Australian Economic Review

SPECIAL ARTICLE

The Progressive Productivity Agenda

Andrew Leigh

Assistant Minister for Productivity, Competition, Charities and Treasury, Parliament of Australia, Canberra, Australia

Correspondence: Andrew Leigh (andrew.leigh.mp@aph.gov.au)

Received: 30 June 2025 | **Revised:** 9 September 2025 | **Accepted:** 16 September 2025

Keywords: economic growth | infrastructure investment | institutional reform | productivity policy

ABSTRACT

Australia's long-term economic prosperity is fundamentally tied to productivity growth, yet recent decades have seen a pronounced slowdown with significant implications for living standards and intergenerational mobility. This article examines a policy framework that integrates economic efficiency with social equity. It identifies three critical domains for policy intervention: investment in individuals, through enhanced skills, health, and labour market inclusivity; investment in infrastructure, encompassing both physical systems such as housing and digital platforms essential for technological adoption; and investment in institutions, including robust competition policy, regulatory reform, and evidence-based public administration. Drawing on recent empirical evidence and policy developments, the article proposes that sustained, inclusive productivity growth is not merely an economic objective but a social necessity, one that underpins rising real incomes, reduces inequality and ensures long-run fiscal sustainability.

JEL Classification: O47, O43, H54, J24

1 | Introduction

In 1930, just as the global economy was plunging into depression, John Maynard Keynes published a remarkably optimistic essay: 'Economic Possibilities for our Grandchildren' (Keynes 1930a, 1930b). The aim, he said, was to 'disembarrass myself of short views', by imagining economic possibilities a century ahead.

Keynes and his wife Lydia Lopokova never had children, but those alive today are the generation Keynes imagined would inherit a world shaped by rising productivity and the promise of abundance by 2030.

Keynes made two bold predictions. First, he forecast that the standard of life in 'progressive countries' would rise four to eightfold. In Australia, that prediction has come true. Real GDP per capita is now more than five times higher than it was in 1930 (Hutchinson et al. 2025). Our homes are warmer, our diets richer, our healthcare and education vastly more advanced. In almost every material sense, this forecast has been realised.

His second prediction was that people would work no more than 15 hours a week. Freed from the struggle for subsistence, Keynes believed, we could turn our attention to 'the art of life itself'—to leisure, to creativity, to community.

That future hasn't arrived. But the reason isn't that productivity failed to grow. It's that we made a different choice. The Productivity Commission (2025c) notes that since 1980, Australians have enjoyed enough productivity growth that average weekly hours could have fallen by 15, without lowering our standard of living. Instead, we used about a quarter of the productivity dividend to work less, and the rest to enjoy higher incomes and better living conditions.

This is an edited version of a speech delivered to the McKell Institute on 25 June 2025. My thanks to the sharp minds at the Australian Treasury who helped shape these remarks. Editor Viet Nguyen and two anonymous referees provided valuable feedback. All remaining errors are mine.

In that sense, Keynes was not wrong, he was prescient. The economy did generate the gains he imagined. People just spent them differently. This highlights that productivity growth expands options: enabling higher incomes, more leisure, or a preferred balance of both.

That is why productivity matters. It is the engine of living standards. In the long run, it is the most important driver of national prosperity, accounting for 70% of Australia's growth in real national income over the past three decades (Treasury 2023b). It is what pays for aged care and renewables, for better schools and bigger ideas. Productivity growth provides the fiscal and social capacity to build a more generous, more imaginative society.

Productivity doesn't rise by accident. It rises when the private and public sectors invest—in the case of government, in people, in systems, and in the institutions that turn ambition into action.

This article proposes a policy framework that recognises the need for sustained investment to support both economic growth and social equity. It identifies three key policy domains: investing in individuals, infrastructure, and institutions. To understand why this agenda matters so much, we need to begin with the problem it seeks to address: the slowdown in productivity growth.

The remainder of the article is structured as follows. Section 2 examines the causes and consequences of Australia's recent productivity slowdown. Section 3 discusses investing in individuals through skills, health, and labour market inclusion. Section 4 explores infrastructure as a driver of productivity, with attention to housing, digital systems and research. Section 5 considers the role of institutions, including competition policy, regulatory reform, and evaluation. The final section concludes.

2 | The Productivity Slowdown

The case for lifting productivity is not hypothetical; it is pressing. In the decades following World War II, advanced economies enjoyed sustained productivity growth. This was driven by capital deepening, technological diffusion, globalisation, and institutional reform. The gains were broad-based and long-lasting. But since the early 2000s, that momentum has slowed, as Figure 1 demonstrates.

