An Australian Productivity Roadmap for Policymakers

A UNSW Occasional Paper

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Contents

Executive Summary	3
Summary of proposals	7
Structural reforms	8
Industrial reforms	16
Individual reforms	26
Reference List	29
End notes	31

Executive summary

Our productivity challenges

For the first time in Australian history, younger generations in the 2020s are forecast to have a lower standard of living than their parents.[1] Stagnating productivity over the past decade is estimated to have cost $11,000 in lost income per person *per year*. [2]

Productivity gains come from two sources: increasing the output for individuals per hour worked, known as labour productivity, and combining capital and labour in better ways, known as multifactor productivity. Between 2022-23 and 2023-24, Australian multifactor productivity increased by just 0.1% (ABS, 2025). This is below the 20-year average of 0.3% per year, and significantly below the 1.6% per year we saw from the mid-90s to 2003-04, when Australia was held up amongst the OECD as a productivity tiger. Labour productivity did slightly better, but still only rose an anaemic 1% between 2022-23 and 2023-24 (Productivity Commission 2025), mirroring a post-COVID plateau in domestic higher education participation (Department of Education Key findings, 2023 and 2024).

When considering reforms aimed at raising productivity it is critical to take a holistic approach, rather than advocating for individually favoured policies in isolation. The benefits from increased productivity will only have a net positive effect on living standards, GDP and inequality if they are 'broad based', bringing benefit to all Australians, rather than a rarified few in specific industries. Broad-based growth in labour and multifactor productivity will correlate to a broad increase in living standards. This paper thus splits its recommendations into three sections: system reform, industry reform, and individual reform. This approach recognises that an interconnected suite of reforms is needed to achieve broad-based productivity.

As the Productivity Commission notes, productivity growth requires two things:

1. New ideas need to be discovered – the productivity frontier needs to shift outwards.
2. New ideas need to be applied or used – businesses need to eliminate inefficiency, and reach the new productivity frontier.

Notwithstanding these deceptively simple descriptions of what productivity growth requires, the reasons for the sustained decline in Australia's productivity are varied and contested. But analysis of these reasons is needed, as they sit behind everything from the cost-of-living crisis to the housing crisis.

The structure of the Australian economy, and marked differences between states, presents national challenges. Australia ranks 105th out of 145 countries in the Atlas of Economic Complexity's 'Economic Complexity Index' (ABS analysis of Harvard's Economic Complexity Index, 2025). By value, our economy is extremely reliant on a narrow set of exports, which exposes us to global trade impacts.

And our business and research incentives fail to anchor home-grown ideas and talent into innovative commercial outcomes that stay in Australia. We produce outstanding research, but with inadequate connection to new industries and new technologies onshore, current national settings essentially treat human-led innovation as another extractive industry, with benefits more likely to be experienced in more favourable overseas economies.

At a macroeconomic level, we have seen poor technological uptake in workforces and across industries, volatile global trade and disruption of global value chains, low research and development investment, and declining economic dynamism.

Poor technological uptake across workforces

Historically, productivity gains have followed radical technological paradigm shifts. Much of the gains in productivity in the 1990s and early 2000s were underpinned by the expansion of information technology throughout all parts of the economy. These early gains have tapered off, primarily because we have realised the benefits of the digital revolution (Gordon 2012), and because many new technologies are not as innovative or far-reaching. AI has the potential to be radically transformative, but its productive benefits will take time to accrue, and AI-related innovation will look very different across sectors and industries.

New technologies, including AI, will only achieve a pareto-optimal multiplier effect if they are partnered with an uplift in skills and education across the workforce, along with changes in industry practice (Brynjolfsson and McAfee 2011).

Volatile global trade and disruption of global value chains

Throughout the latter part of the 20th century and into the early 2000s, deregulation and rapid growth in global trade contributed significantly to productivity growth. This increase in trade, coupled with successful exploitation of global value chains, enabled cheaper production, appropriate specialisation, increased competition and diffused technologies and knowledge across different economies, including Australia.

However, as with the gains from previous technological revolutions, the gains from liberalisation of trade have now been realised. Growth in trade slowed after the global financial crisis, reflecting a shift away from import-intensive goods and a slowdown in growth in Asian economies, which was further compounded by the COVID-19 pandemic (Jääskelä and Mathews 2015). At a macro level, almost 15% of the slowdown in productivity can be attributed to unfavorable trade environments (2024 et al. 2021).

In 2025, volatility in global trade and value chains became something of an ongoing feature for governments and industry to reckon with, and this will continue in 2026 and beyond.

Low R&D investment, particularly from business

Business investment in research and development is a key driver of innovation and productivity growth. Australian Bureau of Statistics data shows that as a proportion of GDP, business expenditure on research and development (BERD), has dropped from 1.3% in 2009–10 to just 0.9% of GDP in 2019–20 (DISER, 2023-24), a trend which has continued to 2025. This is in contrast with other OECD countries, where business R&D intensity has increased.

Universities are central to Australia's research and innovation ecosystem, and play a vital role in compensating for the relative weakness of business-led R&D. As leading generators of both fundamental and applied research, universities advance scientific discovery, technological innovation, and knowledge diffusion. They also act as incubators for future innovators by equipping graduates with the latest knowledge and technical skills. But universities' ability to educate and research has been increasingly dependent on cross subsidy from international student fee revenues, in the face of flat government investment so far in the twentieth century.

Lack of economic dynamism

In dynamic economies, resources, ideas, and technologies flow quickly between industry sectors and organisations, including the public sector. New businesses enter specific markets and either thrive and grow, or exit, while competition pressure boosts labour market and pricing outcomes. In Australia, dynamism has been declining since around 2005 (Lee et al, 2025). According to the Reserve Bank, both firm and product markets are exhibiting greater stagnation in Australia. We see reduced turnover among businesses, with fewer entering or exiting the market, and the entrenched dominance of firms in a range of sectors. This has resulted in increased market concentration and pricing power, and less innovation competition. The persistent inflation Australia's economy has experienced in recent years has no doubt contributed to this stagnation.

Similarly, labour markets have grown less dynamic, with less movement of workers between firms. This, combined with increased concentration of workers in less productive sectors, has reduced labour productivity and had flow-on effects to multifactor productivity capacity. The rate of labour movement from less productive to more productive businesses has decelerated since 2012 (Andrews and Hansell 2021). This trend is estimated to account for around 25% of the drop in labour productivity growth.

These are serious macroeconomic headwinds. But an enormous reason we have been unable to improve productivity in Australia is because over more than two decades, successive governments have comprehensively failed to undertaking the microeconomic reform needed to move the productivity dial. It has been easier to favour short-term measures that respond to electoral cycle pressures. Sometimes these interventions have backfired, with many cost-of-living relief measures having perverse, inflationary outcomes for Australians. Some inappropriate and punitive oversight measures and interventions, introduced for highly politicised reasons, have come at

enormous social costs, while at the same time creating a vast regulatory bureaucracy, stymying productivity and economic dynamism at the expense of the taxpayer.

Government reforms have tended to increase productivity in limited parts of the economy. As a result, the benefits of increased productivity have thus been restricted to a few wealthy individuals in capital-rich industries. Government investment – the expenditure of public money on behalf of the public – must be underpinned by the best evidence available. With increasing calls on the public purse in the face of rapidly changing demographics, infrastructure needs, climate disruption and other pressing concerns, sources of government revenues need to evolve.

Naive meritocracy and broad based productivity

To achieve broad based productivity, we must move away from the naive meritocratic model of resource distribution that seems pervasive in some aspects of public policy decision making.

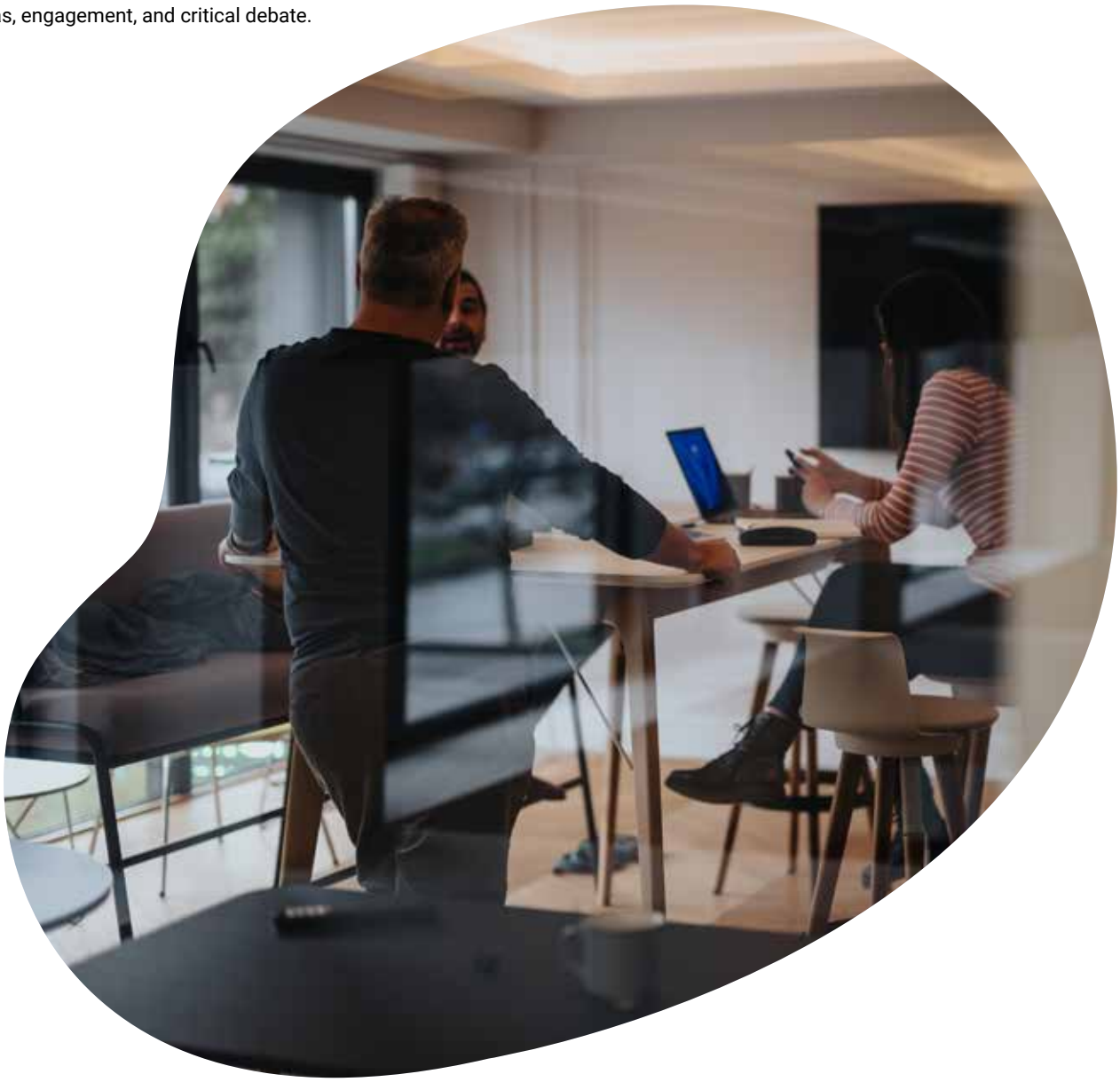
For some, wealth is treated as a proxy for merit. Disparities in income and assets supposedly reflect inherent differences in intelligence, skills, work ethic, or ambition, and the assumption is that the most affluent are the most capable. Public policy can, intentionally or not, often reinforce this view, offering greater recognition, opportunities, and resources to already well-resourced people or groups on the assumption that enhancing the productivity of those who are already profitable and wealthy is the best way to improve productivity overall.

