

The real causes of slower productivity growth

Submission to the Senate Select Committee on Productivity in Australia

Australia's productivity debate focuses on cutting taxes and undermining workers, while ignoring the negative productivity impacts of climate change, defence spending and privatisation. Meanwhile, productivity growth has continued to fall. Refocusing the debate and taking lessons from successful high-productivity, egalitarian countries will help boost Australian productivity.

Discussion paper

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February 2026

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Summary

Main points and recommendations for the Senate Committee:

1. The Committee might note: Australia's history shows a decline in productivity growth despite a history of lowering tax rates on incomes, on goods and services, on capital gains, without any noticeable improvement in productivity growth.
2. The Committee might note: The other reform prong offered by many is industrial relations "reform" designed to make it harder for the workforce to bargain for their own pay and conditions. Lower wages and such things as curtailing the right to strike has not produced a productivity boost.
3. This submission recommends that the Committee emphasise the negative consequences for productivity growth as a result of climate change. The Committee should recommend direct action to limit climate change.
4. The Committee should note that climate change can affect any and all industries.
5. In response to suggestions that the public sector shows no productivity growth, the Committee should note that the military is a classic example. Not only is there no productivity growth, but Defence spending drags down other sectors by drawing on a scarce STEM labour force and crowding out other R&D in Australia while keeping its own research output secret.
6. On mining, the Committee should note negative productivity growth in the industry but point out that that says more about the inadequacy of our productivity concepts than it does about mining.
7. The Committee should note that there is no evidence or logic behind the proposition that a small public sector would encourage productivity growth. If anything, the evidence shows the opposite with the examples of the Nordic and other European countries.
8. Waste in the private sector lowers living standards, as is evident, for example, in the big banks' spending on advertising and marketing. The Committee should note that the waste following privatisations in Australia is a case in point, with examples in telecommunications, National Disability Insurance Scheme (NDIS), electricity, schools, and the Murray-Darling water basin.
9. The Committee might consider and report that if market solutions are to be promoted, then proponents should show how all the essential conditions for success will be met in the market being considered.

Introduction

The Australia Institute is pleased to be able to respond to the invitation to make a submission to the Select Committee on Productivity in Australia. While it is true that productivity growth plays an important role in generating prosperity in Australia, unfortunately, much of what is said about productivity growth is self-serving, lacking in empirical and theoretical evidence, and serves as an obstacle to productivity growth rather than a path towards it. Put simply, the debate about productivity growth in Australia is stale, anaemic and out of date.

Even though Australia's productivity growth began to decline from around the time the Productivity Commission (PC) was created and Australia's embrace of privatisation, deregulation and outsourcing accelerated, much of the advice given to Australian governments today is that we need more of these policies that have failed on their own terms. If Australia continues to pursue policies that have failed for decades, it should not be a surprise when Australia remains on a low productivity growth path.

Low productivity growth is a significant problem for the living standards of most Australians but, luckily for some, the profit share of GDP is near an all-time high, the ASX is at an all-time high, capital gains exceeded all of the incomes of all of the employees in Australia, more than half of the gas exported in Australia paid zero royalties and zero Petroleum Resource Rent Tax (PRRT), and the wealth of the richest 100 Australians has grown at near record pace. It is as if the wealth of many of Australia's wealthiest individuals and biggest companies is unrelated to Australia's lacklustre productivity growth. That said, it is intriguing that so many individuals and companies whose wealth and profits have grown so rapidly, despite slowing productivity growth, are so eager for low-income earners to help boost productivity growth by accepting even further reductions in real wages and reductions in government spending on services.

Labour productivity growth is volatile, but the trend over recent years has shown modest growth in Australia, growing less strongly than previously but still growing. But despite the growth in productivity, real wages are declining. Wealthy individuals and the representatives of large corporations in Australia often argue that productivity growth inevitably drives wage growth, but few of those powerful individuals have expressed much concern that real wages are falling while labour productivity is rising. A cynic might suspect that such strategic silence suggests that wage growth may not really be the major concern of many of those expressing concern with slower-than-average productivity growth.

Similarly, there is strong empirical evidence from overseas and from economic theory that inequality is harmful to economic growth and that higher wage growth can help increase labour productivity growth. But despite the strong empirical and theoretical evidence on the

benefits of higher wage growth for productivity growth and economic growth, few of the loudest voices in the Australian 'productivity debate' express much concern with Australia's falling real wages.

Likewise, it is obvious that many of the productivity benefits that were promised to flow from decades of the privatisation, deregulation and outsourcing of essential public services have failed to eventuate. But despite this failure, and the clear findings of the Royal Commissions into child care, aged care, banking, water trading and so many other services, the optimism that the next round of 'market based reforms' will deliver where previous attempts have spectacularly failed, remains undiminished.

This submission focuses on two major issues: the failure of past policies to deliver productivity growth and the failure to confront new issues that are obviously contributing to the slowdown in Australia's productivity growth.

This submission argues that it is the moribund and self-serving suite of 'productivity reforms' that has dominated Australian economic debate for 30 years, which plays a major role in explaining declining productivity growth in Australia.

Put simply, until those who are arguing for 'more of the same' can admit their past mistakes and explain why we should expect their old advice to have better results in the future, then it should be ignored.

Productivity growth does not come from 'small government'

The idea that the less tax the Australian government collects and the less money the Commonwealth spends, the more productive its economy will be, is hardwired into many Australian institutions. As a result, in the past 30 years, Australia has pursued a wide range of cuts to income tax, company tax, superannuation tax and capital gains tax and our productivity growth has declined.

While it is possible that declining productivity growth is due to the fact that we have not cut enough taxes, or cut taxes far enough, other plausible explanations do exist.

For example, Australia currently gives more than half the gas we export away for free (with zero royalties or PRRT paid). While Australia could abolish all royalties and the PRRT entirely, and in turn reduce our tax/GDP ratio further, it is hard to see how such a decision would boost productivity. Likewise, if we introduced a new export tax on gas, it is hard to see how it would lead to a reduction in productivity even though it would increase the tax/GDP ratio.

