

5 WAYS AUSTRALIA'S ECONOMY IS EXCEPTIONAL— WHY POLICYMAKERS AND RESEARCHERS SHOULD CARE

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Summary

The Australian economy is unusual, in both what it produces and its policy settings. That matters for the response to various challenges including a retreat from globalisation, the low-emissions transition, and stagnant productivity growth. Policymakers cannot borrow blindly from overseas. Researchers need to do their part by providing careful analysis of Australian circumstances. In that vein, this report sketches 5 unusual features of Australia's economic structure:

1. **Australia has high population growth and today has one of the world's largest construction industries.** Housing affordability concerns can be addressed at lowest cost with reforms to boost construction productivity per worker or improve the allocation of existing housing. By contrast, crude limits to immigration threaten to undermine a source of Australia's economic success, and pursuing further growth in the construction workforce would have opportunity costs.
2. **Australia has one of the smallest manufacturing industries in the developed world, sharply dividing opinion.** Some see the Australian economy as insufficiently robust to trade disruptions as a result, or worry that Australian R&D spending is too low. Others point to Australia's lack of comparative advantage and suggest that innovation in Australia's large services industries is more important. A clearer consensus would benefit policymakers.
3. **Australia's system of award wages are the highest minimum wages in the developed world and uniquely complex.** The effect is to substantially fix relative wages among a wide array of lower-paying occupations, and provide a complex legal benchmark for other employment agreements. The longer-term consequences remain an open research area.
4. **Government cash transfers are exceptionally targeted at the poorest in Australia, providing good 'bang for buck' on poverty alleviation.** This is achieved through relatively stringent income and assets tests. But a recent trend towards 'in-kind' transfers - delivering goods and services rather than cash transfers - is making spending less targeted overall. The implications for household welfare and fiscal sustainability warrant more attention.
5. **Australians hold substantial private wealth, much of it in housing and superannuation, and yet the average Australian still has access to large amounts of liquidity.** Australia appears unique for the widespread use of offset and redraw accounts, which offer a means for mortgage holders to build home equity without sacrificing liquidity. This contributes to liquidity being concentrated among older and higher-income Australians and has implications for households' responsiveness to income and wealth shocks, including changes in monetary and fiscal policies.

Australia is a rich country in many respects, but it has not been getting much richer in recent years. Productivity growth is at a standstill and inequality has risen a little since the 1990s on some measures (Productivity Commission, 2018, Wood, 2024). Amid similar trends globally, a lack of ambitious structural reform has stopped Australia from swimming against the tide.

Recently, the low-emissions transition and a retreat from global free trade loom large given Australia's substantial commodity exports and links to global trade and financial markets. Policymakers face questions about the appropriate response.

This paper brings together cross-country indicators and research to build a picture of what makes Australia different.¹

- For policymakers, the question is whether these differences are well justified or suggest opportunity for structural reform. There is also a warning that copy-paste policies from overseas can be risky when the Australian context differs.
- For researchers at e61 and elsewhere, the question is how to build a better Australia-specific evidence base to support a new wave of structural reform. Cutting-edge research overseas can provide useful empirical evidence, economic frameworks and statistical techniques. But policymakers ultimately need insights tailored to Australian circumstances.

1 In addition to the issues covered in this policy paper, e61 is collaborating with the OECD to produce new cross-country comparisons of Australia's labour market and business dynamics, including comparable measures of market concentration and firm mark-ups. The results will be available later in the year.

1. High population growth and a large construction sector

Australia has a high rate of population growth, driven by net overseas migration (Figure 1, panel A). A third of Australians were born overseas and half have at least one parent that was born overseas. Migrants have been a strength of Australia's economic performance. They are highly educated relative to migrants to other economies, deliver a fiscal dividend (Varela et al., 2021) and have been linked to higher rates of innovation (IP Australia, 2023; OECD, 2024). Australia has a particular focus on selecting migrants on certified skills and a growing role for international students. Australia has substantially more overseas students per capita than other anglosphere countries and around a fifth of Australia's permanent migrants over the past 20 years transitioned from being a student (Australian Bureau of Statistics, 2023b; Coates et al., 2023).

