

Population Ageing Crisis or Transition?

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Contents

Acknowledgements	ii
Contents	iii
Tables and Figures	iv
Summary	v
1. Introduction	1
2. Population ageing: demographic realities	3
2.1 Ageing of the global population	3
2.2 Ageing in Australia	5
3. Stereotypes and questionable assumptions	8
3.1 Stereotypes	8
3.2 The dependency ratio	9
3.3 Population ageing and public expenditure	14
4. Health and aged care services	16
4.1 Population ageing and health expenditure: international comparisons	16
4.2 Costs and future health status: time from birth or time from death?	18
4.3 Ageing's contribution to health costs	19
4.4 Tackling the real causes of rising health costs	20
5. Employment and retirement income	24
5.1 Employment	24
5.2 Pensions	28
5.3 Superannuation	29
6. Maintaining the size of the working age population	32
6.1 Raising the upper limits to working life	32
6.2 Migration	33
6.3 Increasing fertility	35
7. Conclusion	38
References	40

Tables and Figures

Tables

Table 1	Percentage of population aged 65 and over, selected countries, 1960 and 1998	4
Table 2	Public social expenditure and size of aged population: selected OECD countries	15
Table 3	Public health care as a percentage of GDP – 1965, 1995 and change over time, services to the elderly as a percentage of GDP, 1995	17
Table 4	Population in 2098 under different Annual Net Migration (ANM) assumptions: percent aged 65+ and total numbers	35
Table 5	Population in 2098 under different Total Fertility Rate (TFR) assumptions: percent aged 65+ and total numbers	35

Figures

Figure 1	World population ageing (actual and projected), 1900-2100	3
Figure 2	Increase in population aged 60 and over by region, 2000-2050	4
Figure 3	Projected population aged 65+ and 85+, Australia 1999-2051	5
Figure 4	Projected population structure, Australia, 2051	7
Figure 5	Actual and projected dependency ratios, Australia 1999-2051	10
Figure 6	Actual and projected dependency ratios, Youth, Aged and Total	12
Figure 7	Pension outlays as a percentage of GDP, Australia 1998-2050	29

Summary

After several well-publicised reports, there is now a widespread perception that Australia faces an ‘ageing crisis’. It is believed that population ageing will mean a smaller proportion of people of working age to support an increasingly dependent older age group and this will impose an unsustainable drain on the public purse. The proposed policy solutions are often radical in scope and include greater fiscal discipline, reduced public provision of basic services in favour of greater self-reliance, and increasing population growth.

It is important, however, to test the validity of the claim that population ageing presents a crisis demanding a far-reaching policy response. This paper analyses the assumptions underlying the ‘crisis’ rhetoric and analyses the relevant empirical evidence.

Assumptions

The ‘ageing crisis’ is founded on three main assumptions: that older people are a social and economic burden; that population ageing will result in a serious dependency ratio imbalance; and, that there is a close correspondence between the size of the aged population and increased public expenditure. These assumptions are largely invalid.

- The vast majority of older Australians enjoy healthy, active and independent lives, with 93 per cent living in private homes and only 7 per cent in residential care. Only 3.5 per cent of people over 65 require public assistance for daily living. Even for those over 80, only one-third require help with self-care activities.
- Older people make significant contributions of time and money to their families (e.g. childcare and financial assistance) and communities (e.g. voluntary work). Focusing on the dependency of older people overlooks the positive aspects of ageing and the social and economic opportunities that an older population may bring.
- Dependency ratios (estimates of dependency levels that divide the non-working age population by the working age population) erroneously equate dependency with age. Standard dependency ratio measures conceal a range of other forms of dependency and considerably exaggerate the problem of old-age dependency.
- Because youth dependency is declining, total dependency ratios by 2051 will be approximately the same as they were in the 1970s. In addition, during the ‘baby boom’ women of working age contributed much less to the revenue base from which public expenditure on youth-related services was drawn. Thus, the number of dependents that each worker had to support in 1947 was greater than it is projected to be in 2041. However, it is important to recognise that a greater proportion age-related costs fall on the public sector, compared to youth-related costs which are generally met by private means. Nevertheless, a full understanding of dependency levels should take account of the total public and private costs of caring for dependents.

- Cultural and socio-political differences between countries mean that some countries with relatively small aged populations have high levels of public expenditure while others with large aged populations have small levels of public expenditure.

Health costs

Cross-country comparisons reveal that the size of the aged population is only weakly associated with health expenditure and that a range of other factors – expansion of medical technology and pharmaceuticals, rising consumer demand, escalating prices and overall population growth – are more important. Over the period 1983 and 1995, Australia's expenditure on health grew by 2.8 per cent but only 0.6 per cent of this growth was attributable to ageing.

Although the likely future health status of older people remains a matter of debate, high ageing-related health costs are mostly explained by the time from death, rather than time from birth. Thus, although an increase in absolute numbers of older people will place some pressure on health costs, population ageing is not likely to increase the period of time over which costs are incurred.

Offsetting rising health costs by promoting private health care and insurance runs the risk of increasing inequality and creating a dual standard of care across public and private systems. Thus, a simple shifting of costs from the public to the private sector is, over the long term, unlikely to control health-related costs of population ageing. The evidence shows that population health is strongly associated with socio-economic equality.

Successfully managing the health costs associated with population ageing will depend on giving priority to equitable and universal access to quality health care, properly balancing preventive health measures and high-end technological intervention, and retaining public control over the administration and allocation of health services.

Retirement incomes

Strong and continued labour force participation well into the mature years prevents the depletion of savings prior to retirement age, provides opportunities to build retirement savings and offsets increasing dependency ratios. Future public expenditure on retirement income will depend on policies that address pressing employment problems currently facing older workers, including discriminatory attitudes of employers and incentives for employers to divest themselves of more expensive employees.

As the pool of younger workers diminishes with population ageing, mature age workers will naturally increase their share of employment across most sectors of the labour market. As this trend continues, the unemployment rate is expected to fall significantly, with reductions in payments for unemployment offsetting increases in expenditure on pensions. With these trends older people will be less dependent on pensions and the revenue base from which pensions are drawn should not fall significantly.

Due to its non-contributory flat-rate and means-tested system, Australia is comparatively well placed to cope with future pressure on pensions. Pensions

expenditure in Australia is projected to increase from 3 per cent of GDP in 2000 to 4.5 per cent of GDP in 2040. This is well within manageable limits and is far below that of other OECD countries.

The promotion of superannuation savings to offset reliance on pensions and to increase the adequacy of future retirement incomes is a reasonable but only partial response. It will only succeed under circumstances where lifetime earnings are stable, secure and high enough to provide for basic needs at earlier life-stages and across all sectors of the population. If investment in superannuation is overemphasised the results may be counterproductive, with fewer resources available for raising families and meeting financial needs earlier in life.

Maintaining the working population

Those who believe in the ageing crisis often argue that the solution lies in expanding the size of the working population. Measures include raising the upper limits to working life, increasing the migration of younger workers and increasing fertility rates.

The average 'retirement' age for Australian men is 59 and for women 44. 'Early retirement' is very often the result of poor labour market opportunities for older workers. Policies aimed at raising the upper limits to working life will only be effective if more people are able to remain in the workforce until the upper limits are reached.

Despite popular belief, demographic analysis shows that increased migration is not a solution to population ageing. Immigration is an inefficient means of retarding population ageing, with very large numbers required for very small reductions in age structure. A net immigration intake of 150,000 compared to one of 50,000 would only reduce the median age of the population from 47.2 to 44.6 – a difference of only 2.6 years. Research has shown that while migration levels at around current levels would slow population ageing, higher levels will have very little impact.

Increasing fertility rates is a more efficient means of offsetting population ageing. Fertility rates can be increased by policies that support the combination of motherhood and paid employment. This requires a commitment to gender equity, both in the workplace and in the domestic sphere, including improving access to family friendly policies at work, distributing caring work more equitably between men and women and recognising the social and economic value of caring work.

Conclusion

Alarm over the 'ageing crisis' is not justified by the evidence. The transition to an older population can be facilitated by promoting the well-documented benefits that accrue in societies that have equitable access for all citizens to healthcare, education, employment and retirement income. Policies should also focus on overcoming discriminatory attitudes to older people, ensuring security of employment over the life-course, and making a commitment to gender equity in both public and private spheres. Population ageing is not a threat to Australia's future but an opportunity to ensure decent living standards for all.

1. Introduction

The ageing of Australia's population is often presented as a critical public policy issue for the coming decades. It is frequently said that population ageing will bring with it a number of unsustainable costs which require drastic intervention via public policy. These arguments are generally based on the observation that large numbers of older people currently rely heavily for their income on pensions, have difficulty finding employment in pre-retirement years, experience poor health and suffer isolation and social exclusion. It thus seems self-evident that a significant increase in the numbers of older people will only multiply such problems, creating an intolerable burden on taxpayers and carers, groups that will diminish as the population ages.

Opinions expressing fear of an ageing society have received wide coverage, with predictions of negative economic and social consequences. The World Bank talks of an 'old age crisis' (World Bank 1994) and, although the OECD is somewhat more cautious, it nevertheless refers to population ageing as a 'formidable' policy challenge (OECD 1998). In 1996 an Australian National Commission of Audit (NCA) report rang alarm bells and called for urgent action to ameliorate the effects of population ageing and increasing dependency ratios (NCA 1996). In mid-2001, the Commission's chair returned to the public arena, re-stating the case that population ageing represents a 'demographic timebomb' (*Australian Financial Review*, 3 May 2001).

Concerns about the consequences of population ageing have also recently been re-ignited with the release of a report by the consulting firm Access Economics on the economic implications of population ageing.¹ Although the report focuses on a number of positive aspects of population ageing, the analysis nevertheless estimates that total government expenditure could reach \$45.5 billion in 2000 dollars by 2031, almost doubling other projections of ageing-related national expenditure made by the OECD and the Economic Planning Advisory Council (EPAC) (Access Economics 2001, pp. 41-8). This stimulated a new round of political and media commentary expressing concern about the ability of future government revenue to cope with population ageing.

The most commonly proposed policy solutions to the perceived crisis of population ageing are for greater fiscal discipline, fostering a shift from government support to individual self-reliance and increasing population growth. The 1996 NCA called for policies to increase incentives for self-reliance in old age and to 'moderate community expectations of government assistance' (NCA, 1996, p. 121). In practical terms this means encouraging individuals to save for their retirement through private superannuation funds, to take out more private health insurance, to be discouraged from early retirement and to fund future nursing home care from accumulated private assets. The proposal to offset the effects of population ageing by increasing the size of Australia's population includes calls to substantially increase migration of younger age groups and to increase fertility rates (Business Council of Australia 2000).

¹ The report was commissioned by the Department of Health and Aged Care (DHAC).

While it is clearly important to plan for future population ageing, large reductions in social spending may have serious consequences for social and intergenerational equity. In addition, significant increases in population size may have undesirable implications for environmental sustainability. Because of these concerns, it is imperative to examine closely claims that population ageing presents a serious and unsustainable burden requiring radical solutions. This paper considers a large array of research that has undertaken this examination and finds that, whilst concerns are not groundless, there is little basis for talk of a 'crisis' account of population ageing. Generally speaking, most empirical studies have concluded that the consequences of population ageing have been overstated and that the shift to an older population profile is best approached as a manageable transition.

This has important implications for policy. Viewing the problem as a 'crisis' implies the need for radical policy solutions, invoking significant financial and lifestyle sacrifices on the part of working-age people. Whilst recommendations to shift risk to private rather than public hands may appear to be the logical way to control blow-outs in public expenditure as the population ages, a 'privatise-or-perish' approach may ultimately prove to be counterproductive, creating greater levels of inequality including unequal access to basic services. Whilst some will emerge as 'winners' from a system that privatises risk, many will emerge as 'losers' and most of the 'losers' will still require substantial public support.

Understanding the problem as a 'transition', on the other hand, implies less extreme, more graduated policies. This paper exposes and challenges some of the assumptions on which alarmist predictions are based. In particular, the paper shows that predictions are often founded on stereotyped images of older people and tend to ignore the extent to which future crises might be caused, directly or indirectly, by poorly conceived contemporary policies and discriminatory social attitudes. The paper argues that the transition to an older society will be facilitated by promoting the well-documented benefits that accrue in societies that have equitable access for all citizens to services such as health, education, employment and retirement income, by dealing with discriminatory attitudes that currently prevail, and by ensuring security of employment over the life-course. Whilst these improvements are necessary regardless of any future social and economic impact, they may also alleviate many anticipated fiscal problems associated with population ageing. Viewed in this way, the challenge of population ageing can be considered not as a threat, but as an opportunity to ensure decent living standards for all, both now and in the future.

