30 November 2004

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

By email: ageing@pc.gov.au

Dear Sirs/Madams

Re: Draft Report on the Economic Implications of an Ageing Australia

The Productivity Commission (PC) is to be congratulated on the format and content of the draft report "Economic Implications of an Ageing Australia". The report provides an excellent avenue to consider the economic implications of ageing. Nevertheless, the writer has some issues with some of the assumptions and conclusions in the report.

1. Projections of Australia's Labour Supply

The PC has found that "even large increases in age-specific participation rates have relatively modest impacts on the aggregate participation rate" (page 3.27). This is interesting when viewed in the context of Commonwealth Government policies to increase worker participation of older workers (e.g. through superannuation access concessions, and assistance to carers).

The PC also states that "it should be recognized that initiatives directed at bringing current 'outsiders' into the workforce may not make a large difference to overall economic growth once account is taken of the likely additional hours worked, unemployment rates and marginal productivity rates of these groups. This underlines the importance of taking early policy action to enhance participation rates in the future for today's younger cohort of employees".

The federal Treasury Secretary, Ken Henry, stated on 18 May 2004 that the Commonwealth Government's "pro-growth" strategy was "built around workforce participation and labour productivity as the preferred means of addressing the fiscal challenges posed by population ageing". Yet, the government has done little to address the work disincentives that are produced by the tax-welfare system (including for a younger cohort of employees). This is an area upon which the PC could make a recommendation in the final report.

Volunteering

There is an assumption that there will be an increase in volunteering rates (page 5.1). Issues that may be worth considering in relation to volunteering include:

- Privatisation and contracting out of health and welfare and the effect of this on volunteering. For example, the private sector has over recent years obtained a greater role in the hospital and aged care sectors, and in employment programs.

- Greater participation by for-profit operators in the health and welfare sector, and the preparedness of people to volunteer for such organizations. For-profit firms are increasing their share of the hospital, residential aged care, and home care markets.

- The effect of rising worker participation rates on the level of volunteering.

- The effect of growth in single-person households on volunteering.

- Commercial activities have taken over activities previously undertaken by households. While this may give households more time for volunteering, there may be a growing perception among some people that professional suppliers are better able to provide services (and that a perception may develop that volunteering is a low value and a less valued pursuit).

- There is a perception among many Australians that their country is becoming less egalitarian. A perception of inequality may result in people becoming less motivated toward volunteering for welfare-related endeavours.

- Any rise in labour force participation would tend to reduce the time available to individuals pursuing, or wishing to pursue, volunteering activities.

2. The PC has a baseline labour productivity growth rate of 1.75% per annum (page 5.1).

Using historical data to arrive at a baseline assumption
This writer believes that if the assumptions underlying the PC's projections are unrealistically positive, this may result in over-confidence and an inappropriate policy response.

The selection and use of historical data may be useful in helping to develop assumptions about the future. However, such an approach, without due consideration and weight being given to historical period chosen and the likely future impact of business, social, demographic and political realities and trends, is inadequate.

The PC draft report states that "it is important to be aware that small differences in assumptions about future productivity growth rates, compounded over many years, can greatly alter projected outcomes" (page 4.3).

The PC states that "downside risks are more important to policy makers than upside risks" (13.10).

It should be recognised that users or readers of projections will tend to place greater weight on the baseline projection, relative to scenarios considered to be less likely (compared to the baseline forecast). Such behavior could potentially produce an aura of unjustified complacency. To illustrate this; when the PCs draft report was released, some of the press headlines drew a very rosy picture of the fiscal outlook, which could only be based on the PC's baseline projections.

Alan Wood wrote in The Australian (30/11/04) that the PC "tells us that…per capita incomes in 2044-05 will be much higher than they are today – five times as high in nominal terms and nearly double in real terms". With such positive news, many people will be sanguine about the economic implications of ageing.

