200701852

RHETORIC AND REALITY: NEO-LIBERAL IDEOLOGY AND AGEING IN AUSTRALIA, 2003-2050

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Exaggerated rhetoric accompanies many of the contemporary claims about the ageing of the Australian population. Even the more reasoned of the claims about ageing and the economy often generate more heat than light. The best way to clarify the problem is to expose such contributions to evidence and argument, showing the flaws in the rhetoric used to buttress the view that we face a serious ageing problem. [1] This article seeks to do so, first by exploring the official line, and then by taking up the claims introduced under the rhetoric of 'sustainable fiscal policy', 'intergenerational equity' and the 'non-accelerating-inflation rate of unemployment' (or NAIRU). We conclude that it would be dangerous to let these claims go unchallenged, as they are commonly used to support neoliberal policy initiatives that are unnecessary and often objectionable. The issue is not only about the facts but also about the rhetoric used in the media and in public policy interventions.

The Official Line

The Commonwealth Government's position on the ageing of the Australian population and its economic implications is an import,

1 The special issue of this journal on superannuation (No. 53, June 2004) provided a comprehensive analysis of alternative policy options for retirement incomes and placed the Australian debate in international context. Only two of the contributions, however, dealt specifically with population ageing, and these concentrated on the United States (Heavey 2004) and Germany (Meyer 2004).

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deriving from the construction and international propagation of an 'ageing crisis' myth. Early landmarks were a widely-reviewed book by the New Zealand academic David Thomson (1991), an important study by the World Bank (1994; cf. Vidler 2006), official statements and research papers by the OECD (1997; Auerbach et al. 1989) and reports to the Group of Ten (G10 1998). In Australia the definitive document is the *Intergenerational Report 2002-03* (Costello 2002), circulated by the Commonwealth Treasury as 2002-03 Budget paper No. 5. This document has been supplemented by statements from the Secretary to the Treasury, Ken Henry (Henry 2004a, 2004b), a long report from the Productivity Commission (2005) and further references in the 2005-6 Commonwealth Budget. In the words of the Treasurer:

> Ten years ago the Australian Government carried net debt of $96 billion. By 30 June next year we will have reduced that net debt by $90 billion. We are paying off Labor's debt and soon we can begin saving – saving for the future, saving for the ageing of the population, saving the opportunities of future generations ... Our task now is to begin saving for the future to meet the costs of our ageing population. One way this saving will be done is through a Future Fund. It will begin to fund the liabilities we have already incurred but not yet made provision to pay for. Earnings will accumulate in this Fund and it will be safeguarded by legislation. (Costello 2005b).

The central theme of the *Intergenerational Report* is that

> ...a steadily ageing population is likely to continue to place significant pressure on Commonwealth Government finances ... Governments will need to exercise sound policy management 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. Although the ageing of the Australian population is not expected to have a major impact on the Commonwealth's budget for at least another 15 years, forward planning for these developments is important to ensure that governments will be well placed to meet emerging policy challenges in a timely and effective manner. (p. 1)

The *Report* itself notes some important qualifications to the argument. First, ageing is not the most important factor in increased spending on health:

> Non-demographic growth, rather than population growth or changes in the age structure of the population, has been the key driver of real health spending over the past decade. Non-demographic factors (such as listing new medications on the PBS and greater use of diagnostic procedures) are likely to generate the greatest cost pressure in the future. (p. 35)

Second, the adverse fiscal consequences of ageing will not take effect until 2017-8, so that the ageing problem will be preceded by 11 years in which demographic change tends to *reduce* government expenditure on family payments and education faster than it increases expenditure on the elderly (Costello 2005b:57 Chart 30).

Third, the ageing problem will be (much) less severe in Australia than in most other comparable countries:

> ... recent OECD work shows that compared with other OECD countries, Australia faces relatively moderate long term fiscal pressure. Many OECD countries face higher potential age pension burdens than Australia because their public pension schemes are related to an individual's earnings or are universal, and because the schemes are not sufficiently pre-funded. (p. 67; see also OECD 2005)

Moreover, the ratio of net Commonwealth debt to GDP is 'already one of the lowest among the industrialised countries' (p. 1).

Fourth, the *Report* acknowledges the existence of a number of 'factors that decrease budget pressure', including higher labour force participation ratios, higher productivity growth rates, a lower unemployment rate, lower health cost growth and increased migration (pp. 63-4).

