

20 October 2004

Ageing Impacts Study  
Productivity Commission  
Collins Street,  
Melbourne, Vic, 3000

By email: ageing@pc.gov.au

Dear Sir/Madams

I believe the impact of aging should be studied within the wider context of other possible factors and trends. Some issues that may be worth considering include:

**Consumer Spending**

Aging and rising household debts will affect consumer spending in the future. The ABS Household Income and Expenditure Survey can assist in modeling the effects. My own analysis suggests aging will result in a gradual decline in growth in consumer spending in the next 10 years and beyond.

Higher household debts and household dissaving will magnify the slowdown in consumer spending in the years ahead. Lower growth in consumer spending will impact on tax revenues. There will be a decline in spending on alcohol and tobacco, and perhaps petrol – with an adverse effect on tax revenues.

**Savings**

With low national savings, there is less capacity to fund productive investment and infrastructure. In Australia, is the recorded level of national savings artificially high when taking into account claims that Australia's infrastructure and natural capital are being run down?

Should governments do more to promote household savings, particularly as corporate and government savings levels may not be sustainable in the future? How would this affect tax revenues?

**Housing**

There will be a change in the mix of housing types in Australia, due to the demands of an aging population (e.g. toward smaller houses). How will this affect housing prices? If housing prices stagnate or fall (more particularly for the types of housing used by young families), how will this affect consumer spending in the future? How will this, much less a less speculative housing market, affect government stamp duty revenues?

Will there be some migration of a growing retired population away from cities to other areas in Australia? This may occur as people seek to access equity in housing and pursue alternative lifestyles. It may have an adverse effect on housing prices in cities.

### **Infrastructure**

There are growing claims that infrastructure and the environment are being run down in Australia. If these claims are right, government spending may be required at a time when there are fewer taxpayers.

If there is a movement of people within Australia due to aging, this will require additional infrastructure spending.

### **Household Debt**

Household debts have increased from about 40% of household incomes to 150% in the last 10 years. This has provided the liquidity to bid up housing prices and to bolster consumer spending. As the population ages, growth in household debts will probably slow. What impact will this have?

“Low doc” loans and reverse mortgages are on the increase, promoting additional growth in household debts. Will a lack of debt serviceability compromise the integrity of our financial system? Will the ability to borrow against equity result in some people spending all their wealth before death? That would result in more people seeking access to welfare. It could also mean a decline in inheritance.

### **Health & Welfare**

Health spending will need to increase due to aging of the population, growth in the number of disabled people, and a decline in family. There will be an increase in the longevity of people with disabilities caregivers (the population of people aged over 80 years will grow at a rapid pace).

Growth in lone-person households will also contribute to a decline in family carers.

Despite increasing expectations of the rights of the disabled, the Commonwealth Government’s planned level of high-level care is not increasing. If workforce participation is to rise, will there need to rebalance the mix of more expensive institutional (and high-level) care and less expensive home and community care?

Governments and business may seek to boost spending on health to assist increase workforce participation (at later ages) and productivity, and reduce the incidence and severity of disability. Governments will also need to address the disincentives to move from welfare to work.

Governments may increase spending on health research to increase quality and reduce future health expenditures.

Governments may wish to spend more on promoting healthy lifestyles (e.g. working hours, diets and exercise).

Governments may wish to do more to reduce the incidence of single parent families.

### **Workforce Participation**

A decline in home ownership may have negative consequences for workforce participation.

A cut in hours the working week may increase workforce longevity, as may more holidays.

Should governments do more to promote business ownership?

### **Retirement Incomes and Superannuation**

Will an increase in household debts result in more people drawing down super to pay off debt? Will an increase in longevity result in more people running out of their super? How will a decline in home ownership affect the needs of people in retirement?

Should governments defer the eligible age for access to superannuation/pensions?

Growth in superannuation contributions will begin to slow and drawings will increase. How will this affect financial markets, private sector investment, and tax revenues? How should government respond?

### **Industry Policy**

Should governments promote industries in which older people are better able to participate as workers?

Low levels of business R&D in Australia may adversely affect future economic growth. Will governments need to spend more to promote R&D?

### **Education**

The aging of the population will require an increase in life-long learning (to keep up with technology etc). How will this affect government spending on education?

A decline in the population of children of school age will result in a reduction in overall government spending in this area. Some schools will be closed. Access to education may affect family decisions on where to live. Governments will need to develop strategies to ensure resources are allocated appropriately.

In light of a decline in the proportion of the population of working age, the government may need to spend more on education on a per capita basis.

How will universities and TAFEs respond to a decline in students coming from Australian schools? Can they rely on future growth in overseas students, particularly

when other countries are focusing more on this market and when countries in the region become more developed. As other countries in our region develop, they will demand less of our intellectual property. They will develop their own education systems, which may ultimately export education to Australia.

### **International Trade and Balance of Payments**

How will aging in other countries affect the demand for our exports?

There has been a long-term decline in real prices for mining commodities. Is the current commodity boom a temporary phenomenon (like past booms), and will the past trend of decline continue?

Mine exploration has been low in Australia for several years. Some of Australia's commodities will eventually become exhausted. Oil production is already leveling off or falling. In the longer term, environmental considerations may adversely affect the demand for coal and coal exports. New low-cost resource deposits may be found in other countries.

Our manufacturing industry is in decline, with imports rising from countries such as China. A low level of business R&D in Australia does not bode well for exports of manufactures or intellectual capital. Other countries are concentrating on adding value to their exports, but Australia seems to be relying on commodities. How will the terms of trade turn? In the long term, I would back the value adders.

How will environmental factors affect rural exports?

### **Military Spending**

As other countries in our region develop, we may need to spend more on defense. How will this be funded?

How will aging of the population affect our ability to recruit military personnel?

Yours sincerely

Nigel Fitzpatrick