But in Australia, it has become an article of faith that unless our tax/GDP ratio is below some arbitrary levels, then 'bad things' will happen to our economy.

Unfortunately for those genuinely interested in productivity growth, such as The Australia Institute, the fact that many countries with higher tax/GDP ratios than Australia have achieved significantly higher rates of productivity growth is rarely discussed in Australia. The determination of many participants in Australian economic debates to literally ignore a wide range of evidence that contradicts their personal preferences for smaller government plays a major role in stifling genuine, productivity-enhancing reform in Australia.

Throughout its nearly 10 years in office, the former Coalition Government announced a wide range of tax, industrial relations (IR) and smaller government policies that they argued would boost productivity growth, but despite the repeated claims of Coalition Treasurers that their policy agenda would boost productivity, the long-run forecasts of productivity growth made by Treasury never budged. It is clear from Treasury's forecasts in their Intergenerational reports that Treasury never believed that the stage 3 tax cuts, cuts to small business tax, IR reforms or anything else implemented by the Abbott/Turnbull/Morrison Governments would actually increase productivity growth.

Australia does need a new productivity agenda, but there will be no room, or appetite, for such an agenda until the failures of the current agenda can be admitted. Likewise, until the significance of the new challenges to productivity growth, including rising global temperatures and rising inequality, is acknowledged, productivity growth in Australia will continue to stagnate.

Climate Change is already lowering productivity growth

Productivity refers to the amount of output produced per unit of input. The increasing amount of damage done to agriculture, houses, infrastructure and the amount of ‘defensive expenditures’ now required to protect people and property from extreme weather events all, inevitably, drag down productivity growth.

As the percentage of crops destroyed by storms, floods or drought each year increases, the amount of ‘final goods and services’ falls regardless of the skill and effort of farm workers or the quality of the machinery used by those workers. Indeed, every dollar spent by farmers on measures designed to protect their crops from ‘extreme’ events that have become common results in a reduction in the amount of food produced per worker or per dollar of capital investment. Stronger glasshouses that can withstand larger hailstones may well be a profitable investment for a farmer, but from the point of view of the national accounts, such investment means that more resources are being used per unit of output compared to the amount of resources required before fossil fuel use changed our climate.

This logic also applies to:

- bridges now being built to withstand much higher river heights and erosion by fast-flowing flood waters undermining bridge foundations,¹
- the need to repair roads more often, and²
- expenditure on maintaining and improving seawalls³

All this investment, while necessary, leads directly to a reduction in productivity. Put simply, because of the existing and forecast impacts of climate change, it now takes more steel, more concrete, more workers and more machinery to produce infrastructure that provides the same services that less resilient/less expensive infrastructure could once provide.

To be clear, it is not ‘inefficient’ to build more resilient infrastructure that our changed climate now requires. On the contrary, it is now necessary and prudent to do so. But using

¹ Barnard L (2023) “How climate change is taking its toll on bridges”, *Construction Briefing*, 10 August at https://www.constructionbriefing.com/news/how-climate-change-is-taking-its-toll-on-bridges/8030475.article?zephhr_sso_ott=a33BQz

² Youman P (2007) “The implications of climate change on road infrastructure planning, design and management”, Paper given to 16th NSW Coastal Conference, <https://www.coastalconference.com/2007/papers2007/Paul%20Youman.pdf>

³ Northern Beaches Council (no date) “Fast facts on the Collaroy residents’ seawall”, at <https://www.northernbeaches.nsw.gov.au/council/news/fast-facts-on-collaroy-residents-seawall>

more resources to build the same length of freeway or bridge will, based on the way our national accounts are prepared, appear as a reduction in productivity.

Confusion often arises because so many people use the words 'efficient', 'productive' and 'profitable' interchangeably, and this is exacerbated when people interpret both efficient and productive to mean 'low cost'. Just as it can be efficient and expensive for a tradesperson to buy expensive tools that will last for years, it is likely efficient and expensive to build infrastructure to cope with predicted levels of climate change. But while such decisions may well be both efficient and expensive up front, that does not mean that they do not lead to a reduction in measured productivity as more materials, machinery and workers are required to build infrastructure than was the case before we succeeded in burning enough fossil fuels to warm the atmosphere by 1.5 degrees.

As Australia continues to subsidise the production and consumption of fossil fuels (a form of government expenditure rarely criticised by those who worry that government spending harms productivity), and as our fossil fuel exports continue to rise, so too will the global temperature rise. In turn, extreme weather events will become even more common, even more crops and infrastructure will be damaged, and even more resources will be consumed both cleaning up such disasters and trying to defend against future ones. Again, while it is rational and efficient to spend more and more money on hardening roofs, roads, and infrastructure, all of the labour, land materials, and capital used to do so will be a growing drain on productivity growth.

To be clear, insurance cannot make these economic costs go away. On the contrary, as you can only take out insurance against unlikely events a growing proportion of Australian homes, factories and infrastructure will become uninsurable. In turn, the impossibility of insuring assets will lead to even more resources being consumed to protect these assets (harming measured productivity) or these assets will be destroyed/abandoned well before their originally expected economic life (harming measured productivity).

These inevitable impacts on productivity growth are not included in the Intergenerational Report or other economic modelling exercises that purport to show the 'costs and benefits' of climate policy. While there has been some discussion of the impact of some workers being unable to work outdoors on hot days, such an effect will be tiny compared to the abandonment of whole suburbs foreshadowed in the Government's own Climate Risk Assessment.

Defence spending lowers productivity growth

The 202-26 budget provided for spending of \$15 billion on non-financial assets, mainly military equipment.⁴ Australia spent something like \$4 billion in total on 8 Globemaster transport planes.⁵ The earlier generation of Abrams tanks were never used in combat and are being phased out, with some given to the Ukrainian army. It is reported that Australia will spend \$30 to \$43 billion on armoured vehicles over the coming years. In addition to the cost of maintaining this fleet, there was also the direct financial cost of training the crews and, most importantly for the Australian economy, the opportunity cost of having so many highly skilled, highly trained workers dedicating their lives to the potential operation of a defence platform that was never required in a military operation.

