Australia’s Demographic Challenges

My comments on the Treasurer’s paper on this subject follow. Even in supposing that more tax revenue can be raised, the paper doesn’t make clear enough what specific policies will achieve that to what extent. For example having more people earn more would raise taxation revenue: What is a reasonable target based on which particular assumptions about tax rates and earnings distribution?

One problem with the government’s preferred policy is the likely consequential impact on sustainable lifestyle for all Australians for an increased level of economic activity. The emphasis should be spread over a minimal impact to sustainability and on increasing the youth component of the population, in conjunction with a more effective superannuation policy. Improvements in labour force productivity and participation remain desirable. What may be more important than that is a national investment policy.

More work needs to be done to clarify the outcome of different policy combinations. Actuaries need to work through the flow of funds for the higher superannuation levy proposed, and Treasury officials need to project the way in which those funds could be distributed. The infrastructure costs of providing more affordable housing (as outlined below) also need to be assessed. The context may require a short term increase in population over the next twenty years followed by a period of stabilisation. One possible trade-off would be the effect on housing affordability if immigration was reduced. A policy of only accepting the most highly skilled and age preferred immigrants could be consistent with such overall policies. Treasury need to run a number of scenarios to make clear for public debate what are the likely outcomes for specific policy combinations.

I address two main areas, each sub-divided:

1. Increasing retirement oriented funds
    a. Increased retirement related funds and services
    b. Increased funds through higher participation rates
    c. National investment policy
2. Population
    a. Birth-rate
    b. Immigration

Increasing Retirement Related Funds and Services

The government should significantly increase retirement incomes by a levy which applies to all working Australians but which is distributed equally to all adult Australians’ as a superannuation entitlement, or through additional services. The levy should be gradually increased until total superannuation contributions reach 15%. An increased levy at this level would generate another $45 billion per annum. This figure could fund the entire expected program costs of the IGR.

A key issue would be the equity of the program. In particular, how much goes to retirees who only contribute for a few years, and those who contribute for their whole working life. A simply stated policy might be best: “All who work put in, all who are retired take out a fair share”. So if 20% of the population are retired, 20% of funds contributed in that year are available for retirement income on top of any funds contributed earlier to the accounts of those who retire. 80% of working persons’ funds would be distributed to all Australians’ accounts, notably being spread over nonworking spouses for example. No doubt actuaries could improve on that outlined distribution arrangement.

- The superannuation accounts would provide for income and vouchers for health and other government or commercial retirement services (such as rent for retirement homes) provided to the elderly.
- The equity of the Australian superannuation system needs to be improved. Tax benefits should exist only for persons in commercial funds. That is to say, all Australians should be on the same footing, so the government needs to move to fully funded accumulation schemes for all Federal and State public servants. Eventually, this will reduce the demand on budgets.

Increased funds through Participation Rates

Another alternative is to increase the value of the workforce. In part that relates to having higher value-add industries.
Increasing the participation rate will provide more tax revenue. Labour participation rates depend partly on the willingness of employers to hire individuals in a particular low participation rate group. I propose an. innovative revenue neutral program to encourage employment of persons in groups experiencing lower than desired participation rates. All firms would pay a provisional levy in the form of a payroll tax, and receive in return “Workforce Rights”. These can be sold in the market by firms who have more workers in the designated categories than others. So, if the designated percentage of persons over 50 was say 10%, firms who meet that level could receive a full rebate and sell their excess rights to others who have a shortfall (and would otherwise need to ‘make good’ the gap in the levy). Government departments and agencies should in particular aim to employ part-time older persons with relevant experience. They should be given quotas to exceed the average level set for firms.

- A key problem is that many older persons don’t want to work full-time, and may not wish to have the same level of responsibility as before. For many firms there are problems in legislation and contractual arrangements to pay less per hour for fewer hours. Federal and state governments need to reform applicable legislation to make continuity in the workforce attractive to both employers and employees.
- Lower than minimum current wage standards are not an answer to employer issues of employability: Say’s law that the “money goes round” is perhaps only true on average for an economy over a few years, but it is accurate enough for the minimum wage issue to be a seen as a red herring.
- Effective marginal tax rates are a major disincentive to participation rates for those on some form of government financial assistance. These need to be reduced by reducing the rate at which various forms of assistance cut-out, and by allowing low income earners to average taxable income over three years. In addition, low income earners should receive a partial rebate of any assessable income which includes government financial assistance.

National Investment Policy

Another option is to increase the value of the workforce. In part that relates to having higher value-add industries.

- The additional savings from increased superannuation should be invested in nationally efficient and economic returns. This may require investments in overseas firms from which a flow of dividend returns could be expected, or reducing Australia’s overseas commercial debt, or funding high value-add investments by overseas firms in Australia through patient low cost capital or partnerships. The best way to invest Australia's national capital flow needs to be researched. Buying shares in existing Australian companies may not be in the best interests of national economic policy (In this context buying paper assets are of less importance than creating jobs, or of reducing future outgoings).

- In general the tax structure provides interest deductions for any sort of 'investment' but doesn't distinguish between those that exchange ownership of existing investments from those which create jobs or which add value to jobs or which in other ways contribute to the national estate. The effect of the tax structure on key parameters of national wealth, job creation and quality of life needs further research.
- It may be better for Australia to concentrate on national economic investment policy than how to extract more money from 'what's there'.

Population Policy

Before addressing immigration policy, we need to set a population profile target for say 2040. This needs to be based on the expected consequences of other policies.

Birth Rate

The most critical contributor to a more balanced population, other than immigration and mortality, is the birth rate. The birth rate needs to be encouraged by whatever schemes have some merit. The total income earned by a child born in the next twenty years (above forecast) over the next twenty years is likely to be higher than the additional income per head generated by an increase in the participation rate by 2040.

- Couples find housing affordability a major drain on their resources, competing with the cost of raising a family. Housing affordability needs to be addressed as a major issue which straddles elections, that is to say, there needs to be an interim target of say ten years from now by which home costs as a proportion of disposable becomes comparable to the 1950s. Governments need to research the relationship of infrastructure and employment locality to housing costs.
- Parent couples need to be able enjoy a lifestyle that gives up least in comparison with non-parent couples or individuals. They should have significant tax advantages, related to a rebate or concession for the first several years of their children's lives. Child-care accessibility needs to be much improved. "Workplace rights" could well be extended to women on maternity leave.

Immigration

- Immigration policy is a critical aspect related to changing demographics. Strong emphasis must be given to family migrants who have young children and more generally to strong English language skills. The latter group will require less support by government agencies, but more importantly will find it easier to integrate into Australian society. A new points system for approving immigrant relevance to our demographic priorities needs to be established which emphasises these aspects more so than today.

Prepared by:
G.Jensen