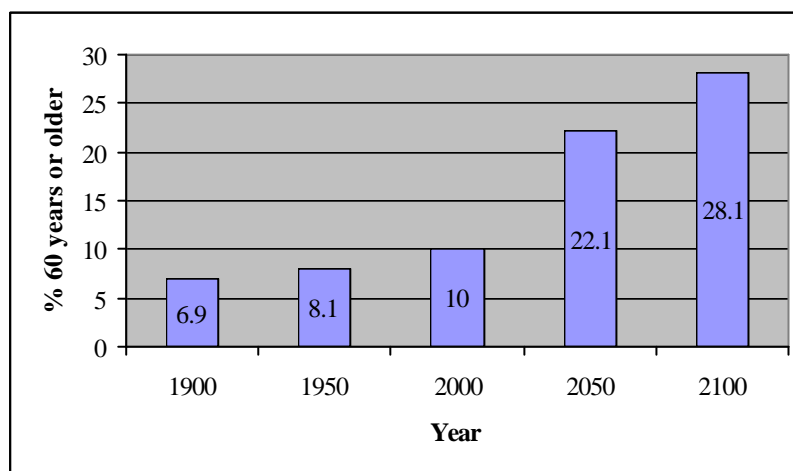
2. Population ageing: demographic realities

Fears about population ageing are stimulated by the irrefutable evidence that the global population is, indeed, ageing. Whilst there is considerable variation in the pace and extent of the demographic transition, there is little doubt that the phenomenon of population ageing is occurring and is doing so inexorably.

2.1 Ageing of the global population

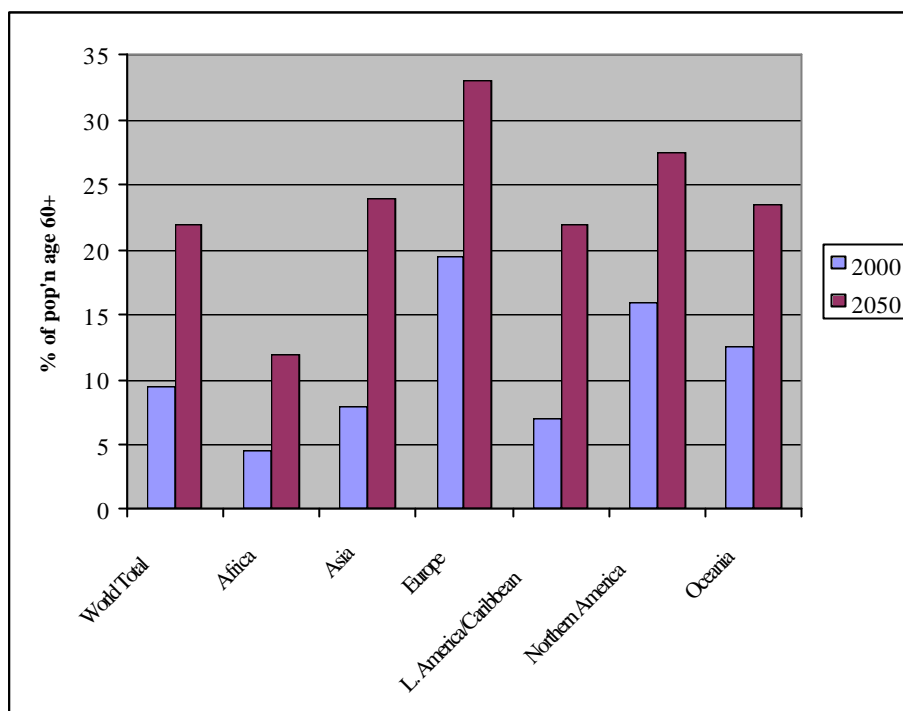
Whilst the absolute number of older people in the global population has been rising steadily for many centuries, the phenomenon of ‘structural ageing’ – the product of falling fertility rates, reduced mortality and increased longevity – is relatively new. As a result of structural ageing, most countries in the world are now undergoing a significant demographic transition towards older age-profiles. Between 1900 and 2000 it is estimated that the proportion of the global population aged 60 and over increased from 6.9 per cent to 10 per cent. However from 2000 onwards, this increase is projected to escalate. Between 2000 and 2050, the global population aged 60 and over is projected to increase from 10 per cent of the population to 22.1 per cent, and by the year 2100, people aged 60 years and over will make up 28.1 per cent of the world’s population (Figure 1).

Figure 1 World population ageing (actual and projected), 1900-2100



Source: United Nations 1999

Not all regions and countries are ageing at the same rate. As Figure 2 shows, developing areas – in particular, Asia and Latin America – have the fastest rate of population ageing. The rate of population ageing in Europe and North America is somewhat slower than developing regions, but they have the highest proportion of people aged over 60, a trend which is expected to continue over the next 50 years.

Figure 2 Increase in population aged 60 and over by region, 2000-2050

Source: United Nations 1999

The variation in the ageing profiles of OECD countries can be seen in Table 1. It is clear that whilst some countries have aged slowly (eg., Ireland and New Zealand) others have done so rapidly (eg., Greece, Finland and Japan). Thus, whilst providing an overall sense of the ageing of the global population is of value, this picture masks significant differences between countries that may require different policy responses. It is also clear that some countries, (eg., Sweden, Germany and Italy) currently have population structures that other countries are so fearful of in the future and against which all the direst predictions are made. Despite this, these countries do not appear to be experiencing major economic or social consequences.

Table 1 Percentage of the population aged 65 years and over, 1960 and 1998, selected countries

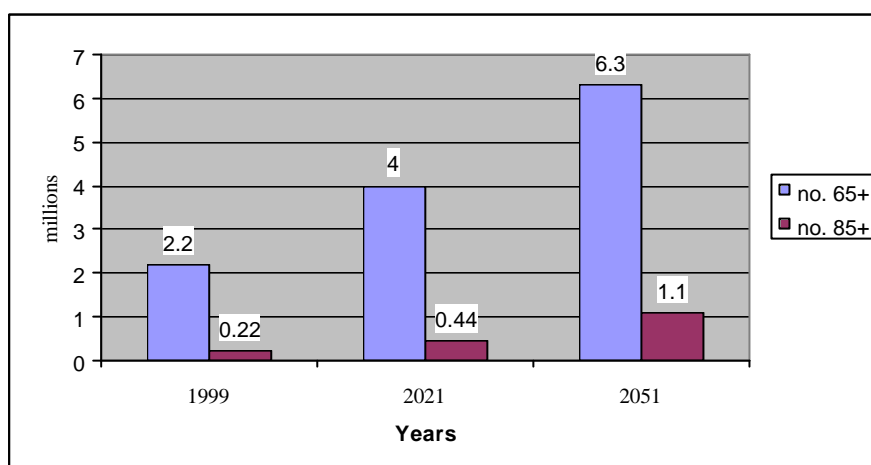
Country	1960	1998	Country	1960	1998
Australia	8.5	12.2	Ireland	10.9	11.4
Austria	12.2	15.4	Italy	9.0	16.2
Belgium	12.0	16.1	Japan	5.7	16.2
Canada	7.6	12.3	New Zealand	8.7	11.7
Denmark	10.6	14.9	Norway	10.9	15.7
Finland	7.3	14.7	Sweden	11.8	17.4
France	11.6	15.7	Switzerland	10.2	15.1
Germany	10.8	16.6	UK	11.7	15.7
Greece	8.1	15.8	USA	9.1	14.3

Source: OECD 2001a

2.2 Ageing in Australia

We can see in Table 1 that, compared to some other countries, the ageing of Australia's population is relatively slow with the proportion over 65 increasing by less than 4 percentage points since 1960. This compares with an increase of 10.5 percentage points in Japan and around 6-8 percentage points in countries such as Germany, Finland, Greece, and Italy over the same time period. Although less dramatic than other countries, Australia's demographic transition is nevertheless significant. As Figure 3 shows, between 1999 and 2051 the population aged 65 and over is projected to rise both absolutely and as a proportion of the total population.

Figure 3 Projected population aged 65+ and 85+, Australia 1999-2051²



Source: ABS 2000a

In 1999 12 per cent of Australians (2.2 million) were aged 65 and over and this is projected to rise to 18 per cent of the population by 2021 (4 million) and to 26 per cent (6.3 million) by 2051. Moreover, the proportion of those aged 85 and over – ages at which dependence increases substantially – will also increase to nearly half a million in 2021 and over 1 million Australians in 2051 (ABS 2000a). When combined with falling fertility rates, the growth in the proportion of older people will significantly alter the structure of the Australian population (see Figure 4).

Whilst there is little doubt that the Australian population as a whole is ageing, there is considerable diversity in the rate and level of population ageing amongst different

² ABS projections are based on a combination of assumptions of future levels of births, deaths and migration which illustrate the possible size, structure and distribution of Australia's population into the next century. Three main series are produced. Series I assumes a total fertility rate (TFR) of 1.75 births per woman by 2008-9 and then remaining constant and an annual net migration (ANM) of 110,000; series II assumes a TFR of 1.6 and an ANM of 90,000; series III assumes TFR of 1.6 and an annual net migration of 70,000. All series assume that a rate of improvement in life expectancy of 0.30 years per year for males and 0.22 years for females will continue for 5 years and then gradually decline resulting in life expectancy at birth of 83.3 years for males and 86.6 for females in 2051, after which it is to remain constant (ABS 2000a). Series II projections are used throughout this paper.

sections of the population. The most distinct trends are seen in ethnic groups and Indigenous populations, as well as variation according to geographic distribution and gender. The following trends are important:

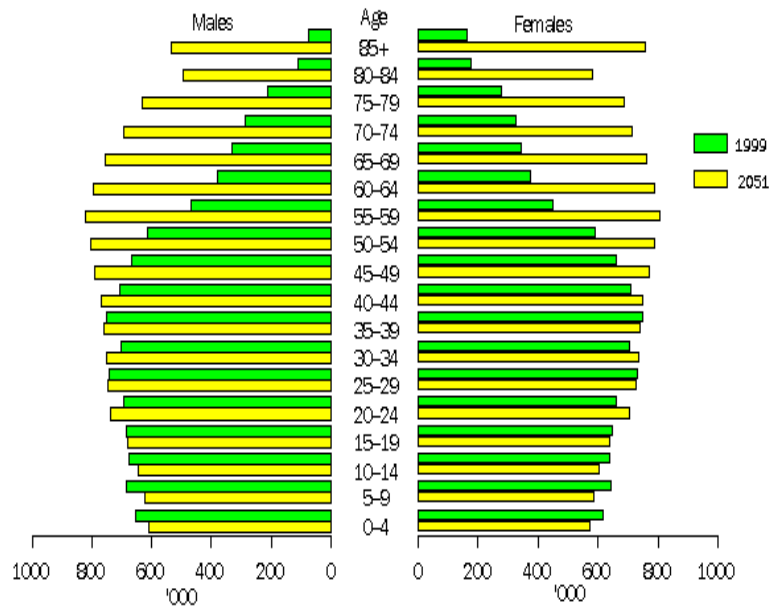
- The post-war immigrant population is ageing at a faster pace than the Australian population as a whole, and more recently arrived migrant populations tend to have younger age profiles (Rowland 1999, p. 75; ABS, 1999b).³
- Indigenous populations are considerably younger than the Australian population as whole, with only around 3 per cent of Indigenous people aged 65 years and over compared with around 12 per cent of the total Australian population. This reflects not only their higher fertility, but also their considerably lower life expectancy (ABS 1998). In the case of Indigenous populations, therefore, the urgent policy challenge is to facilitate, rather than prevent, growth in the proportion of the aged population.
- The proportion of older people in the Australian population differs by State, with South Australia having the highest proportion of people aged 65 years and over followed by Tasmania, New South Wales, Victoria, Queensland and Western Australia. Both Territories also have younger population structures. In coming years, Tasmania is projected to overtake South Australia as the State with the largest proportion of older people, while the proportion of older people in the ACT is projected to rise to be similar to that in other States. However, the Northern Territory, with its large proportion of Indigenous residents, is projected to have a considerably younger population.⁴
- Women make up a greater proportion of the older population and this imbalance increases with age. However, the dominance of women in the older age categories is projected to decline over coming decades due to the narrowing gap in life expectancy for men and women (ABS 1999b). Nevertheless, the over-representation of women in older age categories is of considerable importance. This is because as a group, women are typically much less able than men to self-provide due to their weaker labour force attachment, lower life-time earnings and higher levels of sole parenting.

Despite variations in the distribution of population ageing, both between and within countries, it is nevertheless clear that population ageing is a reality. Many of the concerns about population ageing, therefore, seem plausible. It seems reasonable to expect that there will be a smaller proportion of people of working age to support an increasingly dependent older age group, that there will be an increased burden on the health system and that there will be a considerable drain on welfare expenditure as more and more demands are made on aged care services and pensions.

³ Migrants from Italy had the oldest age profile of the top 12 birthplace groups in Australia in 1996. Italians made up 10 per cent of older people over 80 and 12 per cent of those aged between 65 and 79. Migrants from Poland, Germany, Greece, former Yugoslavia and the Netherlands all comprised around 4 per cent of the older population (IYOP 1999a). In contrast, New Zealanders and more recent Asian arrivals tended to be younger with median ages of below 35 years ABS (1999b).

