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Achieving the Productivity Promise

Closing the 'productivity debt' in retail — and ensuring all workers benefit receive better living standards from productivity uplift

About the McKell Institute

The McKell Institute is an independent, not-for-profit research organisation dedicated to advancing practical policy solutions to contemporary issues.

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Contents

Introduction

Australia has a productivity challenge. For two decades, productivity in most of the economy has stagnated, which means that the amount of goods being produced for every labour hour spent in the economy has flatlined. Economists note that this trend limits an increase in living standards, arguing that productivity gains naturally flow through to increases in living standards.

This conventional wisdom, however, is challenged by cases in the economy where measurable increases in productivity haven't flowed through to workers' wages.

This report considers the productivity challenge within Australia's retail sector, which employs over 1.2 million Australians, and has seen greater productivity increases over the past two decades than in other sectors, but not a proportionate improvement in living standards for its workforce.

While productivity is challenging to accurately measure in some sectors, such as health and aged care, there are detailed productivity data within the retail sector.

The data presented in this report demonstrates that, over the past two decades, productivity in the sector has grown, as have profits. However, these productivity gains haven't flowed through to real wages, nor living standards.

Since 2007, worker productivity has grown by 26 per cent in the retail sector but real wages have fallen by over one per cent. **This represents a *Productivity Debt* in retail of 27 per cent.** Productivity growth in the retail sector has outpaced the average of all industries over this period, where real wages growth has underperformed.

The case of the retail sector should concern policymakers.

While pursuing policies that drive productivity is critical, it is equally important that policies which help orient more of the gains of productivity to workers themselves be explored. As the Albanese Government places driving economic productivity at the heart of its second term agenda, it is critical to examine the current way in which productivity gains benefit workers.

The case of the retail sector provides a cautionary tale for how productivity gains may not automatically drive increases in living standards for Australian workers.

This report concludes with calls to implement two clear reforms that will ensure that workers in retail, and in other sectors, benefit more equitably from productivity uplift in their sectors. These measures include the establishment of a formal *Productivity Dividend* for workers; and establishing greater requirements for firms to measure the *Productivity Debt* at a firm level.

Productivity is important. But Australia doesn't yet have the policy architecture in place that ensures productivity gains flow through to workers' living standards. This report offers a way to achieve this desired policy outcome.

Key Findings

1. **A 'productivity' debt has emerged in retail, where real wages are falling while profits are growing:** In real terms, the average total annual earnings for retail workers has fallen by $400 since 2007. Over this same period, profits in the industry have increased by $22 billion, in real terms.

2. **This is despite labour productivity growing over the same period**: Gross value added (GVA) per hour worked in the retail sector has increased by 26 per cent since 2007, while real wages have fallen by around 1 per cent. **This represents a *Productivity Debt* in the sector of 27 per cent.**

3. **Productivity growth in the retail sector has outpaced the average of all industries — but not delivered significant worker benefits:** The increases in productivity that have been seen in retail haven't proportionally flown into workers' pockets as real wage growth in the retail sector has been more sluggish than the average across all industries, despite above average productivity growth.

4. **Real wages in the retail sector have stagnated**: Real wages in the retail trade sector are 1.1 per cent below 2007 levels, contrasting sharply with the 26 per cent increase in real GVA per hour worked, demonstrating a decoupling of wage growth from productivity gains.

5. **The labour share of industry value added has declined**: As of 2023-24, the share of industry value added devoted to labour costs is 62 per cent, which is below the long-run average of 65 per cent.

6. **The productivity debt story in the retail sector offers a cautionary tale for policymakers:** It shows how even if productivity is achieved, its benefits don't automatically flow through to working people. The retail case study should inform policymaker consideration ahead of the Economic Productivity Roundtable convened by the Albanese Government in August, 2025.

Recommendations

Recommendation 1: Establishing a formal ‘Productivity Dividend’, which ensures a proportion of productivity gains are oriented towards workers in the form of real wage wises, or option shorter working hours.

