Sustainability and Equity in the Australian Generational Economy

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Introduction

Explore indicators of

- Consumption
- Fiscal sustainability
- Intergenerational inequality

In Australia

For the time period between 2010 and 2066

Across 72 demographic and economic scenarios

- 24 demographic scenarios
- 3 economic scenarios

Consumption

Indicator

- Mean per capita consumption across all ages between 2010 and 2066

Fiscal sustainability

Indicator of fiscal unsustainability

- Similar to the “consumption deficit” as described by Gal and Monostori
- Consumption deficit = (PVC – PVL) / PVL
  - PVC = Present value of aggregate consumption between 2010 and 2066
  - PVL = Present value of aggregate labour income between 2010 and 2066
  - Discount rate = 5 per cent per annum
- Indicates the extent of future consumption unfunded by labour income

Intergenerational inequality

Indicator

- IGI index for consumption for the time period between 2010 and 2066

Essentially

- Gini coefficient for age-adjusted inequalities in consumption across birth cohorts

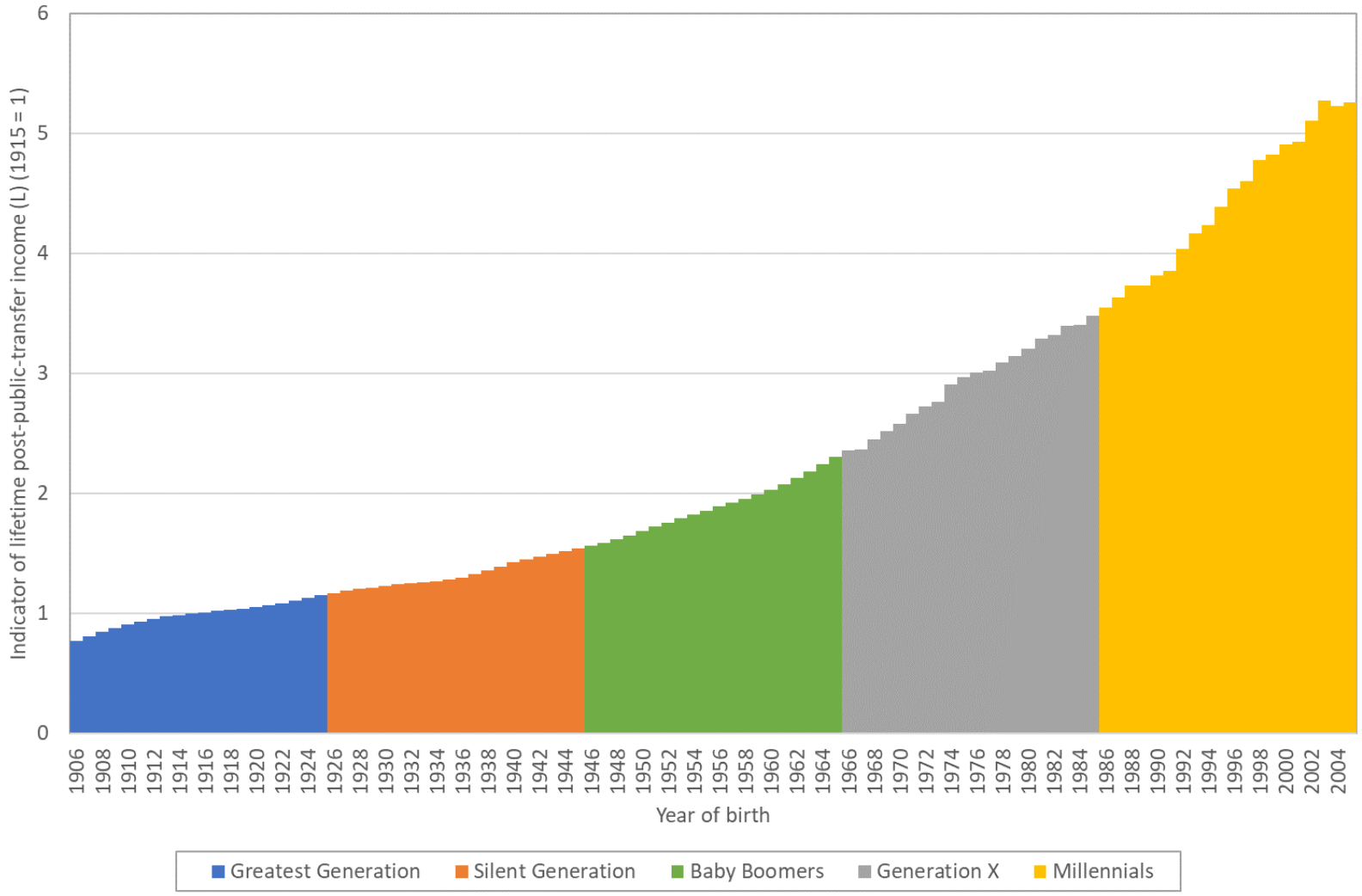
Why care about intergenerational inequality?