⁴ Only 9-11 per cent of the Northern Territory's population will be aged 65 years and over by 2051 compared with 24-26 per cent of the total Australian population (ABS 1999b). Of course, the validity of this projection will greatly depend on the effectiveness of health and welfare programs for Indigenous people in the Territory.

Figure 4 Projected population age structure, Australia, 2051



Source: ABS 1998

However on closer inspection, the surface plausibility of these scenarios diminishes. There are two main reasons for this. First, these scenarios depend, to a large extent, on a range of questionable assumptions about the relationship of older people to wider society. Secondly, the scenarios are not supported by empirical evidence. The following section investigates the assumptions and stereotypes that form the basis of much of the prevailing concern about the impact of population ageing. Sections 4 and 5 then review the evidence for the existence of a demographic 'crisis', specifically in relation to health care and retirement income.

3. Stereotypes and questionable assumptions

Population ageing is, in part, a result of significant improvements in health and welfare over the course of the twentieth century (AIHW 2000). It therefore seems a cruel irony that within the fruit of improved human welfare may lie the seeds of destruction – ever increasing dependency, an over-burdened public purse, and severe economic pressure. However, this prospect relies on a number of assumptions:

- that older people are social and economic burdens and make little contribution to social and economic life;
- that a serious dependency ratio imbalance will be the inevitable result of population ageing; and
- that there is an automatic correspondence between the size of the aged population and increased public expenditure.

The following section examines each of these assumptions in turn.

3.1 Stereotypes

The belief that population ageing will have severe social and economic consequences is built upon, and further perpetuates, negative stereotypes of older people as dependent, burdensome and frail. In doing so, it is easy to ignore the more positive aspects of ageing and the social and economic opportunities that an older population may bring. Stereotypes of this nature also take attention away from strategies to rethink and rework the role and place of older people in our society and their existing and potential contribution.

Perceptions of older people as frail and dependent are not supported by statistical evidence. In fact, the vast majority of older Australians enjoy healthy, active and independent lives. A majority (64 per cent) of older Australians rate their health as good, very good or excellent, with another 24 per cent rating their health as ‘fair’.⁵ Most older Australians (93 per cent) live in private homes with only around 7 per cent living in residential nursing homes or hostels. Only 12 per cent of people aged 70 and over now receiving assistance through publicly funded community care programs.⁶ Of the 2.3 million people over 65 in Australia, only around 72,000 (approximately 3.5 per cent) require public assistance for daily living, although the need for assistance increases with advancing age. According to the 1998 ABS survey of disability, only one in twenty people aged 65 to 69 require assistance with self-care activities compared to one in ten for those aged 70-79 and one in three for those aged 80 and over (ABS 1999a). Put another way, two-thirds of people over 80 do not require any

⁵ According to the National Health Survey, 1995, 64% of people over 65 years old rated their health as good, very good or excellent, 24% rated their health as fair and 12% rated it as poor (IYOP 1999a, section 11).

⁶ Recent policy changes have shifted the focus of aged care from residential facilities to home and community-based care through the Home and Community Care program (HACC), Community Aged Care Packages and care services for veterans and war widows.

help with self-care activities. Thus as a group, older people are not characterised by high levels of dependency.⁷

In addition, older people make significant positive contributions to their families and communities. The amount of time spent in voluntary work increases with age. In 1994-95, people aged 55-64 and 65 and over spent around 100 hours per annum engaged in voluntary work, compared to around 75 hours for those aged between 35 and 54 and around 50 hours for those aged 15-34 (ABS 1997a). Older people also make considerable informal contributions to their communities, especially in terms of providing child-care for grandchildren, financial assistance to family members, house maintenance and other ways of supporting their adult children and grandchildren. Many older people over 65 continue to make financial transfers to their children (DHAC 2000a). King and McDonald's analysis of private financial transfers in Australia shows that people aged 65-74 are substantial net providers of financial transfers and that, on average, older people do not become net receivers until over the age of 75 (King and McDonald 1998 cited in McDonald and Kippen 1999a, p. 55).

In 1999 the International Year of Older People stressed that typical images of older people as burdensome and frail were inconsistent with reality. The year provided an 'opportunity to recognise and celebrate the diversity, value and contribution of older people' in Australia (IYOP 1999b). Other international campaigns have also sought to redress stereotyped images of older people and dispel common myths about ageing, illustrated well in the World Health Organisation's recent paper entitled 'Ageing: Exploding the myths' (WHO 1999).

Whilst the majority of older people are not dependent, it is important to recognise that there is a small but significant proportion of older people who are frail and dependent and who require varying levels of assistance in the activities of daily living. This group is predominantly in the 'old-old' age category of 85 and over, a group that will significantly increase in size as the population ages (see Figure 4 above). The challenge for policy, therefore, is to achieve a balance between responses that protect those who are dependent and vulnerable due to physical or mental frailty, while at the same time promoting a more positive image of older Australians, highlighting their experience, resources and their social and economic contribution.

As Australians live longer lives and older people become more numerous, their positive social and economic contributions will become more visible, making initiatives to promote positive ageing more successful. This gradual recognition that older people are, in the main, not burdensome is likely to make inroads into discriminatory attitudes – evident, for example, in the labour market – that prevent older people from full participation in social and economic life.

3.2 The dependency ratio

The argument that as the population ages there will be fewer people of working age to support an increasing proportion of non-working older people – a problem commonly

⁷ There is, however, some suggestion that future cohorts of the aged may be sicker than current cohorts. This is because of the possibility that technological advances may be successful in maintaining 'quantity' of life at the expense of 'quality', resulting in higher rates of morbidity. This issue is discussed further in section 4.2.

referred to as an imbalance in the ‘dependency ratio’ – is the foundation of the belief that population ageing represents an emerging crisis. The number of older persons is projected to exceed the number of children by around 2036. It is feared that this imbalance will mean that the economically active will no longer be able to support non-active. Concerns are held for a range of fiscal matters such as the impact on savings, increased reliance on public pensions and consequent increasing national debt because of extra borrowing required to finance these developments.

Dependency ratios are calculated by dividing the proportion of non-working age people by the proportion of working age people. Generally speaking, non-working age groups are defined as 0-14 years and 65 and over, with the group 15-64 years considered to be in the working-age group thus:

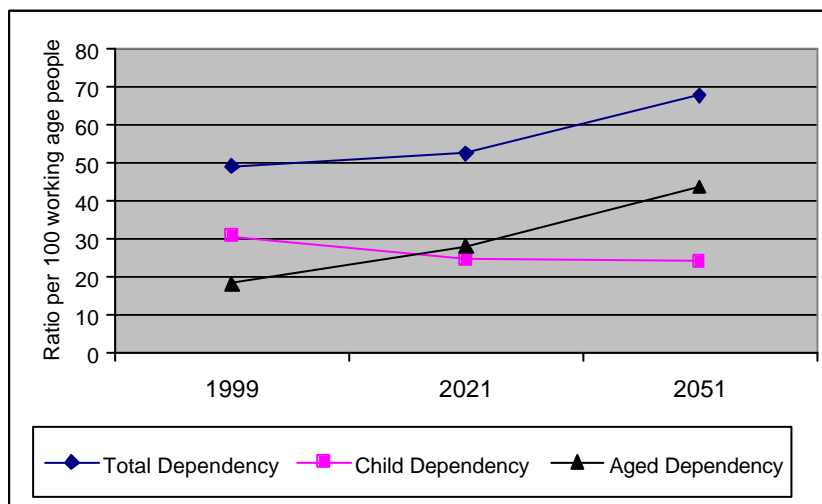
$$\frac{\% \text{ 0-14 yrs} + \% \text{ 65+ yrs}}{\% \text{ 15-64}} \times 100 = \text{Total dependency ratio}$$

Dependency ratios for youth or the aged are calculated in similar ways:

$$\frac{\% \text{ 0-14 yrs}}{\% \text{ 15-64}} \times 100 = \text{Youth dependency ratio}; \quad \frac{\% \text{ 65+ yrs}}{\% \text{ 15-64}} \times 100 = \text{Aged dependency ratio}$$

Using these calculations, an apparently alarming picture of future dependency ratios emerges. As Figure 5 shows, Australian aged dependency ratio is projected to rise over the next 50 years from around 0.18 (that is, 18 people aged 65 for every 100 people aged 15-64) to around 0.44 (44 people aged 65 and over for every 100 of working age). Child dependency ratios will fall from around 0.30 and will stabilise at around 0.24. The total dependency ratio, therefore will rise from around 0.50 to 0.68 by the year 2051.

Figure 5 Actual and projected dependency ratios, Australia 1999-2051



Source: ABS 2000a.

This apparently worrying projection, however, must be tempered by the realisation that dependency ratios are very blunt measures of actual levels of dependency – largely due to the assumption that dependency equates with age. However, as we

have seen above, this is not so. Not all people aged 65 and over are physically or financially dependent – many own substantial income-earning assets and many in this age category are also net contributors to social and economic well-being.⁸ Moreover, large numbers of people of working age are not in the labour force at all and may be in full-time study, involved in home-based caring, or on disability pensions, whilst many others are unemployed and therefore dependent on social security payments. Currently 20 per cent of all males aged 15-64 and 27 per cent of females in this age group receive some form of income support. Thus, the true ratio of elderly to non-dependant working age is much higher than is indicated by a crude dependency ratio. A simple equation that divides the working-age population by the non-working age population conceals a range of other forms of dependency and exaggerates the ‘problem’ of old-age dependency.

Labour force dependency ratios

Given the fact that not all people aged 15-64 are in the labour force, and that not all people over 65 are dependent, a ‘labour force dependency ratio’ is often considered to be a better indicator of the actual dependency burden. The labour force ratio is generally expressed thus:

$$\frac{\% \text{ 0-14 yrs} + \% \text{ 15+ not in labour force}}{\% \text{ 15+ in the labour force}} \times 100 = \text{Labour force dependency ratio (LFDR)}$$

Young (1994) analysed labour force surveys and census data over the period 1947 to 2041. The analysis shows that by 2041, although the labour force dependency ratio will be higher than it currently is, it will be considerably lower than it was a few decades ago. According to Young, in 1947 each worker had to support 1.34 dependants; between now and 2021 each worker will have to support around 1 dependant and by 2041 this will have increased to 1.16. When viewed in this light, the problem of the dependency ratio virtually disappears. McDonald and Kippen’s more recent analysis also bears this out. They estimate that labour force dependency ratios will fall from 1998 to 2018, rising again, but only to its current level by 2048 (McDonald and Kippen 1999a, p. 58).

Labour force dependency ratios rightly imply that the key ratio is between employment and dependency. However, in this respect the labour force dependency ratio is also a somewhat crude measure, as the ‘labour force’ contains a dependent population of the unemployed. This means that a labour force dependency ratio understates actual levels of dependency within the population. Moreover, the current method of measuring employment is particularly inadequate in terms of measuring levels of self-reliance or dependence: an employed person is defined as someone who was in paid employment for 1 hour or more during the previous week.⁹ Viewed in

⁸ Indeed, Gittins has recently noted that baby boomers and their parents are the most materially comfortable generations yet, and that those under 48 years old are unlikely to be as well-off in the future. He argues that this is due largely to the affordability of home-ownership and other asset accumulation in earlier decades, especially the post-war era. In these years, asset accumulation was also founded on an economic basis of low interest rates, low inflation, full employment and low tax rates (Gittins, 2001). This argument is similar to the argument in David Thomsons’ influential work on generational equity, *Selfish Generations* first published in 1991 (Thomson 1991). European interest in equalising wealth between generations has been high, most notably seen in Richard Musgrave’s (1986) proposals for resolving problems of intergenerational inequity.

⁹ For a useful critique of this measure, see Denniss 2000.

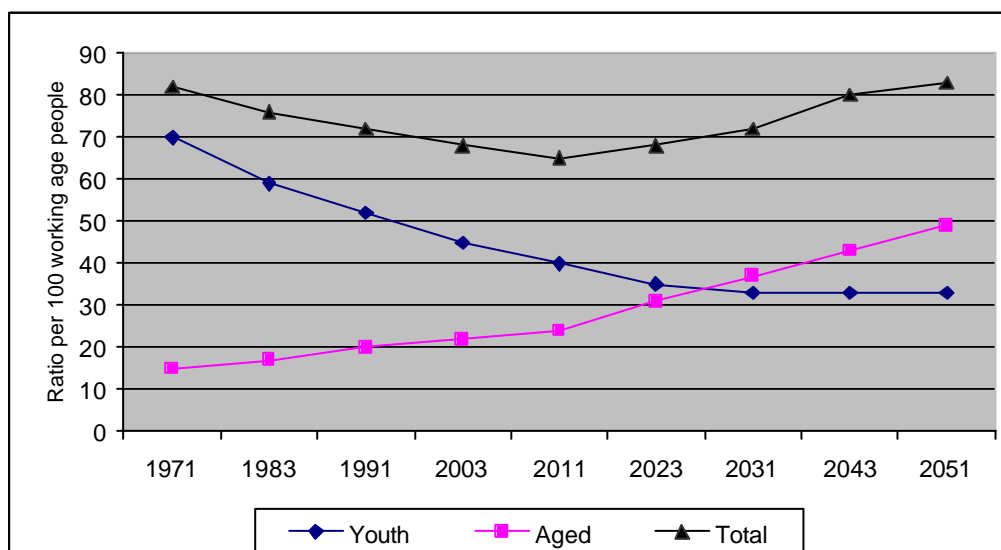
this way, a significant proportion of the problem in relation to dependency ratios concerns ineffectively functioning labour markets.