Australia has a large construction sector to accommodate the housing and infrastructure needs that accompany rapid population growth and the housing preferences of a wealthy society (Figure 1 panel A).² But Australia's construction sector is less productive than it was in 2012 (Australian Bureau of Statistics, 2023a) amid global challenges for the industry (D'Amico et al., 2023). The industry is highly fragmented and subject to substantial regulation and administrative burden (NHSAC, 2024).

Australian homes are unusual: the most urbanised³ in the OECD and yet mostly detached houses (Figure 1, panel B). 9 out of 10 Australians lives in an urban area, the highest rate in the OECD. This is consistent with the historical - though fading over time - net benefit to capital city living, comparing wages to housing costs (Brennan et al., 2024). And yet, Australian homes remain mostly houses not apartments, unusually so relative to the OECD. Unfortunately, house construction productivity has fared even worse than for apartment construction over the past 20 years (Productivity Commission, 2025). Compounding the challenges in delivering supply, Australia has relatively large constraints to expanding cities due to oceans or national parks and land-use regulation is particularly fragmented across levels of government (Bétin & Ziemann, 2019; OECD, 2021).

Figure 1: Population Growth, Construction and Housing in Australia



Policy reforms to lower housing demand or boost housing supply should be weighed against their costs. Crude immigration caps reduce the benefits to the economy of immigrants and may deter high-skill migrants especially. Subsidies to expand the construction workforce carry fiscal and opportunity costs. More promising are efforts to improve workforce flexibility, for example by harmonising state-based occupational licensing and ruling out non-compete clauses for lower-paid workers. Streamlining building approvals and regulation, including zoning reform, can foster innovation at relatively low cost and offer more predictable and scalable development (D'Amico et al., 2023; Productivity Commission, 2025).

² Some research suggests that Australia's housing supply elasticity ranks around the middle of the OECD and is lower than in Canada and New Zealand (Bétin & Ziemann, 2019; Caldera & Johansson, 2013; Geng, 2018). Housing demand fluctuations are not obviously larger in Australia - in fact, the volatility of population growth was average among OECD countries in pre-COVID decades - so the challenge of flexing supply is not obviously greater.

³ Defining what constitutes an "urban area" is inherently challenging, particularly when aiming for consistency across countries. Here, we adopt the OECD's definition of urban areas without adjustment. For a detailed explanation of their methodology, see OECD (2012).

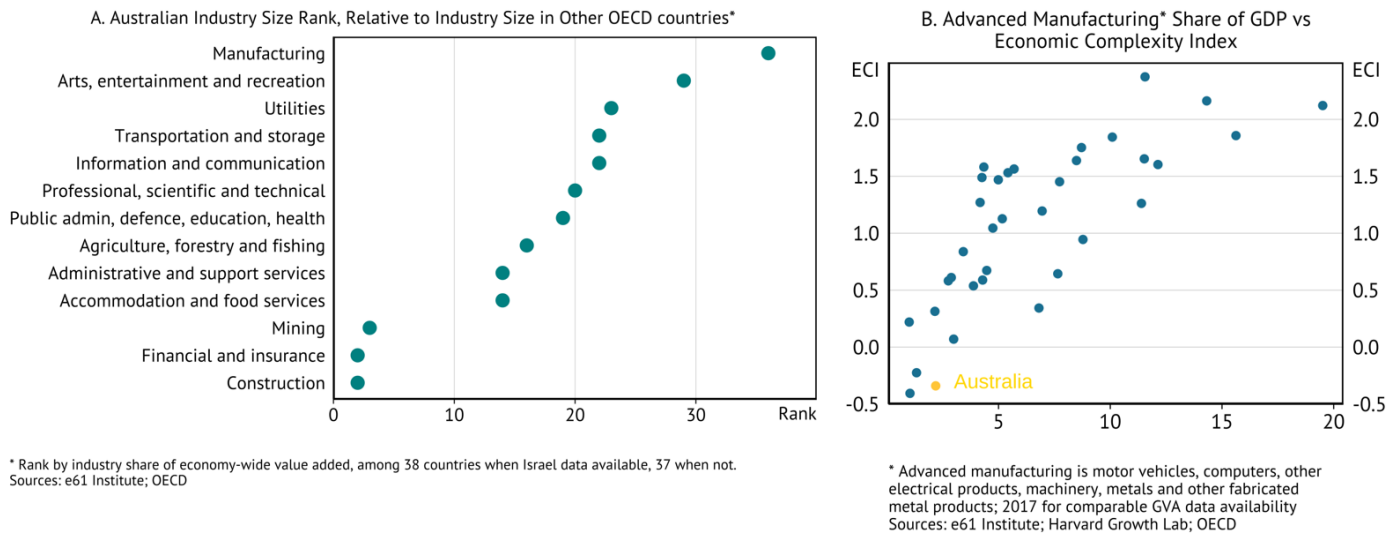
2. Australia does very little manufacturing, for better or worse

