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

Dear Mr Cunningham

Inquiry into Ageing

Introduction:

Thank you for the invitation to contribute to the Committee's Inquiry into long-term strategies to address the ageing of the Australian population over the next 40 years.

As noted in the submission of Sustainable Population Australia's (SPA's) Canberra Region branch, our vision is one of:

A relationship between humans and the natural environment which ensures the integrity and sustainability of the earth's life support systems, the on-going evolution of natural living systems, and the well-being of every person in a sustainable population.

In this submission, we spend some time focussing on the environment because we believe the ageing issue must be set in context, that is, of a nation with a deteriorating ecology that will impact heavily on the economy as the current drought is already doing. We cannot really contemplate a business-as-usual economy in light of the need to change our practices. Nevertheless, we will address the ageing issue from demographic and economic points of view, in the hope that the environmental problems can be overcome or at least minimised.

In order to achieve a sustainable population, we recognise it is necessary to be aware of such demographic trends as the ageing of the population. We certainly do not deny that there is a trend, however, we believe it is both manageable and affordable. In the words

of Pamela Kinnear¹, we believe the ageing of the Australian population should be regarded as a transition and not a crisis.

SPA's Population Policy notes:

Ageing

- *Australia has an ageing population, though compared with most other developed nations, it has a comparatively young population*
- *ageing is caused by the transition from an expanding to a stable population and also from increased life expectancy as health care improves*
- *immigration will not alleviate ageing, except at very high and socially unacceptable levels²*
- *several reputable studies have shown that the prospect of an ageing population is not a major problem for Australia and potential labour shortages can be off-set by allowing those who wish to remain in the workforce longer to do so^{3,3a,3b,3c}*
- *Australia's current fertility rate of 1.7 is high enough not to lead to rapid ageing⁴ but low enough to lead to stabilisation of the population, were net overseas migration to fall below 70,000 per annum (alternatively, fertility of 1.65 and net migration of 75,000)⁵*

Environmental context

As noted above, we must emphasise that the issue of ageing must be set in the context of Australia's capacity to support a human population at a given standard of living. We believe that, at current standard of living, Australia with 19.6 million people is not living sustainably. Evidence for this is found in two major reports issued this year that paint a depressing picture of a declining Australian environment.

These reports are:

- *Australia - State of Environment Report 2001⁶ that found that the state of the natural environment had improved very little since 1996 and, in some critical aspects, had worsened*
- *Measuring Australia's Progress⁷ that found that while most economic and some social indicators were improving, all but one environmental indicators were declining.*

The Australian Government, on the other hand, claimed in its report on our environment to the recent Johannesburg World Summit on Sustainable Development⁸ that the environment was now on a more desirable trajectory. The Australian Conservation Foundation and a number of other like-minded groups, however, commissioned Dr Peter Christoff of Melbourne University to respond to the report⁹. He rejected the Government's claim that the environment was now on a more desirable trajectory, claiming the data showed otherwise. Christoff said that over the past decade, in ecological terms, Australia has been a continent in reverse. Reflecting the actual provisos of the Government report, he said:

It is going backwards on nearly every major indicator of our environmental health, including the loss of animals and plants, land clearing and degradation, the condition of

Australia's inland waters, and greenhouse gas emissions. Per capita, Australians generate more greenhouse gases and clear more land than any other wealthy nation.

Christoff went on to say biological diversity maybe now entering a period of crisis; permanent clearing of native vegetation remains the single most significant threat to Australia's biodiversity; land degradation is an intensifying problem with salinity now recognised as one of the greatest environmental threats facing the country; Australia is the driest inhabited continent yet has the highest rates of water consumption per head in the world; over a quarter of Australia's river systems are either close to or have exceeded their limits of sustainable use; and climate change perhaps poses the single greatest threat to life on Earth other than nuclear war.

SPA agrees with Christoff's assessment of climate change as a great threat, not only to the environment but also to agriculture and the Australian economy as a whole. As Clive Hamilton said at the Climate and Culture Conference at the National Academies Forum in Canberra in September this year¹⁰, after noting that global temperatures may rise by as much as 6 degrees C:

...the consequences for Australia of climate change will be horrendous. There is a high probability of many areas settling into a permanent El Nino state, southwest Western Australia will be almost uninhabitable; water flows in the Murray-Darling will fall by 20-40 per cent, and severe damage is expected to be visited on the Barrier Reef, Kakadu National Park, the snowfields, wetlands and on and on.