Goldin et al. (2024) reviewed this shift, examining productivity trends across France, Germany, Japan, the United Kingdom, and the United States between 2005 and 2017. They found declines of between 0.8 and 1.8 percentage points. The causes were many weaker investment, slower growth in total factor productivity, diminished allocative efficiency, and challenges in measuring productivity in modern economies.

Some analysts argue that slower productivity growth is not just a temporary phenomenon, but reflects the inherent difficulty of raising efficiency in mature, service-dominated economies (Baumol 1967; Ngai and Pissarides 2007). Others recall Robert Solow 1987 quip that 'You can see the computer age everywhere

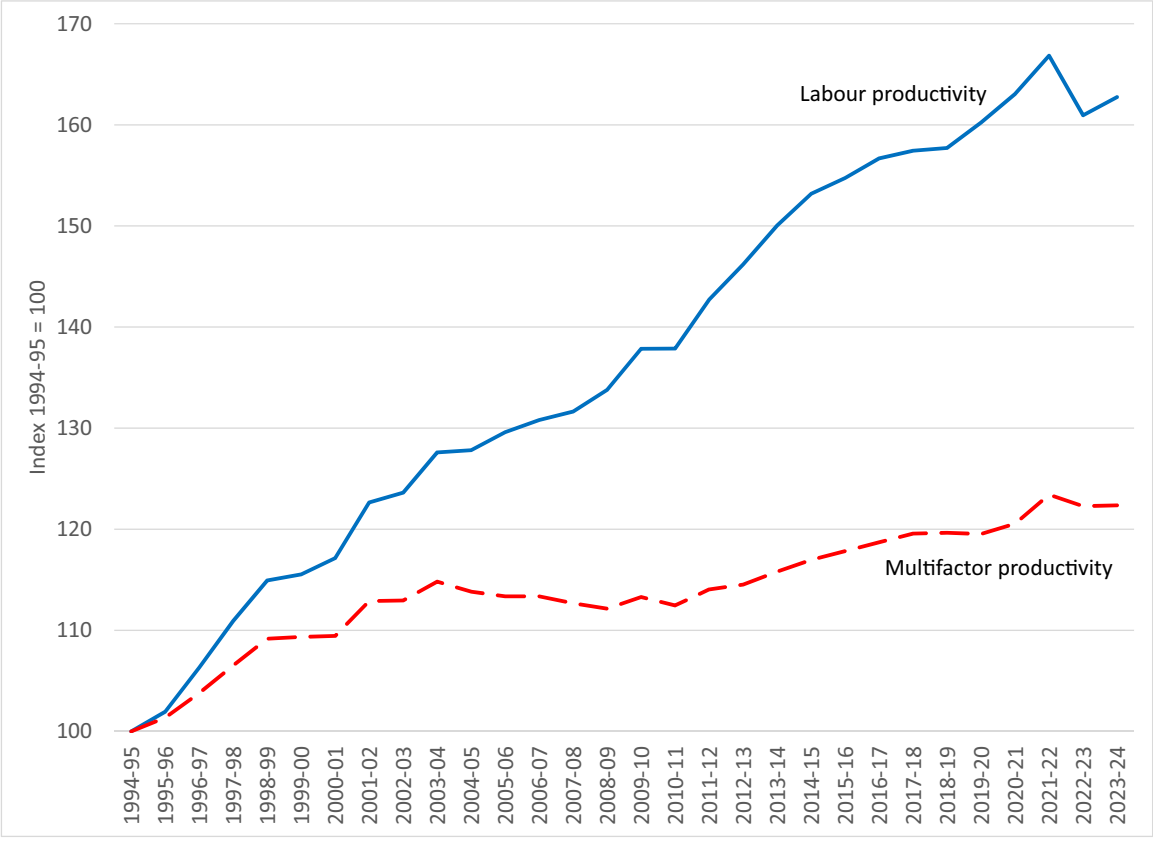

FIGURE 1 | Australian productivity trends. *Source:* Australian Bureau of Statistics [ABS] (2025a, tab. 2).

but in the productivity statistics' (Solow 1987). A generation on, Solow's paradox may characterise the artificial intelligence era.

Although debate over causes persists, the effects are clear. When productivity growth slows, living standards rise more slowly. In turn, this reduces one of the most powerful engines of aspiration: the belief that children will enjoy a better life than their parents.

Alas, this measure has declined dramatically. Among Australian children born in 1950, 84% could expect to earn more than their parents. Among children born in 1987, just 68% could expect to earn more than their parents (Kennedy and Siminski 2022). Kennedy and Siminski (2022) estimate that around two-thirds of this drop in absolute mobility is due to a slowdown in economic growth, and around one-third is due to an increase in inequality. Analysing 10 advanced economies, Berman (2022) finds that absolute mobility slowed down in all 10, and that in most cases, slowing economic growth was a larger contributor to the reduction in mobility than rising inequality.[1]

In the 5 years leading up to the pandemic, Australia's productivity growth was effectively flat, making the 2010s our weakest decade in 60 years. During the lockdowns, productivity appeared to spike, largely due to compositional effects: low-productivity sectors shut down while higher-productivity sectors kept operating. But as those sectors reopened, the gains unwound (Productivity Commission 2025b). The underlying trajectory has not improved. The mining sector, once the largest contributor to productivity growth, has recently become a net drag (Australian Bureau of Statistics [ABS] 2025a).

