

Australia to 2050: future challenges

Circulated by
The Hon. Wayne Swan MP
Treasurer of the Commonwealth of Australia

January 2010

© Commonwealth of Australia 2010

ISBN 978-0-642-74576-7

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright Administration
Attorney-General's Department
3-5 National Circuit
BARTON ACT 2600

Or posted at: www.ag.gov.au/cca

Printed by CanPrint Communications Pty Ltd

Foreword

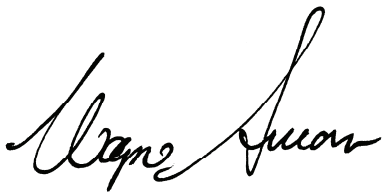
The *Intergenerational Report 2010* provides a comprehensive analysis of the challenges that Australia will face over the next forty years. It is a timely reminder that the decisions we take over the next four years will be crucial to our economic prospects and living standards over the next forty.

The key conclusion is that an ageing population and climate change present significant long-term risks for the economy and the sustainability of government finances. As the population ages, the rate of economic growth will slow. Pressures for government spending will increase, particularly in the health sector. At the same time, we will face the global challenge of climate change, which represents the largest threat to our environment and one of the most significant challenges to our economic sustainability.

The Government has begun to address these challenges through a broad agenda that includes supporting productivity growth through investment in infrastructure, skills and education, overhauling our health system to ensure it delivers maximum value for money, adhering to a disciplined fiscal strategy and introducing the Carbon Pollution Reduction Scheme.

This is the first Intergenerational Report of the Rudd Government and is being released in accordance with the *Charter of Budget Honesty Act*. In addition to assessing the fiscal and economic challenges of an ageing population, this report also includes a comprehensive discussion on environmental challenges and social sustainability.

The challenges outlined in the Intergenerational Report are substantial, but they are not beyond a nation like ours.

A handwritten signature in black ink, reading "Wayne Swan". The signature is fluid and cursive, with the first name "Wayne" and the last name "Swan" clearly distinguishable.

The Hon. Wayne Swan MP

Notes

- (a) The following definitions are used in this report:
- ‘real’ means adjusted for the effect of inflation; and
 - one billion is equal to one thousand million.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding.
- (c) References to the ‘States’ include the Territories.
- (d) Projections are based on the *Mid-Year Economic and Fiscal Outlook 2009–10* adjusted for the methodological changes to the System of National Accounts (SNA) from SNA93 to SNA08 by the Australian Bureau of Statistics in December 2009. For comparability purposes, the projections from IGR 2007 also have been adjusted for the SNA changes where they are reported as a proportion of GDP.

Contents

FOREWORD	III
EXECUTIVE SUMMARY	VII
1. An ageing and growing population	viii
2. The economic and fiscal implications of an ageing population	ix
3. Responding to the implications of an ageing population	xii
4. Climate change and the environment	xvi
5. Social sustainability	xviii
6. The Government's policy response	xviii
CHAPTER 1: LONG-TERM DEMOGRAPHIC AND ECONOMIC PROJECTIONS	1
1.1 Framework for real economic growth	1
1.2 Real GDP	4
1.3 Population	5
1.4 Participation	11
1.5 Productivity	13
1.6 Growth in real GDP per person	14
1.7 Prices, wages and nominal GDP	17
CHAPTER 2: GROWING THE ECONOMY — PRODUCTIVITY, PARTICIPATION AND POPULATION	21
2.1 Promoting higher productivity growth	21
2.2 Participation	26
2.3 Population	30
CHAPTER 3: LONG-TERM BUDGET PROJECTIONS	37
3.1 Promoting fiscal sustainability: contribution of the medium-term fiscal strategy	37
3.2 Revenue.....	38
3.3 Ageing pressures will reduce fiscal sustainability.....	39
3.4 Net financial worth and net worth	42

Contents

CHAPTER 4: AGEING PRESSURES AND SPENDING	45
4.1 Projections of total spending.....	46
4.2 Health.....	49
4.3 Aged care.....	56
4.4 Pensions and income support payments.....	58
4.5 Education and training	63
4.6 Government employee superannuation	66
4.7 Defence.....	68
CHAPTER 5: CLIMATE CHANGE AND THE ENVIRONMENT	71
5.1 Climate change	71
5.2 Water	79
5.3 Land	82
CHAPTER 6: A SUSTAINABLE SOCIETY	83
6.1 Wellbeing and sustainability	83
6.2 The environment.....	88
6.3 Human and social capital: education, skills and health	93
REFERENCES	105
APPENDICES	
Appendix A: IGR 2010 projections summary	117
Appendix B: Sensitivity analysis of long-run economic and fiscal projections	121
Appendix C: Methodology	123
Appendix D: IGR 2007 projections.....	155