For more information on the IGI index

- James Mahmud Rice, Jeromey B Temple, and Peter F McDonald (2020) "Intergenerational Inequality and the Intergenerational State" ARC Centre of Excellence in Population Ageing Research Working Paper 2020/10.

Per capita income by birth cohort, Australia, 1981-82 to 2009-10

Age-adjusted income by birth cohort, Australia, 1981-82 to 2009-10 (1915 = 1)



24 demographic scenarios

Total fertility rate

- High, medium, low

Life expectancy at birth

- High, medium

Net overseas migration

- High, medium, low, zero

3 economic scenarios

Equal growth

- Consumption and labour income grow at 1.5 per cent per annum

Component-specific growth

- Individual components of consumption and labour income grow at the rates at which they grew between 1981-82 and 2009-10
- Between 1981-82 and 2009-10, generally
  - Components of consumption grew by more than 1.5 per cent per annum
  - Components of labour income grew by less than 1.5 per cent per annum

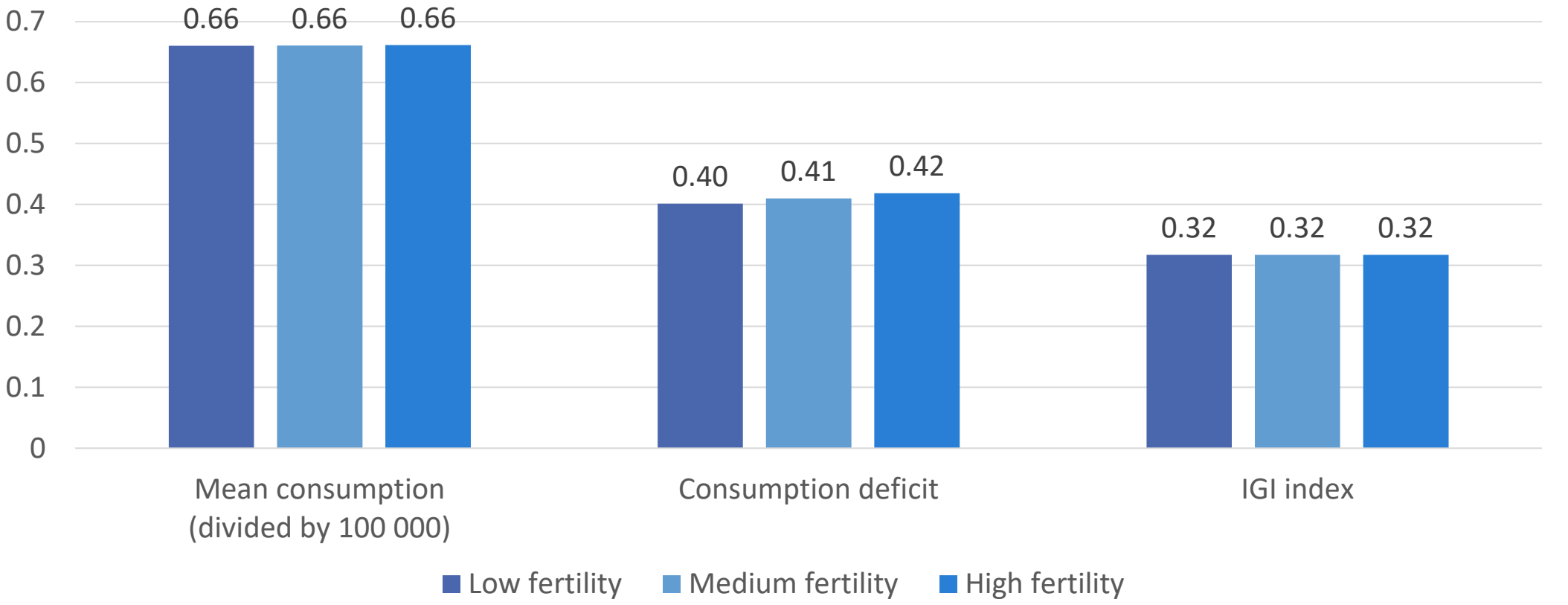
Zero growth

Data sources

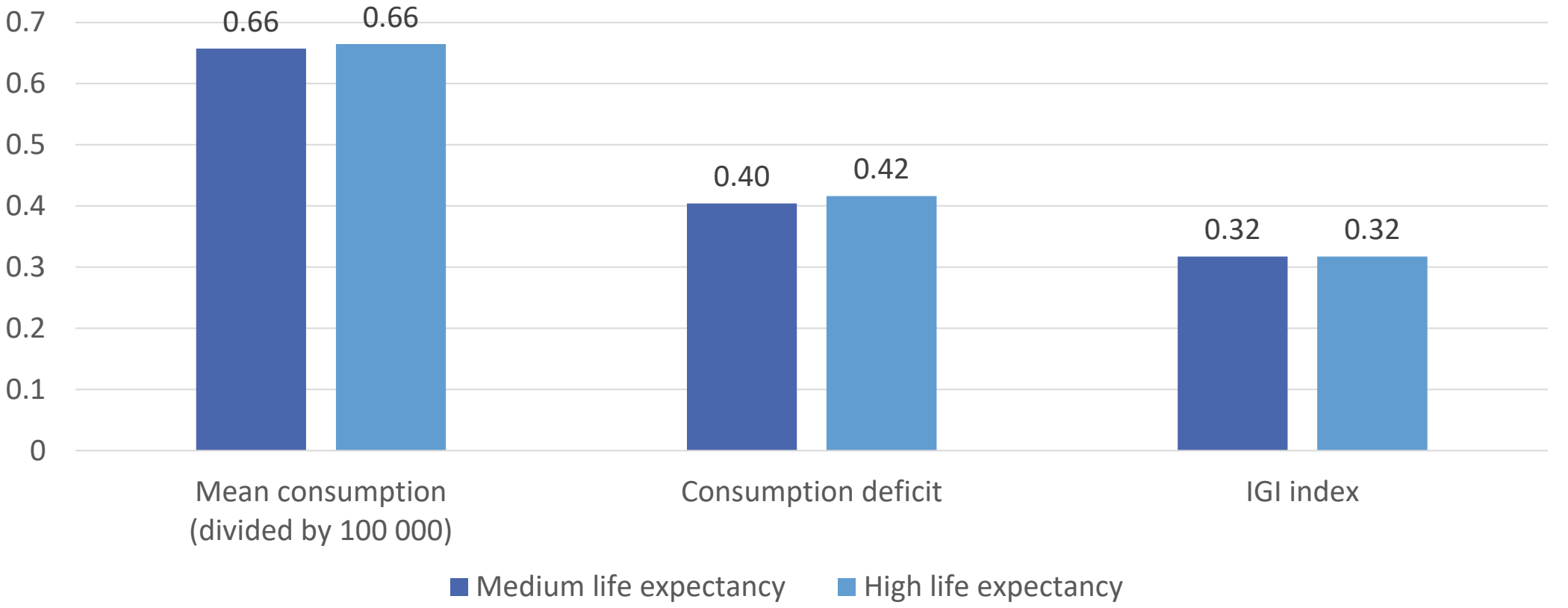
Australian National Transfer Accounts, 1981-82 to 2009-10

