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Grim warning as the nation ages

The third Intergenerational Report, delivered yesterday by Treasurer Wayne Swan, contains grim assessments on the forces shaping the national economy during the next 40 years. However, those predictions do not necessarily point to a bad outcome, if the government of the day takes careful note of how it should react.

The report highlights the need to make smart investments in the nation's future that look beyond the next election, to the next generation. It also demonstrates the positive role that a well-structured immigration program plays in offsetting the impacts of an ageing population.

As forecast in previous editions of the Intergenerational Report, the principal problems are the rapidly escalating pressures on the health system and the environmental and economic challenges of climate change. The ageing population remains a main driver of change because, by 2050, nearly one quarter of Australia's population will be aged 75 years and over, compared with 13 per cent today, and the number of people aged 85 and over will more than quadruple in that time. The result will be that there will be only 2.5 people of working age for every person aged 65 and over, compared with five people now. The cost of pensions and health care for senior Australians will push the country into debt unless more savings are found or the productivity of the workforce is improved.

What Australians want to know is what all this means for them in terms of economic growth, living standards and the federal budget, and what the Federal Government proposes to do. Mr Swan's theme in issuing the report was that the Government would indeed rise to the challenge and is already addressing the problems posed by the nation's demography. He pitched to the nationalistic spirit to galvanise the collective effort needed and patted Australians on the back for their role in Australia's stirring recovery from the downturn imposed by the global financial crisis. Last year, Australians enthusiastically spent their fiscal stimulus payments from the Federal Government and this contribution helped the economy claw its way back to respectable growth.

Now the focus is on improving productivity, not spending, to address the problems facing the nation. The Government says if productivity growth is boosted from an average of 1.6 per cent to 2 per cent a year, and sustained over the next 40 years, real Gross Domestic Product per person will be around 15 per cent higher. That is equivalent to raising living standards by \$16,000 a year in today's

dollars by 2050, for every man, woman and child in Australia.

The path towards higher productivity will appear murky to ordinary workers already struggling to keep up with ever-increasing mortgage costs and they will be relying on the Government to undertake a new round of national micro-economic reform to boost productivity and workforce participation. The Rudd Government, however, has not been noted for making tough decisions, as opposed to picking the low hanging fruit of symbolic actions.

Mr Swan unveiled spending on programs to provide training and support for older Australians. The \$43 million package is modest but is welcome for encouraging older people to stay in the workforce. Improving the employment prospects of older Australians is a key to tackling the challenges of an ageing population.

Opposition Leader Tony Abbott takes the view that the Government is now engaging in a new blame game by suggesting older Australians are responsible for the nation's economic problems. This is not the case and one need only look back at the first Intergenerational Report, issued by then treasurer Peter Costello, to see similar predictions of a dramatic expansion in the proportion of people past retirement age, and the resulting economic problems. Mr Costello tightened the list of free medicines to cope with the predicted budget blow-out.

Mr Swan issued the report on the eve of Parliament resuming for the year – in a year in which an election is expected. His political motivations became clearer when the report revealed that the cost of the Opposition blocking means testing for the private health insurance rebate would be \$100 million over 40 years.

Some people may choke on Prime Minister Kevin Rudd's recent reference to a "big Australia" with a population of 35 million in 40 years. This figure comes from yesterday's report, which notes the significant change in population forecast for 2047, from 28.5 million in the last Intergenerational Report in 2007, and the new forecast of 34.9 million. This is mainly due to higher fertility, lower mortality and higher net overseas migration. A rising population seems inevitable but the rate of growth will be hotly debated as the Federal Government frames its response.

As Mr Swan said yesterday, the quality of life, the environment and social harmony should be maintained as Australia's population grows.