

23 December 2002

Mr Adam Cunningham  
Inquiry Secretary  
Standing Committee on Ageing  
Parliament House  
CANBERRA ACT 2600

Dear Mr Cunningham

**Inquiry into Long-Term Strategies to Address the Ageing of the Australian Population over the next 40 Years**

The Australian Industry Group (Ai Group) is Australia's largest national industry organisation. We welcome the establishment of the House of Representatives Committee on Ageing. We regard the ageing of the population as a central focus for policy and see much of our own policy interests and research program as bearing on this important area.

In the remainder of this submission we would like to provide an overview of what we see as the major strategies related to the ageing of the population and to alert the Committee to the relevance to population ageing of particular areas of our current policy research program.

**Strategies to Address the Ageing of the Population**

The ageing of the Australian population (the increase in the proportion of aged people in the total population) is a long-standing phenomenon. Acceptable strategies that could address the process of population ageing itself are confined to measures that would raise rates of fertility or rates of immigration.

Strategies in these areas – even in combination – are not likely to be totally successful in countering the ageing of the population. That said, policies in both areas could reduce somewhat the rate of increase in the proportion of aged to the total population and the Ai Group would support close evaluation of positive and effective strategies in these areas.

*Fertility Rates*

Fertility rates have been declining (unevenly) in all developed countries for a considerable time. While there are many factors involved, the rising opportunity costs of having children appear to be central. While this is largely a matter of individual choice, there are social benefits (and costs) associated with higher rates of reproduction not captured in the assessment of private costs and benefits that weigh on the individual decisions of potential parents.

In the context of the ageing population, the Ai Group supports a greater consideration being given to the investigation and implementation of strategies that address the high opportunity costs of having children. We recognise that the role of government is well established in this area with programs already available through the tax and transfer systems in addition to public support for child care, education and health.

As discussed further below, the Ai Group has an active research program in this area concentrating on the incentives and barriers surrounding workforce participation. An important element of this is to investigate the disharmonies between work and family commitments that bear on decisions relating to family formation and workforce participation.

While we are supportive of research and policy development in this area, we note that strategies that raised fertility rates would, at least in the short and medium terms, add to some of the budgetary and economic concerns surrounding the ageing population.

- Certainly within the 40-year time frame covered by the Committee's terms of reference, an increase in fertility would raise the total dependency rate and would increase budgetary pressures from the health and education expenditures arising from the greater number of younger people.
- A return to higher rates of fertility may also involve a partial return to the lower rates of workforce participation rates (of women in the 20 to 40 age group) evident when rates of fertility were higher.

### *Immigration*

The Ai Group also supports higher levels of immigration. We feel that economic considerations (including with respect to the age of migrants) should have a high priority in determining both the level and the composition of immigration. That is not to devalue the place of the humanitarian and family reunion components of the total immigration program. We do, nevertheless, maintain that in striking the balance between the various components of the immigration program, a very close eye should be kept on the overall economic impacts of immigration.

We note that both the level and the age structure of immigration into Australia would have to change markedly for it to make a significant contribution to offsetting the ageing of the population. Further, for immigration-based strategies to have a lasting impact on the ageing of the population, these changed parameters would have to continue indefinitely.

Australia's immigration program needs to be socially sustainable and requires bi-partisan support. These requirements tend to place a limit on the rate of immigration and, indirectly, on the degree to which immigration can be employed as a strategy in addressing the ageing of the population.

## **Strategies to Address the Budgetary and Economic Impacts of Ageing**

In the context of the 40-year time span covered by the Committee's terms of reference, the Ai Group attaches greater weight to strategies that could address the potential impacts of ageing on budget outcomes and on overall economic performance.

While all projections should be treated very tentatively, The Intergenerational Report (TIR) released with the 2002-03 Budget provides a very useful point of departure.

