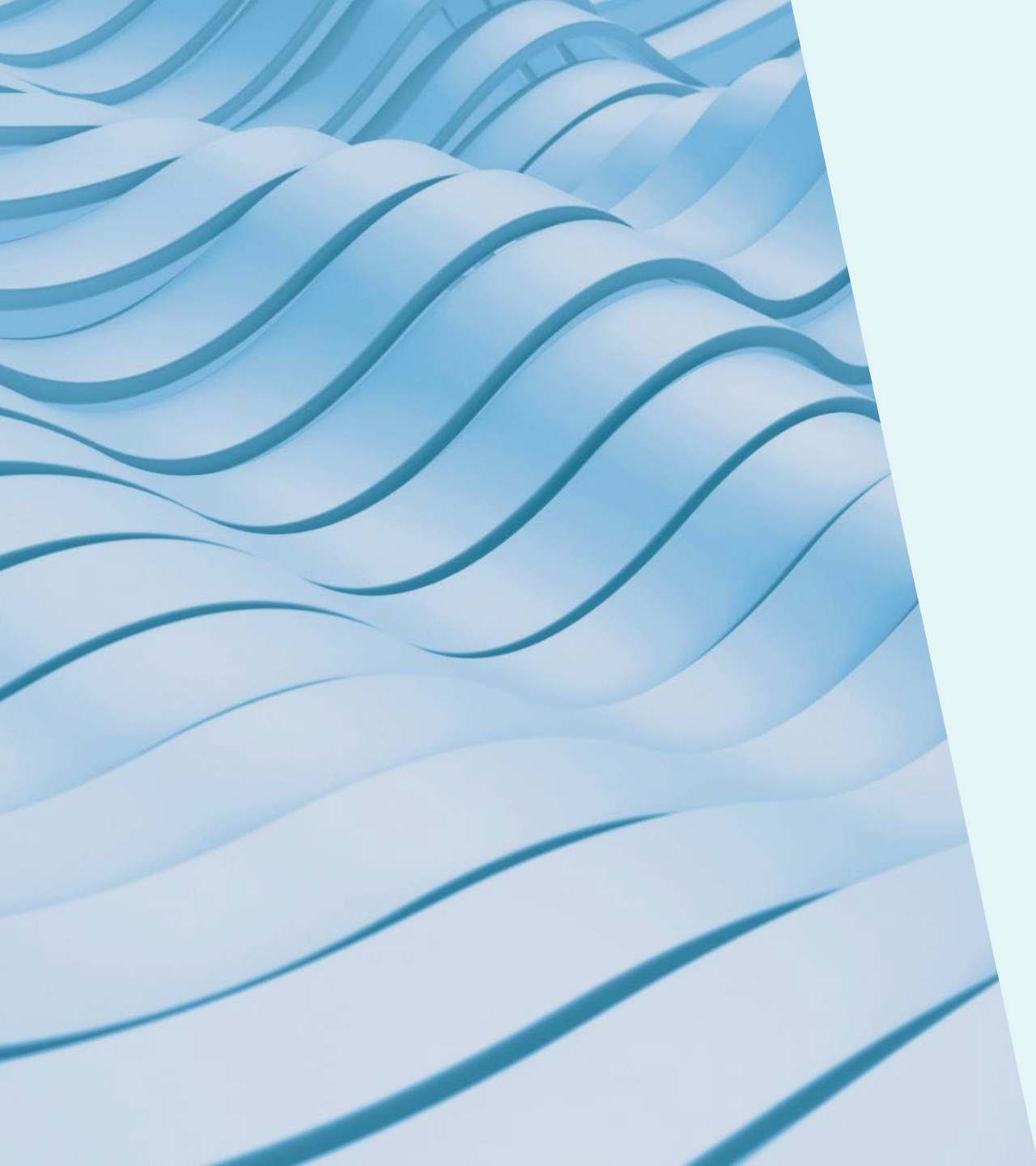
Inquiries

Research

Monitoring and benchmarking

Competitive neutrality complaints

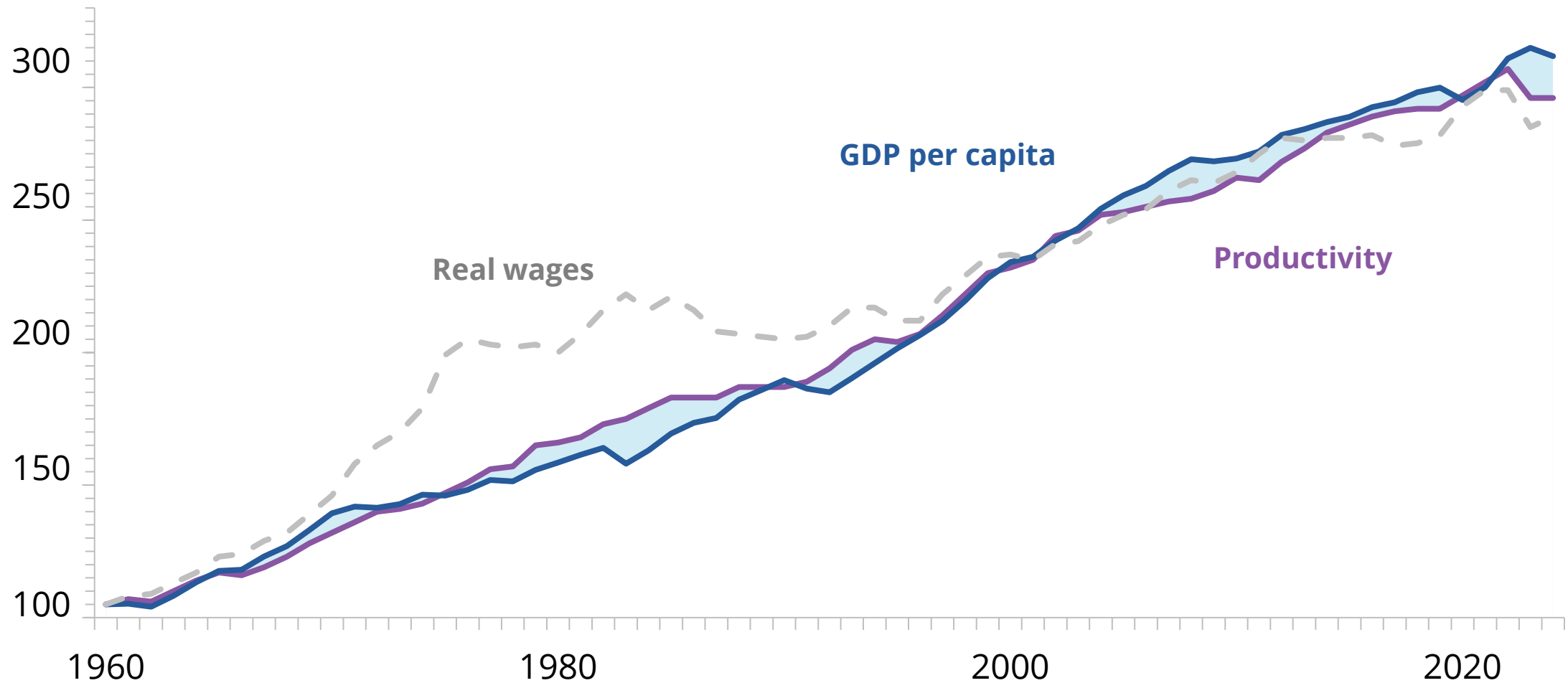
Safeguard action investigations



Productivity: why should we care?

It's productivity that drives improvements in living standards

Index = 100 in 1960, 1960 - 2024



Notes: Consumer wages shown. Producer wages demonstrate a similar trend. See Productivity Commission 2023, *Productivity growth and wages – a forensic look*, PC Productivity Insights, Canberra, September, for more information. Source: Productivity Commission estimates using ABS national accounts data.

Higher productivity means more 'stuff'

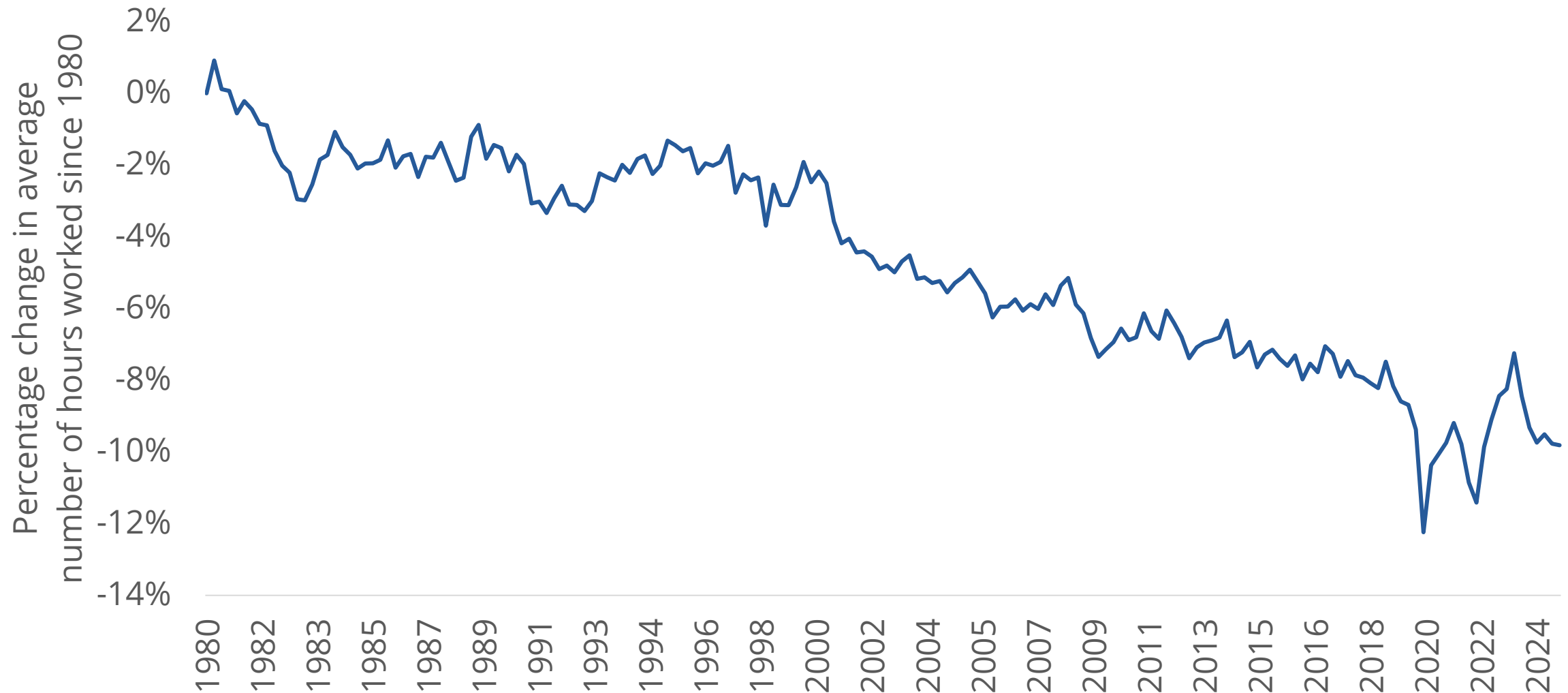
Productivity increases have reduced the average minutes of work required per consumption good