Recommendation 2: Establish mandatory ‘Productivity Debt’ reporting by large firms

Part 1: Retail Workers Haven't Received Their Share of Productivity Gains

Key Points:

1. The retail sector has evolved significantly over two decades, embracing technological change and innovation.
2. During this time, productivity has increased. However, real wages for the workers in the sector have remained relatively static.
3. This shows that productivity gains don't automatically flow to workers' wages or living standards, without considered policy.

The retail trade sector in Australia has undergone significant transformation over recent decades, marked by substantial gains in productivity and profitability. However, these economic advancements have not been equitably shared with the workforce that drives this industry.

This disparity is particularly stark when considering that real wages in the retail sector have fallen by 1.1 per cent below 2007 levels, while real gross value added (GVA) per hour worked has risen by 26 per cent over the same period.

Labour productivity growth in the retail sector outpaced the average growth across all industries of 17 per cent. This 17 per cent growth in GVA across all industries coincided with a 2 per cent increase in wages across all industries, further highlighting that retail workers are not getting a fair deal in comparison with workers in other industries.

Amid ongoing national conversations about productivity, it is critical to address this growing divide to ensure that retail workers, who are among the lowest paid in Australia, receive a fair share of the wealth they help generate.

In light of these trends, the productivity roundtable presents a critical opportunity to reframe the narrative around retail sector performance. Employers may argue that reducing worker pay and conditions is necessary to boost productivity, but the data tells a different story.

The retail sector's labour costs as a proportion of industry value added have fallen to 62 per cent in 2023-24, below the long-run average of 65 per cent. Meanwhile, the sector's profitability continues to climb, driven largely by larger firms that benefit disproportionately from technological investments and economies of scale[1].

This report aims to challenge the notion that worker compensation is a barrier to productivity growth, instead advocating for policies that ensure retail workers share in the economic gains they help produce. By drawing on comprehensive data from the Australian Bureau of Statistics and insights from previous McKell reports, this analysis underscores the need for an equitable distribution of productivity gains to address rising income inequality and support the retail workforce.

The following section delves into the main findings, illustrating the divergence between labour costs and profits, the decline in labour's share of industry value added, and the decoupling of real wages from productivity growth.

Recommendations such as introducing mandatory labour income share reporting, implementing employee representation on corporate boards, and implementing an employee productivity bonus scheme provide actionable pathways to address these challenges. As discussions about productivity continue, it's important that retail workers share in the benefits of a growing sector. Fair pay and conditions are key to supporting a motivated and reliable workforce in this essential industry.

Part 2: How Worker Pay and Conditions Do Not Hinder Retail Productivity Growth

Key Points:

1. Labour costs have grown in retail, but so too have profits.

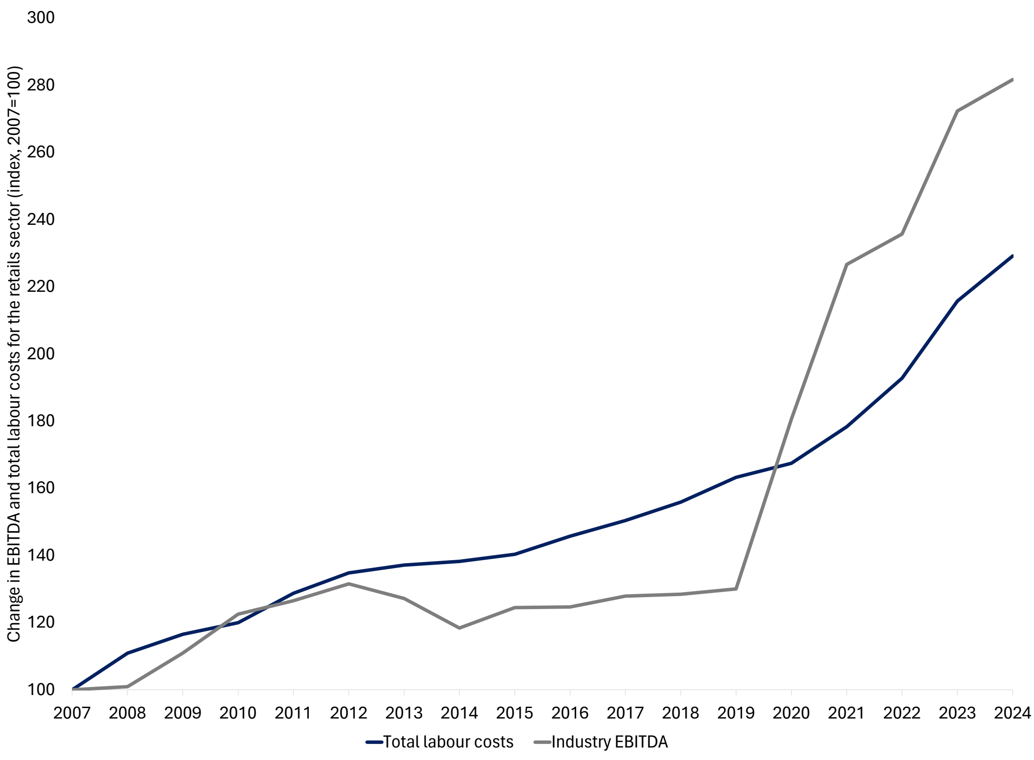
2. Since COVID, the gap between profits and wages have expanded. This represents a growing 'Productivity Debt' in the retail sector

