

Tasmania's Demographic Change –  
challenges and opportunities for leaders \*

Address to the  
  
Tasmanian Leaders Program

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\* *The opinions expressed are those of the author and are not to be associated with his employer.*

Thank you for inviting me to talk you today on Tasmania's demographic change. This issue will become increasingly important for Tasmania, including for the State's future economic prospects.

In future decades, the changes to Tasmania's population will present some major economic, social and fiscal challenges for leaders in the private, public and community sectors.

In my presentation today, I will highlight some of these challenges and discuss, in particular, the issues from a State Government viewpoint.

Before I start, I should say that predicting future population levels and trends with a high degree of accuracy is impossible, especially for more than two decades ahead.

Yet we need population projections to help us assess the likely magnitude of the changes we might expect in decades ahead. The figures I will be referring to today are from a recent set of ABS projections that we have been using at Treasury for our modelling and reports.

A key feature of all recent ABS population projections is that Tasmania's population is ageing at a rate which is not only the highest within Australia, but also very high by global standards.

In fact, while the level of population in future decades varies under different projections

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the population structure, in terms of the shares under 15, those of working age and those 65 and over varies very little.

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They reveal a fast rate of ageing, in fact an accelerating rate in most cases.

The two main measures of ageing are the median age and the population share over a certain age. Our median age, at 39 years, is the highest of all Australian states and territories, and is growing the fastest. By 2013 or so, when we overtake South Australia, we will also have a larger share of those aged 65 and over than any other state or territory.

Our faster ageing is because for decades we have had a relatively small share of the population in the 20 to 35 age group. We miss out on them, and also on their children and their future children.

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On current trends, the population share aged 65 and over will rise from just under 15 per cent of the population now to just over 30 per cent by 2046. Those aged 85 and over are likely to increase from 8 000 today to 32 000 in around four decades' time.

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In fact, this ageing has been occurring for several decades but only slowly, and at the same time as our working age population had been growing quite strongly.

Such trends present a range of challenges, many of which are not new but become more acute due to population ageing. These challenges include:

- an ageing workforce and declining labour supply;
- more people living alone, particularly older females;
- an increase in age-related illnesses and health conditions, such as dementia;
- a much greater demand for high-cost health services; and
- increased pressure on State Government finances, with rising health and other costs and a decreasing tax base.

To illustrate these challenges, I will briefly outline one possible future scenario for Tasmania. All that is assumed is that we, that is businesses, households and governments, continue to behave pretty much as we do now.

As you will see, it's not a particularly attractive scenario, and it tends to get worse for each decade out.

Firstly, if we turn to employment, we find the potential labour supply will start to decline after just three years as the number entering the workforce is less than the number leaving it.

We currently have just under two people of working age for every one person above or below that age. By 2046, this could fall to just over one person of working age. So those in work will be supporting a much greater number of people who are not working.

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The decline in the workforce could be around 900 each year from 2010 to 2020, around the number employed at the Rio Tinto and TEMCO smelters together. A loss of 9 000 over 10 years represents around four per cent of our workforce.

There is likely to be increasing national, and even global, demand for skilled workers, so some of our employers will face difficulties in recruiting and retaining workers, who may be attracted by higher paying jobs on the mainland and overseas.

Employers will face not only a declining potential supply but an older workforce with some that may not have the skills to adapt to new technology.

The reduced labour supply could hold back our State's economic growth. Our productivity growth has been less than for Australia as a whole and if this continues, we could be looking at a long term trend of Tasmania's economic performance to fall well behind that of Australia.

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On average, future retirees are likely to be better off than the current generation, due to the improvement in overall economic conditions and the cumulative effect of our national retirement incomes policy, with its compulsory employer superannuation support.

However, we can expect a high level of inequality in income and wealth among our elderly population. We therefore expect to see a larger number of low income older persons than today.

We are observing some significant differences in health status between low and high income households – smoking and obesity rates are just two examples. For many, this poor health will stay with them for their whole lives: diabetes is one example.

