



**Queensland  
Government**

**Queensland Government  
Submission**

**on**

**Australia's  
Demographic Challenges**

**May 2004**

## Executive Summary

On 25 February 2004, the Commonwealth Treasurer released a discussion paper, *Australia's Demographic Challenges*, to seek community input on measures to raise labour force participation and productivity in response to population ageing.

This paper is timely and provides important recognition of the need for appropriately considered strategies to ensure Australia's standard of living is not compromised by structural ageing of the population. However, the paper has a narrow focus and does not recognise the full range of demographic challenges facing the States. In Queensland, the most pressing and immediate challenge is managing strong population growth, particularly in South-East Queensland.

Like the rest of Australia and much of the developed world, Queensland also faces the challenges of an ageing population. Despite its current younger age profile, the Queensland population is expected to age at a similar rate to that of the rest of Australia. The median age of Queenslanders is projected to increase from 35.3 years in 2002 to 40.2 years in 2021, and to 47.3 years in 2051.

The Commonwealth's discussion paper identifies three policy directions to increase labour force participation and productivity in response to population ageing:

- increasing the capacity of those of working age to enter the labour force, through improved education and health outcomes;
- increasing the incentive to work by reforming tax arrangements, income support and retirement incomes policies which discourage labour force participation; and
- increasing labour market flexibility to provide an ageing population with greater opportunity to participate in the labour force.

However, the paper does not identify that, in many of these policy areas, the States have prime carriage of policy and direct responsibility for program implementation and funding. Similarly, the discussion paper does not appropriately recognise the role of the States in these policy areas nor the need for effective collaboration across tiers of government in the development and implementation of strategies to raise participation and productivity.

While higher incomes achieved through higher productivity and participation will support the capacity to meet the demands of an ageing population, much of the direct service provision is a state responsibility. Accordingly, adequate funding for the States will be important to meeting the demand for the services required by an ageing population. At the Council of Australian Governments (COAG) meeting of December 2002, it was agreed to request the Productivity Commission to undertake a research study into the future impact of ageing, with a particular focus on the potential fiscal impacts on all levels of government resulting from an ageing population. This work needs to be progressed as a matter of priority.

There are four key issues underpinning Commonwealth-State relations where decisions by the Commonwealth have the capacity to undermine States' abilities to afford future expenditure pressures arising from Australia's demographic changes. These issues are vertical fiscal imbalance, horizontal fiscal equalisation, specific purpose payments, and inadequate growth in Commonwealth funding to the States.

The Queensland Government's objective is to deliver policies and programs for all Queenslanders that maximise the opportunities presented by an ageing population while meeting the challenges. This policy approach is underpinned by the Queensland Government's *Smart State* strategy, which has as its prime focus the objective of increasing the productive capacity of the State. Innovation, through research and development, commercialisation and technology diffusion is central to this strategy as is investment in Queensland's human capital.

In responding to the three policy directions set out in the Commonwealth discussion paper, this submission discusses a number of different strategies that are considered by the Queensland Government to be important to increasing labour force participation and productivity. These strategies include:

1. education and training;
2. investing in employment programs;
3. balancing work and family;
4. increasing labour force participation of older workers;
5. valuing our young people;
6. ensuring a healthy workforce;
7. providing quality workplaces;
8. improving access to employment for disabled Queenslanders;
9. removing disincentives to participate in the paid workforce;
10. providing access to housing and public transport; and
11. encouraging skilled migration.

Some of these strategies can be developed and implemented at the state government level, while others will require a collaborative approach, involving the Commonwealth Government. The Commonwealth also has an important role in supporting initiatives delivered by the States in these areas through provision of appropriate financial support.

This submission identifies a number of specific recommendations for Commonwealth consideration in developing a coherent approach to population ageing.

### **Key Recommendations:**

That the Commonwealth:

- recognises population ageing is not the only demographic challenge facing the States. The pressures of population growth in key areas, like South-East Queensland, represent an immediate challenge for the Queensland Government. Effective collaboration across all levels of government is necessary to ensure the planning and funding mechanisms are in place to respond appropriately to these challenges.
- acknowledges the importance of innovation and infrastructure in raising productivity growth and the role the Commonwealth can play in these areas, in collaboration with the States, to raise real incomes.
- places a high level of priority on progressing the Productivity Commission's research into the future impact of ageing and the fiscal impacts on all levels of government.
- recognises the potential fiscal pressures for the States of population ageing and ensures that its decisions do not compromise the capacity of the States to meet the demands of an ageing population.

- takes the initiative to work cooperatively with the States through COAG to achieve improvements with relation to future SPP funding.
- recognises the important role of the States and supports effective collaboration across tiers of government in the development and implementation of strategies to respond to the challenges of an ageing population.

#### *Education and training*

- recognises the importance of lifelong learning and the development of multi-literacy skills within education and training strategies.
- supports better quality and more customised career and learning services to facilitate labour force participation.
- provides greater funding support for vocational education and training.
- monitors the impact of reforms to higher education on access and participation in higher education, and over the longer term, on skills levels.

#### *Investing in employment programs*

- supports the role of employment programs in improving labour force outcomes through higher levels of Commonwealth funding of active labour market programs, such as the Queensland Government's *Breaking the Unemployment Cycle* initiative.
- supports measures to address the specific labour market needs of disadvantaged labour market groups.

#### *Balancing work and family*

- coordinates appropriate national responses to assist people in balancing work and family responsibilities.
- assesses the current disincentives for mothers to re-enter the workforce, including policies to support affordable, quality child care services.
- protects workers' basic conditions and entitlements in any strategies to provide more flexible work arrangements.

#### *Increasing labour force participation of older workers*

- considers non-legislative strategies to address age discrimination, such as public awareness campaigns, education and partnerships with employers and unions, to build understanding within the community and business of the value of mature age workers.
- supports a greater focus on lifelong learning and smoothing the transition to retirement as a means of encouraging workers to remain in the labour force longer.

#### *Valuing our young people*

- ensures that all groups in the community, including young people, are encouraged and supported to develop the necessary skills to participate in the labour force.
- recognises the importance of complementary training and employment programs that optimise the participation of young people in the workforce.

#### *Ensuring a healthy workforce*

- pursues collaborative approaches to health policy, which appropriately recognise the role of the States as core providers of health services.

#### *Providing quality workplaces*

- supports strategies to increase workplace quality in order to raise labour force participation and productivity.

#### *Improving access to employment for disabled Queenslanders*

- improves the capacity of people with a disability to access meaningful employment opportunities by increasing the number of Commonwealth-funded disability employment assistance places.
- provides greater support for initiatives or reforms which make it easier for disabled people of working age to access employment opportunities.
- ensures that the strategies and funding assistance provided to support people with disabilities to adjust to the reforms should also include demand management issues, the long-term implications for people with a disability currently accessing business services, and access to business services for future generations, not just existing employees.

#### *Removing disincentives to participate in the paid workforce*

- reviews current effective marginal tax rates to remove disincentives to labour force participation.
- considers the impact of reform of tax and social security systems in addressing regional labour market disparities.
- supports improved access to information on superannuation and financial planning strategies to assist people to better plan for their retirement.
- recognises the importance of a simplified superannuation system in encouraging people to save for retirement.
- ensures that workers whose retirement savings are not sufficient to provide an appropriate lifestyle in retirement are adequately supported.

#### *Providing access to housing and public transport*

- recognises the role of affordable housing and access to transport in strategies to raise labour force participation.

#### *Encouraging skilled migration*

- recognises the role of skilled migration in addressing skills shortages and raising productivity.
- supports continued collaboration across levels of government to appropriately target Australia's skilled migration program.

## Table of Contents

<b>1. Queensland’s Demographic Challenges</b> .....	1
1.1. Population growth.....	1
1.2. Population ageing .....	2
1.3. Population distribution .....	5
1.4. Conclusion .....	7
<b>2. Challenges of an Ageing Population</b> .....	7
2.1. Recognising the challenges facing the States .....	7
Fiscal pressures facing Australian governments .....	8
Conclusion .....	11
2.2. Policy response .....	12
Introduction.....	12
Raising real incomes .....	13
The importance of innovation and infrastructure in raising productivity .....	16
Commonwealth-State relations .....	18
Conclusion .....	22
<b>3. The Queensland Government’s Response to Population Ageing</b> .....	22
3.1. Demographics research program .....	23
Demographic statistics and projections.....	23
Whole-of-government research initiatives .....	24
Service delivery.....	24
Raising real incomes .....	24
Inter-governmental initiatives and research .....	25
The Queensland public sector workforce.....	25
<b>4. Raising Labour Force Participation and Productivity</b> .....	26
4.1. Education and training.....	26
Queensland Government initiatives .....	27
4.2. Investing in employment programs .....	30
Queensland Government initiatives .....	31
4.3. Balancing work and family.....	32
Queensland Government initiatives .....	34
4.4. Increasing labour force participation of older workers.....	36
Queensland Government initiatives .....	38
4.5. Valuing our young people .....	38
Queensland Government initiatives .....	38
4.6. Ensuring a healthy workforce.....	39
Queensland Government initiatives .....	39
4.7. Providing quality workplaces .....	40
Queensland Government initiatives .....	41
4.8. Improving access to employment for disabled Queenslanders.....	42
Queensland Government initiatives .....	43
4.9. Removing disincentives to participate in the paid workforce.....	44
The impact of the interaction between the tax and social security systems on labour force participation .....	44
Retirement and superannuation.....	48
4.10. Providing access to housing and public transport.....	49
Queensland Government initiatives .....	49
4.11. Encouraging skilled migration .....	50
Queensland Government initiatives .....	50
<b>References</b> .....	51
<b>Attachment A</b> .....	53

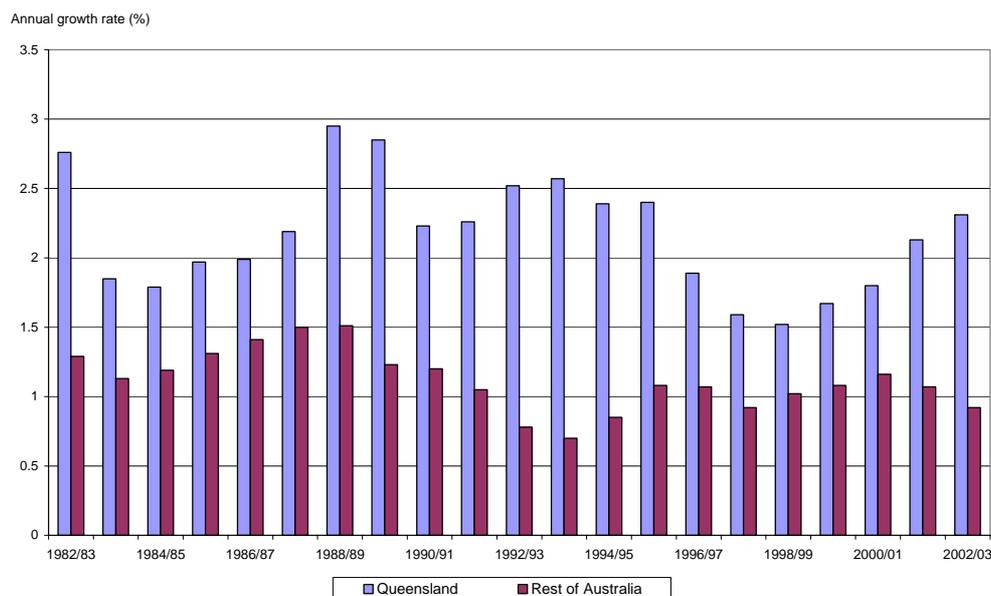
## 1. Queensland's Demographic Challenges

The Commonwealth Government's discussion paper, *Australia's Demographic Challenges*, focuses on population ageing. In the Queensland Government's view, this is a very narrow interpretation of the demographic challenges facing Australia. In addition to population ageing (an issue for all the States), the Queensland Government faces challenges from the pace of population growth in the State, and also from changes in the composition and distribution of the Queensland population. The nature of the demographic challenges facing Queensland is discussed below.

### 1.1 Population growth

Queensland has been the fastest growing State since the mid-1970s, and this is projected to continue. A comparison of population growth rates over the last 20 years is shown in Figure 1.1. Over the two decades to June 2003, Queensland's population increased by over 50 per cent, compared with growth nationally of some 30 per cent. Consequently, Queensland has accounted for an increasing share of Australia's population, rising from 16.1 per cent in 1983 to 19.1 per cent in 2003.

**Figure 1.1. Annual Population Growth Rate, Queensland and Rest of Australia 1982-83 to 2002-03**

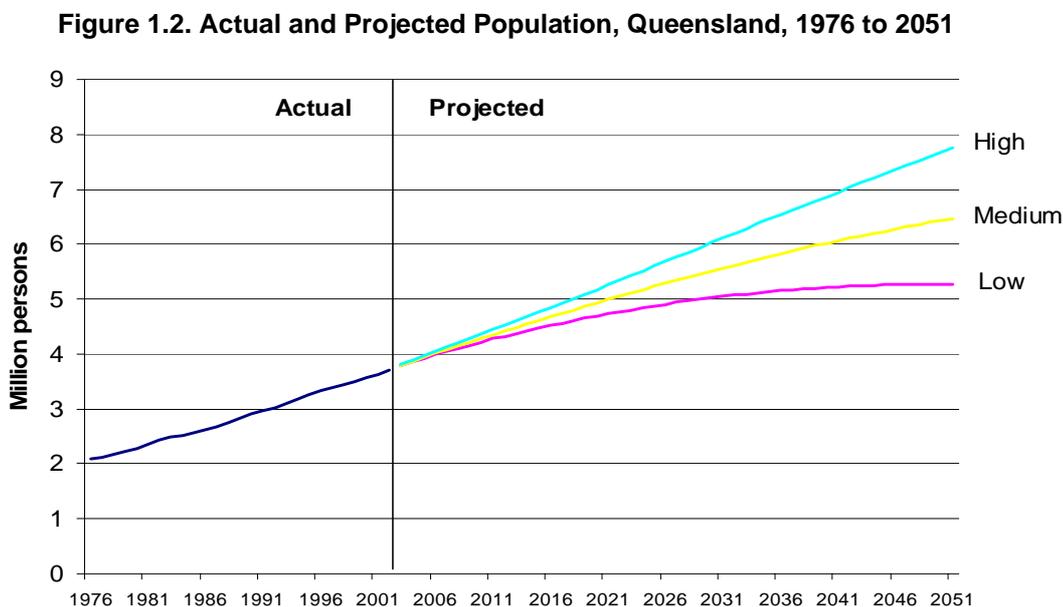


Source: Australian Bureau of Statistics, Cat. No. 3101.0

The internal redistribution of Australia's population has been an important source of population growth for Queensland, with interstate migration contributing 42 per cent of Queensland's population growth over the decade to 2003. Overseas migration contributed a further 20 per cent, while natural increase (the surplus of births over deaths) contributed the remainder.

Queensland's strong population growth is projected to continue, with the State's population expected to rise from 3.6 million people in 2001 to around 5.3 million people in 2026, increasing the State's population share from 18.7 per cent to around 22 per cent. If future fertility and migration outcomes are at the high end of expectations, Queensland's population could more than double from its current level over the next half century.

Figure 1.2 illustrates projected population growth for Queensland according to three future population scenarios based on different assumptions relating to migration, fertility and life expectancy. The future scenarios were produced by the Queensland Government's leading-edge population model.



Sources: Australian Bureau of Statistics, Cat. No. 3201.0; Queensland Government Population Projections 2003

The projected continuation of strong population growth in Queensland can be directly translated into increased demand for State Government infrastructure and services. For example, a key difference between Queensland and Australia as a whole is the projected growth in the number of children. Nationally, the number of children is projected to decline by 7.0 per cent by 2051 (ABS 3222.0, Medium Series). By contrast, the number of children in Queensland is projected to grow by 18.6 per cent over the same period. This growth differential has clear implications for the demand for education services in Queensland, relative to the rest of Australia. Additionally, the expansion of the Queensland population into new geographical areas generates environmental pressures. These issues are also a function of the population's composition and distribution, which are discussed next.

## 1.2 Population ageing

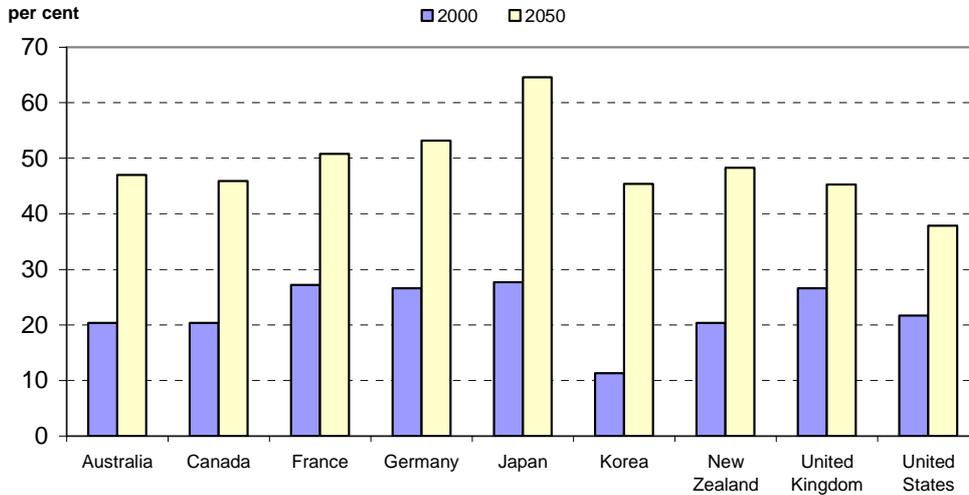
While the following discussion focuses on ageing, it is important to recognise that Queensland is also experiencing other important trends in the composition of the State's population, including:

- the rapid growth of the Indigenous population;
- changing household composition; and
- the large numbers of temporary migrants who use Queensland Government services and infrastructure.

Population ageing is a world-wide phenomenon. As Figure 1.3 shows, populations from the developed nations of Europe, Asia, Oceania and North America will all age over coming decades. The aged dependency ratio – the ratio of persons aged 65 years and above, to

persons aged between 20 and 64 – is expected to double in the majority of OECD countries (including Australia) by 2050.

**Figure 1.3. Aged Dependency Ratios for Selected OECD Countries, 2000 and 2050**



Source: Casey et.al. (2003)

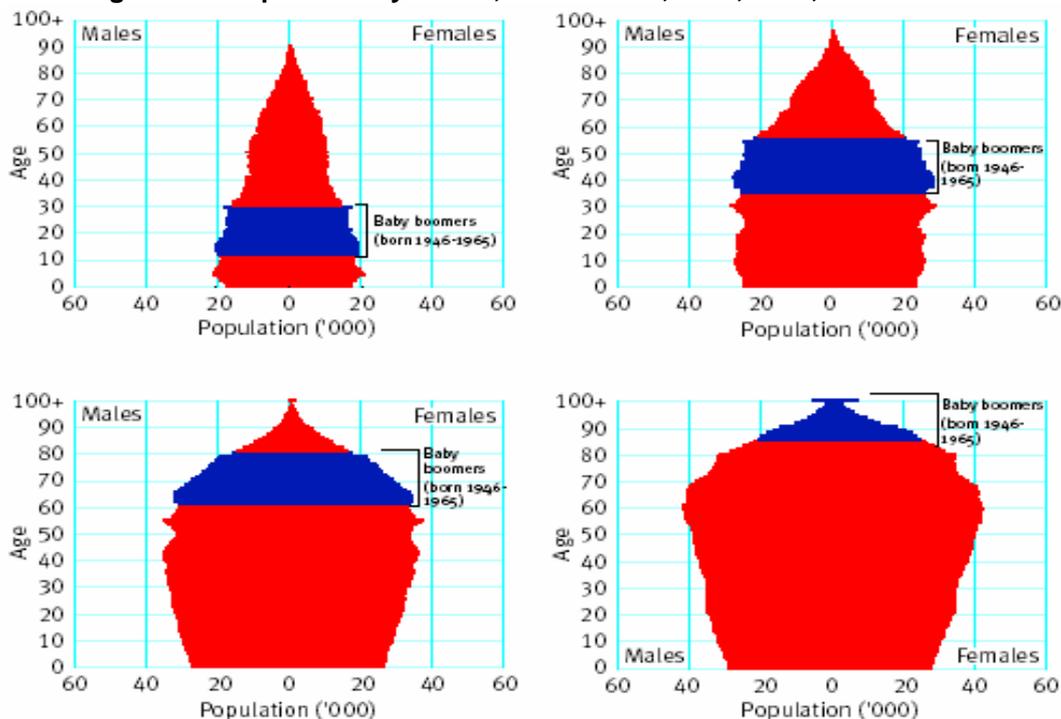
It is important to recognise that these estimates are based on the assumption that the working age population is aged between 20 and 64 years. Accordingly, changes in working ages will alter the outlook for the aged dependency ratio going forward. With education and training affecting the labour force participation of younger age cohorts there is a strong argument that the working age group is now better approximated by the 20-64 year age group, than the 15-64 year age group. In contrast, changing attitudes towards retirement could result in increased retirement ages in future which act to reduce the aged dependency ratio.