3. Labour costs as a proportion of industry value added have also decreased for retail firms since the pandemic.

Since 2007, labour costs in the retail sector have doubled, increasing by 129 per cent.

However, over the same period, EBITDA has grown almost threefold, increasing by 182 per cent. Figure 1 illustrates this deviation in growth between wages and profitability, particularly over the past few years.

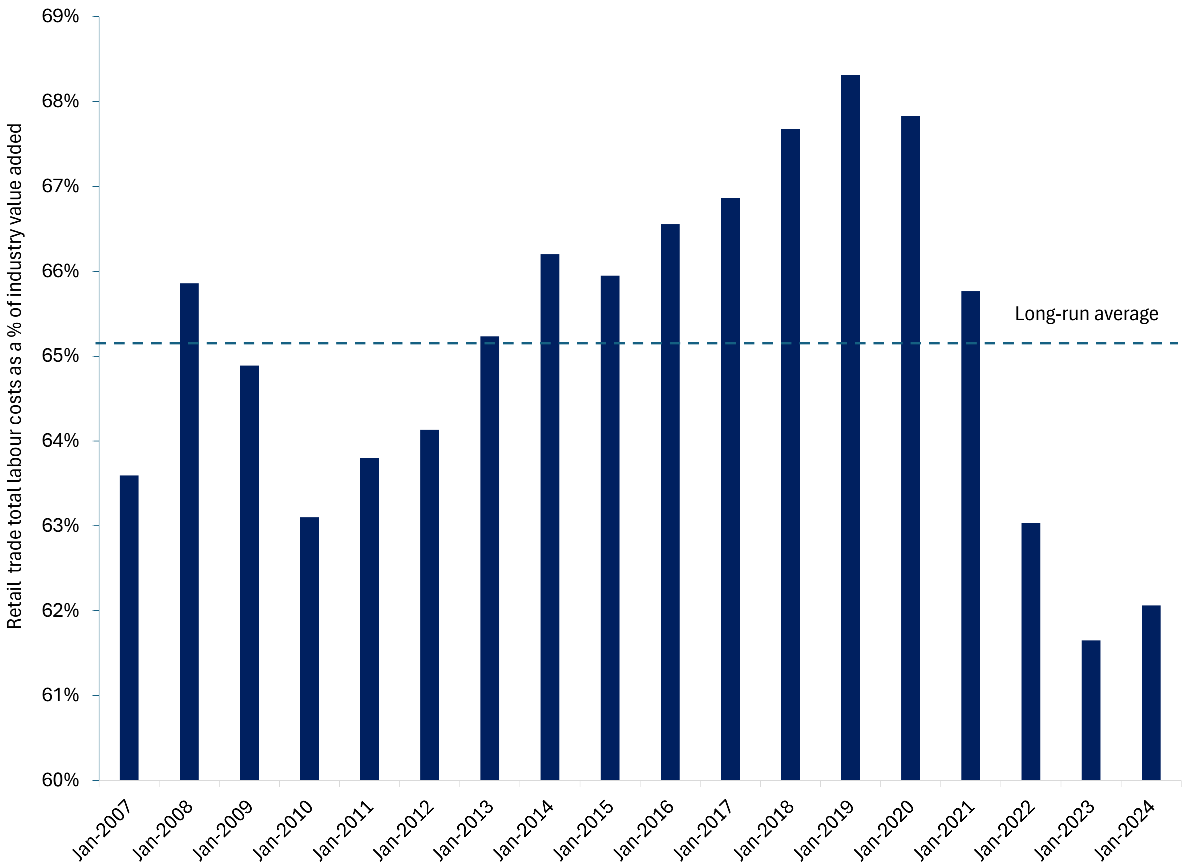
Figure 1: Growth in labour costs and profits



