

Barton Deakin Brief: Intergenerational Report

28 June 2021

Overview

Today, Treasurer the Hon. Josh Frydenberg MP released the fifth Intergenerational Report (**IGR**), which provides a 40-year projection of the Australian economy, the age and size of the population, and the long-term impacts of Budget measures. This IGR foreshadows the longer-term consequences of the pandemic. The report uses the three-P framework to assess trends: population; participation; and productivity.

Key Facts

| