Editorial

The Intergenerational Report 2010: A double-edged sword

The Australian Government's third Intergenerational Report (IGR 3) is a useful but problematic tool for assessing issues of an ageing Australia [1]. On the one hand, the IGR provides an ongoing barometer on the financial implications for the Commonwealth government, thus alerting us to make societal and policy adjustments well in advance. On the other hand, the IGR comes dangerously close to scape-goating older people for rising costs of government, many of which are not intrinsically related to ageing. On both counts the IGR is essential reading for all concerned with policy for an ageing Australia.

The IGR reports can be traced back to the mid 1990s when the then new Howard government's 'Razor Gang' sought to justify spending cuts to reduce Labour debt (sound familiar?). The basic logic then, as it essentially remains today, was to examine age-based patterns of Commonwealth expenditure, observe expenditure trends and then *project* (not forecast) fiscal outlooks decades ahead on the basis of predicted demographic change and economic growth. The blunt conclusion was that we cannot afford large health and social expenditure increases on the growing numbers of older people.

The IGR 1 (2002), IGR 2 (2007) and now IGR 3 (2010) derive their names from the important principle of intergenerational equity – that actions benefiting current generations (more precisely birth cohorts) should not compromise the next generations. The IGRs *claim* that population ageing is the main reason why advance action is needed to ensure future fiscal sustainability for governments and adequacy of benefits and services for future generations.

The Intergenerational Report 2010 – main economic messages

Early in this election year the Treasurer Wayne Swan launched IGR 3 which interweaves budgetary projections to 2050 along with the Government's policy agenda. The long-term fiscal challenges are identified as 'an ageing and growing population' (yes ageing is listed first), 'pressures on the health system' and 'an environment vulnerable to climate change'. The 'bottom line' message is that a 'fiscal gap' (projected Commonwealth expenditure exceeding projected income) will emerge in 2030 and increase to 2.75% of gross domestic product (GDP) in 2050. It is projected that just under 23% of the population would be aged 65 years or older at that time.

The Report projects declines in the workforce age group from 7.5 people aged 15 to 64 years for every older person in

1970, down to 5.0 at present and 2.8 in 2050. Population ageing contributes to the declining workforce and, in turn, to the declining *rate* of economic growth (from a real 1.9% annually over recent years to 1.5% to mid century). But standards of living are expected to rise substantially over the longer term and in this IGR tax rates are inexplicably assumed to decline slightly. Recent increases in skilled migration and fertility are projected to continue.

Intergenerational Report 3 as with earlier IGRs constructively asserts that increasing Population (workforce) Participation and Productivity would generate 'win win' outcomes for individuals and governments. This economic growth strategy would alleviate pressures to implement heavy expenditure cuts. The economic growth strategy aligns closely with IGR 3's assumptions of continuing high levels of immigration, investment in skills development and infrastructure, and fiscal restraint and reform.

Projections are quickly dated by changing political priorities: IGR 3 makes an economic case for the early implementation of the Carbon Pollution Reduction Scheme (CRS) but, just 5 months later, the CRS was put onto the policy back shelf. Inaction here could be a severe intergenerational legacy. Further, the recent election fundamentally challenged immigration policy.

Ageing and health – 'facts', 'scares' and 'potentials'

Intergenerational Report 3 exaggerates the health costs of population ageing by including with them the costs of technological advances, greater utilisation and better quality for all age groups. Independent projections of health and aged care costs 2003 to 2033, by the Australian Institute of Health and Welfare, report that more than half of the projected increases are attributable to these non-demographic factors; total population growth and ageing each accounted for less than a fourth of the projected increases [2]. The 'ageing component would drop well below 20% if we took account of the more rapid population growth now anticipated. The 'problem' of population ageing named in IGR 3 is actually a 'problem' of paying for better and more health care for everyone.