The naive meritocracy[3], described by Joseph Reagle in 2017 as part of his critique of meritocratic tech culture, is at odds with the distribution of human traits. Cognitive ability, determination, and creativity typically follow a normal distribution – most cluster around the average and only a few fall at the extremes. IQ scores centre around a mean of 100, and while some individuals score very highly indeed, no one possesses an IQ ten or one hundred times or one billion times higher. Some people work more hours than others, but the difference is a matter of degree, not orders of magnitude – no individual can work a *billion* times more than someone else. It is irrational to think that any person could be billions of times more "productive" than another, based solely on innate characteristics.

Naive meritocratic thinking justifies extreme wealth inequality, by treating wealth itself as the best available indicator of productive potential, ability or contribution. This leads to circular reasoning: those with the most wealth must be the most capable, and thus deserving of even more resources and influence. This error of logic not only lacks empirical support but also shapes public policy in ways that reinforce inequality and detract from broad based productivity. Those who accept it see there is little need to improve access to opportunity, because outcomes are presumed to be direct consequences of potential. This obscures structural disadvantages and undercuts efforts to build a more equitable and productive society.

A further difficulty in achieving meaningful reform is reluctance by decision-makers to have an open debate of ideas where there is not a foregone conclusion. This reluctance is to some extent understandable, given that ideas are shot down and weaponised regardless of the political stripe of the person putting the idea forward (see any debate about GST reform, or the response to the former NSW Government's short-lived replacement of stamp duty with a land tax as examples). However, it is the job of governments to govern, and part of that is accepting that you may not already have the best solutions to identified problems.

This paper aims to help policy makers embrace debate and ideas. By no means are the proposals in this paper exhaustive – these reform ideas are just the start. Challenging issues need space for ideas to be put forward and debated. But at the end of the day, broad-based productivity growth, where the benefits flow throughout Australian society, will require a suite of reforms across many areas. We hope this paper helps spark ideas, engagement, and critical debate.



Summary of proposals

Target structural improvements and create the conditions for broad based productivity gains:

1. Create a stronger social safety net with structural incentives for entry and re-entry into high quality jobs
   a. Increase the rate of JobSeeker from $781 per fortnight to $1,200 per fortnight for the first 3 months of unemployment, tapering down to $1,000 per fortnight
   b. Streamline and simplify Youth Allowance and Austudy requirements, in alignment with other social support payments
2. Rebalance Federal Financial Relations in alignment with constitutional responsibilities, by rebooting the Federation White Paper process.
3. Shift the tax mix and eliminate regressive taxes
   a. Implement a progressive GST at 15%, with a broader base and a $22,000 GST-free threshold for all Australians ensuring the bottom 60% of Australian households are better off financially
   b. Encourage states to replace Stamp Duty with a land tax, under a Buyer's Choice rule, to better enable people to move between suitable housing in line with their family and career goals

Support innovation and industrial productivity gains:

4. Build innovative capacity into Australia's economy:
   a. Incentivise superannuation funds to invest in research and development activity
   b. Require government to fund the full cost of the nationally-aligned research it commissions
   c. Introduce an R&D levy on large businesses with significant operations in Australia, which can be claimed back via the R&D Tax Incentive for eligible research investment.
5. Increase the absorptive capacity and dynamism of Australian businesses
   a. Reduce the company tax rate to 20% over a decade, through the provision of 'bonus depreciation' for new capital investments over that time
   b. Introduce a workforce development levy to support medium to large businesses to invest in the upskilling and reskilling of their employees, which can be claimed back via a Workforce Development Tax Incentive for eligible learning and development activities.
6. Incentivise product market competition and improved management practices that deliver productivity gains, through adjusting the ACCC merger and acquisition guidelines.
7. Create a 'Housing Clock' for each state and territory to publicly track and report on housing construction relative to their target.
8. Drive down the cost of housing construction by expanding the use of standardised construction materials and modular construction methods through reforms to building codes.

Improve labour mobility and opportunity for individuals:

9. Support increased choice and mobility for current students and workers to access high quality education, including upskilling and reskilling opportunities
   a. Expand the ability to claim a tax deduction for individuals incurring tertiary education expenses who are retraining in areas of skills demand, irrespective of their current employment status
   b. Support a balance of comprehensive and specialist discipline-based (and industry-linked) course design and delivery in public universities
10. Create a Technology Adaptation Fund accessible to workers and industry to support the transition and retraining of workers whose jobs are displaced by artificial intelligence.

Structural reforms

This section includes reform proposals that target structural improvements to productivity, and which together create the conditions for broad-based productivity gains.

The Australian Government is responsible for designing the high-level system settings that can incentivise economic growth, support industry innovation, and improve social service delivery. There are changes that can and should be made to these structural settings, to support a more diverse and adaptive tax mix, better distribute taxes to fund crucial services, and to provide a strong social safety net that incentivises high levels of employment in high quality jobs. Taken together, these proposals have the potential to unlock productivity gains through better employment outcomes, modernised Federal Financial Relations, and a more progressive and adaptive tax system.

Unemployment insurance

Australia has one of the most effective and targeted social safety nets in the world, which ensures that the least fortunate among us are treated with dignity.

If there is a single exception to this, it is the rate of unemployment benefits paid under the JobSeeker program. For a single worker earning two-thirds of the average wage, the replacement rate under JobSeeker for the first two months of unemployment is just 27%. This is the lowest in the OECD (OECD, 2024).

It has been widely observed that it is functionally impossible to live on such an income, especially in a major capital city, without significant help from others. This is true for both unemployed people seeking to re-engage with the workforce, and for tertiary students who are managing study and work. The key goal for any individual who has recently become unemployed is to find another suitable job quickly. For tertiary students the goal is completion of studies within the target timeframe, to successfully and quickly transition into suitable employment.

These should also be the key goals for this area of government policy. It is critical that policy settings support the matching of displaced workers and skilled graduates with high quality jobs across industry.

The extremely low rate of JobSeeker stands in the way of this "rematching". It makes it hard for people to travel to job interviews, thereby curtailing their search. It is hard for people to represent their true capability when they are living in extreme poverty. And it places people under significant stress, which harms the job-search process or success during study.

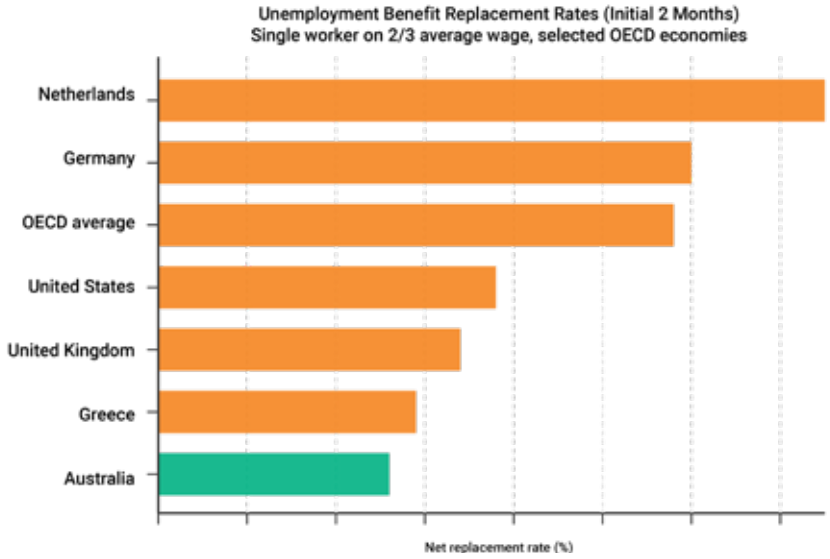


Figure 1: Unemployment as a proportion of previous wage

Note: Single worker on two-thirds of average earnings
Source: OECD

Proposal: Increase the rate of Jobseeker from $781 per fortnight to $1,200 per fortnight for the first 3 months of unemployment, tapering down to $1,000 per fortnight.