This pattern reflects both structural and cyclical forces. In the years since the pandemic, Australia has seen record labour market participation and historically low unemployment. That is good news for individuals, families, and the broader economy. But with hours worked rising faster than capital investment, the amount of capital per worker has slowed, or in some cases, gone backwards. That is known as capital shallowing, and it holds back growth (Productivity Commission 2023a).

Measurement matters too. A growing share of Australia's economy lies in sectors such as education, health, and the care economy, where measuring productivity is particularly challenging. In these industries, outputs are often multi-dimensional, publicly provided, and not directly priced in markets, which makes it difficult to define and value what is being produced. The Atkinson Review highlighted the problem that conventional 'output = input' methods risk assuming no productivity growth at all, while activity counts (such as numbers of operations or classes taught) can miss quality improvements or substitution effects (Atkinson 2005).

In the case of healthcare, the Productivity Commission's work has shown that when outputs are measured in terms of health outcomes (using survival and quality of life indicators) productivity growth appears stronger than when assessed only through service counts. Their findings suggest that quality improvements, particularly in saving lives, have been the main source of healthcare productivity gains, underscoring how traditional methods can understate real improvements (Productivity Commission 2024). The implication is that aggregate productivity growth may be underestimated when quality-adjusted outputs are not captured.

Together, these shifts, from capital shallowing to sectoral change and the growing weight of hard-to-measure industries, help explain why Australia's output per hour worked has stagnated. Yet the problem cannot be reduced to measurement alone: even after allowing for quality-adjusted improvements in healthcare, the underlying pace of productivity growth has been weak.

With population ageing, we cannot count on workforce growth to drive GDP. Australians will need to rely more on productivity growth to deliver higher living standards. At the same time, governments face rising fiscal pressures from health and aged care to defence and debt servicing (Treasury 2023a). Globally, geopolitical fragmentation, climate change, and rapid technological disruption are reshaping the economic landscape.

Growth cannot be assumed to rely on rising populations, booming exports, or favourable global conditions (Kennedy 2025). In the coming decade, a greater share of economic progress will need to come from improved productivity, not simply increased inputs.

That is why productivity is central to Australia's economic strategy (Treasury 2023b). It is treated as a sustained policy priority that targets investment, reform and institutional effort where it can have the greatest impact. The following sections examine three key domains for policy action: investing in individuals, infrastructure and institutions.

3 | Investing in Individuals

A more productive Australia begins with human capital. Productivity is the sum of what individuals can contribute, adapt and create. Investing in people—through skills, health, and opportunity—is therefore central to any productivity-focused economic strategy. These are not trade-offs. They are long-term investments in economic growth.

Consider the labour market. Since the pandemic, Australia has recorded one of its strongest labour performances in history. Unemployment is low. Participation is at record highs. More people, including those long excluded, are finding work. While this is a positive development, it introduces nuance into the interpretation of productivity statistics.

When large numbers of people move from unemployment or inactivity into jobs, especially those with less recent experience or lower formal qualifications, measured productivity can fall in the short term. These workers may initially earn less, require more training, and take time to reach their full potential. Although this may appear as a decline in measured productivity, it represents a positive long-term adjustment for both economic and social outcomes.

Treasury analysis using data from the Household, Income and Labour Dynamics in Australia survey (HILDA) shows that

workers re-entering the labour market after a period of detachment earn about 16% less per hour than their peers, and take around 5 years for their wages to recover (Treasury 2025). That reflects the cost of skills atrophy. But it also reinforces the long-term value of inclusion.

Inclusion isn't only about fairness, it is about better economic performance. When more people are enabled to reach their potential, the economy uses its talent more efficiently. In Australia, we've seen steady gains in female workforce participation and a narrowing gender pay gap. In 1966, just 12% of Australian doctors were women (Treasury 2025). As of 2021, it was 46%.

This broader inclusion improves allocative efficiency: the ability of the economy to put the right people in the right roles. It is a reminder that a just labour market is also a more productive one. The challenge extends beyond participation to the ways in which workplaces are organised and managed. While Australia has a talented workforce, too few firms adopt high-performance management practices. Good ideas from employees often go unrecognised. Poor communication within organisations and underinvestment in innovation can hold back productivity. A majority of Australian firms are not innovation-active (Australian Bureau of Statistics [ABS] 2024b). Supporting firms to lift management quality, and create more empowering workplaces, can help unlock potential that already exists on the shop floor.