Source: McKell Institute, Australian Bureau of Statistics.

This recent drop in the share of the industry's economic value flowing to employees can also be seen in the share of labour costs as a proportion of industry value added, which has seen the same decrease in recent years. As of 2023-24 (the latest data point), the share of industry value added devoted to labour costs sits at 62 per cent, below the long-run average of 65 per cent (see Figure 2).

Figure 2: Labour costs as a proportion of retail trade industry value added

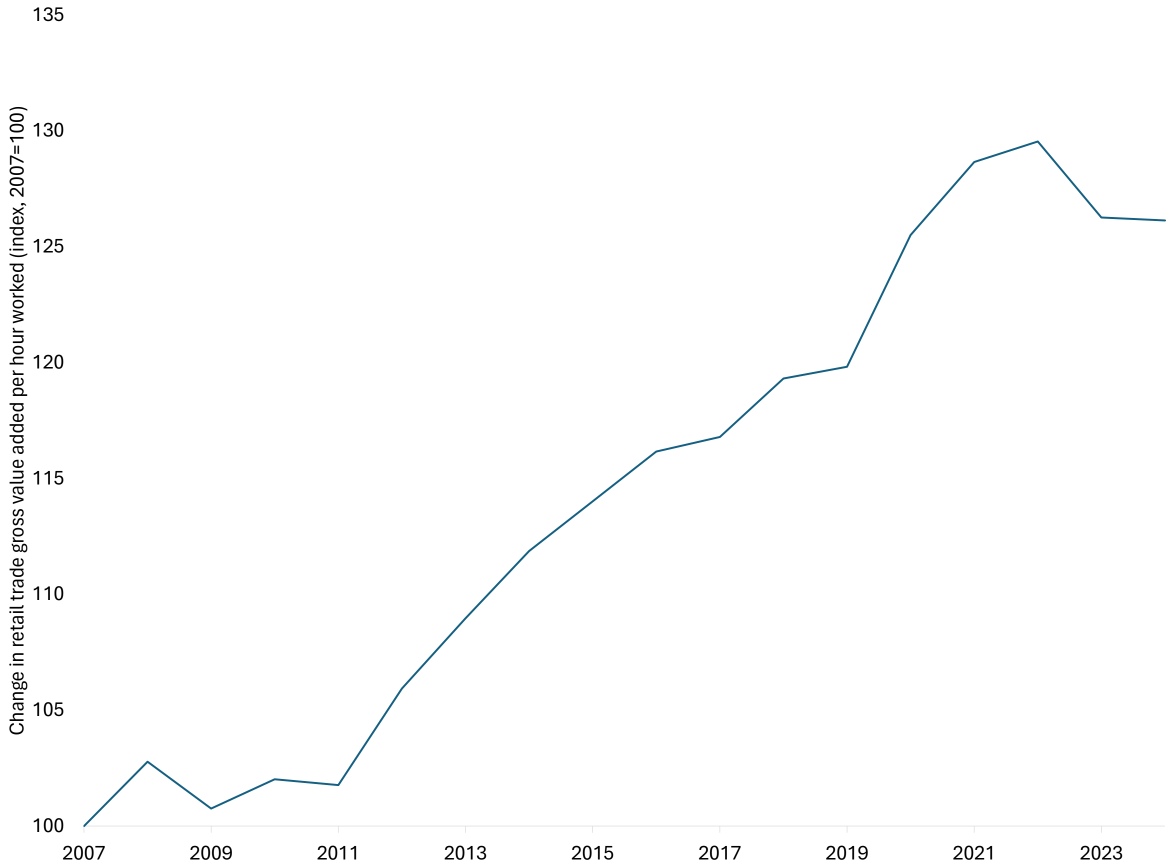


Source: McKell Institute, Australian Bureau of Statistics.