This proposal would significantly increase the rate of JobSeeker for the first 3 months of unemployment, pushing Australia's replacement rate closer to (though still below) the OECD average.

Replacement rates in other countries often stem from "unemployment insurance" where workers are essentially forced to save, through the tax system, for the possibility of becoming unemployed. Such a system is not consistent with the Australian social safety-net approach. But a higher replacement rate through the current system would have significant productivity benefits, including better workforce readiness, reduced health and social service fiscal burden, and increased participation, as well as providing meaningful benefits to the unemployed.

The higher initial rate, tapering down to a lower level (but one which is still above the current rate) balances productivity and social benefits against concerns that higher unemployment benefits create moral hazard and deter job search.

Proposal: Streamline and simplify Youth Allowance and Austudy requirements, in alignment with other social support payments.

This proposal would help students and young people to complete their studies and successfully transition into high quality jobs, increasing engagement of young people in the workforce at a crucial life stage and giving them the best chance of later success, including economic and social gains which compound over a lifetime.

Increased costs arising from these measures would be offset by productivity gains in industry, and the increase in income taxes collected by government from having more of the working age population in high quality employment. It should be seen as a prevention measure – typically much less expensive than remediation.

Federation reforms

There is extreme vertical fiscal imbalance between the three levels of government in Australia, compared with their responsibilities under the constitution. This imbalance puts acute strain on state and local government finances, disincentivises changes to regressive state taxes (as these are a major revenue source), and creates distortions in incentives around social wellbeing and mobility. The Commonwealth's ability to raise significant revenues means it has outsized political power over constitutionally-defined state matters, including healthcare and education. The lengthy negotiations that characterise bilateral National Partnership Agreements (NPAs), which provide for the flow of funds to these absolutely crucial stateside services in health, education and aged care, is in nobody's interest.

Productivity growth in social services is always going to be structurally challenging. But it is almost impossible when there is uncertainty around both the quantum of funding the states can plan to invest, and the requirements imposed on them by the Commonwealth Government through NPAs. Harmonisation of key components of service delivery between states would greatly help in lifting productivity, enabling mobility of workers and achieving a good national standard of provision.

In 2013 the newly elected Abbott government announced the so-called "Federation White Paper process" to explore reforms to the structure of federalism. In particular, it intended to consider the roles and responsibilities of different levels of government in revenue raising (including the White Paper on Tax Reform), service delivery, and funding.

The process started in June 2014, led by the Department of Prime Minister & Cabinet. In April 2016, Malcolm Turnbull discontinued the White Paper process, citing limited appetite among state governments and changing fiscal priorities.

Proposal: Reboot the Federation White Paper process

The past few years have highlighted the need for Federation reform. Rebooting the Federation White Paper process would serve as an important enabling capability for addressing a raft of issues, including several mentioned in this report. It is essential for the Progressive GST proposal outlined below.

In addition, it could also be an important vehicle for resolving issues such as how schools and hospitals are funded. There is a peculiar misalignment between how public services are paid for and who delivers them. This is not merely a minor anomaly. A basic principle of economics is not to hold people accountable for things over which they have no control. Our current federal structure violates this principle on a massive scale.

It is widely acknowledged that the care sectors (including aged care, hospitals, and childcare) are becoming and will continue to become a larger part of the Australian economy. It is also widely acknowledged that productivity growth is stubbornly low in these sectors. Aligning funding and responsibility for delivery of services should enable the appropriate pathways for improving productivity growth in those sectors.

Shift the tax mix, and eliminate regressive taxes

There is considerable attention to how much we tax, but insufficient attention to how we tax. Ideally, tax and the mix of taxes should support productivity growth potential, rather than act as a drag. Significant elements of our tax structures are regressive, focusing on transfer rather than value-add, or are set at rates with negative consequences for productivity.

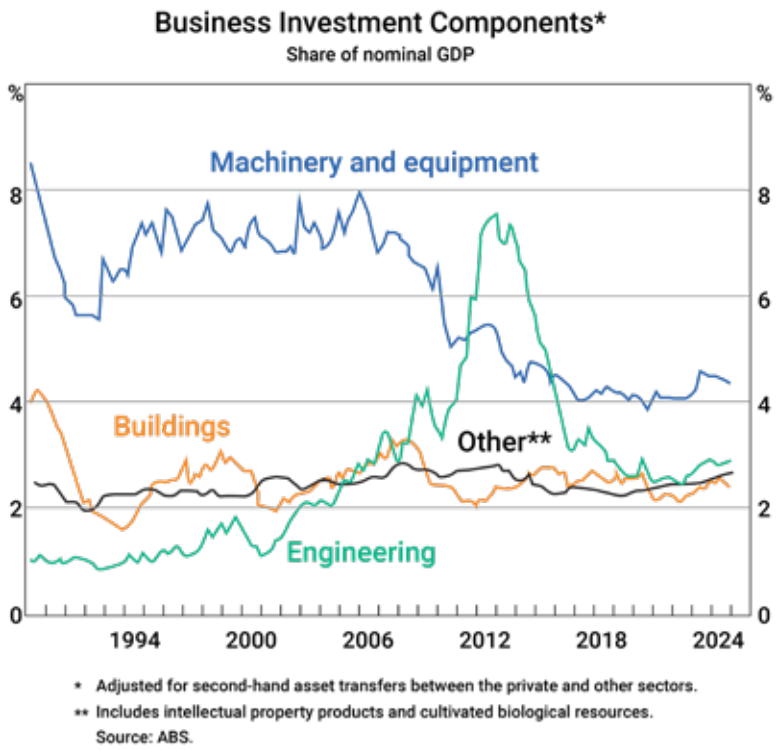
Our income tax structure, with its marginal tax rates, can be incredibly disincentivising to people making a trade-off between taking on additional work or moving roles for marginal gain. When families are considering things like paying for daycare to take an additional day or two of work, the effective marginal tax rate (EMTR) is even higher. Recent commentary on the EMTR of HECS-HELP repayments under the previous HECS repayment settings has highlighted similar issues.[4]

Personal income taxes are not just a tax on workers, but a tax on work itself that discourages labour supply. This reduces the development of human capital in general, firm-specific human capital in particular, and reduces the value of matches between firms and workers. These all have productivity-sapping consequences.

Company taxes discourage investment – especially from overseas investors who do not benefit from dividend imputation. Since this is the "marginal" source of capital, it reduces business investment in Australia. Yet business investment is a key driver of productivity gains. Company tax rates also prevent local businesses from scaling in the way they otherwise might, creating a perverse incentive for Australian businesses to go overseas in order to grow. When this happens, we lose entrepreneurs, ideas, potential employment, and potential tax revenue.

Business investment has been very soft in Australia for an extended period. This is especially the case outside the mining sector. The current 12% of GDP is roughly 3 percentage points under the 2000-19 average. Treasury notes that each percentage-point gap represents $25 billion a year in foregone private capital formation.[5] Non-mining business investment has tracked sideways at about 8–9% of GDP for most of the past decade. The following Reserve Bank chart illustrates this.

Figure 2: Business investment as share of GDP (RBA chart pack, utilising ABS data)



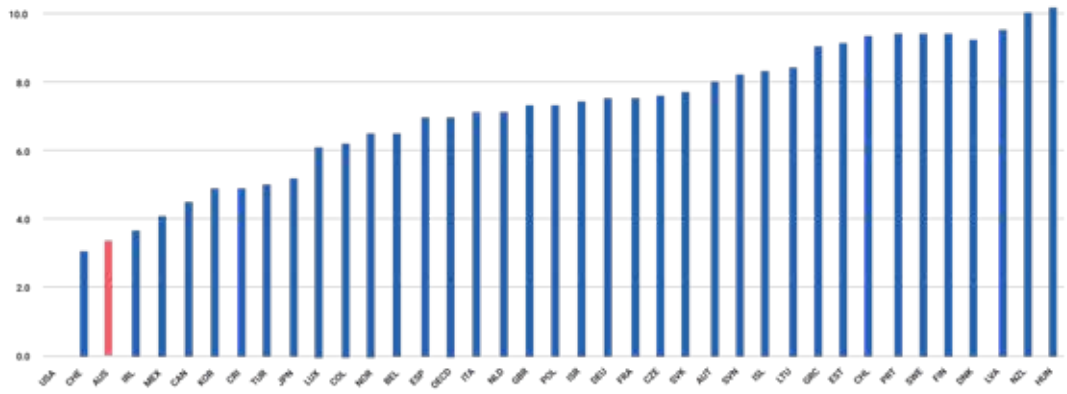
By contrast, value-added taxes are widely acknowledged to be among the most efficient means of taxation. They do not discourage investment in human or physical capital. Indeed they encourage saving over consumption, which tends to push up investment levels.

Relative to other advanced economies Australia gets a large share of our tax revenue from personal income tax, and a small share from the GST (our value-added tax).

We raise 64% of our tax revenue from aggregate income taxes (ABS, 2025), compared to an average of 34% for OECD countries. And we generate only 11% of tax revenues from the GST, compared to 22% for the OECD (OECD, 2025).

As the following figure shows, Australia's low GST rate and narrow base means that it gets the third lowest proportion of GDP from value-added taxes among all advanced economies.