Australia's small manufacturing industry reflects the comparative advantage of other countries and the shift towards consumption of services over time. A decline in manufacturing is common among developed economies (Productivity Commission, 2021). But notably Australia's manufacturing industry is the second smallest in the OECD when measured as a share of the economy. In compensation Australia has exceptionally large mining, finance and construction industries (Figure 2 panel A).

The manufacturing that Australia does do is weighted towards first-stage transformation of 'basic' goods like food, wood, chemical and mineral products (when compared to the equivalent shares in other OECD economies). Australia makes fewer 'advanced' manufacturing goods that require substantial transformation like vehicles and machinery.

Australia's reliance on importing manufactured goods has raised concerns about a lack of domestic production capability, heightened by recent global trade and geopolitical events. Some point to Harvard Growth Lab's Economic Complexity Index as quantitative evidence for this concern. Australia is ranked the 102nd most complex and diversified in the world, sandwiched between Senegal and Yemen (Harvard Growth Lab, 2024). To a first approximation this simply measures that Australia exports a lot of commodities and does little 'advanced' manufacturing (Figure 2 panel B). Related to these concerns about a lack of economic complexity, Treasury's framework for Future Made in Australia (FMIA) cites 'economic resilience and security' as a rationale for government investment and subsidies (Australian Treasury, 2024).

Figure 2: Australia's unusual industrial structure



Australia's small manufacturing industry also largely explains why Research & Development spending by Australian businesses - a common innovation metric - is lower than the OECD average. R&D spending fluctuates around 2 to 3 per cent of GDP in Australia, below the average of 4 per cent among OECD countries. Most of this gap is accounted for by the structure of Australia's economy, especially the small size of its manufacturing industry (AlphaBeta, 2020).

Australian policymakers need to take care in drawing inference based on economic complexity and R&D metrics since so much boils down to a big mining sector and little manufacturing. Based on the OECD metric, Japan is the most economically complex country in the world and yet has experienced relatively low growth for several decades, which highlights that the measure is not a perfect indicator of growth prospects. Furthermore, the complexity measure is incomplete as it doesn't consider domestic production for domestic use or services exports like education (which are a strength of Australia's economy).

In a services-dominated economy, policymakers need to consider which alternative measures of innovation matter most. Efforts to boost R&D efficiency within the broad parameters of Australia's economic structure are important (Department of Industry & Resources, 2025). But it also warrants attention that Australian businesses lag those in peer economies on broad measures of innovation spending (AlphaBeta, 2020) and business investment in ICT (IMF, 2021). This raises questions about the likely rate of adoption of emerging general purpose technologies such as AI, which are in their infancy in Australia (Nguyen & Hambur, 2023). As a smaller nation, the rate at which Australia adopts innovations from larger economies abroad is particularly important, relative to domestic innovation (IMF, 2024, Andrews et al., 2022). Broader dashboards of innovation measures - such as that now produced by the Department of Industry, Science and Resources (2025) - are useful advances.

3. The highest minimum wages in the developed world and a low unemployment benefit mean workers self-insure against job loss

Australia's 'award' wages are the highest minimum wages in the developed world and uniquely complex (Figure 3, panel A).⁴ As at 2022, only Costa Rica and Colombia - less comparable middle-income economies - had higher minimum wages in the OECD. Awards set a wide range of minimum wages and conditions for about one-fifth of workers across lower-paying occupations. They also indirectly influence other wage outcomes. This is different to other countries where single minimum wages are broadly applied. The national minimum wage (NMW) is the equivalent single minimum standard in Australia, but is received by few workers (FWC, 2025). Award wages are generally adjusted up and down by the same amount each year, substantially fixing relative wages among many lower-paying roles. The longer-run impacts remain a topic for research.⁵

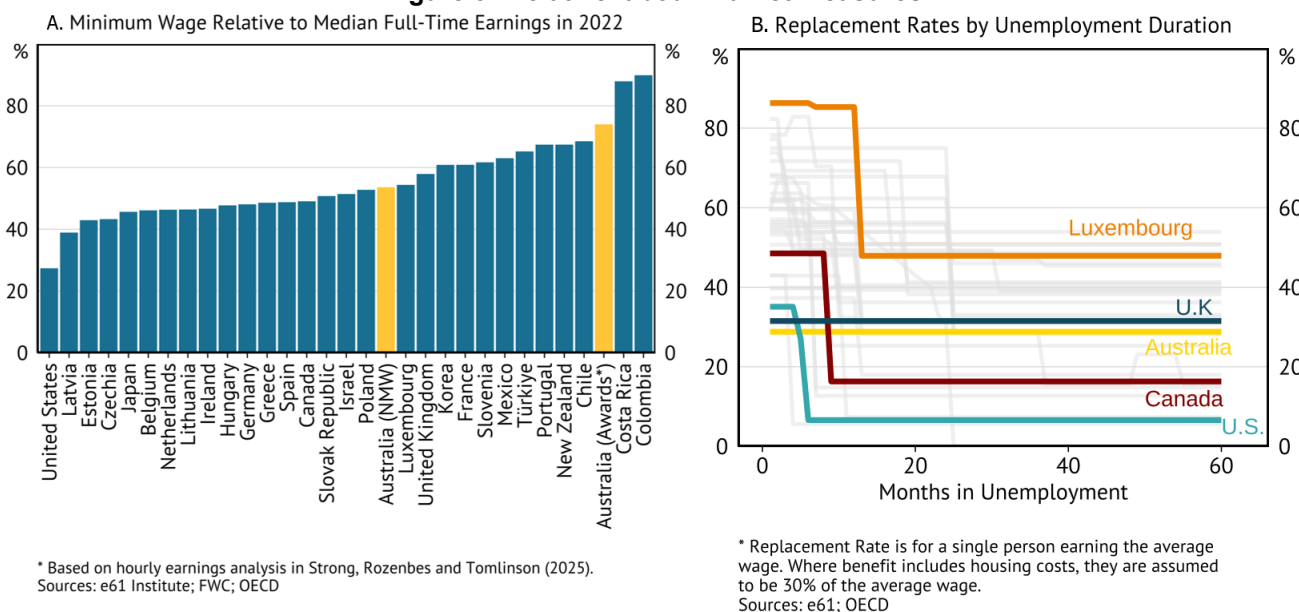
In another example of relative wage rigidity, Australia's enterprise bargaining agreements - private workplace-wide agreements - are relatively long duration at around 3 years and cover a further two-fifths of the workforce. Among OECD countries, only Chile, Sweden, Canada and Portugal have similarly long duration agreements (OECD, 2019). As a result, wages for many Australians are pre-set in advance and are relatively short-term inflexible to both recessions and bouts of high inflation.

