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Hockey looks to 'armies' in Intergenerational Report: experts react

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Abstract
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Hockey looks to ‘armies’ in Intergenerational Report: experts react

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Stephen Duckett is a Friend of The Conversation.

Women and older people form two 'armies' Treasurer Joe Hockey is hoping will help protect Australia's future prosperity. Mick Tsikas/AAP

Australia must encourage older Australians and women to enter and stay in the workforce in order to increase productivity and protect future prosperity, according to the Intergenerational Report released by Treasurer Joe Hockey today.

The government is projecting growth in the population of 1.3% over the next 40 years, however workforce participation to fall to 62.4%, compared to 64.6% in 2014-15.

Real growth in GDP is expected to slow, compared with the previous 40 years, to 2.8% per annum, due to the ageing population and gradual decline in the participation rate.

Hockey said the country must look to two "armies" - the "grey army" of older Australians, and women returning to the workforce, to deliver prosperity in Australia's future.

"That is where there is going to be a lot of structural effort over the next few years," Hockey said.

Other measures he proposed to improve productivity include investment in new capital and infrastructure, innovation and technology, and more entrepreneurship and competition.

We asked experts for their response.

Martin O'Brien, Senior Lecturer of Economics, University of Wollongong

As with previous Intergenerational Reports, encouraging older Australians to work longer is being pushed as the key message to combating fiscal pressures associated with our ageing population. Based upon Treasury's projections, nearly one in five Australians will remain in the workforce over the age of 65 by 2055, which doesn't sound like much. After all, we increased the participation rate of those aged 55-64 by close to 20% over the last 30 years or so. However, the simple projections quoted in the report hide a number of complex and competing trends for older workers.

First, there is a big divide by gender. Labour force participation rates for all male age groups over 55 have been stagnant since the global financial crisis. There is no evidence to suggest older men have returned to the labour force for financial reasons to recoup their losses from the GFC as touted by many elsewhere. In addition, welfare and pension reforms heralded by the government as the effective solution to our early retirement phenomenon appear to have stopped working. The only increase in older labour force participation we have experienced in Australia in the last 5 years or so has come from females, and even these trends look like they are plateauing.

Second, using the term “over 65” years hides another aspect of the story. We have experienced increases in participation of both males and females in the age group 65-69 over the last decade, however, at present we only have approximately 30% of males and 20% of females in the labour force. After this point less than 10% of males and 5% of females over 70 years remain employed. Of greater importance is the fact that the growth in the 65-69 group looks like it is starting to trend downward if anything. There was much fanfare in Treasurer Hockey’s announcement last year to increase the pension age to 70 and the purported effectiveness of this policy is referred to a number of times in the report. But the simple truth of the matter is that not many people will be in the labour force by this age and it will have little impact, especially if trends in the last 5 years continue.

As usual, concentrating only on the supply side of the economy leaves out half the story. The stalling economy and slackness in the labour market since the GFC (ie. lacklustre demand) is the reason older worker participation rates are stagnant. Participation rates will not increase simply because there are more older Australians.

Stephen Duckett, Director, Health Program at Grattan Institute

Treasurer Joe Hockey suggested readers would fall off their chairs when they saw what was in his Intergenerational Report. Falls are a health risk and luckily the Intergenerational Report doesn’t reveal as dire a future as we might have been led to expect.

The report is an overtly political document – highlighting the wondrous benefits which would accrue if the government’s 2014 Budget had passed and the horrendous situation we’ll be in if it isn’t. The picture painted is pure fantasy, likened by my colleague John Daley to a Harry Potter story.

Unlike previous intergenerational reports where the political agenda was less overt and took at least five minutes to discern, the politics of today’s report are designed to hit you between the eyes, make you fall off your chair, and get you to descend into a quivering wreck as a result of the trend lines, especially the bad trend line labelled “Previous Policy” which is the tumbril that the previous government had consigned us to. Salvation, though, is available in the form of “Proposed Policy” which is the good trend we’d achieve if all the Budget 2014 measures are passed. The middle road is labelled “Currently legislated” and represents those policies which have passed the recalcitrant Senate.

The reader is expected to draw the inference that the Hockey budget is or was the only thing that would save us from perdition. However, with a moment’s reflection we would realise that budgets are about priorities – one could design a budget that achieves the same net deficit position as that delivered in Mr Hockey’s but with a different mix of savings and spending proposals. The Proposed Policy trend line could thus be achieved with a different budget which might have a chance of passing the Senate.

The overall picture painted by the Intergenerational Report isn’t all bad. Despite the politics, it highlights sensible issues – we can’t keep running deficit budgets forever, we need to increase workforce participation rates (for women and older people who can) and we need to increase productivity (which we are doing but we need to go a bit faster). For a report which is designed to create (and frame) a discussion, it is a pity the report wasn’t used as an opportunity to canvass a range of policies about addressing these 40-year issues, rather than focusing on issues of the last 40 weeks.

Hal Kendig, Professor of Ageing and Public Policy, Australian national University

The 2015 Intergenerational Report (IGR) is a strong political statement that more than ever places population ageing and older people centre stage in public and political debate. It provides Treasury's technical projections (albeit based on questionable assumptions) wrapped in the Treasurer's political interpretation (aimed at Senate budget debate). One has to unpick the political message for today from the projections to mid Century. The fundamental IGR message is that actions beginning today could be turning points towards a better long-term future.

To put matters into perspective, Australia is experiencing relatively slower population ageing in an overall encouraging economic outlook compared to Europe, which is already managing with levels of population ageing that we will not reach for decades. Notwithstanding recent speculation about living to 150, it is encouraging to see the government beginning to celebrate the social achievements of more years of healthy living well into our 80s and beyond. Where to now?