Population ageing is not driven by distinctive national or cultural traits, but is largely the outcome of two beneficial trends enjoyed by developed countries – longer healthier lives and higher material living standards. Longer lives result in larger numbers of aged people, while higher living standards are associated with falling fertility rates. In this context, population ageing is not a sign of societal failure, but of social, economic and technological achievement.

Queensland's population is projected to age at a similar rate to that of the rest of Australia. While the total Queensland population in 2051 is expected to be 78 per cent larger than in 2001, the population of children aged less than 15 years is projected to increase by only 18.6 per cent, and those of young working age (15 to 44 years) by only 34.3 per cent. In contrast, the number of older working age people (45 to 64 years) is projected to almost double (92.8 per cent), while the population aged 65 and over is projected to increase more than fourfold (324.2 per cent). Assuming the State's fertility rate continues to decline (from 1.8 per cent in 2001), the population share of children aged less than 15 years is projected to fall markedly over the next 50 years from 21.3 per cent in 2001 to 14.2 per cent in 2051. Coupled with increasing longevity, the median age of the Queensland population is projected to increase from its 2002 level of 35.3 years, to 40.2 years by 2021, and then to 47.3 years by 2051.

Queensland's current, past and future age profiles are shown in Figure 1.4, where the progression of the 'baby boom' age groups can be clearly seen.<sup>1</sup>

**Figure 1.4. Population Pyramids, Queensland, 1976, 2001, 2036 and 2051**



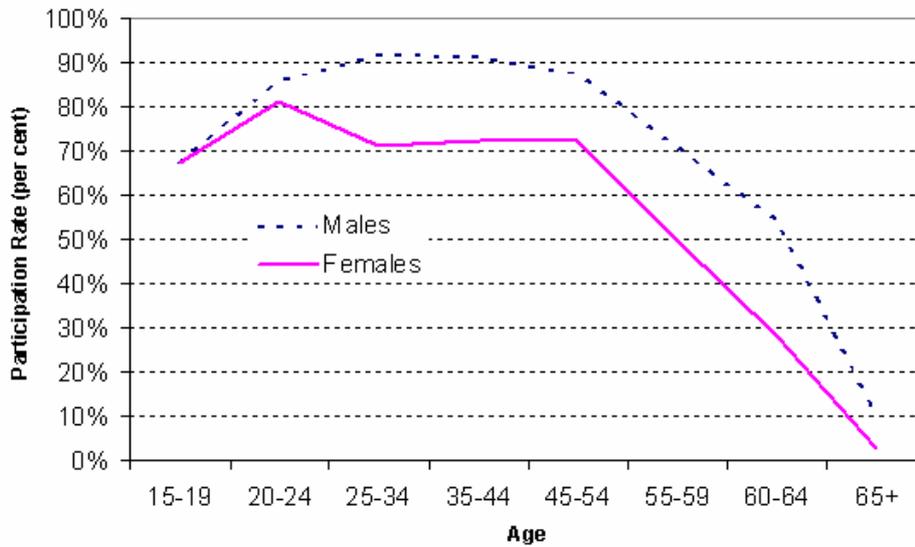
Sources: Australian Bureau of Statistics, Cat. No. 3101.0; Queensland Government Population Projections, 2003 (medium series)

As well as increasing the demand for State Government services (see Section 2 of this submission), the changing age structure of the population will have implications for the growth of Queensland's workforce and economy. A key issue, as outlined by the Commonwealth, is the fact that workforce participation currently declines substantially after 55 years of age (Figure 1.5). Hence, the adult age cohorts experiencing the greatest growth over the next 50 years are those who currently participate least in the workforce. Although there is some scope for an increase in participation, the prospect is for slowing growth in the workforce over coming decades. However, Queensland's workforce growth is still projected to remain positive out to at least 2051.

The ageing of the workforce also affects the Queensland Government in its role as an employer. A key issue is that the Queensland Public Sector (QPS) workforce is already older than the private sector workforce. Currently, nearly 55 per cent of QPS workers are aged over 40 years, compared with 45 per cent for the overall workforce. Around 40 per cent of current QPS workers will be eligible to retire by 2010, implying a potentially large outflow of human capital which would be difficult to replace. Current recruitment practices have only had a marginal impact on the QPS age structure, because almost a third of new QPS recruits are over 40 years of age.

<sup>1</sup> The 'baby boomers' are those people born between 1946 and 1965.

**Figure 1.5. Age-Specific Participation Rates, Queensland, March 2004**



Source: Australian Bureau of Statistics, Labour Force Statistics

### 1.3 Population distribution

Queensland's population is the most decentralised of the States. In 2002, 45.6 per cent of the State's population was located in the main metropolitan area (Brisbane Statistical Division), compared with 62.8 per cent for New South Wales and 72.3 per cent for Victoria. The relative dispersion of the Queensland population remains a challenge for the Queensland Government in coordinating and funding the many government services delivered across Queensland.

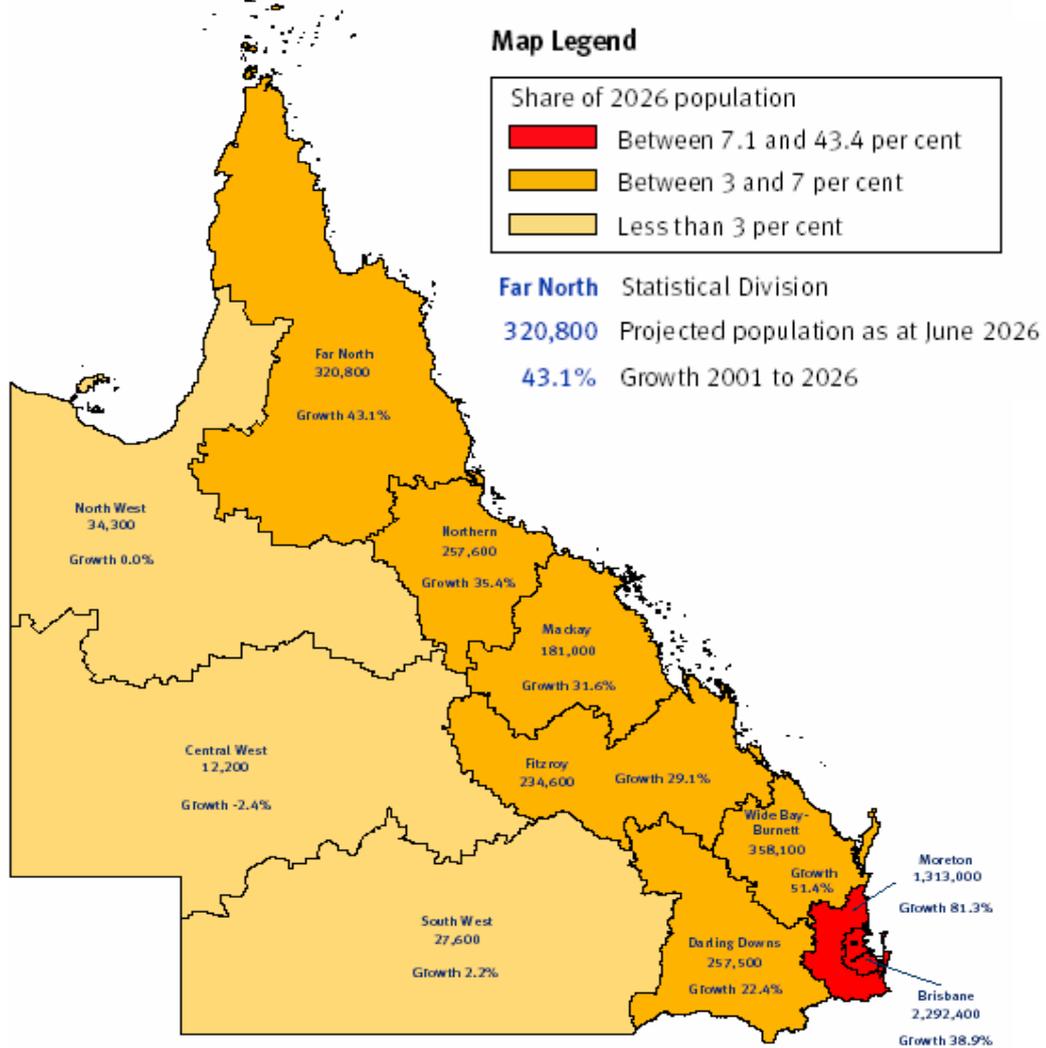
Overall, Queensland has eleven statistical divisions, and each is projected to experience different patterns of population growth and ageing. These changes depend on the fertility and mortality of the current populations, and the number and age profile of migrants. The projected change in the spatial distribution of the Queensland population, and associated regional growth rates, are illustrated in Figure 1.6 for the period between 2001 and 2026.

Most of Queensland's growth is projected to occur in coastal urban areas, continuing an established long-term trend. By contrast, the three western regions are projected to experience little change in total population over the next 25 years.

A major growth corridor is the South-East region, which accounted for about 78 per cent of Queensland's growth over the last decade. South-East Queensland, which is the fastest growing region in Australia, has gained more than one million people in the last 25 years and a further million is projected within the next 20 years. While this rapid growth offers opportunities, there are also many challenges, including infrastructure costs, environmental management, and the emergence of areas of social and economic disadvantage.

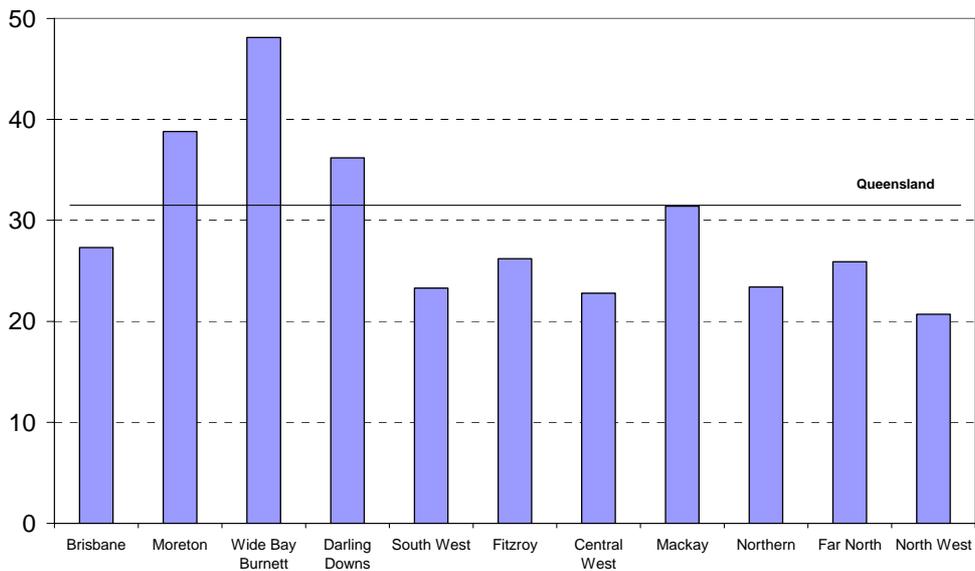
All of Queensland's regional populations are projected to age in the coming decades, albeit at different rates. Figure 1.7 shows the projected aged dependency ratios in each Statistical Division in 2026.

**Figure 1.6. Queensland Population 2026 and Population Changes 2001 to 2026, by Statistical Division**



Source: Queensland Government Population Projections, 2003

**Figure 1.7. Projected Aged Dependency Ratios (%), Queensland Statistical Divisions, 2026**



Source: Queensland Government Population Projections, 2003

## 1.4. Conclusion

The Queensland Government is faced with many demographic challenges, current and future. Importantly, ageing is not the only demographic challenge facing state governments. In Queensland's case, our population is expected to grow rapidly, particularly in South-East Queensland. Queensland's population will remain relatively dispersed, and its diversity will increase. Planning is now underway for the infrastructure and services needed in the widely dispersed locations where Queenslanders will want to live in the future and to respond to the current challenges of strong population growth in South-East Queensland.

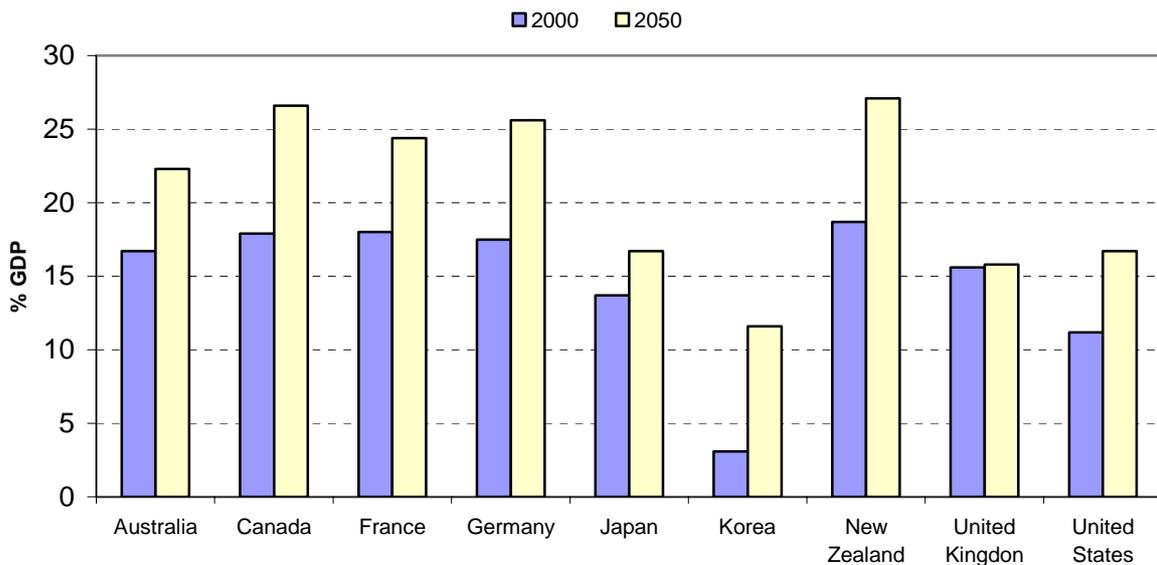
## 2. Challenges of an Ageing Population

### 2.1 Recognising the challenges facing the States

The Commonwealth Government's discussion paper, *Australia's Demographic Challenges*, presents a national perspective on the impacts of ageing and the policy responses relevant at the national level. However, this perspective is too narrow, failing to consider the impacts of ageing on the States. The government of every country whose population becomes older over coming decades also faces policy challenges – economic, fiscal and social. In the Australian context, that includes state, territory and local governments, as well as the Commonwealth.

Almost all countries experiencing population ageing will face a potential slowing in economic growth and heightened fiscal stress. Figure 2.1 shows that age-related public spending in OECD countries is projected to increase over the next fifty years. This phenomenon naturally raises issues of how core services of government, such as health care and the aged pension, will be paid for within fiscal constraints.

**Figure 2.1. Age-Related Spending**



Note: The UK result is affected by the assumption that their existing old age pension will remain indexed to prices.  
 Source: Casey et.al. (2003)

As Figure 2.1 shows, Australia is not alone in facing these issues - Australia will experience similar challenges to other developed economies and will have the opportunity to lead and learn from the responses of these countries.

Demographic change is expected to lead to profound changes in the Australian community. An older, more mature population will alter the dynamics of Australian society. A large and growing aged community will develop greater political leverage, and its perspectives and concerns will increasingly influence policy. Private and public resources will shift to meet the needs and demands of older people.

The scale of these changes means that all governments will be affected. However, governments will be affected in different ways because roles and responsibilities vary across levels of government. Even so, having a set of responses that are integrated across government – both horizontally across government agencies and vertically through the three levels of government – is central to addressing issues of population ageing successfully and the challenges it raises.

### **Fiscal pressures facing Australian governments**

As discussed in Section 1, the population structure is ageing, as a result of declining fertility in recent decades and significant increases in life expectancy over the past century. In coming decades, as the 'baby boomers' retire and live longer, older people will comprise an increasing proportion of the population. Given current policies and technologies, it is expected that population ageing will generate fiscal pressure (financial burden) on Australian governments at all levels.

However, the fiscal challenge facing Australian governments extends beyond that posed by population ageing. There are also non-demographic trends which have the capacity to generate fiscal pressure – for example, increasing prices and higher rates of use across all ages within the health sector, and potential declines in some components of State revenue. Such trends have the potential to compound the fiscal pressures posed by an ageing population.

Long-term projections of these pressures, while useful, are sensitive to underlying assumptions and are unable to incorporate the inherent uncertainties of future events. For example, forty years ago, changes such as the dramatic fall in fertility rates, advances in information technologies and the shift from the manufacturing to services sectors would have been largely unforeseen.

Despite this, a consistent picture is developing of the future fiscal pressures facing Australian governments. The OECD estimates referred to earlier suggest an increase in fiscal pressure of over 5 percentage points of GDP. In addition, Creedy (1999) has projected that population ageing will increase public social expenditure by 8 percentage points of GDP over the next 50 years and Guest and McDonald (2000) project an increase in social expenditure of 6.7 and 7.4 percentage points of GDP over the next 40 years and 50 years respectively.

Of the recent studies, the Commonwealth Government's *Intergenerational Report* (IGR) has attracted the most attention. Released as part of the 2002-03 Commonwealth Budget, the Report assessed potential long-term fiscal pressures on the Commonwealth arising from population ageing and non-demographic expenditure growth. The *IGR* projected that the gap

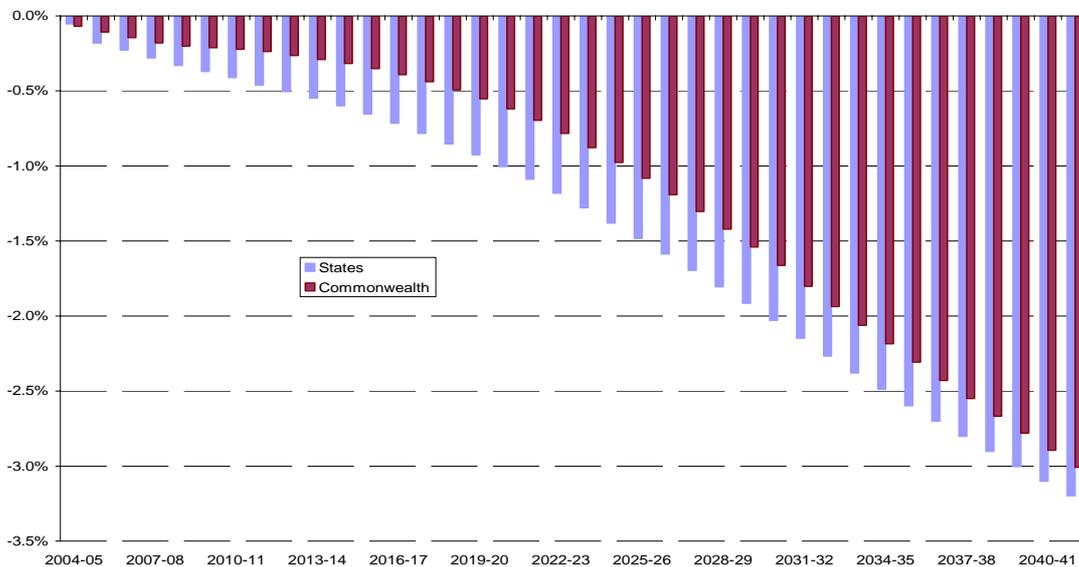
between federal spending and revenue (the 'fiscal gap') would reach about 5 per cent of GDP by 2041-42, in the absence of corrective policy change.