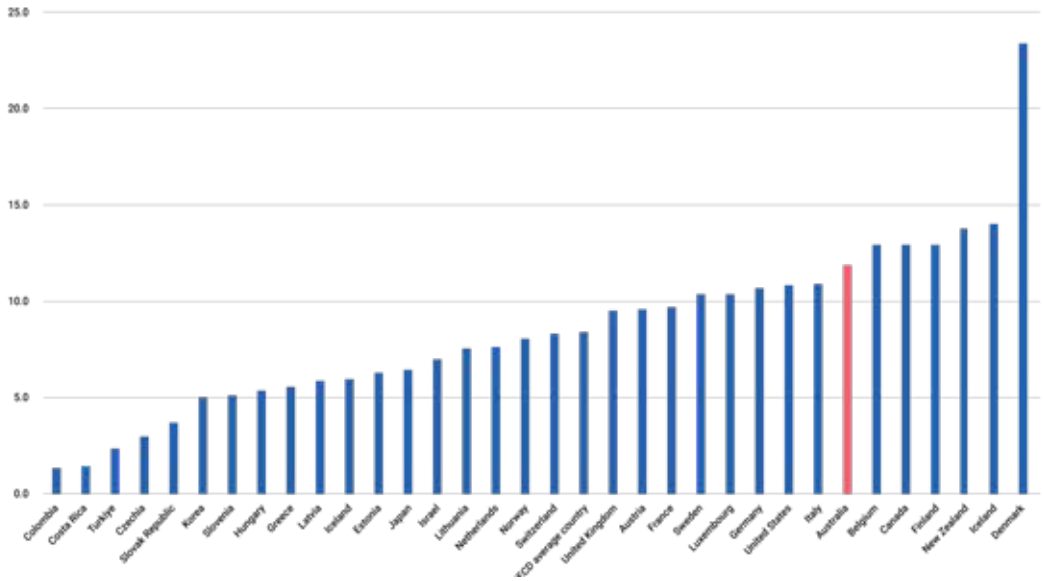
Figure 3: Value added taxes as a share of GDP, OECD Global Revenue Statistics



Source: OECD

Despite being an overall lower-tax jurisdiction, Australia generates among the highest rates of personal income tax revenues among advanced economies. Indeed, and perhaps surprisingly, Australia generates a larger share of GDP from personal income tax than countries such as Italy, Germany, Sweden, France, and Norway.

Figure 4: Personal Income Tax as a share of GDP, OECD Global Revenue Statistics



Source: OECD

We need to move away from distortionary and regressive taxes and towards a progressive tax mix.

To this end we make the following proposals.

Proposal: Institute a "Progressive GST" with a 15% rate, a broader base, and a $22,000 GST-free threshold for all adult Australians.

Each adult Australian would receive a $22,000 per year "GST-free" spending threshold. That is, the first $22,000 of consumption attracts a GST rate of 0%. Beyond that, goods and services are taxed at a rate of 15%. The base would be expanded to include some that are now exempt, such as fresh food, health, and education.

Those on lower incomes typically spend a relatively larger share of their income on consumption, especially on essential items like food. But this plan gives the $22,000 exemption to all adults irrespective of income, so the changes to the GST are progressive. The GST-free threshold could be easily implemented with an annual, upfront, tax-exempt payment of $3,300; or exempting GST at point-of sale through the EFTPOS network. Ideally some younger Centrelink recipients who are independent of their parents would also receive the payment.

The raised rate and reduced exemptions would lead to an increase in revenue for the 2026-27 fiscal year of $92.5 billion according to a cost provided by the Parliamentary Budget Office (PBO, 2025). The cost of the "GST-free threshold" is $68.8 billion for fiscal 2026-27, leaving a net increase in government revenues of $23.8 billion. These net revenues could be used in part to fund increased government spending, reduce government deficits, or lower personal income taxes, which would boost the efficiency and dynamism of the Australian economy, and boost productivity. It would leave the lowest 60% of income earners better off, even before considering cuts in income taxes possible from the increased revenues.

Address housing mobility barriers

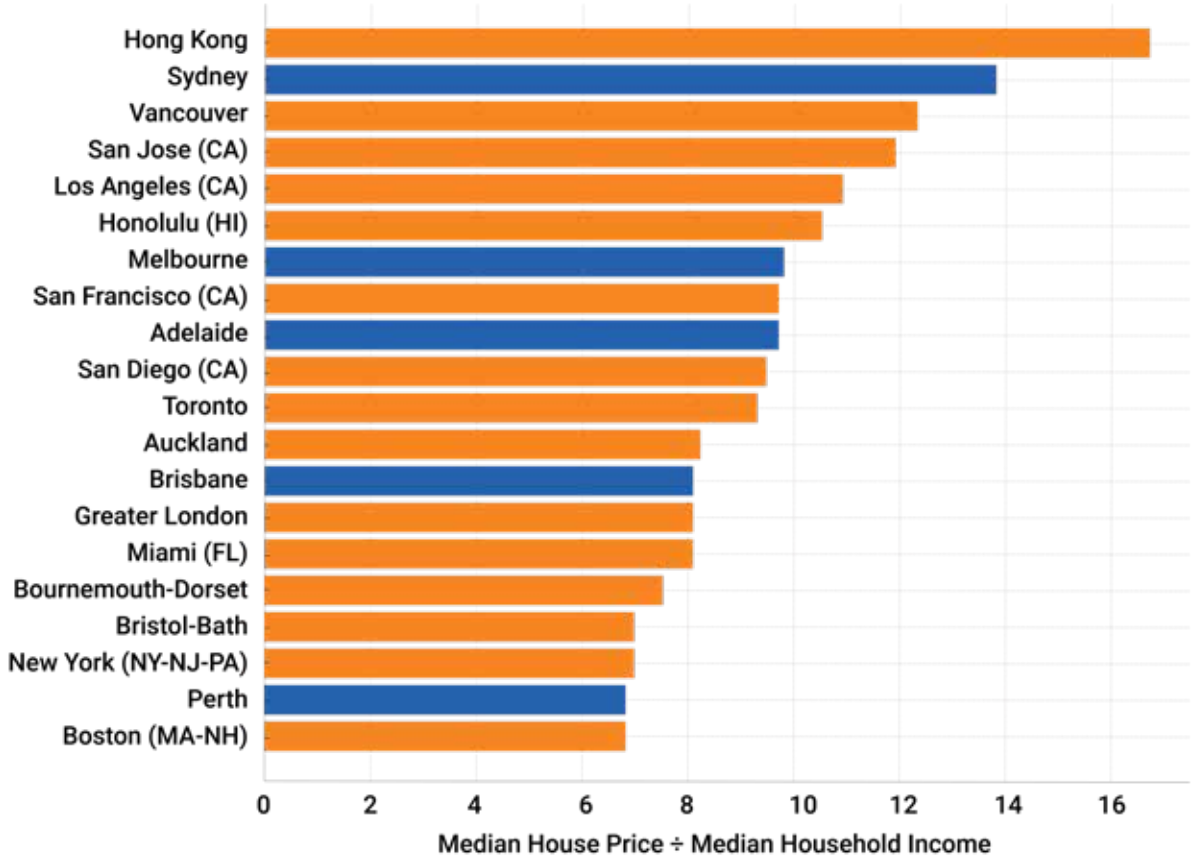
Housing mobility is crucial to labour mobility, and access to housing is crucial for an inclusive and prosperous society. Australia has been in the grip of a housing affordability crisis for over a decade. And it is getting worse. Sydney is the second most expensive housing market in the world. Melbourne is seventh, and Adelaide is ninth. Brisbane and Perth both make the top 20 list, at 13th and 19th respectively. Across all households, regardless of income level, more than 1 in 4 are spending more than 30% of their disposable income on housing (AIHW, 2025).

This has become a pressing social and political problem. It is also a major economic problem. **When people cannot afford to live close to the best job for them and the best school for their children, productivity suffers.**

We also see a mismatch between housing type, and housing need, play out across sections of our population in a very unhelpful way. But with overall costs increasing, the stamp duty payable on downsizing reduces the incentive for older Australians to move into smaller accommodation, placing even more upward pressure on house prices for younger Australians competing in a smaller available market.

Part of the housing productivity loss stems from commuting times, and this should not be underestimated. Road congestion and public transport crowding were estimated to cost $19 billion in 2016, projected to rise to $39.8 billion in 2031. The productivity loss also extends to less efficient matches between firms and workers, and less effective education for children. This damages the human capital, social development and future productivity potential of the next generation of Australians.

Figure 5: Median House Price to Median Household Income, International comparison.



Source: *Demographia (2024) Housing Affordability Report*

In recent years, both major political parties have emphasised the importance of increased housing supply as a means of addressing Australia's housing affordability crisis. To understand the major drivers of housing supply, it is important to unpack the housing supply chain. Roughly speaking, a new house needs to be: (i) permitted by zoning, (ii) approved for construction, and (iii) built.

Although steps (i) and (ii) are largely within the purview of state and local governments, there are ways in which the federal government can encourage positive housing-supply measures and increase aggregate productivity in the Australian economy. Unfortunately, to date, the Federal Government has tended toward bureaucratic expansion (creating Housing Australia), and the provision of First Homebuyer Grants that have put inflationary pressure on house prices.

Our first housing productivity proposal focuses on reducing the economic barriers to housing mobility, either in terms of geographic location, or upsizing and downsizing residences.

Proposal: Encourage states to replace Stamp Duty with a land tax under the "Buyer's Choice" rule.

Under this proposal the purchaser of a residential property could elect to either pay the current rate of stamp duty, or an annual land tax (at a pre-specified rate announced by the relevant jurisdiction). If the purchaser elects the land tax option, then that property remains a "land tax property" going forward (i.e. the next purchaser pays land tax, not stamp duty).

Because the purchaser is free to choose either option, nobody can be made worse off by this policy.

The only drawbacks of this are that the transition to phasing out stamp duty altogether takes time, and that during that transition there will be a shifting of State government revenues from the present to the future. That is, although it would be revenue neutral in steady state, there may be some short-term impacts.

Ratings agencies are completely comfortable with this change, and it would not affect state credit ratings.[6] And while the Commonwealth should not provide "free money" to cushion a short-term issue that is long-run revenue neutral, it could guarantee loans to cushion those short-term fiscal issues, which would be secured against and repaid from the uptick in land-tax receipts.