- Under current demographic trends and existing policy settings, the ageing of the population is projected to see a significant escalation of Commonwealth and State budget expenditures on health, pharmaceuticals, age pensions and other aged care programs. Allowing for some offsets in other areas, overall budget expenditures relative to current levels are projected to increase by around 5 percent of GDP by 2041-42.
- As to overall economic performance, TIR projected a slower rate of growth of GDP over the next 40 years than that experienced over the previous half century. The projection of reduced overall economic performance is driven by the anticipated slower rate of population growth and expected falls in the overall rate of labour force participation.

### *Addressing Budgetary Impacts of Ageing*

At the broad level addressing the budgetary impacts of an ageing population can be pursued on the expenditure side or on the revenue side of the budget. The Ai Group supports strategies on both sides of the budgetary equation.

#### Expenditures

The Ai Group supports active strategies aimed at reducing the projected growth of expenditures. This implies:

- exercising strong fiscal discipline - particularly over areas of projected expenditure growth related to ageing;
- adopting structural reforms that would assist in reducing costs in these areas (particularly in the area of health care); and
- a greater self-provision of retirement incomes and health insurance.

The Ai Group has a particular interest in the incentives surrounding saving in general and saving for retirement in particular. Improving these incentives actively is a positive step towards encouraging self-provision of retirement incomes.

- The Ai Group strongly believes (and has publicly advocated) that any extension of compulsory superannuation contributions should be met by employees rather than adding further to the burden currently borne solely by employers.

- The Ai Group would also support a careful reassessment of the taxation of superannuation with a view to decreasing the call on future budget expenditures.
  - In 1988 measures which brought forward the tax collected on superannuation were introduced (these were extended by the surcharge on the superannuation contributions of higher income earners). In the light of the budgetary outlook raised by the ageing of the population, the wisdom of this policy direction needs to be reconsidered.
  - Even a partial reversal of the measures introduced from 1988 would see after-tax contributions to superannuation funds increase and/or a faster after-tax rate of accumulation of fund income. Either or both of these would increase the quantity of resources available for self-provision of retirement incomes and would therefore reduce public expenditures on income support for the aged in the future.
  - Assessment of the budgetary impact of these measures should take into account the revenue lost in the short-term as well as the revenue gains and expenditure reductions over the long-term.
  
- As part of the strategy of moving towards greater self-provision for retirement, non-superannuation incentives to save also need to be examined closely. The rates of tax on income from saving is an important area, particularly as the top marginal tax rate of 48.5 percent cuts in at \$A60,000. The overall budget impact of the disincentives to save arising from the high effective rates of tax due to the interactions between the 40 percent shade out rate for age pensions and income tax arrangements also warrants attention.

### Revenue

It is useful to distinguish between two aspects of the revenue side of the equation. Strategies can be devised to increase the tax base or they can be devised to squeeze extra revenue from a given tax base.

The Ai Group supports active strategies aimed at increasing the total revenue base. These are covered below in the discussion of overall economic performance.

In contrast, the Ai Group does not support the passive strategy of raising rates of tax paid by future generations of taxpayers. Apart from the issues of intergenerational equity raised by this approach, we see it as essentially counterproductive.

- Raising tax rates will detract from the ability of the business sector to generate economic growth.
- Raising personal income tax rates from their already very high levels will adversely impact on incentives to save and to participate in the workforce.
- In the context of the ageing population the incentives to save and work assume greater importance and the overall strategy should be to enhance such incentives rather than to further erode them.

## *Overall Economic Performance*

The Intergenerational Report raises the prospect of a rate of GDP growth slower than that experienced over the past half century. This is due mainly to the projections of a lower rate of growth of the total population and the associated reduction in the proportion of people of workforce age. In its projection of GDP growth, TIR assumes a rate of productivity increase equal to the average over the last thirty years.

The Ai Group does not regard TIR projections as inevitable and sees significant opportunities to improve overall economic performance through policy initiatives aimed at:

- increasing participation in the workforce and reducing unemployment; and
- raising the rate of productivity growth.