Despite these qualifications, the underlying argument continues to be forcefully asserted by the Commonwealth Government. Thus Ken Henry devoted much of his May 2004 address to 'progress on longer term challenges', by which he meant 'the fiscal challenge posed by demographic change' that was originally identified in the *Intergenerational Report* (Henry 2004a:4). Henry's analysis is a little more explicit than that in the *Report* and led to distinctive policy implications:

> This year's [2004-5] budget makes tangible progress in addressing the demographic challenge. Importantly, it affirms a strong commitment to a pro-growth strategy – built around workforce participation and labour productivity – as the preferred means of addressing the fiscal challenges posed by population ageing. This is highly significant, for the emphasis that it places on supply-side policy reform. (p. 5)

As set out in the Treasury document, *Australia's Demographic Challenges*, this policy response involves looking for 'ways to increase the size of the economy so that we all have higher incomes … The key ways to improve economic growth are through increases in labour force participation and productivity' (Treasury 2004:27). Henry echoed this Treasury document, calling for 'a reform strategy to lift workforce participation, lifting the capacity of people to undertake work, improving work incentives, and supporting the development of more flexible work options' (Henry 2004a:8).

'Flexibility' is, of course, a familiar term that has been used with great ingenuity over many years to promote the neoliberal policy agenda, most obviously with respect to the labour market (Gilbert, Burrows and Pollert 1992; Peetz 2005). Significantly, the *Intergenerational Report* does not offer any systematic sensitivity analysis to indicate whether the supposed fiscal problems might disappear in the face of small changes in some of the underlying assumptions used to generate it. Had this been done, the relatively minor nature of the ageing problem would have emerged (McDonald and Dowrick 2002; Doughney and King 2006; Khan 2006).

The rhetorical as well as the substantive aspects of the ageing question are also of concern in developing a critique of the Commonwealth Government's position. 'Flexibility' and 'incentives' are not the only key words in the official account. Three other significant rhetorical weapons - 'sustainable fiscal policy', 'intergenerational equity' and the 'non-accelerating inflation rate of unemployment' – also warrant consideration. These are question-begging, discussion-terminating terms. No reasonable person could possibly defend *unsustainable* fiscal policy, or *inequity* between the generations, or an unemployment rate that led to *accelerating* inflation. Powerful rhetoric is being used here and, as we shall see, it is often misleading.[2]

'Sustainable Fiscal Policy'

Although 'fiscal sustainability' features prominently in the *Intergenerational Report*, it is nowhere defined satisfactorily. It is described as:

> the government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation. (Costello 2002-3, p. 2)

No attempt is made to explain what is meant by 'an unmanageable bill' and one important component of government spending that has nothing to do with the provision of 'services' – interest payments to holders of government debt – is ignored entirely. 'One of the key requirements for sustainable government financial arrangements', the *Report* continues,

> is a balanced budget over the medium to long term, given a reasonable degree of stability in the overall tax burden. This objective is consistent with stabilising Commonwealth general government net debt and, if the Commonwealth's capital stock grows, improving net worth. (p. 2)

The implication seems to be that anything that raises the level of government debt (or perhaps the ratio of government debt to GDP) is *ipso facto* unsustainable. This is a serious misrepresentation of the way in which 'fiscal sustainability' is defined in the macroeconomics

2 A similar case can be made for the European Union (Concialdi 2006) and the United States (Wray 2006b).

literature. In a recent comprehensive and careful study, Philippe Burger (2003) shows that there is general agreement on the critical variable, which is the ratio of public debt to GDP, and that this ratio depends above all on the relationship between the real interest rate applicable to the public sector and the rate of growth of real output. In Burger's words:

> *Un*sustainability is indicated as a position where the real interest rate ... exceeds the real economic growth rate ... *and* where the primary balance [of government spending and taxation revenues] ... is persistently either in a deficit, or in a surplus not large enough to cover the excess of the real interest rate over the real growth rate. (Burger 2003:14; original stress)

Alternatively stated – and here Burger paraphrases Olivier Blanchard – 'the key issue is whether or not the current course of fiscal policy can be sustained without public debt exploding *or imploding*' (p. 12; stress added).