A major aspect of the solution to the apparent ‘ageing problem’, therefore, is to reduce unemployment, to arrest the declining labour market participation of men and to increase women’s participation in the formal labour market. The latter strategy is of particular importance in alleviating pressure on dependency ratios. Although women’s participation in the labour force is on the rise, it remains considerably lower than men’s. In 1997-98, women’s labour force participation stood at 53.7 per cent compared to 73.0 per cent for men (DHAC 1999c, p. 22). Strategies to increase women’s participation in the labour market, however, must be pursued cautiously in order to avoid the potential for increased participation to exacerbate declining fertility. This issue is discussed further in Section 6.3.

Offsetting increased aged dependency by declining youth dependency

Calculations of dependency ratios tend to overlook the level of dependency that characterises a younger population. Figure 6 shows that by 2009 total dependency ratios will reach their lowest point as a result of declining youth dependency, but will rise again because of increasing aged dependency. However, the total level by 2051 will be almost equal to that of the 1970s. In other words, the increase in aged dependency will be substantially offset by the decline in youth dependency and the changing balance between youth and aged dependency ratios will do little to alter the total dependency ratio over time. Increases in government spending on older people will, to some degree, be offset by reductions in expenditure for children – on education, family social security payments and health costs.

Figure 6 Actual and projected dependency ratios, Youth (0-19), Aged (65+) and Total (0-19 and 65+)



Source: Jackson 2001, p. 12

However, there is general consensus amongst researchers that a decline in the youth population will do little to offset the increase in outlays associated with ageing. This is because the costs associated with older people are largely borne by government

whilst the costs of children and younger people are mainly funded by private means (Borowski and Hugo 1996). Even so, the full range of public and private costs associated with children – including loss of parental income, decreased productivity, provision of household services (meals, transportation, communication, daily care activities) education, health and the problems associated with some aspects of youth culture such as crime and drug use – is the subject of considerable and inconclusive research which has yet to be comprehensively examined in the context of the population ageing debate.¹⁰ It is, however, worth bearing in mind that the ‘baby boom’ – the sudden explosion in children in the post-war decades – took place at a time when a large segment of the working-age population, women, did not contribute to the revenue base from which the considerable public expenditure on youth-related services was drawn.

Parent support ratio

A variation of the argument about an increasing imbalance in the dependency ratio is that the proportion of older people who require care will exceed the proportion of people capable of providing such care either formally or informally. This can be measured by a variant of the dependency ratio – the ‘parent support ratio’. The parent support ratio compares the proportion of adult children who would be potentially available to provide care (usually those in the 45-54 age category) with the proportion of older people most likely to be requiring care (those in the 75+ age category). According to Jackson (2001), there will be a decline in the parent support ratio from 2.4 in 2000 to 0.9 by 2050. However, this measure is still a relatively blunt measure, as some adults do not have children and the age at which people have children changes over time.

Dependency ratios and long-term projections

As with all long-term projections, projections of a crisis in dependency ratios extrapolate from present social and economic conditions into a far distant future which is largely unknown, but is likely to differ substantially from the present day. As Jackson reminds us, ‘population projections are not predictions’ (Jackson 2001, p. 43). Rather, they are based on a range of specified assumptions about the factors known to cause change – births, deaths and migration. Thus, while projections are useful policy tools, public debates about these issues often overlook the fact that projections are entirely dependent on the reliability of the working assumptions. As Mitchell argues,

If we ... try to imagine how useful predictions based on 1930s labour force participation patterns would be for the Australia of the 1990s, ...such projections would be wrong on almost all counts whether we examine the rise in women’s participation, the fall in older men’s participation or the delayed participation rates of young people Economic growth, technological change and social preferences are not static and no amount of hi-tech modelling can predict what dependency may mean so far into the future (Mitchell 1996, pp. 22, 23).¹¹

¹⁰ See for example, AIFS, 2000; Harding and Percival, 2000; Curnow, 2000)

¹¹ See also a useful discussion of projections and health care in Gibson & Goss (1999), pp. 19-20.

Population ageing is but one of many significant changes in contemporary societies. The last fifty to one hundred years have seen very considerable changes in social and economic life which, with varying degrees of ease, have been absorbed. As Johnson argues:

if ... in 1951, it had been predicted that over the next forty years the manufacturing sector would collapse ... to under 25 per cent of the workforce, or that the divorce rate would rise to the point that one third of all marriages would end in divorce then these prospective trends would have been seen as unsustainable and there would have been a call for urgent ameliorative action by the government. As we all know, these changes did occur, but without creating economic misery or social collapse (Johnson 1999, p. 29).

This is not to suggest that some large scale social and economic changes have not had important implications for public policy and have had to be carefully managed. Nor does it deny that some changes have had very serious consequences – for example environmental change – which should be anticipated and averted where possible. The fact that our extrapolations may not be accurate should not deter policy analysts from making the best predictions possible and for governments to plan on the basis of them. Moreover, rather than bolstering the case for optimism, it is feasible that projections may err in favour of an even more pessimistic future than is currently imagined. The lesson is not to abandon the task of projecting future scenarios, but rather, to keep firmly in mind that projections can never be more than a ‘best guess’, that they rely on the accuracy of their assumptions and that it is important to remain open to alternative scenarios and possibilities.

3.3 Population ageing and social expenditure

The OECD has argued that population ageing requires a series of urgent reforms including fiscal consolidation, the reduction of public debt burdens, reduced spending on pensions, health and long-term care and the reform of retirement income systems to maximise private savings. In the absence of such reforms, it argues, population ageing will result in ‘reduced growth and material living standards’ (OECD 1998, pp. 9, 19). This statement implies that an ageing population automatically imposes increased costs on public expenditure, costs that must be contained before they begin to escalate. Whilst acknowledging that the extent of the problem varies between countries according to their age profiles, the OECD nevertheless concludes that ‘if reforms are delayed until the demographic pressures dictate them, they will have to be all the more severe and risk ... sparking off a renewed period of climbing public sector deficits and debt’ (OECD 1998, p. 18).

If the size of the aged population imposes a direct burden on social expenditure, we would expect that those countries with large proportions of older people would also have high levels of social expenditure. Although there is a clear relationship between population ageing and expenditure on pensions (discussed in greater detail in section 5), comparative analysis does not demonstrate a corresponding relationship between ageing and total social expenditure.

Table 2 demonstrates that the association between public expenditure and the size of the aged population is not close. In Japan population ageing is advanced (over 16%), but social expenditure as a percentage of GDP is relatively low (14.4%), whilst for

Denmark where population ageing is moderate, (14.9%), social expenditure is relatively high (30.5%).

Castles (2001) has applied statistical techniques to OECD data to determine the effect of the size of the aged population on a range of factors, including social expenditure. The analysis found ‘no apparent association between changes in age structure and in total social security spending’ (p. 305). In part, he argues, this is a result of changes in emphasis of the welfare state since the 1960s, changes that have mainly concerned rising unemployment and other factors associated with labour market stress.

Table 2 Public social expenditure and size of aged population: selected OECD countries

Country	% of population 65+*	Public social expenditure (% of GDP)**
Australia	12.2	18.1
Austria	15.4	25.4
Canada	12.3	16.9
Denmark	14.9	30.5
Finland	14.7	29.3
France	15.7	29.6
Germany	16.6	26.6
Italy	16.2	26.9
Japan	16.2	14.4
Sweden	17.4	33.3
UK	15.7	21.6
USA	14.3	16.0

Source: OECD 2001a

*1997/ **1998

Although the findings may also indicate that such countries have reformed expenditure in response to pressures arising from population ageing, the principal explanation for the disparity appears to lie in differences between social security programs and taxation regimes and economic priorities (Castles 2001, p. 305; OECD 2001b, p. 2). Global predictions of a looming crisis in social expenditure as a result of population ageing, therefore, fail to distinguish between the different cultural and socio-political frameworks in which the ageing of any given population takes place.

4. Health and aged care services

Contact with the health system increases with advancing age, so rising health care costs would seem to be an unavoidable consequence of population ageing. Generally speaking, a considerably greater proportion of national health budgets is spent on older people than younger groups. Although only constituting 12 per cent of the population, older people account for about 35 per cent of expenditure on health in Australia (IYOP 1999a, p. 35). Australia has experienced a significant rise in health care costs over recent decades, increasing from 6.4 per cent of GDP in 1976 to 8.4 per cent in 1998. While there is currently no agreement about exactly how rapidly expenditure on health care will rise in coming decades, there is a general consensus that health costs in Australia are under pressure and that this pressure is likely to increase (DHAC 2000b, p. 43).

Anticipating a crisis as a consequence of escalating health costs due to ageing, the 1996 National Commission of Audit recommended the introduction of various mechanisms to increase private funding of, and reduced Commonwealth involvement in, aged care and health services for older people (NCA 1996, pp. 49-55). Around the same time, a conference sponsored by the Committee for the Economic Development of Australia (CEDA) argued that the interaction between ageing and health costs constituted a 'real crisis in the making'. The report warned that the 'unprecedented rise in health care costs ... due to the ageing of the population ... is going to create exceptional stress on household savings, reducing disposable income' (CEDA 1996). More recently, Access Economics has argued that the intersection of the ageing of the population and increasing health costs will place significant pressure on public expenditure – a fact that 'highlights the importance of encouraging whole-of-life health insurance' (Access Economics 2001, p. 46).

In the light of this, it seems almost inevitable that with population ageing expenditure will rise considerably, and possibly to a level that is not sustainable in the longer term. However, as this section will demonstrate, the relationship between ageing and health expenditure is not as simple as it might appear.

4.1 Population ageing and health expenditure: international comparisons

Whilst it seems logical to expect a strong association between health costs and the size of the aged population, a comparison of health expenditure of different countries with the size of the aged population does not bear this out. Health expenditure as a proportion of GDP across a selection of countries does not appear to correspond to the size of the aged population. For example, countries with large populations aged over 65 such as Japan (16.2%), Finland (14.7%) and Germany (16.6%) have relatively low health expenditure relative to GDP (7.6, 7.4 and 10.6 respectively). In contrast, the USA, with a relatively small proportion of the population over 65 (11.9) spends a comparatively high proportion of GDP on health (13.6).¹²

¹² Data from 1997 and 1998 OECD: http://www.oecd.org/publications/figures/2000/english/Health_expenditure.pdf

Castles' use of disaggregated OECD data to analyse the relationship between the size of the aged population and spending on health care confirms that the size of the aged population is only very weakly associated with health expenditure. Indeed, Castles argues that there is an 'almost complete lack of correspondence' between population ageing and levels of health care costs (see table 3) (Castles 2001, pp. 308-9). The picture is somewhat different for aged care services – residential care (hostels and nursing homes), and community-based home care services – with around 17 per cent of the variance in expenditure on aged care services explained by the size of the aged population.

Table 3 Public health care as a percentage of GDP – 1965, 1995 and change over time, services to the elderly as a percentage of GDP, 1995

Country	Health care			Services to the Elderly
	1965	1995	1965-1995	1995
Australia	2.7	5.6	2.9	.35
Austria	3.3	5.8	2.5	-
Belgium	3.0	5.8	2.5	.15
Canada	3.1	6.9	3.8	-
Denmark	4.2	6.9	2.7	3.04
Finland	3.2	5.7	2.5	1.69
France	3.5	8.0	4.5	0.77
Germany	3.6	8.1	4.5	0.57
Greece	2.2	4.4	2.2	-
Ireland	3.3	5.2	1.9	0.48
Italy	3.8	5.4	1.6	0.20
Japan	2.7	5.6	2.9	0.27
Netherlands	3.3	6.7	3.4	0.66
New Zealand	3.9	5.6	2.9	0.05
Norway	3.1	6.6	3.5	3.58
Sweden	4.4	7.1	2.7	3.37
Switzerland	2.3	6.9	4.6	0.05
UK	3.5	5.8	2.3	0.68
USA	1.5	6.5	5.0	0.05
Mean	3.2	6.3	3.1	1.00
Adj. R²*	.09	-.01	.01	0.17

Source: Castles 2001, p. 309

*R² indicates the strength of the relationship between health expenditures and the corresponding age structure for the same year.

The stronger relationship between the size of the aged population and aged care services is unsurprising for, unlike health services generally, aged care services are used almost exclusively by older people. Even so, as Castles points out, if only 17 per cent of the cross-national variance is accounted for by population ageing, it is clear that a large percentage is accounted for by other factors. These include informal care structures, religious norms and family expectations of caring for older people, and most importantly, variations in government policy. The implication of this is that an

increasing proportion of older people who require care does not automatically mean an increase in public spending (Castles 2001).

