

# Productivity inquiries — response

June 2025



Universities Australia welcomes the opportunity to contribute to the Productivity Commission's important work to underpin the Government's productivity growth agenda. Australia's universities support the Government's key priority in making Australia's economy more productive and prosperous in this term of Parliament and beyond.

*"The best way to think about the difference between our first term and the second term that we won last night, first term was primarily inflation without forgetting productivity, the second term will be primarily productivity without forgetting inflation."*

— **Treasurer Jim Chalmers**

Productivity growth over the past decade was the weakest in six decades, and we know that improving productivity is essential to maintaining a high standard of living and ensuring more opportunity for all Australians. This task is one of the biggest challenges facing our nation, and it will require the collaboration of government, industry, education providers and workforces to help solve Australia's productivity challenge.

*"Universities and government and business are all needed to boost productivity for the community. In a country like Australia, we have made our greatest productivity improvements when there has been close alignment and coordination between the three."* — **Professor Attila Brungs** (Vice-Chancellor and President, University of New South Wales)

Australia's universities have a key role to play in our economic development and success. The Productivity Commission has long acknowledged this and has noted that universities contribute to Australia's productivity performance by:

- building the skills and capacity of our future workforce
- generating and disseminating research and ideas, and
- building ties, understanding and goodwill with people from other nations.

The Australian Universities Accord Final Report noted that in a more complex and contested world, more knowledge, skills and research will be needed to prevent Australia's productivity, innovation and standard of living from declining. The Accord found that the higher education system needs to both improve and significantly grow to facilitate this.

Our sector strongly supports the reform and growth objectives of the Accord and believes that a financially sound, growing and dynamic tertiary education system is a fundamental enabling tool in delivering on the ambitions of the Government's productivity agenda.

This submission broadly outlines priority areas of reform to help enable universities to skill Australia's future workforce, generate new ideas and products through research, and engage with the world to make our economy more prosperous and productive. Universities Australia would welcome the opportunity to work directly with the Productivity Commission on productivity-enhancing reforms to support a modern and prosperous economy.



## 1. Building the skills and capacity of our future workforce

### Priority reforms

- Replace the Job-ready Graduates Package to make course fees fairer.
- Develop a funding system that allocates resources based on the specific needs of students and institutions.
- Expand practical, hands-on training opportunities for students in nursing and other health professions in shortage.

From emerging sectors like quantum technology and artificial intelligence to those undergoing transformation, including the energy and defence industries, our future economy needs a rich and varied mix of highly skilled graduates. Australia's universities are central to this task of building a workforce of the future — one that is critical to our productivity and economic growth.

If Australia is to meet its future skills and employment needs, many more Australians need tertiary qualifications. That's why the Government has set an ambitious target of lifting tertiary education attainment to 80 per cent of the working age people by 2050, up from 60 per cent today. Achieving this will add around \$240 billion in additional income to the economy over the period to 2050, but we have a lot of work to do to get there.

Australia's universities currently educate around 900,000 students each year — in professions we can't live without. The engineers to deliver new infrastructure to support our growing population, doctors and nurses to care for our loved ones, technology specialists to provide essential services and protect us online, teachers to educate the next generation and scientists to support the delivery of AUKUS and to guide the energy transition. The list goes on, with new job roles emerging to meet the changing needs of our communities, society and economy.

These talented and dedicated professionals go on to secure well-paying, secure jobs, with the full-time graduate employment rate at 88.9 per cent in 2023 and university graduates typically earning, on average, an extra million dollars over their working life compared to non-university graduates. The benefits extend to the broader economy via higher tax contributions, the creation of new jobs and increased investment.

To meet the Government's new attainment target, universities will need to double the number of students they educate each year, from 900,000 now to 1.8 million in 2050. This is a critical national imperative to ensure we have the knowledge, skills and research to support a prosperous and productive economy.

Existing policies will hamper our efforts to achieve this. The Job-ready Graduates Package (JRG) is holding universities back from building Australia's future workforce. JRG sought to boost enrolments in areas of national priority, making it cheaper to study teaching or health-related disciplines, for example, except JRG has failed in its stated intent. Enrolments in teaching and nursing were lower in 2023 than they were before the introduction of the package.

JRG also has universities doing more with less. Since its introduction in 2021, JRG has cut student funding by around \$800 million each year, which is equivalent to more than 30,000 fewer student places. The Productivity Commission has previously acknowledged JRG's flaws. The impending Australian Tertiary Education Commission and the significant reforms proposed through the Government's new Managed Growth Funding and Needs-based Funding systems are a welcome opportunity to ensure student funding is working for students, universities and the economy.

Now is the time to support Australia's universities to achieve their nation-building role. We need to adequately fund expanded university teaching and urgently reform the current student funding system that has created structural inefficiencies and perverse incentives, starting with replacing JRG.