Skills are a foundation of long-run productivity. Across advanced economies, increases in educational attainment have been strongly correlated with faster adoption of new technologies and higher wages. In Australia, expansion in both vocational and higher education has lifted the share of the workforce with post-school qualifications from around one-third in the early 1980s to nearly two-thirds today (Australian Bureau of Statistics [ABS] 2024a). Yet challenges remain: completion rates in vocational education are uneven, equity gaps in university attendance are substantial (Leigh 2021), and the returns to some forms of training are variable (Birch and Preston 2025). The central point is that productivity growth depends not only on the quantity of education, but also on its quality, its alignment with emerging labour market needs, and the capacity of workers to retrain across their careers.

Health is likewise integral to productivity. A healthier workforce participates more fully in the labour market, is absent less often, and is more productive while at work (Cutler and Lleras-Muney 2008). In ageing societies, gains in longevity and reductions in morbidity also help sustain aggregate labour supply. As noted, measuring healthcare productivity is difficult, but recent evidence suggests that quality-adjusted gains in areas such as cancer and cardiovascular treatment have been substantial (Productivity Commission 2024). From a productivity perspective, health systems can be seen as economic infrastructure: they shape not only individual wellbeing but also aggregate output by influencing the effective supply of labour and the costs of ill-health.

And mobility plays a part. When people can move easily between jobs, sectors, and regions, the economy becomes more dynamic. Recent policy initiatives include banning non-compete clauses for low- and middle-income workers and reforming occupational licensing to increase mobility. These reforms make the labour market more fluid, improve job matching, and help employers find the skills they need.

Inclusion, too, must extend beyond participation to opportunity. A dynamic economy encourages entrepreneurship from all quarters, not just from those with access to capital or networks. When people from disadvantaged backgrounds can start businesses and pursue ideas, the economy grows more innovative and representative (Bell et al. 2019).

Taken together, these investments reinforce a central proposition: people are not simply inputs in an economic model. They are sources of innovation, adaptability and resilience. A productivity agenda that prioritises human capital views individuals not as costs to minimise, but as capabilities to develop. Investing in people contributes directly to productivity growth, which in turn supports higher living standards.

The next section considers the systems that support people: namely, the infrastructure that connects them to opportunity and underpins long-term growth.

4 | Investing in Infrastructure

Infrastructure is often thought of in physical terms, such as roads, rail, wires and pipes. But at its core, infrastructure is about capability. It's what allows people to connect to opportunity, firms to operate efficiently, and systems to scale. A productivity-focused approach considers not only what is built but also how effectively, how quickly, and how well systems meet their purpose.

4.1 | Housing

Few areas illustrate this more clearly than housing. In 2000, the median Australian home cost 6 years' average earnings. This rose to 8 years in 2010, 9 years in 2020, and 11 years in 2023 (Leigh 2024). Home ownership among people aged 30–34 fell from 57% in 2001 to 50% in 2021 (Coates et al. 2025). Home ownership is falling fastest among lower-income Australians.

The consequences are not abstract. Housing scarcity limits mobility, deepens wealth inequality, and undermines social cohesion. It affects where people can live, what jobs they can take, and how much they can save. It shapes decisions about education, employment, and care. And it is increasingly a source of anxiety for younger Australians, who see the promise of secure housing slipping further out of reach.

This is a progressive problem. But it is also a productivity problem, and the two are deeply linked.

Over the past three decades, productivity in the housing construction sector has gone backwards. According to the Productivity Commission, the number of dwellings constructed per hour worked has declined by between 12% since the mid-1990s, adjusted for housing size and quality (Productivity

Commission 2025a). Over the same period, output per hour worked in the broader economy rose nearly 50%.

This decline isn't due to lack of investment. The construction sector has added over 700,000 jobs in the past three decades (Treasury 2025). Capital investment has broadly kept pace. But the systems that govern how housing is planned, approved and delivered, not the labour or capital, are the real bottleneck (Leigh 2025). Complex and inconsistent regulation. Slow approvals. Fragmented responsibilities. A lack of coordination across jurisdictions.

Governments across Australia are making significant efforts to improve housing, including through the National Planning Reform Blueprint agreed by National Cabinet in 2023, which focuses on planning, zoning, and land release to boost supply and affordability. In August 2023, Commonwealth, state and territory governments set a target to deliver 1.2 million homes over the 5-year period from mid-2024 to mid-2029, a 28% increase on the rate of dwelling completions from 2017 to 2024 (Australian Bureau of Statistics [ABS] 2025b). The Commonwealth has re-engaged in housing policy, taking a more active role in planning and coordination to support national reform targets.