The PC has acknowledged, however, that there are many uncertainties regarding the drivers of productivity growth and the effect that ageing will have on these drivers (for an example refer to page 5.7). There are other significant uncertainties (some of which are detailed below), including the presence of, or an increase in, and the implications of, global warming.

IS THE BASELINE ASSUMPTION OF PRODUCTIVITY GROWTH REALISTIC AND PRUDENT, OR IS IT OVERLY OPTIMISTIC?

Historical data – which data?
The PC's baseline rate of labour productivity growth corresponds with the rate of growth experienced over the 37 year period 1966-67 to 2003-04. During both the commencement and the end of this period, productivity growth was relatively strong

(also, interestingly, the beginning and end of this period were times when interest rates were low or falling, which had a positive effect on economic activity, investment, capacity utilization and, therefore, on productivity).

Has there been a long-term trend decline in productivity? Growth in labour productivity in Australia in the period 1990 to 2001 (what the PC calls the "the miracle years") was, nevertheless, lower than that experienced in the period 1950-73. The same is true across most of the countries in the OECD.

Australia implemented significant economic reforms in the 1980s and 1990s. There was also dramatic technological (productivity enhancing) advances over this period, and Australian businesses were early adopters of many such advances. So the question is: why was productivity growth in the "miracle years" slower than it was in the periods 1950-1960 and 1960-73?

Productivity growth by State and Territory

The PC's draft report provided historical labour productivity growth rates for each State and Territory over an 18 year period from 1984-85 to 2002-03, which is a shorter period than the period chosen by the PC to analyse historical growth in national labour productivity.

Over the 18 year period that was chosen by the PC to compare growth in labour productivity rates in the States and Territories, Australia's labour productivity grew at the lower rate of 1.5% (i.e., which can be compared with the PC's baseline national growth rate of 1.75% and the PC's "worst case" scenario projection of 1.45%).

It is interesting to note that many State and Territory governments used similar assumptions regarding productivity growth in their submissions to the PC (page 4.5) and these assumed growth rates exceed the historical growth rates over the period 1984-85 to 2002-03 (which is the period used by the PC to compare the States' and Territories' historical growth rates – page 4.27).

Political considerations

Political considerations are likely to affect the productivity growth assumptions used by governments. If a government were to assume a low productivity growth (compared with other governments), this could potentially have an adverse effect on perceptions of the appropriateness of their policies or on the attractiveness of investment in a particular jurisdiction. The Victorian Government's submission stated that "productivity growth can be influenced by state policy levers" (page 4.27). Moreover, the PC may promote the convergence of State and Territory growth rates when the PC states: "the simplest characterization of interstate productivity is appropriate. Accordingly, in the Commission's projections, average long term productivity growth rates have been assumed to be the same for each jurisdiction" (page 4.29).

Measuring productivity growth
Large productivity gains often occur with an upturn in the economy (i.e. in domestic demand and/or exports), which is influenced by interest rates and credit growth. The reality is Australia has experienced extraordinary growth in credit in the last ten years, far exceeding growth in GDP.

The PC rightly notes that a large proportion of household wealth is tied up in housing (both owner occupied and investment housing) and in superannuation. A number of reputed analysts have stated that housing in Australia is fundamentally overvalued - by as much as 30% - and will eventually correct. The PC has indicated that ageing may push up interest rates, which, "all things being equal, … risks lowering average productivity" (page 13.9). The PC also states that there is a risk that superannuation funds may perform badly "because of poor global economic growth and corporate growth" (page 13.9). Such adverse outcomes, if they were to eventuate, have the potential to adversely affect consumer spending, investment and productivity in the future.

In the 1990s, reported levels of productivity growth were high in the wholesaling and finance industries, which are industries that are very sensitive to volumes. Enormous credit-driven expansions cannot last forever. Household debt has reached record levels, while the household sector is spending more than it earns. Eventually households will not be prepared to take on more debt, taking away a significant driver of domestic demand (and, along with it, investment by firms whose ultimate market is the household sector).

