Australian Government

Australia to 2050: future challenges

the 2010 intergenerational report
OVERVIEW

Contents

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Intergenerational challenges

An ageing population, escalating pressures in the health system and climate change pose long-term challenges for Australia's economic growth, living standards and government finances.

Australia faces significant intergenerational challenges.

Population ageing will mean that there will be fewer workers to support retirees and young dependants.

This will place pressure on the economic growth that drives rising living standards.

At the same time, the ageing population will result in substantial fiscal pressures from increased demand for government services and rising health costs.

Australia's population will continue to grow over time but at slower rates than in the past. A growing population will help manage pressures of the ageing population but will put pressure on our infrastructure, services and environment. This will require continued planning and investment ahead of time.

Climate change is one of the most significant challenges to Australia's long-term economic sustainability. Australia will be one of the countries hardest and fastest hit.

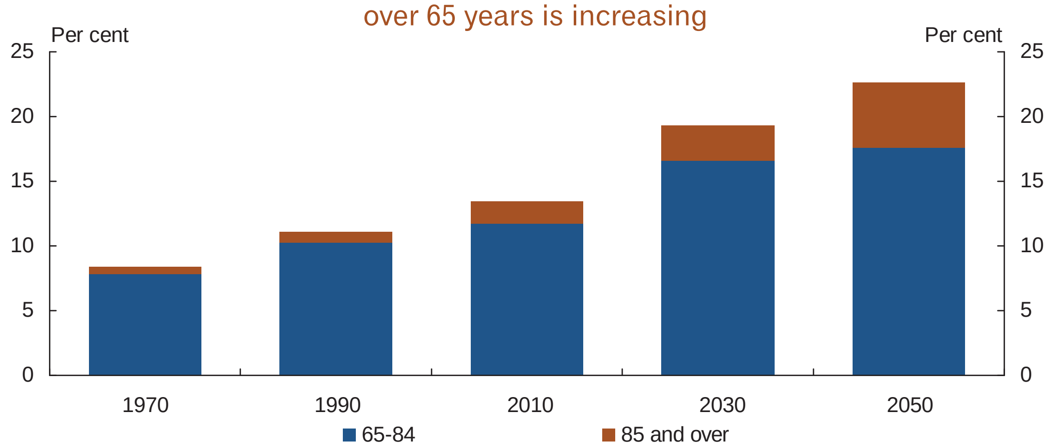
Climate change threatens living standards through its impact on the environment and on the economy.

Australia's ability to meet these future challenges depends on actions taken today.

Small adjustments now — to grow the economy by increasing productivity and participation, restrain unsustainable growth in spending, plan for future demographic change and tackle climate change — will prevent the need for much sharper and more costly adjustments in the future.

These are difficult challenges, but not beyond us if we continue to put in place policies to address them now.

Ageing is a challenge for future economic growth — the proportion of the population aged over 65 years is increasing



Planning for the future

The reforms that we implement now will determine living standards for future generations. The Government's broad policy agenda responds to these long-term challenges and lays the foundations for rising living standards for our children and grandchildren.

Failure to act now to tackle intergenerational challenges will result in severe economic, fiscal and environmental consequences.

The steps we take today will reduce future adjustment costs and the economic and fiscal consequences of ageing.

Responsible economic management

The three pillars of productivity, participation and population are the key to sustainable economic growth.

Higher productivity is supported by the Government's investments in nation building infrastructure, skills and education. Nation building investment in transport, communication, hospitals and schools will support productivity and provide infrastructure for a growing population.

Reforms in education and training, health and employment services, and incentives such as the childcare tax rebate and ongoing tax reform will support higher workforce participation.

These investments are complemented by sound monetary and fiscal policies and the microeconomic reform agenda.

Fiscal strategy

The fiscal strategy will keep real growth in spending to 2 per cent, when the economy is growing strongly, until the Budget returns to surplus. It will bring structural improvements to the Budget, reducing the fiscal pressures of ageing and escalating health costs.

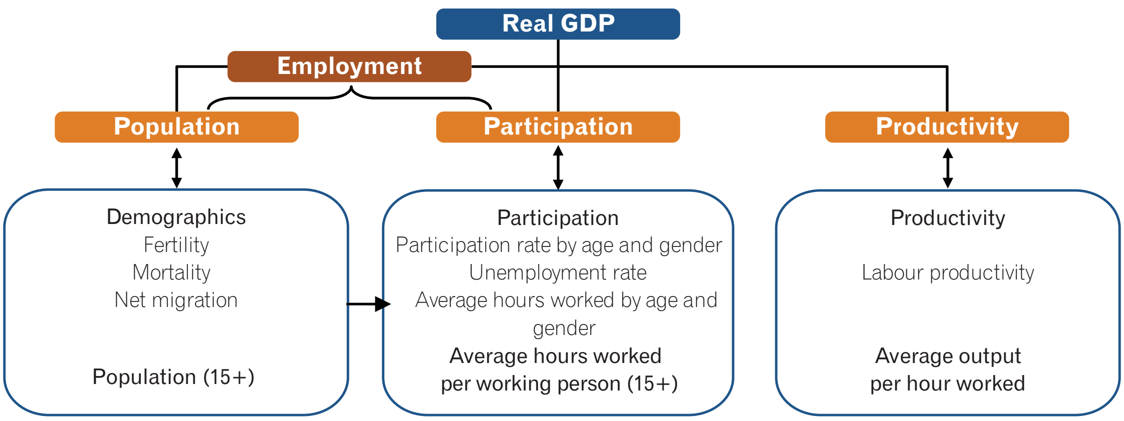
Health reform

The Government has established the National Health and Hospitals Reform Commission and is committed to reforming our health and hospitals system so every health dollar will buy more and better quality health services.

The Carbon Pollution Reduction Scheme (CPRS)

The CPRS will deliver significant reductions in greenhouse gases in the most cost effective way, while protecting jobs and businesses. 32 countries are already operating emissions trading schemes and more are in the process of introducing them.

Growing the economy



Long-term economic outlook

Living standards are projected to rise over the next 40 years. But population ageing means that this growth will be slower than over the past 40 years, unless action is taken now to grow the economy faster.

Population ageing means that living standards in the future will grow at a slower pace than over the past 40 years.

Real GDP per person is projected to grow at an average rate of 1.5 per cent per year over the next 40 years, compared with 1.9 per cent over the previous 40 years.

Real economic growth is expected to slow from 3.3 per cent over the past 40 years to 2.7 per cent in the future.

A major factor driving these outcomes is demographic change. The rate of population growth will slow and the population will age.

Population ageing is projected to result in a declining labour force participation rate, gradually falling average hours worked and falling growth in the share of the population that is working.

The number of traditional working age people to support each retiree is expected to fall from 5 people today, to 2.7 people in 2049-50. In 1970, there were 7.5 working age people for each person aged over 65 years.

The labour force participation rate — the proportion of people looking for jobs or in employment — is expected to fall to less than 61 per cent, compared with 65 per cent today.

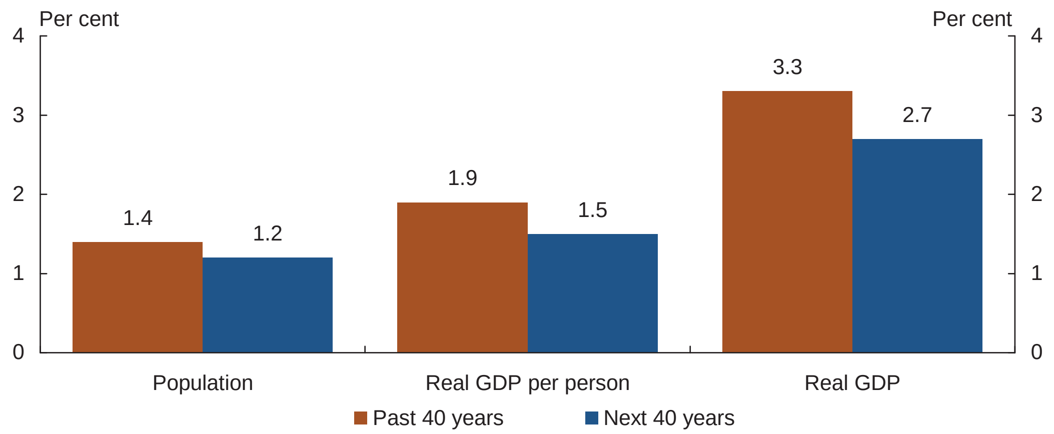
With the ageing population, productivity growth will be key to driving future growth in living standards.

Productivity growth not only improves living standards, but also helps meet the fiscal challenge of the ageing population.

Australia's productivity growth is assumed to average 1.6 per cent per annum, the 30-year historical average.

Achieving and sustaining higher rates of productivity growth will help limit the economic and fiscal consequences of the ageing population.

Average annual growth in real GDP and real GDP per person



Australia's ageing population

Australia's population is ageing, with the proportion of people aged over 65 years rising. The number of people aged 65 to 84 years is expected to more than double and the number of people 85 and over more than quadruple.

Australia's population is ageing.

Between now and 2050 the number of :

- older people (65 to 84 years) is expected to more than double;
- very old people (85 and over) is expected to more than quadruple, from 0.4 million people today to 1.8 million in 2050.

In contrast, the number of:

- children is expected to increase by 45 per cent;
- prime-age working people is expected to increase by 44 per cent.

This means that, the proportion of people aged 65 years or over is projected to increase from 13 per cent in 2010 to 23 per cent by June 2050.

At the same time the proportion of working-age people in the total population is expected to fall by 7 per cent to 60 per cent.

As a consequence, there will be relatively fewer people of working age to support an increasing number of older Australians.

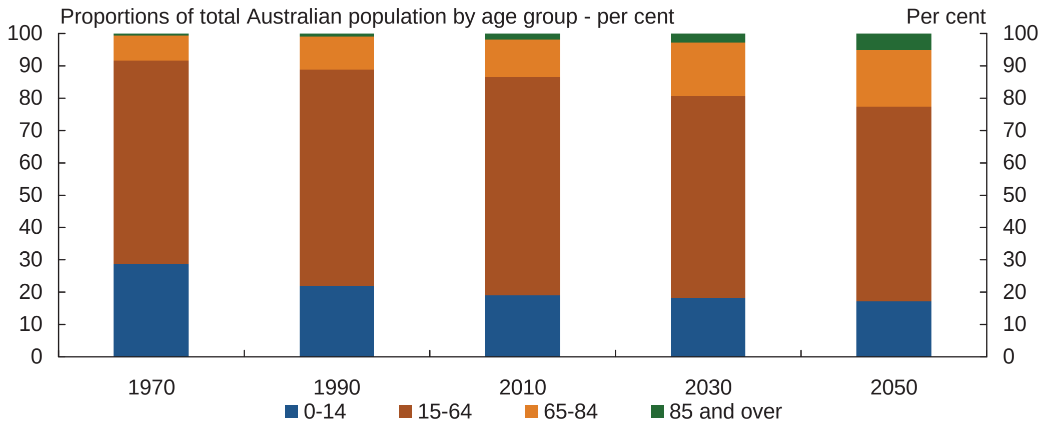
In 2010, there will be an estimated 5 people of traditional working age for every person aged 65 and over.

By 2050 only 2.7 people of traditional working age are projected for every person aged 65 and over.

This results in lower future work force participation rates, and therefore slower future rates of economic growth.

At the same time, an ageing population will place greater demands on government services.

The number of Australians in older age groups is expected to grow strongly



Long-term population trends

Australia's population will continue to grow, though at slightly slower rates than over the past 40 years. This is an inevitable consequence of population trends evident for many decades. Sustainable population growth assists in managing the pressures of an ageing population by providing people that have the skills and innovation needed for continued economic growth, but also poses challenges in areas such as infrastructure, service delivery and the environment.

Over the past 40 years the population has grown at an average annual rate of 1.4 per cent per annum taking Australia's total population to an expected 22 million in 2010.

Over the next 40 years, the rate of population growth is expected to slow to 1.2 per cent on average per annum.

This reflects a broadly stable fertility rate of 1.9 births per woman and continuation of net overseas migration at an average annual rate of 0.6 per cent of the total population — the same rate as over the last 40 years.

Based on these trends Australia's population is projected to reach 35.9 million in 2050.

Population growth, by supporting reduced ageing of the population and adding to the labour force, benefits the Australian economy but puts pressure on infrastructure, services and the environment.

Challenges of population growth can be managed, provided governments continue to plan well ahead of time for infrastructure, housing and service delivery needs.

The Carbon Pollution Reduction Scheme and other environmental reforms, such as water reform, will assist in ensuring population and economic growth are consistent with sustainability of the environment.

Countries with low population growth face more extreme ageing challenges, with greater demands for publicly-funded social services and a reduced ability to meet these challenges.

Japan's low rate of population growth is projected to result in a doubling of the number of people aged 65 or older relative to those of working age.

Australia's population history and projections

Population as at 30 June (millions of people)

Age range	1970	2010	2020	2030	2040	2050
0-14	3.6	4.2	4.9	5.4	5.7	6.2
15-64	7.9	15.0	16.6	18.2	20.0	21.6
65-84	1.0	2.6	3.7	4.8	5.6	6.3
85 and over	0.1	0.4	0.5	0.8	1.3	1.8
Total	**12.5**	**22.2**	**25.7**	**29.2**	**32.6**	**35.9**
Percentage of total population						
0-14	28.8	19.1	19.0	18.3	17.4	17.2
15-64	62.8	67.4	64.7	62.4	61.3	60.2
65-84	7.8	11.7	14.3	16.6	17.2	17.6
85 and over	0.5	1.8	2.1	2.7	4.0	5.1

The threat of climate change

Climate change is the largest threat to Australia's environment. Failure to act now to mitigate climate change would have severe consequences for the Australian economy. Australia must be part of a global solution to tackle climate change.

Climate change is the defining intergenerational issue of our time. Potential impacts on our environment and economy are severe.

As one of the hottest and driest countries on earth, Australia will be one of the countries hit hardest and fastest by climate change.

Conservative estimates suggest that unmitigated climate change would reduce Australian GDP by 8 per cent by the end of the century compared to a world without climate change.

Moreover, unmitigated climate change poses catastrophic risks and important non-market costs that are not captured in such estimates.

Without global action on climate change:

- more extreme weather events would threaten our lives, health and infrastructure;
- nearly all irrigated agriculture in the Murray-Darling Basin could cease;
- water supplies would be at risk; and
- national icons which attract significant tourism, like the Great Barrier Reef and Kakadu National Park, could be destroyed.

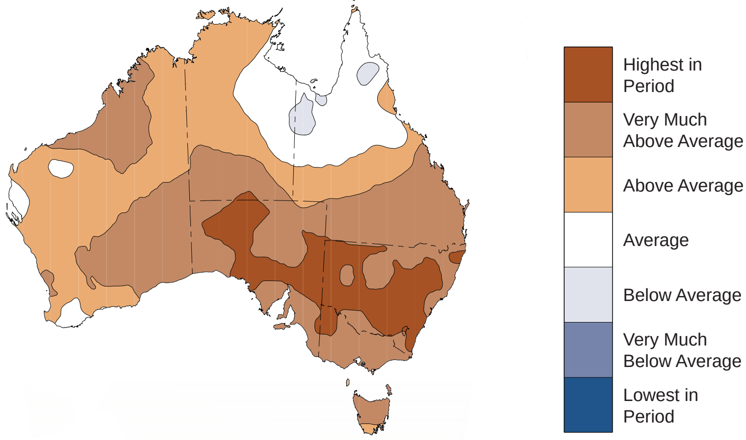
Climate change is a global phenomenon. That's why it is in Australia's national interest that we contribute to the achievement of an effective global response.