Employers may try and argue that employee productivity has decreased in recent years.

While it is true that GVA per hour worked in the sector has fallen 4 per cent from the high seen in 2021-22, it is still 26 per cent higher than 2007 levels (see Figure 3).

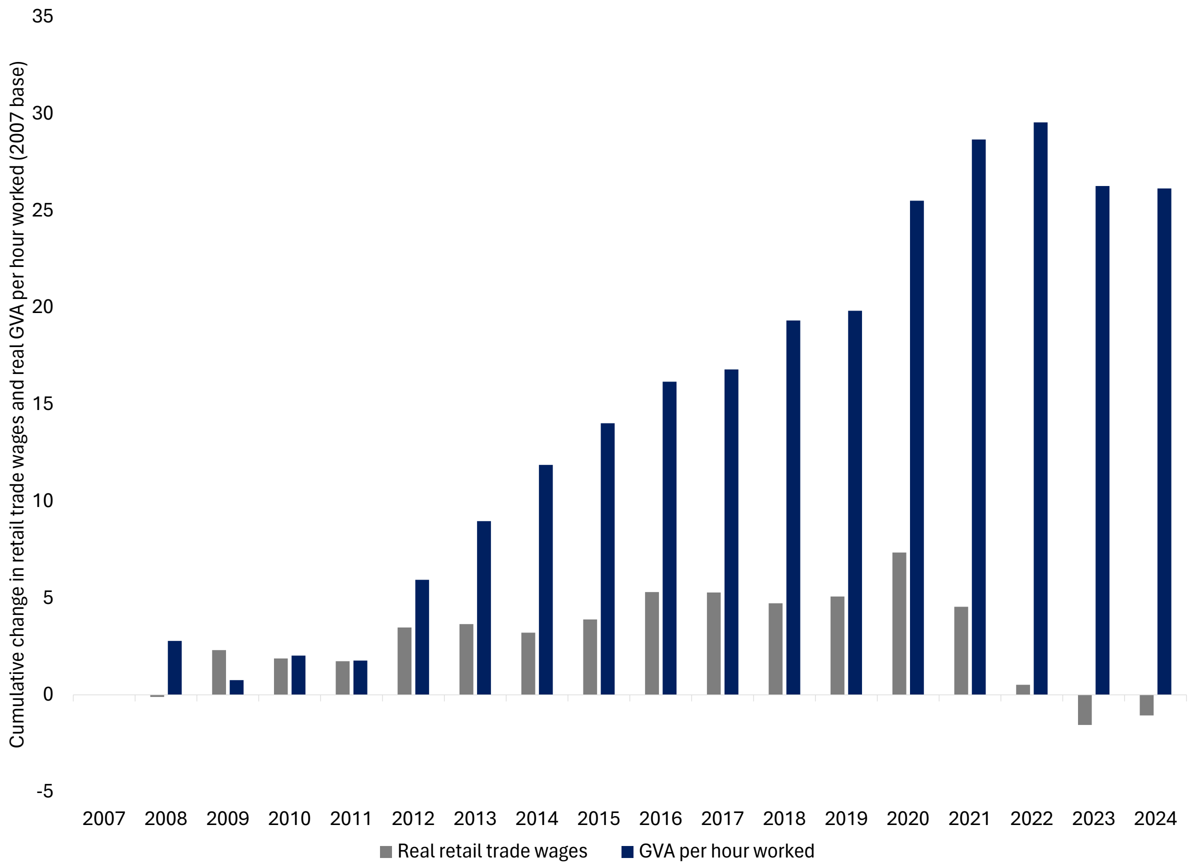
Figure 3: Growth in retail trade GVA per hour worked since 2007



Source: McKell Institute, Australian Bureau of Statistics.

Figure 4 shows how this growth in real GVA per hour worked compares to the growth of real wages in the retail sector. Real wages in the retail trade sector are 1.1 per cent below 2007 levels, while real GVA per hour worked is 26 per cent higher.