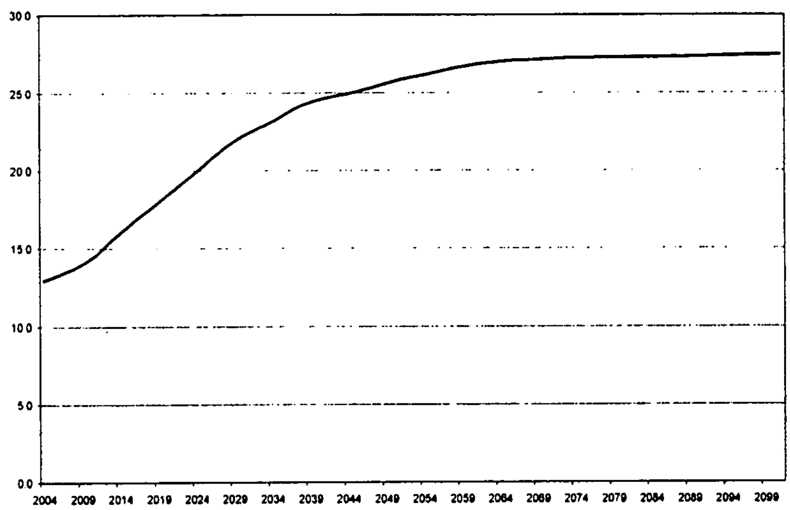
Where does this leave the *Intergenerational Report*? The report offers no discussion of the relationship between real interest rates in Australia and the growth rate, and thus it does not explore alternative scenarios. It is pertinent to note, for example, that if the projected $42 billion budget surpluses over the 2005-08 triennium are not converted into tax cuts or spending programmes, the possible future sale of Telstra would make the Commonwealth a net creditor (Gordon 2005:1 see also OECD 2005). This scenario raises legitimate concerns about financial markets, for two reasons. The first is the possible elimination of risk-free government securities from private sector asset portfolios. Treasurer Peter Costello tacitly accepted this concern in the 2003-04 Budget by deciding 'to continue to issue Treasury bonds ... in order to support low cost interest rate risk management throughout the economy' (Costello 2005c). The second is that the Reserve Bank of Australia's domestic securities portfolio, used for its open market operations, will rely increasingly on non-Commonwealth and private instruments (RBA 2005; 2003). This 'implosion' of public sector debt may itself prove to be unsustainable.

What, then, are the prospects that ageing will have explosive fiscal repercussions? Recall, first, that ageing becomes a fiscal negative only in 2017. Suppose, second, that the real interest rate is equal to the real growth rate throughout (which is arguably a rather pessimistic assumption). On the least favourable fiscal projections, in which Commonwealth Government spending rises from 21 per cent to 26 per cent of GDP in the 25 years to 2042, and with no increase in the ratio of taxation revenues to GDP, the Commonwealth would move from a presumed balanced budget to a deficit equal to 5 per cent of GDP at the end of the period. If the Commonwealth's net debt is assumed to be zero at the outset, a quarter century of slowly but inexorably increasing budget deficits would imply a debt-to-GDP ratio of about 67 per cent by 2042.[3] It is not clear to us that such an increase can be described as 'explosive' or that it would represent a threat to the stability or growth potential of the private sector. The value of Commonwealth Government securities on issue was about 100 per cent of GDP until 1950 (RBA 2004; Gruen and Sayegh 2005, p. 5), and Commonwealth gross debt remained at 40-50 per cent of GDP until the mid-1960s (Fraser 1995, p. 4). The OECD average for general government debt to GDP is currently about 50 per cent. United States general government debt is about 50 per cent of its GDP, whereas Japan's is closer to 100 per cent (see e.g. Costello 2002:3; CoA 2005).

More importantly, the assumptions that lie behind this scenario must themselves be challenged. Burger (2003:13 equation 2.1) demonstrates that, if the real interest rate is below the growth rate, a stable primary deficit is consistent with a stable debt-to-income ratio (see also Aspromourgos 2002). A stable primary deficit is implied by Australia's likely future age structure because the proportion of the population aged 65 and older is expected to stabilise after mid-century, according to the latest mid-range Australian population projections (ABS 2005). Figure 1 illustrates why a stable primary deficit is implied by the data, as it is the growth in this proportion of the population that is responsible for the projected growth in the ratios of government spending and debt to GDP. Much then depends on monetary policy, which the *Intergenerational Report* treats as irrelevant to the implications of ageing.