*The fiscal challenge facing the States*

One of the limitations of the Commonwealth IGR is that it excludes a credible analysis of the potential fiscal pressure on other levels of government, particularly State and Territory Governments. To right the balance, the States have worked together to develop modelling to investigate the potential fiscal impact of population ageing on the States and the Commonwealth. The fiscal projections employ a modelling framework which is the result of collaborative research between the State and Territory Treasuries and Access Economics. As with all modelling, the results are dependent on some key assumptions, including assumptions relating to labour force participation, productivity growth and costs. These assumptions are discussed in detail in Attachment A. Moreover, the modelling presents one scenario only and the results do not necessarily reflect the official views of any State or Territory Government. It should also be noted that the projections discussed below are still considered to be work-in-progress.

The ageing of Australia's population, together with non-demographic cost pressures, is projected to have an adverse impact on State and Territory finances over the next 40 years. The fiscal pressure facing the States and Territories (hereafter, 'the States') is projected to increase by 3.2 per cent of GDP by 2041-42. This trend is projected to occur in the absence of any corrective policy response by the States (Figure 2.2).

**Figure 2.2. Projected Change in Fiscal Pressure, States and Commonwealth, Percentage of GDP, 2004-05 to 2041-42.**



Source: State and Territory Treasuries' projections

*Spending pressures*

The three major areas of **health** spending – public hospitals, doctors, and pharmaceuticals - are all projected to rise substantially relative to GDP. This projected increase is partly due to the growing proportion of elderly people, but is also attributable to the rising cost of health care and increasing utilisation of health services across all ages. The States and the

Commonwealth share responsibility for government health expenditure, as outlined in the following table.

Commonwealth health responsibilities	State health responsibilities
Primary responsibility <ul style="list-style-type: none"> <li>• Primary care (GP services) funded under the Medical Benefits Scheme.</li> <li>• Pharmaceuticals Benefits Scheme.</li> <li>• Private health care (rebates for health insurance).</li> <li>• Residential aged care.</li> <li>• Community care substitutes for residential care.</li> <li>• Shared responsibility with the States for early intervention support for community aged care (HACC).</li> </ul>	Primary responsibility <ul style="list-style-type: none"> <li>• Public hospitals, including inpatients, outpatients, emergency departments.</li> <li>• Mental health services.</li> <li>• Community health services for the general population.</li> <li>• Public health (eg. prevention, public awareness, food and drinking water standards).</li> </ul>

Expenditure on **law and order**, which is primarily a state responsibility, is also projected to grow faster than GDP, continuing its historical trend. Whilst the declining proportion of young adults in the population will tend to ease pressure on law and order spending, this effect is outweighed by a strong upward historical cost trend, which is the result of a long run increase in the overall crime rate, coupled with increasing community expectations of law enforcement. Hence, along with health, law and order expenditure is an area of potential fiscal pressure for the States.

**Education** spending by both levels of government is projected to fall relative to GDP (although it will still increase in absolute terms), due to the declining proportions of children and young adults in the population and the projected continuation of the growth of private spending in this sector. However, these effects are partly offset by the projected continuation of increases in real per-student expenditure by the States. The need for up-to-date information and communication technologies to prepare students for participation in the knowledge economy is a key area of cost pressure, along with higher retention rates and increasing community expectations of school facilities.

There are also a number of issues that present great uncertainty for the future, and, because of this uncertainty, have been excluded from the modelling. However, they present risks that need to be monitored and managed.

- **New health technologies and treatments** – such as gene and nano technologies and enhanced drug design – are expected to affect health care although the direction and degree of the financial impact is uncertain. A number of commentators suggest that this issue, more so than population ageing, is the major issue facing governments in the future.
- **Environmental and resource issues** – such as global warming, salinity and resource depletion – may create new challenges for governments. The degree of these challenges is unknown at this point. To some extent, these are issues for the Commonwealth Government, but fiscal pressure at the Commonwealth level is likely to cascade to the States.
- **Increased demand for education and training** – a stronger emphasis on education may be necessary to offset the impacts of an ageing population. (This is discussed in more detail later in this section.)

### *Revenue pressures*

Whereas the fiscal pressure on the Commonwealth Budget arises mainly in areas of expenditure, the States also face pressure on the revenue side of the budget. The three major components of state revenue — specific purpose payments, general purpose payments (which rely on GST revenue), and own source revenue — are all projected to decline as a proportion of GDP over the long term:

- Continuing historical trends, **specific purpose payments** are projected to lag behind demand growth, exacerbating the fiscal pressure faced by the States, and easing the fiscal pressure on the Commonwealth. This represents a major fiscal risk to the States, unless the way in which the level of these payments is determined becomes the subject of improved collaboration between the States and the Commonwealth.
- **GST revenue** is projected to decline relative to GDP over the period, despite its broad base. Modelling by the States and Access Economics suggests aggregate GST revenue will grow more slowly than nominal consumer spending to 2041-42. The dominant factor in this outcome is that the GST base does not include some of the relatively faster growing components of consumption (such as private spending on health services).
- The States' **own source revenue** is also projected to decline as a share of GDP over the long term, reflecting falls in taxation and other revenue, relative to GDP. For example, stamp duties are projected to decline relative to GDP as the changing age profile results in a slowing rate of household formation.

Overall, the States and the Commonwealth are exposed to growing long-term fiscal pressures. Recognising that there are a number of portfolio areas where the Commonwealth and States share funding responsibilities, it is becoming increasingly important to adopt an integrated and collaborative approach to policy development in order to minimise fiscal risks and ensure sustainable, effective service delivery.

### **Conclusion**

Population ageing is a result of our success in improving our living standards and lengthening our lives. However, at the same time, ageing will present challenges for our community and governments.

Australia will not be alone in trying to manage these challenges. Other nations, with other cultures and histories, also face the same challenges.

The Commonwealth has presented the fiscal challenges it faces. But State Governments, like the Commonwealth, can also expect to face significant fiscal pressures in coming decades.

Overall, the main drivers of the future fiscal pressures facing State Governments, including Queensland, are expected to be:

- **Population ageing**, whereby increasing longevity and falling fertility rates are expected to raise the proportion of the population aged over 65 from 11 per cent currently to 23 per cent by 2042. In the absence of policy change, this is expected to lead to higher health care and other government expenditures. The ageing of the population is also

expected to lead to an easing in the rate of growth in the labour force, with an associated slowing of the rate of growth of the economy, living standards and government revenue.

- **Underlying cost pressures** have been evident in key areas, particularly in health and law and order. Education and training and environmental policy are also at risk of becoming subject to increased cost pressures in the future.
- A structural imbalance in **Commonwealth-State financial relations**, which has manifested itself in Commonwealth grants to the States failing to keep up with economic growth, is projected to remain.

Fortunately, several decades of responsible fiscal management and public sector reform have positioned governments well to respond. However, the challenges will still be significant.

## 2.2 The Policy Response

### Introduction

In the discussion paper, *Australia's Demographic Challenges*, the Commonwealth argues that the most appropriate national response to the looming impact of population ageing is to raise economic growth by focusing on raising workforce participation and productivity. In adopting this policy stance the Commonwealth has rejected three alternative approaches to responding to the fiscal pressures associated with population ageing. These 'choices' are identified in the discussion paper:

- elect to do nothing, and raise taxes in the future to cover budget deficits as they occur;
- cut future government expenditure by around 5 per cent of GDP; and
- run deficits and hence increase debt.

The Queensland Government broadly agrees with this policy focus – raising participation and productivity in the workforce will at least partly offset the impacts of the growing dependency ratio resulting from population ageing. Even in the absence of population ageing, higher per capita incomes will produce benefits for the Australian community, provided social and environmental impacts are appropriately managed.

However, the Queensland Government believes that the Commonwealth discussion paper presents an incomplete picture of the appropriate policy response. Without disputing the importance of raising participation and productivity, the Queensland Government argues raising productivity should be considered a higher policy priority than raising participation, and, secondly, that the Commonwealth concentrates on too narrow a range of factors which affect productivity, excluding a number of other important ways in which government can increase productivity.

The States have a critical role to play in ensuring that the Australian community is able to respond effectively to the challenges presented by population ageing. The States can contribute directly to higher participation and productivity, but in a number of key policy areas, it can only be through cooperation among Australian governments that public resources can be targeted, managed and allocated to produce services more effectively. Moreover, it will only be through cooperation among Australian governments that these

public resources will be able to be distributed to the service areas where they are most needed.

The Queensland Government believes that a stronger policy emphasis on accelerating productivity growth and ensuring the States have adequate fiscal capacity will be important to meeting the demand for the services required by an ageing population.

Section 4 of this submission responds to the discussion paper's policy directions by discussing a number of different strategies that are considered by the Queensland Government to be important to the achievement of the twin objectives of raising labour force participation and productivity.

### **Raising real incomes**

The Queensland Government agrees with the overarching policy approach to dealing with the impacts of population ageing in the Commonwealth discussion paper - that the 'best approach is to look for ways to increase the size of the economy... through increases in labour force participation and productivity'. However, this approach could be improved by:

- focusing more attention on raising productivity in addition to attempting to raise labour force participation; and
- addressing factors influencing productivity, other than those covered in the discussion paper, such as innovation and infrastructure.

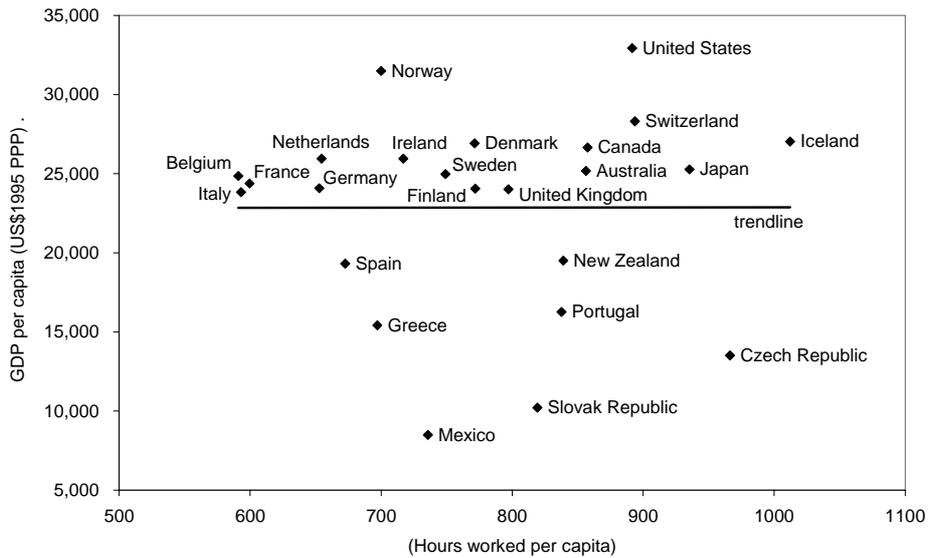
The overarching role of economic policy is to increase real incomes per capita, compared with what they would have otherwise been. Real incomes can be increased by raising productivity (output per hour worked) or by increasing participation in the economy (total hours worked). The latter is driven mainly by rises in the labour force participation rate, but also through falls in the unemployment rate or increases in average hours worked per employed person.

Raising real per capita incomes is important to addressing the fiscal pressures associated with ageing, as higher incomes raise the revenue base (relative to expenditure) of the government.

However, the discussion paper fails to highlight that raising labour productivity growth may be relatively more important to achieving higher incomes than raising labour force participation. There are several reasons for this:

- Raising productivity has historically been more important to raising real incomes in Australia. Australia recorded growth in per capita output of 2.6 per cent per annum over the 10 years to 2002-03, of which 1.8 percentage points was due to labour productivity growth, 0.5 percentage points due to a falling unemployment and only 0.2 percentage points due to a rise in the participation rate.

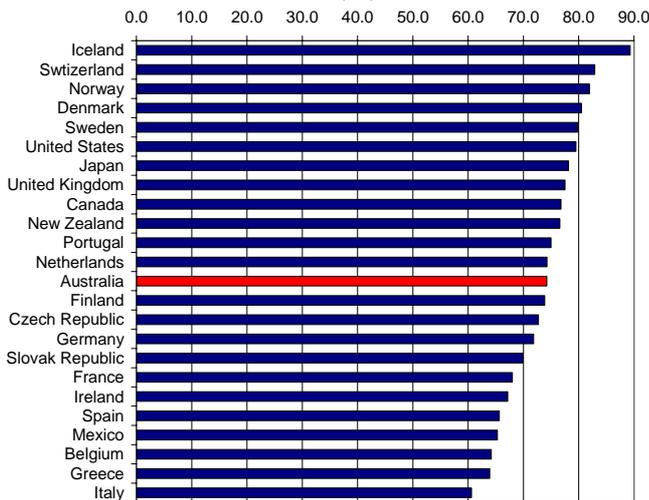
**Figure 2.3. OECD Per Capita Output Versus Participation**  
(five year-average to 2001)



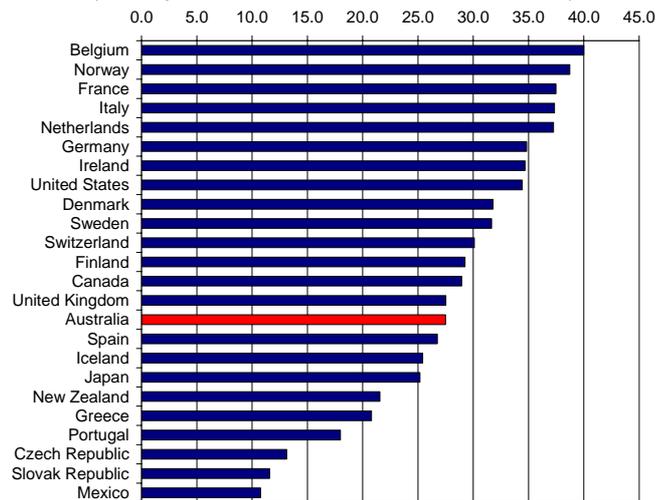
- Figure 2.3 also shows that there is no statistically significant positive relationship between participation rates and per capita incomes across OECD countries. Countries with similar rates of participation (Norway versus Greece, United States versus Switzerland) have significantly different real incomes per capita, or countries with similar per capita incomes (Italy, Finland, UK) have different labour force participation rates, suggesting other factors such as differences in productivity levels may be relatively more important.

**Figure 2.4. Productivity and Participation across the OECD**  
(five year-average to 2001)

**(a) Working age (15-64) participation rates (%)**



**(b) Labour productivity (GDP per hour worked, US\$, PPP terms)**



- Figure 2.4 shows that Australia ranks lower on labour productivity than on its participation rate across OECD countries. For example, Australia's participation rate is nearly 10 per cent below that of Norway (a high participation rate / productivity country), while its level of productivity is nearly 30 per cent below this country. This suggests that productivity growth may be relatively more important to making further

gains in real incomes. This argument is strengthened in the case of Australia, with some States, such as Queensland, having a higher participation rate relative to other states, but a relatively lower level of productivity.

- Ageing may cause market responses that act to raise labour force participation. For example, any resulting labour supply shortages will tend to increase wages and encourage new entrants into the labour force. Again, ensuring such wage rises are underpinned by productivity growth will be important to maintaining low labour costs for business and maintaining sustainable growth in labour demand and economic activity.

This is not to say that improving participation is not important, as removing impediments to labour force participation (caused by taxation/social security arrangements, inadequate skills, poor health) is a crucial part of any strategy to raise real incomes. Raising participation also becomes important in a distributional sense, as it widens the share of the population who earn income and reduces the number of 'dependents' in the economy who require some form of cross subsidisation (eg. income support).

The gains to economic output of raising participation of mature age workers in Australia could be considerable. While this labour force group will increase in relative size and importance as the population ages, participation rates for this age cohort in Australia are well below that of other countries. Figure 2.4 shows that Australia's total working age participation rate is only a few percentage points below that of the United States. However, the discrepancy is wider for older age cohorts. Australia's participation rates for males and females aged over 65 were 10.2% and 3.2% in 2003, well below the rates in the United States of 18.6% and 10.6% respectively.

The main factors influencing productivity and participation include:

- labour market flexibility / industrial relations;
- factors influencing relative incentives to work (such as social security / taxation);
- education and training;
- infrastructure; and
- innovation / research and development.

However, by mainly concentrating on factors influencing participation, the discussion paper also neglects the important role infrastructure and innovation (industry policy, research and development) will play in raising productivity going forward. It should also be noted that although raising education or training efforts should have a positive effect on the rate of innovation, there are a range of policy issues around taxation and regulatory arrangements that influence the rate of innovation which need to be addressed.

The omission of any discussion of infrastructure and innovation in the Commonwealth discussion paper appears to be partly due to the fact that the paper concentrates on those factors likely to be significantly influenced by an ageing population, such as pension systems and health. However, the fiscal implication of ageing means that issues regarding all drivers of productivity and participation need to be addressed in order to maximise gains in real incomes.

A key area the Commonwealth Government needs to focus efforts in order to raise productivity is in the public sector itself. Productivity growth in the public sector benefits the community through more efficient and cost-effective service delivery and by the fact that the public sector is often an industry leader in terms of industrial relations, training, and research and development activity – all of which influence productivity. The public sector is also a direct contributor to the productivity of the economy, given it accounts for over 20 per cent of GDP and employs more than one fifth of total employees nationally.

### **The importance of innovation and infrastructure in raising productivity**

A recently completed research project has highlighted the importance of productivity relative to participation in explaining differences in real income growth across Australian states, and the important role that infrastructure and R&D have played in explaining interstate trends in productivity growth.

The *Drivers of Growth* project was a collaborative research project between Queensland Treasury, the University of Queensland and Griffith University. The project aimed to identify the factors that have driven Queensland's stronger economic growth performance relative to the rest of Australia, and to identify factors that will drive Queensland's economic growth in the future. The results were released in 2003 in the volume entitled *Productivity and Regional Economic Performance in Australia*.

In summary, the volume found that interstate differences in productivity growth were the most important factor in explaining differences in real income growth across the States over the past decade and a half. Table 2.1 shows that the States that recorded the fastest average annual growth in real output per capita over 1985-86 to 2000-01, such as Western Australia and Queensland, also recorded the strongest productivity growth, whereas increases in the labour force participation rate were a relatively small contributor to growth in real incomes across the States.

**Table 2.1. Real Incomes in Australian States**  
(average annual growth,%, 1985-86 to 2000-01)

Components		Average Annual Growth					
		NSW	Vic	Qld	SA	WA	Tas
<b>Real output per Capita</b>		<b>2.2</b>	<b>2.1</b>	<b>2.3</b>	<b>1.9</b>	<b>2.4</b>	<b>1.0</b>
<b>Labour productivity</b>	Capital deepening	0.4	0.4	-0.1	0.3	0.4	0.5
	Multifactor productivity	1.2	1.0	1.6	1.1	1.3	0.3
<b>Labour force participation</b>	Participation rate	0.2	0.4	0.5	0.1	0.4	0.1
	Working age	0.3	0.3	0.3	0.3	0.3	0.3
	Average hours	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2
	Unemployment rate	0.2	0.1	0.1	0.1	0.2	0.1

The research also found that innovation activity could explain a large amount of the variation in productivity growth across States over the past decade and a half, with faster productivity growth in Queensland and Western Australia due to contributions from growth in domestic business R&D of around twice that of other States.