When infrastructure productivity fails, progressive goals become harder to achieve. But when we improve how we build, when we reduce friction, streamline approvals and coordinate delivery, we don't just get more homes. We get more affordable homes, in better locations, delivered faster and more reliably. We get a housing system that supports mobility, equity, and opportunity. A system that works; not just for the economy, but for the society it serves.

4.2 | Digital Infrastructure

Productivity also depends on less visible forms of infrastructure, including broadband networks and data systems. These digital foundations are essential for adopting general-purpose technologies like artificial intelligence.

Artificial intelligence has the potential to reshape how we work, deliver services, and innovate. While its long-term impact is uncertain, early evidence suggests significant benefits. Task-based studies show artificial intelligence improves performance in areas such as coding, writing, customer service, and consulting (Organisation for Economic Co-operation and Development [OECD] 2024). Some studies report productivity gains of up to 40%. Interestingly, the biggest benefits often accrue to less experienced workers, helping to narrow skill gaps (Dell'Acqua et al. 2023; Brynjolfsson et al. 2025).

Recent firm-level data from France suggests a further twist: companies adopting artificial intelligence are not shedding workers—they're hiring more (Aghion et al. 2025). Artificial intelligence adoption was associated with *increased* employment and sales, including in roles previously thought vulnerable to automation. In fact, the biggest employment risk from artificial intelligence may not be job displacement, it may be working for a business that doesn't adopt it and falls behind or fails entirely.

However, adoption has been uneven. Larger firms are more likely to integrate artificial intelligence, which risks widening existing divides (Aghion et al. 2025). This highlights the role of infrastructure in supporting more equitable adoption. The expansion of the National Broadband Network is helping ensure that access to AI-enabling technology is not confined to the lucky few. New Treasury analysis using linked employer-employee data shows that firms hiring tech workers lift wages not just for those workers, but for others too: a diffusion effect that spreads benefits more broadly (Treasury 2025).

Government has a role in managing the risks artificial intelligence presents, from privacy and bias to misinformation and discrimination. But regulation should follow a principles-based approach. Start by applying existing laws. Where those fall short, make technologically neutral amendments. Only if these approaches are insufficient should AI-specific rules be considered. The goal is to protect the public while allowing productivity-enhancing innovation to flourish.

Infrastructure, whether physical or digital, is not simply a backdrop. It is an enabler. When it functions well, it reduces the cost of distance, improves information flow, and increases market efficiency. In the most literal sense, it connects people to opportunity. However, infrastructure is only as effective as the institutions that shape its planning and delivery, which are often the source of the most significant bottlenecks.

4.3 | Research and Development

Australia's investment in research and development is lower than that of many of our peers. In 2023–2024, gross expenditure on R&D was 1.7% of GDP, compared with the OECD average of around 2.7%, and well below the levels in countries such as South Korea, the United States, Japan and Germany (Australian Bureau of Statistics [ABS] 2025c; Department of Industry, Science and Resources [DISR] 2025; Organisation for Economic Co-operation and Development [OECD] 2025). This marks a decline from 2.2% in 2008–2009, leaving us behind both our peers and our own past.

The particular weakness lies in business investment. Business expenditure on R&D has fallen from 1.4% of GDP in 2008–2009 to 0.9% in 2023–2024 (Australian Bureau of Statistics [ABS] 2025c; Department of Industry, Science and Resources [DISR] 2025). Large firms have scaled back their efforts, leaving small enterprises to shoulder a disproportionate share of the national research effort. Australia invests relatively little in experimental development: the stage of turning research into products, processes and services. These gaps matter. Australian firms with greater levels of innovation novelty tend to have higher levels of labour productivity (Majeed and Breunig 2023), yet only 1%–2% engage in 'new to the world' innovation. As the Productivity Commission (2023b) has noted, Australian businesses may not be aware of how far they lag behind the global innovation frontier.

Australia has a strong university research sector. The country generates 3.5% of the world's scientific publications, with citation rates substantially above the global mean (Clarivate 2023).

On a per-faculty basis, 18 Australian universities rank among the top 200 worldwide (Quacquarelli Symonds 2024). Fields such as biomedical and clinical sciences, information and computing, and the physical sciences are particular areas of comparative strength (Department of Industry, Science and Resources [DISR] 2025). These outputs underscore the depth of Australia's knowledge institutions and their global relevance.