The Government is committed to reducing national emissions to 60 per cent below 2000 levels by 2050, and to a range of targets for 2020 calibrated to international action.

The primary mechanism to reduce Australia's emissions will be the Carbon Pollution Reduction Scheme (CPRS).

The CPRS is complemented by a suite of mitigation policies including the Government's expanded Renewable Energy Target and the $4.5 billion Clean Energy Initiative to support solar and other renewable energy sources as well as clean coal.

Average annual temperature in 2009 compared with all years since 1950



Source: Bureau of Meteorology (2010) *Australian Annual Climate Statement 2009*

Budget pressures

Population ageing will place significant pressure on spending, particularly in the areas of health, age-related pensions and aged care. The Government's fiscal strategy is a first step in delivering the structural savings needed to ensure spending remains sustainable.

Population ageing will increase spending on health, age-related pensions and aged care.

Escalating health costs associated with technological enhancements, such as new medicines, and increasing demand for higher quality services, will add to fiscal pressures from ageing.

At the same time, slowing economic growth as a result of an ageing population will reduce the capacity of Australia to fund this increasing spending.

Today, around a quarter of total spending is directed to health, age-related pensions and aged care. This is expected to rise to around half by 2049-50.

As a result, total spending is expected to grow to around 27 per cent of GDP by 2049-50, around 4¾ percentage points of GDP higher than its low-point in 2015-16.

Rising health costs are by far the biggest contributor to fiscal pressures, accounting for more than two-thirds of this projected increase in spending.

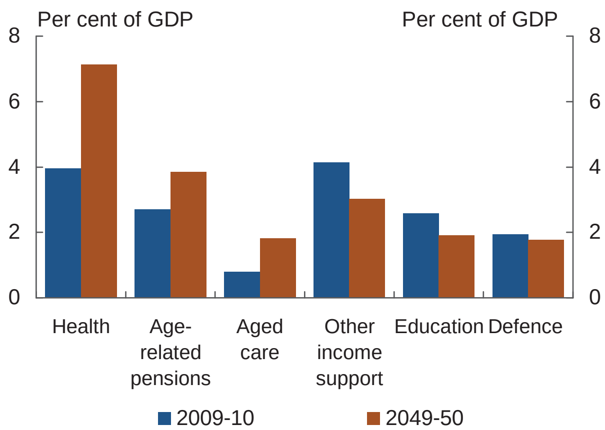
Rapid growth in real spending during the 2000s economic expansion has locked in permanent increases in spending, compounding the challenges of an ageing population. This is in contrast to the temporary stimulus introduced by the Government.

Together, these forces — ageing pressures, rising heath costs and a structurally high spending base — are expected to result in spending exceeding revenue by around 2¾ per cent of GDP in 2049-50.

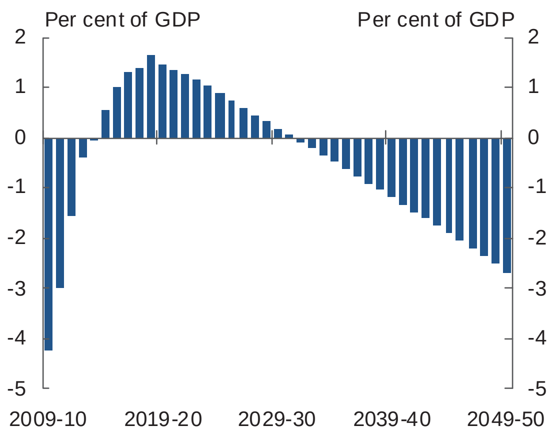
If steps were not taken to close the fiscal gap over time, the Budget would be in deficit by 3¾ per cent of GDP and net debt would grow to around 20 per cent of GDP.

This is the case notwithstanding the substantial savings that will be achieved with the implementation of the Government's fiscal strategy.

The spending pressures of ageing…



…will result in a growing fiscal gap



Escalating pressures in the health system

Australian Government health expenditure is substantial and increasing. As the population ages, more people fall into the older age groups that are the biggest users of health services. Costs are growing across all age groups and in all major categories of health spending: hospitals, medical benefits, pharmaceuticals and private health insurance.

Ageing will increase pressure on the health system

Demographics play an important role in increasing health system costs.

As the population ages, more people fall into the older age groups that are the most frequent users of the system.

From 2009-10 to 2049-50, real health spending on those aged over 65 years is expected to increase around seven-fold. Over the same period, real spending on those aged over 85 years is expected to increase around twelve-fold.

Rising health costs and demand for health services

Our health system will also come under additional pressure to deliver more medical services and pharmaceuticals and new technologies and drugs.

Presently, the private health insurance rebate is the fastest growing area of health expenditure, growing by 9 per cent a year over the 10 years from 2012-13, adding a cumulative $33 billion to spending.

Australian Government hospital expenditure is also growing quickly and will become an increasing share of health services in the future.

Addressing challenges ahead

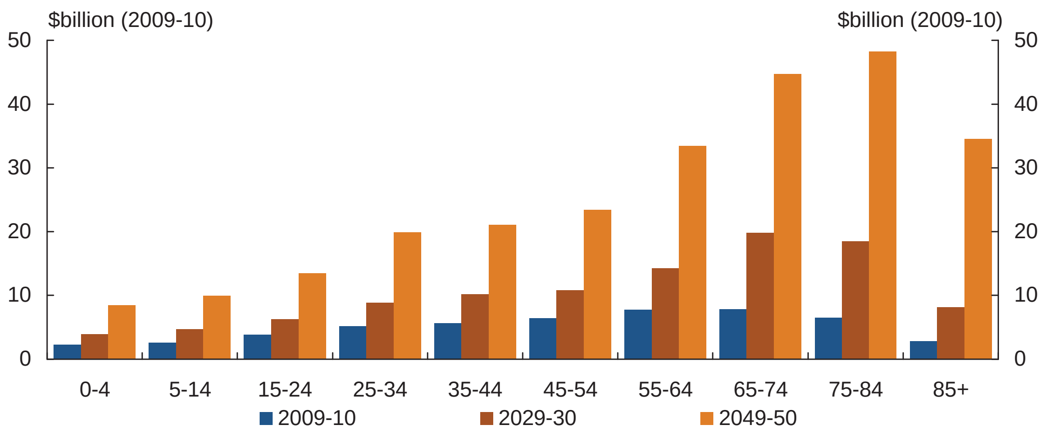
There are significant challenges ahead for the Australian health system.

The system must adapt to the needs of an ageing and growing population.

At the same time, it is important that we ensure that health spending is sustainable. This means funding cost-effective improvements to health care while adjusting spending to obtain better value for money where necessary.

Health reform is required so that every dollar will buy more and better quality health services.

Demand and technological pressures lift health spending across all ages



A plan for fiscal sustainability

Reprioritisation of spending under the Government's fiscal strategy will deliver permanent savings that not only return the budget to a surplus position, but also improves sustainability in the long-term.

The Government has already begun to take steps to address some of the fiscal challenges presented by an ageing population and the locking in of permanent increases in spending over the past decade.

For example, the Government has already introduced changes to improve the sustainability of the Age Pension, reform certain family payments, and means test the private health insurance rebate.

In total, the Government delivered savings of $56 billion in the 2008-09 and 2009-10 Budgets.

Whenever the economy is growing strongly, the Government's fiscal strategy commits to: limiting real growth in spending to 2 per cent per annum until the budget returns to surplus and allowing tax receipts to recover naturally as the economy strengthens.

Implementation of the Government's fiscal strategy will reduce ongoing spending by around one percentage point of GDP from 2015-16 onwards.

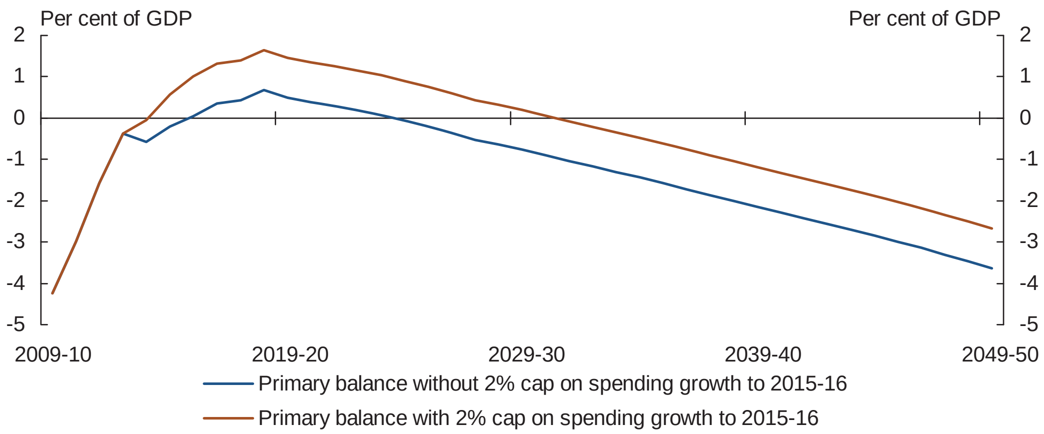
This is a significant first step in delivering the structural adjustments needed to address long term spending pressures. If these steps were not taken now, spending reductions required in the future would be larger.

If it were not for the fiscal strategy, the fiscal gap would grow to around 3¾ per cent of GDP in 2049-50 (compared to 2¾ per cent with the fiscal strategy), and the Budget would be in deficit by around 7¼ per cent of GDP (compared to 3¾ per cent of GDP).

Tax receipts are projected to recover to the historical average of 23.5 per cent by 2019-20. Beyond this time, tax receipts are held constant as a proportion of GDP.

This is consistent with the Government's commitment to keep taxation as a share of GDP below the 2007-08 level, on average.

Without the fiscal strategy, future fiscal gaps would be significantly larger



Sustainable economic growth

Sustainable economic growth can ensure continued improvements in living standards in the future. Policies that support productivity and participation will result in higher living standards and minimise the fiscal pressures of an ageing population.

With an ageing population, growth in living standards over the next 40 years will be driven mainly by increases in labour productivity.

This is because ageing is expected to reduce the labour force participation rate — from 65 per cent today to less than 61 per cent in 2049-50.

As a consequence, participation is expected to make a negative contribution to economic growth over the next 40 years.

Lower participation offsets the small positive contribution to economic growth from annual population growth.

Productivity will be the key driver of economic growth in the future.

Unfortunately, the rate of productivity growth has slowed in recent times, averaging only 1.4 per cent in the past decade compared with 2.1 per cent in the 1990s.

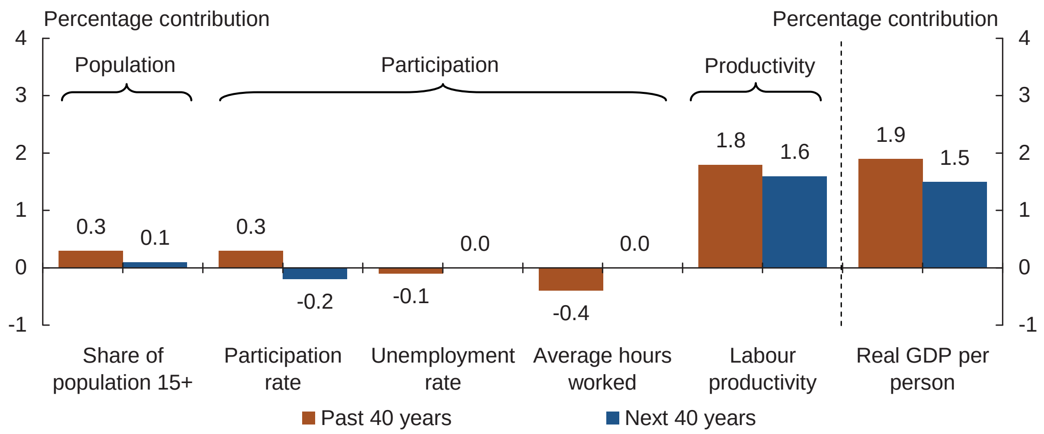
The IGR assumes labour productivity growth trends continue, averaging 1.6 per cent per annum — the long-run historical average over the past 30 years. But higher productivity growth would deliver many benefits.

Responsible economic management — policies that lift productivity and participation — will contribute to higher rates of economic growth and higher living standards.

The Australian economy is in a strong position to meet these challenges. The monetary and fiscal stimulus moderated the effects of the recent global downturn on the Australian economy, and also the skill atrophy and capital erosion that damages growth potential.

The permanent output loss in Australia from the global financial crisis and global recession is estimated to be as little as 1¾ per cent of GDP. This is much lower than for most advanced economies.

Sources of economic growth



Productivity growth to lift living standards

Sustaining high rates of economic growth, and rising living standards, will require higher productivity. This is achievable with the right policy settings. With the pressure of the ageing population, productivity will be the key driver of future living standards.

Productivity growth — producing more output with proportionately fewer workers — is projected to be the major contributor to increases in living standards over the next 40 years.

Australia's recent productivity performance has slowed, averaging only 1.4 per cent over the past decade compared with 2.1 per cent in the 1990s.

A continuation of the 30-year historical average rate of growth for productivity would result in average annual improvements in living standards of 1.5 per cent in the future compared to 1.9 per cent previously.

If annual productivity growth were lifted to 2 per cent over the next 40 years, living standards in 2049-50 would be around 15 per cent (around $16,000 per person) higher.

Productivity growth stems from many sources, including: technological advances; new products and processes; capital intensity and the flexibility and efficiency of the allocation of labour and capital.

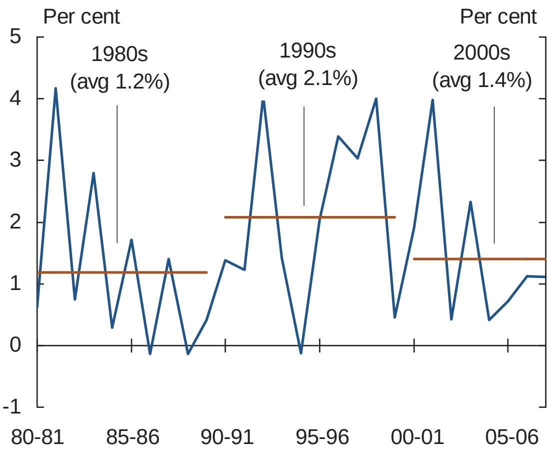
The microeconomic reforms of the 1980s and 1990s contributed to the surge in Australia's productivity growth in the 1990s.

Achieving improved productivity growth in the future will require a continual process of reform.