Despite the weak association between population ageing and health, there is evidence that chronic disabilities are beginning to affect increasing numbers of older people. Whilst the proportion is likely to remain relatively stable, the absolute numbers of people suffering significant restrictions in carrying out daily activities due to physical or mental disability is expected to increase over the next two decades. The Australian Institute of Health and Welfare (AIHW) estimates that the number of older people in this category will almost double from 481,000 in 1998 to 844,000 in 2021 (AIHW 1999 cited in IYOP 1999a, section 11). Whilst the increasing numbers of physically dependent older people will require a revision of aged care policy – both in terms of community and residential care facilities – the situation does not appear to amount to a ‘crisis’. A recent paper produced by the Productivity Commission found that although population ageing will increase the underlying demand for long-term care services, improved health amongst older people and other ‘supply side influences’ will mean that the use of such services will be less than the absolute numbers would suggest. The study also reported that the share of long-term aged care expenditure to GDP would increase from 1.10 per cent to 1.38 per cent between 1997 and 2031. On this basis, and assuming continued economic growth, the study concluded that Australia is likely to be in a position to meet these costs without undue financial strain (Madge 2000, p. 91). Nevertheless, it is important to recognise that current aged care arrangements in Australia appear to be falling considerably short of providing uniform and good quality care. In the light of this, careful and ongoing research into the future needs and costs of aged care is essential if future cohorts of frail aged people are to be guaranteed a dignified and relatively comfortable existence during their final years of life.

4.2 Costs and future health status: time from birth or time from death?

Projections of high levels of expenditure on health care as a result of population ageing not only assume that an increase in the absolute numbers of older people will increase costs, but also that longer life expectancy will extend the period of time over which costs are incurred. However, there is considerable debate about whether increased life expectancy will extend or compress the number of years that older people live with ill health or disability (Fries, 1980, 1989; Mathers, 1999). While the evidence is far from straightforward,¹³ it appears that severe disability tends to be concentrated during the last few years of life. Thus, high ageing-related health costs are mostly explained by the time from death, rather than time from birth (Fuchs, 1984; McCallum and Geiselhart 1996; Howe, 1997; OECD 1998, p. 90). This means that the cost implications of population ageing will be ‘minor ... because it shifts the high costs periods to later ages without increasing the years over which high costs are incurred’ (McCallum and Geiselhart 1996, p. 55). The OECD maintains that the gains in disability-free life expectancy will help to ‘mitigate the effects of ageing’:

¹³ There is some evidence that the prevalence of mild disability has increased, especially for the ‘young old’ age range (Mathers 1999), and there is also a large debate about the importance of ‘substitute morbidity’ – the extent to which the gains from success in relation to one illness (eg. cardiovascular illness) simply increases the number of people who will be at risk from other diseases, such as Alzheimer’s disease (McCallum 1999).

... if rates of disability were assumed to remain stable at existing levels over the next 25 years, one could anticipate a growth in the number of dependent older people of about 50 per cent or more ... as a result of the pure demographic effects of population ageing. However, if trends in the 1980s and 90s towards reduced disability were to continue, the increase in the number of dependent older people would be significantly less, at about only 15 per cent (OECD 1998, p. 92).

4.3 Ageing's contribution to health costs

Contrary to the popular belief that ageing is the primary threat to the health budget over time, population ageing is but one, comparatively small, factor in rising health expenditure. Indeed, during the period 1983 to 1995, whilst Australian real expenditure on health grew by 2.8 per cent, only 0.6 per cent of this rise was attributable to the costs of an ageing population (AIHW 1998, p. 42). Instead, rising health costs are due to a range of factors – factors that will have an equal, or greater, influence on growing health expenditure over coming decades. These include the increasing use and cost of medical technology and pharmaceuticals, increasing consumer demand for health services, rising per capita income, overall population growth and choices (both private and public) about spending on health relative to other products or services (DHAC 1999a, p. 17).

Recently a number of commentators, researchers and policy advisors have come to similar conclusions, arguing that population ageing by itself will have little influence on rising health costs. Indeed, Richardson and Robertson's analysis concludes that 'the impact of future ageing on the need for medical services will be so small that, in the absence of other factors, the size of the health sector would *diminish* in relation to GDP' (Richardson and Robertson 1999, p. 350 emphasis added). Two studies commissioned by the Commonwealth Department of Health and Aged Care also conclude that the problem should be 'manageable' (Cooper and Hagan 1999, p. 1) and 'sustainable' (Crowley and Cutbush 1999, p. 20). These analyses appear to have gained acceptance by the Commonwealth Government, whose National Strategy for an Ageing Australia discussion paper series states that 'declining health status and increasing health and aged care costs are not an unavoidable consequence of population ageing' (DHAC 1999a, p. 20). Yet the belief that ageing will lead to a health care blow-out persists and has recently been re-ignited by the report by Access Economics which argues that 'Australian fiscal finances may be steaming towards a rendezvous with the demographic glacier in the next two decades' (Access Economics, 2001, p. 40), a conclusion that is contradicted by the evidence.

The Access Economics report agrees that the direct contribution of population ageing to the increase in health expenditure is only small and that rising health expenditures are primarily explained by a range of other factors. However, the report argues that the problem for future health expenditure lies not in the direct contribution of ageing to rising costs but in the interaction of population ageing with other factors – specifically, rising prices in the health care sector and an improved 'quality' of health care (i.e., improved technology and techniques). In other words, as more people use health care services that are becoming more expensive, health expenditure will rise dramatically, far outstripping previous estimates. While this prediction is entirely plausible, it does not mean that policy should search for remedies to population

ageing. Indeed, if population ageing on its own contributes only a relatively small proportion of rising health costs, it seems somewhat misplaced to focus on population ageing to control blow-outs in future health costs.

4.4 Tackling the real causes of rising health costs

If policy-makers recognise that population ageing is, on its own, only a small part of the problem, but are genuinely concerned about the rising expenditure on health in the coming decades, then developing policies to contain the factors that more heavily influence rising health costs will be important.

Containing the 'price/quality' factor

It is often accepted uncritically that technological and scientific advances automatically result in better 'quality' health care. This assumption is fundamental to Access Economics' projections of health costs which identifies 'improved *quality* of health care, whereby spending is rising as the public sector invests in improved technology and techniques for the benefit of the public' as a major contributor to rising costs (Access Economics 2001, p. 42 emphasis added). Put this way, the desirability of 'improved quality' of health care appears to be uncontested, a social benefit that is non-negotiable. Whilst technological advances have made a genuine difference to the health of older people in many areas – for example, fracture and joint replacement developments and eye surgery techniques (Howe 1999, p. 30) – in terms of overall population health the benefits of high technology medical interventions are often overstated. There are sound reasons to balance the proliferation of secondary high-technology medical intervention against the benefits of primary care, public health initiatives and preventive medicine.

A considerable literature in the public health field has clearly and consistently demonstrated that high-cost, high-technology intervention has a small influence on overall population health compared to the impact of public health and primary care initiatives. This is true for both developed and developing countries. Public health initiatives have traditionally included population screening, mass immunisation, food, water and sanitation regulation, control and surveillance of communicable disease control as well as health promotion initiatives such as anti-smoking campaigns and breastfeeding promotion (AIHW 2000 p. 340). One of the most famous and definitive studies in this area shows that the impact of technological innovation on reducing mortality from the major causes of death in the USA – heart disease, cancer and stroke – has been extremely modest compared to the impact of public health initiatives (McKinlay, McKinlay and Beaglehole 1989). In addition, an analysis of OECD data shows that the benefits from the provision of primary health care services, especially for mothers and children, far outweigh benefits obtained from technologically oriented secondary interventions (Shi 1994). These are but two of numerous studies that have been conducted over the past three decades that have consistently demonstrated that the contribution of medical diagnostic, therapeutic and technological advances has been small compared to the far larger impact of public health and primary care initiatives.¹⁴

¹⁴ For a comprehensive review of a vast array of these studies, see Richard Taylor's 1979 publication, *Medicine out of control: the anatomy of malignant technology*. For more up to date research, see a comprehensive review in Turrell et al., (1999).

The importance of health promotion and illness prevention for the health and well-being of older people has been recognised by the Federal Government in its development of a National Healthy Ageing Strategy. First promoted by the 1982 United Nations Plan of Action on Ageing, the notion of ‘healthy ageing’ focuses on well-being and health for all ages, with an emphasis on health promotion, illness prevention, early diagnosis and the management and prevention of disability and chronic illness. In line with this, the Australian National Strategy initiative ‘focuses on health promotion and illness prevention strategies from a population health perspective’ (DHAC 1999d, p. 1). Strategies such as this are critically important in addressing the health of the population as a whole as well as of the older population.

In light of this, the assumption that technological advance should be unconstrained because it equates with better ‘quality’ in health care can be questioned. Instead, public debate about how the health care dollar should be distributed between high-technology medical interventions and primary and preventive health care programs is needed. This is especially so given that the direction that Australia’s health system has taken in recent years – towards greater privatisation, both in health care delivery and insurance – may undermine any commitment to prioritising public health initiatives as we shall see next.

Corporate control of health care services

The recent shift to greater levels of private health insurance is coupled with a similar industry-wide move towards the private provision of health care services under deregulated market conditions. In Australia the increasing influence of large corporations in the delivery of health care services has proceeded apace in recent years as large investor companies have identified the health care market as a growth area (White and Collyer 1998; Collyer and White 2001). Increasingly, hospitals, general practices, radiology and pathology services and other health services have been purchased – often by companies that have no previous interest in health service delivery – creating what has famously been called a ‘medical-industrial complex’ (Relman 1980). Whilst the conventional argument in favour of this development is that the market is able to deliver services more efficiently and at lower cost, there is little evidence to support this. Indeed, studies of corporate medicine in the USA,¹⁵ Britain and Australia show clearly that the delivery of health care services through large-scale corporate entities significantly contributes to the escalation of health costs, and that private provision of health services is considerably more expensive and less efficient than public provision (Relman 1980; Lewin et al., 1981; Woolhandler & Himmelstein 1997; Pollock et al., 2001; Duckett & Jackson 2000; Collyer and White 2001). It is perhaps, therefore, not surprising that the USA has one of the highest shares of health expenditure as a proportion of GDP in the world, despite its comparatively small aged population (see figures on p. 17).

¹⁵ Studies in the USA suggest that the large hospital conglomerates known as Health Management Organisations have driven up health care costs as a result of over-servicing, increased use of diagnostic tests, the expansion of services and the introduction of new technologies. The economies of scale that potentially derive from these large organisations tend not to be passed on to the patient and investor-owned hospital chains have higher patient charges per admission and higher operating costs (Relman cited in Collyer and White 2001, p. 18).

The increasing privatisation and corporate control of health services also appears to contribute to the escalation of high-end, high-technology types of interventions, directing services away from primary care and preventive medicine. In order to gain market edge or dominance, corporate health care providers, especially in the hospital, radiology and pathology sectors, invest both in expensive, high technology machinery and in research and development in high-technology treatments and diagnostic facilities, leading to a self-perpetuating interest in the promotion of secondary, interventionist medicine (AIH 1990, pp.130-33; Collyer and White 2001). The OECD has noted that whilst having the potential to improve the health status of older people, medical technology

... is mainly driven by economic incentives that influence the behaviour of providers – and not as much by the relative ageing of the population ... The fear would be that older people would ... provide a new market where an excess of specialised providers could find a use for newly-developed and expensive technologies, with gains to health status that remain to be assessed in terms of cost-effectiveness ... Some evidence suggests that the spread of technology – driven by providers' financial incentives – may lead to intensive use of technology beyond that suggested by cost effectiveness (OECD 1998, pp. 97-98).

Private health insurance and inequality

Policy proposals to ameliorate the escalation of health expenditure in an ageing society often include shifting the cost of health care from public to private hands. This is evident in recent Howard Government initiatives to increase private health insurance. For example, in announcing the new *Lifetime Health Cover* initiative¹⁶ in the federal budget 1999-2000, the Government argued that the initiative provided, amongst other things, a 'generational answer to the generational problem of an ageing population' (DHAC, 1999e). In addition, Access Economics argues that the escalation of health expenditure, 'highlights the importance of encouraging whole-of-life health insurance and other measures to spread the risk and burden of financing the health system' (Access Economics 2001, p. 46).

Life-long private health insurance can play a role in offsetting growth in public spending. Moreover, finding ways to minimise 'freeloading' (whereby people avoid private insurance until the onset of old age) remains a reasonable policy goal. However, it is important that the promotion of life-long private health insurance does not occur at the expense of the public sector or in ways that create dual standards of care across private and public systems. This is important in the ageing debate because the most consistent and well-known predictor of population health is the level of socio-economic inequality. Put simply, the greater the level of poverty and inequality, the less healthy the population will be (e.g., Department of Health and Social Services, 1980; Feinstein, 1993; Turrell et al., 1999; WHO 1998; Walker & Abello 2001). It is not, therefore, surprising to find that, as with the population generally, older people with low incomes, low educational attainment levels and high unemployment have poorer health (Mathers 1994).