Industrial reforms

The next set of proposals consider issues holding back innovation and productivity in industry in Australia. Once the system settings are conducive towards broad based productivity, they unlock potential for industry to become more innovative, more competitive, and more profitable. In turn, this transformation increases the number and quality of jobs, supports workforce mobility, and increases investment in new ideas and new technologies, which themselves have a multiplier effect on productivity gains and economic growth.

This set of recommendations also includes crucial proposals targeted specifically at the construction industry, as any increases to productivity in construction will have flow on effects throughout the rest of the Australian economy. As highlighted throughout, one of the problems Australia has faced in recent years is that rapid productivity gains have been concentrated in specific industries, lacking the 'broad base' needed to achieve societal benefit. Reforms to improve construction, however, would have ripple effects throughout the whole economy.

Building innovative capacity, sovereign research capability, and stronger ties between research institutions and industry bodies, is crucial to industry productivity.

Build innovative capacity and sovereign research capability

It is an uncomfortable reality, but Australia has experienced 14 years of bipartisan disinvestment in research expenditure (Parliamentary Library, 2025). Relative to GDP, Australia's R&D spend was 32% higher when Kevin Rudd was prime minister in 2008 than in 2022. Over these 14 years, business and government expenditure in R&D is down. Only university expenditure on R&D has risen, and that increase has only been possible through funding via foreign student fees.

Sovereign research capacity is built over decades, but could be lost in Australia in months if its dependence on foreign student income is not mitigated. It doesn't matter if the loss of income is due to a foreign power's strategic decision, or a self-inflicted wound stemming from narrow domestic political considerations.

The damage to our sovereign capability will be the same either way. Some changes to Australia's sovereign research spend cannot wait for the planned multi-year root-and-branch review of the system. We need immediate action.

At the moment, there are few structural incentives for investors to support general sovereign research capability. Their focus will naturally be drawn to research and development investments in areas where they have or are pursuing a competitive industry advantage, and for this reason are often focused on research at the higher end of what's known as the 'Technology Readiness Levels' – that is, towards the pointier end of the research, where it is most likely to turn into something else (a product or a patent). However there is one massive sector in Australia that is uniquely well placed to invest in the lower-TRL broad-based research that is conducted by our research sector, and that is superannuation funds.

Proposal: incentivise superannuation funds to invest in research and development activity

Precisely because superannuation is compulsory, and necessarily has a long-term yield focus, investment across a broad range of research activity from this sector would see enormous upside from the research 'wins' that would more than compensate for the 'losses'. In addition, because there are already rigorous threshold requirements and assessment processes in place to consider national research grants, co-investment via a new superannuation portfolio class would not need to consider any new framework apart from strategic alignment. In effect, every Australian worker becomes a passive investor in turbocharged, made in Australia research.

Australia has become reliant on funding its sovereign research capability through international student income. In a time of global uncertainty and upheaval, this is a huge strategic risk. It places a ticking time bomb beneath Australia's security and prosperity.

International student income helps support our sovereign research capability. It pays for buildings, electricity, scientific equipment and a range of other overheads necessary to undertake scientific research that are funded (but not fully) by the Commonwealth.

We should not jeopardise this source of revenue, but we should recognise that the way research overheads are funded needs to be reformed, especially as the cost base for research activity increases more rapidly than CPI.

Address the cost of research overheads

Commonwealth grants provide an overhead rate of less than 20%. In contrast, universities in the United States typically get a true cost of around 55%. Of course, recent changes by the Trump administration to funding of the National Institutes of Health have upended this; but the upheaval stemming from the NIH cuts proves the point.

Our funding structure means that every time an Australian university wins a Commonwealth grant, it has to find an additional 35% of funding just to keep the research lab's lights on.

Unfortunately, it is worse even than that. Unlike most of our peer countries, to win a grant in Australia requires additional contributions from the university. This extra money can be everything from salary support for young scholars to comply with enterprise bargaining agreements, to matching money for a grant to demonstrate the university has "skin in the game". It is an approach that is not taken in commissioning any other service. For instance, in the last round of the flagship Australian Research Council (ARC) Centress of Excellence program, university cash contributions were at least 25% of the total grant, and total university support matched the ARC almost dollar for dollar. But this program funds our best basic research. It is behind Australia's much-lauded quantum capability, with its numerous high-tech spinouts.

Basic sciences and engineering research are amongst the most expensive, and require universities to stump up the most money. Look no further than the AUKUS Pillar 2 (Advanced Capabilities) list for many of the programs that require international student fees to fund university activities.

Right now, overheads are funded from a common pool, which has not grown in real terms – not just for the research grants it manages, but for an ever-increasing list of research funding from philanthropy, business, state governments and other agencies. As more things get added to the pool, the overhead rate drops for everything, including the Commonwealth's grants.

The demands on this inadequate common pool means the government's research is underfunded, and sets an inappropriately low benchmark for overheads from other Australian funders. The most reliable research partners for funding the full cost of research are international companies, who are used to operating in a more rational environment. We need to change how this operates in Australia.

Proposal: Require government to fund the full cost of the nationally-aligned research it commissions

Under this proposal the Department of Education would continue to be responsible for the ARC and the other programs it administers. The Department of Health would be responsible for the National Health and Medical Research Council and its grants programs. Defence would be responsible for defence research funding. The Medical Research Future Fund would pay for overheads on its grants.

State governments, businesses and philanthropic bodies would have responsibility to fully fund their own research agendas, and not rely on the Commonwealth or research organisations to partially subsidise their overheads. Because government departments commission this research, it is necessarily aligned with national priorities.

The cost of this proposal is approximately $1.2 billion per annum. In the context of a $700 billion federal budget and a $2,800 billion ($2.8 trillion) economy, this is rounding error. But the cost of inaction will be irreparable damage to Australia's national security and national prosperity. The government's total budget could stay neutral in the short term, if departments make local prioritisation decisions.

Adaptive business incentives

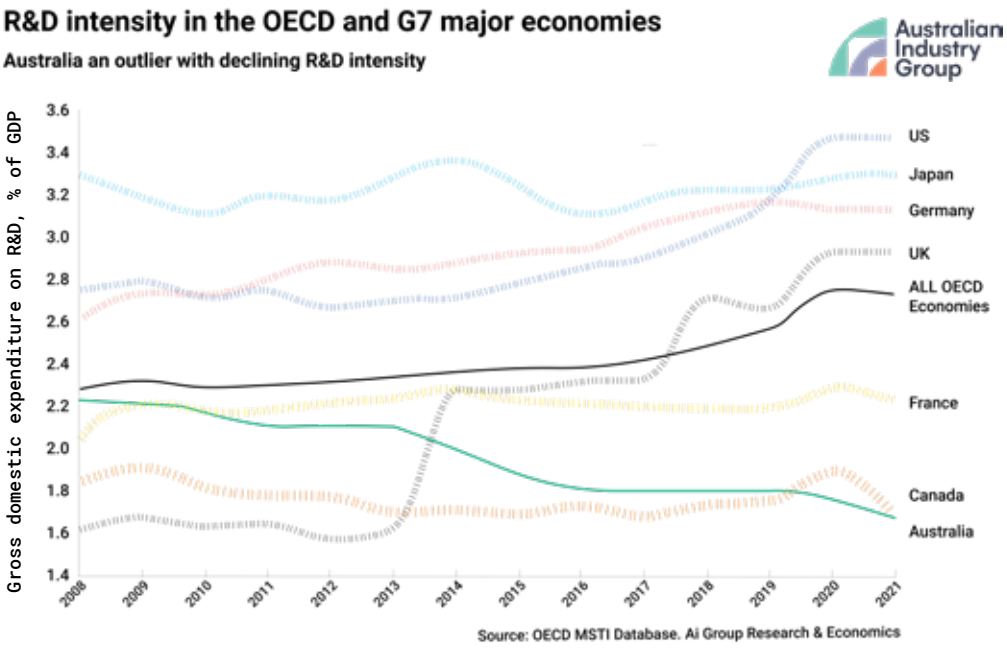
One of the most significant drivers of declining investment in Australian research and development capacity – and the innovations, new products, new technologies and new startups that arise from this activity – has been an alarming decline in business investment. These declines have been a structurally significant part of the Australian economy since the mining boom, and business investment is presently at its lowest in two decades.

Total Business Expenditure on R&D as a percentage of GDP has fallen from around 1.4% in 2010 to about 1.1% in 2018. This trend is alarming, given that BERD is typically associated with fostering innovation, enhancing productivity, and driving economic growth. A decline in BERD can stifle industry's ability to innovate, leading to diminished competitiveness on both local and global stages (Treasury, 2022).

The decline can be attributed to several factors, including a decrease in economic dynamism and competition within industries notable for high research activities. Andrews & Hansell (2021) found that the reallocation of labour from low to high productivity firms has slowed since 2012, accounting for around 25% of the productivity slowdown observed during that period. This stagnation translates to fewer businesses investing in research and development activities, which in turn affects overall productivity.