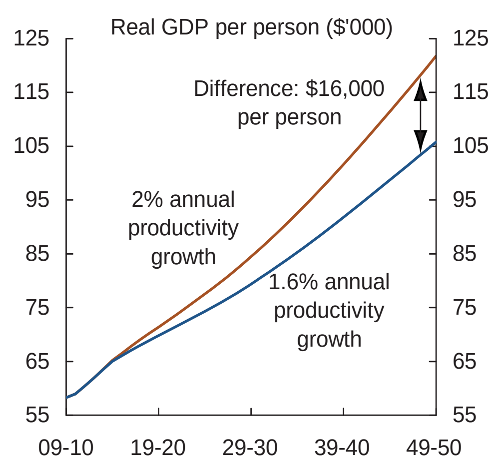
The Government's policy agenda supports productivity growth, for example through:

- nation building through investment in social and economic infrastructure, including the National Broadband Network and improved communications, transport, energy, education and health services;
- policies to support skills and education and ensure that first class education facilities can be delivered at a sustainable cost;
- productivity enhancing economic reform such as reducing business costs from regulation and tax reform (to be delivered in response to the independent *Australia's Future Tax System* report).

Productivity growth has slowed…



… but higher growth lifts living standards



A world class education and skills system

Investment and reforms in education and training will contribute to improvements in both productivity and participation in the workforce, lifting the future growth rate of the economy.

Education and training will play a critical role not just in our future prosperity, but in each Australian's standard of living.

The more we develop the skill level of each worker, the higher the potential productivity of the labour force. A highly educated and skilled workforce supports innovation, the implementation of technological advances and the accumulation of physical capital.

Over time, the skills base of the economy has been growing, as more skilled generations join the labour force.

The level of educational and skills attainment also significantly influences an individual's future labour force participation and earnings potential.

Australia must continue to build on our skills base to maintain a higher standard of living as the population ages.

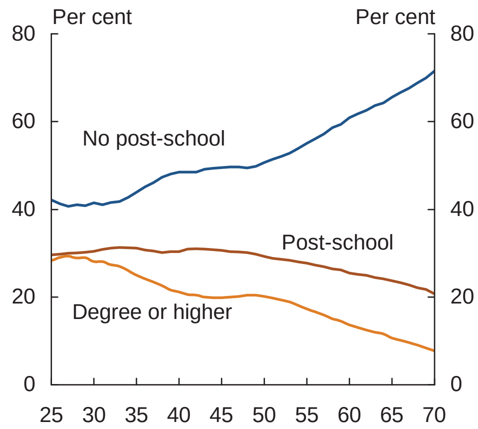
Action already undertaken by the Government is supporting the expansion of skills acquisition.

Funding for an additional 711,000 vocational education and training places through the Productivity Places Program, reforms of the university sector to uncap the number of Commonwealth supported places, and improvements in the quality of our school system are just some of the measures put in place to build the labour force of the future.

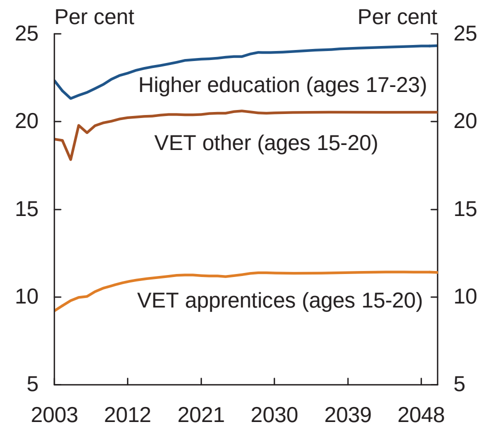
Overall, the Government's investments have increased education spending by 50 per cent in real terms over the current five year period compared with the previous one. This includes a doubling of investment in schools.

The Government will continue to support access to education and training with real per student funding increases, backed up by greater transparency and flexibility across the education system.

Educational attainment rates by age, 2006



Post secondary school participation rates



Nation building infrastructure

Nation building investment in economic infrastructure is central to improving Australia's productivity performance and putting in place the infrastructure to support a growing population.

Nation building

The Government is committed to nation building by investing in the infrastructure we need to meet the challenges of population growth and climate change. The Government will meet these challenges while ensuring continued productivity growth.

Without adequate infrastructure, costly bottlenecks and congestion erode the nation's competitiveness, undermining its productivity growth and living standards.

Infrastructure provides a foundation for communities and individuals to participate in the economy. Building infrastructure helps Australians gain employment and maintain their standards of living.

That's why the Government has invested $22 billion in the 2009-10 Budget in roads, rail, ports, communications, energy, education and hospital infrastructure across Australia.

Cities and transport

The Government is committed to creating cities that are productive, liveable, and sustainable. By 2012, each capital city will have a strategic planning system that addresses housing affordability, tackles urban congestion, deals with climate change and meets other important national criteria.

Freight transport is particularly important for lifting the productivity of businesses. The Government's advisory council, Infrastructure Australia, is developing a Freight Network Plan and National Ports Strategy to improve the efficiency of transport links and guide policy for coming years.

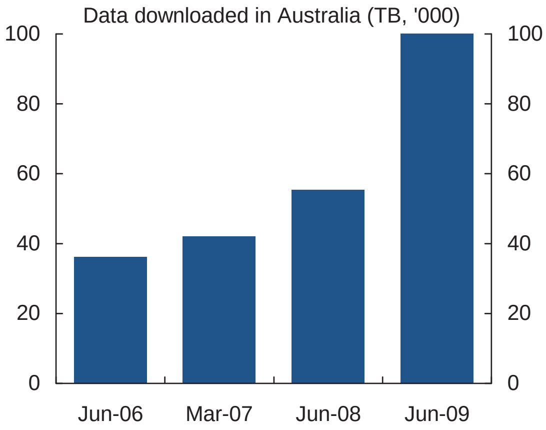
The National Broadband Network

The Government has established a company that will invest up to $43 billion over eight years to deliver a superfast, open access, broadband network to Australian homes and workplaces.

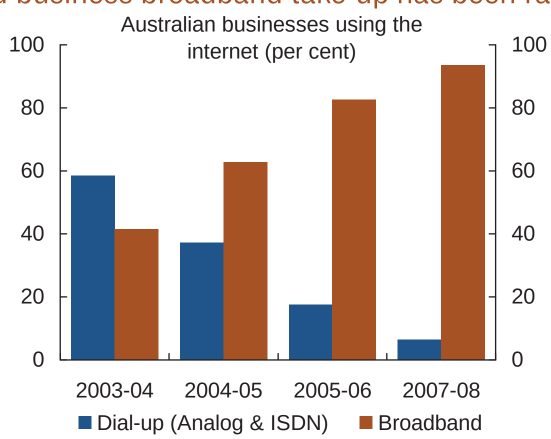
The Government's investment in the National Broadband Network (NBN) will provide Australia with critical infrastructure for the 21st century.

The NBN will meet the rapid growth in demand for information and telecommunications services, and support much-needed competition in the telecommunications network.

Demand for data is increasing …



… and business broadband take-up has been rapid



Boosting labour force participation

Total labour force participation rates are projected to fall because of the ageing population. The Government has introduced a number of initiatives to support the development of human capital and boost labour force participation.

Boosting labour force participation will contribute to higher economic growth.

Total labour force participation has increased over the last 30 years, from 60.7 per cent in 1978-79 to 65.4 per cent in 2008-09. Australia's working age participation rate is currently ranked 10th in the OECD.

This rise is mostly the result of increased female participation rates, though these have been partly offset by falls in male prime-age (25 to 54 years) participation rates.

Increased female participation can be attributed to a range of factors, including: greater educational attainment; changing social attitudes; and better access to child care services and part-time work.

Looking forward, working-age participation (for people aged 15 to 64 years) is projected to increase from 76.2 per cent in 2009-10 to 79.7 per cent by 2049-50.

