

Submission to 'Australia's Demographic Challenges'

Submission by:

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To:

Australia's Demographic Challenges
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Please note:

For your convenience, I have arranged my comments under the relevant headings in the discussion paper (**bold**), and have shown questions or statements made in the paper in *italics*, followed by my comments.

Yours sincerely,

John A Gardner

1. **Introduction**

The IGR uses projections of demographic changes and a number of major government expenditure factors to estimate the likely Budget impact by the year 2041-42. I question the validity of these projections, given the potential for significant changes in the economic and geo-political environment of Australia and the rest of the world over such a long timeframe.

For example, there have been at least three large, and generally un-anticipated socio-economic changes to affect Australia over the past decade or two – major swings in the value of the A\$, an unprecedented decline in the fertility rate, and due to 9/11 and the Bali bombing, the greatest threat to Australia's national security since the second World War. Changes such as these are difficult, if not impossible to predict, and can lead to significant changes in the basic factors that determine the outcome of any modeling such as that used in the IGR. For example, an influenza pandemic, such as occurred in 1918, could radically change both the demographics and global economic landscape at any time in the next decade or so.

Is there, therefore, any point in developing or changing policy passed on such shaky assumptions?

2. **Improving the capacity for work**

Education and skills

Judging from recent media reports, the statement that '*apprenticeship programs have nearly tripled over the last decade*' is misleading, as it includes large numbers of 1 year traineeships, which are generally only precursors to a full apprenticeship, rather than an alternative, and therefore obscure the low numbers of 'real' apprenticeships. This is borne out by the number of vacancies recently reported in the media for a huge range of skills.

As a former apprentice and later university graduate, I was dismayed by the 'Clever Country' slogan used to encourage ALL students to stay at school until year 12, rather than leave school earlier to begin an apprenticeship. This mindless and politically corrupt slogan cruelly raised the aspirations of a generation of students and their parents who were more intellectually or socially suited to a trade than to a profession, and will continue to deprive many industries of much-needed skilled labour for many years to come, if not permanently.

Basic workforce planning that should be undertaken by any responsible government would have readily established the number of school leavers needing to undertake apprenticeships. The federal government should have long ago abandoned such a reckless policy, which now has to be undone at great expense to the taxpayer.

Chart 2 shows that males and females with post school and degree or higher education have a significantly greater participation rate than those with no post-school education, and tend to stay in the workforce to a later age. This chart begs the questions 'is the percentage of those with post-school education increasing, at what rate?'. Answers to these questions may allow more accurate prediction of both the future participation rate

and the retirement age, and satisfy doubters such as myself of the need for policy changes to meet this perceived challenge. .

Better incentives

As a 57 year old professional with an interesting and fulfilling job in the private sector, I am facing retirement within the next 10 years, which will hopefully be voluntary, rather than forced by ill-health or unemployment.

As such my main concern is to know what my income will be in retirement, rather than at what age I can retire. I certainly do not have any confidence in the present superannuation system in this regard, and find it distasteful, if not downright immoral, that persons retiring under this system (other than the few having the luxury of a defined benefit scheme) have to make a decision as to their probable life expectancy in order to sign up for an appropriate privately funded pension. This is an outrageous situation for people to face – having to ask themselves, and maybe their spouse, ‘how long do we expect to live, and how will we support ourselves if we live longer than we ‘planned’?’. Naturally most people will assume they are going to live longer than they actually will, providing a windfall gain to the company that provides their pension. Is this fair, or even morally acceptable?

Is it fair to allow those with some superannuation assets to retire early and then later call on the (age) pension to fund the major part of their retirement?

I agree that it is not fair, but neither is it fair that the Government introduce a superannuation system which makes it compulsory for employees to contribute part of their income to a private fund, then taxes the income on its way into the fund, taxes the earnings of the fund, taxes the final amount returned to the employee, and gives absolutely no guarantee of either the earning rate of the fund or of even protecting the capital invested. Given a choice, no rational person would sign up to a scheme which invested their money on this basis!

To answer the question put, I do not think that employees should have a general right to access their superannuation funds before they are eligible for a government funded age pension. It clearly encourages double-dipping and extravagant expenditure partly funded by the taxpayer. It also encourages artificially early retirement, and this right should be terminated immediately by any responsible government. Maybe by quantifying and broadcasting the long-term impact of possible changes such as this, the government could marshal support for such changes in the electorate, rather than simply assuming that such changes are likely to be electorally unpopular and discarding them as policy options.

3. Retirement and Incentives for Early Withdrawal from Labour Market

I believe that the widespread inclusion of the ‘55 and 11 months’ provisions in many state and the federal superannuation schemes is a huge incentive to retirement at this age rather than when the person ‘needs to retire’, and should be removed as soon as possible, and certainly within the

next 5 years. Perhaps thought should be given to the question of when people 'need to retire', rather than when they simply 'want to retire'. Likewise I believe that the slow phase-out of the superannuation preservation age from 55 to 60 years (by the year 2024) is ridiculously long, given the current life expectancy of the population, and the minimal real impact (by my standards at least) that it would have on those affected.

4. Supporting More Flexible Work Options

Should we consider having longer working lives and reducing regulation on employers so employers seek to employ more people?

There are two very different questions here. I believe, despite having started work as an apprentice at age 15, that I want to work until I reach at least age 65, and perhaps longer, because I am healthy, find work fulfilling, and would probably be bored in retirement, perhaps leading to a reduction in my general health.

I personally know many people who have 'retired' well before they were really ready, regretted it, and returned to the workforce, having been able in the interim to 'dip' into their preserved superannuation, and having caused unnecessary disruption to their former employer due to the loss of decades of skills and 'corporate memory'. Our current labour market statistics may not detect these people, as these folk typically would not apply for unemployment benefit or have any trouble finding another job.