The Government's proposed National Skills Taxonomy (NST) has the potential to facilitate Australian-specific learner-focused improvements across the education sector and provide benefits to employees, industry and governments. If based on our recommended principles of interoperability, integration and accessibility, the NST has the potential to be a powerful enabler for consistent and transparent credit transfer and the recognition of prior learning across the tertiary education system. Mobility across the system is a key intended outcome of tertiary harmonisation, creating clear and seamless pathways for Australians to pivot as needed, to gain the right skills at the right time.



## 2. Generating and disseminating research and ideas

### Priority reforms

- Lift government investment in R&D from 0.49 per cent of GDP to the OECD average 0.74 per cent, including by
  - > increasing PhD stipends to lift them above the poverty line.
  - > providing at least \$0.50 for each dollar of direct funding to support the indirect cost of research.
- Create a mechanism for strategic coordination to prevent future fragmentation.
- Incentivise small and medium-sized enterprises to collaborate with the research sector.

Australia's universities are at the global forefront of research and development in a vast number of specialist fields, with almost 90 per cent of university research rated at or above world standard. They continually make remarkable discoveries that improve our lives and contribute to the economic strength of the nation.

Every day more than a billion people rely on Australian inventions. The Cochlear implant, the cervical cancer vaccine, the black box flight recorder, penicillin and printable solar cell technology are all Australian inventions that have revolutionised the world.

The jobs and income from such innovations power our economy, helping to lift wages and living standards for all Australians. Our future economy depends heavily on innovative ideas and talent, which is why we need to maintain momentum.

Australia's research system could better enable this. Right now, the system is not working as well as it could, and it is holding us back. Government investment in research is currently at a record low, at 0.49 per cent of GDP which is considerably lower than the OECD average of 0.74 per cent.

In the face of this, universities have relied on international student revenue to fund more than half of the research they undertake. But the Government's crackdown on international students means this revenue is no longer guaranteed. Significant cuts to Australia's international student intake would prevent universities from doing this critical work in support of our nation's future.

Our research system is also incredibly fragmented. There is a lack of coordination across government, with more than a dozen portfolios responsible for more than 100 different research programs, often with no shared strategy, no consistent approach and no clear alignment.

Secure, stable and long-term public funding for university research is needed to break new ground, push the boundaries of our understanding of the world and invent the technologies of tomorrow. But we have some work to do. For every \$1 invested in higher education research and development, \$5 is returned to the economy — this could be further multiplied through participation in multilateral co-funding initiatives like Horizon Europe. This is why it is worth increasing Australia's spend on this vital endeavour.

It not only makes economic sense, but it is essential for strengthening our international competitiveness. Germany and the United States both spend more than three per cent of GDP on research and development, and both economies are vastly more productive than Australia's. These countries lead the world in manufacturing and technological development — two areas Australia has identified as key to diversifying its economic mix as we seek to add much-needed complexity to our economy.

Collaboration is also important. When Australian researchers collaborate with other academics our research is 54 per cent more impactful than the global average (based on Field Weighted Citation Index) but when they collaborate with industry partners our research generates 358 per cent more impact. The largest investment the Government makes (around 30 per cent Government R&D funding) is aimed at industry through the Research and Development Tax Incentive — investment which should be better leveraged to drive collaboration between industry and the research sector to multiply research impact and maximise productivity gains.

Steady and consistent increases in public investment in the research talent pipeline and in high-quality research and innovation will ensure university researchers can partner with government and industry to increase capacity and capabilities, advance knowledge and futureproof our economy. After all, it is our researchers working to modernise our energy grid, improve our agricultural capacity, protect our water supplies, develop our sovereign capability and discover new medicines. Australia's future productivity and economic growth depend on this work.



### 3. Building ties, understanding and goodwill with people from other nations

#### Priority reforms

- Grow Australia's international education sector sustainably without reducing its size or value.
- Expand the delivery of international education offshore.
- Support more students to undertake study and research in the region.

Australia has grown over the last two decades to become one of the world's leading providers of international education, attracting students from more than 140 countries. Today, the sector is a huge national asset — economically, socially and diplomatically.

International education generates more than \$50 billion in income for Australia each year and supports around 250,000 jobs in almost every sector of the economy. It is a major economic driver, with international students accounting for more than half of Australia's GDP growth in 2023, helping the nation avoid recession.

Universities are also heavily reliant on revenue from international student fees to fund their teaching and research activities in the face of declining government investment. Importantly, this money supports the education of Australian students.

Beyond the economic benefits, international education makes Australia friends. Students who study here return home with a great affinity for Australia, helping build rapport with our neighbours and extending Australia's influence in the region. This integration is so important, be it through trade, investment or the flow of ideas.

Recent shifts in Australia's international education policy landscape put all of this at risk. The federal government's crackdown on international students could see Australia lose its status as a leading provider of international education, which would hurt our country economically and socially at a time we need to be supporting activities that enhance our productivity.

The Government should reconsider its approach to international education and work with universities to strengthen the foundation of Australia's world-class international education sector in recognition of its importance to our economy and future productivity. This includes a commitment to growing the sector sustainably without first reducing its size or value.

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