On the one hand we can expect average incomes and wealth levels to be increasing, as they have been over past decades.

On the other, though, there will be increasing demands for health services, especially acute care hospital services, and also for community services such as assistance with housing, transport and personal care. These are high cost, labour intensive services, where it seems difficult to secure cost efficiencies and productivity gains.

For state governments, this means it will be increasingly hard to balance their budgets, primarily because of the increase in demand and cost of health services.

Our modelling has estimated that, by 2046, the State Government could face an operating loss of around \$900 million per year if current expenditure and revenue trends continue – and this ignores the interest bill on the accumulating debt. No government would allow this situation to occur.

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I'd like to turn now to how state governments are placed to deal with these issues, and Tasmanian governments in particular.

I am focussing on the State because we tend to look to the state governments to fix these sorts of problems. Partly it's because they provide many of the services that will be in greater demand due to population ageing. It's also perhaps because when problems are seen to be local, or state-specific, we turn to the state government to sort it out.

It perhaps doesn't help that state governments of all persuasion are keen to take the credit for all the economic successes in their state, whether in fact they have done much to make them happen. Equally, opposition parties are equally happy to blame the state government for any unfavourable outcomes.

This tends to feed the perception that state governments are powerful creatures that have a stockpile of policy weapons to unleash on any emerging issues.

Unfortunately, perhaps some would say fortunately, this ain't necessarily so. In dealing with the ageing issues I have been taking you through, this is especially the case.

To start with, the major policy levers, are controlled by the Australian Government, not state governments.

Take, for example, increasing the labour force participation rate as a way to address the declining working age population. Tasmania's rate is particularly low, about four percentage points below the national rate for those up to age 65. That's a gap of over 13 000 potential workers in Tasmania.

So what influences people's choice whether to enter the labour market?

Two factors are income tax and the social security system. The option to work become less attractive the more benefits that people receive when they are not working, and the more they are taxed (or lose benefits) once they work. Just about all these are Australian Government policies.

Equally, the decision when to retire is determined in large part by superannuation arrangements, in particular the eligibility age for accessing superannuation.

In New Zealand, for example, the participation rate for people aged between 60 and 64 years increased from around 32% to over 60%, over the period 1994 to 2006, due to the New Zealand Government's decision to increase the superannuation eligibility age.

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Again, this is the Australian Government's area.

Finally, there are calls for increased taxes to encourage better lifestyle choices, whether on certain food and drinks linked to obesity, on tobacco or on alcohol. Once again, these are Australian Government responsibilities.

If all states were equally affected by these pressures, the national Government might be interested in changing its policies. However, they are not. Ageing is much less an issue for Queensland or the Northern Territory, for example, than for us. Tasmania is the first cab on this rank and, as a small state, we are a pretty small cab at that.

It would take quite an optimist to expect the Australian Government to realign its policies and wear the political pain just to suit Tasmania.

If we turn to the State's financial position, no state government operates in a vacuum. Simply increasing taxes is not the solution. Higher taxes on business or households would drive investment and younger families away to lower taxing states.

Furthermore, State taxation provides Tasmania with just over 20 per cent of our total revenue. This means that you would need very large changes in tax rates to raise substantial additional revenue.

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It also means that the State has far less control over its total revenue than is generally believed, given the small share that comes from its own taxes. This obviously constrains its capacity to increase its spending. Our model of the 'all powerful' State Government is looking less and less credible.

A further problem is that the Tasmanian Government derives most of its own-source revenue from stamp duties and taxes on payrolls, gambling and motor vehicles. Much of this tax revenue is paid by, or linked to, those or working age. As the working age population declines, the tax base therefore also declines.

It is for this reason that there have been some calls for the return of death duties – most recently at the 2020 Summit – as this is a tax on wealth and therefore wealthy retirees are part of this tax base.

Again, though, if Tasmania alone were to re-introduce death duties you could stand at Launceston Airport and by the Devonport ferry and watch the exodus of wealthy Tasmanians as they leave for other states.