This is not to suggest that Australia should not spend money on defence. On the contrary, just as investing in infrastructure that will suit our likely future needs makes sense, it makes sense for a rich country like Australia to divert some of its resources away from consumer consumption and industrial production and towards assets that might be of some use should another country seek to harm Australia's national interest. That said, the more Australia chooses to spend on defence, the lower measured productivity growth will be as resources are diverted away from activities that expand our productive capacity and towards assets that, in a best-case scenario, will never be used.

Australia's commitment to the AUKUS submarine project is an important case in point. While the Government and the defence industry focus on the number of jobs associated with the AUKUS project, this will actually present a significant problem. Using large amounts of skilled labour to produce things which, hopefully, will never be used has an enormous opportunity cost for other potential private sector employers of scientists, engineers and skilled tradespeople. Just as our mining construction booms have drawn skilled workers away from manufacturing and infrastructure construction,⁶ so too will the AUKUS project

⁴ Australian Government (2025) Budget Paper No 1, Budget 2025-26 at https://budget.gov.au/content/bp1/download/bp1_2025-26.pdf

⁵ This is based on the value of the last two. See AAP (2015) "RAAF to get two more C-17s", *The Australian*, 10 April at <https://www.theaustralian.com.au/news/latest-news/raaf-to-get-two-more-c17s/news-story/c0b6ceb0e3548a5fc9f695d7835c8f19#:~:text=THE%20federal%20government%20has%20given,RAAF%20a%20fleet%20of%20eight.&text=AUSTRALIA%20will%20buy%20two%20more%20Boeing%20C%2D17%20Globemaster%20transport,RAAF%20base%20Amberley%20in%20Queensland>.

⁶ Doyle M (2014) "Labour movements during the resources boom", *Reserve Bank of Australia Bulletin*, December, Richardson D (2009) "The benefits of the mining boom Where did they go?" Technical Brief No 3 at https://australiainstitute.org.au/wp-content/uploads/2020/12/mining_boom_final_7.pdf

inevitably lead to a reduction in private sector output and, in turn, lead to lower productivity.

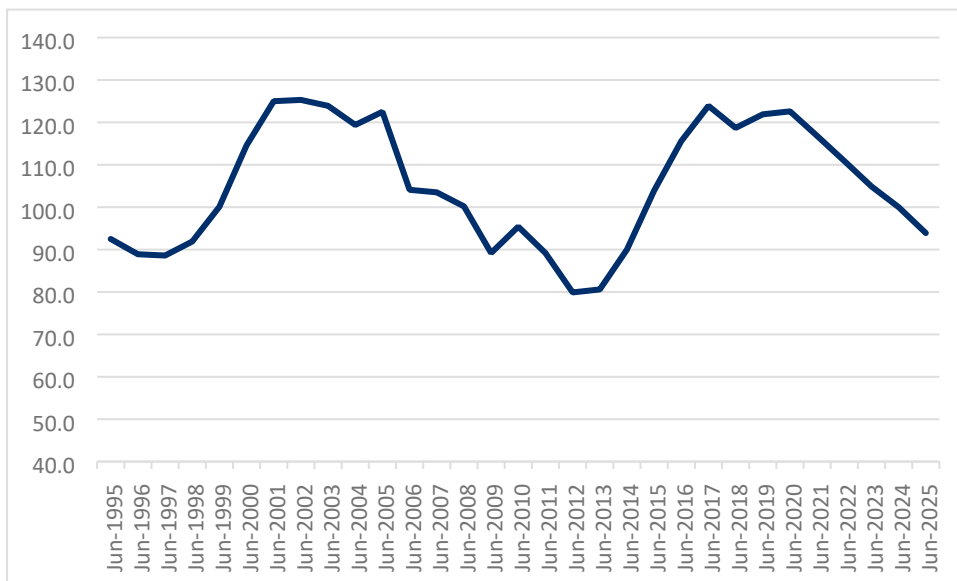
AUKUS will be uniquely harmful to Australian productivity growth due to the nature of the spending. So far, more than \$6.6 billion has already been spent helping both the US and UK develop their submarine production capacity. By definition, such expenditure does little, if anything, to boost Australia's productive capacity. What should be of greater concern, however, is the fact that the large amount of Australia's planned expenditure on AUKUS submarines will take the form of research and development, which, by law, cannot be shared with other industries. While it is true that public expenditure on research and development can have large 'spillover benefits' for the private sector, by definition, this is not the case when the researchers and engineers are explicitly prohibited from sharing the benefits of their research with anyone not working on the AUKUS project. Indeed, by drawing on an already overstretched STEM workforce, AUKUS is likely to undermine civilian innovation in Australia.

Put simply, if Australia wants to have a significantly bigger defence budget, it is choosing to have slower productivity growth. No doubt many will try to blame workers, the IR system or 'excessive' spending on health or aged care, but those who are serious about boosting productivity growth need to admit the consequences of significantly increasing expenditure on foreign-made weapons platforms using techniques that scientists and engineers promise they will never share with any other industry.

Mining investment has lowered productivity growth

Figure 1 presents data on mining productivity based on the value added per hour worked in the mining industry. This shows all the observations since the ABS collected data in this form.

Figure 1: Mining productivity: Gross value added per hour worked



Source: ABS (2025) Australian System of National Accounts, 2024-25

Figure 1 clearly shows that mining sector productivity is quite cyclical and that over the last three decades, productivity barely changed, growing only 1.5%, which amounts to 0.05% per annum. Indeed, from its recent peak in 2016-17, mining productivity fell 24%. These figures suggest it is the mining industry that has a major impact, dragging down Australia's recent productivity performance.

Of course, nobody believes Australians are 24% worse at mining than they were just 9 years ago or indeed that Australians are not significantly better at mining than they were 30 years ago. The most likely explanation is that as prices for commodities have risen, miners reopened previously uneconomic mines and began mining deposits expected to involve higher costs, digging deeper to find more expensive resources, which is, literally, less productive.