¹⁶ The *Lifetime Health Cover* initiative sets premiums on the basis of the age at which individuals first join private health insurance. Premiums incur a two per cent loading on top of the base rate with each year of delay beyond the age of 30.

A recent analysis of the Private Health Insurance Incentive Scheme (PHIIS) – a scheme introduced in Australia in 1999 to provide a 30 per cent tax rebate for privately insured people – shows that the scheme increases, rather than reduces, levels of inequality in Australia. Using official taxation statistics across two separate studies Smith (2000, 2001) shows that the scheme is highly regressive, with tax concessions for private health insurance heavily skewed towards the affluent. The rebate scheme does not, in fact, reduce public expenditure. In contrast, each year the scheme costs the Federal Government more than \$2 billion – in effect, a public subsidy for high-income earners (Smith 2000, 2001; Segal 2000). Furthermore, tax incentives to encourage private health fund membership draw large sums away from public health care provision (Smith 2000, 2001; Deeble 1999). It is also notable that private health insurance may itself contribute to the inflation of the price of health care. For example, as Smith points out, shortages in the supply of a particular type of health specialist will encourage the private providers to pay more attractive packages, drawing specialists away from public health services and contributing to cost inflation in the sector (Smith 2000, p. 5).

In light of these facts, shifting costs from the public to the private purse is unlikely to control health-related costs of population ageing over the long term. Instead, giving priority to equitable and universal access to quality health care, maintaining an appropriate balance between preventive health measures and high-end technological intervention, retaining public control over the administration and allocation of health services and resources, and supporting and protecting a well-administered public system that provides quality health care to young and old Australians alike, will produce a healthier society with fewer long-term implications for rising health costs as the population ages.

5. Employment and retirement income

It seems almost inevitable that longer life expectancy, low workforce participation of older people, and a diminishing pool of working-age taxpayers will bring about serious budgetary pressures for retirement incomes and public pension programs. Indeed, the OECD maintains that ‘with unchanged policies, projected pension benefit levels will greatly exceed projected pension contributions in the majority of Member countries, resulting in large increases in deficits in the pension accounts and in public finances in general’ (OECD 1998, p. 31). In similar fashion, the Australian National Commission of Audit (1996) made a number of recommendations for reductions to pensions and benefits including a call for governments to ‘moderate community expectations of ... income support [and to] increase incentives for self reliance in old age’ (NCA 1996, p. 121).

This section examines the basis for these concerns and demonstrates that fears about unsustainable escalation of costs in relation to retirement income are largely unfounded, especially in Australia. The section begins with an examination of labour market and employment issues, matters that are inseparable from retirement income. This is followed by a review of pensions expenditure projections and superannuation policy.

5.1 Employment

The difficulties experienced by older people in the labour market have been the subject of considerable discussion and official inquiry in recent years.¹⁷ Reports of these inquiries highlight the tendency for older workers to become detached from the labour market before traditional retirement age and document the many problems associated with this trend such as the difficulty of finding new employment and accessing re-training opportunities, consequent long-term unemployment, a high ‘discouraged’ worker effect and the early reliance on inadequate superannuation savings. The depletion of superannuation well before the end of their life means that many older people face an unanticipated reliance on the aged pension for the remaining period of life (Steinberg et al. 1994; Encel and Studencki 1996).¹⁸ In contrast, strong and continued labour force participation of older people prevents the depletion of savings prior to retirement age, provides opportunities to build retirement savings and offsets increasing dependency ratios. Therefore, future expenditure on retirement income and reduced dependency ratios will, to some extent at least, depend on the success or otherwise of policies that address pressing employment problems facing older workers.

Premature detachment from the labour market is often characterised as ‘early retirement’. This terminology contributes to a misconception that large numbers of older people are making active choices to retire and maximise their leisure time. Of

¹⁷ See for example, COTA and CEDA, 2000; House of Representatives, 2000; Human Rights and Equal Opportunities Commission, 2000; Access Economics, 2001.

¹⁸ Labour force participation for men aged 45-64 declined from 84.6 per cent in 1978 to 77 per cent in 1999 (DHAC 1999c, p. 17). In addition, the ‘discouraged worker’ effect amongst older workers is particularly high, with mature aged workers comprising around 63 per cent of all discouraged workers in 1998 (House of Representatives 2000, p. 26).

course, a small group of older people do retire early from paid work in a truly voluntary way, that is, free of inducements or unwanted pressure. However, these people generally retire early with confidence after long-term financial planning and careful analysis of their financial situation. Because they usually live comfortably for the remainder of their lives, this group of older people cannot be considered to be 'part of the problem' in relation to high dependency ratios. They are not reliant on publicly provided retirement income and will continue to contribute to tax revenue, albeit in somewhat lesser amounts.

For the majority of 'early retirees', however, the reality is quite different. A study of retirement decisions of people who retired early between 1992 and 1996 shows that most decisions to retire are initiated by factors beyond individual control. Eighty-one per cent of men and 64 per cent of women who retired early did so for 'induced' reasons such as employment problems, health problems (both of self and of others for whom they had to care) and compulsory retirement policies (Cornish 1997 cited in COTA 1999, p. 7). Older people are also regularly targeted for retrenchment or redundancy with many people feeling that whilst retrenchment packages may be 'voluntary', they often have little choice but to accept redundancy payments (COTA 1999, pp. 12-13). There is also evidence of weak employer commitment to training and enhancing skills of older workers, making them more vulnerable targets during downsizing or restructuring (COTA 1999, p. 15; HREOC 2000, pp. 29-30). Responsibility for caring for ageing parents or disabled spouses falls heavily on middle-aged women and is a significant factor in women leaving the workforce prematurely. This has implications for women's own capacity for self-reliance in their own old age, and often results in a decline in their own health (COTA 1999, p. 7; OWN 1999).

ABS data confirms that most 'early retirement' occurs for reasons other than a personal preference to leave the workforce. Only a small percentage of people who retire early do so in order to pursue leisure activities (2 per cent). Instead, the most common reasons cited for retirement amongst those aged between 45 and 64 years were ill-health or injury (39 per cent) and retrenchment (15 per cent). Fifteen per cent of people in this age group reported that they retired because they had reached 'appropriate retirement age'. However, this explanation was predominantly given by those aged between 60 and 64 while only 9 per cent of people aged 45-59 felt that they had reached an appropriate age for retirement (ABS 2000c, p. 131). These data do not show a strong trend towards voluntary early retirement, or a widespread attitude in favour of early retirement amongst older workers.

The fact that older people suffer discrimination in the workplace and the labour market generally has stimulated calls for strategies to change attitudes of employers, and for the introduction of age discrimination legislation of the same type as sex and disability legislation currently in place (COTA 1999). The importance of changing employer attitudes towards older workers is an increasingly important theme in government policy statements. Indeed, this is a major focus of Access Economics' report (commissioned by the Federal Government). The report argues that the impending burden of population ageing should be counteracted by changing employer attitudes as well as those of wider society towards older workers and recommends a range of strategies to this end. Outlining the substantial national and international evidence showing that older workers have relatively high productivity, lower

absenteeism, greater commitment and loyalty than younger workers and bring a wealth of experience and corporate knowledge to the workplace, the report concludes that older workers are ‘too valuable to waste’. Access Economics points out that because of discriminatory attitudes and rigid assumptions about standard retirement age, employers are missing out on the substantial benefits that employing mature age workers can bring. In supporting the recommendation to change employer attitudes, the former Minister for Aged Care, Bronwyn Bishop argues that the perils of population ageing will also be averted by fostering economic growth through the continuation of government policies for microeconomic and labour market reform:

Microeconomic reform is an ongoing process which provides benefits to consumers in lower prices and improved quality. It can also result in better wages and conditions in return for increased productivity. Success in the reform process will underpin an economy able to support an ageing population.... The Government’s workplace relations policies are removing the inflexibilities in the labour market for all workers including the mature aged. Longer participation in the workforce beyond traditional retirement age, phased retirement programs and flexible working hours are all possible in the modern workplace (Bishop in Access Economics 2001, p. xv, xix).

Despite these claims, the benefits for older people and for population ageing are not straightforward. Indeed, while continued economic growth remains important, there is considerable evidence to suggest that rapid changes to the Australian economy and labour market through macro and microeconomic reform in recent years have exacerbated the problems experienced by mature aged workers. Indeed, as the following discussion will show, rather than benefiting from the reform process, older workers appear to be its main victims. Addressing employer attitudes will be important, but on its own this strategy is unlikely to resolve the problem.

Employer attitudes and contrary incentives

There is little doubt that, as with other groups (eg. women, ethnic groups, people with disabilities), older workers suffer from stereotyped attitudes that limit their opportunities in the labour market. However, negative employer attitudes are only part of the picture. In adopting strategies of voluntary and involuntary redundancy during downsizing and workplace restructuring, as well as the vigorous pursuit of flexible work practices, employers are also responding ‘rationally’ to the market incentives inherent in labour market deregulation and other mechanisms of microeconomic reform. Older workers tend to be more expensive, are perceived to be less flexible or responsive to change (HREOC 2000, p. 29) and tend to be more highly unionised (ABS 2000c, pp. 134-137). They also often require expensive retraining to update skills – training from which employers may not obtain long-term benefits as older employees have fewer years of working life to give to the organisation (HREOC 2000, pp. 29-30). This, together with larger-scale macroeconomic changes which have seen the decline of industries in which older workers tend to be employed (i.e. manufacturing and mining), the increasing reliance on technological skills in the workplace, and the loss of accumulated employee entitlements when companies fail, contribute substantially to the problem of mature age unemployment, early involuntary retirement and increased reliance on public pensions (Healy 2001, p. 46; House of Representatives 2000).

There is also some evidence to suggest that many of the observed advantages of older workers – their lower absenteeism, higher productivity and greater loyalty – are a direct function of their peculiar vulnerability in the workplace. Healy's analysis of overwork shows that older men, and, to a lesser extent, older married women, bear the lions' share of overwork, largely because of the fear of losing their jobs and entering a labour market that is deeply unsympathetic to their plight. 'Knowing full-well the plight of others similar to themselves', Healy argues, older workers 'may feel they have no choice but to endure employer demands for very long hours at work.' On this basis, he argues that

(a) renewed round of labour-market flexibility of the type experienced during the past decade and a half, aimed at alleviating supply-side labour restraints, would likely exacerbate the labour-market tensions and inequities which have resulted, in part, from previous 'flexibility' measures (Healy, 2000, p. 49).

This exposes the irony in campaigns that are designed to improve employer attitudes to older workers by stressing their advantages in terms of lower absenteeism, higher productivity, longer hours and greater loyalty. The irony is that if such campaigns are successful, the improved job-security that results will undercut the very features that currently distinguish older workers from their younger counterparts. In other words, if fear is the basis of older workers' competitive advantage, then removing this fear by increasing labour market security will mean that older workers may no longer exhibit the characteristics so desired by employers. Of course, other advantages of older workers – such as their greater experience, maturity and depth of corporate knowledge – will continue to distinguish them from younger workers. However, these characteristics usually mean that such workers are relatively senior, and therefore more expensive (in the short-term at least) to an organisation.

Despite this, it remains the case that, rather than being the antidote to population ageing, further labour market deregulation and microeconomic reform may well intensify problems associated with population ageing. Whilst changing employer attitudes remains important, efforts should also be made to remove or moderate the 'rational' incentives for employers to rid themselves of older workers – in particular, the short-term savings from divesting themselves of comparatively expensive employees. Instead, incentives should concentrate on providing security of employment, training and retraining, and protection of entitlements for older workers.

Projected labour force participation of older workers

Despite the issues outlined above, it is important not to overstate existing problems of mature age unemployment and early retirement when considering future pressures that may arise from population ageing. This is because, as the pool of younger workers diminishes with population ageing, mature age workers will naturally increase their share of employment across most sectors of the labour market. In other words, the incentives for taking on older workers will grow with the process of population ageing. Older age groups are expected to make the largest contribution to overall labour force growth in coming decades (DHAC 1999b, p. 13). Evidence for this can already be seen. Data from Labour Force Surveys (1997-2000) indicate that the long-term decline in labour force participation for older Australian men has slowed in recent years (Healy 2001), while women's participation is increasing (but still remains considerably lower than for men). McDonald and Kippen argue that in

future scenarios ‘older workers will be better educated, less likely to have worked in occupations or industries that are in decline ... will be better placed in the knowledge economy [and will have] had more experience of changing jobs during a working life’ Thus, they argue, it is likely that the participation rates of older workers may rise even without specific policy initiatives (McDonald and Kippen 1999a, p. 60).