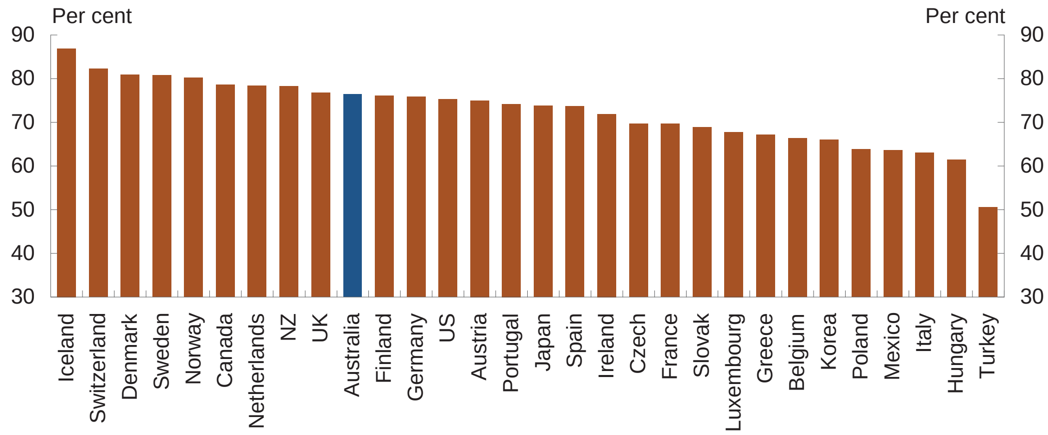
However, population ageing means that total labour force participation for people aged 15 years and over is projected to fall from current levels to less than 61 per cent in 2049-50.

This is because there will be a higher proportion of people aged 65 years and over. Fewer people in this age group work than those of traditional working age, and those that do tend to work fewer hours.

The Government has introduced a number of initiatives to support the development of human capital and boost labour force participation. These have included increasing incentives to work through personal income tax cuts, increases in the Child Care Tax Rebate and Paid Parental Leave.

Government reforms in the areas of education, employment services and health are also designed to support people participating in the workforce.

In 2008, Australia's labour force participation rate was the 10th highest in the OECD



Encouraging mature age participation

Older Australians make valuable contributions in the workforce and community. In view of the ageing population, encouraging mature age labour force participation will be important for future economic growth prospects.

Older people will continue to have lower labour market attachment than those of traditional working age (15 to 64 years). In addition, they tend to work fewer hours than those in younger age groups.

As the proportion of the population aged 65 years and over increases, their lower age specific participation rates are projected to reduce the total labour force participation rate (for people aged 15 years and over).

Despite recent increases, Australia's mature age participation rate is below that of comparable countries — including the United States, United Kingdom, Canada and New Zealand.

There are many factors which influence the workforce participation decisions of those approaching retirement, such as a desire to engage in volunteer or carer activities.

The Government acknowledges the valuable contribution older Australians make to the community and the economy.

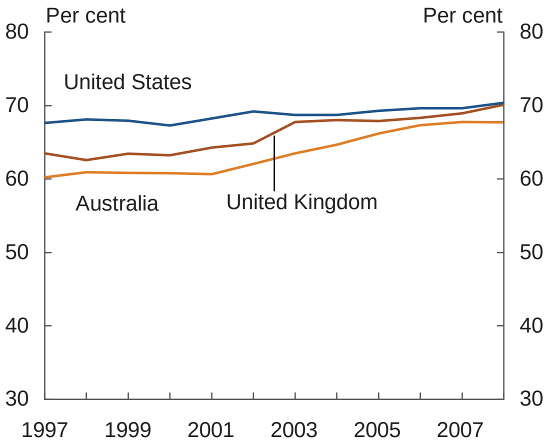
In order to support those wishing to continue working, the Government introduced a new Work Bonus as part of its 2009-10 pension reforms. The Work Bonus means age pensioners retain more of their earned income under the pension means test.

In addition, recognising the contribution that mature age people can make, the Government has also committed $43 million to a *Productive Ageing Package* to further support mature age participation.

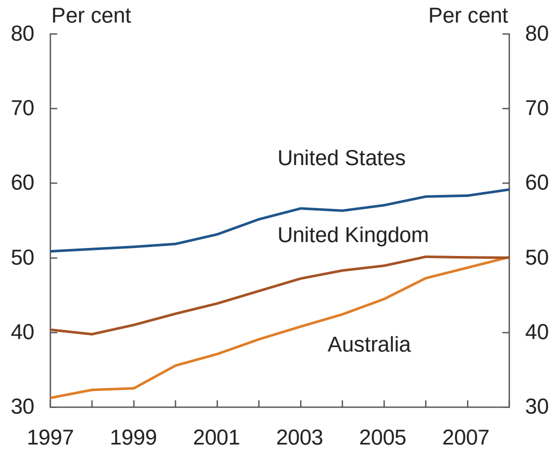
The package aims to support older trade-qualified workers to up-skill and transition into supervisory or training roles. It will also support construction and manufacturing workers to move into new careers.

The Government has also established a Consultative Forum to inform further policy reform.

Participation rates for men aged 55-64



Participation rates for women aged 55-64



Reforming the tax system

The tax system plays a fundamental role in the productivity and competitiveness of the nation. Modernising Australia's tax system will help us face future challenges, including an ageing population, while sustaining the standard of living and social equity that Australians expect.

Tax revenue pays for essential government services that contribute to growth and social equity. The different ways that government can raise this revenue has important impacts on how well the economy functions.

Taxation settings affect the incentives to get a job. Getting the settings right can enhance workforce participation, which will be increasingly important as the proportion of the population who are of working age declines.

Taxes impact on how people invest and save and how businesses build and accrue capital with which Australian employees work.

The tax system should allow businesses to expand, employ new workers, and increase the productivity of existing workers.

Confidence in the equity of the tax and transfer systems is also essential for their sustainability. The system should be transparent and simple enough for individuals and businesses to understand it and deal with it.

This is why the Government commissioned the independent *Australia's Future Tax System* report, to inform future directions in tax reform.

The Government delivered tax cuts (including increases in the Low Income Tax Offset) to all taxpayers in 2008-09 and 2009-10, and will deliver further cuts in 2010-11. These cuts will promote participation and mean that a person earning $80,000 will pay 8 per cent less tax in 2010-11 than they did in 2007-08, a person earning $50,000 will pay 18 per cent less and a person earning $20,000 will pay 56 per cent less.

In 2010, the Government will lay out further steps for reforming the tax and transfer system to make it fairer, simpler and more competitive.

Tax reform is a long-term agenda and will require sustained action over the next 10 years. Tax reform is likely to come in waves and will be conducted with extensive consultation.

Tax reform will not be easy, but it presents the opportunity to create a tax structure that enhances Australia's economic and social outcomes, and will be an important part of responding to our demographic challenges.

Investing in our health system

Australians can look forward to continued improvements in health care and technology. The Government will undertake health reform to deliver better value for money and provide Australians with the right care in the right place at the right time.

Australians' life expectancies are among the highest in the world.

However, we have come to expect a lot from our health system, and will ask much more of it in the future.

Health expenditure is projected to nearly double as a proportion of GDP over the next 40 years. It accounts for two-thirds of the projected increase in total spending as a proportion of GDP over this period.

This increased expenditure will reflect the ageing of the population, increasing demand, higher standards of care and rapid technological innovation.

In the next 40 years, it will be important that Government investments in the public health system efficiently provide better access to higher quality care.