	1901	2000	2019
Rump steak (1 kg)	142.9 mins	41.8 mins	38.0 mins
Antibiotics	-	18.0 mins	8.6 mins
Bread (a loaf)	20.4 mins	7.7 mins	5.5 mins
Milk (1 litre)	30.6 mins	4.7 mins	2.2 mins

Source: AIHW (2019); Commission estimates using ABS (2019, Consumer Price Index, Australia, Sep 2019, Cat. no. 6401.0; 2001, Year Book Australia, 2001, Cat. no. 1301.0) for prices of goods in 1901 and 2019, and for earnings in 2019, and Ville and Withers (2015, pp. 561–569) for earnings and a combination of Bergeaug et al. (2016), Ville and Withers (2015, pp. 561–569) and the Conference Board (2018) for hours worked in 1901, and for wage growth since 2000, ABS (2019, Australian System of National Accounts, 2018-19, Cat. no. 5204.0, table 1; 2019, Estimates of Industry Multifactor Productivity, 2018-19, Cat. no. 5260.0.55.002, tables 1–19).

Higher productivity means more free time

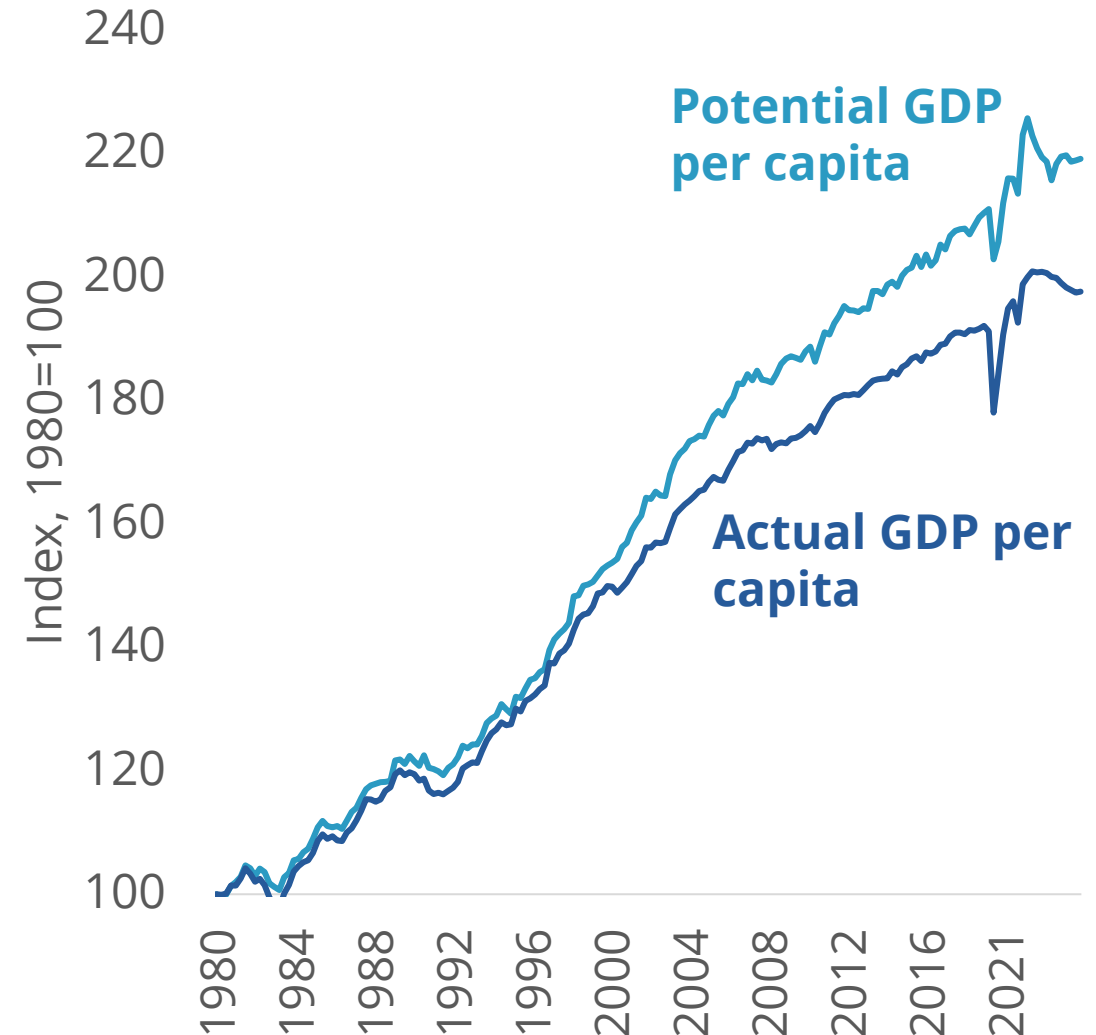
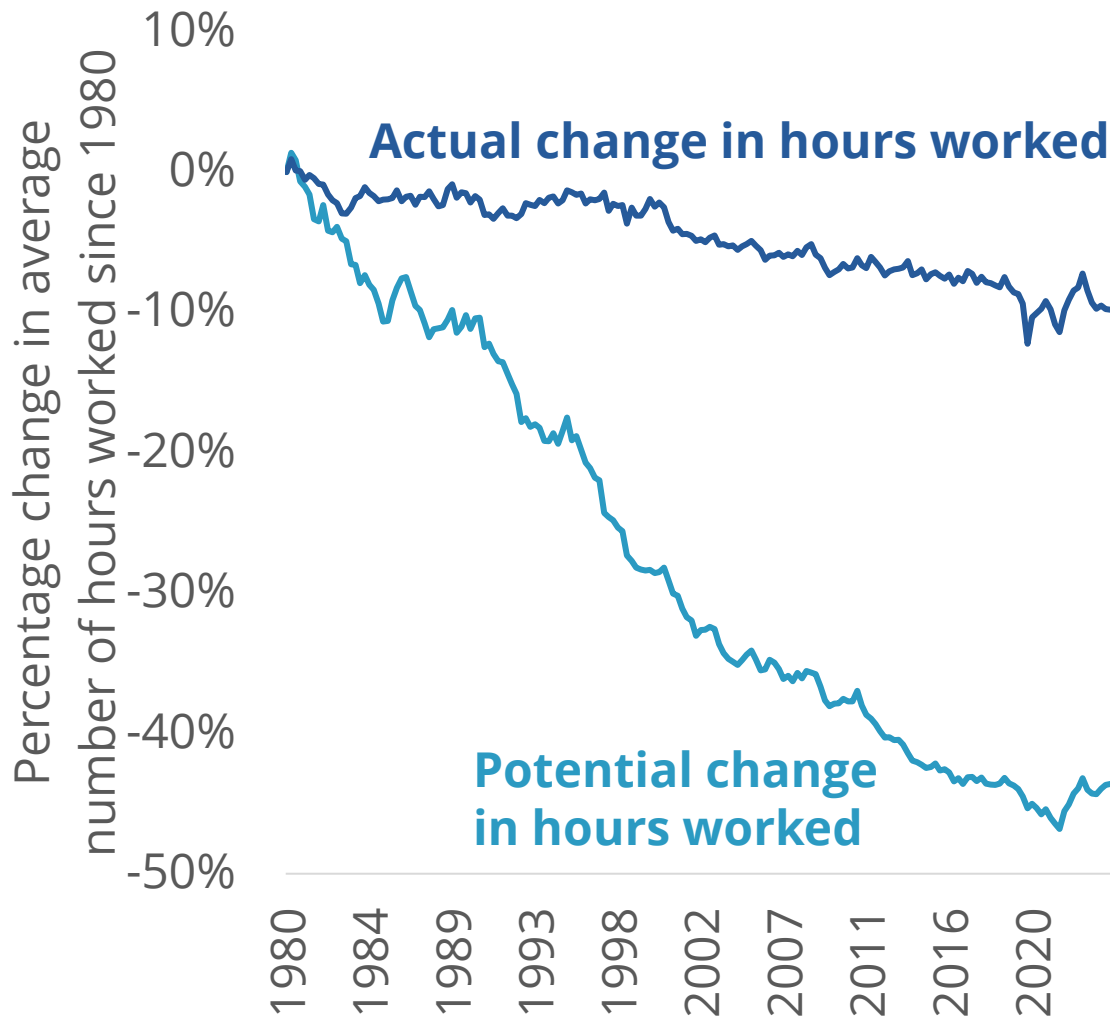
Productivity increases have reduced the total amount of work Australians need to do



Source: ABS (Australian Bureau of Statistics) 2025a, Australian National Accounts: National Income, Expenditure and Product, March 2025

