

Productivity and ethics

The Ethics Centre

2025



Ethics and productivity: Key transmission channels



The relationship between ethics and productivity

Ethics can impact productivity through a variety of mechanisms

The *Ethical Advantage* report, released in 2020, examined the economic benefits to Australia of improving ethical infrastructure.¹

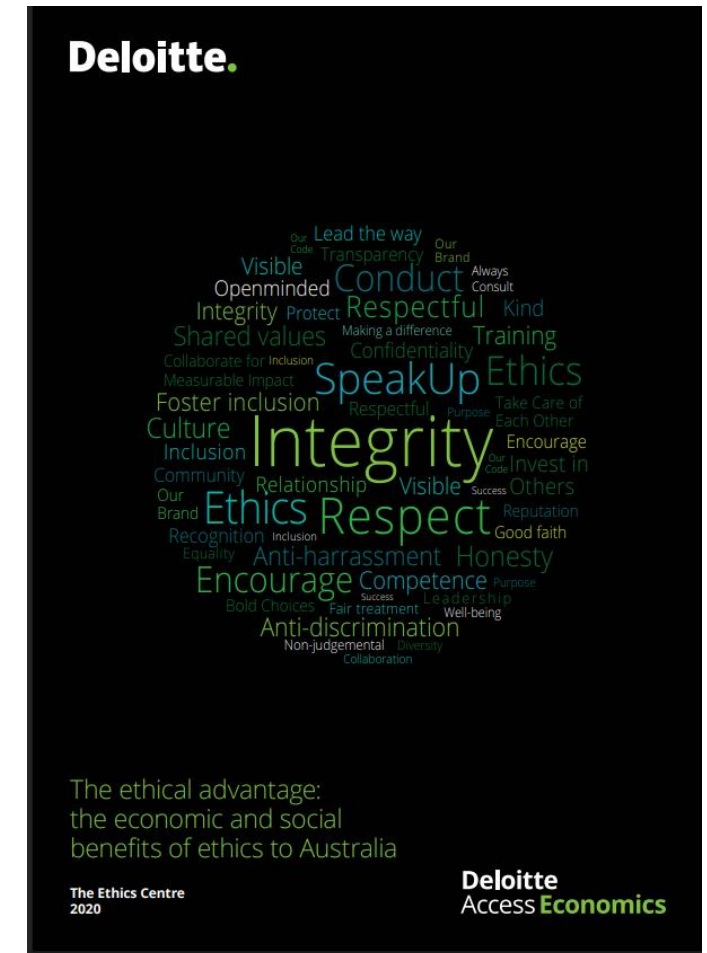
The Ethics Centre has asked Deloitte Access Economics to build on this work with a short note examining the role that ethics can play in lifting Australia's productivity in the context of the Economic Reform Roundtable to be held on the 19th to 21st of August.

This note summarises findings from the *Ethical Advantage* that relate to productivity. It also provides evidence from the economic literature on some of other ways in which ethics can potentially impact productivity.

Specifically, the analysis explains how ethics can impact productivity through:

- enhancing willingness to adopt AI
- reducing the need for regulation
- reducing worker and moral injury including indirect health impacts
- improving business return on investment
- achieving policy reforms.

Much of the literature on ethics and its benefits for productivity use **trust**. We believe this is a reasonably proxy for the level of ethics because, according to the Edelman Trust Barometer and other research, ethical behaviour accounts for most trust in institutions.²



Ethics and technology adoption

Trust in technology is an important component of technology adoption

AI is a significant economic opportunity for Australia with **Deloitte Access Economic research finding AI could increase Australia's GDP by \$81 - \$194 billion by 2034.**³

Realising AI's economic potential requires businesses to adopt and effectively integrate the technology into their operations. Trust is a key barrier to this integration:

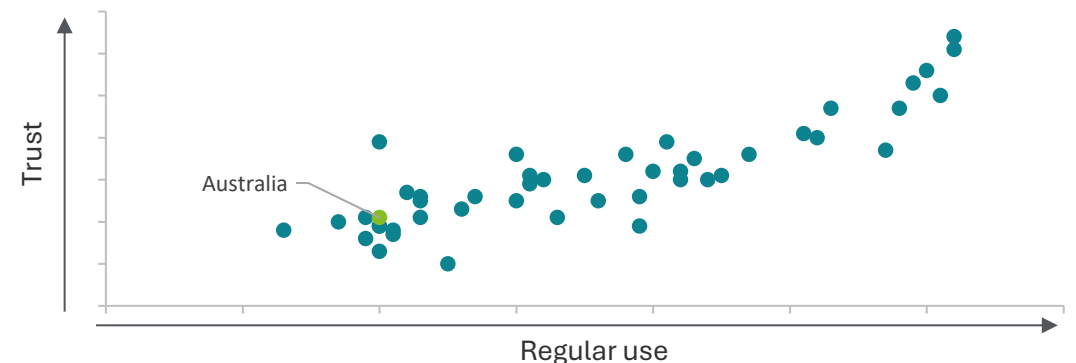
- Only **half of surveyed Australian employees report having the required level of skills to use AI solutions ethically** and legally.⁴
- Another survey finds **that less than a third of Australians believe the benefits of AI outweigh the risks**; the lowest of the 47 countries considered.
- The same study finds that **Australian's trust in AI systems has actually declined overtime** with reported levels of trust being lower now than in 2022.

A lack of trust may be one factor limiting the benefits of AI with research finding a correlation between trust and regular use (see chart on the right).

The loss of trust in government associated with the failure of the 'Robodebt' scheme has limited the government's ability to automate aspects of the social welfare system going forward,⁵ which illustrates the importance of trust in supporting technology adoption. Improving trust in AI would help enable an economic dividend with research finding:

- Workers looking to upskill in AI are just as likely to be seeking to improve their knowledge of AI ethics (24%) as they are in applying AI to data (28%).
- People who have undertaken AI training are 1.6 times as likely to trust AI systems than those without training.

Chart: There is a positive correlation between trust in AI and the regular use of AI across countries



Note: Trust is measured as share of survey respondents somewhat to completely willing to trust AI systems and use is the share of respondents using AI on a semi-regular or regular basis.
Source: University of Melbourne & KPMG (2025)

Ethics, labour productivity and business return on investment

More ethical relationships between employers and employees and across employees can improve labour productivity while there is also a return for businesses who adopt ethical decision-making

Unethical behaviour (or even more simply the lack of an ethical framework to guide decision-making) can impact **workplace productivity** by impacting worker motivation, impacting the incentive to seek promotion and alienating workers. It can also severely impact mental health:

- One of the more significant growing areas of workers compensation injury expenses is mental health as a result of workplace injuries.

The Ethical Advantage showed using statistical analysis of the HILDA survey that a 10% improvement in ethical behaviour yields:

- a **2.7% increase in wages** at an individual level which is worth \$23 billion across the economy.
- a **1% improvement in mental health**.

Businesses that have a reputation for making ethical decisions are also likely to have higher return on assets. Analysis of financial performance by Australian firms using data from the Governance Index shows that:

- A one standard deviation increase in governance index yields a 7% higher **return on assets**.

This higher return is likely to reflect a range of ways in which ethics can impact business performance including greater trust from: suppliers, international customers, employees, domestic customers, government, regulators and community.

At an economy- wide level, increasing trust to the level of global leaders was estimated to yield a \$45 billion improvement to Australia' GDP, or \$1,800 per person in the Ethical Advantage.

- Some of this may reflect participation effects (i.e. a greater willingness to work in more ethical environments) but a substantial proportion is likely to reflect productivity impacts for workers and businesses

Ethics can reduce the need for regulation

When people trust others in society more, empirical evidence shows that regulation of business entry and employment regulations decline

The number of regulatory restrictions in Australian federal law reached its highest level in 2023, increasing by **88% since 2005**.⁶ As of 2021, red tape was estimated to cost the Australian economy **\$250 billion** annually in forgone output and revenue⁷, an amount that is likely to have grown since then.