As population ageing proceeds, the resulting smaller workforce will see a reduction in the unemployment rate, possibly to the level of the 1960s in only a few short decades (Mitchell, 2000). Thus, if the natural increase of older workers’ share of the labour market is combined with effective initiatives for preventing early detachment from employment, for promoting retraining and redeployment, and overcoming discrimination in recruitment and retrenchment, in the longer term older people will be less dependent on pensions, and the revenue base from which pensions are drawn will not fall significantly. Moreover, reductions in payments for unemployment may offset any increases in expenditure for retirement incomes.

5.2 Pensions

Even without the anticipated changes to the employment opportunities of older workers, public expenditure pressures from pensions are not as alarming as has often been suggested. As with health expenditure, the relationship between the size of the aged population and levels of public spending on pensions is more complicated than it may first appear. Countries with large proportions of aged people – for example, Japan and Italy – may have high or low levels of expenditure on public pensions (Japan 5.5 per cent, Italy 11 per cent) while countries with comparatively small aged populations – such as Australia, the USA and New Zealand – can have expenditures on pensions ranging from 3 per cent to almost 6 per cent.

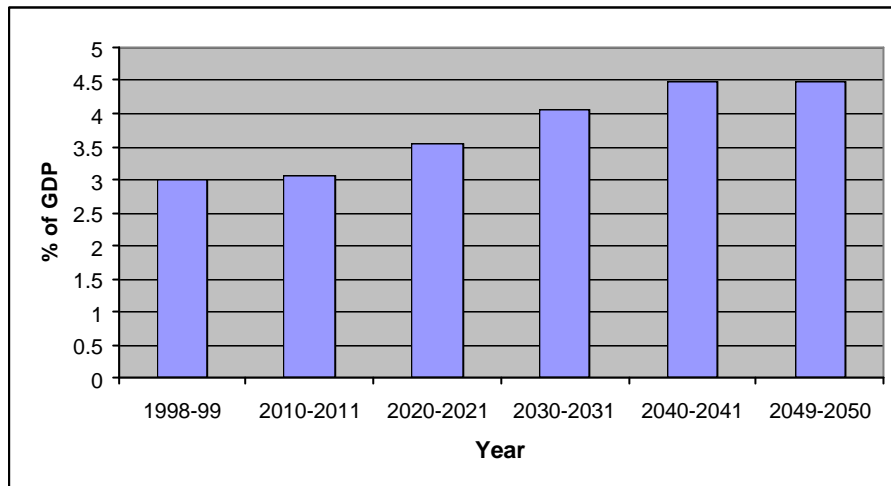
However, in Castles’ analysis of OECD data, expenditure on pensions is strongly associated with the size of the aged population, accounting for 50 per cent of the variance in spending on pensions across countries. This is an important finding, demonstrating that many countries will need to re-examine their pensions systems and reform them in ways that are more sustainable. However, as Castles argues, whilst an important finding, it is ‘a long way from demonstrating the kind of immediate knock-on effects of ageing implied in the population ageing literature’. If only 50 per cent of the variance is attributable to ageing he argues, then 50 per cent must be ‘attributable to other factors’ (Castles 2001, p. 307). These ‘other factors’ mainly relate to the coverage and generosity of pensions systems – whether countries have universal, means tested, flat-rate or income-related contributory benefits.

Australia is a particularly good illustration of the role that policy plays in mediating the relationship between public expenditure and population ageing. The large majority of Australians of pensionable age receive either the full or part pension and only around 20 per cent are self-funded retirees or are still earning their income through employment.¹⁹ Whilst it may seem reasonable to conclude that a large

¹⁹ Australia’s retirement income system is a three-tiered one incorporating voluntary savings, superannuation and a flat-rate, means-tested public pension. Currently around 55 per cent of people aged 65 and over receive the full-rate pension, 25 per cent are part-rate and 20 per cent are self-funded or working. Eighty per cent of those who meet the age and means-test criteria receive the aged pension and 68 per cent of these receive the maximum rate (DHAC 1999c).

increase in the proportion of the population that will be drawing on a universally available pension would be unsustainable and create a fiscal crisis, this is not the case. In fact, as Figure 7 shows, pension outlays as a proportion of GDP are expected to stabilise at around 4.5 per cent in 2040, a figure well below those expected for most other OECD countries (OECD 1999, p. 149).

Figure 7 Pension outlays as a percentage of GDP, Australia, 1998 – 2050



Source: adapted from DHAC 1999c, Table 1, p. 11

The comparatively moderate increase in Australian expenditure on pensions both currently and over coming decades is largely due to the flat-rate, means tested system in place, in contrast to the income-related contributory systems – that tend to be more expensive and create a stronger sense of entitlement to benefit – that operate in most OECD countries. According to the Department of Health and Aged Care, Australia’s retirement income system is ‘well positioned to respond to the ageing of the population’. with the projected growth in expenditure on pensions ‘quite modest’ and ‘manageable in a budgetary sense without imposing an undue burden on taxpayers’ (DHAC 1999c, p. 11, 54).

5.3 Superannuation

Fears about the high costs of ageing have stimulated calls to provide greater incentives for individuals to save for their own retirement through superannuation. In 1992, Australia introduced a compulsory superannuation scheme which now covers around 90 per cent of workers, mainly through privately managed superannuation funds. Initially introduced at 3 per cent of wages, it is gradually being increased to 9 per cent by July 2002 when it will be fully phased in. Taxation concessions are provided for superannuation savings at various stages. Around one-third of self-employed workers make superannuation contributions on their own behalf, despite not being required to do so. Except under certain circumstances all funds are preserved until age 55 but this is gradually being raised to 60 years in order to discourage early retirement.²⁰

²⁰ Further details of Australia’s retirement and superannuation system are described at Appendix A of Department of Health and Aged Care (1999c).

In 1997-98, the average superannuation payout for retirees was around \$52,000, providing an estimated annual income of \$2,000 after pension reductions and tax. By the year 2015-16, this is expected to increase to around \$5,500. Whilst this will undoubtedly reduce the extent to which older people will be dependent on public support (Crowley and Cutbush 1999, p. 28), it is a long way from providing an adequate independent income for older retirees. It is often argued that this will be overcome in time by promoting a culture of saving for superannuation amongst younger workers, as expected retirement incomes rise exponentially the earlier the saving process is begun (DHAC 1999c). However, there are a number of difficulties with relying on this strategy.

First, the size of the superannuation payout depends on lifetime earnings. While superannuation may offset public expenditure on retirement income for people in reasonably secure and well-paid employment (although it may take some time for this build up of superannuation to take effect), those on low incomes, who have insecure employment and who move in and out of the workforce will find it difficult to accumulate an amount that will significantly reduce the amount of public aged pension that they need. Thus, it is not so much the *average* payment that is important in policy terms, but the way that superannuation payments are distributed amongst the population as a whole. The fact is that a large number of superannuants will receive very small amounts, both now and in the future. A number of factors prevent people from accumulating adequate superannuation. These include low educational attainment, casual or part-time employment and spending periods of time out of the labour force. Groups that are most likely to be affected by these factors include women, migrants with low English proficiency, Indigenous Australians, people in rural and remote areas, farmers, people with disabilities, certain types of self-employed people, and older workers (DHAC 1999c, pp. 40-47). Thus, factors such as long-term unemployment, the increase in part-time and casual employment, increased employment insecurity, the absence of maternity leave and family friendly work practices militate against people's capacity to accumulate either compulsory superannuation or voluntary savings.

Secondly, many individuals and families face real conflict between saving for retirement and providing an adequate standard of living during their working lives for themselves and their families. The weekly income of many working-age Australians is substantially accounted for by daily living expenses. Reducing family income further during these years through compulsory superannuation means that families are 'less able to establish the security of a home, less able to weather the vagaries of illness, disability, unemployment, and less able to provide adequately for their children's health and education' (Smith 1995). The benefits to national wealth and well-being of investing in children's education, housing, nutrition and parental care is well documented (e.g. Ross 1999; Eming Young 1996). It thus may be counterproductive for families to over-invest in securing their retirement income at the expense of an adequate standard of living in younger years.

There is little doubt that superannuation will, to some extent, ameliorate future pressures associated with population ageing. However, it is only a partial response and, if over-emphasised, may come at the expense of adequate investment in the material security and wellbeing of current generations and their children.

Minimising the impact of population ageing on public expenditure on retirement incomes, therefore, is directly related to how successfully public policy is able to maximise access to secure employment, adequate wages and fair entitlements for all Australians. This not only includes overcoming discrimination against mature aged workers, but also includes removing incentives for employers to lay off, or not hire, older workers. Moreover, ensuring widespread access to secure employment, adequate wages and fair entitlements for all Australian workers will increase peoples' ability to build savings for retirement, prevent the early depletion of savings and offset increasing dependency ratios, thus averting many the anticipated problems of population ageing.

6. Maintaining the size of the working population

A number of strategies have been proposed to maintain the size of the working population as the nation's population ages. These include raising the upper limits to working life, increasing the migration of younger workers, and increasing fertility rates. This section examines each of these policy proposals in turn.

6.1 Raising the upper limits to working life

Strategies to keep older people in employment longer commonly focus on raising the upper limits to working life. Australia has never had uniform laws governing compulsory retirement. In recent years, however, most States and Territories have abolished the compulsory retirement age and compulsory retirement in the Commonwealth Public Service has, for most categories, also been abolished.²¹ As a consequence, two factors now establish a kind of 'de facto' retirement age: eligibility for the public pension and the preservation age for superannuation. Eligibility for the public pension is set at 65 for men and 61 and a half for women. The eligibility age for women will gradually rise to 65 by 2013. The current age at which people can access their superannuation is 55, but this, too, is set to rise to age 60 by the year 2025. Currently there are no plans to raise the pension age beyond 65, although the Government recently established a pension bonus scheme that rewards people who remain in employment for five years beyond pensionable age.²²

The current age for pension eligibility was set as long ago as 1905 when physical capacity for work beyond the age of 65 was seriously constrained, life expectancy was considerably shorter and pensioners would be expected to be drawing their benefit for only a relatively short period of time. Now, however, people at age 65 are generally physically able to continue working and are expected to live a further 15 years or so beyond this age. On this basis, there appears to be a strong case for raising the age at which people can access their retirement incomes, both superannuation and pension.

While raising the age at which people may access retirement income is, in principle, a useful strategy, it will only be effective in a labour market where older people are *able* to work until older ages. As we have seen in Section 5.1, although this is likely to change in time, it is currently not the case. In the absence of other major changes to the labour market, raising the age at which people can access retirement incomes is unlikely to actually make a difference, in the short term at least, because the age at which most people actually leave the workforce is far lower than the upper limits. The average retirement age from the labour force²³ for men is 59 and 44 for women

²¹ Compulsory retirement is still maintained for certain categories of workers, eg., the judiciary, police force, fire fighters, some defence force personnel and company directors.

²² The Pension Bonus Scheme was introduced in 1998 and provides tax-free lump sum payments to people of pensionable age who defer receiving the age pension from one to five years beyond pensionable age. As of March 2001, however, only 3,000 people had been paid a bonus (Anthony, 2001).

²³ The ABS defines 'retired from the labour force' as 'Persons who had retired from work or looking for work of more than 10 hours per week, and did not intend to work at any time in the future. These persons are considered fully retired. Persons that have never worked more than 10 hours per week were also treated as fully retired' (ABS 1997b, p. 55).

(ABS 1997b).²⁴ Whilst this has given rise to a popular conception that older people ‘want’ to retire in order to extend their years of leisure, we have seen previously that this is greatly exaggerated – most retirement decisions have some involuntary component. As discussed in section 3.2, population ageing highlights the importance of raising the labour force participation of women in order to offset smaller active populations and broadening the revenue base from which governments may fund extra services for older people. However, such a strategy will be insufficient on its own. In order to maximise the effectiveness of this policy, careful attention must be paid to ensuring that women are successfully able to combine paid work with caring responsibilities (see Section 6.3).

To summarise, policies to raise the upper limits to working life mean little in a context where older workers are systematically excluded from the labour market and in which the primary objective is to keep people in employment until the upper limits are reached. Of course, as mature age workers gain a greater natural share of the labour market, such strategies will become more viable. However, at this point in time, calls to raise the upper limits to working life direct the debate towards the problem of ‘early retirement’ and away from the pressing problem of involuntary labour force detachment, mature-age unemployment and differential labour market access between men and women.

6.2 Migration

It is often proposed that the solution to a diminishing working-age population lies in increased migration (see for example, National Population Council 1986; Business Council of Australia 1999, 2000; ATSE 2000). The argument is that immigrants are, on average, younger than the Australian population and that this can be enhanced by a policy of deliberately recruiting younger, skilled immigrants. It is also thought that immigrants have higher levels of fertility than other Australians and thus, a higher level of immigration would increase the birth rate. However, there are a number of reasons why migration may not be the answer to population ageing.

