

9 November 2004

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

By email: ageing@pc.gov.au

Dear Sirs/Madams

Re: Aging Study – Submission # 4

A few further issues for your consideration follow:

1. PUBLIC HOUSING AND AGED CARE

How will the fall in the provision of public housing affect future aged care expenditures? According to Hal Kendig and Max Neutze, “increased targeting of residential care to frail people has been accompanied by decreasing availability of public housing. It is difficult for people to benefit from community care if they do not have secure housing in the community” (Source: Productivity Commission and Melbourne Institute of Applied Economic and Social Research 1999, *Policy Implications of the Aging of Australia's Population*, Conference Proceedings, Ausinfo, Canberra).

This would indicate that reduced levels of public housing may positively affect demand for institutionalized aged care.

2. PRIVATE HEALTH INSURANCE

An aging of the members of private health insurance funds will result in an increase in fund benefit payments. Without further government assistance to assist members pay premiums (e.g. tax rebates), a declining base of young (healthy) members may not be willing to pay the higher premiums necessary to meet higher benefit payments. That would make it difficult for health funds to survive without changes to the community rating system of setting premiums.

3. AGE DISTRIBUTION BY STATE

Variations in age distribution by State and within States will also have varying effects on government taxes and expenditures and on economies. Some businesses and industries may need to relocate to areas with an adequate supply of labor. Some States will bare a greater expenditure burden of aging, compared with other States. States revenue raising capacities will also be affected by population aging. This will require assistance from the Commonwealth.

4. A DECLINE IN HOME OWNERSHIP RATES

If level of home ownership and public housing continues to decline, this will increase the likelihood that a larger proportion of retirees will suffer housing-related poverty in the future. This could promote future demands for an increase in government aged-pensions. It may also provide a rationale for Federal Government to consider including the family home in pension means tests.

If home ownership rates continue to decline, this suggests that there will be a further increase in the number of housing investors (many of whom will use negative gearing) or, alternatively, an increase in the level of public housing. How will the surge in private rental properties affect future government revenues?

5. SUPERANNUATION

An increase in the proportion of the workforce that is approaching retirement would most probably have a positive effect on the level of superannuation contributions, which would adversely affect pay-as-you-earn tax revenues.

6. GOVERNMENT LIABILITIES

Unfunded government superannuation liabilities will act to increase government expenditures on superannuation when these liabilities crystallize. Proceeds from the sale of the Federal Government's interest in Telstra may be used to offset this liability, but the sale will also result in the government losing an income stream (i.e. Telstra dividends).

7. EFFECTS OF RISING GOVERNMENT EXPENDITURES

If aging results in an increase in overall government expenditures, this would most probably result in an increase in taxes, which may, in turn, adversely affect workforce participation and economic activity.

8. CREDIT GROWTH

Due at least partly to an accommodative monetary policy, the rate of growth in household credit and total credit in Australia has exceeded that rate of growth in GDP for a long time. Households are now dissaving. This situation is unsustainable because, given a particular rate of interest, there is maximum level of credit that a household and an economy can service (although no one seems to know what the maximum level of credit for an economy is). Eventually, credit growth must slow to a rate that is comparable with, or perhaps below, the rate of growth in GDP. That will adversely affect GDP growth in future, relative to past growth. Moreover, higher levels of debt in the economy raise the risk of a severe downturn some time in the next five years. Alternatively, high debts raise the risk of the economy becoming "addicted" to continued accommodative monetary policy, and ultimately subject to a spike in inflation.

Unfortunately, it looks as though a future slowdown in credit growth will happen during a period coinciding with an aging workforce.

What affect will a rundown of foreign borrowings associated household debts have on the nation's flow of funds and on economic activity? How will slower growth in credit affect the profitability of banks, which account for such a large part of the Australian equity market's capitalization?

9. FEMALE WORKFORCE PARTICIPATION RATE

Workforce participation rates have increased due to a rise in the female participation rate (while male participation rates have fallen). The female workforce participation rate increased significantly between 1983 and 2003, more particularly for females aged between 45 and 64 years of age (refer to ABS data). To maintain the same rate of increase in workforce participation rates over the next 20 years may be difficult, but would at least require strong employment growth (at a time when it is expected that economic growth will slow, relative to growth in the last 10 years). Spikes in asset prices, such as the recent rise in housing prices, may promote some early retirements.

10. ORGANIZATIONAL BEHAVIOR

There have been changes in the way work is organized within enterprises, such as a flattening of organizational structures and an increasing emphasis on team work and multi-skilling. These developments are usually motivated by the potential to accrue productivity gains or to retain or gain business. Will an aging of the workforce affect the viability of such structures and, if so, how will this affect productivity?

Will organizations find it easier or more difficult to develop and nurture a meaningful and productive culture when the ratio of young to old workers declines? How will an aging workforce affect employee demands on their employers? Will older workers affect the "work ethic" of younger workers?

An aging of the population will have varying effects on the demand for different goods and services. It is possible that some industries will gain local sales, while other will lose local sales. The size of the local market can affect the viability of businesses, and their ability to export.

Australian companies are focusing more on the short term (AFR 22/10/04 in relation to a paper by the Business Council of Australia).

Yours faithfully

Nigel Fitzpatrick