Changes in Australia's industry structure can potentially affect measured productivity growth. If these changes are not sustainable in the long-term, then this may affect future levels of measured productivity. For example, when manufacturing capacity is transferred offshore that may have the effect of increasing the measured level of productivity growth in Australia. But the opportunities to transfer production offshore will obviously decline as production capacity moves offshore.

Other questions about the sustainability of productivity growth
There are major questions that need to be considered in relation to the sustainability of productivity growth. These questions include:

- Will the productivity gains flowing from past micro-economic reforms become exhausted?

- Will the gains flowing from future micro-economic reforms be comparable to the gains flowing from past reforms?

- Will past and future advances in information and other technologies contribute to productivity to the extent they did in the "miracle years"?

There was phenomenal growth in productivity in the 1920s, but the economy came to a grinding halt in the 1930s.

Other issues

The PC seems uncertain about the effect of ageing on household savings (which are currently negative in Australia). The PC is clearer that "public savings are expected to decline" over the next 40 years (page 4.21). If national savings decline in the future (and/or global savings decline with global ageing) interest rates will tend to increase. If so, investment will be adversely affected as will productivity growth. The PC states that the mining sector "may face greater obstacles to growth if interest rates or capital flows are adversely affected by global ageing" (page 4.26). Governments may also raise taxes to fund the cost of ageing, which could also adversely affect investment, productivity, and workforce participation.

Education and training is a driver of productivity growth. The PC has forecast a significant decline in government spending on education (due to population ageing). If student numbers decline, that must result in there being fewer people holding more recent education and training qualifications in Australia. How will that affect productivity?

How will expected strong growth in the aged care workforce affect other, perhaps potentially more productive, sectors of the economy?

Will younger people be called upon to do more of the lower skilled jobs (such as labouring and formal caring)? If they respond to such a call, could that cause a fall in secondary school retention rates and university enrolments? How would this affect productivity in the longer term?

Also refer below to more detailed discussion on the implications of entrepreneurship and R&D capital, education, and motivation on productivity growth.

A number of prominent people and organisations have stated concerns about future levels of productivity and economic prosperity, and more particularly about a lack of economic reforms in recent years and a run down in Australia's infrastructure. The Business Council of Australia stated in its March 2004 report Aspire Australia 2025: "But behind the façade of prosperity, the country's problems are building. Not enough is being spent on key economic infrastructure and services".

The contribution of entrepreneurship and R&D capital to productivity growth

Whilst acknowledging that "physical entrepreneurship and R&D capital" are very important to future growth in productivity, the PC's draft report provides little in the way of analysis of this important area.

The PC draft report states: "Some of the bleaker scenarios that visualise demographic pressures on rate of accumulation of physical entrepreneurship and R&D capital could readily result in productivity growth rates this low" (i.e. 1.45 per cent per annum) (page 5.4).

Yet the PC acknowledges its own uncertainties when it states: "The direct impacts of ageing on productivity are swamped by uncertainties about the future rates of productivity growth associated with technical change, increased efficiency and capital deepening" (5.7).

How will the longstanding low levels of investment in R&D in Australia affect productivity, international competitiveness and economic growth in the next forty years? Business expenditure on R&D in Australia has long been, and still is, very low as a percentage of GDP (the OECD ranks Australia 14th in a list of 21 OECD countries in 2002-03, with Australia's spending as a percentage of GDP one-third that of United States). Government expenditure on R&D in Australia is also very low as a percentage of GDP (with the OECD ranking Australia 11th in a list of 17 countries in 2002-03, with Australia's spending representing 61% of that of the United States).

The PC projects a significant decline in government expenditures on higher education, due to the effects of ageing. How will this affect spending on R&D and innovation in universities? How will it affect the level of infusion of know-how into the business and government sectors of the economy?