Hamilton went on to say the farm lobby was in denial about this though it would be the most severely affected. Reduced stream flows would have huge implications for irrigators; annual milk losses per cow of 60-90 litres annually are anticipated; fruit fly and cattle tick will move southward; and weed infestations will be worse. Just in the Macquarie River Basin of northern NSW, CSIRO predicts that annual run-off will be reduced by up to 30 per cent and that by 2030, aggregate losses to the agricultural economy ranging from 6 per cent in a low- change case to 23 per cent in a high-change case.

One farmer, fortunately, is not in denial. Former National Party leader Tim Fischer believes that "there is a very direct challenge for agriculture in NSW and Australia arising from climate change, and this will have severe impacts on production in forthcoming decades."

Fischer also acknowledged the obvious in April last year, while launching the Australian Water Resources Assessment 2000 report, when he said: "Australia's natural resources underpin our economic development."¹¹

To return to the Climate and Culture Conference, Professor Ian Lowe from Griffith University was also there where he told Ken Davidson of the Age that:

...the global carbon budget to stabilise the atmosphere is about 40 per cent of the

present level, and if this is shared out equally on a per capita basis the Australian share [assuming we have stabilised our population at about 22-23 million and the world has stabilised its at about 9 billion] will be about 10 per cent of the present level¹².

That is, we have to get our emissions down to **one tenth** of present levels.

Needless to say, any increase in population, given these exigencies, will only worsen the situation. Thus, any proposals to deal with ageing through boosting the birth rate or immigration are erroneous and must be dismissed. We must find a path to a sustainable future with the current population or less, and indeed, even with a stable or declining population, one that uses significantly less in fossil-fuel energy and material throughput.

SPA rejects the assertion by many economists that only increased wealth through economic growth can cure the environmental problems we face. While there is a glimmer of truth in it, the overriding fact is that most of our economic activities, particularly those based on the use of fossil fuels, give rise to the environmental problems we face, particularly with respect to climate change. Thus, reducing fossil fuel energy and material use, as well as changing land management practices such as land-clearing, lie at the heart of the solution to our environmental ills, not more business-as-usual economic activities.

Dependency ratios

In addressing the issue of ageing from a purely demographic perspective, it is necessary to look at dependency ratios for the coming decades. The dependency ratio is generally defined as the sum of 0-15 and 65+ age groups with the working 16-64 age group, though dependency these days often stretches well into the 20s and many retire earlier than 64, nevertheless, we accept this definition for argument's sake.

In the recently released CSIRO Report, Future Dilemmas, the authors Barney Foran and Franzi Poldy noted that because of the large number of "baby-boomers" still in working age, dependency ratios will remain healthy for twenty years at least¹³, under all three of their population scenarios (20,25 or 32 million by 2050). Foran advises¹⁴ that this is a critical period when we can set the country moving in the right direction with respect to technology, energy use, superannuation etc in order to cope with worsening dependency ratios, that is, relatively fewer workers, or, an ageing population. The report then notes that the lower population scenario leads to higher dependency ratios thereafter, however, it says "...this interpretation hides a number of factors. The first is that proportional values mask absolute numbers, so while the high population scenario has a lower dependency ratio, there is also a larger number of dependents, albeit supported by more people in the working age."

The CSIRO Report goes on to quote Hugo (1999)¹⁵ who noted that the over 65 age group are not necessarily dependent in the traditional sense, and might continue to work and to participate. And if they are self-funded retirees with a demand for goods and services, they may be regarded as business opportunities rather than burdens on the economy or

the working population. Hugo had also noted that lowering unemployment may increase the incentive for older people to stay in the workforce both to maintain life-style as well as for personal fulfilment.

Ross Guest and Ian McDonald^{16,16a} argue that those who worry about flat or declining population projections (i.e. ageing) should spell out clearly what they see as the nature of the problem. They say they should go beyond simple dependency ratios to focus directly on the outcomes that matter, namely living standards, since this is what affects people's well-being. Their work, in fact, has shown that the negative effects of population ageing on future living standards is small and will be much more than off-set by the growth of labour productivity. They say that if current rates of fertility and immigration continue, living standards will be about 84 per cent higher than today. They originally said this in March this year and in May immigration levels were raised by at least 15,000, so SPA is unsure of how these figures might be affected. Nevertheless, they argue that the projected rise in living standards is remarkably insensitive to either fertility or to immigration. This is because of two "consumption dividends" that will be reaped by the anticipated demographic changes. One is generated by the lower investment requirements from low employment growth, and the second by the decreasing proportion of children. Both these enable living standards to be enhanced, thus offsetting the costs of having more old people to support.