Privatisation has harmed productivity growth

The growth of the public sector is often blamed for slower productivity growth in Australia, but there is no theoretical or empirical basis for this assertion. Indeed, most of the countries with higher GDP per capita than Australia have larger public sectors than Australia. From the IMF data set, there are 12 OECD countries with per capita incomes above Australia's.⁷ 11 of these countries are European and, of those, just two, Switzerland and Ireland, had a government share of GDP lower than Australia. The US also has a higher per capita income and a lower government share of GDP. The data is reproduced in Table 1.

Table 1: Select countries by government spending as % of GDP and GDP per capita

	General government share of GDP, %	GDP per capita, \$
Australia	39	71,431
Sweden	49	73,070
Germany	50	73,553
Austria	56	74,852
Belgium	55	75,882
Iceland	45	80,466
Netherlands	45	84,035
Denmark	49	84,763
United States	38	89,599
Switzerland	32	97,659
Norway	49	106,694
Ireland	22	147,878
Luxembourg	49	152,395

Source: IMF World Economic Outlook Database at <https://data.imf.org/en/datasets/IMF.RES:WEO>

Note: GDP per capita is expressed in purchasing power parity (PPP) international dollars.

Australia stands out in the above list. Indeed, since the formation of the Productivity Commission in 1999 and the acceleration of the trend towards privatisation and outsourcing, Australian productivity growth has not just declined compared to the period prior to the formation of the Productivity Commission, it has declined compared to productivity growth in countries with much bigger public sectors than Australia.

⁷ International Monetary Fund (2026) "October 2025 World Economic Outlook.", *IMF Data* at <https://data.imf.org/en/datasets/IMF.RES:WEO>.

While it is true, by definition, that if the public sector spends on things that turn out to be unnecessary (such as the Abrams tanks), then productivity growth will be lower than it would otherwise be, the same is also true for spending by the private sector. For example:

- Woolworths lost over \$3.2 billion in its flawed attempt to build a rival to the Bunnings Hardware monopoly. The workforce and materials consumed in this flawed venture all had an opportunity cost, and, in turn, this decision led to a significant reduction in Australia's productive capacity.
- Target had to write down the value of its investment in IT/inventory management by over \$2 billion and subsequently sell/close stores. To put the size of this failure into perspective, the opportunity cost of this private sector IT failure was enough to employ 20,000 IT professionals on a salary of \$100,000 for a year. That around as many people who are employed by the entire oil and gas extraction industry in Australia.
- Qantas and Jetstar proposed a joint venture for operations out of Hong Kong, which cost \$200 million before being abandoned, never having achieved regulatory approval.

While 'mistakes happen' in both the public and private sector, by convention in Australia, public sector mistakes are seen as evidence of inefficiency that are harmful to productivity (they are), while private sector mistakes are seen as an inevitable consequence of trying to do new things (they sometimes are). But beyond ideology, there is little evidence to suggest that the scrutiny of millions of disparate shareholders inevitably provides better oversight than the scrutiny that parliamentarians and the media provide to public sector decision-making. For example, there is no evidence to suggest that the cost and resources required to provide support to people with disabilities would be higher if the NDIS had been structured as a traditional public sector service rather than structured as a complex, administratively expensive, hard to navigate and fraud-ridden 'market' that is the NDIS web of suppliers and intermediaries.

To be clear, it might be possible that the NDIS, with its combination of Byzantine and arbitrary rules and cowboy capitalists, provides cheaper and better services than would be expected if state and local governments were providing those services. However, there has been no serious effort to answer that question because organisations like Treasury and the Productivity Commission take as an article of faith that private sector delivery, no matter how inefficient, is superior to public sector delivery. In turn, the burden of proof rests with supporters of the public sector model.

Consider the following:

The combined ‘big 4’ bank advertising budgets are just under a billion dollars per year, and their products are the most expensive.⁸ Advertising and marketing of a homogenous product, like a home loan or bank account, are wasteful in the sense that more spending on advertising does not help consumers make better decisions. For Australia as a whole, advertising expenditure was \$28.9 billion in 2025 and is expected to be \$30.7 billion in 2026.⁹ Some advertising might help consumers find better products with better features at lower prices. But given that the big 4 banks are the most expensive, and given that banks often say they have no choice but to pass on any cost increases to consumers, it is not at all obvious how the enormous expenditure on advertising by the big 4 banks is helping to deliver the benefits to consumers promised by advocates of ‘bank deregulation’ over the past three decades. It is also clear that the promised competition in the banking system is yet to appear.

ELECTRICITY PRIVATISATION HAS REDUCED PRODUCTIVITY

When electricity was largely privatised the economic rationale was that breaking up state-owned integrated electricity generation/transmission/distribution companies into separate generation, transmission and distribution businesses, and creating multiple competitors in the generation and distribution businesses would increase cost efficiency and in turn lead to lower prices and increased productivity (by reducing the amount of labour and capital required to provide electricity services). But almost immediately after these publicly-owned assets were broken up and privatised, the new private owners began merging with each other and creating what are now known as ‘gentailers’. These gentailers now spend hundreds of millions of dollars per year employing people to work in ‘marketing’ a homogenous product that is an essential service.¹⁰ The opportunity cost of employing so many people to work in the marketing of a product that once required no marketing, and then spending far more again on advertising, is a major reason that there has been no productivity growth in electricity, gas, water and waste services. Indeed, output per head peaked in 2003-04 and since then fell 19% by 2024-25¹¹ as is shown in Figure 2.

