The Australian

Ageing is worth its challenges

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I USED to worry about growing old but, as Bob Dylan said, I'm younger than that now. Or at least I was until I read the Productivity Commission's recently released report, "Caring for Older Australians".

The report is an admirable, if frightening, piece of work. It engages with the complexities of our aged-care system and shows it is over-regulated and financially unsustainable.

Continuing as we are is therefore not an option: the report's recommendations would reshape aged care in this country. There will be time to examine those recommendations. But it is important first to stand back and consider population ageing at its broadest. Start at the beginning, literally.

From 300,000 to 50,000 years ago, as we evolved a body capable of lifespans of 120 years or possibly more, our ancestors experienced the first great increase in human longevity, with immense consequences.

As we became the only mammal (with the exception of some whales) whose females survive well beyond reproductive age, rising longevity increased the supply of carers, particularly grandmothers, relative to that of newborns, reducing the cost and increasing the quality of child-bearing and rearing.

At the same time, rising longevity lengthened time horizons, increased the returns on investing in learning and allowed extended apprenticeship, including in producing tools and in rituals that transmit knowledge.

This allowed order of magnitude increases in output and set the stage for the shift to sedentary societies, which proved crucial to continued development.

By our standards, however, actual lifespans remained very short. Moreover, after that first transition, life expectancy barely improved until a second dramatic demographic transition began in the late 18th century and became widespread in the 20th.

In 1800, life expectancy at birth surpassed 35 years in only a few places; in most of the world, including relatively rich countries, it may not have exceeded 25. By the end of the 20th century, long lives were a near universal phenomenon, with life expectancy exceeding 80 years in the most advanced countries and still rising. At the same time, as ever more children survived infancy, global birth rates fell from 46 per thousand population annually to barely 20. Family size, which rose when infant mortality fell, thus reverted to or below its initial levels. But because the drop in birth rates substantially lagged that in death rates, world population increased an unprecedented sevenfold.

Rapid population growth caused an initial youthening of the age distribution, all the more as mortality diminished first and most for the young. But particularly in the richer countries, that was soon followed by a marked rise in the proportion of the population of working age. By reducing the share of resources that needed to be devoted to the young, while increasing the return on investment (as labour supply expanded relative to the capital stock, increasing profits relative to wages), this bulking of the working-age brackets provided economies with a large demographic dividend, allowing high savings and rapid capital formation. However, this gain proved transient as low birth rates and rising life expectancy inevitably increased the population share of the old and then very old. Indeed, at some point between 2015 and 2020, the global population aged 65 and over will, for the first time ever, exceed that aged five and under.

This increase in the population share of the aged is a once-off phenomenon: as birth and death rates converge to very low levels, the population tends towards being evenly distributed in every age bracket, excepting the oldest, which becomes the only one materially affected by mortality. But globally, that stabilisation could take many decades. Moreover, even once it is complete, the number of elderly people will be at unprecedented levels. And in the rich countries, including Australia, the increase in older age groups, both absolutely and relative to population, is magnified by the succession of the great post-war baby boom with the subsequent baby bust. The result is a tsunami of boomers who will hit their 80s in the 2030s and many of whom can expect to live for 10 or more years after that.

That this raises myriad economic and social issues is obvious. Historically, longer lifespans have been accompanied by the development of productive roles for those who made it to higher ages. However, that adjustment involves long time lags, and recent studies suggest average depreciation rates for human capital remain high, so that productive capacity and market earnings decline steeply with age. This means the rising numbers in older age brackets must finance their consumption through claims, financial or political, on the output of the (relatively smaller) population of working age.

Moreover, ageing will continue to bring with it pathogenesis that degrades the functional integrity and homeostasis of the body. These normal processes will be accentuated by the rising incidence of chronic conditions such as obesity, which appear more likely to increase morbidity than mortality in the older population. And increased survivorship entails a steeply rising risk of dementia and other neurodegenerative conditions.

As the resulting increases in morbidity are very unevenly distributed in the population in frequency, severity and duration, the outlays that need to be financed will vary greatly in ways that at least at present, individuals cannot predict.

The financing of consumption in old age therefore has a marked insurance dimension as well. How that insurance will be provided is the central problem in funding aged care. It is a problem our present arrangements handle poorly; to improve on that, the commission makes a number of proposals that I will analyse in more detail later.

But it is crucial to note that population ageing is a challenge well worth having. Few aspects of human development are as highly valued as the rise in longevity: given a choice between living in the Australia of 2011 but with the life expectancy of 1960, or living in the Australia of 1960 with today's life expectancy, most people would surely forgo higher per capita income for 11 more years of life.

Rising life expectancy, in this demographic transition as in that of thousands of years ago, has therefore vastly increased welfare. Good on the Productivity Commission for highlighting choices we need to make if the gains are to be fully realised.

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