Figure 4: Change in real wages and real GVA per hour worked over time



Source: McKell Institute, Australian Bureau of Statistics.

Conclusion

The data presented in this report clearly demonstrate a growing divergence between the profitability of Australia's retail sector and the compensation received by its workforce.

Since 2007, profits—as measured by EBITDA—have surged by 182 per cent, far outpacing the 129 per cent increase in labour costs.

Despite this profitability, the share of industry value returned to workers has declined, with labour's share of industry value added falling to 62 per cent in 2023–24, below the long-term average of 65 per cent.

This trend has occurred even as productivity in the sector has increased. GVA per hour worked is now 26 per cent higher than in 2007, while real wages have declined slightly over the same period (down 1.1 per cent). The decoupling of productivity and wage growth indicates that workers are delivering more economic value but are receiving a shrinking portion of the returns.

Contrary to claims that improving pay and conditions would inhibit productivity, the evidence shows that the sector's profitability has grown in tandem with, or even in spite of, rising labour costs. Larger firms in particular have been the major beneficiaries of this growth, further underscoring the uneven distribution of gains within the sector.

The implications are clear: wage stagnation in retail is not the result of poor productivity or constrained profits, but rather of structural imbalances in how economic gains are shared. As Australia revisits its productivity agenda, ensuring that workers receive a fairer share must be a central objective. Equitable wage growth is not only a matter of fairness, but a necessary condition for building a more motivated, stable, and future-ready retail workforce.

Recommendations in Detail

Recommendation 1: Establishing a formal 'Productivity Dividend', which ensures a proportion of productivity gains are oriented towards workers in the form of real wage wises, additional leave, or shorter working hours.

This report has identified that productivity gains at a sectoral level don't guarantee real wage lift for workers within that sector. As the Commonwealth Government pursues a new productivity agenda, it should establish new mechanisms that ensure greater productivity dividends flow through to the workers responsible for realising those productivity gains.

The government should consider the establishment of a 'Productivity Dividend' mechanism; a requirement for firms to guarantee a proportion of productivity gains flow through to their workforce. These productivity gains may be delivered in the form of real wage increases, or through opt-in worker benefits, such as additional leave allocations, or shorter working hours for those that opt for it.

The mechanism through which a Productivity Scheme is realised within each sector and firm may differ. A *Productivity Dividend* clause may be legislatively inserted into the National Employment Standards, serving as an employee right. Alternatively, individual firms may which to negotiate a suitable *Productivity Dividend* with their workforce that is enforceable.

Recommendation 2: Establish mandatory 'Productivity Debt' reporting by large firms

Australia's largest corporates are in the process of informing the Economic Reform Roundtable, to be hosted by the Federal Government in mid-August 2025. The intention of this summit is to chart a more harmonious reform agenda geared towards driving productivity gains throughout the economy.

One of the challenges going forward, however, will be measuring the success of the agreed reforms. Productivity is measurable, but the quality of it varies between sectors. One way of improving both the data around productivity gains, as well as ensuring policymakers can ascertain how effective the reforms are in terms of driving living standards, is to mandate that larger companies report productivity and profit share.

A mandate to measure and track ‘Productivity Debt’, and submit this information to government, would make visible the degree to which productivity gains are being distributed to workers compared with being redirected towards greater profits. This can inform policymakers about the efficacy of measures that are advanced at the August summit, and help guide future policy reforms.

It is important that the promise of higher living standards flowing though from firm level productivity gains is realised. By implementing a mandated Productivity Debt reporting scheme, the extent to which this promise is being realised in the real world for working Australians can be ascertained.

While not directly linked to ‘Productivity Debts’, the UK Government has implemented a system where employers with 250 employees or more must report on the gender pay gap. While we envisage the size requirement for mandatory reporting being higher than this, and the reporting requirements being more focused on the gap between wages and productivity overall, this serves as a useful example of mandatory reporting being used to highlight an issue.[2]

References

[1] Lefebvre 2022, McKell Institute, Evening the Ledger: Addressing Declining Labour Profit Share in the Retail Industry.

[2] UK Government, Gender pay gap reporting: guidance for employers, <https://www.gov.uk/government/publications/gender-pay-gap-reporting-guidance-for-employers>.