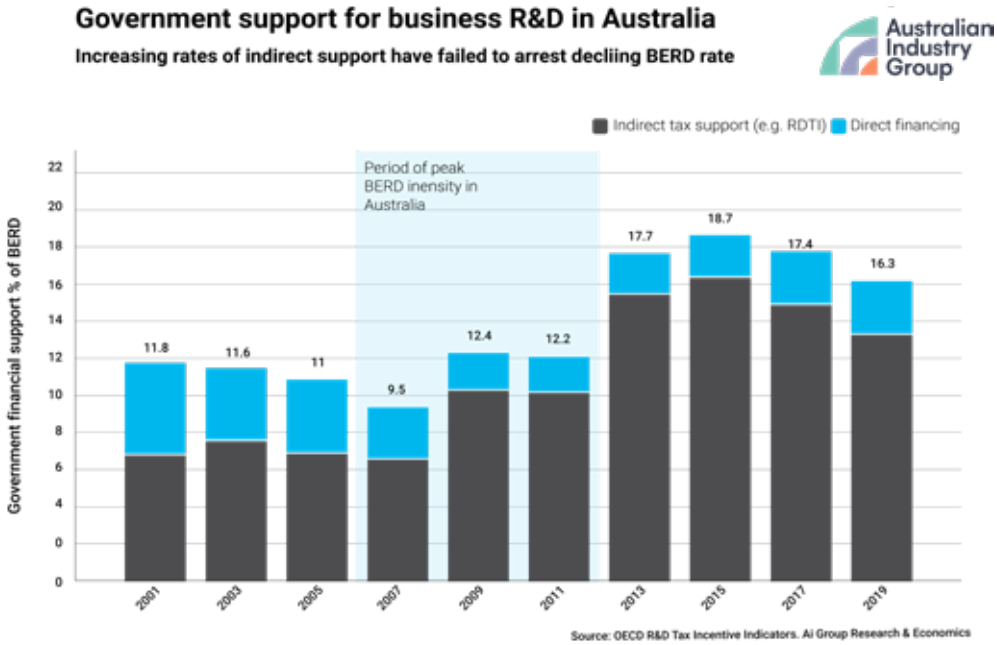
It is not just that business investment in R&D is in decline; there has also been a decline in business R&D intensity. There has been less investment, and also less reinvestment. This is a concerning trend, almost unique to Australia amongst OECD countries.

Figure 6: R&D intensity (Australia in green), analysis by Australian Industry Group using OECD data



It is even more worrying when you consider the amount of taxpayer funding that goes through the Research and Development Tax Incentive (RDTI), an indirect government support that businesses can leverage to offset their R&D investments. The RDTI was designed to motivate businesses to invest in research that would in turn yield competitive advantage and productivity gains. RDTI is now a much higher proportion of overall business investment than in 2007, which is when investment was most intense. It is possible there is a perverse incentive for some businesses to use RDTI as a tax minimisation strategy rather than as complement to genuine and sustained investment in R&D.

Figure 7: Government support for business R&D



The research-related tax incentives need to change to stimulate more genuine R&D investment by Australian businesses, including small and medium enterprises who access the RDTI at much lower rates.

Proposal: introduce an R&D levy on large businesses, which can be claimed back through the RDTI.

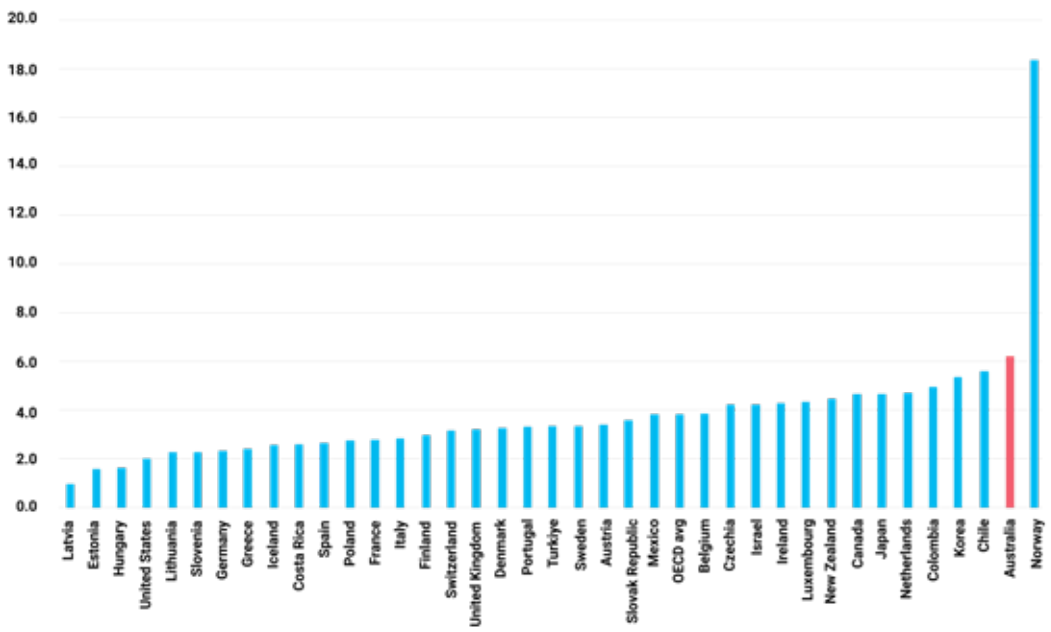
The difference between the levy and the RDTI paid out could be reinvested by government in SME-specific innovation, and research schemes on an industry sector basis, in consultation with those industries. This would help small and medium enterprises to access research innovations that lead to increased productivity in this relatively large part of the Australian economy; it would help more sectors in the economy to engage in R&D; and it would also incentivise larger businesses to more genuinely engage in long term R&D programs.

Increase absorptive capacity and dynamism of Australian businesses

Company tax rates can act as a drag on productivity and economic growth when they are higher than international norms. This is because those tax rates disincentivise businesses to invest in Australia, and they also disincentivise local businesses from growing and scaling their operations onshore. Instead, these high-potential businesses may choose to go overseas where tax rates are more favourable, taking their ideas and their employment (and their taxes) with them. It would be economically better to take a lower rate from a larger group of businesses, to stimulate new businesses to start-up, and to encourage the growth of existing businesses, while retaining the benefits onshore.

When it comes to company tax, we are the second most heavily-dependent country in the OECD, only behind the outlier Norway (due to its extremely unusual natural resource endowment).

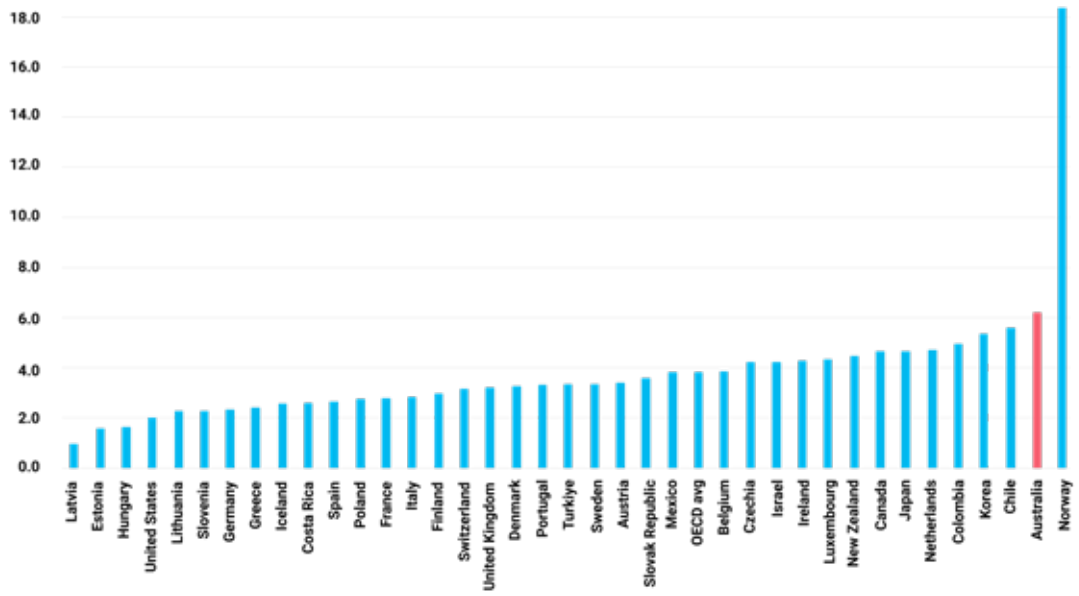
Figure 8: Company Tax (% of GDP), OECD Global Revenue Statistics



Source: OECD

And this, of course, stems from the fact that we have a very high company tax rate. As the following chart shows, we are essentially tied for third highest company tax rate in the OECD with a 30% rate (other than for small businesses where the rate is 25%). In fact, two decades ago Australia had one of the lowest rates of company tax among advanced economies. Since that time other countries have acknowledged that they are in fierce international competition for investment capital and have lowered their company tax rates. Australia, by contrast, has not lowered its rate.

Figure 9: Company Tax Rates, OECD Global Revenue Statistics



Source: OECD

We need to shift our tax mix away from comparatively distortionary personal and corporate income taxes, toward more efficient value-added taxes.

We need to acknowledge the reality that Australia's corporate tax rate is not internationally competitive. The challenge, of course, is that immediately lowering the rate would lead to a significant reduction in government revenue. Moreover, because a lower tax rate only has beneficial incentive effects on new investment, an immediate reduction would be something of a windfall gain for installed capital and past investments. Further, we recognise that the high company tax rate is most restrictive for small to medium size businesses, who tend to have low levels of discretionary capital, thus taking fewer risks, and innovating less.

Proposals to cut the company tax rate are often criticised by those wanting our largest companies pay more tax. There are indeed measures that government needs to take to stop many large, international corporations from evading tax responsibilities.. This is critically important to ensure a fair tax system, and to buttress Commonwealth revenue streams. But the rate of company tax is a very separate issue from tax evasion. As evidence shows, a company tax, in practical terms, is a tax on workers.

Indeed, low-skilled and younger workers typically have weaker bargaining power and fewer alternative opportunities, and are thus more exposed to the effects of higher business taxes. Their wages more tightly track employer costs (including taxes) so cost pressures are more likely passed on to them. Economic incidence analysis from Treasury itself tells us that when capital is less responsive, tax burdens are borne by the less flexible factor (i.e. labour) with greater impact on those with fewer options or less income resilience.

Proposal: Increase discretionary capital for business by reducing the company tax rate to 20% over a decade by providing "bonus depreciation" for new capital expenditures over that time.

The bonus depreciation rate could be set to achieve any desired balance between incentives for new investment and maintenance of short-term tax revenues. Indeed, the bonus depreciation rate could be ratcheted upward over the 10-year period to control the intertemporal nature of that trade-off.