How else could a decline in the proportion of the number of young in our population adversely affect R&D and innovation? Older people have less scope to fulfill long term goals. Many successful businesses (particularly innovative businesses) have been established with a long term vision and have been established by entrepreneurs who have developed business plans spanning a long period of time. This at least partly explains why many of these businesses are established by young people.

Business Review Weekly published an article titled "Masterclass" in its November 25-December 1, 2004 edition. The article offered advice from "Australia's most enduring entrepreneurs and some rising stars". This is what some of the most enduring entrepreneurs had to say:

Rob Gerrard (Gerard Corporation): *"the only reason I say 'I think' is that I'm (almost) 60 now, not 26. So it's not quite practical to have a 30-year plan"*

Harold Clough (Clough Ltd): *Clough's tips included: "Have a vision, a belief in where you want the business to be in five, 10, even 20 years".*

Frank Hargrave (Skilled Group): *BRW states "After 40 years in the business, he (Hargrave) realized he had lost the drive and commitment to continue… Hargrave was happy to move aside". One of Hargrave's tips was to "know when to retire".*

As people approach retirement age, many appear to be less motivated to assume risk. They are often less willing to risk their own capital to establish a start-up business (as they usually have shorter time-frames, and any loss of capital may risk their lifestyle in retirement).

Low levels of R&D in Australia may reduce Australia's ability in future to be a first or early adopter of technology and a first or early mover in emerging businesses or industries. If so, this could have implications for growth in employment, the economy, exports and taxes.

The importance of entrepreneurship and R&D capital should not be understated. Business Review Weekly's "Fast 100 report" (October 14-20, 2004 edition) provided some background information on some of Australia's fastest growing businesses. The report found that 77 per cent of respondents agreed they would not grow without innovation, 90 per cent of respondents agreed they were highly innovative, and 67 per cent of respondents agreed that R&D was extremely important to their success. It was interesting to note that a CEO of one of the companies (i.e. ranked in the Fast 100) saying that the company spends 80% of its time on acquisitions "looking at the negative side and what the possible fallouts could be and how we could deal with them".

The PC states that "population ageing may also affect productivity growth rates through macroeconomic effects on savings, investment and innovation". Household saving rates are currently negative in Australia, while the PC expects that public savings may decline in future. Does this imply that households must increase savings?

Relative productivity of current workers
Worker Characteristics and Age

Education

The PC states: "Historically, the average education attainment level of older workers has been much lower than for younger contemporaries" (page 4.12) but that "future cohorts of the old will have educational levels much closer to those of younger cohorts, reducing productivity disparities by age". This will result in an increase in the average years of education across all age cohorts, and Day and Dowrick believe this will raise labour productivity growth (page 4.4).

Obviously, the currency of education and training among older workers is, on average, dated relative to the currency of education and training among younger workers. Many employers are keen to employ young graduates (and other people) who have been recently trained. These people are often able to introduce new ideas into a business.

This writer was a banker when personal computer technology took off. Young staff members utilised this new technology first (the older staff members thought the technology was fanciful!). Only when the older staff members began to appreciate that their younger colleagues were accruing productivity gains from the technology did they move to adopt the technology themselves.

The Productivity Commission has projected a significant decline in government expenditures on education as a proportion of GDP over the next forty years. If such a decline transpires, this, along with an ageing workforce, must result in the qualifications of the overall workforce becoming, on average, more dated (or outdated).

There is also the risk that secondary school retention rates and university enrolment rates will peak and potentially decline. Currently, very few people aged over 44 years are employed in some of the occupations that require low educational qualifications (such as labouring, clerical and some trades occupations). This may be due to "low demand for unskilled (particularly male) workers" (page 13.18), but the demand for unskilled workers may increase in future (for example, in caring for, or providing services to, older people). If so, wages for low skilled occupations may rise in future, and this may attract younger workers. Potentially this could adversely affect school retention rates and university enrolments, with adverse effects on technology diffusion and productivity.