This finding highlights the importance of policies that raise R&D activity in lower income states. For instance, in Queensland's case, faster *growth* in business R&D has partly reflected

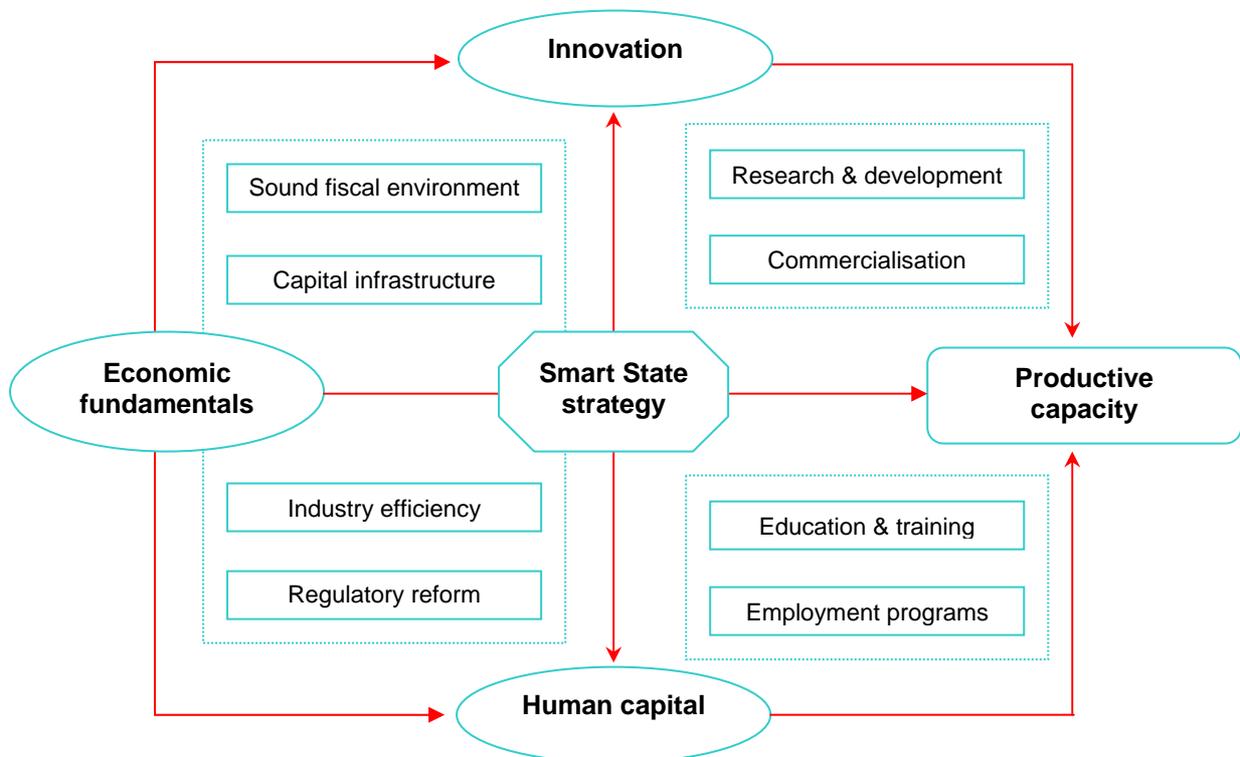
a 'catch-up' effect, where the *level* of R&D relative to the size of the economy is slowly converging on, but remains below, that of higher income economies.

Finally, the research results stress the importance of infrastructure provision to productivity in a strong population growth State, such as Queensland. The project found that, despite similar rates of investment to the rest of Australia in the late 1980s and early 1990s, the population boom in Queensland meant that it recorded little capital deepening (increases in the capital to labour ratio) relative to other States over this period, dragging Queensland's rate of labour productivity growth below other States over this period.

This finding underlines the importance of policy settings that encourage private sector investment in states such as Queensland, which will continue to record stronger migration and population growth relative to other states over coming decades. Put simply, Queensland will require faster growth in capital infrastructure relative to other States if Queensland is to record rates of capital deepening and therefore labour productivity growth similar to the rest of Australia.

The Queensland Government's economic strategy is focused on addressing many of these issues in order to continue to raise real incomes in the State and address pressures associated with ageing. In particular, the strategy aims at complementing sound fundamentals (promoting adequate capital investment, a sound fiscal environment and industry efficiency) with a 'Smart State' vision of fostering investment in education and innovation (Figure 2.5).

**Figure 2.5. The Smart State Strategy to Raising Real Incomes**



## **Commonwealth-State relations**

The previous sections have argued that policies to accelerate productivity growth and increase workforce participation are important to increase the capacity of the economy to deal with the ageing of the population. The discussion also centred on the contribution the States – including Queensland – can make towards enhancing the nation's potential for economic growth and higher per capita incomes.

The shared responsibilities between the Commonwealth and the States may make policy change difficult in a number of areas of government responsibility. These shared responsibilities will impede any one tier of government seeking to implement policy change. For example, responsibilities for the health and education sectors – critical policy areas for the future – are shared between the Commonwealth and State Governments.

There are four key issues underpinning Commonwealth-State relations where decisions by the Commonwealth have the capacity to undermine States' abilities to afford future expenditure pressures arising from Australia's demographic changes. These issues are vertical fiscal imbalance (VFI), horizontal fiscal equalisation (HFE), specific purpose payments (SPPs), and inadequate growth in Commonwealth funding to the States.

### *Vertical fiscal imbalance*

Within the Australian Federation, financial as well as political authority and responsibility are divided between the Commonwealth and the States, with each level of government raising revenue and undertaking expenditure within its own jurisdiction. Since Federation, the Commonwealth's revenue raising capacity has grown in excess of its expenditure responsibilities while the States' revenue capacity is significantly less than their expenditure responsibilities.

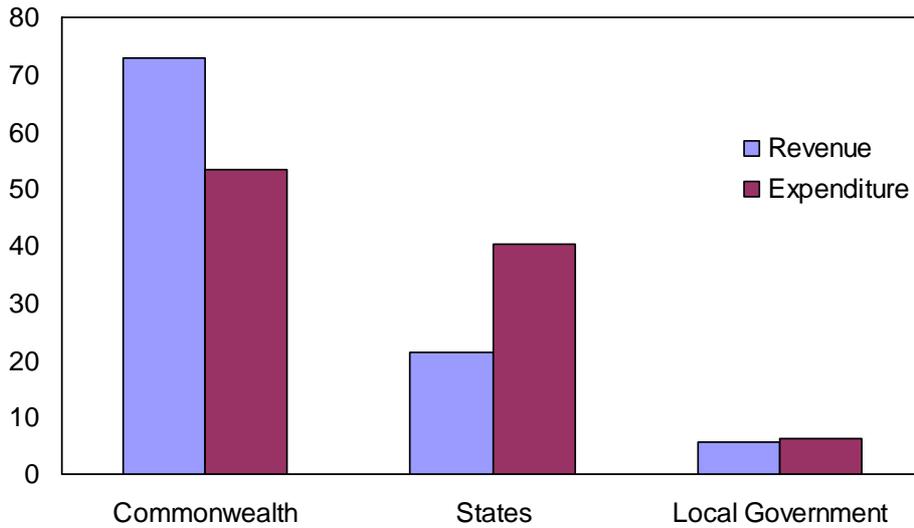
The gap between the States' expenditures and revenue is currently closed by grants from the Commonwealth. Of the \$56.3 billion in Commonwealth funding provided to the States in 2003-04, \$33.3 billion was in the form of general revenue payments, \$17.0 billion as SPPs "to" the States and \$6.0 billion "through" the States.

Figure 2.6 indicates that for 2003-04, the Commonwealth collected 73 per cent of all revenues while the States collected 21 per cent. Further, the Commonwealth was responsible for 54 per cent of all expenditures and the States 40 per cent. In effect, the States' revenue capacity meets approximately half of their expenditure responsibilities.

One of the implications of VFI is strategies to expand the government revenue base through accelerated economic growth will benefit disproportionately the Commonwealth since it collects the majority of taxation and has access to Australia's growing tax bases, such as income tax.

A second implication is VFI constrains the capacity of future state governments to expand their tax base to meet growing demands from demographic ageing. Their small tax bases mean States have less capacity to increase tax rates before the rates become excessive and begin to have a strong disincentive effect on economic activity.

**Figure 2.6. Vertical Fiscal Imbalance (%), 2003-04**

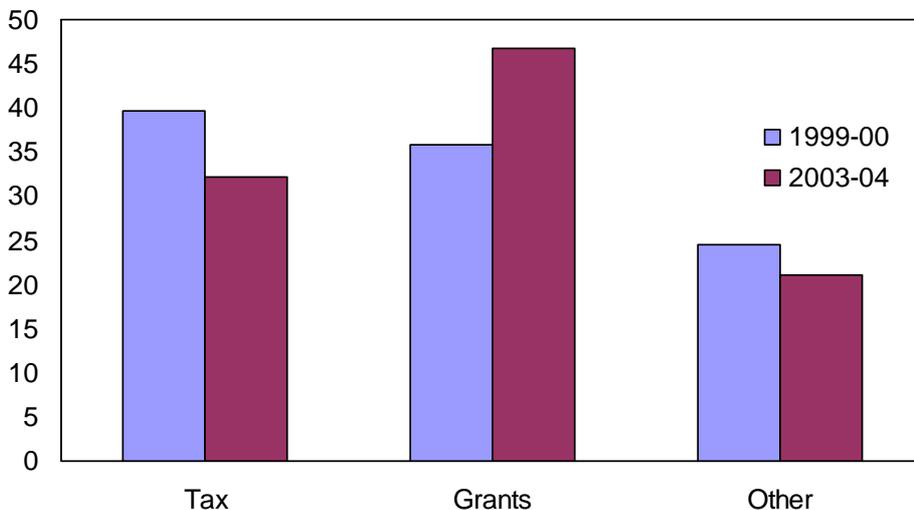


Source: Australian Bureau of Statistics, Cat. No. 5501.0

The States' tax raising capacity is also limited by the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)*. Since the States and Commonwealth signed the IGA in 1999, States have foregone revenues from financial institutions duty, stamp duty on quotable marketable securities, and accommodation taxes. Further, States have foregone a proportion of their gambling revenues to provide tax room for the GST.

These changes have resulted in an increased dependence on Commonwealth funding to fund the States' expenditure responsibilities and an increased Commonwealth policy influence on States expenditures. Figure 2.7 compares components of the States' revenue before the tax reforms (1999-2000) with those for 2003-04. In 1999-2000, the States' taxes accounted for 40 per cent of their revenues and Commonwealth funding represented 36 per cent. In 2003-04, the States' taxes component fell to 32% while Commonwealth funding increased to 47% of States' revenues.

**Figure 2.7. States' Revenue Components (%)  
1999-2000 and 2003-04**



Source: Australian Bureau of Statistics, Cat. No. 5501.0

Under the IGA, States have agreed to abolish debits tax from 1 July 2005. The Ministerial Council will review the need for retention of a number of other State stamp duties including stamp duty on non-residential conveyances in 2005.

Given the very significant impact demographic change will have on State budgets into the future, the ability for States to forego own-source revenue from the abolition of these taxes is questionable. If the Commonwealth wishes to pursue abolition of these taxes, consideration should be given to providing compensatory funding to the States to match foregone revenue.

#### *Horizontal fiscal equalisation*

The principle of HFE has been in place for around 70 years and embodies the concept of an equal treatment of all Australians no matter in which State or Territory they choose to live. Recommendations on States' allocations of GST revenue are made by the Commonwealth Grants Commission (CGC). At the Ministerial Council meeting of 2004, it was agreed a work program would examine some aspects of the funding allocation process including complexity and data availability and comparability.

Queensland has consistently supported HFE. Any changes that compromise the fundamental principle of HFE are likely to lead to significant variance in the capacity of the States to provide government services to the Australian community. This will become increasingly important as States respond to the challenges of population ageing.

#### *Specific purpose payments*

SPPs are provided to meet Commonwealth-imposed priorities and cannot be used for other purposes. SPPs are made at the discretion of the Commonwealth and are made across a range of policy areas.

Under the IGA, the Commonwealth agreed to maintain the level of SPPs in aggregate. However, if the Commonwealth faces fiscal pressure, it could transfer this pressure to the States by maintaining SPP levels in nominal terms only.

The Commonwealth Government has taken a strong position in relation to recent SPP negotiations with the States and actively pursues its own policy objectives through individual SPP negotiations, often requiring States to match Commonwealth funding.

SPPs are currently provided on an input basis with matching State Government funding. There is a need for greater flexibility and reflection of States' needs. Tight Commonwealth input and accountability controls can inhibit reform and efficiency improvements in service delivery at the state level. Queensland supports a more outcome oriented approach to facilitate innovation and provide broader opportunities to introduce efficiencies and to assume otherwise is to imply States have no sovereign interest in delivering more efficient services to the community.

The States have acknowledged the need to work cooperatively to address common concerns about the Commonwealth's current approach to SPP negotiations and have formed an SPP Working Group to review and progress these SPP issues with the Commonwealth.

However, a concerted and cooperative effort would be required by all jurisdictions to comprehensively address the challenges facing health and education and a number of other areas. The Commonwealth could try to find common ground with States to create an environment where innovation and improved efficiencies can be explored rather than micromanaging the program being funded.

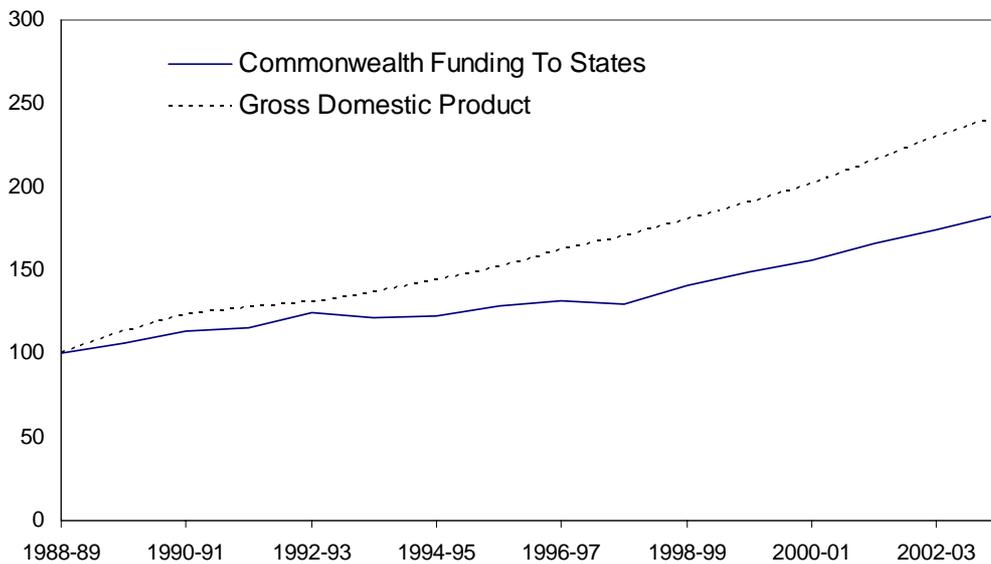
It is vital the Commonwealth negotiates with the States in a meaningful way and acknowledges SPP funding increases reflect the actual cost increases faced by States in service delivery. For example, both housing and health costs grow at a greater rate than CPI.

Currently, line agencies are involved in bilateral negotiations on SPPs. As a consequence, whole-of-government issues are not necessarily reflected in the outcomes achieved. Queensland encourages the Commonwealth Departments of Prime Minister and Cabinet and Treasury to become more involved in setting some overarching guidelines for SPPs. Further, a more systematic approach is encouraged for SPPs to move away from input driven controls to output measures. This could be achieved by revitalising these issues through COAG.

*Inadequate growth of Commonwealth funding*

Figure 2.8 indicates that Commonwealth funding to the States has not grown in line with GDP over time.

**Figure 2.8. Growth in Commonwealth Funding to the States compared with GDP Index, 1988-89=100**



Note: Commonwealth funding does not include those payments paid through the States eg local government grants.  
Sources: Commonwealth Budget Papers, Australian Bureau of Statistics

Since the introduction of the GST, the States have access to tax revenue that will grow over time. However, modelling suggests GST growth over time will be less than nominal consumer spending. This is because the GST base does not encompass some relatively faster growing components of consumption such as private spending on health services.

## Conclusion

The Commonwealth Government's suggested response to demographic ageing of promoting policies to accelerate productivity growth and increase workforce participation are, in the main, in the right direction. Even in the absence of demographic ageing, higher per capita incomes will produce benefits for the Australian community, provided social and environmental impacts are appropriately managed.

The Queensland Government would prefer to see more emphasis placed on raising productivity, as this is the area which is likely to deliver the greater dividends.

Moreover, the policy levers available to government should not be restricted to those identified in the discussion paper – appropriate infrastructure investment and policies to promote innovation should also be included as it is through these that higher productivity growth can be achieved. The Queensland Government believes that governments will also need to be more innovative in their economic and social policy if higher rates of productivity are to be generated in the long term.

States have an important role to play in promoting higher economic growth. As a number of regulatory responsibilities lie with, or are shared with, the States, the Australian community will be best served if the Commonwealth works with the States to achieve its productivity and participation objectives.

Increasing incomes (and tax bases) through higher economic growth is not likely to be enough to meet growing demands for government services arising from demographic ageing – it will also be important that these resources are directed to the right areas.

The current intergovernmental financial situation has been seriously affected by VFI, with the Commonwealth raising disproportionately more of the revenue and the States undertaking a disproportionate share of the provision of core public services, such as health and education.

The Commonwealth will be the major beneficiary of any expansion of government revenues secured through higher economic growth. This places pressure on Commonwealth grants to meet the growing demands placed on state-provided services, such as public hospitals and schools. Improvements can be made by taking greater recognition of States' needs in relation to achieving outcomes in the critical service delivery areas.

### 3. The Queensland Government's Response to Population Ageing

The Queensland Government's *Smart State* vision is already delivering policies and strategies that will help to address the challenges of an ageing population. Some of the most recent initiatives include:

- *Queensland the Smart State – Education and Training Reforms for the Future* – a package of education and training reforms that will provide young people with greater flexibility to achieve qualifications beyond Year 10 and will also maximise the productive capacity of today's youth who will reach their prime years of working life as the baby boomer generation retires;
- *Smart State: Health 2020 Directions Statement* – a twenty year strategic framework for the State's health system;

- *Transport 2007* – an action plan for transport access in South-East Queensland, which includes issues about personal mobility in an ageing society;
- The Department of Housing's *Smart Housing Initiative* that aims to help Queenslanders to plan and build homes that are suitable for all stages of life; and
- Employment programs for mature age jobseekers delivered under the *Breaking the Unemployment Cycle Initiative* through the Department of Employment and Training.

These strategies are discussed in greater detail in section 4.

At the same time, the Queensland Government is pursuing an extensive and leading-edge demographics research agenda, in order to develop a high-quality evidence base to inform future policy development. This agenda involves a number of agencies working collaboratively to examine the implications of population ageing along with the State's other demographic challenges. The Queensland Government has recently established an Intergenerational Research Coordination Board to oversee this work and coordinate the Government's approach to demographic research across agencies.

### **3.1 Demographics research program**

The Queensland Government's demographics research program is organised around six key themes, reflecting the Government's multiple roles of service provider, employer, and custodian of the economy and the State Budget.

The six demographics research themes are:

- demographic statistics and projections;
- whole-of-Government research initiatives;
- service delivery;
- raising real incomes;
- intergovernmental initiatives and research; and
- the Queensland Public Sector workforce.

Key items of completed and continuing research under each of these themes are discussed below.

#### **Demographic statistics and projections**

High quality population projections are fundamental to effective planning and strategy development for the future delivery of services and infrastructure, and the management of environmental impacts. In 2003, collaborative research between the Queensland Government and the University of Queensland resulted in the production of the first official Queensland Government Population Projections. The Government now produces its own projections at the State, Statistical Division, and Local Government Area levels, employing, to the regional level, a leading edge methodology that appropriately accounts for interstate migration flows.

The production of the projections was underpinned by collaborative research into the key ageing-related areas of fertility and life expectancy, as well as other important factors like migration, temporary mobility, spatial redistribution, and Indigenous communities. Future research and refinement of the projections will continue to focus on these areas.