In combination with the proposal above, designed to incentivise and better distribute R&D potential across different businesses in the economy, this has the potential to turbocharge business investment generally in Australia, which would become a much more favourable place to innovate and scale. With this favourable business environment, and better access to research and innovation that can scale new jobs and new technologies, Australia would see economic growth and productivity gains as well as an increase in the diversity of high quality jobs.

Align incentives for businesses to invest in workforce capability

Our next proposal is designed to create the right incentives for businesses to invest in upskilling and reskilling their workforce. The World Economic Forum's Future of Work reports have for years shown inadequate investment in workforce capacity relative to skills needs in industry. Many business strategies are focused around aggressive talent acquisition from other firms, reliance on consultants or contingent workers to meet capacity or technical needs, or recruitment of (cheaper) graduates in new and emerging skills areas.

While these strategies are part and parcel of any business workforce strategy, the missing piece of the puzzle is the development of current workforce to meet changing job requirements. Increased investment in current workers increases their value to the company, and also their career competitiveness, both of which enhance productivity.

Education providers and institutes continue to have a crucial role to play in the co-development of suitable professional education and lifelong learning products that meet the needs of businesses. But the cost of development is high, and the incentives for industry co-investment and cp-design are not always there; design of these products can be treated as purely transactional rather than a genuine partnership. This risks a productivity drain of wasted time and effort designing a product which does not meet the needs of industry, and comes with an opportunity cost of alternative and more productive efforts that could have been made.

Proposal: introduce a Workforce Development Levy to support medium to large businesses to invest in the upskilling and reskilling of their employees, expenses for which can be claimed back via a Workforce Development Tax Incentive for eligible learning and development activities.

There are several advantages to this approach. Tilting the levy towards larger businesses presents no impost on smaller businesses that are less able to meet an additional levy while remaining profitable. Businesses that are already investing in workforce education would face a neutral overall cost, as the levy and the tax incentive would cancel out. Those that are not investing would be incentivised to work more closely with education providers to design and develop fit-for-purpose, industry relevant qualifications and credentials, reducing a mismatch between product offerings and industry needs. Organisations would have access to an increasingly highly-qualified workforce with in-demand skills, increasing competition, new ideas, and new ways of working that are all linked to productivity gains. And Government would face a new source of revenue to reinvest in workforce education products where there is market failure.

Management practices

Economists have long understood that while productivity is measured top down, it is driven bottom up. The actions of workers and managers, matched to technology, are the fundamental drivers of productivity. More recently, there has been significant focus on the actual management practices that are used around the world, and how they explain what drives productivity differences. Management practices 'set the stage' for productivity improvements for individuals and teams in the workplace.

Two decades ago, economists Nicholas Bloom and John Van Reenen launched the World Management Survey (WMS). They conducted wide-ranging structured interviews with manufacturing plants in the United States, United Kingdom, France, Germany and three other countries to uncover the most effective management practices for driving productivity and firm performance.

A recent paper emanating from this line of research speaks directly to the issue of aggregate productivity. Sadun, Schuh, Hartley, Van Reenen and Bloom, "Management and Firm Dynamics" (Bloom et al, 2025) considers how the quality of management shapes firms' ability to reallocate resources through opening, closing, acquiring and disposing of plants and what this means for aggregate productivity.

The authors combine the U.S. Census Bureau's Management and Organisational Practices Survey (MOPS, approximately 60,000 manufacturing plants over 2010-2021) and the international World Management Survey (WMS, more than 11,000 firms in 34 countries) to establish four key empirical facts. First, better-managed U.S. firms buy or open new plants more often. Second, they also sell or shut plants more often, though the expansion margin dominates so they grow on net. Third, new plants inherit the superior management practices of their parent firms. Fourth, when a well-managed firm acquires a poorly managed plant, that plant's management score, productivity and sales rise substantially.

The authors estimate that management practices explain about 20% of international total-factor-productivity differences with the United States. Australia performs moderately well on the "management gap" compared to other countries, but still exhibits a 9.8% difference in productivity due to management practices. We noticeably lag countries such as Japan, Germany, Sweden, Singapore, the United Kingdom, Canada, and France.

If Australia could improve its management practices to U.S. levels, we would increased total factor productivity by 9.8 percentage points. If we got to Japan's level on management practices the improvement would be 6.5 percentage points.

Figure 10: The Global Management Gap

Notes: Length of bar shows increase in productivity from hypothetically moving management capital stock to U.S. levels for a given country using each country's employment share-weighted management score differences vs the US (in management score standard deviation units).

Source: Bloom et al (2025) *Management and Firm Dynamism*. National Bureau of Economic Research, Working Paper No. 33765. Reproduced with permission.

There are two key drivers of increased productivity operating through management practices. First, mergers and acquisitions raise economy-wide levels of management and productivity by reallocating businesses to firms with higher management ability. An outright ban on mergers and acquisitions would reduce GDP by 15%, through less effective management at firms that would otherwise be acquired. Second, increased product market competition improves productivity by reallocating production away from poorly managed businesses.

These results, and those from previous research flowing from the WMS point to the following proposal.

Proposal: Adjust the Australian Competition and Consumer Commission (ACCC) Merger Guidelines to reflect the benefits of mergers and acquisitions in driving productivity growth through improved management, while also reflecting the importance of product market competition.

Improve visibility of housing delivery, and construction productivity

Our next industry proposal is to make salient how states and territories are progressing with housing construction relative to population needs. Appropriate housing growth and diversity is crucial to enabling productivity, as outlined earlier in this paper. Governments have committed to additional housing delivery, which is a crucial issue for the public.

Proposal: Create a "Housing Clock" for each state and territory tracking housing construction relative to target.

The Housing Clock would involve calculating the existing "gap" between the number of housing units and that required by population demand, and updating that calculation as migration and occupancy-ratio changes occur. Making this very public though a "Housing Clock" would boost democratic accountability of these jurisdictions, and also likely serve as a point of competitive difference and pride for suppliers of additional housing capacity.

Our third housing-productivity proposal focuses squarely on the "built" part of the housing supply chain by focusing on an important way to reduce construction costs.

Proposal: Drive down the cost of housing construction by expanding the use of standardised construction materials and modular construction through reforms to building codes.

Australia has an unusually bespoke way of building houses. Compared to other products and even to other countries, our houses are closer to a personally tailored suit than a consumer product. Imagine if we made cars like we made houses. If we stood in our driveway and said, "make me a car", cars would cost many multiples of what they currently do, because we'd be giving up on assembly-line efficiency.[7]

Increased use of standardised construction materials allows manufacturers to buy in bulk and automate production, improving productivity gains up the supply chain. It allows architects and designers to use repeatable "libraries", thereby reducing engineering time and the time for development consents to be granted. It also has benefits down the supply chain, where on-site workers need to make fewer bespoke cuts and adjustments. This leads to much faster construction and less waste, with fewer defects and less environmental impact (Zohourian et al, 2020). International experience suggest that a 15% savings in materials usage is not uncommon.[8]

Modular, off-site construction also has significant benefits. This allows for a kind of "parallel processing" of housing construction where earthworks on the site can be performed while components of the structure are built off site. International experience suggests that this can speed up construction by more than 30% (Building and Construction Authority, 2024). The specialised and controlled environment permitted by off-site construction leads to tighter tolerances and fewer defects. It also reduces the risk of accidents and injury. These tighter tolerances also lead to increased energy efficiency, with both financial and environmental benefits (McKinsey & Co. 2019).

Japan, Sweden, Singapore, the United States, and Canada have all adopted these approaches to one degree or another. Housing construction in Japan is roughly twice as fast as that in Australia. In areas where there are acute labour and housing shortages, like Australia, creating better incentives for modular and prefabricated construction supply chains should be prioritised so that labour efficiencies are not wasted. Reforms in these areas could help turbocharge housing supply, as well as labour productivity and multifactor productivity in the construction industry – which have consistently lagged other industries for decades (National Housing Supply and Affordability Council, 2024).

There has been limited adoption of this in Australia to date. One notable exception to this was PT Blink's seven-storey Brisbane apartment block. Its steel frame was erected in just 11 days, compared to the standard four months. This halved the total construction time of the project.[9]

This proposal would nicely complement the pattern book approach to housing design recently launched in NSW, for overall simpler, quicker housing construction, and a construction industry which is more productive and better incentivised to innovate.[10]

Individual reforms

Our final section deals with proposals that are likely to lead to improved productivity gains for individuals. The structural and industrial proposals above create circumstances for individuals to better benefit from productivity gains across the economy, in their industry, and in their jobs.

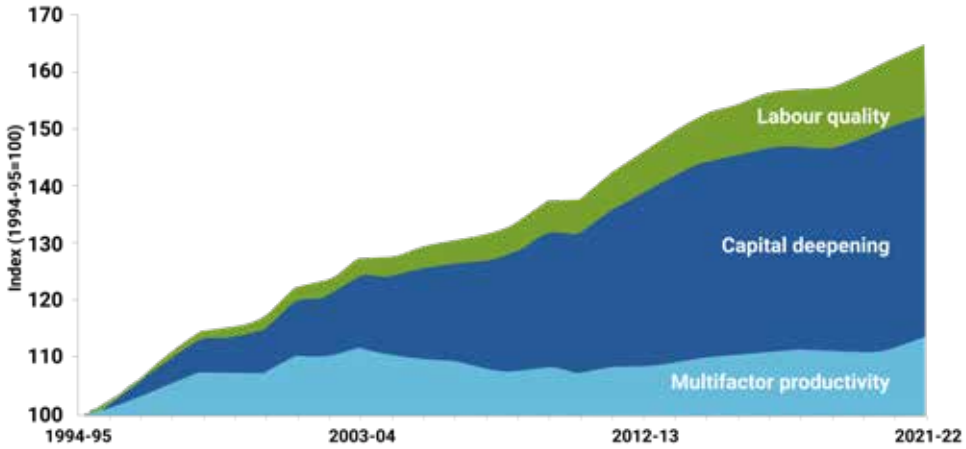
We need to better encourage choice and mobility for students and workers to access high quality education, including to reskill and upskill.