Higher education is also a significant player in R&D. A decline in government expenditures on, and enrolments at, Australian universities could adversely affect both the level of R&D and the diffusion of R&D into the Australian workforce and businesses.

In the future, governments may need to help universities offer a greater value proposition to students (in Australia and overseas), including in the sphere of research activities. The Commonwealth Government's policy of relying on students to pay for a greater share of the cost of higher education may not be consistent with this approach – and hence ageing

may provide governments with an incentive to reduce the burden on Australian university students. The government may also need to spend more to promote higher levels of participation among older Australians in universities' academic and research activities.

In carrying out the duties involved in managerial occupations, there is often a heavy reliance on specialist staff and other subordinates (as the Commissioners of the Productivity Commission may appreciate!). If there is a lack of supply of such skilled specialists or subordinates (where there may be a reliance of younger staff, perhaps with more recent qualifications), this may adversely affect the performance, productivity and longevity of the older "managers".

Inherent physical and mental capabilities

The PC states: "The available evidence suggests that the biological aspects of ageing and other changes in the mix of worker and job traits accompanying ageing will make negligible difference to Australia's aggregate productivity and economic growth performance" (page 5.1).

The PC presents "a positive view – age does not affect productivity" (page 4.10), which is presented prominently in the draft report. In view of the PC's belief that "downside risks are more important to policy makers than upside risks" (page 13.10), the PC should give the alternative view equal prominence.

There are many examples where inherent physical and mental capabilities do appear to impact on productivity. Currently CEOs, money market and foreign exchange dealers, miners, military personnel, intensive care nurses, computer software programmers, workers involved in heavy physical labour (such as professional athletes, labourers, and people in certain trades) all tend to be relatively young. In recent years, the age of senior management in large corporations appears to have declined (although refer to *Motivation* below). There is a significantly lower number of "professionals" (as defined by the ABS) in the over 54 years age cohort compared with the 45-54 years cohort.

Young employees are a necessity in certain sectors of the economy and in certain government services (such as in the armed forces), so that must accentuate the decline in the availability of younger employees to other sectors of the economy.

It has been reported recently that Australians work long hours relative to workers in other advanced countries. If this is true, could it have an affect on future levels of labour productivity among older workers and on future levels of disability?

Motivation

On page 4.15 of the draft report, the PC sums up worker characteristics and age by stating: "The productivity of *individual* workers is determined by a host of characteristics – for example education and skills, experience, motivation (my emphasis), inherent intellectual and physical capabilities, their team work and personality". Yet, there was no prior discussion in the draft report about motivation and its impact on productivity.

Worker motivation has a significant effect on performance in the workplace as well as on firm profitability. It also has implications on the level of entrepreneurship. According to Harold Clough (chairman of Clough Ltd until August 2003), "in any business it's often said success is 5% inspiration and 95% perspiration" (BRW, 25 November – 1 December 2004).

If "motivation" is ignored in the ageing debate, it is possible that motivation may also be inadequately recognised in policy development. The fact is there may be opportunities to introduce policies that bolster motivation among older workers. This could assist raise participation rates (and may also have positive effects, by transmission, on motivation levels among younger cohorts of workers). The Commonwealth Government's recent changes to superannuation access for older workers, which aim to increase workforce participation, may, by the way, increase motivation among some older workers.

There is no doubt that many older people are very motivated workers (and in some cases are more motivated than their younger colleagues). However, if motivation levels of older workers are lower on average (compared with younger workers), this needs to be at least acknowledged and taken into account in policy circles. If motivation is a genuine issue, then to ignore the issue for reasons of "political correctness" (if that were the case) would not necessarily be to the benefit of older workers or to society generally.

At least to this writer, there appears to be a decline in the "motivation" toward participating in paid employment when people approach retirement. Any such decline in motivation levels may be explained by a number of factors, including:

- Physical wear and tear, illness, or a loss of physical fitness, can make it more painful to work, or may reduce productivity to a point where the costs of working may be considered to be higher than the benefits. Disability welfare payments and disability insurance products offer an alternative source of income for some disabled people.

