

## A Brief Introduction to the Intergenerational Report

The Intergenerational Report (IR) was released by the Federal Government last week. The Albanese Government's first IR, and Australia's sixth, outlines a 'broader picture' view of the forces that will shape the nation's economy and fiscal position over the next 40 years. The idea is to identify the challenges coming towards Australia so that a plan can be developed to maximise opportunities and steer clear of incoming disasters.

General projections are that by 2063, Australia's:

- \$2.2 trillion economy will be 2.5 times larger, and real incomes 50% higher.
- Population will increase to 40.5 million
- Migration intake will remain constant at 250,000 (though this was labelled as uncertain)
- Health, aged care and NDIS spending will increase to 10.7% of GDP, up 6.2% from 2023
- Mean labour productivity growth will be 1.2% over the next 40 years
- Spending as a share of GDP to increase from 24.8% to 28.6%

*Forecasted: Productivity, Ageing, Climate Change, Digital Transformation, Support Services and Geopolitical Contingencies*

The three major challenges identified in the IR were to be expected: an ageing population, productivity and the adverse effects of climate change. They are far from being individual problems, however. Changes to the climate and increases in the mean age of the population, without action, would significantly slow Australia's productivity; something the infrastructure industry already struggles with. The report warned that the economic cost of climate change would be between \$135bn and \$423bn over the 40 years, largely due to reduced crop yields and a slowing effect on labour productivity. Likewise, greater heat stress and rising temperatures are set to damage infrastructure, reduce the hours worked, and decrease productivity. This effect will be particularly profound in the tourism, agricultural, construction and manufacturing sectors. More frequent natural disasters - bushfires, floods and droughts - are also going to disrupt economic activity and hinder Australia's total economic output.

Furthermore, an ageing workforce and decreasing population growth rates are expected to result in lower productivity levels. Even with the current, younger workforce, growth in productivity has been slowing down in Australia and most G20 economies since the mid-2000s. Population growth is likely to decrease by 0.3% over the next 4 decades. Consequently, the economy is predicted to grow by 2.2% per year in real terms over the next 40 years, compared with 3.1% over the previous 40.

Other important forces that will shape the national economy identified by Treasurer Jim Chalmers' IR were:

- The technological and digital transformation: the ongoing digital transformation, is expected to continue to raise incomes and quality of life over the next 40 years.
- Rising demand for care and support services: A care and support workforce twice the size it was in 2020–21 could be needed to meet demand in 2049–50. This presents strong future job opportunities, but is a workforce planning challenge. Appropriate skills and training

pathways, plus wages that reflect the value of care work appropriately, will be critical to encourage workers to join and stay in the care and support sector.

- Geopolitical risk and fragmentation: Global tensions and the global energy transition will accentuate the need to strengthen economic resilience in key areas such as renewable energy.

### *Solutions: Maximising Opportunities and Facing Challenges*

The IR demonstrates that Australia is going to have to face unstoppable shifts that are going to shape its economy. Though it also provides some reassurances that the nation will be able to ride the waves, rather than being dumped by them, as the ABC put it. As this is a 40-year projection, solutions range in specificity and are highly likely to change depending on the government that is elected. The executive summary of the IR outlines that:

- Australia can capitalise on growth opportunities presented by the net-zero transition as it has some of the world's largest reserves of critical minerals such as lithium, cobalt and rare earth elements, which are key inputs to clean energy technologies. With abundant wind, sun and open spaces Australia also has the potential to generate green energy more cheaply than many countries. In other words, Australia is likely to have a comparative advantage when it comes to green mineral extraction and net-zero energy production. Growing international demand for renewable energy and low-emissions products could present significant trade opportunities for Australia, further supporting new jobs and economic growth.
- To enable a more skilled and productive workforce, the Australian Government is reinvigorating foundation skills programs and improving access to tertiary education, including putting in place more fee-free TAFE places, establishing a Universities Accord and a new National Skills Agreement. The Employment White Paper, to be released later in 2023, will provide a roadmap to ensure our education, training, migration and labour market systems support all Australians in achieving their full potential.
- The Government is investing in digital infrastructure and working to create better conditions that support increased adoption of digital technologies by businesses. This includes additional investments in the National Broadband Network, to increase access to high-speed internet, and improve mobile and broadband connectivity and resilience of regional Australia. The Government is also helping more businesses adopt new digital technologies and investing in cyber security. In addition, the expansion of the Consumer Data Right and Digital ID can boost competition and efficiency in the services sector.
- The Government is working with the states and territories to build a more sustainable infrastructure pipeline, expand the housing supply so people have access to affordable housing where jobs are being created, and progress broad-based productivity-enhancing reforms across the economy, including those associated with the net zero transformation. The Government has also announced that the Treasury will review competition settings.
- The Government's Economic and Fiscal Strategy is making government finances stronger and more resilient, rebuilding fiscal buffers, and reducing the debt burden on future generations. This is being supported by disciplined spending, directing the majority of tax receipt upgrades to budget repair and policy decisions that address structural budget pressures.

This includes the NDIS Financial Sustainability Framework and reforms to increase the fairness, integrity and sustainability of the tax base.

- The Government is committed to adapting to a sustainable and productive care and support economy that delivers quality care. This has been reflected through reforms to strengthen Medicare, funding better pay for aged care workers and introducing stronger standards for care. The Government is also delivering the National Care and Support Economy Strategy and established the NDIS Review.

Read the whitepaper here: <https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf>.