## **Whole-of-government research initiatives**

The challenge of an ageing population requires a whole-of-government approach. A key Queensland Government initiative of this type is the Intergenerational Research Project, which is coordinated by Queensland Treasury. The Intergenerational Research Project will deliver long-term projections for the Queensland economy and Budget, on a 'constant policy' or 'do nothing' basis. In particular, the projections will show the main areas of potential future pressure for the Budget. This information will facilitate the development of long-term strategies to manage future fiscal pressure associated with the ageing of the population and other factors. Research on the potential costs and benefits of such strategies is currently under way.

## **Service delivery**

The changing structure and location of the State's population poses challenges for the Government in delivering efficient and effective services to Queenslanders. Major infrastructure investments must be planned well in advance, which means that the implications of demographic change for state government services must also be understood well in advance.

To this end, a number of research and consultation initiatives have been undertaken, including:

- In December 2002, Queensland Health released its *Smart State: Health 2020 Directions Statement*, which identifies current trends in health and health services in Queensland, along with some of the challenges of coming decades. It also outlines broad directions for addressing these challenges. The directions statement was developed following extensive research and consultation.
- In September 2003, the former Department of Families released its discussion paper, *Queensland 2020: A State For All Ages*. The discussion paper includes Queensland Government demographics research, as well as key findings from external researchers commissioned to provide input to the project. The Department of Communities is currently engaged in extensive public consultation on the issues raised in the discussion paper.
- The Queensland Government is sponsoring the development of an integrated human services planning capacity for Queensland's growth corridors and new communities. This will ensure that the needs of the rapidly growing areas of Queensland for services, such as schools and hospitals, can be met in a timely and efficient manner.

## **Raising real incomes**

Queenslanders enjoy a quality of life that is among the highest in the world, based on factors like environmental quality, health status, access to services, and household income. A key determinant of future living standards will be the continuation of strong growth in Queensland's employment and productivity. As a responsible economic manager, the Queensland Government is continuing to research the drivers of the State's economic growth, as well as the potential impacts of demographic change on Queensland's long-term economic performance.

Key research initiatives in this area are:

- The Drivers of Economic Growth project, described in section 2 of this submission, provided a major contribution to our understanding of the performance of the Queensland economy, and will assist in further research and public policy.
- Leading on from the findings of the Drivers of Economic Growth and Intergenerational Research projects, cross-agency research into the labour market impacts of population ageing, and possible state government policy responses, has commenced. The research will focus on labour supply issues such as participation rates, education and training, as well as labour demand issues, such as the future structure of employment and the potential for labour shortages in particular occupations or industries.

### **Inter-governmental initiatives and research**

All levels of government in Australia will be affected by demographic challenges, such as population ageing. An integrated approach by Australian governments to shared demographic challenges is likely to be much more effective than unilateral initiatives.

The key items of inter-governmental research involving the Queensland Government include:

- The Cross Government Project to Reduce Social Isolation of Older People - Project stakeholders include a number of Queensland Government Departments, the Commonwealth Departments of Veterans Affairs and Health and Ageing, the Australasian Centre on Ageing, and the Ministerial Advisory Council for Older Persons. The project is managed by the Queensland Government's Seniors Interests Unit.
- In 2003, Queensland Treasury joined with the other State and Territory Treasuries to develop and implement a common intergenerational modelling framework. The framework has been used to facilitate collaborative research between the States and Territories on long-term fiscal prospects for the States and Territories as a whole, as well as the Commonwealth. Some of the key findings of this work were discussed in section 2 of this submission. Further development of this common framework to address other long-term research questions is currently being considered.

### **The Queensland public sector workforce**

The Queensland public service is entering a period of generational change. One in ten public servants has already reached the minimum retirement age, and one in five is over 50 years of age. This generational change will take place at the same time as the broader population ageing impacts on society, the economy and the Budget. In this environment, a strategic and proactive approach to workforce management will be critical to the Government's ability to continue to deliver world-class public services.

The Queensland Department of Industrial Relations has undertaken research into the demographic structure of the Queensland Public Sector workforce. Leading on from the findings of this initial research, further collaborative work between the Queensland Government and the University of Queensland is being undertaken to develop projections of public sector workforce demographics, in order to support workforce planning and policy development.

## **4. Raising Labour Force Participation and Productivity**

The Commonwealth's discussion paper identifies three policy directions to increase labour force participation and productivity:

- increasing the capacity of those of working age to enter the labour force, through improved education and health outcomes;
- increasing the incentive to work by reforming tax arrangements, income support and retirement incomes policies which discourage labour force participation; and
- increasing labour market flexibility to provide an ageing population with greater opportunity to participate in the labour force.

In many of these areas, the States have prime carriage of policy and direct responsibility for program implementation and funding. However, the discussion paper does not appropriately recognise the role of the States in these policy areas nor the need for effective collaboration between tiers of government in the development and implementation of strategies to raise participation and productivity. By focusing on education and health, the paper also takes a narrow view of the measures required to improve the capacity of people to participate in the labour force.

This section discusses a number of different, but complementary, strategies that are considered by the Queensland Government to be important to increasing labour force participation and productivity. These strategies include:

1. education and training;
2. investing in employment programs;
3. balancing work and family;
4. increasing labour force participation of older workers;
5. valuing our young people;
6. ensuring a healthy workforce;
7. providing quality workplaces;
8. improving access to employment for disabled Queenslanders;
9. removing disincentives to participate in the paid workforce;
10. providing access to housing and public transport; and
11. encouraging skilled migration.

The Queensland Government is pursuing initiatives in many of these areas. These initiatives and responses to the directions outlined in the Commonwealth's discussion paper are discussed in this section.

### **4.1 Education and training**

The Queensland Government recognises education and training of the workforce as an integral strategy in raising labour force participation and productivity. Increases in human capital - the stock of knowledge, skills and attributes available in the workforce - represent a significant driver of improved employment outcomes, productivity growth and higher living standards. Accordingly, human capital, as a driver of innovation, productivity and economic growth, forms a core component of the Queensland Government's Smart State vision and broader economic strategy.

The nature of work is changing. Traditional long-term careers in large organisations are diminishing and there is a trend towards part-time employment, contract employment, and frequent changes in career paths. Changes in the nature of work and the types of employment available mean that young people will need a set of core skills that will enable them to manage their own careers and learning, as well as base level skills such as literacy and numeracy. These core skills include, for instance:

- self-motivation;
- flexibility and the ability to cope with change;
- communication and teamwork;
- problem solving; and
- the ability to innovate and create opportunities.

With advances in technology and changes in industries and jobs, individuals will need to engage in lifelong learning to maintain their skills and employability. While the discussion paper makes some reference to the importance of updating skills levels, the significance of lifelong learning merits greater attention in the paper.

Following the reforms to higher education, the cost of higher education to the individual student in Australia will be in the top quartile of OECD countries. It is unclear what the impact of cost increases will be on access and participation in higher education and importantly, skill levels in the longer-term. The Commonwealth Government needs to monitor impacts, particularly in these areas. Further, the statement in the discussion paper that the Commonwealth Government's higher education reforms will result in smaller class sizes in universities is unsupported. The lack of appropriate indexation in university funding since 1996 and the subsequent decrease in per capita funding has resulted in increased class sizes. A decrease in class sizes resulting from the reforms will be due to universities increasing student fees.

### **Queensland Government initiatives**

#### *Improving education levels and creating seamless transitions to work or further education*

The paper notes the importance of continued improvement in education and skill levels in encouraging labour force participation. Queensland shares with the Commonwealth Government a commitment to encouraging all people to increase their levels of education, including providing young people with seamless transitions to work or further education.

Ensuring that young people complete at least a Senior Certificate or Certificate III vocational qualification is a primary focus of Queensland's innovative reform package, *Education and Training Reforms for the Future* (ETRF). The ETRF aims to broaden pathways to further education and work, by providing more flexible options for students, such as a wider range of tailored courses and more school-based apprenticeships. The reforms also include a full-time preparatory year before Year 1 of school, along with improved curriculum, teaching and assessment in the Middle Phase of Learning. Growth in GST revenue will be the main source of funding for the ETRF package. This critical educational initiative would be at risk if further tax reform is implemented without adequate Commonwealth compensation.

### *Improving literacy skills*

Literacy and numeracy skills are essential to personal, social and cultural development and provide the basis for learning and achievement throughout life. The Queensland Government continues to provide adults with basic literacy and numeracy training to participate actively in society and enable them to engage in ongoing learning and employment opportunities. This training is particularly important for individuals from a non-English speaking background, and those mature-age Queenslanders who left school without these basic skills, and without going on to further education. In addition, the Queensland Government has committed to improving the literacy skills of children and young people, as outlined in *Literate Futures*.

As we live in an increasingly ICT and science dependent world, developing literacy in these areas is essential to raising productivity. All Queenslanders need basic skills in science and technology and the confidence and ability to continue to learn throughout their lives, given the speed of technological change. The importance of these other forms of literacy are not recognised in the discussion paper.

Through programs, such as *Technology Survival Skills* and the *Community Skills Development Program*, the Queensland Government is engaging Queenslanders, who may otherwise not have access to computers, in the development of basic information technology skills.

The Queensland Government's *Spotlight on Science* initiative recognises the importance of scientific literacy in modern society and aims to improve the scientific literacy of young Queenslanders, encourage more young people to aspire to careers in science, and improve the overall quality of science education in Queensland. The *ICTs for Learning Strategy*, which forms part of the Queensland Government's ETRF package, also assists Queensland state schools to integrate information and communication technologies into teaching, learning and the curriculum.

Underpinning the effective use of ICTs is the need for affordable access to an effective telecommunications infrastructure, particularly for learners in rural and remote areas. Equitable access to broadband Internet services is a limiting factor in the development of online learning and literacy and developing an information rich society. While Queensland is at the forefront in developing innovative strategies to achieve this outcome, the Commonwealth Government must also acknowledge its fundamental role.

### *Common curriculum outcomes and starting ages*

The discussion paper states that the Commonwealth Government has introduced reforms to improve the quality of school education through moving toward common curriculum outcomes and starting ages. The Queensland Government welcomes the Commonwealth's support for what is, in fact, a state and territories-driven initiative. Queensland is currently leading a national project to develop *Statements of Learning* that will promote consistency in curriculum outcomes in English, Mathematics, Science, and Civics and Citizenship across the country. Statements of Learning for English were recently completed. The Queensland Government also recently announced a proposed change to the compulsory starting age of schooling which provides greater alignment with other Australian States and Territories. This change recognises that Queensland is a key destination for the many children and young people who move interstate each year.

### *Vocational education and training*

The Queensland vocational education and training (VET) system is assisting Queenslanders to reach their potential through education, training and work. As recognised in the discussion paper, participation in vocational education and training has grown significantly. Around one-sixth of Queensland's working age population participates in some form of vocational training each year. Queensland's training and employment investment priorities direct finite funding to training in areas that will have the greatest economic benefit. This includes training for emerging and skills shortage industries, as well as training for individuals in particular cohorts and regions which are disadvantaged in terms of access to education and training opportunities.

VET in schools is a significant component of Queensland's reform package (ETRF) and Queensland has allocated \$63.4M to senior school initiatives (including VET in schools) over the next 4 years. In fact, 62 per cent of all commencements in school-based apprenticeships and traineeships in Australia in 2002 were Queensland students.

The Commonwealth Government provides assistance for the States to provide vocational education and training under the *Australian National Training Authority (ANTA) Agreement*. Queensland did not accept the Commonwealth's offer for a new ANTA Agreement 2004-06 because the level of funding offered was inadequate and did not reflect Commonwealth recognition of the relationship between vocational education and training and improved economic performance. The Commonwealth offer for the three years, 2004-2006, was essentially to continue funding at 2003 levels, with modest indexation and some additional funding for programs linked to the Commonwealth's welfare reform agenda. The Commonwealth's policy imperative, as outlined in the discussion paper, to increase and improve opportunities for skilling and upskilling throughout life is not reflected in the funding the Commonwealth provides the States under the ANTA Agreement.

For instance, in May 2002, State and Territory Ministers requested the Commonwealth to provide \$130 million each year for 5 years to support a comprehensive and sustainable response to young people's transitions. This was based on the recommendations of the *Footprints* report. The Dusseldorp Skills Forum has costed these initiatives calling for \$97.6 million for Transition Brokerage and an additional \$35 million to extend jobs program pathway per annum. This funding has not yet been made available by the Commonwealth Government.

### *Information and guidance*

Good quality learning and career information and guidance are important components of helping people to gain and maintain employment. It is well established that individual guidance in job-related planning and decision-making, and advice about learning and career options are key to getting people into work and helping them stay in work. The Queensland Government recognises the importance of this assistance mechanism and continues to invest in a wide range of career guidance advice and information services including: face-to-face counselling; on-line and telephone advice; and targeted programs to develop job skills and improve the 'job readiness' of unemployed people. For instance, a key strategy of Queensland's ETRF package of reforms is that schools will develop individual Senior Education and Training Plans with Year 10 students and their parents or carers.

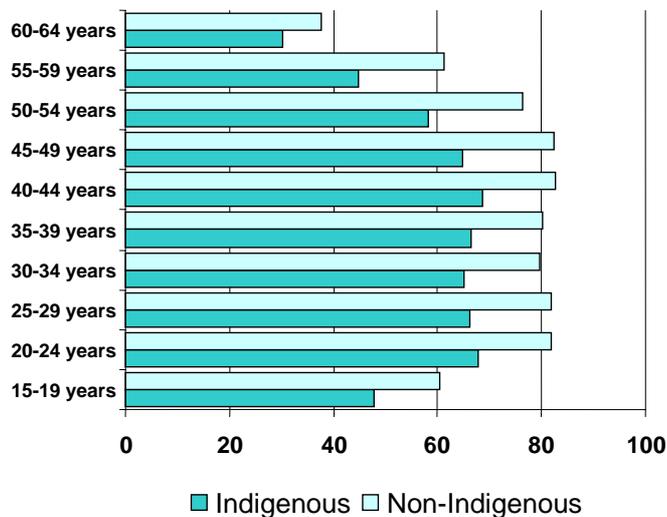
## 4.2 Investing in employment programs

Employment programs form a key part of the State Government's strategy to raise labour force participation. Despite the centrality of education and training to raising labour force participation, some groups within the community are particularly disadvantaged and are unlikely to participate in the paid labour force without the assistance of targeted employment programs. Employment programs have typically been targeted at providing young people with the job access skills to encourage them to seek entry into the workforce. As the population ages, employment programs which assist older workers to find and keep jobs may be required. Programs may assist older workers with improving their job search skills and upgrading skills such as numeracy, literacy or job specific training. There are several examples of employment programs for mature age workers at work overseas, for example, in Finland and Japan (European Foundation 1999 and Auer and Fortuny 2000). Programs need to be well targeted, as overseas evaluations have shown that they may only assist those people who would have found work anyway (Taylor 2002). However, complementary employment and training programs that optimise the participation of young people in the workforce will be important.

The discussion paper does not recognise fully the importance of employment programs to enhancing labour force outcomes nor the need to address the specific requirements of disadvantaged groups. In particular, the paper fails to recognise the potential to raise labour force participation rates by addressing the labour market disadvantage faced by Australia's Indigenous community.

In the Indigenous community, significantly lower levels of school retention, literacy and numeracy and a low level of engagement with the tertiary education sector lead to poor employment outcomes, characterised by low incomes, high levels of unemployment and low workforce and labour force participation rates. Results from the 2001 Census indicate that labour force participation rates among Queensland's working age Indigenous population were consistently lower for all age cohorts (Figure 4.1).

**Figure 4.1. Queensland Labour force participation rates, 2001 by Indigenous status**



Source: unpublished ABS Population and Housing Census data 2001

## Queensland Government initiatives

### *Breaking the Unemployment Cycle*

The *Breaking the Unemployment Cycle* initiative, which was implemented in 1998, encompasses a range of programs aimed at improving the job opportunities for the long-term unemployed, groups at risk of long-term unemployment, including youth and mature aged, and other disadvantaged job seekers. The initiative comprises a suite of labour market programs that aimed to create over 56,000 apprentice, trainee and job placement opportunities over six years to June 2004 at a cost of \$470 million. (This commitment is easily the largest in absolute and relative terms, of any State or Territory.)

As part of the 2003-04 State Budget, the Queensland Government committed a further \$255 million in funding to extend the initiative to 2006-07. The initiative will exceed its target, with over 69,000 job placements secured by 29 February 2004. The initiative has also had a strong regional emphasis, with more than 40 per cent of those assisted living in regional Queensland. As part of the initiative, specific programs provide assistance to mature-age jobseekers. For example, the *Mature Workers Wage Subsidy – Experience Pays Program* funds employers to take on mature-age job seekers, and the *Worker Assistance Program* assists workers displaced, or about to be displaced, due to large scale and regional retrenchments, to find alternative employment.

The *Breaking the Unemployment Cycle* initiative plays a crucial role in increasing the State's overall human capital and the productive capacity of Queensland's labour force by providing disadvantaged job seekers with opportunities to develop skills through on-the-job training. The initiative's focus on long-term unemployment is also consistent with evidence that long durations of unemployment can have a de-skilling effect.

The initiative was developed in the context of the Commonwealth's withdrawal from many established national labour market services and programs. Queensland's programs have been developed and are delivered in modes that are intended to complement the Commonwealth's efforts. A review of the *Breaking the Unemployment Cycle* initiative found that individual programs performed more favourably than similar programs at a Commonwealth level, in terms of the both the proportion of participants in ongoing employment and net employment impacts. For example, the review found that, within the Community Jobs Plan program, 55.5 per cent of participants found ongoing employment, giving a net employment impact of 26.8 per cent, compared with figures of 24.1 per cent and 13.0 per cent respectively for the Work for the Dole scheme.

### *Indigenous programs*

The Queensland Government is committed to raising the economic and social well-being of Indigenous people. Improving employment opportunities for Indigenous people and increasing their participation in VET are two pivotal strategies to achieve this objective.

The *Indigenous Employment Policy for Queensland Government Building and Construction Contracts* (the "Indigenous Employment Policy") was implemented in May 2001. It is a direct response to the high unemployment rate of Indigenous Queenslanders and their relatively low participation in VET, particularly in rural and remote locations. The Policy applies to State Government contracts for built and civil construction in the 32 Deed-of-

Grant-in-Trust communities and the shires of Aurukun, Tones and Mornington. A minimum of 20 per cent of the on-site construction labour force must comprise local Indigenous residents and half of this group must undertake approved training, which may include apprenticeships and traineeships. It is mandatory for agencies and contractors to comply with these requirements in respect of contracts for built construction valued at \$250,000 or more while there is no monetary threshold for civil construction projects. As from 1 January 2004, the monetary threshold for built construction contracts will be \$100,000 and will include projects funded by state grants.

Employment programs under the Government's *Breaking the Unemployment Cycle* Initiative also have a strong Indigenous focus. For the two major programs targeting disadvantaged jobseekers, 19 per cent of participants in the *Community Jobs Plan* and 13 per cent of participants in the *Community Employment Assistance Program* have been Indigenous. In addition, more than 2,000 Indigenous apprentices and trainees have been employed since 1998 under the *Public Sector Employment Program* and provided with mentoring support through a network of Indigenous Training and Employment Support Officers.

In addition to these programs, the Queensland Government has established benchmarks for recruiting, training and retaining Indigenous staff in the Queensland public sector, with a target to achieve 2.4 per cent representation of all employees at all classification levels in the public sector by 2010.

### **4.3 Balancing work and family**

An important factor in raising labour force participation is helping people with family caring responsibilities. Carers assist children and those who are ill, disabled or frail aged, making an immense and often undervalued contribution to the well-being of the people they care for, often at the expense of their own economic security. The need for balance between work and family responsibilities has increased as more and more women choose to enter the labour force and, in future, is likely to be driven by the need to care for an ageing population. Understanding and preparing appropriate responses to these pressures is a critical issue for government in raising and maintaining labour force participation, particularly of women, who tend to represent the majority of carers.

#### *Balancing work and caring*

Important issues for workers with caring responsibilities, particularly for workers with children under five, include access to affordable quality childcare and working arrangements that assist them to meet their caring and work responsibilities. Besides the considerable number of workers who care for children, the ageing of the population means that there will be an increasing number of workers with caring responsibilities for aged relatives in the future. Therefore, addressing the needs of workers with caring responsibilities, either for children or older people, is necessary if rates of labour force participation are to be maximised.