Ageing and health pressures (when lumped together as per the IGR) are projected to increase government spending from 22.4% of GDP in 2015–2016 to 27.1% in 2049–2050. This would see us in the mid range for the Organization for Economic Cooperation and Development today. Two-thirds of the funding increases are projected to be in health. The IGR report states dramatically that to mid century real health

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spending will increase sevenfold for those aged 65 years and over.

Overall, health expenditure is projected to rise from 4% of GDP at present to 7% mid century. Aged care would rise from 0.8% to 1.8%, and age pension expenditure from 2.7% to 3.9%. Over the next 40 years it is projected that government expenditure on health, aged pensions and aged care would rise from a fourth to half of government expenditure.

The IGR does not address counterfactual ‘what if’ questions. How much would the cost of health care for older people have followed different directions if we had planned well and made better investment decisions over recent decades? What if past governments had responded proactively to population growth and ageing by investing more in community health, palliative care, health promotion, rehabilitation, geriatric assessment, more sensible use of medications and more? What if we had been building an integrated, whole-of government approach to health over the life course, without the ongoing divides and contradictions between sectors and levels of government? The benefits could have been seen now and in the future in terms of more efficient health care as well as better outcomes for people at all ages.

As for the future our policy choices require projections based on alternative scenarios of population health and policy directions. For example, how can we arrive at reasonable assessments as to possible change in the underlying health status of future cohorts of older people and the implications for services? Will we see a continuation of earlier trends towards improving health status in later life or will we see a baby boom cohort having declining health capacities as a result of higher prevalence of obesity and chronic disease? How improvable are the health trajectories?

Perspectives and directions

Predictions, as Mark Twain once said, are very difficult, especially about the future! Projections to 2050 involve great uncertainties. Just imagine if we were to have projected health and aged care from 1970 to 2010? How could we have foreseen the rising longevity in later life and the advances in health service access and quality? We have discovered the efficacy of community care but IGR 3 projects that residential care beds (for the minority who will ever need them) will be the main expenditure for aged care 40 years ahead.

The limitations of projections are underscored by the differences between IGR 2 and IGR 3. Over just 3 years the scenarios changed so much that the fiscal deficit was projected to emerge 8 years later – due to changes such as faster population growth, rising workforce participation (including more older workers) and increasing eligibility age for the pension. Ross Gittens, the respected Economics Editor for the Sydney Morning Herald, commented that ‘the budgetary

costs of ageing are quite modest and quite manageable ... and [IGR 3] exaggerates our ageing problem’.

How much further can the fiscal outlook be improved by increasing the superannuation guarantee from 9% to 12%, by investing in health promotion and prevention, by confronting the age discrimination faced by older workers, and by enabling and recognising older people who self-provide and contribute in and beyond the workforce? Where is the research investment that can enable us to have a smarter Australia – as per the aspirations at the 2020 Summit? Where is the focus on those at greatest risks, older and younger people for whom policies too often encourage dependency and fail to meet real needs? Would it not be fair for some of the benefits of rising standards of living to be distributed through taxes to vulnerable people at all ages?

In sum, IGR 3 is a sound piece of technical work but it wraps the important Treasury case for micro-economic reform and expenditure restraint within a misleading spectre of population ageing. Scape-goating older people is all too easily accepted by politicians and electorates who share negative and inaccurate views of ageing.

Future IGR reports and related work could add more value by providing cost projections for State and local government as well as the Commonwealth. Can we extend the IGR scope by including housing and other policy areas that are crucial to income and care across the generations [3]? Can we go beyond government to do an intergenerational analysis for Australian society including personal and social costs and opportunities?

We really must have an enlightened, evidence-based national strategy for a constructive and responsible response to an ageing Australia. Our demographic outlook and policies have us far better placed than Europe or North America but much more can be done. We need leadership and action to enable older people to be part of affirming solutions and to recognise the opportunities as well as the challenges of an ageing Australia. The 2001 National Strategy failed to be implemented but can we now start for real?

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References

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