3 These calculations are based on a 3 per cent per annum GDP growth rate and a 3 per cent real interest rate.

Figure 1: Australia's Projected Population Age 65 and Older, 2004-2101, per cent



Source: ABS (2005, series B)

Alternatively, with the interest rate equal to the growth rate, a balanced budget could be maintained if the ratio of Commonwealth tax revenues to GDP were also to rise, slowly but inexorably, from 21 per cent to 26 per cent between 2107 and 2042. On the *Report*'s assumption of a 1.5 per cent annual increase in output per person, this prospect would reduce the annual increase in post-tax real income per person from 1.5 per cent to about 1.4 per cent, which is hardly catastrophic. Here we have assumed, conservatively, that the current male and female participation rates by age will prevail at mid-century. We have also used the ABS (2003) population projections, as did Treasury, which are smaller than the ABS (2005) projections.

Given that the ageing phenomenon is global, and that Australia's competitors are facing similar problems, their tax burdens will almost certainly also be rising, so that it is difficult to argue that we would be placed at a serious competitive disadvantage on account of an excessive ratio of taxation to GDP – and Australia is notoriously close to the bottom of the OECD league table for this particular variable (Costello 2005a, appendix 1). The Treasury's 2004 report, *Australia's Demographic Challenges*, conspicuously ignores these international ageing trends when it argues the case that Australia will be at a competitive disadvantage because of ageing (Treasury 2004:25). The *Intergenerational Report* also ducks this issue, although there are some very unconvincing references to the role of fiscal sustainability in 'reducing the risk of Australian living standards fluctuating significantly due to international economic shocks' (Costello 2002:2).

This last claim seems to be a rather hesitant allusion to the old 'twin deficits' thesis, according to which budget deficits always cause (and are the only important cause) of balance of payments deficits. As a general principle, this thesis is false because it ignores the domestic deficit (or surplus) of the private sector (Blecker 1992; Wray 2006a). Elementary national income accounting reveals that:

$$(I - S) + (G - T) = (M - X)$$

where I is private investment; S is private saving; G is government expenditure; T is taxation revenue; M is imports; and X is exports. The equation is an identity. The first term (I-S) is the private sector's domestic deficit, the second term (G-T) is the budget deficit and the third term (M-X) is the trade deficit. An increase in the second term must be accompanied by an increase in the third *only* if there is no change in the first term. The equation is consistent with a number of different causal stories. In the United States the Bush administration's fiscal policy has led to the re-emergence of a huge budget deficit, which may well have contributed significantly to the rapid growth in the trade deficit. In Australia, by contrast, the transformation of the Commonwealth Government's budgetary position has had no impact on the trade deficit, suggesting that the prime mover in Australia has been the private sector deficit. It is, to say the least, not apparent that any of this has had anything to do with the ageing of the population.

We conclude that the rhetoric of 'fiscal sustainability' is being used to conceal a policy decision that can, and should, be contested. It is the neoliberal prescription – *keep taxes low*, whatever the demands of an ageing population.

'Intergenerational Equity'

One benefit of 'fiscal sustainability' is, supposedly, 'promoting fairness in distributing public resources between generations of Australians' (Costello 2002:2). This claim is also a powerful rhetorical device that conceals a great deal more than it reveals. The notion of intergenerational equity appeared on the social policy agenda after the publication of *Selfish Generations? The Ageing of New Zealand's Welfare State* (Thomson 1991). Thomson used it to attack the welfare state which, he claimed, conferred an unfair advantage on baby-boomers at the expense of their children and grandchildren.

The powerful rhetoric of equity raises a host of questions, some of which were discussed in John Rawls's seminal consideration of 'the problem of justice between generations' (Rawls 1971:284-303; see also Meyer 2003; Rawls 2001; Solum 2001; Thompson 2003a, 2003b; Wolf 2005). Population ageing is supposed to be unfair to *future* generations. This presumption is not entirely false. A simple application of the theory of surplus labour shows that it is inevitable that the young will have to work longer than they would otherwise have done in order to provide for the aged. This is true whether old people are supported by charity (through extended families, monasteries or begging bowls on the street), by occupational superannuation, or through state pensions (as argued more fully by King 1999). This elementary truth is often misunderstood or denied, though it has recently been acknowledged by an official British committee (Hutton 2004) and – surprisingly, perhaps – by the Secretary to the Australian Treasury:

> 'Let us be clear that the ability of future generations, and their governments, to meet the needs of their day will be *entirely dependent* upon the size of the economy they command at the time' (Henry 2004a:7, paraphrasing a 2003 statement by his predecessor, Ted Evans; stress added).