Australian Bureau of Statistics population projections, 2017 to 2066

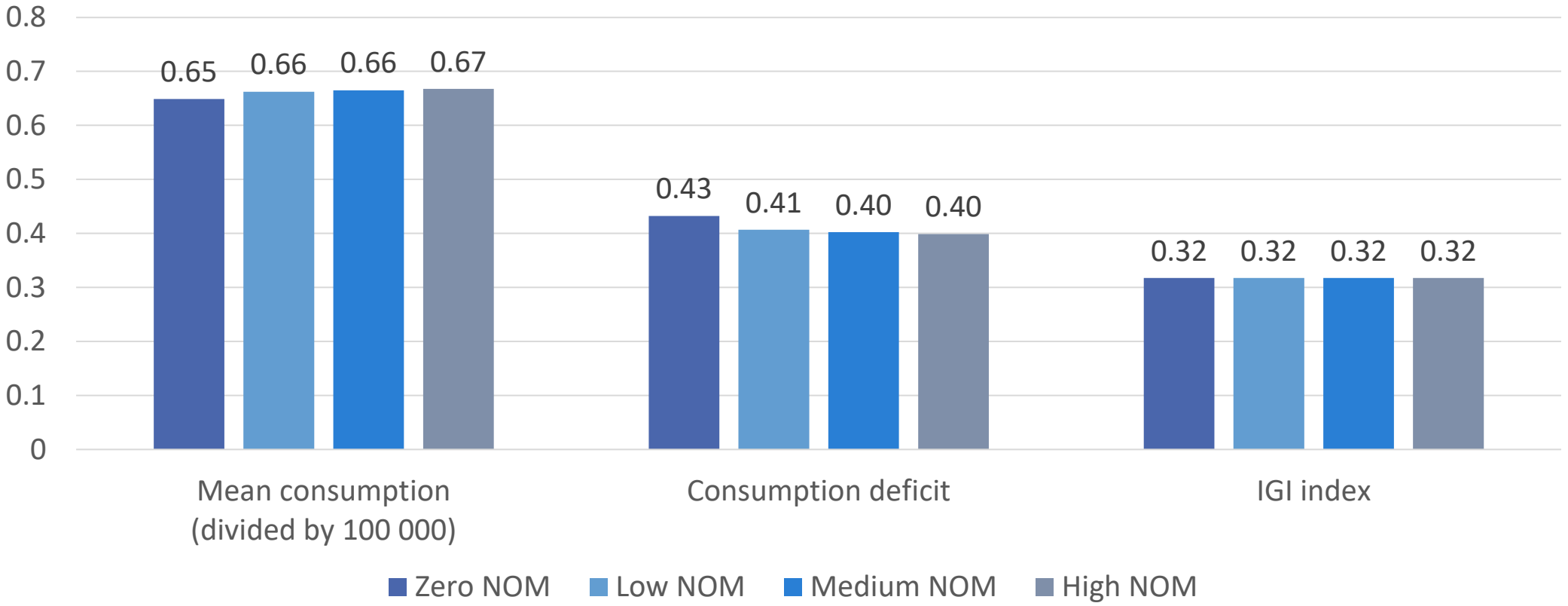
Total fertility rate



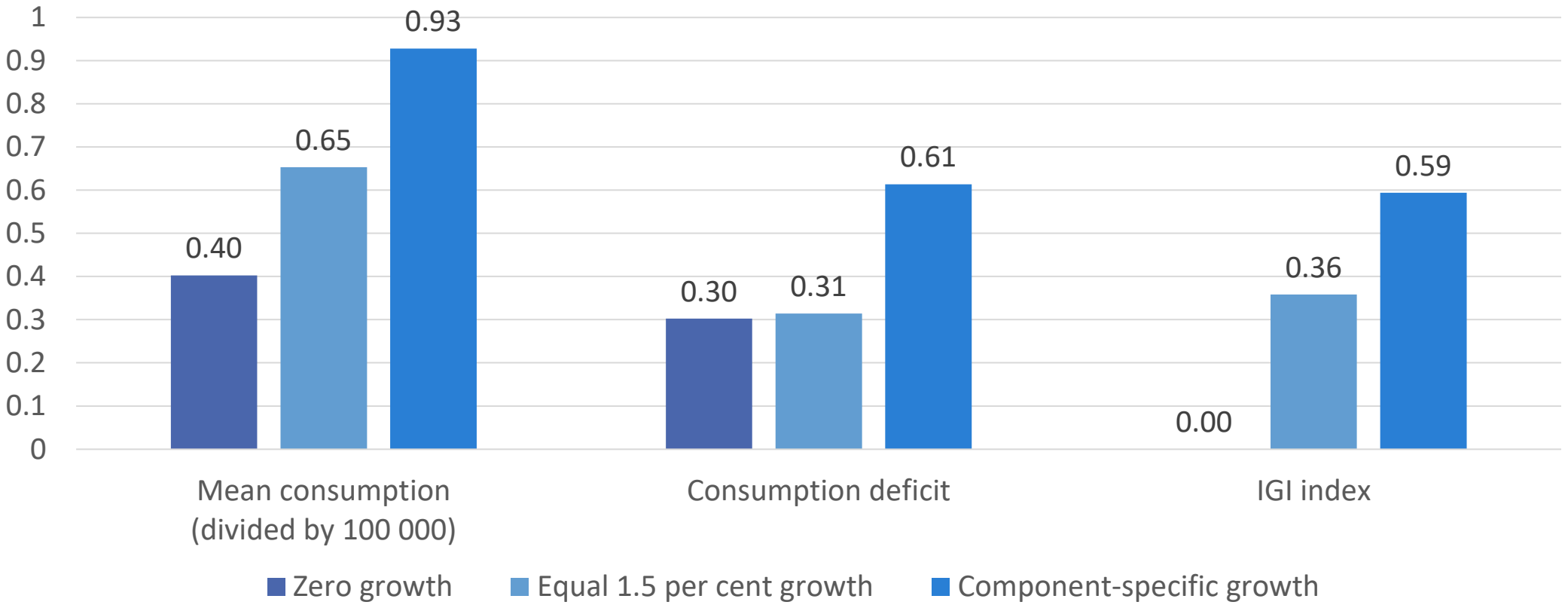
Life expectancy at birth



Net overseas migration



Growth


1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
0.40
0.65
0.93
0.30
0.31
0.61
0.00
0.36
0.59
Mean consumption (divided by 100 000)
Consumption deficit
IGI index
Zero growth
Equal 1.5 per cent growth
Component-specific growth

Conclusion

Other indicators of consumption, fiscal sustainability, or intergenerational inequality?

Additional economic scenarios

- Additional growth rates
- Additional policy-specific scenarios, for example
  - Later retirement
  - Higher female labour force participation

Extending population projections beyond 2066

From discussants

Latif Dramani

- How has COVID-19 affected future trajectories of consumption and labour income?
  - Consumption
    - Shift from the market to households and so outside the standard, non-NTTA national transfer accounts
  - Labour income
    - Lower labour income for women, as well as older Australians and especially younger Australians
- High fertility and high life expectancy seem to have similar effects
  - Similar overall effects, but high fertility probably operates through younger people while high life expectancy probably operates through older people

Maria Rivera

- Unfortunately I couldn't hear her comments and questions because of internet issues