

25 October 2004

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

By email: ageing@pc.gov.au

Dear Sirs/Madams

Further to my submission dated October 20, 2004, a couple of other issues worth considering include:

1. The effect of the deferment of marriage and having children.

There has been a long term decline in marriage rates. People who are married are more likely to work (including when they are aged over 60 years).

Family formation at a later age can mean that spending commitments and debt accumulation can occur later in life. This can mean lower wealth and savings in retirement. It may also, however, tend to increase workforce participation at later age cohorts.

2. On the other hand, government policies are having the effect of increasing the cost of having and rearing children, which is contributing to a decline in the birth rates.

3. While the labour market may not be efficient, productivity levels by age cohort could be estimated by using average wage rates for the respective cohort. The number of employed persons by occupation and age cohort, relatively to the population in each age cohort, could give some indication of the effects of aging on productivity.

4. To estimate the effect of aging on innovation, the Productivity Commission could examine the age of persons lodging patents, publishing research papers etc. The Productivity Commission could look at all major Australian innovations (such as the Cochlear implant) and the key innovators of these innovations (more particularly the age when they began their innovations). For entrepreneurship, the PC could look at the age distribution of business owners and new businesses (if this currently information is available, for example from the ABS). New statistical survey may need to be commissioned.

5. Governments, particularly the U.S. Government, promote research in universities, because of the resulting infusion of innovation into the economy. A decline in young Australians going to university will adversely affect this source of innovation in

Australia. Governments may need to help universities offer a greater value proposition to students (in Australia and overseas), including in the sphere of research activities, and to the business sector. Government policy of increasing the cost of education to Australian students may not be consistent with this approach – and hence aging may provide governments with an incentive to spend more per Australian student on higher education. The government may also need to promote participation of older Australians in university and research activities.

6. It is possible that an increase in workforce mobility in recent years may have had the effect of increasing innovation in the workplace, as ideas become formed through more varied experiences and as ideas are transferred across employers and industries. Aging may slow down workforce mobility and hence this source of innovation. Governments could promote more cross-industry collaborations.

7. Government policies that promote a short term spike in asset prices (such as housing prices) must have the effect of promoting early retirement (at least while asset prices are high). At the same time, these policies can reduce home ownership levels (due to a decline in affordability), promote unproductive investment and lower savings, and increase household debts.

8. The trend toward double income families, and a run down in community participation, could have the effect of reducing the likelihood of undertaking in unpaid work (such as volunteering and caring in the future) as there will be fewer people who will have participated in such activities in the past.

9. If aging causes labour shortages and wage inflation, that will probably have some positive effect on workforce participation. Higher wage rates would attract labour into the workforce, as would the effect of inflation on the cost of living and on the real value of savings. But such inflation could also adversely affect government budgets (e.g. higher administration costs and higher pensions). Superannuation balances may also erode in value.

10. The assumed increase of ‘at home’ care resulting from aging needs to be put in context. The trend increase in lone person households, the decline in the availability of family care givers, any fall in the demand for unpaid work, and an increase in the population of the very old could all be factors promoting an increase in demand for institutionalised care in the longer term.

11. The growth in the population of retirees and elderly people will make this group more powerful politically. They will demand more resources devoted to, and better outcomes in, areas such as health and retirement incomes. Growth in lone person households will mean that more people will seek recourse to paid care.

Yours sincerely

Nigel Fitzpatrick