Australia has no employee-funded unemployment insurance scheme. The public JobSeeker benefit provides near the lowest 'replacement rate' in the OECD as a share of the average wage (Figure 3, panel B). JobSeeker is in effect targeted at poverty alleviation - with a low rate but also relatively stringent income and asset tests - rather than to provide income insurance for the average worker (Hayward et al., forthcoming). JobSeeker is also unique globally because it is a flat dollar payment with unlimited duration. In almost all other OECD countries, benefits start high, and taper with the duration of unemployment.⁶

Strong minimum employment standards and limited formal unemployment insurance fits the historical characterisation of Australia as a 'wage-earners welfare state' (Castles, 1985)⁷. In effect, workers are encouraged to self-insure for unemployment based on good wages during periods of employment, a behaviour that warrants more research. How this affects incentives for job-switching, entrepreneurship, and taking a voluntary unemployment spell also remain interesting issues for research.

Australian firms and workers have shown increasing flexibility in work arrangements in recent decades, with near the highest rate of part-time work in the world (Cassidy & Parsons, 2017). This reflects a desire for flexible work schedules by many firms and workers. It may be related to Australia's relatively high level of labour force participation, especially for women.

Figure 3: Relative labour market measures



4 The average Modern Award wage rate is calculated in Strong et al. (2025). For the US, Figure 3, panel A shows the Federal Minimum Wage. Some US states, eg California, have minimum wages closer to 50% of national average earnings. There are some other complications in other countries too.

5 Australian estimates of the employment effect of minimum wage increases range from negative to no effect (Bishop, 2018; Leigh, 2003; PC, 2015).

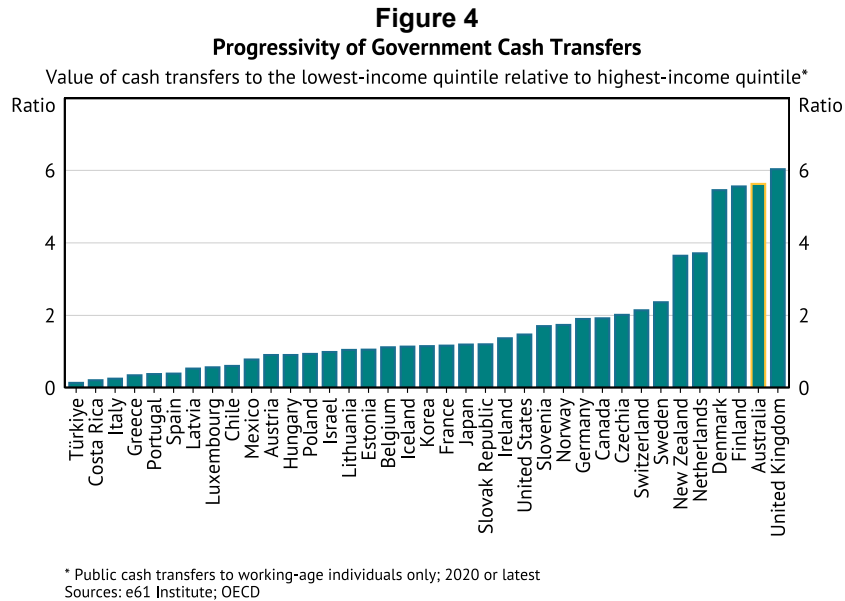
6 Australia also spends close to the least in the OECD on training-related labour market programs (OECD, 2025).

7 These institutions can also be related to the 'liberal' classification of the broad welfare state (Esping-Andersen, 1990; Mulino, 2022).

