

## COMMENT ON “CHALLENGE OF AN AGEING NATION”

Peter Hartcher’s article<sup>1</sup> underscores the political difficulties of meeting the challenge of an ageing population and the article is generally correct in what it says. However, there are a few facts and opinions that were not said. While this is not likely to be critical at the present time, or for the coming election, the omissions are nevertheless useful in setting the stage for debate that must begin in the near future. For example, Hartcher mentioned that the “wake up” call for economics and politics in Australia to span generations began with the first Intergenerational Report<sup>2</sup> released in 2002, which indeed it did, but the report has since been updated several times with the most recent entitled “Australia to 2050: Future Challenges”<sup>3</sup> and was released in January 2010. It is more detailed and makes use of adjustments to the relevant trends.

The new “wake up” call is louder, with more alarming numbers from the Australian Bureau of Statistics.<sup>4</sup> For example:

- The proportion of the population aged 65 years and over is projected to **increase**, from **13 per cent** (2.8 million people) in 2007 to between **23 per cent and 25 per cent** (7.8 million and 10.4 million) in 2056, and between **25 per cent and 28 per cent** (9.3 million and 17.1 million) in 2101.
- In contrast, the proportion of the population aged 15 to 74, which is generally treated as the working-age population, is expected to **decline** in percentage terms from a peak of **67.4 per cent** of the total population in 2007 to **59.0 per cent** in 2101.

This implies that the percentage of Australia’s population that is adding directly to gross domestic product, as well as to government revenue, will **continue its decline** for an extended period and the percentage of those who depend family savings and government assistance will **continue to increase**.

To provide a more graphic view of the effect of better health, hygiene and medical care in Australia, the life expectancy at birth of males is expected to be **93.9 years** in 2056 for males (compared to **79.5 years** in the period 2008-2010) and even longer for females – **96.1** in 2056 compared to **84.0** in 2008-2010.<sup>5</sup> Unless the age of retirement is gradually increased, professionals who require extensive training before they enter the work force, such as

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<sup>1</sup> <http://www.smh.com.au/opinion/politics/challenge-of-an-ageing-nation-20130510-2jdb4.html>.

<sup>2</sup> <http://www.budget.gov.au/2002-03/bp5/html/index.html>.

<sup>3</sup> [http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR\\_2010.pdf](http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf).

<sup>4</sup> <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5A3139FFA7C3B9F6CA25773700169C5D>.

<sup>5</sup> <http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/3222.0> and <http://www.abs.gov.au/ausstats/abs@.nsf/Products/54EE2DFDF75948B3CA257943000CF07D?opendocument>.

primary and some secondary health care providers, will experience, on the average, almost as many years in retirement as they do in active service to the community.

The intergenerational report for 2010 was much more specific about the means for responding to the economic and fiscal consequences of an ageing population; these are the “3Ps” as referenced in the report. They are population, work force participation and labour productivity. The population growth in Australia is expected to slow gradually from **2.1 per cent** in 2008-09 to **0.9 per cent** in 2049-50 and this will have an impact on the number of people in the work force during that period. This, in turn, will have a retarding effect on annual changes in the growth of gross domestic product unless either work force participation or productivity is increased to offset the decline. The “3Ps” are therefore linked together and only productivity can be relied upon to provide a significant boost to the slower changes that can be expected from the other two. Thus, productivity-enhancing policies should begin to occupy public-policy decisions and, equally important, there is a need for new methods of tracking the relative success of such policies so that they may be “fine tuned” when necessary. This has not been widely promoted by any political party in Australia, nor by most political commentators.

The linkage between ageing population and other issues on the political agenda has similarly been kept in the background. The Australian Bureau of Statistics<sup>6</sup> noted that:

In the 10 years to June 2007, Australia's population increased by 1.3 per cent per year on average, with just over half of this growth resulting from natural increase and just under half from net overseas migration (NOM). In the last 2 years, Australia's population has grown by 1.5 per cent per year, *with (NOM) contributing more to population growth than natural increase* in the year ended June 2007. In 2006-07, there were 274,300 births and 134,800 deaths in Australia, resulting in a natural increase of 139,500 people, while NOM contributed 177,600 people to Australia's population [Italics added].

Immigration policies will therefore have an impact on the difficulty or otherwise of meeting the challenge of the ageing population. This has been conspicuously absent from the current debate (visit the first sub-section of the ACCCI page relating to “Australia’s Political Setting 2013: A Federal Election Year”).<sup>7</sup> It is also worth noting that the ACCCI Website contains a review essay<sup>8</sup> of a leading book on the global implications of population decline by Susan Yoshihara and Douglas A Sylva (*Population Decline and the Remaking of Great Power Politics*). Current information suggests that Australia can be less concerned than other nations such as Japan and China, for which the population decline began earlier and for which net overseas migration has been less. It is nevertheless important for Australia to avoid waiting in the hope that other nations will solve the ageing problem and pass along

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<sup>6</sup> <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5A3139FFA7C3B9F6CA25773700169C5D>.

<sup>7</sup> <http://www.accci.com.au/PoliticalSetting.htm>.

<sup>8</sup> <http://accci.com.au/PopulationTrends.pdf>.

their discoveries. Experience in Germany, Italy and France for example, indicates that fundamental reforms to old-age pensions becomes increasingly more difficult as the population ages since that group is more affected by reforms and gains political power as a result of its growing population share. This can produce a form of gerontocracy that works against intergenerational equality.

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