We get to choose how we benefit from productivity

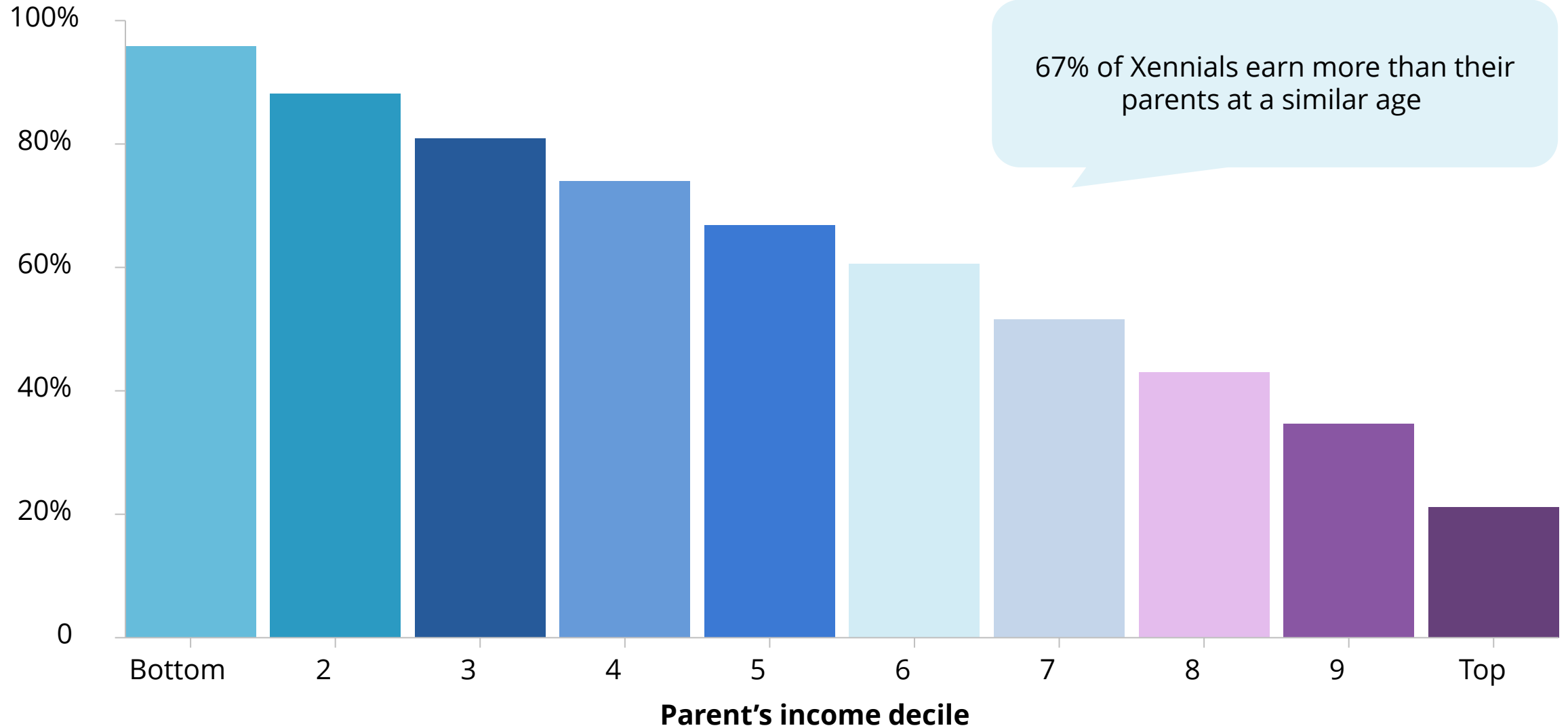
And we have resoundingly chosen more 'stuff'



Source: ABS (Australian Bureau of Statistics) 2025, Australian National Accounts: National Income, Expenditure and Product, March 2025

Most people earn more than their parents did

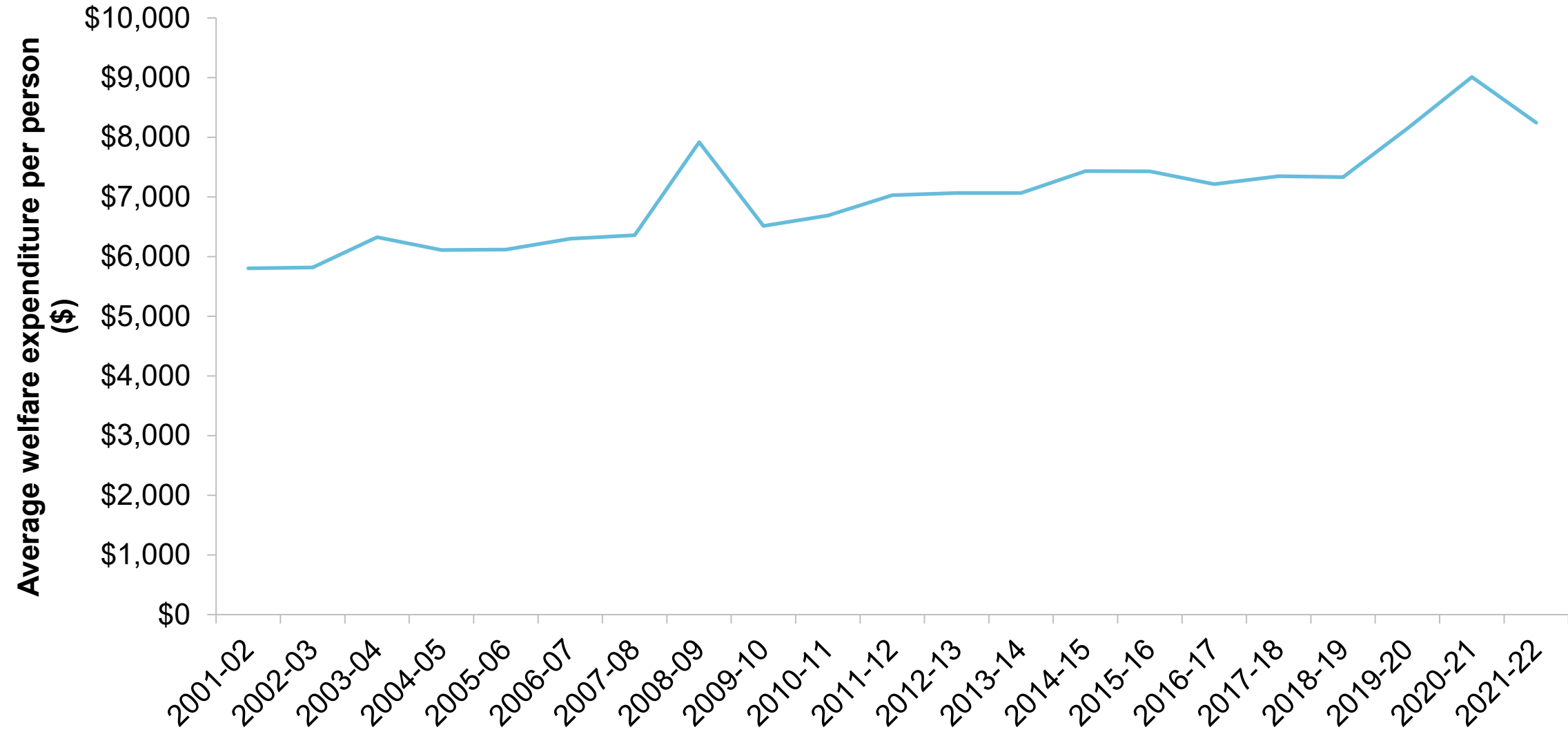
Children earning more than their parents by parent income decile, 1976–82 birth cohort



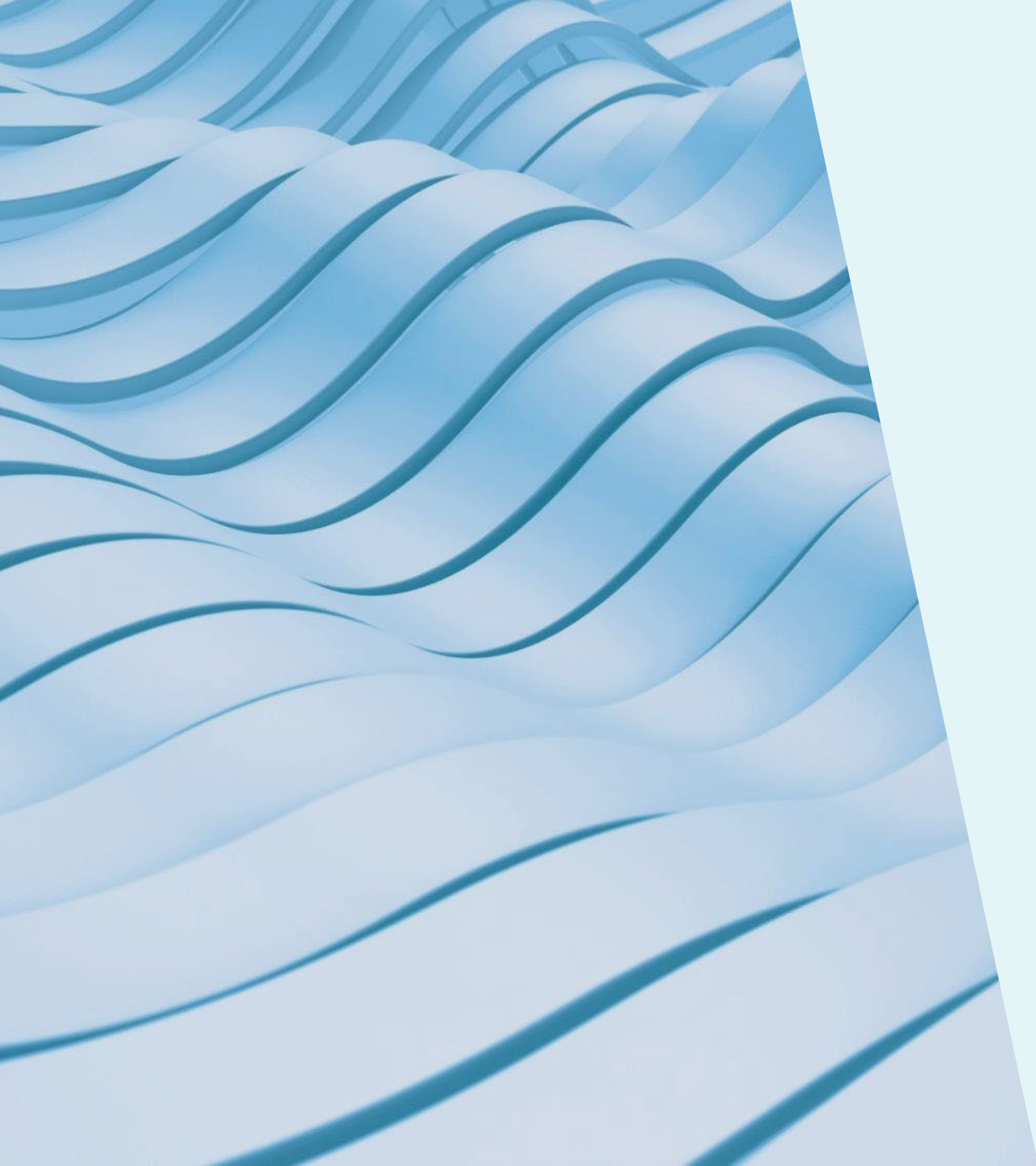
Notes: The income measure is 'total income', which includes transfers but not taxes and deductions. Data controls for age. See Productivity Commission 2024, *Fairly Equal? Economic Mobility in Australia*, Canberra for methodology. Source: Productivity Commission estimates using ALife.