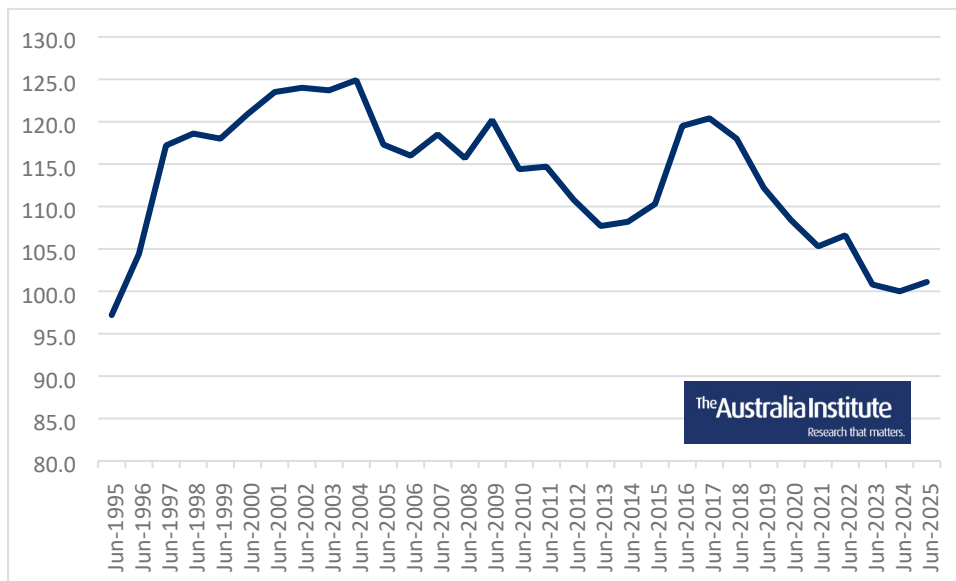
⁸ Summing the amounts given in the latest annual reports by ANZ, the Commonwealth Bank, National Australia Bank and Westpac gives \$927 million.

⁹ Muscat M (2025) “Australia’s ad market to reach \$30.7 billion in 2026”, *Mediaweek*, 8 December at <https://www.mediaweek.com.au/australias-ad-market-to-reach-30-7-billion-in-2026/#:~:text=%60%60As%20we%20close%20out%202025%2C%20the%20Australian,Media%20ANZ%20chief%20investment%20officer%20Melissa%20Hey>.

¹⁰ AGL alone spent \$124 million on “campaigns and advertising” according to its 2024-25 annual report.

¹¹ The ABS industry estimates take electricity, gas, water and waste as one industry. Electricity is the biggest component and, over time, all have been subject to privatisation or corporatism programs.

Figure 2: Electricity, gas, water and waste services, gross value added per hour worked, index



Source: ABS (2025) Australian System of National Accounts, 2024-25, 24 October at <https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/2024-25#data-downloads>

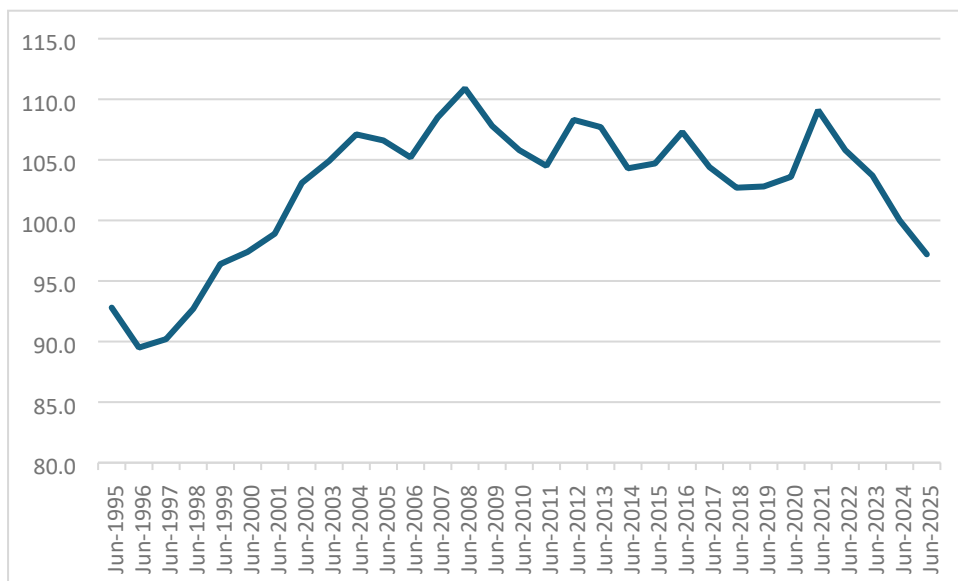
SCHOOL PRIVATISATION HAS REDUCED PRODUCTIVITY

Australia now has one of the most privatised school systems in the world, but over the period in which this rapid privatisation has taken place, Australia’s performance in standardised tests (both the domestic NAPLAN and international PISA tests) has deteriorated. Put simply, the relative quality of school education has deteriorated in recent decades while the resources dedicated to it have increased.

Over this period of rising private provision of education and declining educational performance, the cost of education (both to taxpayers and parents) has risen rapidly, as has the amount of resources dedicated to education. In short, Australians are using a lot more resources to educate a student today than they were 30 years ago, the very definition of a decline in productivity.

Given the importance of the education sector, it is critical that it is as productive and efficient as possible. Figure 3 gives the national accounts figures for productivity in education and training in Australia. This is a big industry and contains everything from pre-school to English language tuition for overseas students.

Figure 3: Productivity: education and training, 2023-24 = 100



Source: ABS (2025) *Australian System of National Accounts, 2024-25*, 24 October.

While this is not the inquiry to debate whether private schools are simply inferior at providing educational outcomes than public schools, if Australia is serious about educational performance and productivity growth, such an investigation is urgently needed. But regardless of whether private schools are inherently less productive than public schools or not, what is clear is that both private schools and private school parents frequently admit that it is the ‘non educational’ services that private schools provide that they value heavily. For example:

- Private schools often have multiple indoor swimming pools, diving pools and other aquatic amenities – all of which require significant investment in buildings and maintenance.¹²
- King's School installed a pool just for the headmaster and paid for his business class trip to a British rowing regatta. It also hung Dick Smith's helicopter in the lobby¹³.

¹² Carroll L (2022) “Cranbrook unveils \$125m revamp as private schools compete in building boom”, *Sydney Morning Herald*, 15 October. Towell N (2025) “Private school with \$85 million pool gets all-clear for federal cash”, *The Age*, 30 May at <https://www.theage.com.au/national/victoria/private-school-with-85-million-pool-gets-all-clear-for-federal-cash-20250528-p5m2xc.html>.