Trust provides people with more confidence in dealing with others (in business transactions, employment relationships and social interactions), reducing the need to impose regulations on such interactions.

Table 1 shows based on cross-country regression analysis by Aghion et al (2010) that, on average, a 10% increase in **distrust** leads to an increase of approximately 15-19% in the **number of procedures required to set up a business**.

Table 1: Effect of a 10% increase in distrust on number of steps required to open a business

	Regulation of entry			
	Distrust others	Distrust civil servants	Distrust of companies	Uncivickness
Impact of a 10% change in distrust measure on number of steps to start a business	15.4%	19.1%	16.5%	17.0%

Source: Deloitte Access Economics calculations using regression output from Aghion et al (2010)
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Aghion et al (2010) find that higher levels of distrust of others tend to increase public support for government control of the economy, despite concerns about government ineffectiveness or corruption.⁸

- When individuals view their community as being made up of **civic individuals**, they expect less regulation and higher entrepreneurial activity, because of higher trust in others.
- The relationship between the distrust and regulation of business entry is shown the chart below with a similar relationship being found for employment regulations.

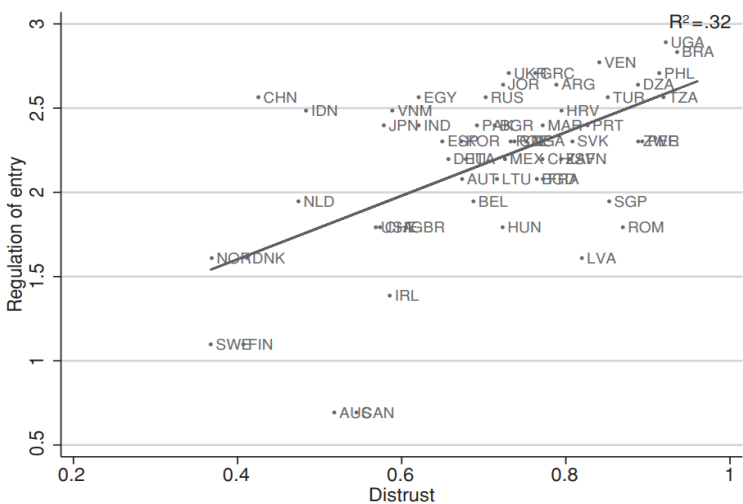


FIGURE I
Distrust and Regulation of Entry
Regulation is measured by the (ln) number of procedures to open a firm.
Sources: World Values Survey and Djankov et al. (2002).

Trust and economic reform

Higher ethical standards and a more trusting society helps to build necessary consensus for government reform

A civic mindset and higher trust in government can make people more willing to accept or support economic reform, especially where some people are worse off under the changes.

Several studies have established an empirical link between **higher trust** and **more efficient government policy and reforms**.

- Both low and high levels of social trust were found to reduce the time taken for central-bank independence reforms to be implemented. This is because very low levels of social trust encourages policymakers to undertake urgent independence reforms, while at the same time high social trust enables policymakers to implement reforms more quickly than in countries with medium levels of trust. **(Berggren et al, 2015)**.⁹
- Enhanced social trust assists in reducing extreme attitudes and divisiveness in relation to government policies and intervention in democratic countries. Moreover, the time for reforms to be completed decreases from 22 years with an intermediate level of trust to 16 years with the highest level of trust **(Pitlik & Rode, 2019)**.¹⁰

High levels of trust and ethics in society have wide-ranging economic benefits, such as:

- **Social cohesion:** Private economic interactions become cheaper due to lower transaction costs (e.g. expensive legal fees can be replaced to some extent by cheaper, more informal agreements).
- **Spillovers to economic growth:** More trusting and ethical societies experience stronger economic and financial development (e.g. trust enhances the performance of financial markets, attracting investment and innovation/entrepreneurship).
- **Policy efficiency:** Increased trust and a less divided society assists governments to gain popular support for policy changes.¹¹

“Trust is important in order to have the credibility needed to change economic incentives along with the behaviour of businesses and citizens” (WEF, 2024).

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