A key concern is the environmental impact of increased population levels. Whilst the optimum population level and Australia’s ‘carrying capacity’ for Australia has been a matter of intense debate over the years (eg. Commercial Bank of Australia, 1981; House of Representatives 1994) there is evidence that high levels of population growth could have negative consequences for environmental sustainability. Scientists, researchers and community groups have pointed out that Australia has been unsuccessful in achieving sustainable development even at current population levels. Hamilton and Turton (1999) argue that population growth has been one of the main factors driving the growth in Australia’s domestic greenhouse emissions – levels that are amongst the highest in the developed world. ‘Changing energy-dependent lifestyles and shifting away from fossil fuels’, they argue, ‘are hard enough without the added pressure of a rapidly growing population’ (Hamilton and Turton 1999, p. 1). Similarly, in a critique of Business Council proposals for increased population levels for Australia, Jones (2001) reviews a large array of studies that demonstrate the

²⁴ These figures understate the age at which most people make a decision to retire due to age, because they include 13 per cent of people who had never worked full time and 33 per cent who had left their last full-time job 20 years ago or more.

likelihood of considerable environmental stress that would result from high levels of population growth.

In addition, it is quite plausible that over the longer term large-scale migration may exacerbate, rather than solve the problems of population ageing. This is because immigrants also grow old, thus adding to the overall numbers of older people with little impact on the age structure of the population (McDonald and Kippen, 1999b). There is also some evidence to suggest that migration may compound existing problems of mature-age unemployment and 'early retirement'. For example, recent research has demonstrated that the labour market participation of overseas-born Australians shows are particularly low (Bridge 2001) and certain categories of older migrants have high rates of dependence on pensions and public benefits (Birrell and Jupp 2000).

Over recent years a considerable body of evidence has accumulated to demonstrate that immigration is a highly inefficient way to offset population ageing and that even very large increases in migration would make only a relatively small difference to the age structure. For example, the ABS estimates that with a net migration level of 50,000 per year (i.e. slightly lower than current levels) the median age of the population by 2051 will be 47.2 years. However, increasing the intake to 150,000 per year would reduce the median age to only 44.6 years – a difference of only 2.6 years (ABS 1999a).

Efforts to replace the diminishing working-age population through migration would, therefore, require very high levels of migration. The United Nations has estimated that for a country such as Italy to maintain its current ratio of working-age to elderly people it would have to import twice the size of its current population over the next 50 years (United Nations 2000 cited in Jackson 2001, p. 23).

The case against large-scale migration to offset population ageing has strengthened in recent years with a number of definitive Australian studies showing that immigration will not substantially retard population ageing (e.g. Young 1988, 1989, 1990; EPAC 1992; Clare and Tulpule 1994; Castles et al. 1998).

Recent analyses by Kippen (1999) and McDonald and Kippen (1999b) confirm previous findings that immigration is an inefficient means of combating population ageing. They argue that while migration levels of around 80,000 per annum²⁵ are necessary to avoid population decline and make a 'worthwhile and efficient contribution to the retardation of population ageing', beyond this level, the returns are very small (McDonald and Kippen 1999b). As Table 4 shows, under assumptions of continued declines in fertility and mortality, a policy of zero net migration would see the proportion of the population 65 and over rise from 12.2 per cent in 2000 to 32.6 per cent by 2098. However, under the same assumptions, a migration rate of 80,000 would reduce this to 28.5 per cent. Levels higher than 80,000, however, would have substantially less impact. The first additional 80,000 migrants would reduce the proportion over 65 by only 1.6 percentage points and the second by only 0.9 percentage points. But these reductions would come at a cost of around an extra 11 million people to the population per 80,000 migrants by the end of the century.

²⁵ This is the average net permanent and long-term migration level over the course of the 1990s.

Table 4 Population in 2098 under different annual net migration (ANM) assumptions: percent aged 65+ and total numbers*

ANM	0	80,000	160,000	240,000
2098 % 65+	32.6	28.5	26.9	26.0
2098 population (millions)	13.9	24.7	35.4	46.2

*Total fertility rate constant at 1.65

Source: Kippen 1999

On the basis of this and previous research, the Coalition Government recently conceded that ‘extensive research has concluded that immigration is a very inefficient means of reducing the impact of ageing’ (DIMA 2000, p. 10). While the argument in favour of increased immigration to solve population ageing has recently experienced a rebirth – largely due to the interaction between the renewed alarmism about population ageing and the increased political volatility of the immigration issue²⁶ – generally speaking, the argument that immigration is an efficient means to offset population ageing has been lost.

6.3 Increasing fertility

Increasing fertility levels in Australia appear to be more efficient in offsetting population ageing than increased migration. Kippen argues that ‘if we wish to minimise the proportion aged 65 plus *and* limit population growth, maintaining the birth rate is more efficient than increasing migration (Kippen 1999, p. 22). In other words, a strategy that focused on raising fertility rates would contain the over-65 population at with lower overall rises in population than a strategy that focused on increased migration. As Table 7 shows, if the birthrate were maintained at current levels over the next 100 years, the proportion of the population aged 65+ would be contained at around 27 percent while containing the total population level at 27 million by 2098. This is the equivalent effect of allowing the total fertility rate (TFR) to fall from 1.76 to 1.65 and doubling net migration intakes – an outcome that would increase overall population levels to 35 million (see Table 5).

Table 5 Population in 2098 under different Total Fertility Rate (TFR) assumptions: percent aged 65+ and total numbers*

TFR	1.25	1.50	1.65	1.76**	2.00
2098 % 65+	34.1	30.5	28.5	27.0	24.1
2098 population (millions)	16.9	21.5	24.7	27.3	34.1

*Annual net migration constant at 80,000; **Current level

Source: Kippen 1999

²⁶ See a useful account of these developments in McDonald and Kippen 1999b. The fact that immigration is not the solution to population ageing says nothing about the validity of other arguments in favour of increased immigration. Moreover, it is important that immigration policies are not confused with policies regarding refugee intake. While immigration is a clear matter of nation-building and public planning, refugee policy is a matter of human rights and a response to humanitarian crises.

But how feasible is it to increase fertility rates in contemporary societies? There is a general consensus that the tension between women's responsibilities of paid employment and caring activities are heavily implicated in falling fertility rates. Although on the whole women are better educated and have greater opportunities to control their fertility in accordance with other life goals, they appear to be becoming 'less enamoured of the triple burden of paid work, housework and children' (Smart and Silva 1999, p. 4).²⁷

To a large extent, then, in the absence of off-setting policies, falling fertility rates are an almost inevitable product of recent social and economic change. Bryson (2000) argues that the conventional feminist focus on equality with men, particularly in terms of employment opportunities, means that falling fertility rates should 'come as no surprise ... Women come closest to equality with men when they do not have children' (p. 11).

Exactly how one might go about increasing fertility rates, however, is a contentious issue. Some strategies to address falling birth rates are deliberately 'pro-natalist' – for example, the offering of cash or tax incentives to women to have more children. Whilst increasing the economic support for families to have more children is a key strategy to increase the birthrate, these types of initiatives can be criticised on the basis that they tend to reduce women's participation in the formal labour market and reverse gains made for women in terms of economic independence and life choices. Recent analyses of tax and social security changes in Australia show that changes to the family tax rebate and family income support policies penalise rather than help mothers who work (McDonald 2001). In doing so, such policies not only weaken hard-won gains for women's economic independence, but they overlook an important opportunity to increase the size of the working population.

However, this highlights an important tension for population policy. On the one hand, increasing female labour force participation is a key strategy to alleviate pressure on future dependency ratios. On the other hand, increased female participation in the formal labour market may further exacerbate fertility reduction. The answer to this dilemma lies in a broad-based policy commitment to gender equity. Easing the tension between women's participation in the paid work force and their caring roles is through the provision of child care, maternity leave provisions and the introduction of 'family friendly policies' in the workplace are critically important in enabling women to choose motherhood without suffering significant economic disadvantage (Probert 2001). Moreover, there is a strong link between these types of policies and fertility rates. Countries where birthrates have fallen off most dramatically appear to be those which have promoted economically liberal policies in the absence of counterbalancing work and family policies. Conversely, birthrates have fallen less sharply in countries (e.g. France and Scandinavian countries) where social policies are in place to support the combination of motherhood and paid employment (Bryson and Warner-Smith, 1998, p 3; Bryson and Mackinnon 2000, p. 2).

²⁷ See Bittman and Pixley (1998) and Baxter (1993) for analyses of this 'triple burden' in the Australian context.

This is important for Australia where supportive work/family policies are relatively undeveloped. As a recent report (Buchanan and Thornthwaite 2001) has shown, 'family friendly' policies in Australia have a long way to go and are not delivering the outcomes that women want.

Australia has one of the worst maternity leave regimes in the developed and undeveloped world... within the formal child care sector, policy shifts ... have reduced the importance of quality and access issues as policy priorities. Enterprises are not delivering family-friendly options as a result of workplace bargaining... [and] ... changes in working time arrangements have generally made it harder, not easier, for families to co-ordinate their activities There is far from optimal support for those attempting to achieve a satisfactory balance in their work and parenting lives (Buchanan and Thornthwaite 2001, p. 12).

While it is important to develop an environment in which women can combine paid work and motherhood without significant disadvantage, many feminists remain concerned that this should be done in such a way that does not 'further entrench a model of citizenship where paid labour is the dominant value' (Bryson 2000). On this basis they have challenged public policy to develop models of citizenship which distribute caring responsibilities more equitably between men and women, and where caring activities are socially and economically valued in their own right (Bryson 2001; Sevenhuijsen 1998; Folbre 2001).²⁸ Not only might this have a positive effect on fertility rates, but it may also provide a foundation on which to build support for other caring work that will be necessary in an ageing society – the care of older people themselves.

²⁸ See also the special issue of *Feminist Economics*, Vol 6, No. 2, July 2000.

7. Conclusion

The global population is undergoing a process of transformation from a situation in which younger age groups dominate to one in which there will be a substantial proportion of older age groups. The inexorability of this change has given rise to serious concerns about the ability of future governments to provide adequately for the pressures that population ageing will bring, with concerns focused most keenly on issues of funding retirement and health care. Whilst there is some surface plausibility to these concerns, on closer inspection predictions of a looming crisis do not appear to be supportable. A review of the available evidence demonstrates that although the demographic transition presents some challenges to policy-makers, it will ultimately prove to be a manageable transition. In short, the issue of population ageing is best described as a transition rather than a crisis, a transition that is no more challenging to policy makers than several other social and workplace changes of recent decades.

In the light of the evidence, it is important to temper alarmist predictions and promote a more sophisticated debate about the implications of population ageing. A less dramatic evaluation of the consequences of population ageing renders unnecessary radical policies such as government cutbacks, the large-scale privatising of health services and funding and retirement income, large increases in the migration of younger workers or far-reaching tax incentives to increase fertility. Indeed, the evidence suggests that employing these strategies to solve population ageing may only serve to reinforce existing problems such as environmental degradation and social inequality. Such policies may also compound the effects of population ageing through reducing older people's access to health care or importing large numbers of people who will, in time, only add to the numbers of older people.

The recognition that population ageing represents a transition, rather than a crisis, allows more careful, less ideological policy development based on thorough research. As this paper has shown, we know that the best predictor of overall population health is the level of socio-economic equality and that public health initiatives in the past have been of greater value in ensuring population health than expensive technological interventions. Therefore, a policy commitment to socio-economic equality across a range of essential areas such as education, housing and jobs, together with universal access to health care services and preventive health campaigns will improve population health generally. They would also ensure that future cohorts of older people would enjoy high levels of relatively good health.

We also know that the current problems of 'early retirement' are, to a large extent, a manifestation of failed economic policy whereby older workers are prematurely forced out of employment and of discriminatory attitudes that make it hard for them to re-enter the labour market. Developing policies that reduce incentives for employers to retrench older workers, increasing job security, securing entitlements when companies fail and increasing opportunities and incentives for training and re-deployment for workers as the economy changes will, by themselves, go a long way to redressing the perceived problem of 'early retirement' and large-scale reliance on publicly provided benefits.

The over-representation of women both in older age groups and in lower socio-economic categories reinforces the imperative to increase women's labour market opportunities and their access to secure and adequate sources of income. Policies that reduce the tension between family and work will go a long way, not only to easing the burdens on women in the present, but in lessening future trade-offs between having children and employment. Declining fertility rates are an indication of how economically risky it is for women to have children in an economy that undervalues or ignores caring and which distributes the work of caring unequally between genders. Redressing this risk and making a serious policy commitment to gender equity will be a key strategy to maintaining the size of the working population and to maximising self-reliance in the future.

These and other matters raised in this paper need to be addressed for reasons of sound public policy, regardless of any future impact that they may have on population ageing. But doing so may also avert any anticipated problems associated with population ageing. Time and again, research into the consequences of population ageing has reminded us that Australia is particularly well-placed to meet this demographic challenge. In light of this, Australia would do well to heed the words of the World Health Organisation:

... the growing number of older people who expect health care and old age pensions should not be viewed as a threat or a crisis. It is an opportunity, rather, to ensure decent living standards for all members of society, young and old, in the future...It is the need to examine and make appropriate changes to health, social and economic policies, not the ageing of populations, that is the biggest challenge facing societies today (WHO 1999, p. 20).

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