¹³ Baker J (2022) “Private school funding exposes the nation’s lack of heart”, *The AGE*, 2 July at <https://www.theage.com.au/national/private-school-funding-exposes-the-nation-s-lack-of-heart-20220629-p5axoo.html>

- Private schools frequently have multiple turf cricket pitches that require significant capital expenditure and highly specialised labour and machinery to maintain.¹⁴ Scots College was spending \$29 million on a Scottish-castle-style library.¹⁵
- Private schools frequently invest heavily in architecture and construction techniques for their symbolic rather than educational attributes.¹⁶ It is reported that "Three Sydney private schools draft more than \$400 million in new building plans".¹⁷
- Some private schools have indoor rifle ranges¹⁸ and even equestrian facilities.¹⁹ Scots in Queensland brag you can "bring your horse to school".²⁰ The Daily Mail reported that "Australian parents are now forking out more than \$42k a year to send their kids to fancy private schools complete with yoga studios, equestrian centres and heated pools".²¹

To be clear, all of this expenditure on these extracurricular activities and literal status symbols 'counts' as educational spending in Australia, and all of the labour and capital used to build these amenities are resources that were not deployed to build public housing, infrastructure or other more productivity-enhancing investments.

The fact that the Commonwealth government provides \$19,975 million to private schools,²² many of whom already have enough resources to meet the Gonski resource standards is

¹⁴ "St Joseph's College; Designing elite sports facilities for a school environment", *Sporteng* at <https://www.sporteng.com.au/designing-elite-sports-facilities-for-st-josephs-college#:~:text=Victoria,pits%20and%20other%20athletics%20elements>. Shore School, "Our facilities" at <https://www.shore.nsw.edu.au/about/explore-shore/our-facilities>.

¹⁵ Baker J (2022) "Private school funding exposes the nation's lack of heart", *The AGE*, 2 July at <https://www.theage.com.au/national/private-school-funding-exposes-the-nation-s-lack-of-heart-20220629-p5axoo.html>

¹⁶ 7News "The great divide between taxpayer funding for public and private schools", YouTube at <https://www.youtube.com/watch?v=XRNzw3cmFm8>

¹⁷ Carroll L (2024) "Three Sydney private schools draft more than \$400 million in new building plans", *Sydney Morning Herald*, 19 November <https://www.smh.com.au/national/nsw/three-sydney-private-schools-draft-more-than-400-million-in-new-building-plans-20241107-p5kow0.html>.

¹⁸ "Activists have sports shooting on school grounds in their sights", *Daily Telegraph* at https://www.dailytelegraph.com.au/subscribe/news/1/?sourceCode=DTWEB_WRE170_a_GGL&dest=https%3A%2F%2Fwww.dailytelegraph.com.au%2Fnews%2Fns%2Factivists-have-sports-shooting-on-school-grounds-in-their-sights%2Fnews-story%2Ff7f8b9a6af1eaf595798d523c10c3a3c&mentype=anonymous&mode=premium&v21=GROUPA-Segment-1-NOSCORE and Gun Control Australia, Remove guns from our schools at https://www.guncontrolaustralia.org/guns_in_schools

¹⁹ New England Girls School, <https://negs.nsw.edu.au/>

²⁰ Scots PGC College, Equestrian at <https://scotspgc.com.au/equestrian/>

²¹ Prentice A (2021) "Australian parents are now forking out more than \$42k a year to send their kids to fancy private schools complete with yoga studios, equestrian centres and heated pools", *Daily Mail*, 9 December at <https://www.dailymail.co.uk/news/article-10290081/The-Sydney-private-school-charge-parents-42-000-fees-year.html>

²² Australian Government (2025) "Statement 5: Expenses and net capital investment", *Budget Paper No 1*, at https://budget.gov.au/content/bp1/download/bp1_2025-26.pdf

clear proof that the Commonwealth government is allocating public funding to schools that are providing no additional public benefits (as distinct from private, GST free amenities for the wealthiest Australians to enjoy).

Both private school administrators and parents readily conceded that much of the money spent by the schools is unrelated to educational pursuits. University of Sydney education professor Helen Proctor said the development of “large or extravagant buildings are unlikely to add much, if anything, to the core business of schools, which is teaching and learning”.²³ Proctor was reported as saying the supply of public funding could allow schools to free up money that would have needed to be spent on school operational costs and put it towards building projects.

According to the ABS, all money spent by private schools, whether it is on cricket pitches, chaplains, equestrian arenas or buildings designed to look like castles, is categorised as ‘educational spending’. While it is obvious from NAPLAN and PISA that the rapid shift from public to privatised education is not delivering good educational outcomes, it is clear that in the short term, all the pool cleaners and cricket pitch curators employed by our private schools are dragging down our productivity growth within the education sector. What is more concerning is that, in the long run, the declining quality of Australian schools that has accompanied the rise in privatisation of our school system has a lasting impact on our productivity growth.

While it is clear that \$55,000 per year schools with “extras” can provide status and networking benefits to parents and students, by the school’s own admissions parents and taxpayers should not expect any actual education benefits to flow to the community for all of that expenditure. For example:

According to reporting in the AFR, “All but three of Sydney’s 10 most expensive private schools dropped in Higher School Certificate rankings last year, despite large fee increases over the past five years, including a rise of up to 6.7 per cent last year.”²⁴ The article included a revealing quotation from one parent who was enthusiastic about purchasing the benefits of ‘the old school tie “It’s a huge benefit of private education ... it’s an ongoing, lifelong membership, and a network of people that are there to support you.” While purchasing wealthy friends for children may indeed provide benefits to individuals, by definition such advantages do not deliver benefits to the economy as a whole (as they simply help some private school students gain preferential access over non-private school students) and may actually harm productivity when jobs are allocated on the basis of ‘who you know’ instead of ‘what you know’.

²³ Carroll L (2024) “Three Sydney private schools draft more than \$400 million in new building plans”, *Sydney Morning Herald*, 19 November.