Our future health system

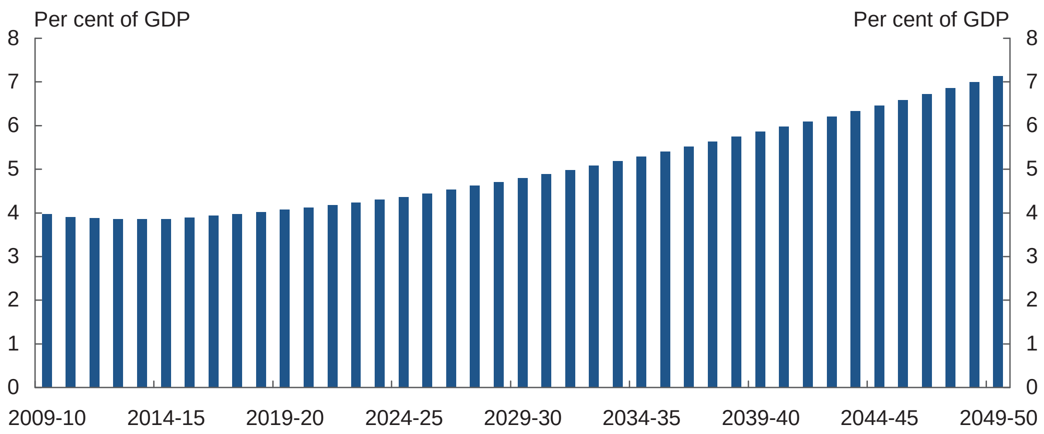
In 2049-50, our health system will not simply deliver more of the same services to an older population. Instead, it will involve much more advanced technologies and types of care, catering to an older population with complex needs.

Dealing with these pressures requires more than simply increasing the size of the health system.

A more responsive and coordinated system will be needed. One in which different professions collaborate effectively. One in which patients get the best possible care for the resources invested in the health system. And one in which every dollar will buy higher quality, better value health services.

The Government set up the National Health and Hospitals Reform Commission to take a long term view of the health system. In 2010, the Government will undertake important health reforms that deliver a more efficient health system, provide Australians with better quality care and ensure that future health expenditure delivers value for money.

Health spending is projected to increase over the next 40 years



Building the low pollution economy

The Carbon Pollution Reduction Scheme (CPRS) will achieve large scale reductions in greenhouse gases at a low economic cost by steadily transforming the economy. Thirty-two countries are currently operating emissions trading schemes and others are in the process of introducing them. There is a clear global consensus that this is the best way to tackle climate change, and Australia needs to be part of the global solution.

The need to shift to a low pollution economy is inevitable. Adjustments cannot be avoided.

Early action to move towards a low pollution economy will avoid the need for a sharper more costly shock later. The long-term transformation costs are around 15 per cent lower under early action.

The CPRS will allow businesses and the community, rather than governments, to determine how and where the required emissions reductions will occur.

This devolved decision-making, together with the broad coverage of the CPRS, will efficiently transform the entire economy, putting Australia on a sustainable growth path.

This will directly affect only around 1,000 of the biggest polluters, who will have to pay for the right to pollute.

The CPRS will prompt reductions in the emissions intensity of industries across the whole economy. Under the CPRS, every business and every job will become greener.

For example, the CPRS is estimated to halve the emissions intensity of the iron ore mining industry and to cut the emissions intensity of the motor vehicle manufacturing industry by over three quarters by 2050.

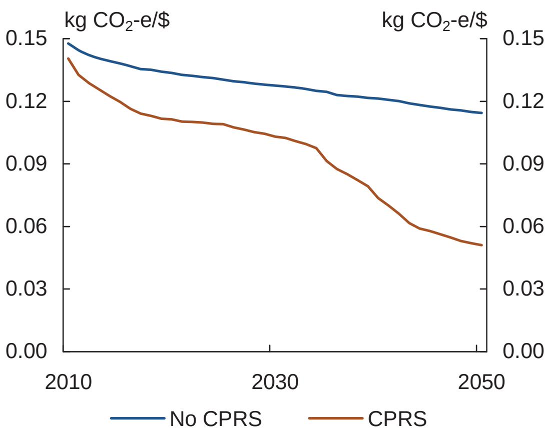
The long-term price signal under the CPRS will provide business investment certainty and provide a strong incentive for the deployment of new technology.

Revenue raised from the biggest polluters will be used to provide significant assistance to businesses and households to help them adjust.

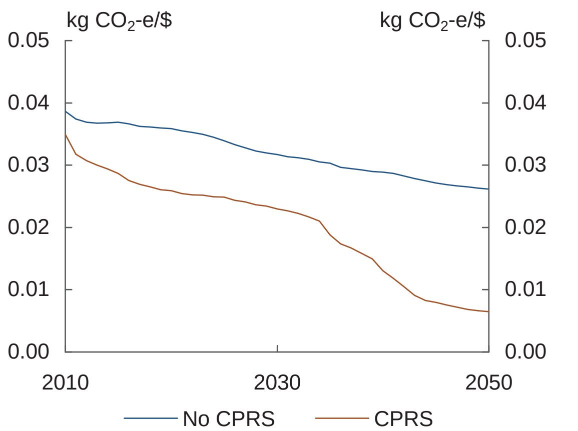
Attempting to achieve large-scale emissions reductions primarily through regulatory and subsidy arrangements would cost the economy, businesses and households substantially more.

An approach focussed on regulations would impose a significant burden on parts of the economy to shoulder the emissions reduction task. An approach focussed on subsidies would involve a significant, ongoing fiscal cost that would add to the fiscal pressures arising from an ageing population.

Iron ore mining emissions intensity



Motor vehicle manufacturing emissions intensity



Supporting renewable technologies

The Government's Carbon Pollution Reduction Scheme (CPRS) will be enhanced by a range of complementary measures that support the transition to a low pollution future.

The Government is committed to policies that promote the research, development and use of renewable technologies.

The expanded national Renewable Energy Target (RET) is designed to ensure that 20 per cent of Australia's electricity supply comes from renewable sources, by 2020.

By helping accelerate the deployment of renewable energy, the RET will assist the energy sector to transition to a low pollution economy under the CPRS.

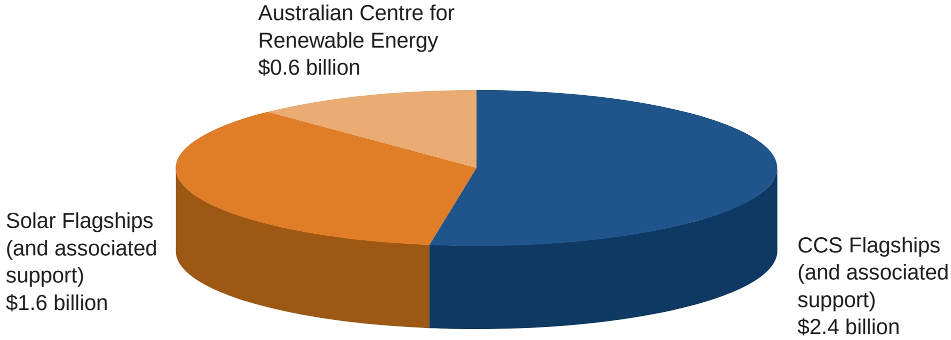
By 2050, output from the alternative energy sector is expected to be up to 30 times larger under a CPRS and expanded RET.

The Clean Energy Initiative complements the RET by supporting investment in low emissions technologies. The $4.5 billion over nine years initiative includes:

- a $2.0 billion investment to support commercial-scale integrated projects under the Carbon Capture and Storage Flagships Program;
- a $1.5 billion Solar Flagships Program to assist Australia to lead large-scale solar electricity generation; and
- the establishment of the Australian Centre for Renewable Energy to promote the development, commercialisation and deployment of new and existing renewable technologies.

