Australia in 2042: here's where to send the nursing home bills

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> I advise you to go on living solely to enrage those who are paying your annuities. It is the only pleasure I have left.
>
> Voltaire

When Peter Costello brought down the Budget on May 14, there was an addition to the usual set of budget papers. This was the *Intergenerational Report* – "an assessment of the long-term sustainability of current Government policies over the next 40 years".

It would be reasonable to expect such a report to consider our environmental, education, industry, trade, welfare and health policies. Are our agricultural and mining practices ecologically sustainable? What will be the condition of the water and soil resources we hand on to the next generation? Will we develop an international treaty on global warming? Are we investing adequately in the education and skills we need to survive in a world where we must compete on our wits? Will we replace our dilapidated railroads, ports and roads? Will we live in a society in which all feel they have a stake in economic growth, or will inequality become so painful that we reject growth policies and become the Argentina of the Western Pacific?

When I opened up my copy of the *Intergenerational Report* I thought I had been shortchanged – all I seemed to have was an appendix on budgetary projections. Wasn't there a volume covering these economic issues? But what I had was indeed the whole report – 94 pages of projections of Commonwealth outlays which would be influenced by demographic developments between now and 2042.

Over that period, according to the authors' projections, life expectancy at birth will rise by five years, and our population aged 65 and over will rise from 2.5 million, or 13 percent of the total, to 6.6 million, or 26 percent of the total. The Anzac Day March of 2042 should have plenty of Vietnam War veterans, and perhaps even a few Pacific War veterans.

Even if consideration is confined to ageing, however, there are many policy issues to deal with. If we are living longer, healthier lives, how will we be able to harness the possible contributions of people able to work past 65? Do we need to put more resources into education and training to ensure our skills are updated as we age? Do our cities, developed around the needs of young suburban families, provide suitable living for older citizens? And for those who will need health care (probably later in life than now), do we have the mechanisms to provide proper care? It is easy to build new nursing homes on short notice, but if we need more experienced aged care nurses in 20 or 40 years, they should be entering university courses now. (Our present nursing shortage is an early warning of problems ahead.) These are all important economic issues – they concern real resources.

But the report hardly touches on such issues of economic policy. Although it has been prepared in the Treasury Department, it is thin on economics; it is confined to projections of Commonwealth finances.

The mathematics of projection are simple. If we find one series growing faster than another, even from a small base, we can make ridiculous projections. (One of the late Stephen J Gould's favourites was to project the growth of human population to demonstrate that within a millennium or so the mass of people would exceed the mass of the planet.)

Such projections are generally made to point to the need for a reconsideration, and the *Intergenerational Report* is no exception to this general rule. It finds that while pension and welfare outlays should stabilize, health and aged care outlays will rise steeply – from 4.7 percent of GDP at present to 9.9 percent in 2042. (The optimistic projections on pension and welfare outlays rest on assumptions about private superannuation replacing part of pension outlays and brave assumptions about unemployment.) These growing outlays will drive the budget into deficit in around 15 years, rising to a deficit of 5 percent of GDP by 2042, “if policies are not adjusted” to quote from the report.

We should note that these figures relate to Commonwealth budgetary outlays only. Unlike the Australian Institute of Health and Welfare, which considers all the community’s outlays on health and welfare, the Commonwealth seems to be concerned with budgetary outlays only. Table 1 shows that less than half of our health care outlays pass through the Commonwealth budget, but the report ignores these other sources of funding. The omission says a great deal about the Commonwealth’s concerns, which appear to be with budgetary finances only rather than the total burden on the community.

Table 1. Health care outlays by source of funds - percent of GDP – 1999-00

Commonwealth	4.1
State and local govt	2.0
Health insurance funds	0.6
Individuals	1.4
Other	0.5
	8.5

Source: Derived from AIHW data. Does not include aged care outlays.

The omission is serious. For those health care outlays not covered by the Commonwealth we rely on other mechanisms which may be far less equitable and efficient than Commonwealth taxes. Table 1 shows that around 7 percent (=0.6/8.5) of health care outlays are through health insurance funds – a figure which has probably grown to around 11 percent since the subsidies and lifetime rating for private insurance came into effect. But private health insurance is a very high-cost and ineffective way to finance health care – it is administratively expensive and inequitable, it lacks the capacity to control providers’ charges, and it redirects resources from the public to the private health care system. In short, it has most of the costs of official taxes, but few of the benefits of official taxes.

Going off-budget

Returning to the report’s projections, however, there is a strong suggestion that the policy adjustments sought by the Commonwealth are to shift the growing burden of health care costs off-budget. The report reiterates a commitment to “widespread participation in private health insurance” and a commitment to “minimise the tax burden transferred to the next generation, particularly if Australia is to keep its position as a lower taxing and spending country”.

If the word “tax” were to include state taxes and private health insurance, we could assume that the Commonwealth is concerned with the total burden which health and aged care will impose on the community. But the same report, in its treatment of superannuation, assumes the priority should be to reduce Commonwealth funding for health, aged care and other demographically driven outlays.

The irony of the Commonwealth’s approach is that if the Commonwealth does reduce its involvement in health and aged care funding, we will probably pay more for health care in 2042 than we would if we were to accept the need for higher taxes to fund these outlays. In health care in particular there are tremendous benefits in concentrating purchasing power in one fund holder, preferably a government agency. Most developed countries handle this through a system of national health insurance, which was the role of Medicare until the Commonwealth commenced its demolition in 1998. Concentrated purchasing strength can counteract the demands of strong service providers, such as pharmaceutical companies, technology suppliers and medical specialists. In addition, governments can plan for a balance between finance and resources; no matter how much money we set aside to pay for health care, if resources such as nurses and medical specialists aren’t available all we will achieve is a bout of inflation.

Our policy future is too important to be left in the hands of financiers. We need some serious and professional consideration of these economic issues.