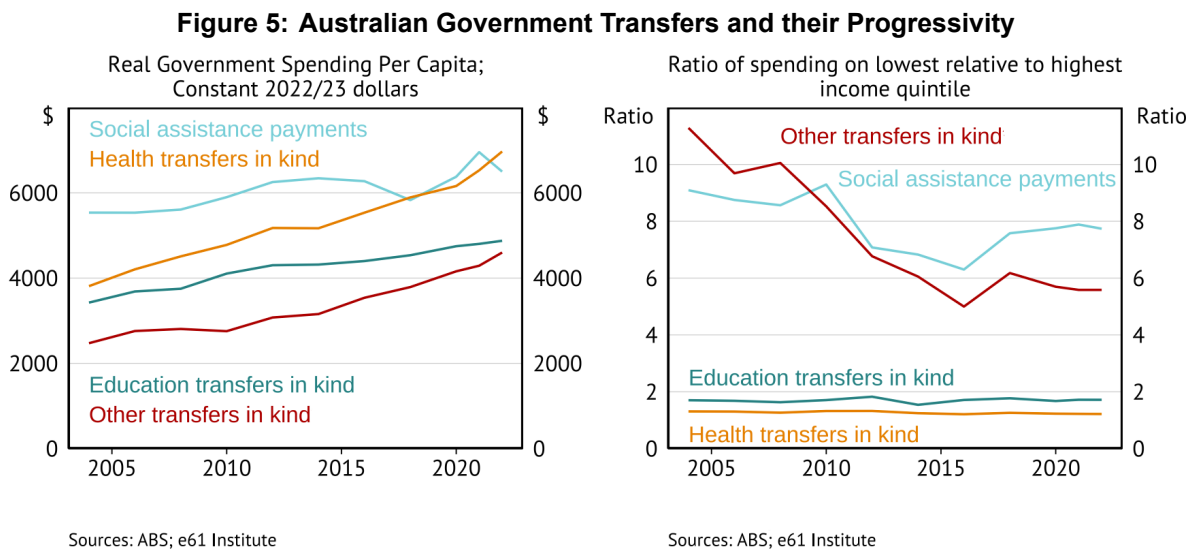
4. Government cash transfers are exceptionally targeted at the poorest, while the rising share of in-kind transfers are less targeted

Australia's welfare state is seen as highly progressive (Australian Treasury, 2008; Causa et al., 2018; Whiteford, 2010, 2014).

Australian government cash transfers - JobSeeker, pension and family payments - are particularly targeted at the poorest. Australia ranks high alongside the Nordics, New Zealand and the UK when comparing the ratio of government transfers to the lowest-income 20 per cent of people relative to the highest (Figure 4). At the same time, Australia's tax schedule skews towards collecting from high labour income earners more than most OECD countries (Paturoti et al., 2013).⁸



However, Australia's welfare system is becoming less progressive over time because the nature of government spending is shifting. Over the past decade, in-kind government benefits for aged care, childcare and the NDIS have increased substantially and they are universal or at least less income tested than cash assistance payments. The ageing of the population is also contributing to higher health transfers via Medicare rebates and public hospital use (Figure 5). Policymakers need to appreciate these trends and articulate clear objectives for Australia's welfare state. Researchers need to illustrate the trade-offs in efficiency and equity from different approaches including targeting versus universal access (Parliamentary Library, 2025).



⁸ While income taxation is progressive, Australia's taxation of savings is inconsistent across different forms of savings (Varela et al., 2020). Furthermore, if the imputed rent of owner-occupiers were considered as income, the income tax system would be less progressive (Siminski, forthcoming).

5. High housing and superannuation wealth, yet liquid assets are still substantial, helped by the unique use of offset and redraw accounts

Australians are wealthy relative to people in most countries, and that wealth is more broadly held (Productivity Commission, 2018). The majority of household wealth is held in housing and superannuation.