And our social safety net is able to expand

Total government welfare expenditure in Australia, constant prices, 2001-02 to 2021-22



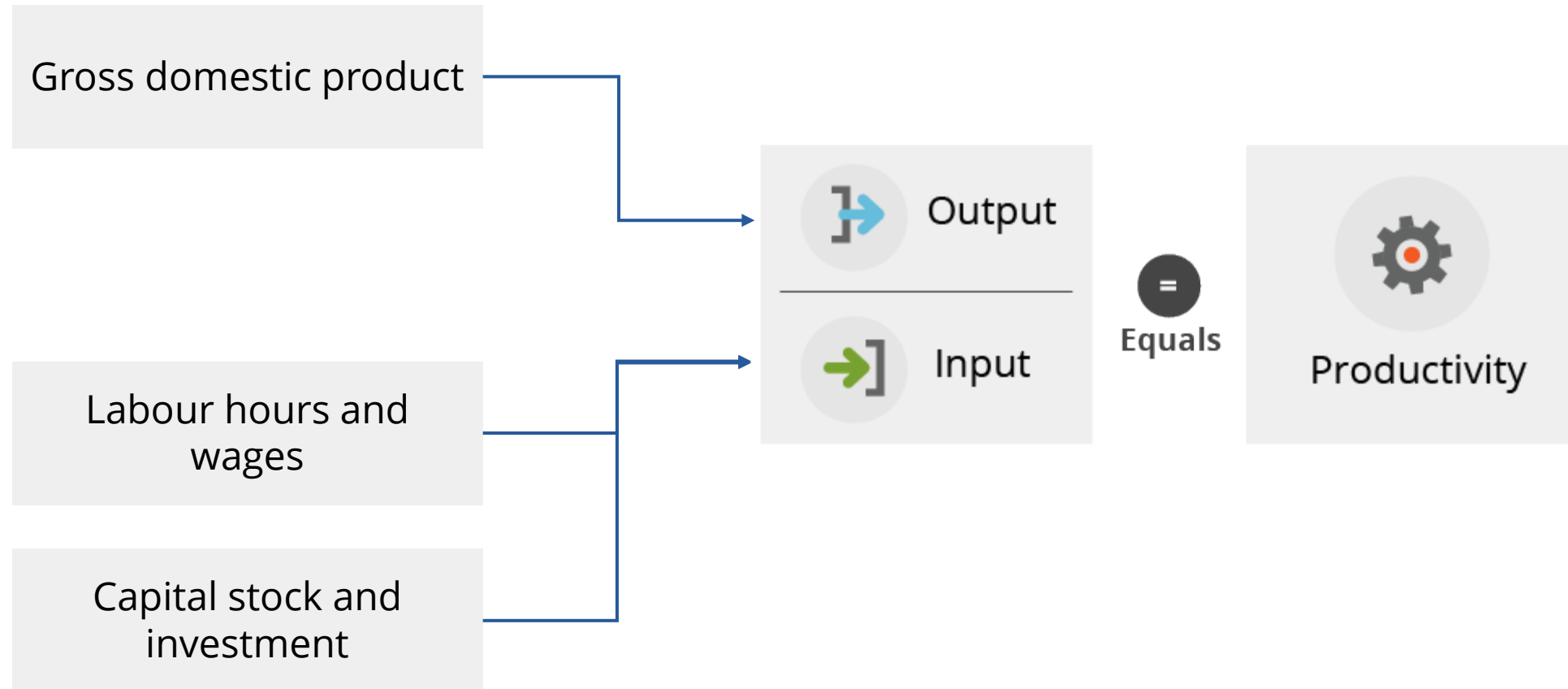
Source: AIHW (Australian Institute of Health and Welfare 2023, Welfare expenditure, September 2023)



How we measure productivity

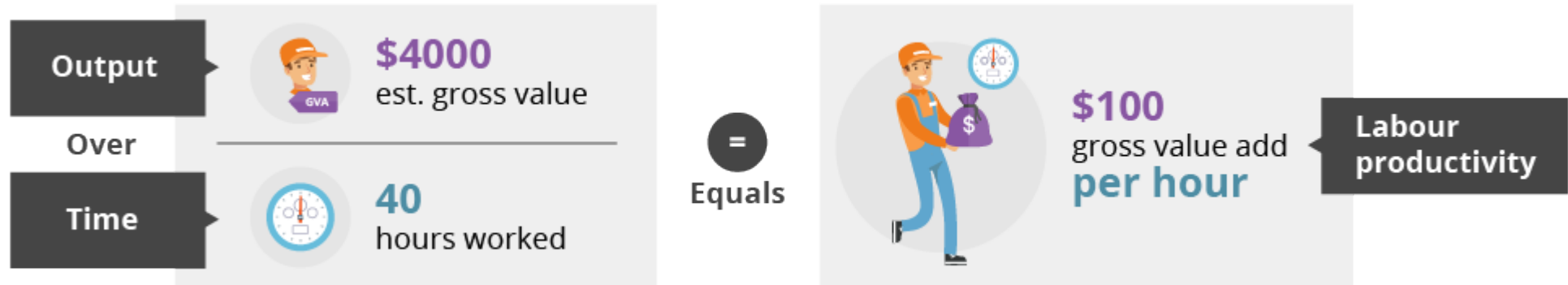
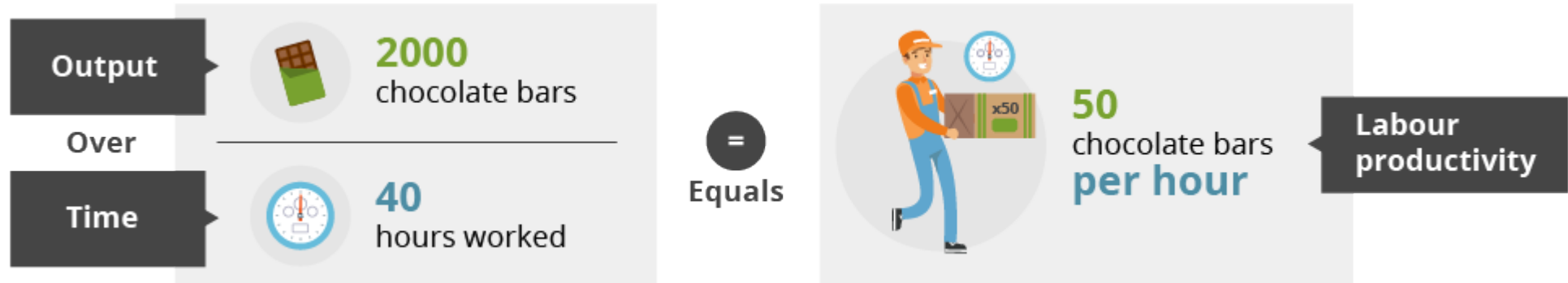
Productivity at the economy level

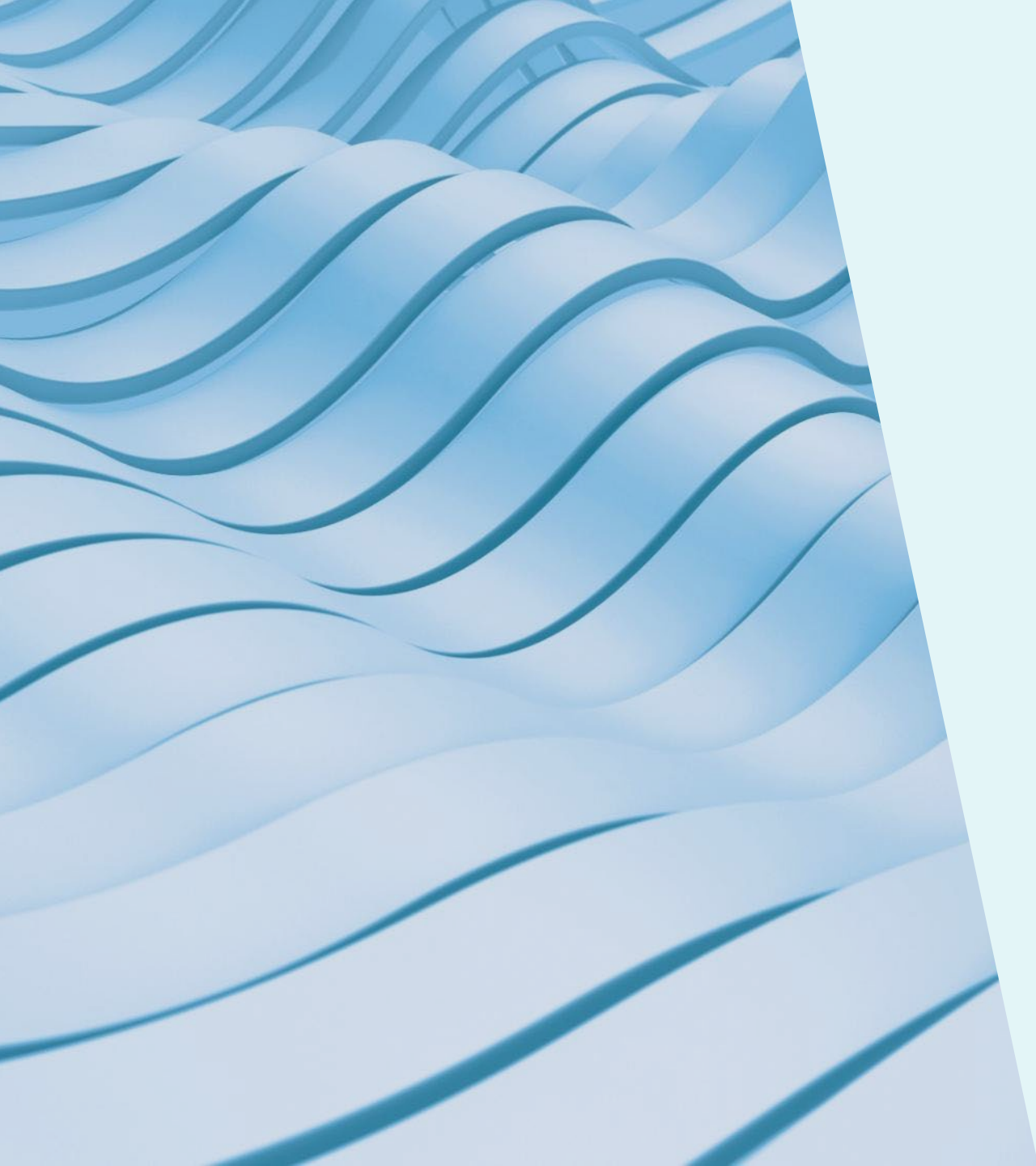
Macroeconomists worry about productivity as an input to GDP



