

In a pickle, and it's not because of ageing



PETER
COSTELLO

First the good news: the population is not ageing as fast as we expected. It's not because our birthdays are taking longer to come around. It's not because life expectancy is getting shorter. In fact the average life span is rising all the time and rising faster than we forecast it would.

No, a strange thing has happened in Australia. From 1961 the birthrate had been falling continuously. The number of children being born was not enough to replace the population. So the proportion of young people to older people kept falling and falling.

And then in 2001 the birthrate stopped falling. And in the years after that it began to rise.

Australia took a different turn to the rest of the developed world. People, on average, began having more children.

And it makes a difference. Buried in

the Intergenerational Report published on Monday is that Australia's budget position will be better than expected at the middle of the century because of "the more gradual pace of ageing than previously projected".

Treasury had forecast there would be 2.4 people of working age to support each person aged 65 by 2050. It has revised that up to 2.7. That is a significant change. All those babies born over the past few years will be in the prime of their working lives by 2050 and supporting the ageing baby boomers, at least those healthy baby boomers who are still alive in 40 years' time.

It was in 2002 that I released the first Intergenerational Report, raising the issue of the ageing of the population and explaining the effect that falling birthrates would have on our future. Australia began leading the world in a debate on this issue, and something positive came out of it. Now I am not going to claim credit for the increase in childbirth – that belongs to the mothers and fathers – but Australia changed its direction in a fundamental way. And this week's report confirms how it has improved our long-term prospects.

So now for the bad news.

The report shows that with all the financial pressures of the ageing of the population and the costs of medical care, nothing will set Australia back as much as the last two federal budgets.

The Intergenerational Report is supposed to alert the public to long-term pressures. It has a 40-year time frame. The idea is that an early warning system will allow us to act before it is too late. This report says that the ageing of the population and other financial pressures will open a gap between spending and income of around 3 per cent of gross domestic product by 2050 – which is bad – but not as bad as the

situation we now find ourselves in. Last year's budget opened up a deficit over 4 per cent of GDP.

So we have an extensive report about all the future problems that could get us in a financial pickle – a pickle that could be nearly as bad as our current circumstances.

This rather blunts the political message. The government rightly wants to warn of the dangers of the ageing of the population. Unless we take corrective measures we will face unsustainable spending. Australia will go into debt. And what would that look like? It would look like the levels of deficit and debt that the government has taken on over the past two years.

Ah, the government says, these debts are temporary. We will get out of them by 2022. You see, its view is that the money it has borrowed to build school halls and insulate houses and the like can all be paid back over 13 years. Thirteen years is a long "temporary" time span. Those school children starting school this week are starting a 13-year education system. I wonder if they regard it as temporary?

Maybe their parents will ponder that when they attend the opening of the hall and some MP drones on about how important they were in getting the money for it. Mum and Dad can think about who is really paying for it. Their taxes will be servicing the building loan for quite some time. It's likely the MP will be more temporary than the loan.

On a happier note the parents can look at those bright and happy faces and think about how they have improved Australia's prospects. Those children are renewing the population. They are a vote of confidence in our future.

Peter Costello is a former Liberal federal treasurer.

It's likely that the MP
will be more temporary
than the loan.