The Queensland State Supplementary Survey, conducted in October 2002, showed that, of carers who were in paid employment, 36.4 per cent had used working arrangements that

enabled them to provide care.<sup>2</sup> The most common work arrangement used by employees was paid leave (45.8 per cent), followed by flexi-time, rostered days off, or time off in lieu (39.2 per cent), informal arrangements with the employer (27.3 per cent), temporarily reduction of hours (16.1 per cent), working from home (15.9 per cent) and unpaid leave (15.7 per cent).

An estimated 13.2 per cent of carers in paid employment wanted to make more use of working arrangements to provide care for another person. Working arrangements that people wanted to use more included flexi-time, rostered days off, or time in lieu (46.4 per cent), paid leave (33.1 per cent), and working from home (17.7 per cent). The most common reasons mentioned for not making more use of these arrangements were not having the adequate working arrangements in place and work commitments.

The failure of work to support a balanced lifestyle is one of the significant factors in explaining the phenomenon of downshifting in Australia. Downshifting involves people making voluntary and long-term lifestyle changes resulting in less income and consumption. Research conducted by Hamilton and Mail (2003) found that the most important reason for downshifting is to spend more time with family.

#### *Increasing the labour force participation of women*

An important issue that should be highlighted is that, while women comprise 44.2 per cent of employed persons in Queensland, they supply only 36.6 per cent of the hours worked, as shown in Table 4.1. With the projected decrease in labour supply as a result of a decline in labour force growth, there is clearly the capacity for women to increase their working hours.

**Table 4.1. Queensland employment by sex, February 2004**

	Number (‘000s)	Share %
<b>Persons employed</b>		
Males	1,028.1	55.8
Females	814.7	44.2
	1,842.8	100.0
<b>Hours employed</b>		
Males	41,445.2	63.4
Females	23,878.9	36.6
<b>Total</b>	<b>65,324.1</b>	<b>100.0</b>

Source: ABS Labour Force Survey, February 2004, Cat. No. 6203.0

The majority of part-time workers are women. In September 2003, there were 2,689,200 part time workers nationally, of which 71.4 per cent were women. Although the majority of part-time workers, both men and women, did not want to work more hours, 22.4 per cent (610,700 persons) indicated a desire to work more hours. The proportion of part-time workers who wanted to work more hours was higher among men (29.7 per cent) than women (19.9 per cent). Nearly 50 per cent of part-time workers who wanted more hours had actually been looking for work with more hours. Among the reasons nominated for failing to find work with additional hours were unsuitable work hours, difficulties finding child care, and other family responsibilities. It appears that difficulties in combining work with other commitments, including family-related commitments, did play a role in people not being able

<sup>2</sup> ABS (2002) *Queensland State Supplementary Survey: Managing paid employment and unpaid caring responsibilities*, October 2002, Cat. No. 4903.3.

to get the additional hours they were willing to work.<sup>3</sup> Flexible work arrangements could make it easier for these workers to increase their hours of participation in the labour force.

There is a need to critically assess the current disincentives for mothers to re-enter the workforce, including policies to support affordable quality childcare services. In other developed economies, high levels of maternal employment rates are generally achieved with a mix of policy instruments. For instance, a strong emphasis on gender equity in public policy and generous public child-related leave arrangements and childcare services are some of the factors in explaining high maternal employment rates in the Nordic countries.

### **Queensland Government initiatives**

The Queensland Government recognises the complex interplay between work and family lives, supports a commitment to gender equity and values the social and economic value of caring. In the *Putting People and Workplaces First* and *Queensland Families First* policy documents, the Queensland Government made a number of commitments aimed at helping Queenslanders balance work and family, including the establishment of a Work and Family Unit, pilot projects in ten workplaces to develop a self-assessment measure for organisations to evaluate their 'work and family' policies, a Ministerial Taskforce on Work and Family, and a commitment to improve family-friendly workplace entitlements and protections, especially for casual employees. The Queensland Government has also developed a *Carer Recognition Policy* to raise awareness of the role carers play in the community and to provide a basis for the Government to work with carers and their representatives. The Carer policy crosses all areas of public policy including social, health, education, employment and training and industrial relations.

#### *Work and Family Unit*

The Work and Family Unit, which was established in July 2001, provides promotional, consultancy and liaison services to the private and public sectors and undertakes research and policy development on work and family. The Unit is currently involved in a research project, *Work and Family Project Pilot Program*, in collaboration with the University of Queensland. The project entails the development of a self-assessment measure for organisations that allows them to evaluate and improve their 'work and family' policies and practices. To date, pilots have commenced in eight organisations. The project is due to finish at the end of 2004 and the self-assessment measure will be made freely available to organisations via the Work and Family Unit's website.

The Queensland Government will also be involved in a new Australian Research Council (ARC) funded research project called *Parental leave in Australia: access, utilisation and efficacy*. The primary aims of this project are to inform policy development and theoretical debate by filling gaps in knowledge about the use of parental leave, the preferences of women and men combining work and family responsibilities, and the shaping of options and choices in workplace and household contexts. The proposed research project will be useful in informing the Government's work and family policy agenda.

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<sup>3</sup> ABS (2004) *Underemployed workers*, September 2003, Cat. No. 6265.0.

### *Ministerial Taskforce on Work and Family*

The Ministerial Taskforce on Work and Family was established in November 2001 to consider work and family issues, examine the current framework for addressing these issues and find solutions to achieve a better work and family balance by developing a family friendly action plan for Queensland. The Taskforce is made up of representatives from unions, employer organisations, government, and independent experts. It has undertaken a public consultation process to identify issues related to work and family that are important to employees and employers. Some of the main issues that were raised during the public consultation process included:

- The low and declining fertility rate in Queensland and Australia. A number of reasons for this decline were proposed, including financial considerations, difficulties in accessing care arrangements, and workplace and career disadvantages experienced by women as a result of having children.
- The limited choices available to persons with caring responsibilities to accommodate their work, lifestyle and family obligations. These choices are restricted by limited access to part-time or other work arrangements that suit family responsibilities, financial disincentives to work (i.e. loss of federal government transfer payments), and the high costs and limited access of childcare, elder care and disability care services.
- Disadvantages among specific groups of people in obtaining and participating in work. These disadvantaged groups include caregivers, women, families in rural areas, and Indigenous groups.

Although the consultations were confined to Queensland, it is likely that these issues are relevant to all Australians. The Queensland Government advocates the view that national responses are required to assist people in balancing work and family responsibilities.

### *Workplace entitlements and protections*

The Queensland Government recognises the importance of access to part-time employment in providing workers with flexible working arrangements consistent with family responsibilities. Part-time employment enables more people to participate in the labour force and obtain employment, particularly in service industries, such as hospitality and tourism-related industries. Part-time employment can also provide the opportunity for people to combine employment with other activities including education and/or child rearing. Flexibility in work arrangements that allows workers to balance work and other life commitments is also an issue for older workers.

In December 2001, the *Industrial Relations Act 1999* amendments introduced a work and family package, giving long term casual employees (with more than 12 months service) access to unpaid parental leave, adoption leave, carer's leave and bereavement leave as well as access to unfair dismissal provisions for grounds relating to family responsibilities. Previously, casual employees with two years service had access to unpaid maternity leave only. The Queensland Government was the first in Australia to extend these entitlements to casuals with 12 months continuous service.

In addition, short-term as well as long-term casual employees were given access to unfair dismissal provisions for grounds relating to family responsibilities. Long-term casuals are also able to access improvements in long service leave entitlements of 2 months long service

leave after 10 years continuous service, with pro rata access after 7 years service. Extending carer's leave and unpaid parental leave to long-term casuals is in keeping with the Principal Object (3(d)) of the *Queensland Industrial Relations Act 1999* which acknowledges the importance of helping balance work and family life as contributing to a framework for industrial relations that supports economic prosperity and social justice.

Queensland workers engaged in rapidly expanding 'non-standard' working arrangements will also benefit as a result of the fact that the Family Leave part of the Act overrides any less favourable conditions contained in any other state law, industrial instrument or order. This means that all employees in the Queensland jurisdiction have access to a broad range of legislated minimum conditions relating to family responsibility. This provision is of significant assistance to all Queensland employees attempting to better balance their work and their responsibilities to their families.

#### **4.4 Increasing labour force participation of older workers**

Encouraging workers of retirement age to stay longer in the labour market is a critical strategy to increase labour force participation. However, ensuring older workers have access to the labour market is also important on social equity grounds, since employment provides the opportunity to build the savings necessary to support a comfortable lifestyle in retirement. Although much of the focus in developed economies has been on removing incentives to retire (through changes to retirement ages) and reform of superannuation, pensions and welfare, there are other strategies to raise the labour force participation of older workers, such as addressing age discrimination, smoothing the work to retirement transition and promoting lifelong learning.

##### *Addressing age discrimination*

Older workers who are looking for work often face barriers to gaining and re-gaining employment that may discourage them from continuing to seek employment. One of these barriers is in fact old age itself, which can be seen by older job seekers as a major impediment in gaining employment. Older people can also be discriminated against directly by employers or via the practices of recruitment agencies. Age discrimination legislation was introduced in all Australian States and Territories in the 1990s. On 26 June 2003, the Commonwealth Government introduced its long awaited *Age Discrimination Bill 2003* to the House of Representatives. The Bill, which covers age discrimination in a wide variety of areas, including work, has been passed in the Senate, but is yet to receive assent.

Although legislation should be considered an important step in banning age discrimination, various countries that have well established age discrimination laws have observed that the legislation has had little effect on patterns of retirement. Furthermore, research has shown a minimal impact of legislation on the attitudes of employers toward older job seekers in the areas of recruitment and selection. It has been suggested that besides legislation, a range of alternative approaches such as public awareness campaigns and pro-active monitoring of discrimination are necessary to attack age discrimination effectively and reverse the decline in labour market opportunities facing older workers (Encel 2003). The development of a partnership approach with unions and employer organisations could also provide the opportunity to promote the positive role of mature age workers in the labour force. An entrepreneurial approach to mature age employment, which supports older workers to

establish businesses of their own, using experience and skills accumulated over their working lives, could also be appropriate in some instances.

Encouraging people to stay in the labour force at an older age requires community acceptance and acknowledgement that mature age workers have much to contribute. However, older people too need to be encouraged to engage with the community and challenge the stereotypes which regard older people as a burden rather than a valuable resource. Similarly, responses to raise participation among older people that are inclusive of young people will be important to ensuring an age-inclusive society.

#### *Smoothing the work to retirement transition*

A focus on smoothing the transition from work to retirement by using flexible working hour schemes is an additional strategy to encourage older workers to remain in the workforce for longer. Older workers may be prepared to continue employment but in a less intensive manner, utilising part-time or work from home options, or even in self-employment (Samorodov 1999). There are important advantages of gradual retirement. For the workplace, experience is retained within the organisation and the transfer of knowledge and skills to the next generation is facilitated. For workers, a preference for more leisure time may be balanced with the need to maintain some level of income. Part-time or reduced hours in the transition to retirement may also provide workers with more recovery time from physically demanding or stressful jobs. Further research may be needed to better inform government policy and strategies to raise labour force participation among older workers and smooth the transition to retirement.

#### *Lifelong learning*

The OECD (1996a, 1996b, 1998 and 2000) has emphasised the need for lifelong learning, so that workers maintain and increase their skills and productive capacity as they grow older. Lifelong learning can facilitate the adjustment of workers' skills to the needs of the market. It may improve the attachment of older workers to the labour market and may counter any displacement that older workers may feel in the face of rapidly changing technology and production methods. Training also enables workers who are no longer physically fit for the jobs they once undertook and who want to remain in the workforce to re-skill. Ensuring workers have access to training opportunities throughout their lives will not only improve their opportunity to remain engaged in the labour market but support their ability to build a pool of retirement savings.

Lifelong learning and training is therefore a long-term investment to upgrade the skills of workers over the course of their working life. However, there are also important benefits for firms, with research showing a relationship between the intensity of training by business and their performance, in terms of increased employment, turnover, profit margins and improved labour productivity (Cosh and Hughes et.al. 2003). Drawing on successful models in other countries, the Commonwealth Government could consider the re-introduction of a mandatory training levy or employer incentives to encourage greater investment in training and re-training for mature age workers and the need to target mature age entrants in a revision of national apprenticeship and traineeship programs.

## **Queensland Government initiatives**

Retention of mature aged workers is emerging as a serious labour market issue and the Queensland public service workforce is not unaffected. Around 20 per cent of the current public sector workforce is aged 50 years or older and potentially eligible to retire in the next 10 to 15 years. The Queensland Government is currently implementing measures to encourage the extended participation of mature aged workers in the public sector workforce. Encouraging the increased workforce participation of older workers ensures that there is improved transfer and retention of valuable organisational knowledge and skills and increased scope and capacity for Queensland public sector agencies to continue to build highly skilled and committed workforces.

### **4.5 Valuing our young people**

While the Commonwealth Government's paper has a strong focus on seeking to encourage the retention of older workers in the workforce, it is clear that the focus needs to be on ensuring that all groups in the community are encouraged and supported to develop the necessary skills to actively participate in the workforce. It is important that sentiment does not develop where older people are encouraged to remain or re-enter the workforce at the expense of young people.

As the workforce ages it becomes even more important to ensure that young people are engaged to become active participants in their communities and have the opportunities to make a successful transition into the workforce. A greater, not lesser, emphasis on initiatives that support young people will be required and should be emphasised in the discussion paper.

## **Queensland Government initiatives**

In recognising the growing importance of engaging young people, in 2002 the Queensland Government introduced the *Queensland Youth Charter* that outlines its commitment to and framework for the engagement of young people in the development of policies and programs that affect their lives. In tandem with the Charter, the Government's *Youth Participation Strategy* contains initiatives that provide practical strategies for the inclusion of young people in the processes of influencing policies and programs to better meet their needs and aspirations. This commitment to young people is strongly demonstrated through the Government's *Education and Training Reforms for the Future*.

In Section 1.2 the impact of the ageing of the workforce on the skills base of the Queensland Public Sector was highlighted. Through the *Breaking the Unemployment Cycle* initiative (discussed in Section 4.2) some 2,400 additional public sector apprenticeships and traineeships are being funded annually. These additional places not only seek to provide opportunities for young people who might otherwise struggle to make the transition to the workforce but also contribute to building the skills and experience that will be necessary with the potentially large outflow of human capital from the sector.

The need to engage, support and build the skills of young people is particularly evident in Indigenous communities due to the combination of lower labour force participation rates and their age profile. It is for these reasons in part that the Queensland Government, through its *Breaking the Unemployment Cycle* initiative, is strongly supporting the creation of additional apprenticeships and traineeships in Indigenous communities and providing the mentoring and

other support necessary to help ensure young Indigenous people are able to contribute to their communities and workforce.

## **4.6 Ensuring a healthy workforce**

Health is a significant factor determining the ability of Queenslanders to participate fully in all areas of the community, including employment. It is also important to recognise the established links between poverty and poor health outcomes. Health is a major issue for the Indigenous community with the onset of chronic illness resulting in high need and dependence occurring at much younger ages. The core role of the health system is to protect health, promote healthy living, prevent what can be prevented, treat what can be treated, and produce appropriate care and support to individuals when prevention or cure is not possible. In Australia, all tiers of government are responsible for aspects of health and health services, together with a strong private sector, non-government organisations, volunteers, family carers and individuals. However, governments have an important role in helping to ensure the essentials for health, including safe and healthy food, safe environments (water, air quality), transport, housing, community facilities and employment, are accessible to all members of the community.

The Australian Institute of Health and Welfare estimates that up to half of the burden of disease and injury is potentially preventable. The main causes of preventable disease in Australia include tobacco smoking, diet, physical inactivity, excess alcohol consumption, unsafe sex and illicit drug use. These factors are contributing to a growth in the prevalence of chronic diseases, which, in some occupations, can prevent a continuation of employment. In Queensland a significant proportion of mortality and morbidity is due to chronic diseases such as ischaemic heart disease, heart failure, chronic bronchitis, emphysema, diabetes, depression, and chronic renal failure.

### **Queensland Government initiatives**

The *Smart State: Health 2020 Directions Statement* provides a broad overview of the key directions for the Queensland health system and establishes the objective of Queensland Health, which is to promote the health and well-being of Queenslanders. Central to this objective is the provision of:

- health promotion and illness prevention services;
- acute treatment and rehabilitation services; and
- health maintenance activities directed to people with chronic conditions.

While health is important to supporting labour force participation, the Queensland Government is committed to providing high-quality healthcare to all Queenslanders and does not regard that the core objective of the health system is to support labour force participation.

However, the Queensland Government supports the need to invest in preventative health and early intervention to improve the health outcomes of all Queenslanders and manage escalating health care costs into the future. It is well recognised that many of the health gains over the next 20 years are to be made by targeting lifestyle factors and by influencing socioeconomic factors which have a significant role in determining people's health and well-being. Ageing and long life spans also requires a focus on secondary and tertiary prevention.

Accordingly, the Queensland Government supports a strategic and integrated approach to preventative health care and recognises that all individuals have a role to play in minimising or avoiding high-risk lifestyle decisions. Queensland Health recognises the importance of people having greater knowledge about their own health and how it can be maximised. There is also growing evidence of the benefits of investing in health care, education, welfare, employment and child protection at early stages to improve long-term health outcomes, including life expectancy and quality of life. However, it is important to recognise that encouraging individuals to adopt healthy lifestyles that support their own well-being is a long-term strategy and not a “quick fix” that will produce immediate benefit. The major benefits of a healthy lifestyle may not be realised for decades.

Queensland Health directly delivers or funds a considerable array of health promotion services. These are targeted and tailored to people at particular stages of the life cycle, from babies to older Queenslanders. *Health 2020* provides a solid basis for achieving a sensible balance in health investments.

The development, funding and implementation of the National Chronic Disease Strategy and the National Service Improvement Frameworks for the National Health Priority Areas will be an important initiative in optimising health and labour force participation in the future.

#### **4.7 Providing quality workplaces**

While the discussion paper establishes the relationship between general health and the capacity to work, it completely neglects the importance of addressing workplace quality in order to raise labour force participation and productivity. A quality workplace is one which is safe, supports effective relationships between management and employees, provides meaningful work and supports a balance between work and other commitments, such as family responsibilities. Improvements in the quality of the workplace form the basis of strategies to increase workforce participation in some Scandinavian countries.

The quality of the workplace affects the discretionary effort of workers and their willingness and capacity to improvise, experiment, and adapt to change in the workplace. There is a strong need for a deliberate and coherent shift in policy design to recognise the role of labour as discretionary producer and learner to support continuous learning and productivity growth. This means a greater emphasis on industrial relations policy initiatives, which improve the quality of the workplace, and on workplace health and safety strategies that help develop strong and positive workplace culture. Such strategies not only reduce injuries and diseases, both physical and psychological and hence improve productivity, but also enhance labour force participation.

The Commonwealth Government has opted to deregulate the labour market as a means of achieving labour market flexibility and the discussion paper claims that further deregulation will be required in the future to accommodate the preferences of all workers. The Queensland Government is yet to be persuaded that further deregulation of the labour market will lead to more employment opportunities that will accommodate the preferences of people wishing to join the workforce. It is important to recognise that a deregulated labour market may adversely affect vulnerable workers, such as older workers, in marginalised and precarious jobs without an effective safety net.

## Queensland Government initiatives

### *Industrial relations*

The Queensland Government's labour market strategies are based on balancing economic objectives with the social objectives of fairness and equity, as spelt out in the Principal Objectives of the Queensland *Industrial Relations Act 1999*.

The Queensland Government is of the view that an industrial relations system that provides social justice for all employees and employers, assists in balancing work and family life and ensures that wages and employment conditions provide fair standards will facilitate conditions that are conducive to job creation and labour force participation of young workers and older workers alike.