I believe that the Government must decide what is a reasonable 'working life' in the current political context, and base its policies on that decision. That is what governments are given a mandate to do.

The second part of the question, regarding reducing regulation on employers to encourage them to employ more people, implies that current regulations inhibit employment. I dispute this. The main determinant of employment in the private sector is profitability, which is determined by the marginal cost of employing an additional person. Given the high rate of casual employment in Australia at around 30%, employers have clearly taken full advantage of the current rules to match their daily or weekly labour needs to their market conditions. It therefore appears unlikely that further de-regulation would increase employment.

On the other hand, significant increases in the on-costs faced by employers, and the marginal tax rates faced by employees over the past three decades, has almost certainly made it un-economic for many employers to employ more staff. This belief is based on basic economic theory, which argues that employers seek to minimize their labor costs, whilst employees seek to maximize their after-tax incomes. The combination of these two behaviours will ensure that as on-costs rise, employers will employ fewer workers, but for longer hours, or if their business is seasonal, will employ fewer full-time and more casual workers.

Reducing these on-costs, many of which are government-imposed, and reducing marginal tax rates, will therefore tend to increase employment. Jawboning about businesses increasing their employment by the government will not change this situation.

What can employers do to provide greater flexibility and employment opportunities to meet people's needs?

This may be a moot question - the existence of '55 and 11 month' provisions, and other policies which set arbitrary retirement dates or encourage early retirement may well take matters out of many employers' hands. In my profession at least, I am not aware of any need for greater flexibility, given the current range of available options for employment, such as contract and casual work, individual work contracts or agreements, and so on.

5. Extending people's working life

'In 40 years' time, people could have almost as long in retirement as they have in the workforce'.

This statement appears to rest on simple projections of several current trends, such as life expectancy, but perhaps ignoring the tendency for families to have children much later. Unless a person is relatively wealthy, why would they choose to retire in his or her mid-fifties, knowing that they must rely largely on their own savings to support them and a spouse, and maybe adult but still dependent children for a further thirty years or more? This statement defies logic, and would be greeted with great scepticism by my peers. I would argue that this situation is unlikely to occur in practice, not only because of the effect of unpredictable events mentioned earlier, but because of several well-known factors:

- Wealthier people who can afford to retire early are more likely to be better educated and healthier, and as Chart 2 shows, are more likely to stay in the workforce for longer than others
- If Australia does not increase immigration, there will likely be continuing shortages of skilled labour. Better educated people are therefore likely to be offered and accept paid work for as long as they are fit, which on current trends may be well into their seventies. As such, these people will not be 'retired', and will not be a burden on the state.
- Poorer people are unlikely to be able to afford to retire before pensionable age, and will have to either stay at work longer to save for their retirement, or look forward to a very long period living solely on the age pension.

Surely a major underlying cause of early retirement is community expectations – which are often engendered by government attitudes, legislation and political rhetoric – for example introducing voluntary early retirement, and enshrining the '54 and 11 months' arrangement in government retirement schemes, allowing lump-sum payments in lieu of pensions, and so on.

If community expectations can be raised, they can also be lowered, and I for one would expect a responsible federal government to seek to change community expectations if it believes that the nation cannot afford to fund the cost of meeting these unrealistic expectations (even if those expectations were engendered in part by the same government).

For example, I would support a system which tied payment of the age pension or superannuation benefits to years in the Australian workforce, rather than to age itself. I believe the UK government does this. This is a form of positive discrimination in favor of those who have the longest working life.

Yet some who want to work longer can face barriers centred on employer and community attitudes, and their own behaviour.

I agree, but add that those who want to work longer, but on a part time basis face another problem - some jobs simply do not lend themselves to part-time work – I imagine that a politician, business executive or project manager would fall into this category. I personally have tried to work 3 or 4 day weeks in the past, but found that the demands of my profession, combined with the increasing pace of business life, make it unworkable in practice. What am I to do, then, if I want job flexibility?

Regarding redundancy – I have witnessed and been involved in several rounds of redundancies in various companies in the past 20 years, but I see no evidence of ageism in the selection of staff to be retrenched. Generally there is a need to cut costs, which translates into reduced head counts. Poor performance may have been a deciding factor, but I have never seen people made redundant simply because they are ‘too old’.

6. **Tailored wages and conditions**

‘Critics have stated that Australia’s arrangements do not serve the needs of the low paid in that relatively high award minimum ages make it too expensive for employers to take on low skilled workers.’

My experience of my children is relevant here. Prior to and after leaving school, my children were both employed on a casual basis by several businesses that typically took advantage of the pool of inexperienced juniors, by ‘signing up’ a relatively large number of them as casuals, and giving each a small amount of work (typically 1 to 10 hours) each week. The reasons for this appeared to be:

- To allow them to discard non-performing casuals without having to cover for staff shortages by using permanents
- to ensure that their labour needs were met, regardless of the welfare of their casual employees
- to take advantage of any employment, payroll tax and/or compulsory superannuation rules regarding employees with very small weekly wages,
- to prevent the employees taking other casual work
- and perhaps in the case of larger businesses such as supermarket chains, to tie up as many of the local casual labour pool as possible, to the disadvantage of their competitors.

It is apparently also routine practice for these employers to give little or no work to juniors who passed certain age barriers, as an incentive for them to

resign, thereby allowing the business to continue to use the most junior staff possible, keeping their staff costs to a minimum.

These practices appear inconsistent with the fact that the use of casuals imposes a 25% wage rate loading compared to permanents. However, the practice is so widespread that it suggests that research should be undertaken to discover the real cause of this apparently irrational behaviour by employers, given Australia's unusually high rate of casual labour employment.

End.