This disposes of the 'increase national savings' argument, which Peter Costello reiterated in the 2005-6 Budget and which underpins the Future

Fund. The case for increasing savings (to cope with an ageing population) rests on the pre-Keynesian macroeconomic notion that saving drives investment, and not the other way round. Given that it is easy to show that a quite modest increase in the rate of economic growth is by itself sufficient to deal with the fiscal problems posed by ageing (Doughney and King 2006), it is important to be clear on this issue. Faster growth commonly requires an increase in the ratio of investment to GDP, which must in turn be accompanied by an increase in the savings ratio. But it would be wrong to put the cart before the horse or, to use James Meade's metaphor, to forget that it is the dog called 'investment' that wags its tail called 'saving', and not *vice versa* (Meade 1975:62; see also Febrero and Cadarso 2006; Pivetti 2006).

To return to the question of equity between generations: there are serious ethical issues here and a corresponding substantial literature in moral philosophy, entirely ignored in the *Intergenerational Report*. Another way of doing away with any fear of an ageing 'crisis' would be to phase in a (modest) increase in the length of the average person's working life, for example by raising the normal retirement age. Is it not unfair, though, for baby-boomers to enjoy earlier retirement now while this privilege will have to be denied to their children and grandchildren? Not necessarily. As life expectancy continues to increase, the number of years of retirement that future generations can anticipate will also rise (under all but the most pessimistic assumptions). Moreover, advances in medical science will almost certainly improve the quality of life in retirement, and the expected growth of productivity means that each successive generation will be better off than was the generation preceding it. It could then be argued that the extra surplus labour required to sustain the baby-boomers in their old age is nothing more than fair compensation for the unfairness inherent in their being born poorer and less healthy than their grandchildren.

The intergenerational equity argument is thus double-edged, at least when it is taken seriously and not exploited – as it is in the *Intergenerational Report* – to camouflage neoliberal policy decisions that have been taken on quite different ethical grounds.

The NAIRU

The third piece of rhetoric employed in the *Report* is the claim that the 'non-accelerating-inflation rate of unemployment' (or NAIRU) in Australia is and will remain at 5 per cent of the working population, as conventionally measured. If so, this would be an important constraint on the capacity to deal with any economic stresses resulting from an ageing population by increasing employment levels, i.e. by running the economy closer to full capacity without causing inflation. The *Report* allows, rather tentatively, for some variation in this 5 per cent NAIRU figure on supply-side grounds, including 'changes in education, the location of work and structure of the economy', together with the impact of earlier and current 'labour market reforms' (Costello 2002:28). But there is no suggestion that the NAIRU is affected by demand conditions, or that it is in any way connected to fiscal or monetary policy.

The case against this interpretation of the NAIRU is well-known (see Arestis and Sawyer 2004). Empirically, estimates of the NAIRU for many countries have tended to track the actual unemployment rate rather closely, suggesting that demand-side factors are much more important than is often supposed. For Australia, econometric estimates of the NAIRU in the aftermath of the recession of the early 1990s placed it at around 8 per cent (see Taylor and Moosa 2002:179, for a recent and quite dogmatic assertion of this number in a popular first-year student economics text). By the early 2000s, when the actual unemployment rate had fallen to a little more than 5 per cent without any evidence of accelerating wage or price inflation, estimates of the NAIRU also declined – to 5 per cent! The *Intergenerational Report* projects this figure into the distant future (Costello 2002: 29, Chart 17).

Theoretically, there are good reasons why the NAIRU should be path-dependent and vary with the actual unemployment rate (a phenomenon sometimes described as hysteresis), so that it is strongly affected by the level of aggregate demand. Long-term unemployment increases sharply during recessions, and people who have been out of work for years tend to lose skills, contacts and motivation and thus become less and less employable. Furthermore investment falls, reducing the rate of growth of productive capacity.

Two lessons can be learned from this scenario, one positive and the other negative. Looking positively, there is no iron law of economics that prevents the unemployment rate from falling to (say) 3 per cent without disastrous consequences for inflation. The rhetoric of the NAIRU serves to conceal this possibility, and with it the contribution that such an increase in employment would make to solving the problems posed by population ageing.