- People approaching retirement often have older children and often spend less, and therefore often have lower income requirements. Wealth is usually accumulated until retirement, and the accumulation of significant wealth may sometimes reduce the incentive to work.

- The availability of alternative sources of income, such as government pensions and superannuation, may reduce the incentive to earn income from personal exertion.

- People may resist down-shifting in employment (e.g. from doctor to labourer), and as people become older they are more likely to have attained "high" positions (the number of managers and administrators peak in the 45-54 age cohort, while for every other "occupation" (as defined by the ABS), the numbers peak in lower age cohorts).

- The boredom ("done that") factor. A lack of interesting jobs may reduce the incentive to remain in the workforce.

- For people aged over 55 years, there are fewer people of similar age in the workforce. There may fewer opportunities to communicate with people with similar interests. There may be less peer pressure to work.

- Some people may lose ambition as they age. Work may become less valued at a later age. Some people may develop a greater understanding over time of the obstacles faced in reaching prior (and unrealized) goals. These obstacles may later be considered insurmountable (at least within the period available prior to retirement) or not worth the effort.

Motivation levels among some employees in a firm can have a contagious effect on motivation levels among other employees. Will it be easier or more difficult for firms to develop and nurture a meaningful and productive culture when the ratio of young to old workers declines? How will an ageing workforce affect employee demands on their employers? Will older workers affect the "work ethic" of younger workers? These are all important issues worth consideration.

What would be the impact on younger workers' motivation if promotional opportunities decline (or become more remote) as a result of older workers dominating managerial and administrative positions? Based on ABS data, older people are significantly less likely to leave managerial and administrative occupations, relative to their propensity to leave any other "occupation" (as defined by the ABS). In February 2003, the number of managers and administrators who were aged over 54 years was only 27 per cent less than the number of managers and administrators aged 35 to 44 years. For all other occupations the decline was 52.5 per cent over the same period.

Cross sectional earnings as a proxy for workers' relative productivity

Care needs to be taken when using incomes as a measure of "productivity". The incomes of some older people may be positively affected by factors other than productivity (such as market power). For example:

- an individual who owns or controls a business, or their relative, may be better able to remain in employment and determine their own income from personal exertion.

- Some mature workers may have the ability to remain employed and maintain earnings by developing strong networks, by being in a strong union, or by having a secure tenure arrangement (even though they may be less productive than their younger work colleagues).

- The cost of redundancy may provide an incentive for some employers to retain some older workers.

- Employer “loyalty” may be greater toward older or longer serving employees.

3. Health expenditure

- The PC states pricing signals can create excessive demand in some parts of the health system and that "neither excessive rationing nor over-consumption is desirable". An increase in the Medicare rebate for GP services from 85% to 100% of the Medicare Schedule Fee (and the payment by Medicare of additional incentives for certain other services, such as services provided to children and health card holders) will remove price as a consideration for many users of GP services (unless more GPs charge above the Medicare Schedule Fee).

- There has been significant growth in corporate GP practice. Many of these companies have a policy to bulk-bill and it would obviously be in their interest to promote volumes. Some of these companies are either owned by, or affiliated with, corporate groups that have other health businesses (such as pathology, diagnostic imaging and hospitals), and these companies have a large incentive to promote referral business within the group and overall.

- The introduction of a safety net for expenditures on medical services (outside hospital) above certain thresholds will also promote demand for medical services, while also resulting in an increase in referrals to other health services (e.g. hospitals).

- There is an apparent shortage of GPs in Australia. Medicare expenditures on GP services may increase at a faster rate than assumed by the PC if Schedule Fees were to increase to help promote the attractiveness of general practice, and if the supply of GPs were to increase in future at a faster than assumed rate. GP's incomes have fallen significantly in real terms over the last 10 years. Relative value studies indicate GP incomes do not fairly reflect the functions performed by a GP.