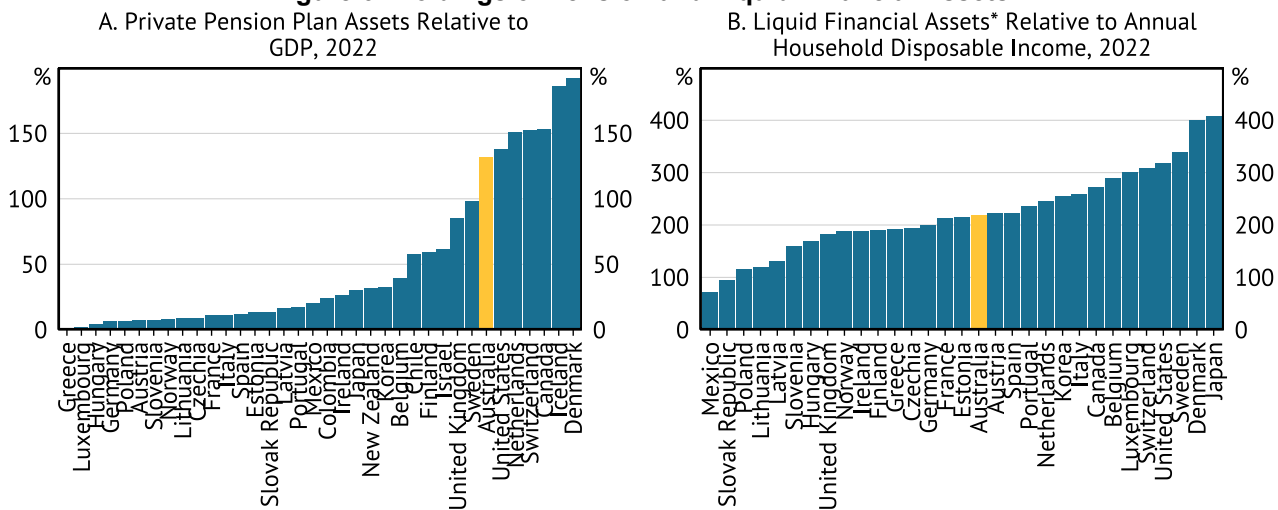
Australia does not have a public social security system. Instead, it combines mandatory and voluntary superannuation contributions with the backstop of an aged pension scheme. Australia's superannuation system exists in similar terms in a handful of other developed nations, mostly in Northern Europe (OECD, 2023). In both Australia and some of these countries, pension fund assets are very large (Figure 6, panel A).⁹ Superannuation assets are illiquid. They're not accessible to Australians until their 60s, aside from severe financial hardship (notwithstanding exceptional access during COVID, Hamilton et al., 2024). Housing wealth is also typically considered illiquid given transaction costs and the time required to transact.

Despite substantial illiquid wealth, the average Australian has a good level of liquid assets (Figure 6, panel B).¹⁰ Liquid assets are generally measured as holdings of cash, deposits, bonds and shares. In Australia, mortgage offset and redraw accounts provide a further boost.

Mortgage offset and redraw accounts are seemingly unique in their widespread use in Australia (Hughes, 2024). Why offset and redraw accounts are popular in Australia but not elsewhere is not clear. The incentives are a high share of variable rate mortgages - which impose less penalty on prepayment - and tax preferences for saving through prepayment. Most variable-rate mortgage holders are ahead on their required payments, with 40 per cent more than 2 years ahead (RBA, 2024).¹¹

Particularly important is that fewer Australian households have low liquid assets - ie live financially 'hand-to-mouth' - than elsewhere (Kaplan et al., 2014). Of course, individual Australian households face enormously different circumstances. There are hand-to-mouth households that are poor, and those that are wealthy with illiquid assets. But as at 2010, Australia had roughly half the fraction of hand-to-mouth households when compared to other rich anglosphere nations. This matters for monetary and fiscal policies and suggests that many Australians - especially older and higher-income homeowners - are able to self-insure in the absence of broader public insurance for job loss (see previous section), but that this is not universal.¹²

Figure 6: Holdings of Pension and Liquid Financial Assets



Sources: e61 Institute; OECD

* Liquid financial assets are the sum of currency, deposits, debt & equities. For Australia, balances in offset & redraw accounts are added based on RBA analysis in Hughes (2024).
Sources: APRA; e61 Institute; OECD; RBA

⁹ Importantly, Australia's compulsory superannuation scheme does not completely displace other forms of household saving, such that households save more overall (Connolly, 2007; Connolly & Kohler, 2004).

¹⁰ Holdings of liquid assets - relative to incomes - have been rising over time in Australia and other economies (La Cava & Wang, 2021).

¹¹ There are also insurance properties in Australia's progressive personal income tax system, and built into the income-contingent loans provided by the Australian government for tertiary education (ie HECS-HELP). Australia pioneered the use of income-contingent loans in higher education, which has now been adopted in some form by ten countries (Chapman, 2020).

¹² Other studies considering economic inequality in Australia and its implications include: ABS, 2022; ACOSS and UNSW, 2024; Adams et al., 2020; Day, 2018; Dollman et al., 2015

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