²⁴ Breen J and Penny J (2026) “Private school fees keep rising but academic results are slipping”, *Financial Review*, 8 February at <https://www.afr.com/work-and-careers/education/private-school-fees-keep-rising-but-academic-results-are-slipping-20260115-p5nue4>

Finally, if wealthy Australians want to waste billions of dollars per year on their own swimming pools, rifle ranges, and equestrian arenas, then they should be free to do so. But in Australia today, the Commonwealth government is spending \$20 billion per year on private schools, with much of that going toward the further enhancement of the amenities of schools that already meet the benchmark for educational resources, when most public schools in Australia operate below that benchmark. Such largesse for private schools is, bizarrely, usually justified on the basis of ‘equity’ even though those who choose not to use buses or trains are not usually provided with compensation to help them buy their own cars.

The opportunity cost of this Commonwealth largesse is not just the excessive investment in swimming pools and excessive employment of cricket grounds keepers, but the long run cost of underinvesting in the education of most Australian school children. The Albanese Government often claim that they are ‘fully funding’ Australian public schools to the appropriate benchmark, but they rarely mention that this is a commitment to ‘fully fund’ them by the mid-2030s. Another whole generation of school children will receive inadequate education while billions are being spent on the amenities of private schools. The result is inevitably lower productivity.

When might privatisation result in an increase in productivity?

When a wide range of implausible assumptions are met, it is possible to conclude that a private market for a good or service will lead to ongoing pressure to minimise costs, maximise productivity and lower consumer prices. While such a possibility is widely anticipated by Australian policymakers, it is rarely observed.

For example, the theoretical arguments that markets are a more efficient means of providing services than governments were behind a wide range of spectacularly unsuccessful and, in turn, unproductive policy experiments including:

- Aged care²⁵
- Disability care²⁶
- Pink batts²⁷
- Water down the Murray²⁸
- Victorian mental health services²⁹

²⁵ Royal Commission into Aged Care Quality and Safety (2021) *Final Report*, <https://www.royalcommission.gov.au/aged-care/final-report>

²⁶ Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability (2023) *Final Report*, <https://disability.royalcommission.gov.au/publications/final-report>

²⁷ PM Transcripts (2014) *Report of the Royal Commission into the Home Insulation Programme*, <https://pmtranscripts.pmc.gov.au/release/transcript-23783>

²⁸ Murray-Darling Basin Royal Commission (2019) *Murray Darling Basin Royal Commission Report*, <https://cdn.environment.sa.gov.au/environment/docs/murray-darling-basin-royal-commission-report.pdf>

²⁹ Royal Commission into Victoria’s Mental Health System (2021) *Final Report*, <https://www.vic.gov.au/royal-commission-victorias-mental-health-system-final-report>

In all of the above examples, policymakers mistakenly conflated the idea that ‘some markets are highly efficient under a set of highly specific circumstances’ with the claim that ‘the private sector is more efficient in providing services than the public sector’. As discussed above, the Nordic countries, Denmark, Iceland, Norway, and Sweden, each have both bigger public sectors than Australia and have experienced more rapid productivity growth than Australia, as is evident in their higher incomes per capita. So, it is obviously not the case that the private sector is inherently more productive than the public sector.

That said, even if institutions like the PC and Treasury are determined to continue in the belief that the public sector is inherently less efficient, and less productive, than the private sector, it is not unreasonable to expect that after 30 years of failed experiments with privatisation, its proponents would become a bit more curious about when privatisation might work or, at minimum, how to minimise the waste, fraud and inefficiency in the systems they have or are planning to privatise.

The relevant economic theory to guide institutions like the PC and Treasury in how to identify the likely failure of privatisation in some markets, and in turn the likely harm to productivity growth, is not hard to find. Indeed, it was once found in most introductory economics textbooks. The major assumptions on which the assumption that markets will generate efficient outcomes are that:

1. Both buyers and sellers are very numerous, ensuring no participant in the market has any market power.
2. Sellers provide identical or homogenous goods and services, meaning no intellectual property, trademarks or secret recipes.
3. Prices are uniform for each product; for example, no price discrimination.
4. Consumers’ tastes and preferences are independent, meaning that there is no brand preference, fashion or customer loyalty (and no customer loyalty cards).
5. There is freedom of entry and exit to the industry – no licences, regulation or large up-front investments in capital equipment.
6. People have perfect information, so they cannot be scammed, conned or misled about price or product attributes.
7. There are no transaction costs, meaning it is easy and costless for consumers to shop around, compare product features, and get refunds.
8. Costs of production rise as the volume of production rises, meaning there are no ‘economies of scale’ and in turn no impediment to new small firms entering the industry.

9. There are no “externalities” or ‘external costs and benefits’, meaning that firms will not be able to pollute, cause harm to their workers or sell dangerous products,
10. People make rational decisions. As people are already assumed to have perfect information, that firms cannot rip anyone off, and that there are no transaction costs for shopping around/seeking refunds, it is easy to assume that individuals, left to their own devices, will find it easy to choose the products that best suit their needs.

To be clear, all of these assumptions are required in order to draw the conclusion that the private sector will efficiently provide high-quality, low-price services without ripping off its customers.

While it is often implied that as long as ‘most’ of these conditions are met, markets can be described as ‘effectively competitive’, such a feeling, while often strongly held, is not based on economic theory or evidence.

Even more concerning is the assertion, sometimes even found in modern economic textbooks, that as long as there are many buyers and sellers and low barriers to entry, a market can be considered to be efficient. Even without many buyers and sellers, it is assumed the market is efficient. A survey of economics textbooks has pointed out that the perfect competition model gets the most attention, with very brief discussions of monopoly and imperfect competition. Most of the discussion in modern textbooks on the role of government, taxation, income redistribution, externalities, pollution, and international trade assumes perfect competition exists. While textbooks sometimes concede that only agriculture approximates perfect competition, nevertheless, perfect competition models are applied in practice. As one review of economics textbooks concluded, “Given this central structure, it is not surprising that the perfectly competitive framework is seen by many students as synonymous with the microeconomic analysis of markets”.³⁰

The authors of the review of economics textbooks went on to say that the general model promoted by textbooks “is a generic model without giving students any sense of its limitations”.³¹

It is obvious from the number of Royal Commissions into the failure of ‘market mechanisms’ designed and recommended by agencies such as the PC and Treasury, that many people giving advice to successive Australian governments were either unaware of, or unconcerned with, the limitations of the simplistic model of perfect completion and, in turn, the inevitability of widespread fraud, waste and inefficiency in the provision of privatised

³⁰ Hill R and Myatt A (2007) “Overemphasis on perfectly competitive markets in microeconomics principles textbooks”, *Journal of Economic Education*, 38(1), p 60.