You can imagine that the State could introduce some major policy measures to address the rising health costs. Examples could be:

- not allowing certain elective surgery for people who are obese or who smoke; or
- charging for some public hospital services – perhaps on a means tested basis.

I need not spell out the furore that such a policy would create, if Tasmania is the only state or territory to introduce it. I think Sir Humphrey Appleby would call these measures 'courageous'.

Measures such as these would, in any case, require the agreement of the Australian Government under our Health Care Agreements that provide Commonwealth funding.

Such measures would cause much less pain for the Tasmanian Government if they were introduced nationally. However, other states and territories will not face the same fiscal issues at the same time as Tasmania, so the other states, and the Australian Government, are not under the same pressure to consider such far reaching measures.

Two other areas I would like to now focus on are investment by businesses and the behaviour of individuals and households.

I mentioned earlier that our productivity growth has been below that of Australia as a whole. This is important as, in the long term, our living standards are largely determined by how efficiently we produce goods and services.

The trend in Tasmania is partly because our rate of private investment is below national levels. These private investment decisions are made by tens of thousands of businesses across Tasmania and, for the larger businesses, they are made on the mainland or even overseas. Governments usually have very little influence in these decisions.

Equally, how efficiently these firms choose to operate, their approach to innovation and how much they train and improve the skills of their workers are all decisions made by the firm. On a day to day basis, most firms would have little or nothing to do with the State Government – their focus, quite as it should be, is on managing their businesses.

So a major component of our overall economic performance, and our future prosperity, is therefore largely outside the control, or even influence, of the State Government.

I should say that there are some very important roles for the State Government in promoting efficiency and economic growth. These include ensuring that we have the right regulatory environment to promote investment and economic growth, and ensuring that our public infrastructure, such as our road transport network, is contributing to our overall economic growth and not hindering it.

And of course the efficiency of government services is also very important, as the output of Government agencies accounts for around 14 per cent of the State's total output.

For the State as a whole, however, the future economic prospects are very heavily influenced by our business sector, and how it responds to local, national and international economic conditions.

That leaves us with what we like to call mums and dads. Just as firms make business decisions, we make decisions at the individual and household level such as regarding our education, our lifestyle - including what we eat and drink (or smoke) and how much exercise we do, whether to work or not and when to retire, and even whether obey the law or not.

In almost all of these cases, the decisions of individuals or households can impose costs on the Government or deny benefits to the broader community.

One example is education and training. Our working age population is less skilled than Australia's as a whole. In particular, we have a much larger share that left without progressing beyond Year 10.

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This makes these people less productive and less attractive to employers. Unfortunately, though, once people have left the school education system, a large number is not interested in further education. The result is a large number of low skilled adults that holds back our economic growth. They also are more likely to pass on these low skills to the next generation.

This brings up the issue of means testing the baby bonus. It seems to me that this is a good idea. We should restrict the bonus to the better educated, higher earning households to boost the productivity of the next generation!

At the state-wide level, the State Government has limited capacity to make a major impact on the skills of our adult population, apart from seeking to ensure that each age cohort entering the workforce is better trained than the cohort that leaves it.

Therefore the two key drivers of our productivity, capital investment and the skills of our workforce, are determined by decisions that are largely outside the State Government's control.

It looks like governments have made little progress in exhorting us to improve the lifestyle choices that we make. Despite the many public education campaigns, we are told that the diet for large numbers of Tasmanians is poor, levels of drinking and illicit drug taking are unacceptably high, including among the young, and obesity is on the increase.

The recent reports of high levels of smoking among pregnant women illustrates this very powerfully. These campaigns appear to be falling on deaf ears.

The result is an increasing share of Tasmania's health spending is on managing lifestyle diseases, such as those linked to smoking and obesity. This is diverting resources away from other services, including those needed to manage an ageing population. For example, it now costs \$20 million a year just to treat diabetes patients at the Royal Hobart Hospital, 10 per cent of all in-patient costs, and this is expected to rise sharply in the years ahead.