Improve labour mobility and opportunity for individuals

Economists have long understood and documented the link between human capital and productivity growth. Human capital refers to the social and economic value of a person's skills. A primary driver of those skills is education.

This is not merely a matter of economic theory – it is evident in the data on productivity growth in Australia. In their latest 5-year inquiry, the Productivity Commission emphasised that 20% of Australia's productivity growth between 1994-95 and 2021-22 was due to "labour quality" – the education and experience of the workforce.[11]

Figure 11: factors accounting for labour productivity growth since 1994-95



Source: 5-year Productivity Inquiry: Advancing Prosperity – Volume 8, Productivity Commission licensed under CC BY 4.0

There is also evidence across OECD economies that skilled human capital rather than total human capital is the key driver of productivity. Skilled human capital has a stronger "growth-enhancing effect" for economies that are closer to the "technological frontier".[12]

Taken together, these facts point to: (i) the particularly valuable role played by tertiary education in Australia; and (ii) the complementarity between tertiary education and other productivity-enhancing measures that push Australia closer to the global technological frontier, and enable us to capitalise on innovation.

Better policy alignment on education goals

The access goals outlined in the *Australian Universities Accord final report* are important for enabling students from lower socioeconomic and less advantaged backgrounds to participate and succeed in university education.[13] This will have benefits not only for those students, but for aggregate productivity growth. The question is how to achieve that.

The notion of "managed growth" is very understandable from a budget management perspective, but has a number of drawbacks when it comes to achievement of policy goals. Managed growth involves top-down management of the number and composition of university places. Indeed, it can easily be counterproductive. Managed growth confuses means and ends.

Workforce skill requirements are constantly in flux. The best way to match the supply of skilled graduates from universities to the demand for skills from the labour market is by allowing students to make informed choices about the degrees and courses which best suit them. This requires students to have high-quality information and for the university sector's degree offerings to be flexible.

These features of a well-functioning university education sector are best achieved through bottom-up decision-making by empowered students, coupled with quality communication and education offerings at universities, rather than through top-down central planning by the Commonwealth. The changing shape of the labour market and industry needs also means that reskilling and upskilling current workers should be a key consideration.

Maintaining and supporting student choice is crucial, but accessing education is made more difficult for individuals when they are prevented from claiming a tax deduction on expenses incurred in the event that the education is not related to their current job. When there are employers crying out for skilled workers, the need for career mobility is increasing, and when jobs themselves are quickly changing, this legacy exclusion should be remedied.

Proposal: expand the ability to claim a tax deduction for individuals who incur tertiary education expenses when retraining in areas of skills demand, irrespective of their current employment status

In support of this, we make another recommendation that will result in productivity benefits accruing to more individuals. If the proposal to introduce a workforce development levy is taken up, the money raised from the balance of the levy and the tax incentive should be invested in areas of skills demand where there is market failure to deliver, across a wide range of new and innovative education products. These may include short courses, undergraduate certificates, or other forms of just-in-time skills-based education, which together with the expertise of public education providers and industry meet identified needs.

Jobs and Skills Australia could, through the Skills Councils and with state governments, ensure that there is the right balance of skills acquisition and skills development in identified areas, more quickly matching workers to in-demand jobs and realising productivity gains for themselves, as workers, and for their employers.

Proposal: support a balance of comprehensive and specialist discipline-based (and industry-linked) course design and delivery from public education providers.

It has been noted that there is a distinct lack of specialisation in the Australian university sector.[14] Australia has 38 law schools among its 43 universities. To some real degree, there are powerful incentives for Australian universities to provide a single type of educational offering, leading some to observe that we have "[43] universities all trying to do the same thing." [15]

This is in stark contrast to, for example, the University of California system where there is significantly more differentiation among universities in terms of both their educational offerings and research specialisations. Yet Australia, structurally, has much in common with California. Our populations are roughly comparable, and the university sectors are both dominated by public institutions.

Of course, this is part of why the government has just established the new Australian Tertiary Education Commission - to help universities to differentiate, grow, and adapt to changing expectations and demands, and to advise government on appropriate system-level settings.

Artificial Intelligence

There is emerging evidence, including from NYU economist Thomas Phillippon, that productivity growth might be linear not exponential. So rather than small increments to productivity compounding, we have historically relied on big innovations like electrification of homes and industries, or the personal computer revolution, to get historical levels of productivity growth we have witnessed. The unmistakable implication of this is that absent big innovations we actually get very modest growth.

If there is a leading possibility for our next, big step-change innovation akin to electrification or the computer revolution, it is surely artificial intelligence. But there are also important lessons from the past about what is required to truly benefit from the emergence of new, game-changing technologies.

Economists Ajay Agrawal, Joshua Gans and Avi Goldfarb argue that large language models, like ChatGPT, are best thought of as "prediction machines". What AI does is reduce the cost of prediction, often dramatically. That is very useful, but by itself does not lead to a big leap in broad-based productivity. However, if organisations including businesses, schools, hospitals, and government departments can use faster predictions to model and reorganise their processes, then the leap in productivity might be dramatic.

Agrawal, Gans, and Goldfarb illustrate this with two examples. The first is electrification. Electric power was developed in the 1890s. Electricity is better than steam power because it loses less energy. So, factories gained from removing steam power and plugging in electric power.

But the big productivity gains came because electric power allowed factories to be completely redesigned. They could be moved away from water sources, and were laid out on one big floor rather than on multiple floors to keep production processes close to the single steam power source. Suddenly the modern assembly line and mass production became possible.

Their second example comes from the 2021 New Zealand America's Cup team. Team New Zealand used AI to run 24-hour a day simulations of optimal racing tactics. The crew learned a lot from this, but the big payoff came when they realised that boat design could be improved by understanding the feedback loops between design and tactics.

The lesson here is that to turbocharge the benefits of AI we need to connect better prediction with improved design (of boats, of factories, of organisations) and create a virtuous feedback loop.

This will take policies that do not place too many regulatory burdens on these uses of AI, that empower organisations to redesign their operations, and help cushion the blow on those that lose out from the redesign.

Unlike most of our other recommendations, to achieve this involves government not doing something. The government should not take what one might call a "European approach" to strangling technological adoption. But there is one clear positive policy the government could enact to safeguard organisational and workforce disruption brought about by AI.

Proposal: Create a national Technology Adaptation Fund to smooth the transition and retraining of workers affected by the adoption of artificial intelligence.

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Endnotes

[1] See for example the Grattan Institute's *Generation Gap* report (2019), which warns that today's young Australians are "in danger of being the first generation in memory to have lower living standards than their parents."

[2] See for example *Productivity Commission Inquiry: Advancing Prosperity* (Inquiry report No. 100, Vol. 1), whose findings indicate that Australia's productivity slowdown has significantly reduced income growth. The Commission notes that if productivity had continued to grow at earlier trend rates, average income would be in the order of tens of thousands more per person over time. The figure of $11,000 can be inferred from the gap between actual and potential Gross National Income per capita over this period compared to earliertrends.

[3] For further information about Reagle's critique, see Reagle, J. (2017). "Naive Meritocracy and the Meanings of Myth." Ada: A Journal of Gender, New Media & Technology, 11. http://dx.doi.org/10.7264/N3D50K8

[4] See, for example, Andrew Norton's commentary in *The Conversation* 'Cutting the Student Debt Repayment Threshold: Implications for Graduate's Work Incentives' (2023). https://theconversation.com/hecs-helpthreshold-high-emtr

[5] This figure has been cited in Treasury briefings, including in the Treasury 2022-23 Budget papers and related research notes.

[6] NSW Treasury analysis (2020) Economic Impacts of Tax Reform: Transitioning from stamp duty to land tax and related commentary found that a well-designed stamp duty to land tax reform would not jeopardise state credit ratings, as the reform is seen as fiscally sustainable. For instance, both Moody's and S&P Global indicated that the ACT's similar tax transition posed no credit risk, provided budget discipline is maintained.

[7] See media commentary considering the social and political consequences of slow, expensive creation of supply, including for infrastructure: https://www.afr.com/policy/economy/productivity-problem-empowers-populist-right-20250318-p5lkcw

[8] See for example, https://www.cdohomebuilder.com/post/cost-savings-by-using-building-systems-vs-traditional-construction

[9] See https://www.news.com.au/finance/real-estate/jawdropping-timelapse-shows-sevenstorey-unit-block-being-built-in-just-11-days/news-story/411d77291e5802fd4f57d2a38b86bc6f

[10] See for example architects' comments in ABC news coverage on the pattern book: https://www.abc.net.au/news/2025-03-03/patternbooks-housing-nsw-designs-architects-quicker-builds/104921782

[11] See volume 8 of the Productivity Commission's 2023 report: https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume8-education-skills.pdf

[12] See for example, Vandenbussche, Jérôme, Philippe Aghion, andCostas Meghir. "Growth, distance to frontier and composition of human capital," Journal of Economic Growth 11 (2006): 97-127 and Egert, B., & De La Maisonneuve, C. (2022). The importance of human capital for economic outcomes. OECD Directorate for Education and Skills. https://one.oecd.org/document/EDU/EDPC(2022)2/en/pdf

[13] See https://www.education.gov.au/australian-universities-accord/resources/final-report

[14] See Julie Hare. "How to make uni grads smarter, more productive." *Australian Financial Review*. 5 July 2023. Available at https://www.afr.com/work-and-careers/education/how-to-make-uni-grads-smarter-more-productive-20230705-p5dltw

[15] See Richard Holden. "How Labor can rectify the economy if they win," *Australian Financial Review*. 27 April, 2025. Available at https://www.afr.com/politics/federal/how-labor-can-rectify-the-economy-if-they-win-20250423-p5ltpd

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