Productivity at the business level

Microeconomists worry about productivity at the business or industry level

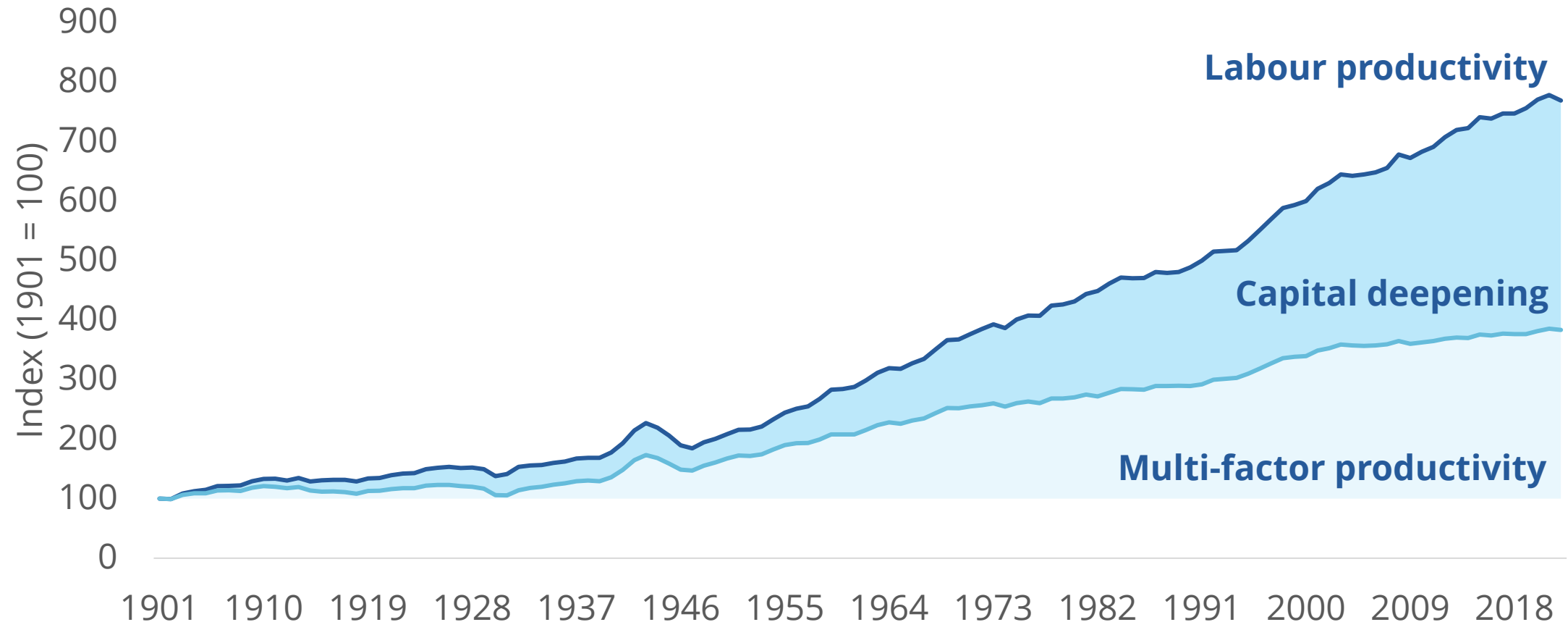




**Where does
productivity
come from?**

Productivity at the economy level

Productivity is typically broken down as labour productivity, capital deepening, or multi-factor productivity



Source: Bergeaud, A., Cette, G. and Lecat, R. (2016): Productivity Trends in Advanced Countries between 1890 and 2012, Review of Income and Wealth. vol. 62(3), pages 420-444. <http://www.longtermproductivity.com>

The drivers of productivity

Productivity can come from a variety of sources

Technological improvement



Economies of scale and scope



Workforce skills



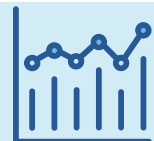
Management practices

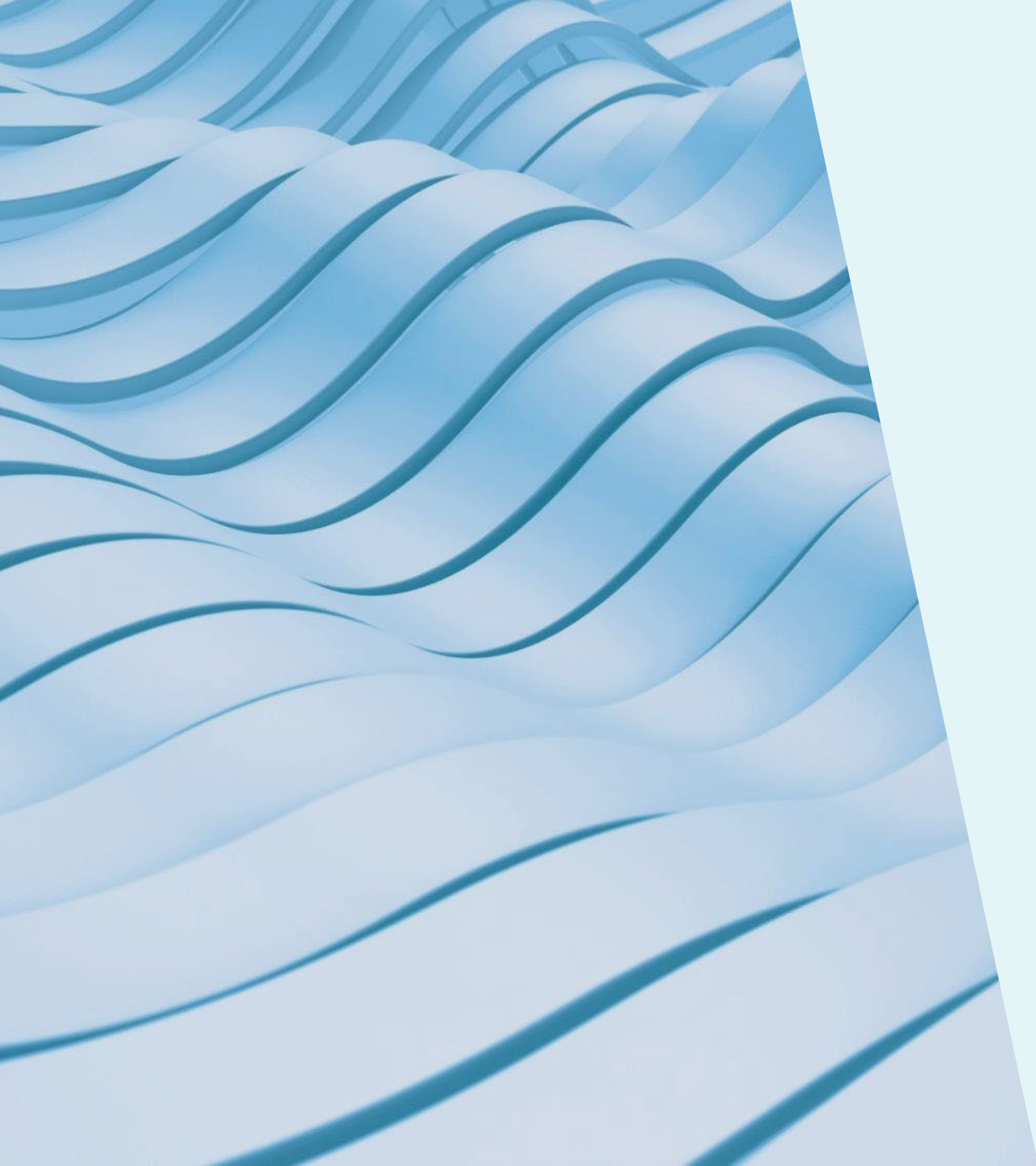


Competition



Macroeconomic business cycles

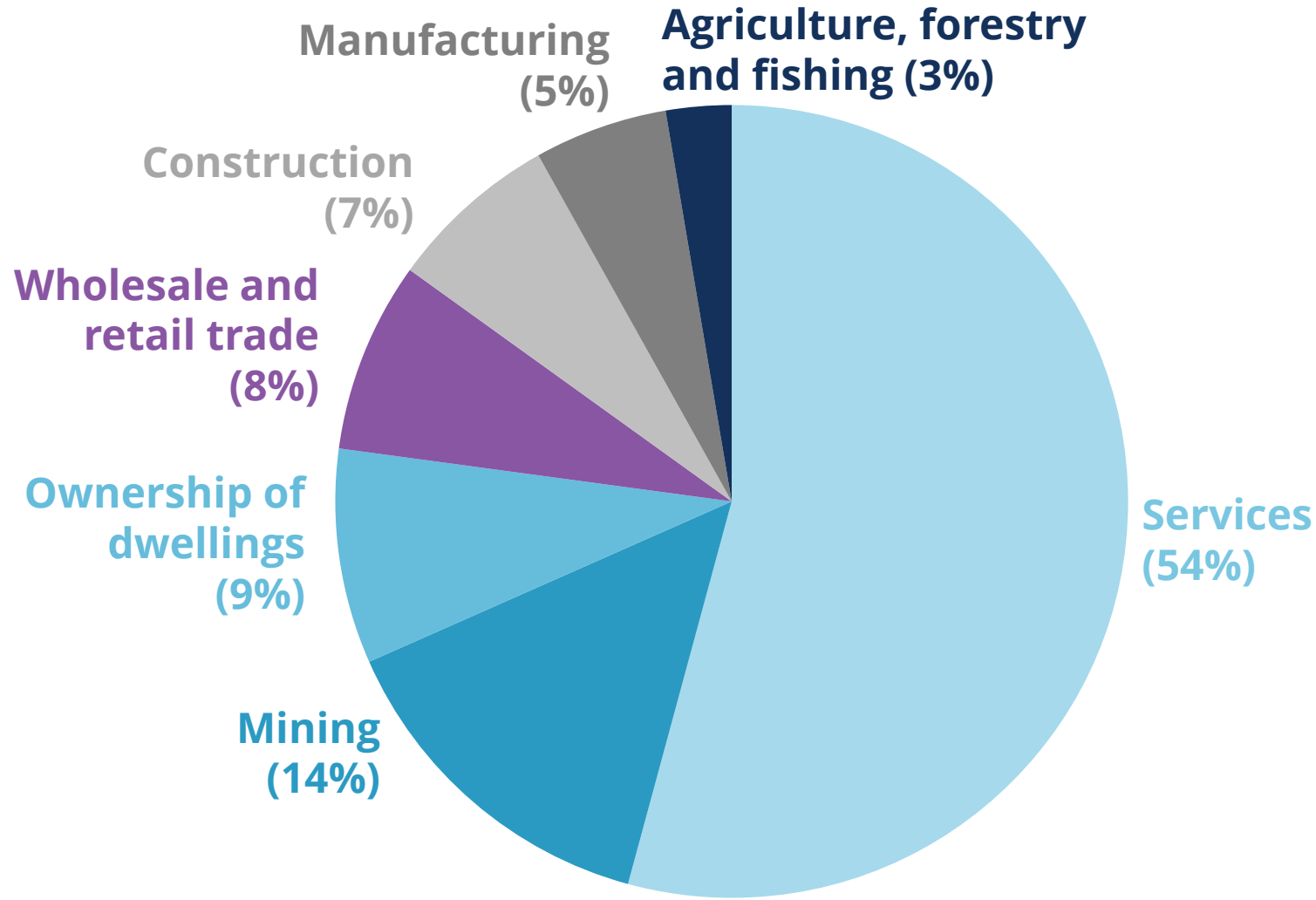




Challenges in measuring productivity

The economy is complex; so is measuring productivity

Industry proportion of gross value added, 2024



Total annual GDP

\$2.3 trillion (2024)