Some simple calculations illustrate the point. Writing P for the prime age population (aged 16 to 65), N for the number employed, U for the number unemployed, and L (=N + U) for the total labour force, we may distinguish the labour force participation rate (L/P) and the employment rate (N/P), the former being roughly 75 per cent and the latter (with U = 5 per cent) roughly 70 per cent. Government policy is currently directed towards increasing the participation rate, for example by forcing many welfare recipients (in particular disabled people and single parents) into the labour force. Reducing unemployment from 5 per cent to 3 per cent would raise the employment rate to 72 per cent, which is roughly equivalent to a 2.67 per cent increase in the participation rate (from 75 per cent to 77 per cent). This would be a very modest adjustment required to deal with the ageing problem.

Taking a more negative view, it is important that macroeconomic policy disasters are avoided and, in particular, that there be no repetition of the policy-induced recession of the early 1990s, as a return to double-digit unemployment would make any problems posed by an ageing population very much worse. Once again, these are issues that the *Intergenerational Report* neglects.

Conclusions

The muddled thinking behind the official rhetoric on the ageing problem itself constitutes a serious problem. Although our children and grandchildren have little to worry about merely because the Australian population will get older between now and 2050, unfounded fears can have undesirable consequences, both intended and unintended. In the European Union and the United States, the 'ageing crisis' is increasingly used to justify a broad-based attack on the welfare state (see *e.g.* Kotlikoff and Burns 2004; Ferguson and Kotlikoff 2000; *cf.* Blackburn 2005). Not surprisingly, in Australia the *Intergenerational Report* has been used to promote a further shift towards the privatisation of pensions, despite the overwhelming evidence that this often represents a poor substitute for state provision, especially in the case of the low-paid (Vidler 2004; Mesa-Largo 2006). The supposed ageing problem is also cited in support of a number of other contentious policy changes, often as part of a continuing attack on what is left of the welfare state. These proposals include:

- active discouragement of early retirement, which will almost inevitably culminate (as in several European countries) in an increase in the age at which people become eligible for a state aged pension);
- continued, and probably even tighter, means- and asset-testing of the pension itself;
- an increase in the 'preservation' age at which superannuants may gain access to their superannuation funds;
- large and extremely inefficient subsidies to private health insurance as a means of reducing public expenditure on health;
- dismantling labour market protections for employees through the 2005 *WorkChoices* legislation, which will allegedly lead to accelerated productivity growth and higher employment rates;
- and the extension of the 'mutual obligation' principle to many of those in receipt of single mothers' and disability support payments, again justified in terms of the over-riding need to increase the participation rate.

The exaggerated fears of the consequences of ageing, and the accompanying rhetoric, also serve to give respectability to the extravagant. For example, an article by Philip York in the May 2004 *New Observer* magazine implied, without explicitly arguing the ethics, that death should not be optional for the aged. It says:

> Governments around the world are in crisis as pension and healthcare costs are increasing exponentially and, if governments

> are in crisis, citizens are in crisis. Tough decisions need to be made especially when it comes to healthcare, but at present few are prepared to make them because of the ethical and moral implications. Spiralling healthcare costs alone threaten to cripple the richest nations as doctors, patients, and their loved ones especially, seem to consider death almost optional as lives are extended (sometimes for only days) at enormous expense... (York 2004:33;)

Of course, health care professionals will confirm that hard decisions are made daily in hospitals and that these decisions are related both to patients' needs and the resources available to prolong and save lives (Douglas *et al.* 2001). However, once we start making those decisions according to the distorted logic that connects a greatly exaggerated problem of population ageing to neoliberal budget obsessions, then the aged will be in serious trouble. Friedrich Nietzsche once said that it is 'not the least charm of a theory that it is refutable' (1885, chapter 1, par. 18). Yet, despite being easily refutable, phrases like 'cripple', 'exponentially', 'governments are in crisis, citizens are in crisis', 'spiralling healthcare costs' and 'tough decisions need to be made' make good sound grabs. They enter into the media and policy vernacular and 'punch above their weight'.

Tempting as it might be to ignore the rhetoric of the ageing problem, it would be unwise, if not dangerous, to yield to that temptation. We need to argue about the facts, present reasonable and considered evidence *and* engage the rhetorical arguments without fearing that using ethical and moral language will somehow sully our case.

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