The Queensland Government's focus is on protecting all employees by ensuring up-to-date minimum conditions of employment and an effective award system with fair and reasonable wages and conditions. For example, the Queensland *Industrial Relations Act 1999* establishes a set of basic employment entitlements, and in doing so, the Act recognises changes in employment patterns. This means that all permanent employees and permanent non-award workers are able to access:

- 4 weeks paid annual leave;
- 8 days paid sick leave;
- 5 of those 8 paid sick days may be used for caring purposes;
- 2 months long service leave after 10 years continuous service, with pro rata access after 7 years;
- if a public holiday falls on a regular work day, employees are entitled to be paid for that day; and
- 52 weeks unpaid family leave after 12 months continuous service.

The Queensland Government has also taken steps to ensure that all employees, whether or not they are covered by an award, are entitled to a guaranteed minimum wage. In 2002, the Queensland Government made an application to the Queensland Industrial Relations Commission (QIRC) to establish a minimum wage for all employees in Queensland. On 18 December 2002 the QIRC issued a general ruling setting a QMW of \$431.40 for all full-time employees in Queensland, including award free employees. In accordance with the Queensland Government's application the decision also established a minimum hourly rate that will apply to part-time employees. The decision in the *2003 State Wage Cases* lifted the Queensland Minimum Wage to \$448.40 per week from 1 September 2003.

Developments under the Act have also strengthened the industrial relations systems. For example, the Award Review process will ensure the renewal of a strong and relevant award system and the principles of freedom of association are maintained. The QIRC has new and expanded powers to amend or declare void unfair contracts for independent contractors as well as employees, and to hear small claims for the recovery of wages. Generally, the powers of the Commission focus on conciliation and industrial harmony rather than confrontation and arbitration.

### *Workplace health and safety*

The Queensland Department of Industrial Relations administers the *Workplace Health and Safety Act 1995*, which sets out the workplace health and safety law for Queensland. The Act aims to prevent a person's death, injury or illness being caused by a workplace or workplace activities, through eliminating or minimising exposure to risk. Workplace Health and Safety Queensland develops and implements legislative, compliance and enforcement frameworks to improve workplace health and safety and electrical safety. Providing education and information to employers and employees, through information products, guidance material, advice, seminars, safety blitzes and proactive inspections, plays an important role in the prevention of work-related injury or illness.

## **4.8 Improving access to employment for disabled Queenslanders**

Physical, sensory, intellectual, neurological or psychiatric disabilities can present a significant barrier to full and inclusive participation in the community, including employment. People with a disability have the same right to work and contribute to society as other people, but they can find it much harder to get a job. For instance, across the OECD, employment rates for working age disabled people are nearly 30 percentage points lower, on average, than for non-disabled people (OECD 2003).

Of the estimated 767,670 people with a disability in Queensland in 2003, 159,560 people with a severe or profound core activity restriction were aged under 65. Of these people, almost 80 per cent were of working age. The proportion of the population with severe and profound core activity restrictions is higher in Queensland than in most other states and is increasing. In 2003, Queensland's proportion of Australians on the disability support pension was 19.3 per cent, slightly above the State's population share.

One issue for improving the capacity of people with a disability to work concerns the availability of employment opportunities for people with a disability. While the Commonwealth Government's *Australians Working Together* reform package aims to improve employment and other services to assist people with a disability gain access to work, there are concerns that employment options for people with more severe or profound disabilities may be at risk as a result of the Commonwealth Government's reforms to business services, which are likely to result in a significant number of people with a disability being displaced from their current place of employment. Even though safety net options may provide relief to the current population of people with a disability, there are no safety net strategies or guarantees proposed for people with a disability who reach employment age in the future.

The Commonwealth Government's latest reforms to business services include the introduction of a quality assurance system which requires services to meet quality standards including award-based wages by December 2004 and an individualised payment model (case-based funding) linked to employment outcomes. There is concern that the move to award-based wages and case-based funding will mean the displacement from business services, loss of workplace supports or closure of services unable to adapt to the new operating environment. Many are also concerned that the introduction of award wages will lead to the withdrawal of the Disability Support Pension and its associated entitlements.

The Queensland Government is concerned that the tension between social participation, equity and commercial viability will leave many people with a disability, especially those with high support needs, without employment opportunities. Many of these people will seek State-funded day options and other services to maintain social participation. Disability Services Queensland estimates the costs of providing accommodation services, behaviour management, community services and service coordination to a person with high support needs to be \$57,384 per year. The Queensland Government believes that the strategies and funding assistance provided by the Commonwealth Government to support people with disabilities to adjust to the reforms, should also include demand management issues, the long-term implications for people with a disability currently accessing business services, and access to business services for future generations, not just existing employees.

Disability also affects the capacity of carers to access education and employment opportunities. Other issues which need to be addressed include:

- the provision of appropriate services and program responses to accommodate the needs of young people under the age of 18 who occupy the role of carer to enable them to fulfil their capacity for education and work;
- provision of assistance to people who wish to move from full-time caring into employment; and
- greater recognition of the physical and mental health needs of carers.

There is a demonstrable need for increased and more flexible opportunities for people with a disability to access employment. This could be achieved through the provision of employer incentives by the Commonwealth Government to expand employment places in the open labour market. There is also a need for the Commonwealth Government to ensure information on employment opportunities for people with severe and profound disabilities is easy to understand and navigate.

Improving the capacity of people with a disability to work requires employment services (whether open or supported) and support systems to be of a high quality and delivered in a seamless and flexible manner. This requires greater collaboration between the Commonwealth and Queensland Governments within the agreed national framework for disability policy and funding – the *Commonwealth-State/Territory Disability Agreement*. The Agreement recognises that both levels of Government fulfil complementary roles in the development and delivery of disability policy and services. For instance, the Commonwealth Government has responsibility for the administration of employment services and the Queensland Government has responsibility for the administration of accommodation support, respite, community support, community access and other non-vocational services.

In addition, the interface across the education, training, employment and disability sectors is complex with multiple pathways. The Queensland and Commonwealth Governments are collaborating to address the transition between sectors in order to prevent disengagement from education, training or employment and achieve better outcomes for people with a disability.

### **Queensland Government initiatives**

The Queensland Government is committed to providing appropriate support to disabled Queenslanders with the ability and skills to participate in employment. While most of the

programs provided by the Queensland Government, through Disability Services Queensland, do not have a specific vocational focus, they provide valuable social and developmental support to prepare and equip people to participate in employment, and to ensure that they are better able to sustain employment once there.

An overview of these programs is provided below:

- *Community access services* – designed to provide opportunities for people with a disability to gain and use their abilities to enjoy their full potential for social independence.
- *Learning and life skills development* – a specific community access service type providing ongoing day-to-day support for service users to gain greater access and participate in community-based activities.
- *Adult lifestyle support* – provides individualised funding packages to adults with a disability between the ages of 18 and 65 years to assist people to develop or maintain living arrangements of their choice and access community life, including employment.
- *Post-school services* – intended to meet the needs of young people with high and complex support needs who are leaving Special School or Special Education Programs. Young people with a disability making the transition to work are assisted by a Support Facilitator to plan post-school supports and explore opportunities in their local community.
- *Local area coordination* – links individuals and families into activities and services within their communities, including linkages to employment services, work experience and Disability Support Officers.

#### **4.9 Removing disincentives to participate in the paid workforce**

The discussion paper identifies the need to ensure that the tax and social security systems do not provide disincentives to engage in paid work and discusses the importance of paid employment to building retirement incomes.

The Queensland Government supports the provision of income support to ensure adequate incomes for people who are unemployed or unable to support themselves. However, it is equally important that the tax and social security systems do not provide disincentives for people to enter in the workforce. There is a significant need for the Commonwealth Government to review effective marginal tax rates to remove disincentives to work. The following discussion draws largely on the Queensland Government Submission to the Senate Economics References Committee Inquiry into the Structure and Distributive Effects of the Australian Taxation System which considered the impact of the interaction between the tax and social security systems on labour force participation and productivity.

##### **The impact of the interaction between the tax and social security systems on labour force participation**

There are two main mechanisms through which ‘disincentives’ to labour market participation develop:

1. High effective marginal tax rates (EMTRs): EMTRs measure the effective tax rate applied to any additional dollar of private income when considering the combined impact of marginal tax rates and the withdrawal of social security benefits. Recent Australian

studies indicate that it is individuals in 'the lower half of the income distribution who face high EMTRs' (Beer and Harding 1999, p.16).

2. High replacement ratios: Replacement ratios measure the value of after-tax real income received from unemployment and other social security benefits, such as pensions, expressed as a ratio of the after-tax income that could be received from gaining employment. In effect, the replacement ratio reflects the extent of the EMTR being faced by the unemployed.

High EMTRs and replacement rates have potentially large economic costs. High EMTRs, by reducing the return from earning additional income, possibly discourage low income earners from working more hours or acquiring further skills to enhance their employability, productivity and thus their standard of living – the so called 'poverty trap' (Keating and Lambert 1998).

Similarly, higher replacement ratios lower the incentive to search for or accept employment, raising both the rate and duration of unemployment. The resulting fall in the effective labour supply also tends to put upward pressure on wages, lowering labour demand and, thereby, raising the 'natural rate' of unemployment (Layard, Nickel and Jackman 1991).

Despite their economic and social costs, the incidence of high EMTRs and replacement ratios in Australia has risen over the past two decades. A shift toward social security targeting has resulted in 'income test stacking', where multiple income tests overlap each other and income tax bracket thresholds. This has led to an increased incidence of high EMTRs faced by families since the early 1980s (Beer and Harding 1999). Further, analysis following the introduction of the Australian National Tax Reform (ANTS) package shows that 'the problem of lower income individuals facing higher EMTRs is just as prevalent, if not more so, in 2002 as it was in 1997' (Beer 2002). Changes in withdrawal rates for benefits have resulted in high EMTRs applying over a wider income range.

Australian replacement ratios have also generally risen over the past three decades (Whitlock 1994). They increased sharply in the mid 1970s, following a relaxation of the work test and the indexation of benefits to inflation, and again in the 1980s, due to the higher safety net provisions provided under the Accord. Estimates of the impact of higher replacement ratios on the Australian unemployment rate over this period range from 0.7 percentage points to 2.0 percentage points (Pissarides 1991; Ooi and Groenewold 1992). A similar increase in replacement ratios internationally has also been linked to the rise in unemployment rates and the duration of unemployment across the OECD (OECD 1994, 1996).

The effects of high EMTRs and replacement ratios, in terms of the extent to which they act as a disincentive to labour market participation, are likely to be concentrated within particular labour market groups at the lower end of the income distribution:

- *Families with dependant children*: As the major income support payments are linked to the number of dependant children, these families often experience 'income test stacking' and therefore, face higher EMTRs (Beer 2002).
- *Youth* and others initially entering the workforce, whose initial labour productivity is low, generally face lower potential wages and, therefore higher effective replacement rates (Disney 2000).

- *Part-time workers* tend to have incomes in the range where overlapping means tests apply, causing high EMTRs. For example, Beer (1997) found that in a low income family with dependant children, a worker benefited by only \$12 per week after increasing their hours of work from five to 35 hours per week.
- *Secondary income earners*, particularly females, face higher replacement ratios and EMTRs due to defining eligibility criteria on household, rather than individual, income (Apps 1997).

Many primary caregivers are discouraged from participating in paid work because of the loss of federal government transfer payments and the high cost of childcare. This is particularly influential on decisions by low-income families relying on a single income. For instance, some people with a disability are concerned about the loss of the Disability Support Pension as a result of work. This can act as a powerful disincentive for some people with a disability to take up work opportunities. There is also a need for the Commonwealth Government to ensure adequate information to people receiving pensions, including the Disability Pension, on the implications of paid work for their eligibility for social security benefits.

For low to middle income families with at least one child aged 0 – 5, there are on average more couples where the father works and the mother stays at home in comparison to high-income families. Among high-income families, there are on average more couples with at least one child 0 – 5 where both parents work. Where the costs associated with working, including childcare and loss of federal government benefits, are high relative to household income, families are more likely to remain single-income.

The financial disincentives to a second family income are particularly strong in the case of part-time work. The Department of Family and Community Services (FACS) has estimated that when the partner of a low wage earner (\$25,000 per year) starts part-time work earning \$15,000 per year, that even with a large childcare subsidy (\$3,923), they get to keep only \$1,660, due to high effective marginal tax rates (without taking into account work expenses such as transport, clothing, etc). Even in the case of full-time work, the additional financial benefits are minimal. FACS has also calculated that where the partner of a low wage earner starts full-time work earning \$25,000 per year, that even with a large child care subsidy (\$5,788), they get to keep only \$4,020, without taking into account work expenses.

For high income couples the benefits of both partners working is far greater. FACS calculated that where the partner of a high wage earner (\$75,000 per year) starts full-time work also earning \$75,000, they get to keep \$33,702 of the second earner's income.

These figures are supported by academic research that shows a family with three children, one of whom was in childcare, gained an extra \$12 per week when the mother increased her hours in the paid workforce from 5 hours to 35 hours (Austen and Birch 2002).<sup>4</sup> These arrangements have effectively removed choices for families who may arguably be most in need of a second income.

The disincentive to work created by the taxation and welfare systems is a major area of reform that the Commonwealth Government needs to consider if caregivers are to be given a real choice about participation in paid work.

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<sup>4</sup> This calculation was based on tax and welfare arrangements in place in Australia in 1997.

Furthermore, in addition to the differential impacts of high EMTRs and replacement ratios on particular groups, the relative impacts across various labour markets will depend on the underlying wage and industry structure in each labour market. For example, states or regions in which the prevailing industry structure results in generally lower wage levels will tend to have higher proportions of their workforce receiving low incomes, and therefore facing high EMTRs. Similarly, as unemployment benefits are paid at a fixed rate across Australia, replacement ratios facing the unemployed in those regions will be relatively high compared with those faced by individuals in regions where wages are generally higher. Some measures, such as targeted rent assistance, address different housing costs and therefore the differences in effective replacement rates.

This highlights that, in addition to removing general disincentives to labour force participation, another important benefit of further taxation and social security reform would be to reduce the impact of disparities in wages and labour demand in different regions of Australia.

#### *The impact of higher EMTRs on the Queensland labour market*

Queensland recorded average annual employment growth of 2.8 per cent over the decade to 2003, substantially stronger than the 1.9 per cent average growth recorded in the rest of Australia over the same period. However, despite strong jobs growth, the State's unemployment rate was higher than in the rest of Australia over this period.

This phenomenon primarily reflects Queensland's stronger labour force growth, which in turn has been underpinned by the State's higher civilian population growth. However, it has also been driven by a consistently higher participation rate, in particular the greater participation by females, youth and part-time workers. Furthermore, the changing industrial structure of the Queensland economy, toward a more service-based economy, has largely resulted in strong growth in part-time employment and a rapid increase in the number of females with intentions of participating in the labour market.

As a result, Queensland is a prime example of a labour market in which high EMTRs and replacement ratios are likely to have more significant impacts. The State's industry mix results in a lower wage structure than other States, raising the replacement ratios facing the unemployed. While Queensland has a higher aggregate labour force participation rate than the national average, this is due to a range of factors which lead to higher participation rates in various cohorts within the State's labour market, while the higher participation rates may themselves reflect the extended job search that results when jobseekers face high EMTRs and replacement ratios. Therefore, Queensland's higher participation rates do not detract from the problems that Queensland may face in relation to high EMTRs and replacement ratios. In fact, the resulting higher incidence of female, youth and part-time workers in the Queensland labour force results in a greater number of individuals and households in income ranges or circumstances where high EMTRs and replacement ratios are likely to be apparent.

Furthermore, a generally lower cost of living in Queensland leads to a higher 'real' value of unemployment and other income support benefits. The combination of a lower wage structure and this higher real value of social assistance tends to make it more 'attractive' to be unemployed in Queensland relative to other States. This has the potential to limit the extent to which the Queensland labour market can absorb the consistently high levels of interstate

migrants, particularly lower-skilled migrants, flowing into Queensland without appropriate tax/welfare reform.

Accordingly, tax and social security reform aimed at addressing the incidence of high EMTRs facing low income earners, and replacement ratios facing the unemployed, may also assist in reducing regional labour market disparities associated with active labour market participation and employment outcomes.

### **Retirement and superannuation**

Increasing life expectancy means retirement savings will need to last longer than presently required. Accordingly, raising participation rates of mature workers will be important to building the savings required to support an adequate lifestyle in retirement.

The Queensland Government believes that retirement income policies must not act as a disincentive to remaining in the labour force, but provide older workers with both the flexibility to remain attached to the workforce and an adequate standard of living in retirement. However, although access to superannuation may present an incentive to withdraw from the labour force, it is important to recognise that one of the major financial *incentives* to remain in the workforce for most people is that they will not have sufficient superannuation assets to be able to retire. This situation is likely to continue for some time until compulsory superannuation guarantee contributions reach a significant level. For instance, in its December 2002 report on living standards in retirement, the Senate Select Committee on Superannuation found current arrangements for superannuation may not provide an adequate income in retirement for most people and that strategies need to be identified to address the shortfall.

In order to address the savings shortfall and support people to make sufficient provisions for their retirement, the following areas require examination:

- taxation treatment of superannuation;
- savings culture;
- complexity of the superannuation system; and
- incentives to increase superannuation savings.

A further issue that requires attention is the failure of the present retirement income system to support the conversion of retirement savings to an income stream. At present, the system is geared towards the provision of a lump sum benefit, an income stream (annuity or allocated pension) or a combination of lump sum and income stream. In some instances, excessive spending or pre-retirement debt leads to people spending their lump sum benefit and subsequently applying for an age pension. Restricting lump sum benefits and imposing a pension regime may be a policy option worthy of future examination. Better integration of the taxation and social security systems and the taxation treatment of all income streams is also important.

However, it is also important to recognise that the promotion of retirement savings to ensure people put aside enough funds to support their retirement is only a partial response. An important role for government is to ensure that those people whose retirement savings are not sufficient to provide an appropriate lifestyle in retirement are adequately supported. Without

adequate incomes in retirement, retirees are at risk of experiencing poor health and a low quality of life.

#### **4.10 Providing access to housing and public transport**

In some communities, lack of appropriate housing and inadequate transport can represent a major barrier to labour force participation. The discussion paper does not recognise the importance of housing and transport as a necessary part of a comprehensive strategy to raise labour force participation.

The availability of public transport, especially for those without ready access to a car, is clearly important to facilitating access to the labour market. The Commonwealth Government has a key responsibility for employment assistance to job seekers and the payment of public transport concessions to the unemployed. Similarly, secure, affordable, appropriately located housing can provide a stable base for people to find a job, undertake study and training, use public transport, raise children, participate in family and community activities, and access local services. Affordable housing can play an important role in reducing poverty by providing households with more income to access essential services and enjoy opportunities to participate in the economic, social and cultural life of their community. In this way, access to affordable housing has the potential to prevent the inter-generational transmission of poverty and disadvantage.

##### **Queensland Government initiatives**

The Queensland Government provides a range of housing products and services to Queensland households and communities, while also seeking to facilitate the provision of affordable housing in the wider housing system. The Queensland Government assists over 174,000 households each year to meet their housing needs. The public housing sector in Queensland consists of over 50,000 units of accommodation, with a further 4,000 units available through Aboriginal and Torres Strait Islander housing and community managed housing. These programs are specifically targeted at low income households in need of assistance through direct housing provision. The Queensland Department of Housing also provides funds to community organisations and local governments to assist people in severe housing need. In addition to direct housing provision, the Department of Housing offers assistance to low income private renters, people who require housing advice and referral, home lending assistance, and bond loans.

Queensland Transport's role in public transport is to plan for, regulate and assist in the provision of safe, efficient and effective modern transport systems and related facilities throughout Queensland. Through *Transport 2007*, the transport access plan for South-East Queensland, the Queensland Government is improving access to employment by focusing on the provision of an efficient, cost-effective, safe and equitable transport system. The Inner Northern Busway and the very successful South-East Busway are recent examples of the Queensland Government's commitment to improving public transport infrastructure.

The Queensland Government has also developed several Integrated Transport Plans across the State focusing on modal and service integration and the integration of land use and transport planning. From July 2004, *TransLink* will provide one single public transport network covering south-east Queensland from Noosa to Coolangatta and west to Helidon.

## **4.11 Encouraging skilled migration**

As recognised in the discussion paper, although migration may not reduce population ageing, a targeted program of skilled migration represents a key strategy for lifting productivity and addressing skills shortages, particularly in regional areas.