³¹ *Ibid* p 61.

services. Put simply, it should be clear to any well-trained economist that, in the absence of the following circumstances, consumers and productivity will be harmed when services are privatised:

- good access to information about the quality and price of services,
- low transaction costs, making switching providers easy, and
- the ability to make rational decisions (especially when dementia/complex contracts are combined).

It is hard to fathom the human cost of the dangerous propensity of so many Australian policymakers to assume that market forces would protect, rather than exploit, vulnerable Australians. But for the purposes of this inquiry, it is also hard to fathom the harm to Australia's productivity growth of privatising these essential human services when the fraud, waste and inefficiency of low productivity/high profit business models was so predictable.

Again, to be clear, there is no sound economic basis for assuming that a market in which there are lots of aged care providers and lots of people requiring aged care will efficiently provide high-quality aged care, at low cost, with little risk of fraud or malpractice. As the Royal Commission found, whoever believed that the private aged care market would work efficiently and to the benefit of its customers was spectacularly mistaken.

Given how obvious and inevitable fraud and malpractice in aged care were likely to be, it is hard to imagine how any policymakers expected the market to work well. Consider the following:

- 1) If efficient markets require all producers to sell homogenous (identical) goods and services, then every aged care centre would need to offer an identical 'bundle' of care, services and amenities. But in reality, it is the differences between centres that allow them to justify charging different prices. But, as soon as such differences are allowed, then the question arises, 'is it up to the 85-year-old, their carers, or the regulator to ensure that a minimum quality of care is met and the price being charged is fair relative to other centres?'. It is clear from the Royal Commission that many people in aged care do not receive adequate food, wound care, personal support or physical amenity.
- 2) If efficient markets assume perfect information, then it will be easy, convenient and costless for people in need of aged care to compare all of the different centres on offer. When perfect information exists, it would be impossible for aged care sales staff to exaggerate the quality of care or understate any additional fees and charges. But when information is not freely available to elderly people in need of care, it is not clear who the proponents of privatisation think should be responsible for the consequences of poorly informed decisions.

The Hayne *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* showed what can happen when that self-interest is not held in check. Hayne said the fraud and scandals were motivated by “greed – the pursuit of short term profit at the expense of basic standards of honesty ... From the executive suite to the front line, staff were measured and rewarded by reference to profit and sales”.³²

It is not at all clear why anyone would think that greed does not drive behaviour in aged care or other privatised human services.

- 3) If efficient markets assume there are zero transaction costs, then it would be easy, instant and costless for someone who was experiencing low-quality aged care to switch to a new provider (keeping in mind that efficient markets assume that all aged care centres provide a homogenous product, so by definition there would be no ‘bad’ centres). Likewise, because of the assumption of perfect information, the aged care customer would be certain that every other centre would provide better (homogenous) care.

But in reality, where information is hard to come by, and switching centres is emotionally, logistically and possibly physically very difficult, it is not clear who is responsible for helping the elderly person being exploited and poorly cared for to move.

While the neglect and abuse of those in aged care might, for some, seem irrelevant to an inquiry into productivity it is important to highlight that those with the market power to mistreat customers also have the market power to set prices higher than necessary, make profits that are excessive and impose significant externalities, particularly on the health care system which has to ‘pick up the slack’ when aged care centres fail. For example, it is important to note that the term ‘nursing home’ is rarely used anymore due to the virtual absence of registered nurses on site at ‘nursing homes’.

The Royal Commission into aged care found that the profit margins on many aged care centres were extraordinary, with returns on equity of 38% for for-profit providers, the weighted average was 43%, and for the 3 top quartiles the figure was 72%.³³ However, the median return was just 20%, suggesting the most profitable were very profitable indeed.

The high prices of privatised aged care leads to greater calls on the Commonwealth to provide subsidies and the poor quality of privatised aged care leads to significant pressure

³² <https://www.royalcommission.gov.au/banking>

³³ This figure is Earnings Before Interest, Tax, Depreciation and Amortisation expressed as a return on equity. See *Royal Commission into Aged Care Quality and Safety* (2020) “Report on the profitability and viability of the Australian aged care industry” at <https://apo.org.au/sites/default/files/resource-files/2020-09/apo-nid308156.pdf>.

on the hospital system, both of which have significant implications for both Commonwealth spending and productivity

Conclusion

Australia's productivity growth will continue to slow as long as those responsible for advising the government on productivity continue to ignore the historical, empirical and theoretical evidence that shows that Australia's 'productivity agenda' over the past 30 years has been narrowly focused, ideologically based and demonstrably unsuccessful.

If Australia is to improve its productivity growth, we need to first admit the mistakes we have made in the past in order to learn from them, and, most importantly, stop repeating them.

Second, Australian policymakers need to admit that new pressures on productivity growth, particularly climate change and defence spending, will significantly shape Australia's productivity performance. Unless these new pressures are identified and quantified, policymakers will be misled into believing that more tinkering with tax and IR policies is required.

Finally, Australian policymakers need to look to the performance of a wider range of countries for evidence of what does, and does not, drive productivity growth. If public spending or the tax/GDP ratio were a strong predictor of productivity growth, then countries like Norway would lag well behind Australia in productivity growth. But data from the IMF and others make clear it is Australia that lags behind these 'big spending' economies.

Productivity is falling because we are ignoring big issues. Most discussions have been side-tracked, with discussions concentrating on tax, especially company tax, and industrial relations.

Nordic countries are doing better than Australia and present a better model than the usual dystopia of:

- low tax,
- low provision of government services,
- strict regulation and denial of industrial relations rights,
- low wage growth,
- poor environmental regulation "green tape",
- more concentrated industry, and
- worsening inequality.

The people saying more of the same are the people who advised us to go down this dead end.