Australia's primary challenge is not generating high-quality research, but ensuring that it is translated into widespread innovation. Productivity growth depends on discovery being taken up by businesses, yet weak industry R&D has meant that universities and smaller firms are carrying much of the load. Other nations show what is possible. South Korea, for example, lifted its R&D intensity from just above 2% of GDP in the late 1990s to nearly 5% today. Germany's Fraunhofer institutes show how applied research can be structured to build enduring business links. Australia's *Strategic Examination of R&D*, chaired by Robyn Denholm, is due to report by the end of 2025 on how to lift business R&D, strengthen cross-sectoral collaboration and encourage firms to move closer to the innovation frontier. Reinforcing the foundations of research while broadening its commercial pathways offers the best prospect of ensuring that scientific achievement is matched by broad-based economic gain.

5 | Investing in Institutions

Institutions are not abstract. They are the systems that determine whether policy gets delivered—whether ambition becomes action. As discussed in the previous section, infrastructure failures often result less from funding constraints than from institutional challenges such as fragmented responsibilities, slow approvals, and unclear accountability.

One of the clearest institutional levers for lifting productivity is competition policy. Competitive markets are more dynamic, more innovative, and more efficient. They allocate resources more effectively, reward effort and ideas, and put pressure on firms to improve. But competition doesn't arise by accident, it depends on institutions that are capable of protecting and promoting it.

Competition reform has become a central element of Australia's productivity strategy. Recent policy changes have strengthened the Australian Competition and Consumer Commission and updated merger laws for the first time in decades (see Heger et al. 2025). A new National Competition Policy aims to work with states and territories to reduce barriers to entry, harmonise regulation, and promote best-practice reform. While aligning policies across multiple jurisdictions poses challenges, coordinated national efforts remain essential for fostering competitive markets.

Some of these competition-boosting changes apply to product markets. Others, such as the banning of non-compete clauses for low- and middle-income workers, and the streamlining of occupational licensing, apply to labour markets. These reforms support mobility and fairness, as discussed earlier. But they also serve an institutional purpose: making labour markets more contestable, more flexible, and more productive.

Beyond competition, regulation itself is critical. The approach aims to maintain necessary protections while reducing the cumulative regulatory burden: the gradual accumulation of rules, forms, and compliance obligations that can stifle innovation and delay delivery. The progressive productivity agenda isn't about cutting protections. It's about making sure regulation is proportionate, purposeful, and outcomes-focused.

Take the ‘single front door’ for major investors, a streamlined way for businesses to deal with the Commonwealth, cutting duplication and friction. This reform signals an effort to shift administrative processes from oversight alone toward enabling investment.

This principle of delivery over delay is central to the abundance agenda. Across housing, energy, and infrastructure, the issue is not simply what gets funded. It is what gets done. Too often, the systems we rely on are built for review, not results. They are designed for scrutiny rather than speed. The outcome is drift: good projects that gather dust; bold ideas that falter on the launchpad. In some cases, systems are designed primarily to avoid mistakes rather than to achieve outcomes.

The abundance agenda argues for a different approach (Klein and Thompson 2025; Leigh 2025). It calls for governments to focus on throughput—how fast, how affordably, and how reliably projects move from concept to completion. It calls for better sequencing, aligning planning with delivery, consultation with construction, ambition with execution. It calls for removing friction from high-value chokepoints, in development approvals, grid connections, and procurement pipelines. And it calls for institutions that are confident not because they're above scrutiny, but because they are equipped to act.

This is not about cutting corners. It is about building capability. Effective institutions ensure that ambitious policy goals can be implemented reliably.

And that same logic applies to government itself. Just as we want firms to be more productive, we want public institutions to be more productive too. That means investing in their ability not just to write policy, but to implement it, evaluate it, and improve it over time.

The Australian Centre for Evaluation is a key part of that vision. It is intended to help departments embed evaluation early in program design, collecting data, testing assumptions, and guiding decisions with evidence. The goal is not to second-guess every program. It's to build a culture of continuous learning. A system where we do more of what works, and less of what doesn't.

The medical analogy is apt. Evidence-based medicine has transformed healthcare by rigorously testing treatments and scaling up what saves lives. Policy, like medicine, works best when it's evidence-based. In the public sector, evidence-based policy delivers better outcomes at lower cost. This is not austerity; it is about building capability.

Beyond evaluation, our government is modernising economic institutions to ensure they are fit for the future. The Reserve

Bank of Australia has undergone its most significant reform in a generation, with changes to governance, transparency, and decision-making. The Productivity Commission is being refreshed to remain relevant and responsive to the challenges ahead. For the first time, Treasury, the Reserve Bank and the Productivity Commission are headed by women.

Taken together, reforms to competition, regulation, evaluation, and institutional renewal reflect a shift in how we think about productivity. It is not just about inputs and outputs. It is about systems. And systems are shaped by institutions.

A productivity agenda that invests in institutions recognises that they are the infrastructure of delivery. They are what translate policy into outcomes and ensure those outcomes are efficient, equitable, and durable. Institutions are where productivity and social progress meet – not just in theory, but in practice.