Guest and McDonald's work is largely corroborated by Prof Steve Dowrick of Australian National University, who in a lecture there last month¹⁷, said that with an ageing population, Commonwealth spending on the elderly would double in the next 40 years due mainly to the increased costs of health and aged care. He also noted, however, that 75-80 per cent of health costs come from "enrichment" of health services such as better technology and personal demands of patients, rather than decreasing health. But off-setting this fiscal problem is the fall in fertility associated with rising educational standards of women which in turn leads to increased participation in the workforce and strong productivity growth. Dowrick anticipates that if growth continues at two per cent per annum, productivity and real wages will have risen by 120 per cent in 2042 - the operative year in the Intergenerational Report. Because of demographic expenditures (increased care of the elderly) it will be necessary to raise the total fiscal burden (taxes) from 30 to 35 per cent, reducing the real post tax wages from 120 to 104 per cent of current wages.

In other words, wage-earners in 40 years time will be slightly more than twice as well off in income terms.

Increasing the participation rate

As has already been mentioned, increased participation will off-set the effects of a decline in the number of traditional working age, that is, the 16 to 64 age-group. Unless immigration is maintained at unreasonably high levels (and SPA would argue that this is the case, particularly after the increase by the Minister for Immigration this year), unemployment may be expected to fall. This can only be welcomed as unemployment

(now back to 6.1 per cent) and underemployment (variously estimated at anything up to 15 per cent) are a scourge on our society. Thus unemployed able-bodied men and women are more likely to get work.

As noted above, better-educated women will also participate more and be more productive. But the area of greatest opportunity for increased participation will be in those aged over 55. According to an Age editorial¹⁸, a "...2001 Department of Human Services report found that the net benefit of employing an older worker instead of someone under 45 was almost \$2000 a year, mainly because of reliability and higher retention rates." But companies that actively recruit older workers are still the exception rather than the rule, and forced retirement of people over 50 is common. In Australia, 46 per cent of 55-64 year olds have no paid work, whereas, according to Prime Minister John Howard, in New Zealand and the US it is more like 60 per cent.¹⁹

As Ross Gittins wrote in the Sydney Morning Herald²⁰: "The more we can do to encourage baby-boomers to keep working and delay their retirement...the less will be the slowdown in GDP per person. (For every boomer who does so, there's the double benefit to the future dependent/worker ration - one less dependent, one extra worker.)

Incentives for increasing the fertility rate

SPA sees no need to increase the current fertility rate of 1.73 and so is ambivalent about incentives to increase the birth rate through paid maternity leave or other means. Paddy McGuinness expressed it eloquently in the Sydney Morning Herald when he said²¹:

By all means let us take measures to increase the options for women so that bearing children is neither an onerous and expensive (in terms of income foregone) duty nor a dedicated career excluding all other aspects of life. But these should be justified on grounds other than an attempt to bribe more women into having more children. In the meantime we ought to be thinking about ways to make a functional a community in which children (and childbirth) are much less common than they used to.

According to the secretary to the Federal Department of Treasury, Dr Ken Henry²², more babies will not save Australia from the consequences of an ageing population anyway, at least in the short term. He said more babies would not increase the numbers in the working age. An increase in the fertility rate might eventually increase economic growth, he said, but at the cost of a bumpy economic transition. He argued the best way to off-set the effects of an ageing population was to "increase participation and productivity". He said GDP and GDP per capita would be 20 per cent higher if Australia could lift its participation rate in 2042 from a projected 56 per cent to 60 per cent and achieve annual productivity growth of 2 per cent rather than 1.75.

Conclusion

SPA sees no reason to panic about an ageing population, particularly if fertility rates stay above 1.5. It does not support measures to increase the birth rate per se, though financial

help to ensure no baby is born into poverty must not be rejected out of hand. As Ken Henry, secretary of the Department of Treasury himself says, it is far better to increase productivity and participation rates than to increase the birth rate as a means of dealing with ageing.

SPA believes, however, that the issue of ageing pales into insignificance alongside the significant environmental problems facing Australia. We are concerned, indeed amazed, that demographers and economists can ignore the environmental problems facing us that will impact heavily on both the economy and society as a whole. We believe it is absolutely essential to adopt preventive policies that will minimise these problems and so a precautionary approach is required. Thus, significant population growth is out of the question, even if there is the necessary radical change in land management and energy use.

While deeply concerned about the future, ageing is not in the forefront of SPA's concerns. Instead, we welcome the prospect of a low fertility society, hopefully one reliant on renewable energy and with still functioning natural ecosystems. We would like to see a society where parents are no longer burdened by the costs of raising many children but are able to properly educate one or two, and have enough time to spend with parents and grandparents who remain in good health through their old age.

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