The frustrating problem is that when individuals choose to smoke, or adopt a lifestyle that results in these lifestyle diseases, they impose high costs on others. We have been reluctant, as a society though, to make people face up to these costs.

For example, private health insurers are not permitted to charge higher premiums to smokers or those who are overweight because it offends our notion of equity. We are happier to effectively overcharge those who have healthier lifestyles, to subsidise others who have a greater probability of needing high cost services.

It is probably due to this notion of equity that there would be such a furore if the State Government were to charge richer patients for some public health services. It seems that no matter what the level of income or wealth, many public health services must be free to all.

In the case of requiring ambulance services, for example, it would clearly have been very unpopular to charge fees, even if an extensive concessions system were in place for lower income households. Of course these services are not really 'free', they are simply funded by all of us.

It therefore seems that, as a community, we are not yet prepared to make tough decisions that can contribute to managing our public health system in the face of increasing demands due to population ageing.

To summarise then, demographic change will bring about some major economic, workforce and social changes and some very significant challenges for state governments.

Even though we can expect to be more prosperous as a state, some major changes will have to occur as the status quo simply cannot continue. While we would expect some support from the Australian Government under our federal system, some pretty tough decisions will have to be made locally.

As you can see, leadership challenges abound. Unlike a sudden shock, such as a pandemic or a terrorism attack, the changes are gradual and the impacts are cumulative. This means it can be tempting for government, or business or community leaders, to leave the problems for the next person in the job to tackle.

In fact, we are so used to dealing with current problems that it is very difficult to look past these to the longer term issues. And, of course, others will want you to fix today's concerns rather than looking at tomorrow's.

As a start, the State Government has been putting together a significant body of work on Tasmania's demographic change, mostly through my department. We have issued numerous discussion and information papers on many of the areas I have covered today, and further investigations are underway.

These are available on the Treasury website and on the website of the Government's Demographic Change Advisory Council.

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We are also preparing population projections for Tasmania, in consultation with a wide range of stakeholders across Tasmania. They will cover Tasmania for 50 years and all of the 29 local government areas for 25 years. This is a first for Tasmania – all other projections have been prepared by the ABS.

This will provide a guide to businesses, community groups and government departments in planning for the future. We expect that we will see some quite different trends across our State.

So what does this all mean for our next generation of leaders?

Well firstly, I hope I have convinced you that this is something that governments, the business sector, the community sector and, in fact, all of us as individuals will need to come to grips with. It cannot be left just to governments.

We know that this will present opportunities as well as challenges. For example many business opportunities will arise from having a large, largely well funded, generation of older Tasmanians.

It's also the case that we are entering into uncharted waters where we cannot be guided by the past. Therefore, leaders will have to think through what these changes mean for their organisation and plan and implement new responses.

Leadership is not always about making popular decisions and it is becoming increasingly clear that some tough strategies will be needed to manage these changes.

This applies particularly to the different levels of government, in light of the fiscal pressures they will face.

One example is our schools. With the declining number of school age children, on current trends our schools will operate at 50 per cent of capacity by 2020. Excess infrastructure and small, dispersed schools are expensive to maintain and run, and often cannot provide comprehensive and quality education.

It is likely that governments will have to consider what services they must provide, rather than ones that traditionally they have provided, and how to recover the costs of these services.

They are also likely to look very closely at whether the tax and welfare system, and government policies more generally, set up the right incentives and penalties to discourage behaviour that is against the community interest.

Three key qualities that I think future leaders will need to work through these issues are:

- One - they will need clarity about what they are trying to achieve and be able to communicate this vision.
- Two – they will need to create a collective ownership of the issues and agreement that change is necessary, even though some people may be worse off.
- Three - they will need stamina and energy to develop and implement the necessary reforms.

Finally, I'd like to end on a happy note. The upside for each of you is that your employer will have to work harder to retain you.

You are becoming increasingly poachable by other employers as you develop more skills. The workforce trends are all in your favour and soon other states will find themselves in a similar position – with employers nationally competing more aggressively against each other for skilled workers.

Interesting times.

Thank you very much.