What isn't included

- Black economy
- Environmental degradation
- Social connections/capital
- Unpaid work
- Products with zero price

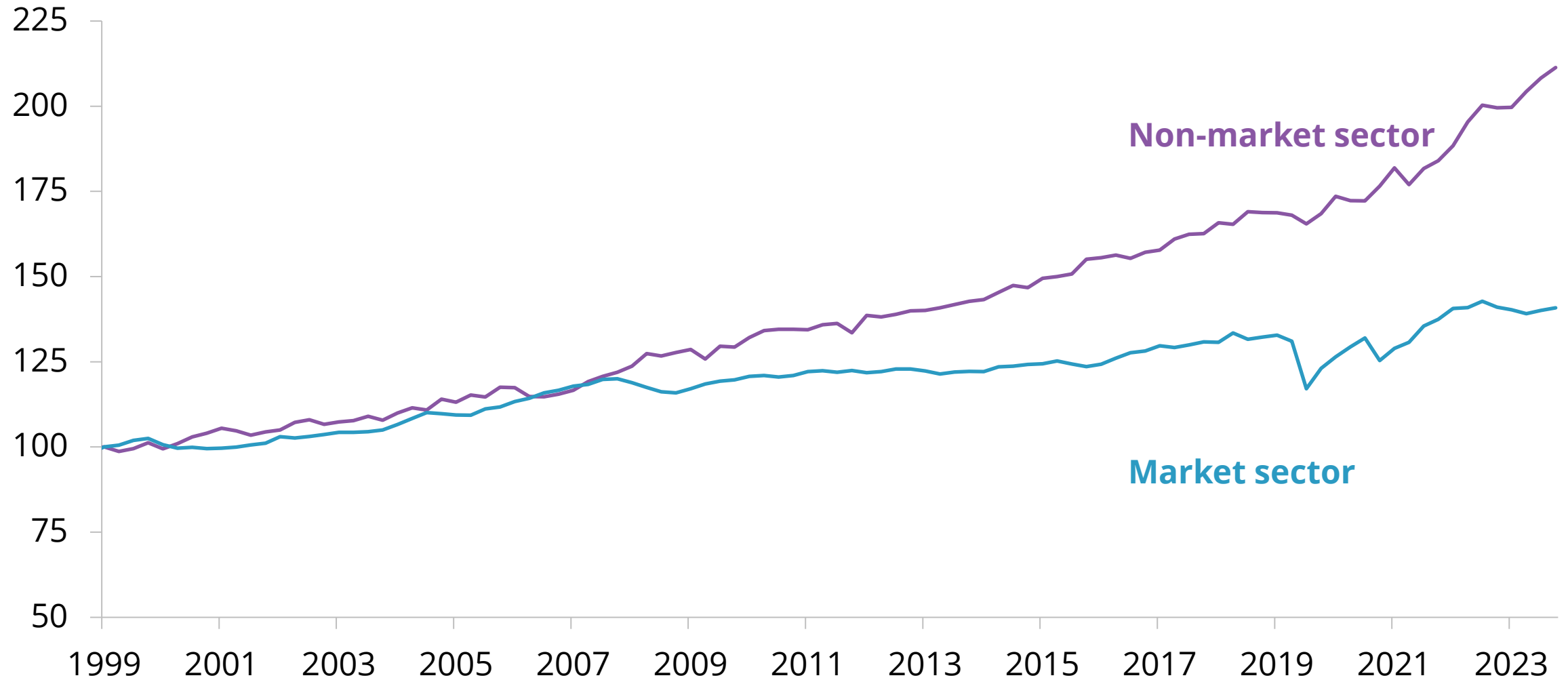
Note: Proportions based on Gross Value Added. Services includes Electricity, gas, water and waste services; Accommodation and food services; Transport, postal and warehousing; Information media and telecommunications; Financial and insurance services; Rental, hiring and real estate services; Professional, scientific and technical services; Administrative and support services; Public administration and safety; Education and training; Health care and social assistance; Arts and recreation services; and Other services.

Source: ABS National Accounts March 2024 (Table 6)

GENERAL

Australia has a substantial, growing non-market sector

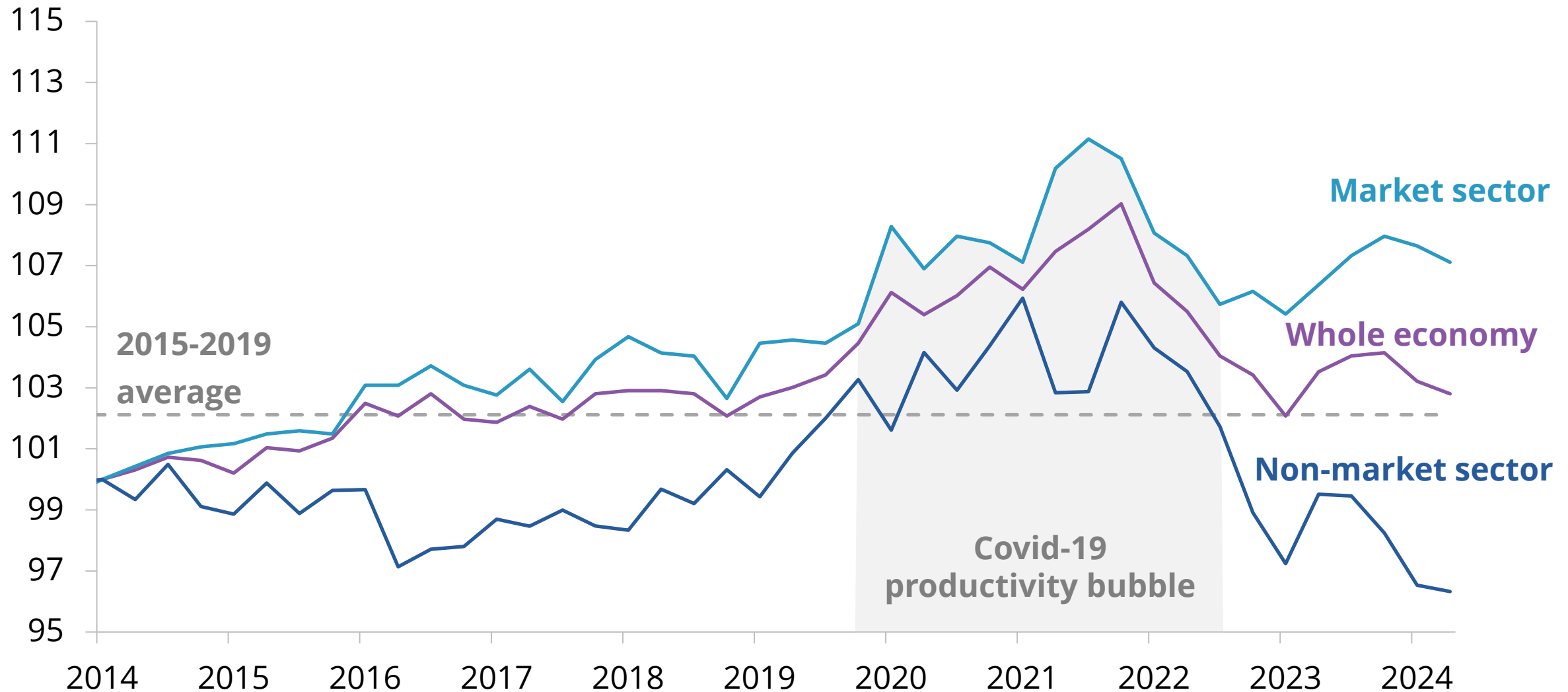
Change in hours worked (index = Dec 1999, quarterly)



Source: Productivity Commission estimates based on ABS 2024, Labour Account Australia, September.

Which has typically been less productive

Labour productivity (index, 2014=100), March 2014 to September 2024

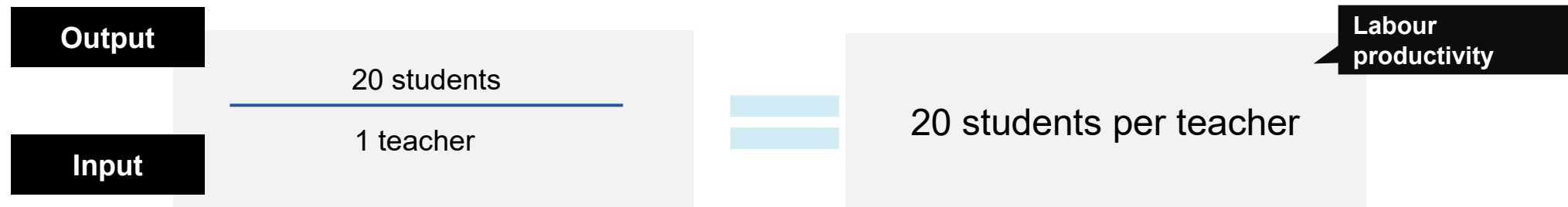


Source: Productivity Commission estimates using ABS (2023, Australian National Accounts: National Income, Expenditure and Product, December 2023, Cat. No. 5206.0., Table 1.

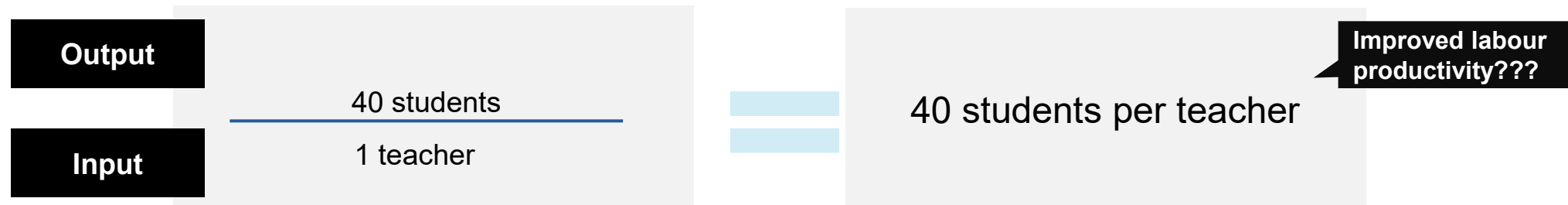
Measuring productivity in the non-market sector

Measuring output, and quality, is hard in the non-market sector, making productivity estimates challenging

Consider labour productivity in a school...

