

Submission to the Senate Select Committee on Productivity in Australia

Productivity, Renewal, and Australia's Long-Term National Capability

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Author Introduction

I am an Australian with professional and lived experience of how productivity settings affect businesses, workers, and the effectiveness of public institutions. This submission reflects an independent perspective on the structural and institutional drivers of productivity, informed by policy analysis, international experience, and the practical consequences of economic settings on participation, investment, and living standards.

Executive Summary (Key Points)

Australia's productivity slowdown is not cyclical and not mysterious. It reflects a renewal deficit driven by institutional settings that prioritise stability over competition, incumbency over renewal, and risk avoidance over adaptation. The consequences are now visible in weak real wage growth, declining quality of life, reduced economic mobility, and rising social strain.

This submission argues that productivity reform will fail if it continues to focus on marginal efficiency gains. It will succeed only if Australia restores its capacity for economic renewal, anchored around three priority levers:

1. Competition and firm renewal
2. Workforce participation and transition security
3. Institutional capability and trust

The submission outlines the problems, explains why they persist, and proposes directions for reform that are economically credible, implementable, and consistent with long-term national capability.

1. The Core Diagnosis: Australia Has a Renewal Deficit

Australia's productivity performance is constrained by five institutional failures:

1. Weak competition and firm renewal, reflected in low rates of firm entry, exit, and scaling
2. Regulatory fragmentation and complexity that protect incumbents and raise fixed costs

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3. Capital shallowing driven by policy distortions that favour asset accumulation over productive investment
4. Low workforce mobility due to insecure transitions following injury, job loss, or structural change
5. Declining institutional credibility and decision quality, increasing risk premiums and resistance to reform

Together, these failures suppress innovation, slow technology diffusion, and lock labour and capital into low productivity uses. Productivity is increasingly managed within existing structures rather than renewed through competition and adaptation.

2. Priorities Matter: Three Levers That Deliver the Highest Returns

Priority 1: Competition and Firm Renewal

Productivity growth comes from new firms replacing old ones and from successful firms scaling. Australia's challenge is not the presence of small businesses, but the absence of firms that grow. Barriers to entry, planning constraints, regulatory complexity, and market concentration suppress renewal. Competition policy must be treated as a productivity instrument, not merely a consumer safeguard.

Priority 2: Workforce Participation and Transition Security

Participation is Australia's most underutilised productivity asset. This includes not only workers displaced by injury or structural change, but also **highly skilled migrants whose capabilities are systematically underused.**

Many migrants arrive with advanced qualifications and professional experience but face significant barriers to full workforce participation. These include slow or inconsistent recognition of overseas qualifications, heavy reliance on "local experience" as a proxy for competence, and employer risk aversion when assessing unfamiliar credentials. As a result, skilled workers are frequently employed in roles well below their training level, representing a substantial loss of human capital.

Evidence also suggests that implicit bias and cultural unfamiliarity can disadvantage candidates with non-Anglo names or overseas career histories, even where formal

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qualifications are comparable. These effects are typically unintended, but their aggregate impact is economically significant.

This underutilisation has direct productivity consequences. When skilled migrants cannot access roles commensurate with their abilities, Australia forgoes output, innovation, and returns on its migration and education systems. The issue is not the supply of skills, but the **failure to deploy them effectively**.

Productivity reform must therefore lower the cost of workforce transitions not only after injury or displacement, but also during **credential recognition, skills matching, and labour market entry for skilled migrants**. Improving recognition processes, reducing unnecessary credential duplication, and strengthening employer confidence in overseas qualifications would lift participation and productivity without increasing migration intake.

Priority 3: Institutional Capability and Trust

Institutional credibility is an economic input. Where governance is perceived as opaque, inconsistent, or unaccountable, investment falls and compliance costs rise. Productivity reform fails when people do not trust the system to treat them fairly during change.

3. Productivity, Living Standards, and Social Stability

Productivity stagnation is now directly eroding living standards through housing stress, infrastructure congestion, pressure on public services, and insecure work. Persistent exclusion from stable employment worsens health outcomes and increases reliance on welfare and justice systems.

These outcomes are not externalities. They are productivity losses. Preventing long-term disengagement is economically cheaper than managing its consequences.

4. Competition, Scale, and Capital Allocation

Productivity gains do not come from smallness; they come from scaling success. Australia's policy settings discourage scaling by raising fixed costs, favouring speculative investment, and protecting incumbents.

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In some sectors, greater scale improves productivity. The issue is not concentration itself, but concentration without contestability. Dynamic markets require firms to grow, fail, or exit based on performance, not protection.

5. Workforce Security and Flexibility: Rejecting the False Choice

The choice between flexibility and security is false. The economic objective is not protection from change, but protection through change.

Well-designed transition support increases mobility by reducing fear of risk. While these measures have upfront costs, the cost of stagnation and permanent disengagement is higher and cumulative.

6. Regulation and Public Institutions in the AI Era

Australia's regulatory system has become increasingly process-heavy and fragmented, raising compliance costs and discouraging innovation without reliably improving outcomes. Outcomes-based regulation is not deregulation. It shifts accountability from form to performance and enables adaptation in complex environments. Public institutions designed for a pre-digital era must be modernised to operate effectively in an AI-enabled economy.

7. Institutional Capability, Leadership, and Decision Quality

Leadership capability affects decision quality. Homogeneous leadership increases groupthink and blind spots in complex systems, while broader perspectives improve risk assessment and stakeholder trust.

This is not a moral claim. It is an organisational performance issue that affects institutional effectiveness and reform credibility.

8. Regional Standing and National Capability

Australia's regional relationships, particularly in the Pacific, condition productivity outcomes through labour mobility, skills pipelines, infrastructure resilience, and investment confidence. This is not a narrow productivity lever, but a strategic capability factor that shapes long-term economic resilience.

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9. Measurement: What Gets Measured Gets Managed

Productivity in services, care, and public administration is systematically under-measured. This distorts policy choices and leads to underinvestment in human capability. Measurement reform is therefore a prerequisite for sound productivity policy.

Conclusion: Renewal or Managed Stagnation

Australia can continue with incremental reform and modest growth supported by favourable external conditions. However, this path leaves the economy increasingly exposed to shocks and declining resilience.

Durable productivity growth requires renewal: competitive markets, secure transitions, capable institutions, and leadership able to navigate complexity. Productivity reform will only endure if Australians can see, trust, and share in its benefits.