Through initiatives such as the $3 billion over four years Energy Efficient Homes Package, the Government is encouraging households to improve the energy efficiency of their homes. The package provides up to $1,200 for ceiling insulation for Australian homes and increased rebates for solar and heat pump hot water systems. In addition to supporting jobs, these initiatives are helping households take practical action to reduce their energy use and save on energy bills.

$4.5 billion Clean Energy Initiative



Supporting our ageing population

More Australians will live longer, healthier lives. Aged care and age pension spending will increase as more people live longer. Government policy will ensure that this increase is sustainable.

The Australian Government provides considerable support for ageing Australians.

The number of people in the population aged 85 and over is expected to more than quadruple over the next 40 years. This group has the greatest need for formal aged care.

Aged care

Aged care policies help people to remain in the community and to move to residential care when necessary. This reflects individual preferences and the improving health of Australians.

Australian Government spending on aged care is projected to increase as a proportion of GDP from 0.8 per cent in 2009-10 to around 1.8 per cent in 2049-50.

The Government is committed to a sustainable aged care sector. Over the next four years the Government will provide more than $44 billion in direct financial support for aged and community care.

Age and service pensions

Australian Government spending on age-related pensions currently represents more than 10 per cent of total government expenditure, and is the largest component of payments to individuals.

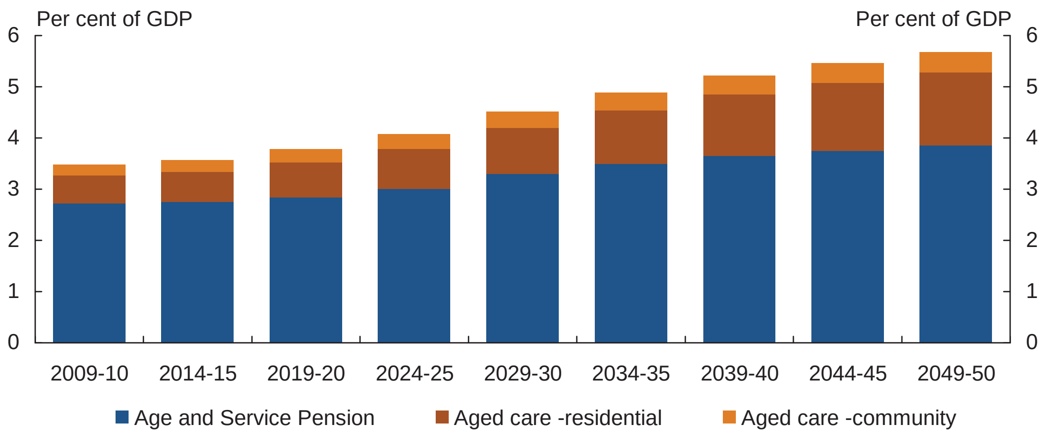
Spending on age-related pension payments are projected to increase from 2.7 per cent of GDP in 2009-10 to 3.9 per cent of GDP in 2049-50 due to demographic change.

The 2009-10 Budget provided for increases in pension payments. These took effect from September 2009.

These increases were accompanied by other changes to ensure long-run sustainability.

Measures announced in the 2009-10 Budget to gradually raise the qualifying age for the age pension from 65 to 67 years will have a significant impact from 2017. Changes to the income test, together with the increasing value of individuals' superannuation and other assets over time, will also help sustainability.

Spending on aged care and age-related pensions is projected to rise



Planning for future population needs

Population growth is inevitable if historical fertility and immigration trends continue. Population growth supports higher economic growth, but it also puts pressure on our infrastructure. It can be sustainable provided governments take steps now to meet challenges and opportunities in infrastructure, service delivery and the environment.

Continued population growth creates challenges including the provision of infrastructure and government services to an increasing population and protecting the environment. Governments must prepare for these challenges through long-term and strategic planning.

Infrastructure

Investment in infrastructure has been closely correlated with population growth. The Government is investing $36 billion in transport infrastructure.

Reforms to ensure existing infrastructure is used efficiently and effectively will also be necessary. These reforms ensure that adequate infrastructure is provided, infrastructure is used efficiently and future investments are encouraged.

Infrastructure Australia has been set up to provide national coordination on infrastructure needs and priorities.

Urban amenity

Cities are a key driver of national productivity growth. By 2020, over 90 per cent of Australians will live in urban areas.

Forward-looking urban planning and infrastructure management will ensure that cities function effectively while providing affordable housing.

Through COAG, the Government will deliver capital city plans by 2012 and independent assessments of State and Territory planning systems.

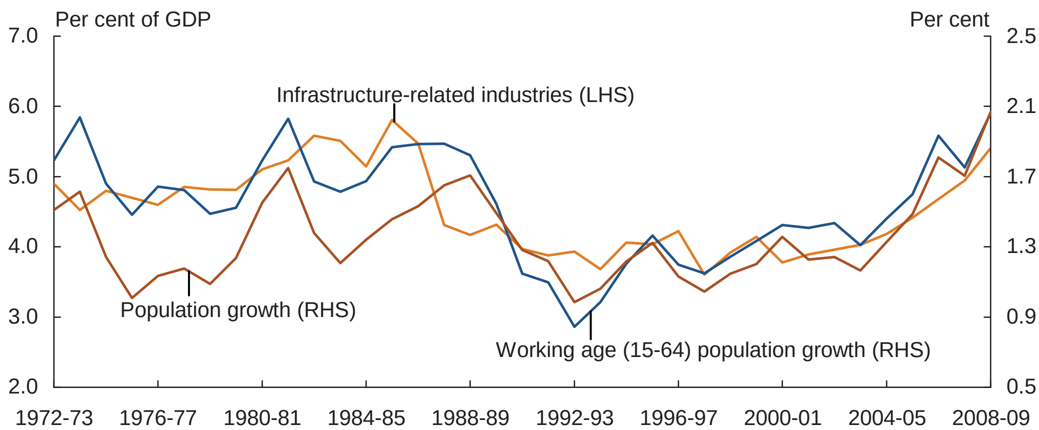
Service delivery

Population ageing and growth will place pressure on service delivery, particularly for services relating to seniors, carers and the disabled. New retirees are likely to demand higher quality and a greater range of services than previous generations.

Pressure will fall on the current service delivery system to be integrated, streamlined and flexible. A modern service delivery model will need to use resources more efficiently.

That's why, in December 2009, the Government announced reforms to simplify Australians' dealings with government and to streamline and automate processes to free up resources to focus on those with complex needs.

Infrastructure investment is highly correlated with population growth



Ensuring social sustainability

The Government's Social Inclusion Agenda seeks to ensure that all Australians, now and in future generations, share in the benefits of improving living standards. As Australia's population grows and ages, it will become increasingly important that all Australians have the opportunities and capabilities to participate fully in social and economic life.

Most people across Australia are enjoying strong and improving education, employment and health outcomes.

However, a small number of Australians are not sharing in these benefits.

There is a small segment of the Australian population facing multiple and persistent disadvantage, including unemployment, poor educational outcomes, homelessness and poor physical and mental health.

Many Indigenous Australians, in particular, face poor life outcomes.

Disadvantage affects the lives of those involved, their families and communities, as well as impacting negatively on workforce participation and productivity and governments' fiscal sustainability.

Individuals and families have primary responsibility for their own life outcomes.

However, there are a number of interventions that governments can make to reduce disadvantage and provide people with the opportunity to pursue lives that they and society would value.

Australia's tax and transfer system is relatively effective at improving incomes for those who are earning the least.

The provision of public services (in areas such as health and education) also help individuals to enhance their capabilities and opportunities.

The Social Inclusion Agenda is working to ensure that mainstream services are accessible to those who need them most, and that targeted services are there to help those facing multiple and persistent disadvantage.

Improved educational outcomes increase people's opportunities in life