## Workforce Participation and Unemployment

The Ai Group regards improving workforce participation and reducing unemployment as key areas for policy development in the face of the ageing of the population and we have embarked on a major research project in this area.

Greater workforce participation has two important benefits in this context. Through its impact on raising the value of goods and services produced (i.e. GDP), it expands the tax base and increases the resources available to individuals to provide for their own retirement.

We have identified the following areas as the focus of our further work in this area.

- The disincentives to work due to the interaction of the social security and tax systems present major barriers in decisions about entering the workforce and extending the number of hours worked. These disincentives arise with all income-tested benefits including unemployment, disability and parenting and family payments. Policy in this area is complex because the income-testing of benefits is the means by which income support payments are targeted and expenditure is contained. While it is a complex area, few would argue that the present arrangements could not be improved significantly.
- Monetary disincentives are not the only barriers to improved workforce participation. Three particular areas we have identified are:
  - disharmonies between work and family commitments (particularly, but not only, in relation to child care);
  - cultural and other barriers to the participation in the workforce by mature-aged people (with the relatively recent decline in the participation of mature-aged male workers standing out as an area of particular importance); and
  - cultural and other barriers to the participation in the workforce by disabled people.

Specifically in relation to mature age workers, our research suggests there is considerable scope to improve mature age participation in the workforce by

addressing widespread misconceptions about older workers both by their existing employers and by employers looking to recruit new staff. These misconceptions range across issues such as the perception of a “retirement age”, a perception of higher Occupational Health and Safety risks associated with older workers, an under-valuation and under-utilisation of the experience of older workers and a perception that older recruits are less likely to develop on-the-job attributes sought by the potential employer.

There is additional scope for improving mature age participation by encouraging greater workplace flexibility and by encouraging a closer consideration – both by employers and older employees - of part-time work and job-sharing opportunities. While these opportunities are often associated in the context of female workers balancing work and family commitments, we have found they are less likely to be considered in the context of mature age workers.

There is considerable scope to increase the workforce participation of mature-aged workers through innovations in education and training. These include:

- Greater recognition by managers, individual workers and by unions of the importance of life-long-learning and its incorporation into the institutional arrangements governing work.
  - Improved access to more flexible learning arrangements – particularly through short courses relevant to job requirements and through more widespread use of e-learning.
  - Improved procedures for the more thorough recognition of prior learning and current competencies (including competencies and learning acquired or developed on-the-job).
- The *degree* of participation in the workforce (i.e. the number of hours worked) is another important policy area. In particular the Ai Group is concerned about what appears to be an increasing focus by sections of the union movement to erect further barriers to the number of hours worked by parts of the workforce. Given the importance of workforce participation in the context of the ageing of the population, we regard the imposition of additional, extra-contractual limits to working hours as poor policy.
  - Reducing unemployment also offers potential to ameliorate the demographic pressures on the size of the workforce.

Without pre-empting the results of our further research, the particular emphasis of the Ai Group in this area is on strategies to address “structural unemployment” – the imbalance between the skills of the unemployed and the skills required by potential employers. Policy in this area needs to focus on the availability, flexibility and suitability of training facilities. Particular emphasis needs to be given to the long-term unemployed and the difficulties faced in adapting to work after a prolonged absence.

## Productivity

The final set of strategies to address the impacts of ageing covers measures to enhance productivity growth.

The Ai Group identifies policies in the following areas as central to improving Australia's rate of productivity growth.

- Stable and prudent fiscal and monetary policy
- A willingness to make far-sighted investments in our physical environment, in education and training and in innovation
- Ongoing microeconomic reforms (including further improvements to workplace flexibility)
- Enhanced access to international markets.

As with improvements to workforce participation, higher productivity will increase both the revenue base from which budget commitments can be met and the potential for individuals to provide for their own retirement.

We thank the Committee for the opportunity to provide our views. We regard the work of the Committee as very important and we would welcome the opportunity to expand on the issues raised in this overview.

Yours sincerely

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