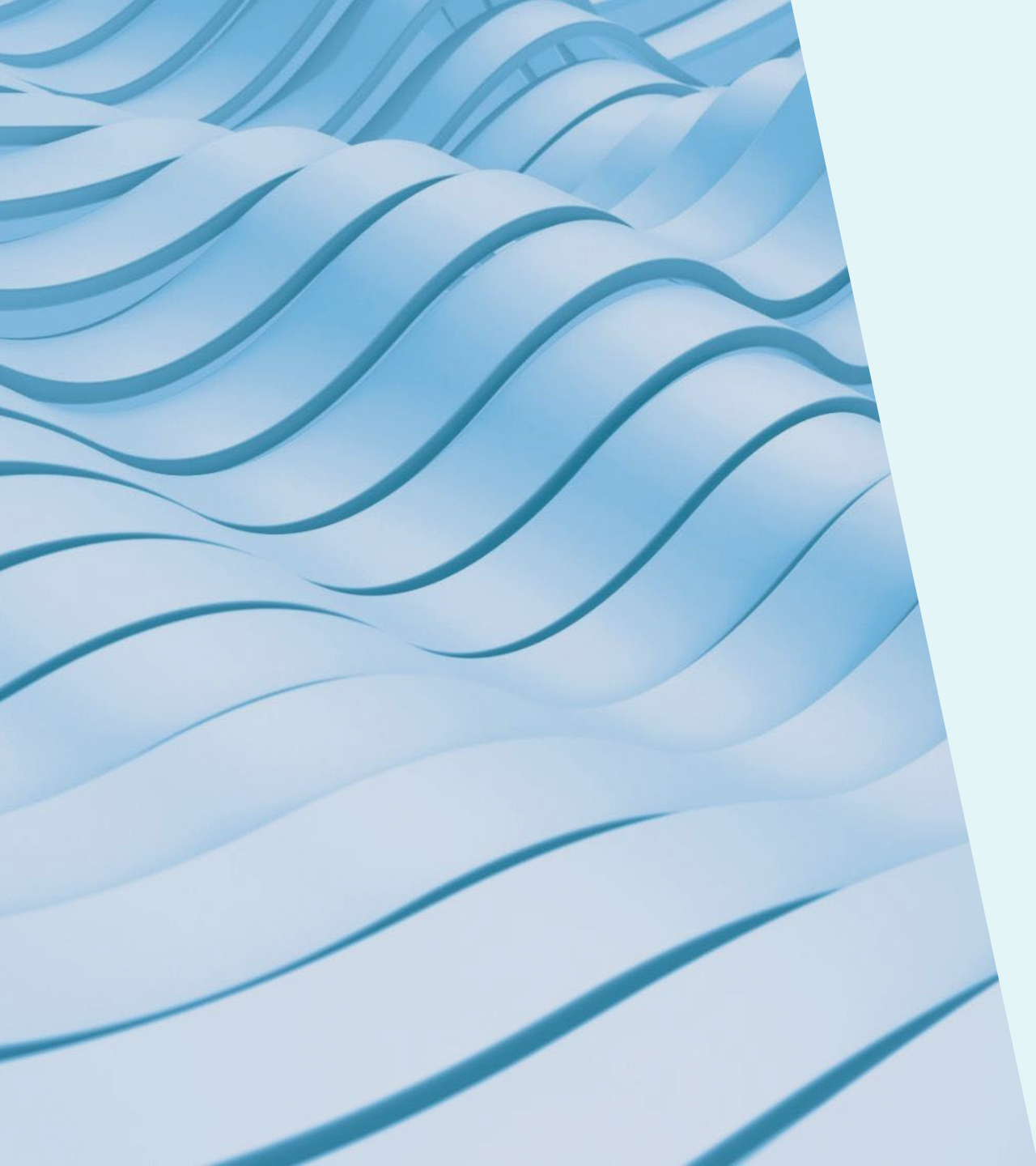


Now what happens if you double class sizes...



This fails to take into account the *quality* of the education a teacher provides with 20, or 40, students in their class

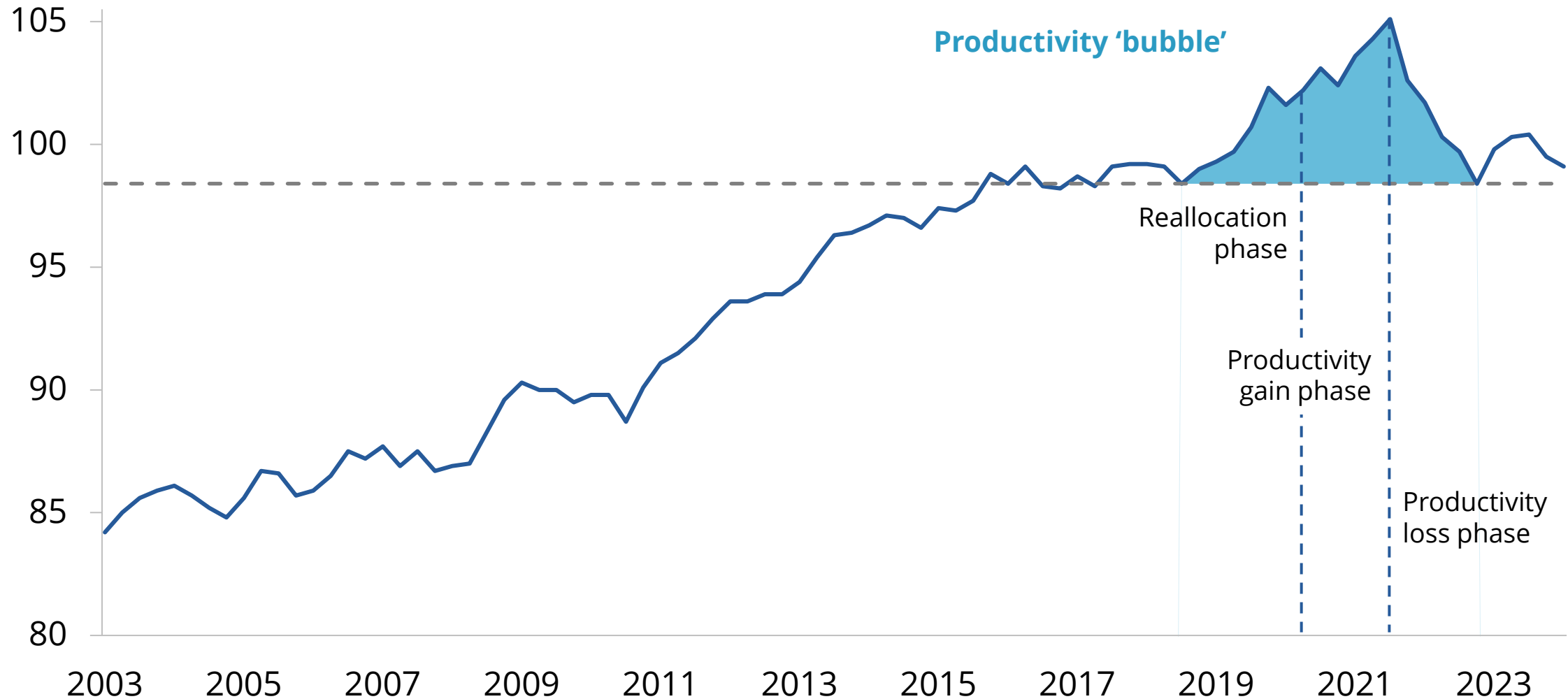
Problems like this are common in the non-market sector



Recent trends

We've been on a wild ride lately

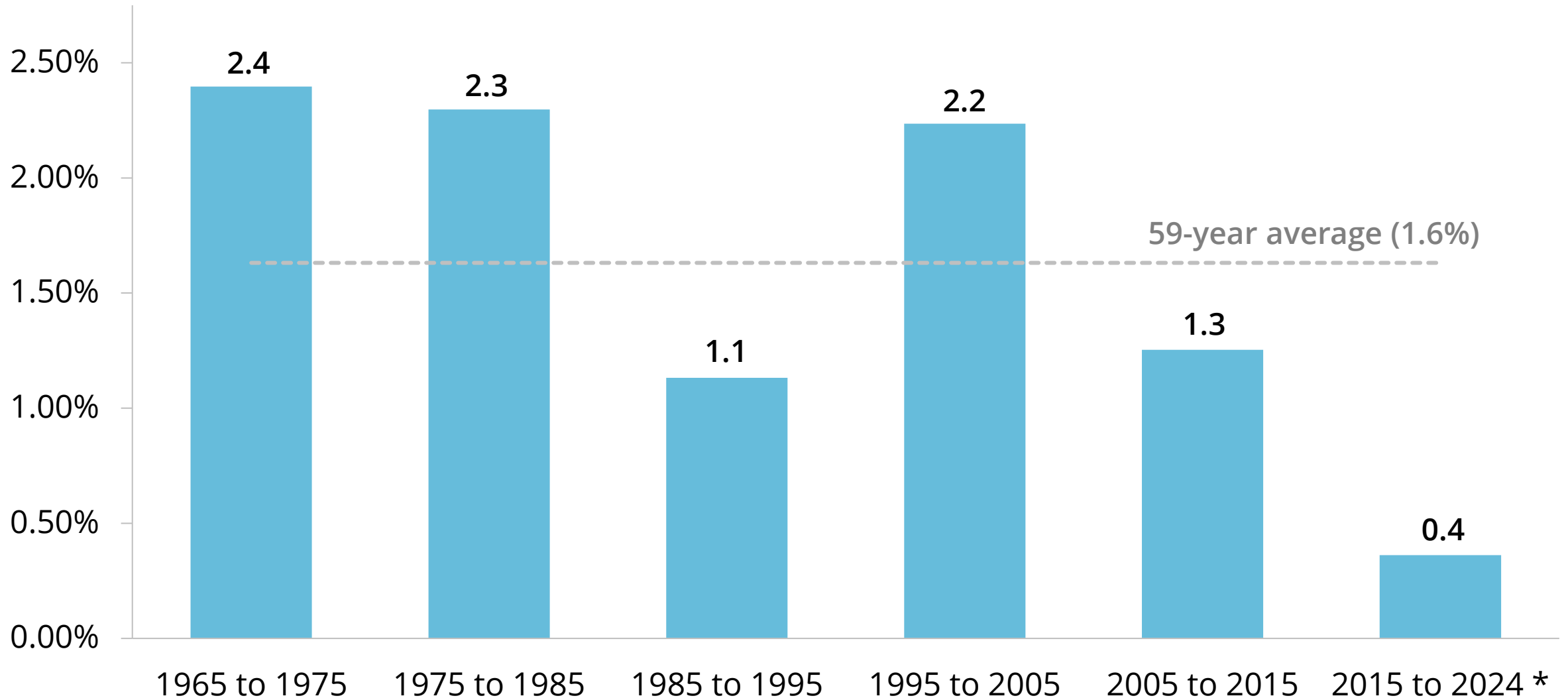
Labour productivity (index, 2020 = 100), between Dec 2003 and Dec 2024



Source: Productivity Commission estimates using ABS (2025, Australian National Accounts: National Income, Expenditure and Product, December 2024).