6 | Conclusion

John Maynard Keynes, writing in 1930 amid economic crisis, looked a century ahead and imagined a world where 'problems of economic necessity' would be largely removed. He foresaw not just abundance, but a society able to focus on 'the art of life', living 'wisely and agreeably and well'.

Australians have made substantial progress toward that vision. Since Keynes wrote, our living standards have multiplied. Our homes are larger, our health is better, our children are better educated. However, much of the productivity dividend has supported higher consumption rather than reduced working hours. The economic problem has not vanished; it has changed form. And for some Australians, the future still feels precarious rather than plentiful.

While productivity growth in particular activities will eventually encounter diminishing returns, as Baumol (1967) noted for labour-intensive services, there is no evidence that aggregate productivity is subject to a fixed upper bound. Successive waves of general-purpose technologies have continually pushed the frontier outward, from steam to electricity to digital tools. The central challenge is not whether productivity growth can continue, but how to ensure it does, through investments that diffuse new ideas across the economy.

From the perspective of wellbeing, productivity growth is not just a number, it is the means by which we expand the realm of possibility. It is how we grow wages, reduce pressures, and create the conditions for what Aristotle called 'the good life': leisure, curiosity, companionship and care. Productivity growth enables higher wages, reduces economic pressures, and creates the fiscal space for priorities such as aged care, education, and environmental sustainability. Rising living standards do not have to mean identical gains for everyone, but without productivity growth the scope for improving opportunities at the bottom, or for sustaining broad social investments, becomes sharply constrained.

The progressive productivity agenda reflects this imperative. It places human capital at the centre by investing in individuals' health, skills, and potential. It strengthens connections through infrastructure: housing, broadband, energy systems, digital capability and R&D. And it relies on institutions—competitive markets, effective regulation, strong public service delivery, and evidence-based policy—to turn policy into outcomes.

Each reflects a belief that productivity should serve people. They seek not only to raise output, but to improve the rhythm and texture of daily life. Productivity reform is about expanding what's possible for households, for communities and for future generations. With the right policy settings, Australia can move closer to Keynes's vision of a society where successive generations enjoy more prosperity and more leisure.

Endnotes

[1] Berman (2022) finds that in eight of the ten advanced countries he studies, the slowdown in economic growth was a larger contributor to the fall in absolute mobility than the rise in inequality. However, the two exceptions are the United States and Australia. Berman (2022) finds that for Australia, growth accounted for 37% of the mobility slowdown, while inequality accounted for 63% (Berman 2022, Appendix Table H2). This contrasts with Kennedy and Siminski (2022), who conclude that slowing growth accounted for 65% of the reduction in mobility, while rising inequality accounted for 35%. The difference is attributable to a range of factors, including estimates of growth for the 1950 birth cohort. In this case, I favour the estimates of Kennedy and Siminski (2022), since the focus of their study is solely on Australia.

References

Aghion, P., S. Bunel, X. Jaravel, T. Mikaelsen, A. Roulet, and J. Søgaard. 2025. "How Different Uses of AI Shape Labor Demand: Evidence From France." *AEA Papers and Proceedings* 115: 62–67.

Atkinson, T. 2005. *Atkinson Review: Final Report. Measurement of Government Output and Productivity for the National Accounts*. Palgrave Macmillan.

Australian Bureau of Statistics (ABS). 2024a. *Education and Work, Australia, May 2024*. ABS.

Australian Bureau of Statistics (ABS). 2024b. *Innovation in Australian Business, 2022–23*. ABS.

Australian Bureau of Statistics (ABS). 2025a. *Estimates of Industry Multifactor Productivity, Australia, January 2025*. ABS.

Australian Bureau of Statistics (ABS). 2025b. *Building Activity, Australia, March 2025*. ABS.

Australian Bureau of Statistics (ABS). 2025c. *Research and Experimental Development, Businesses, Australia, 2023–24 Financial Year*. ABS.

Baumol, W. J. 1967. "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis." *American Economic Review* 57, no. 3: 415–426.

Bell, A., R. Chetty, X. Jaravel, N. Petkova, and J. Van Reenen. 2019. "Who Becomes an Inventor in America? The Importance of Exposure to Innovation." *Quarterly Journal of Economics* 134, no. 2: 647–713.

Berman, Y. 2022. "The Long-Run Evolution of Absolute Intergenerational Mobility." *American Economic Journal: Applied Economics* 14, no. 3: 61–83.

Birch, E., and A. Preston. 2025. "The Falling Returns to Education in Australia." *Economic Record* 101: 377–391.

Brynjolfsson, E., D. Li, and L. Raymond. 2025. "Generative AI at Work." *Quarterly Journal of Economics* 140, no. 2: 889–942.