### **Queensland Government initiatives**

The Queensland Government actively encourages skilled migration and is implementing measures to increase Queensland's share of net international migration, focusing on highly skilled and professional occupations as part of its Smart State strategy. Skilled migration forms an important element of the Government's economic strategy, as skilled migrants can assist in addressing local skills shortages, increasing human capital and raising productivity.

The Queensland Government has in place a number of policies to ensure that its local population can be trained with the skills necessary for effective and productive labour market participation. However, a focus on skilled migration is complementary to these policies to ensure that Queensland employers have access to a suitably skilled labour force.

The Queensland Department of State Development and Innovation (DSDI) works in partnership with the Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) on the Commonwealth-State working party which looks at existing and proposed visa categories. DSDI also works closely with other Queensland Government agencies, to increase skilled migration to Queensland and coordinate and provide quality information and advice to skilled migrants and their families on arrival. Partnerships with Queensland Government agencies responsible for employment and training, health and education are also particularly important.

The Queensland Government recognises the valuable contribution that skilled migrants and their families make to the social fabric of Queensland and will continue to undertake activities which foster community cohesion, and monitor and review Commonwealth immigration and settlement policy to ensure equal access and opportunity. Programs aimed at promoting and supporting Queensland's cultural diversity will remain important to attracting skilled migrants to the State.

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## ATTACHMENT A

### ASSUMPTIONS EMPLOYED IN THE STATES' LONG-TERM FISCAL MODELLING

This Attachment discusses the critical assumptions employed in the States' long-term fiscal projections for the Commonwealth and the combined States and Territories, which were referred to in section 2.1 of this submission. It should be noted that these projections are still considered to be work-in-progress, and do not necessarily reflect the views of any State or Territory Government.

In broad terms, the States' long-term fiscal model is very similar to that employed by the Commonwealth Treasury in its *Intergenerational Report*. The key assumptions are derived from historical analysis, and demographic and non-demographic effects are both accounted for. However, there are important differences in some components of the modelling, and these differences create a very different picture of future fiscal pressure to that portrayed in the *Intergenerational Report*.

Broadly, the key differences between the States' modelling approach and the Commonwealth's are as follows:

- The States' economic modelling includes the expenditure side of GDP, because important components of State revenue, such as GST revenue grants, depend on certain expenditure aggregates. The Commonwealth only models the income side of GDP. This is discussed in section A1 below.
- Additionally, in the States' modelling, a less generous assumption has been made in regard to specific purpose payments from the Commonwealth to the States. This is discussed in section A1.
- The States' approach to deriving historical non-demographic spending growth endeavours to account for the different institutional and fiscal environments facing each level of government. The Commonwealth makes no allowance for these factors. This is discussed in section A2.
- In contrast with the Commonwealth modelling, per capita economic growth is a key explainer of **both** revenue and spending in the States' model. By assumption and in line with past experience, an increase in the growth of real per capita incomes will increase the demand for government services, as well as increase the capacity to pay for such demand, via increased tax revenues. The Commonwealth model has less expenditure impact from increased incomes, with the result that there is a greater impact on the fiscal pressure from improved productivity and thus real incomes. This is discussed in detail in section A3.

#### A1. Revenue

The majority of own source revenue is derived from taxes, duties and dividends associated with various types of economic activity. Hence, there is a direct link between revenue and economic growth. With respect to future tax policy, the States' modelling assumes that

'effective' tax rates will be maintained, via constant tax rates and full indexation of nominal thresholds. This may not be a perfect reflection of history, but the intention is for the baseline to reflect neutral revenue policy, such that the impacts of demographic change are clearly apparent. The effects of other tax policy settings are left to further 'policy' simulations.

For the Commonwealth, which relies mainly on income taxes, this approach implies that revenue remains broadly in line with GDP. In contrast, State revenue relies heavily on the expenditure components of GDP, which are addressed in the States' modelling but not in the Commonwealth's modelling.

Two of the key impacts relate to investment and consumption. With the capital-to-output ratio assumed constant, slowing workforce growth implies a declining investment-to-GDP ratio, which will adversely affect Stamp Duty collections. For consumption, two opposing effects are modelled: an increase in the consumption-to-GDP ratio (offsetting the investment effect); and a shift in the structure of consumption towards items that are outside the GST base, such as health expenditure. The States' modelling indicates that the latter effect will dominate, and GST revenue is therefore projected to decline relative to GDP.

Around a quarter of the States' revenue consists of specific purpose payments (SPPs) from the Commonwealth. Assumptions relating to the projected growth of SPPs for schools and hospitals are based on historical trends (see Table A1) using the approach described in section A.2. The Commonwealth assumed in their modelling that other SPPs would grow in line with GDP, whereas, in line with recent experience, the States have assumed other SPPs will only be maintained in real per capita terms. The States' assumption is thought to be more congruent both with history and with Commonwealth projections for the out-years of its Budget.

The net result of these assumptions for SPPs in the modelling is that SPPs do not keep up with demand for government services in the States, and are therefore projected to be source of fiscal pressure for the States. It follows that SPPs are projected to be a source of fiscal relief for the Commonwealth. This reinforces the need for the Commonwealth to acknowledge the impact of ageing on the capacity of the States to fund core services going forward.

## **A2. Expenditure**

The assumptions relating to future expenditure growth are the most critical in the States' and the Commonwealth's fiscal projections. Like the Commonwealth, the States sought to make the expenditure assumptions (particularly for *non*-demographic expenditure growth) as realistic as possible by supporting them with historical analysis.

Initial trials using the Commonwealth's approach showed that there were some methodological concerns: applying the Commonwealth's methodology across individual States showed highly divergent results, even allowing for variations in demographics. Intuitively, such divergence cannot be realistic, as the States all have the same expenditure responsibilities. To resolve this issue, it was agreed by the States to follow an approach which would address the differences between different jurisdictions with the *same* responsibilities, before a comparison of different levels of government (with *different* responsibilities) could be attempted.

The concern with the Commonwealth's approach centres on the fact that the non-demographic component of expenditure growth is unexplained in the Commonwealth's model. Past non-demographic growth is measured, and is then assumed to apply in the future. However, the States' modelling proceeds from the viewpoint that a key explanator of the growth of particular government programs is the growth of *total* government expenditure, which is further broken down into economic growth, and growth in the government's call on the economy. By taking these factors into account, comparisons between different governments and between levels of government are more valid. An explanation of this point is provided in the following section.

### **The States' approach to modelling expenditure**

Over time, government expenditure grows, driven by demographic factors, price inflation, increases in real economic activity, and changes to the quantum of resources extracted from the economy via taxes and other means. These drivers apply, to varying degrees, to individual spending programs, such as for health, education, and transport.

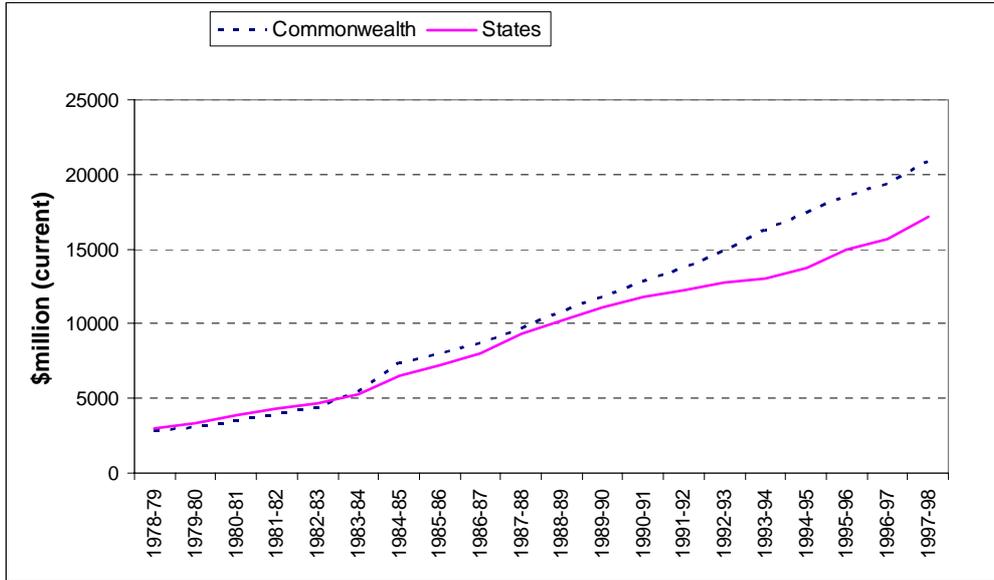
The States' modelling engages the concept of 'fiscal pressure'. Fiscal pressure is a whole-of-budget concept, which is calculated from two pieces of information – the net growth of demand for government goods and services, and the overall constraint on government spending, represented by total government expenditure. The concept of constraint is critical to the measurement of pressure. For example, if a given program simply expands at the same rate as the total budget, then fiscal pressure is not changed. If a program expands more rapidly than the total budget, then fiscal pressure will increase (assuming net demand conditions in the rest of the budget are unchanged).

Hence, for projections of long-term fiscal pressure that are based on historical factors, it is critical that the influence of the budget constraint is accurately accounted for, both in the historical analysis that informs the expenditure growth assumptions, and in the projections.

#### *An example*

Figures A1 and A2 illustrate this issue, with reference to historical health expenditure by the Commonwealth and the States. Figure A1 shows that Commonwealth health expenditure grew faster than State health expenditure between 1979-79 and 1997-98. One interpretation of Figure A1 might be that health spending was a greater source of fiscal pressure for the Commonwealth than for the States. However, the information in Figure A1 is not sufficient to support such a conclusion, because no information on the respective constraints facing the two levels of government is provided.

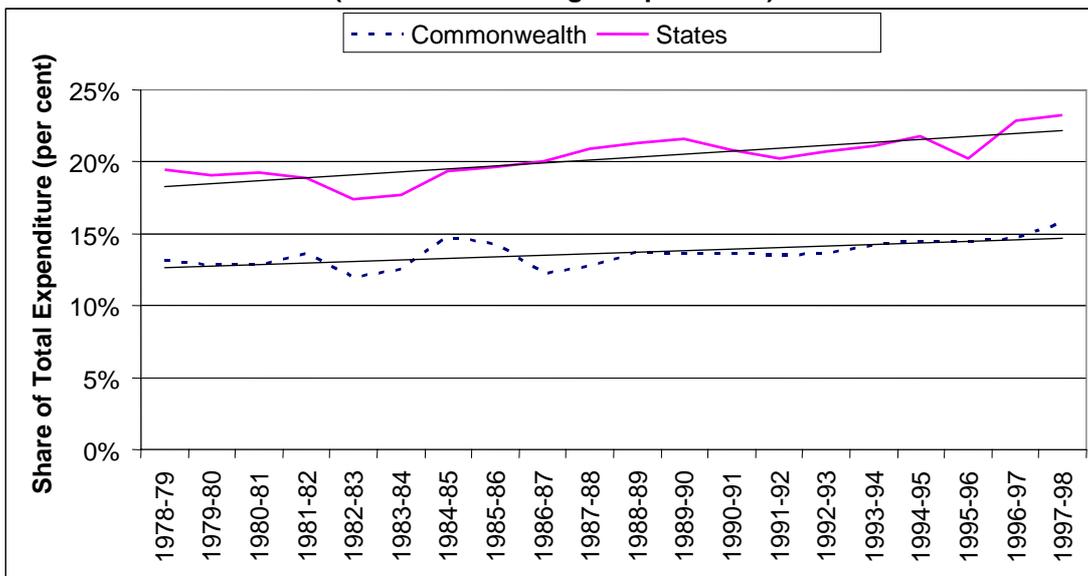
**Figure A1. Health expenditure, Commonwealth and States 1978-79 to 1997-98 (current prices)**



Source: ABS Government Finance Statistics

In Figure A2, the relevant information on the respective budget constraints is provided, by expressing health expenditure as a share of total budget expenditure. It is evident that the conclusion from Figure A1 is reversed when budget constraints are taken into account. Over the same period, health expenditure generated greater fiscal pressure for the States than the Commonwealth – its importance (proportion) in the budget is larger for the States, and is increasing faster (trend of 1.11 per cent annually for the States, compared with 0.85 per cent for the Commonwealth).

**Figure A2. Health expenditure, Commonwealth and States, 1978-79 to 1997-98 (share of total budget expenditure)**



Source: ABS Government Finance Statistics

In its derivation of non-demographic expenditure growth, the Commonwealth takes the approach represented by Figure A1. Under this approach, the growth of certain components of the Commonwealth budget is implicitly assumed to have had no relationship with the growth of the overall Commonwealth Budget. Hence, historical growth rates that were fuelled by relatively fast rates of economic growth and even faster growth of the Commonwealth Budget are projected to apply to future periods of slowing economic growth and constant relative size of government. This perhaps has some validity as a simple message that “spending cannot continue to grow at historical rates”, but if valid comparisons between jurisdictions are required then a more rigorous approach to the definition and modelling of ‘fiscal pressure’ must be taken, i.e. the view represented by Figure A2.

Overall, the States’ approach provides a clearer picture of the relative prospects of each level of government with respect to future fiscal pressure than the approach employed in the *Intergenerational Report*.

### **The key expenditure assumptions employed by the States**

In summary, the States’ modelling approach decomposes expenditure growth into three main drivers:

- (i) Demographics – in particular, the size and age composition of the population.
- (ii) Nominal economic growth per capita, representing the impacts of: productivity growth on real public sector wages; income growth on the public’s expectations for the quality and quantity of public goods and services; and CPI growth.
- (iii) Additional cost trends based on estimates of historical fiscal pressure, where applicable, using the principles described in the preceding section.

The demographic component of the modelling employed the ABS population projections (3222.0, Series B). The demographic impacts were calculated in a similar manner to the Commonwealth’s approach in the *Intergenerational Report*.

Real economic growth is assumed to affect government expenditure in two ways.

- Firstly, increases in economy-wide output per worker are assumed to flow through to increases in real public sector wages. Government services are relatively labour-intensive, so this assumption has a large bearing on projected spending. This highlights the importance of achieving at least matching productivity improvements in the public sector to limit the extent of this expenditure pressure.
- Secondly, it is assumed that the non-labour component of government expenditure is influenced by public expectations of the quality and quantity of government goods and services, and that these expectations have historically grown in line with real per capita income. This has been assumed to continue for the purposes of the modelling, however, it is recognised that individual preferences towards government provided services may change over time, in turn changing the nature of the relationship between growth in real incomes and government expenditure.

The actual economic projections employed by the States are described in section A.3.

The critical expenditure assumptions relate to the additional cost trends – these may be positive or negative. These are based on the unexplained portion of historical expenditure growth. They are not directly comparable with the Commonwealth's assumptions for non-demographic expenditure growth, as the effects of historical economic growth and government expenditure growth have been removed. The States' additional cost trends are implemented as a 'premium' over and above the effects of future economic growth and demographic change.

The States' additional cost factors were derived as time trends using historical ABS Government Finance Statistics from the period 1978-79 to 1997-98. Table A1 shows the States' estimates of additional cost growth for key demographic programs for both the State and Commonwealth Budgets.

The potential implications of these estimates for State and Commonwealth finances are discussed in section 2.1 of this submission and, for brevity, are not repeated here.

**Table A1. States' estimates of trend additional cost growth<sup>5</sup> rates, per cent per annum**

<b>GFS Expenditure Type</b>	<b>States</b>	<b>Commonwealth</b>
Acute Care (251), and Health Grants	0.43 *	-2.23 **
Community Health (254)	na	3.39 **
Pharmaceuticals (256)	2.33 (assumed)	2.33 **
Nursing Homes for the Aged (253)	na	-2.02 **
Schools (241) incl shift to private schooling, and Education Grants	0.22	0.94 *
<i>Schools (241) net of shift to private schooling</i>	<i>0.51 *</i>	<i>-1.37*</i>
Tertiary Education (242) <sup>6</sup>	-3.23**	
Public Order and Safety (23)	1.34 **	1.34 (assumed)

\* significant at the 95 per cent confidence level

\*\* significant at the 99 per cent confidence level

Source: State Treasuries' estimates.

In interpreting the results in Table A1, it should be noted that State expenditure is taken to include Commonwealth specific purpose payments 'to' and 'through' the States. For example, Commonwealth payments to private schools are shown in the States' model as both Commonwealth and State expenditure. For the States, this is offset by an identical amount of revenue. This treatment mirrors that of the ABS Government Finance Statistics.

It should also be noted that there are a number of factors that can contribute to negative additional cost trends (for example, efficiency gains), and these negative estimates should therefore not be interpreted simply as unmet demand.

<sup>5</sup> In other words, growth that is in excess of the effects of demographics and economic growth. Only estimates that were significant at the 95 per cent level or greater were used in the projections.

<sup>6</sup> Estimation of the additional cost trend for Tertiary Education was complicated by the institutional change in the sector in the 1990s, which saw significant swings in expenditure between the Commonwealth and the States. As an interim measure, a joint estimation process was employed, using total State and Commonwealth expenditure.

### A3. The States' projections of economic growth

As explained above, in the States' modelling per capita economic growth is assumed to affect both sides of the budget. This means that the assumed rate of economic growth does not appear to be critical to the net fiscal outcome.

However, this does not imply that economic growth, through stronger productivity growth and/or higher labour force participation will not assist in relieving fiscal pressure. Instead, this outcome is the result of the application of a set of assumptions based on past experience: increases in productivity and participation have tended to be reflected in increased government expenditure. The aim of the modelling is to illustrate the extent of the potential fiscal pressure if past behaviour is continued. Accordingly, the current States' projections represent one scenario, based on one set of assumptions only. Changes in these assumptions will be reflected in changes in the extent of the potential fiscal pressure.

By contrast, the assumptions used in the Commonwealth's modelling allow changes in productivity and participation to have a greater effect on the fiscal outcome. As with the States' model, productivity growth feeds into higher real public sector wages, which largely offsets increased revenue resulting from faster growth in GDP. Higher participation, however, is assumed to have little effect on expenditure, so that the additional revenue from higher growth has a significant effect on the fiscal outcome.

In the States' modelling, labour productivity is assumed to grow at its long-term average rate of 1.75 per cent per annum, as in the *Intergenerational Report*. In reality, the growth of total factor productivity might be influenced by the ageing of the workforce, but at this stage there appears to be no firm evidence one way or the other. Additionally, capital per worker might be influenced by international capital flows that result from differential ageing across countries, but these effects are not captured in the States' model.

Workforce participation rates for men are assumed to remain constant at today's levels, while some upward movement is assumed for selected female age cohorts, as the higher-participating recent birth cohorts continue to move through the age spectrum. Aggregate participation is projected to decline as the population ages, and labour force growth is projected to slow. The path of projected aggregate participation is very similar to that in the *Intergenerational Report*.

With labour productivity growth and the unemployment rate both assumed constant, slowing labour force growth results in slowing economic growth. Table A2 shows historical and projected growth rates for real GDP, and real GDP per capita. During the 1990s, Australia recorded a mean annual real GDP growth rate of 3.4 per cent per annum. GDP growth is projected to moderate to around 2.4 per cent per annum in the decade to 2020, slowing further to around 1.9 per cent per annum in the decade to 2040. The growth of GDP per capita is also projected to slow, although not to the same degree as GDP growth.

**Table A2. Projected Average Annual Growth of Real GDP and Real GDP per Capita**

<b>Decade</b>	<b>Real GSP % pa</b>	<b>Real GSP per capita % pa</b>
1990-91 to 1999-00	3.4	2.3
2000-01 to 2009-10	3.0 (3.1)	2.5 (2.1)
2010-11 to 2019-20	2.4 (2.3)	1.6 (1.5)
2020-21 to 2029-30	2.0 (2.0)	1.4 (1.4)
2030-31 to 2039-40	1.9 (1.9)	1.5 (1.5)

Note: Commonwealth projections in parentheses

Source: ABS National Accounts and State Treasuries' projections

For purposes of comparison, the corresponding Commonwealth projections from the *Intergenerational Report* are shown in parentheses. The differences between the projections for average annual growth are due to some minor differences in the specific assumptions used.