Our productivity growth is at its slowest rate in 60 years

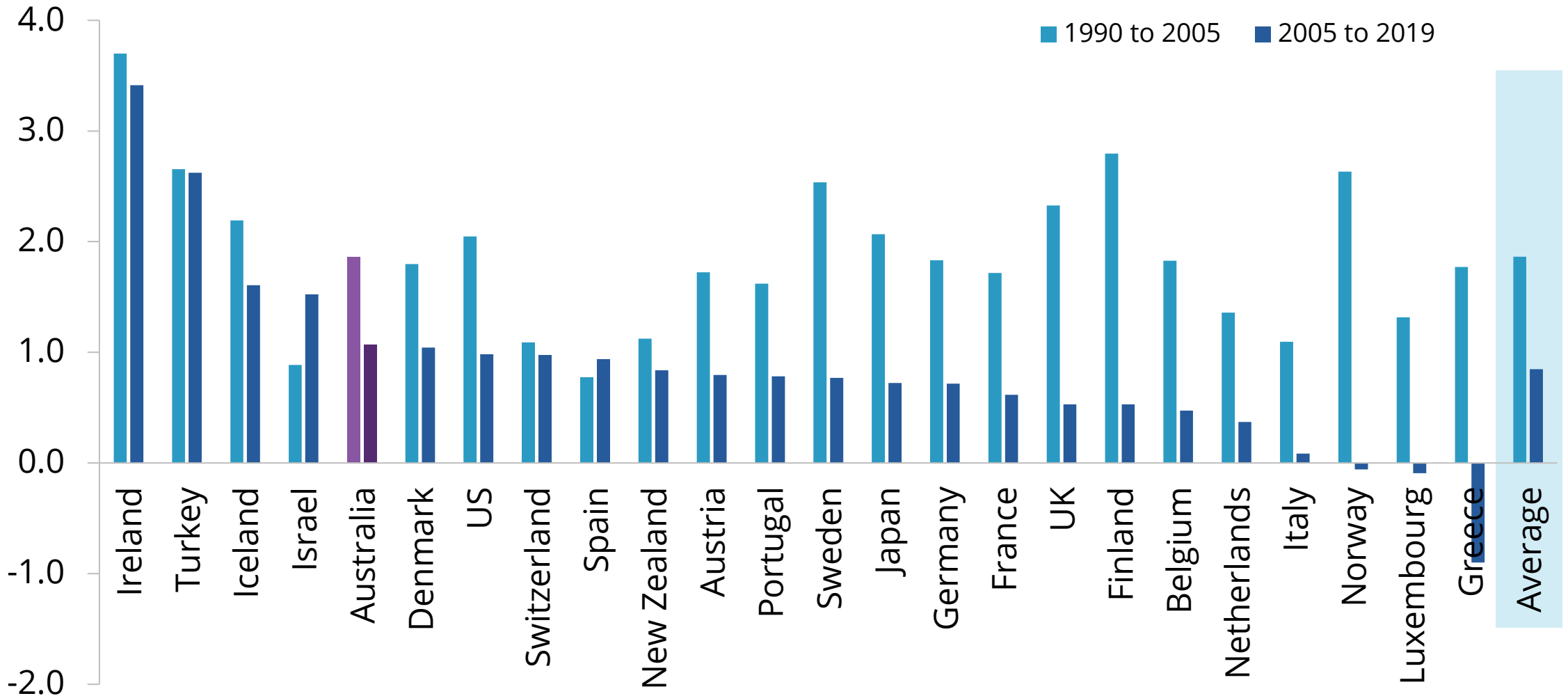
Average annual labour productivity growth



Note: * 2015 to 2024 average is calculated over a nine-year period. Labour productivity calculated as GDP per hour worked, GDP data sourced from the ABS between 1964-65 and 2022-23. Hours worked data from Penn World Tables for between 1964-65 and 1973-74 and from the ABS between 1974-75 and 2023-24. Sources: ABS (Australian System of National Accounts, 2023-24 financial year, Cat. No. 5204.0., table 1); [Penn World Tables] Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), "The Next Generation of the Penn World Table" American Economic Review, 105(10).

Slow growth is not just an Australian phenomenon

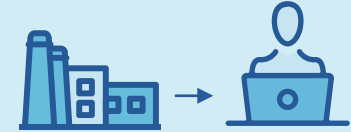
Labour productivity growth in OECD countries, %



Note: Includes only the 24 longest standing OECD countries. The historical average annual growth rate for Austria is calculated between 1995 and 2005 due to data limitations. Source: OECD 2022, *GDP per hour worked, constant prices*.

Why did productivity slow?

Shift to less capital-intensive industries
– the march of the services sector



Reduced boost from technological change



Low investment

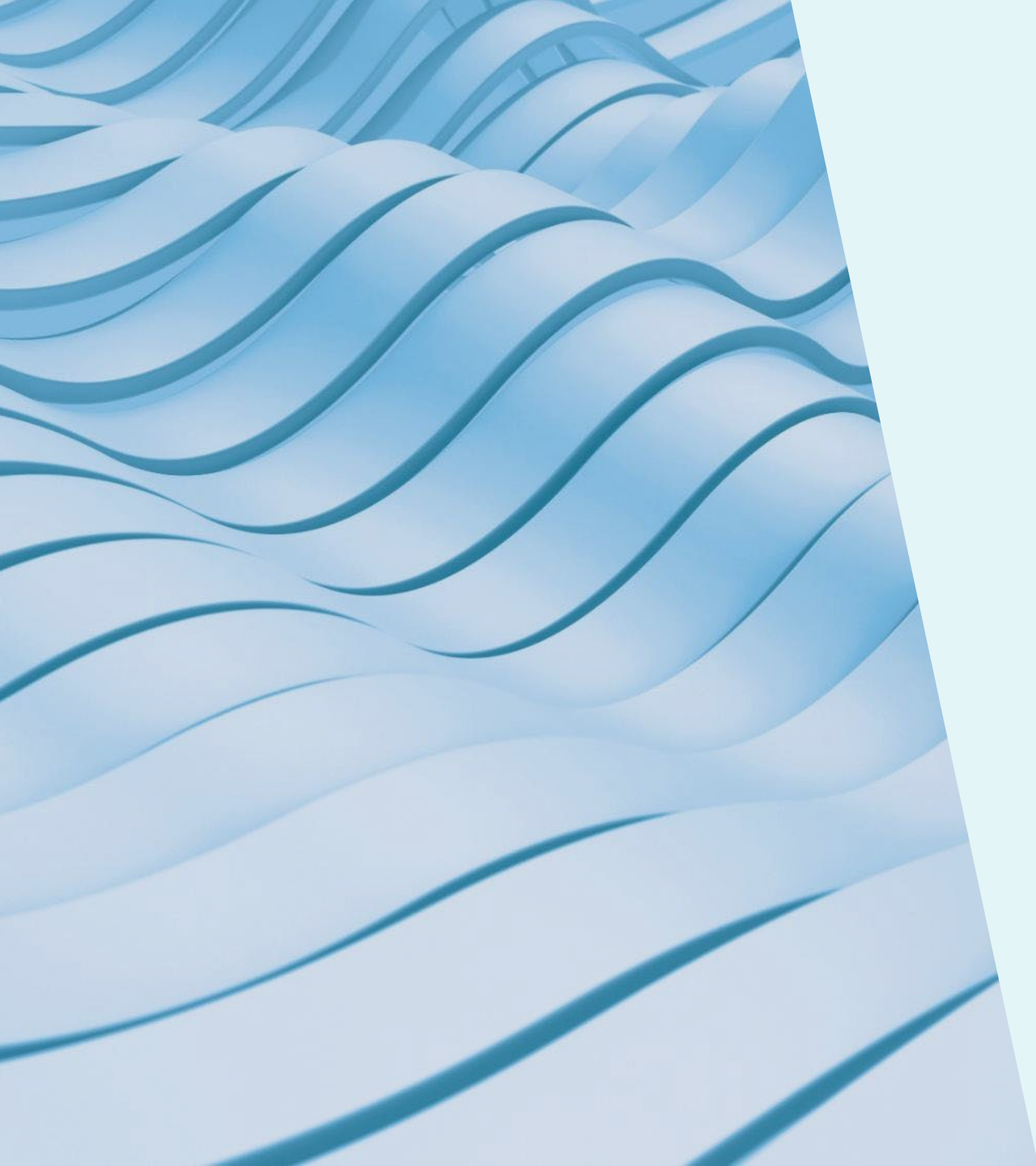


Reduction in economic dynamism?



Lack of policy reform / declining emphasis





**Where to
from here?**

The '5 Pillars' of productivity reform

A policy agenda for a more productive Australia



Creating a dynamic and resilient economy

through fostering competition, efficiency and contestability in markets



Building a skilled and adaptable workforce

to supply the skilled workers for Australia's future economy



Harnessing data and digital technologies

to capture the dividend of new ideas



Delivering quality care more efficiently

to deliver high quality services at the lowest cost



Investing in cheaper, cleaner energy and the net zero transformation

to limit the productivity impact caused by climate change

The five pillars of productivity reform: our working list

Creating a dynamic and resilient economy



Support business investment through corporate tax reform

Reduce the impact of regulation on business dynamism

Building a skilled and Adaptable workforce



Improve school student outcomes with the best available tools & resources

Support the workforce through a flexible post-secondary education & training sector

Balance service availability and quality through fit-for-purpose occupational entry regulations

Harnessing data and Digital technologies



Unlock the benefits of consumer data through effective access rights and controls

Support safe data access and handling through an outcomes-based approach to privacy

Enhance reporting efficiency, transparency and accuracy through digital financial reporting

Enable AI's productivity potential

Delivering quality care more efficiently



Reform of quality and safety regulation to support a more cohesive care economy

Embed collaborative commissioning to increase the integration of care services

A national framework to support government investment in prevention

Investing in cheaper, cleaner energy and net zero transformation



Reduce the cost of meeting carbon targets

Speed up approvals for new energy infrastructure

Encourage adaptation by addressing barriers to private investment



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