- GP's are a major source of referrals for other health services. If the number of GPs grows at a faster rate than assumed, then the assumed rate of growth in non-GP health services may be too low.

- There will, however, be opportunities in future for GPs to increase their incomes through increased utilisation of nurses and nurse practitioners.

- The private health insurance industry is unstable in that it has an ageing membership, but relies on younger members to pay premiums (which are unrelated to risk) that subsidise benefits paid to the elderly. With ageing, benefits will rise, as will premiums, so that the Commonwealth Government will need to pay ever increasing subsidies to younger members (to avert a fall in membership among this cohort). Ironically, the government has recently promised to increase the subsidy for older members.

- There may be more reliance on health services and pharmaceuticals to assist people to remain in the workforce. This may also have implications for private health insurers, if more members use services such as physiotherapy, chiropractic services and occupational therapy services.

4. Aged care expenditure and carer payments

The PC lists four factors that will primarily influence the level of government expenditure on aged care services (page 7.2). Is a decline in the availability of family carers (because of divorce, smaller families, an increase in workforce participation, growth in lone-person households and due to the ageing of carers) not a primary influence? While ageing may increase the availability of non-related carers, to what extent will people be prepared to care voluntarily for others who are unrelated, or previously unknown, to the carer?

The DCA Group Ltd 2004 annual report states that the recent structural reform of subsidy indexation for residential aged care has not been addressed, and that further pricing reforms are required to attract capital to build places to meet future demand.

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.

5. Other Considerations:

- **New Policies:** The PC states that "projections also do not take account of any new Government policy that has been announced, but not yet implemented". There are some policies that involve significant new Commonwealth Government expenditures and on a cumulative basis these expenditures could potentially be significant. For example, the Australian Technical Colleges initiative will cost $289 million over three years. The Commonwealth Government's "Recognising Senior Australians" policy has been costed at over $1 billion over four years. Higher rebates for private health insurance will cost $445 million over the four years from 2004-05. The Commonwealth has promised additional assistance for long day care, which will cost $60 million over four years. The proposed increase in the Medicare rebate for GP services from 85% to 100% will cost the Commonwealth Government $1.8 billion over four years. Additional funding for after-hours GP services will cost the Commonwealth $321 million over four years. The Commonwealth's "Investing in Our Schools" policy will cost $1 billion over the next four years. "The proposed "Extra Assistance for Families" policy includes extra assistance for child care, which the government states will cost $1 billion over three years (although the ACTU has stated the costing of this policy is significantly under-funded – by as much as $575 million).

- **Feedback:** It is possible that older consumers may be less demanding on suppliers than younger consumers and therefore may not provide the levels of feedback that assist suppliers in efforts to improve quality and to innovate?

- **Asset Prices:** The PC should conduct some sensitivity work that considers the impact of less than favorable scenarios with respect to asset prices (with potential impacts on several areas, including unfunded superannuation liabilities, conveyancing duties, income taxes and consumption taxes). Any significant decline in housing prices would adversely affect on the number of property sale transactions.

- **Reform:** There are overlapping roles and responsibilities between governments in the aged care and welfare sectors, just as there are in the health sector.

- **Updating:** In the writer's opinion, it would be a positive step if the PC were to recommend that the report "Economic Implications of an Ageing Australia" be updated by the PC on an annual basis. New information and new policies will, no doubt, result in a change in assumptions and outcomes over time. It is also considered important that the momentum of the debate on the economic implications of ageing (and the policy responses) be maintained and refined over time.

Major Point

This writer believes that the PC's assumed baseline level of productivity growth is not conservative, rather the assumption is optimistic. This is, with respect, an inappropriate baseline assumption.

I look forward with great interest to reading the PC's final report on the economic implications of an ageing Australia.

Yours faithfully

Nigel Fitzpatrick