Clarivate. 2023. *InCites Location Analysis, 2019–2023*. Clarivate Analytics.

Coates, B., J. Moloney, and M. Bowes. 2025. "25 Years Into a New Century and Housing Is Less Affordable Than Ever." *The Conversation*, March 28. https://theconversation.com/25-years-into-a-new-century-and-housing-is-less-affordable-than-ever-250067.

Cutler, D. M., and A. Lleras-Muney. 2008. "Education and Health: Evaluating Theories and Evidence." In *Making Americans Healthier: Social and Economic Policy as Health Policy*, edited by J. S. House, R. F. Schoeni, G. A. Kaplan, and H. Pollack, 29–60. Russell Sage Foundation.

Dell'Acqua, F., E. McFowland, III, E. Mollick, et al. 2023. "Navigating the Jagged Technological Frontier: Field Experimental Evidence of the Effects of AI on Knowledge Worker Productivity and Quality." HBS Working Paper 24-013.

Department of Industry, Science and Resources (DISR). 2025. *Strategic Examination of R&D Discussion Paper*. DISR.

Goldin, I., P. Koutroumpis, F. Lafond, and J. Winkler. 2024. "Why Is Productivity Slowing Down?" *Journal of Economic Literature* 62, no. 1: 196–268.

Heger, A., J. Kwong, and A. Leigh. 2025. "Bumps and Breakthroughs: The Journey of Australia's Merger Reforms." *Competition and Consumer Law Journal* 31, no. 2: 185–202.

Hutchinson, D., F. Ploeckl, B. Hogewood, and S. Williamson. 2025. "What Was the Australian GDP or CPI Then? MeasuringWorth." http://www.measuringworth.com/australiadata/.

Kennedy, S. 2025. *Economic Policy amid Global Uncertainty*. Address to the Australian Business Economists, May 15.

Kennedy, T., and P. Siminski. 2022. "Are We Richer Than Our Parents Were? Absolute Income Mobility in Australia." *Economic Record* 98, no. 320: 22–41.

Keynes, J. M. 1930a. "Economic Possibilities for Our Grandchildren (Part I)." In *Nation and Athenaeum*, 48, no. 2 (October 11), 36–37.

Keynes, J. M. 1930b. "Economic Possibilities for Our Grandchildren (Part II)." In *Nation and Athenaeum*, 48, no. 3 (October 18), 96–98.

Klein, E., and D. Thompson. 2025. *Abundance*. Profile Books.

Leigh, A. 2021. "Australian Mobility Report Cards: Which Universities Admit the Most Disadvantaged Students?" *Australian Economic Review* 54, no. 3: 331–342.

Leigh, A. 2024. *Battlers and Billionaires: The Updated Story of Inequality in Australia*. Black Inc.

Leigh, A. 2025. "The Abundance Agenda for Australia." Address to the Chifley Research Centre, June 3.

Majeed, O., and R. Breunig. 2023. "Determinants of Innovation Novelty: Evidence From Australian Administrative Data." *Economics of Innovation and New Technology* 32, no. 11: 1249–1273.

Ngai, L. R., and C. A. Pissarides. 2007. "Structural Change in a Multisector Model of Growth." *American Economic Review* 97, no. 1: 429–443.

Organisation for Economic Co-operation and Development (OECD). 2024. "The Impact of Artificial Intelligence on Productivity, Distribution and Growth." OECD Artificial Intelligence Paper no. 15. OECD Publishing.

Organisation for Economic Co-operation and Development (OECD). 2025. *Main Science and Technology Indicators (updated 30 March 2025)*. OECD.

Productivity Commission. 2023a. *PC Productivity Insights: Quarterly Bulletin, December 2023*. Productivity Commission.

Productivity Commission. 2023b. *5-Year Productivity Inquiry: Innovation for the 98%*. Report no. 100, vol. 5. Productivity Commission.

Productivity Commission. 2024. *Advances in Measuring Healthcare Productivity*. Research Paper. Productivity Commission.

Productivity Commission. 2025a. *Housing Construction Productivity: Can We Fix It?* Research Paper. Productivity Commission.

Productivity Commission. 2025b. *Productivity Before and After COVID-19*. Research Paper. Productivity Commission.

Productivity Commission. 2025c. *Quarterly Productivity Bulletin—June 2025: PC Productivity Insights*. Productivity Commission.

Quacquarelli Symonds. 2024. *QS Top Universities*. topuniversities.com.

Solow, R. M. 1987. "We'd Better Watch Out." *New York Times Book Review*, July 12, 36.

Treasury. 2023a. *Intergenerational Report 2023*. Commonwealth of Australia.

Treasury. 2023b. *Working Future*. Commonwealth of Australia.

Treasury. 2025. *Internal Research on Productivity and Labour Markets* (unpublished).