The Minister for Social Services has picked up the necessary and constructive imperative to enable people to work longer (for the many who can and choose to work). The Age Discrimination Commissioner is leading the attack to dismantle the systemic ageism that undermines the dignity and contributions of older people. Government seems to have lost the message on the value of promoting continuing health and independence through the life span. There is strong evidence that older people can be part of the solution.

The IGR and the government also come close to blaming older people for rising costs of government, many of which are not intrinsically related to ageing. Accusing baby boomers of "intergenerational theft" runs contrary to our research on the deep intergenerational solidarity in Australia and the evidence that real incomes are projected to grow in the IGR. The major inequalities are found between those who are advantaged and those who are disadvantaged over their entire lives. Action here requires investment in human capital as well as attention to levels of government revenue and tax expenditure for privileged groups that remain invisible in the IGR.

John Buchanan, Director, Workplace Research Centre at The University of Sydney

I want to know where the jobs are coming from. Labour demand at that end of the life course is very limited. For many years they've been flogging the supply side of this, but Australia has a labour underutilisation rate of about 15%. There's a lot of older workers who want to work, but can't.

The second problem is there's no need to panic. We're getting older because we're getting better at doing things. The problem is not a productivity shortfall.

(Economist) Thomas Piketty showed the disproportionate amount of productivity gain has gone to the top 5%. Unless you have serious policy intervention, that dynamic of the rich pulling ahead of everyone else is what's causing instability in the system.

The moral panic is looking tired - solving all our economic problems by making everyone work until they die. But it keeps people's attention away from the distributional issue and focused on productivity.

Ian Lowe, Emeritus Professor, School of Science at Griffith University

As with previous reports in this series, there is a narrow focus on economic aspects of our future. Business-as-usual is assumed, despite the warnings of the World Economic Forum. The ideological obsession with growth and the discredited trickle-down theory leads to the conclusion that we must continue to be a low-tax society with very generous treatment of corporations and those on high incomes.

There is no sign the government even recognises the most serious threats to future generations: liquid fuel security, climate change, water shortages, loss of productive land and loss of biodiversity. These issues require planning and commitment of resources now.

The report also takes rapid population growth as given, when it is a direct result of government policies. The main driving force of population growth is the government's migration quota; it is especially questionable to import hundreds of thousands of potential workers each year when we have high levels of unemployment and under-employment.

We also provide financial incentives for having children when the annual "natural increase" - births minus deaths - is about 150,000. These policies give us a rate of population growth more like a poor Third World economy than a modern industrial nation.

Alan Pears, Sustainable Energy and Climate Researcher at RMIT University

Any intergenerational report needs to review the way we evaluate new infrastructure projects and policy on long-lived private assets such as buildings: much lower discount rates must be applied (for example, as proposed by Ross Garnaut in his original climate review) that place some value on the long term impacts and benefits of public and private investment.

For example, if the cost-benefit analysis for building energy regulations applied a lower discount rate, much higher efficiency standards than today's 6-star rating would be very cost-effective.

Our rapidly accelerating energy revolution must also be considered. Global demand for our fossil fuel exports will collapse, while other energy solutions will grow. At the same time, energy consumption for production of materials and delivery of many services will decline as industry and our overall economy is transformed. Low carbon growth industries will include health, recycling/reprocessing, IT and telecommunications (including "virtual transport"), decentralised manufacturing (eg 3D printing), manufactured housing, etc.

These transformations will impact adversely on many people's retirement funds unless fund managers act fast to shift funds from fossil fuel and conventional centralised energy systems to emerging energy alternatives and low carbon businesses.

The limited coverage of climate change in the full report is weak, and essentially says government will fund research and allocate funds as necessary to deal with it. If this had been written 20 years ago it would have been reasonable.

But in today's context it is a serious failure in framing our "intergenerational compact". The next generation will not thank us.

Richard Norman, Senior Research Fellow in Health Economics at Curtin University & Rosalie Viney, Professor of Health Economics at University of Technology, Sydney

The IGR predicts federal health expenditure to increase from 4.2% of GDP to 5.5% in 2054/55 under the government's "proposed policy" scenario.

A notable feature of the Intergenerational Report's projections on health spending is that growth in pharmaceutical expenditure is conservative compared with Medicare Benefits Schedule (MBS) expenditure. The MBS is the list of services subsidised by the government through Medicare. Much of this is driven by the decision to change the assumed growth model for MBS spending to an exponential one while retaining linear growth models for pharmaceuticals.

In fact, Australia's ageing population and increasing prevalence of chronic conditions are significant potential drivers of pharmaceutical expenditure. The overall expenditure projections remain relatively stable under the proposed policy scenario because MBS expenditure increases are counterbalanced by assumed stability in Australian government public hospital and private health insurance expenditure.

The basis for this is that proposed policy links this expenditure to CPI and population growth only. But the drivers of MBS expenditure are the same drivers of public and private hospital expenditure. So the upshot is increase and arguably unsustainable pressure on private health insurance costs and state public hospital expenditure.

Overall, the figures demonstrate the likelihood that health spending will increase relative to GDP. But to argue this represents the unsustainability of the system requires additional logical steps, particularly since Australia sits towards the lower end of the OECD in this measure.

More broadly, while long-term predictions are valuable, uncertainty in these estimates is important. If a similar report had been commissioned in 1975 predicting health expenditure today, significant changes would have been omitted, including the growth and development of Medicare and e-health, for instance, rapidly changing patterns of immigration and the early impact of genomics, among other things.

So while these figures have merit, we must keep the uncertainty around them in mind when they're used to justify policy.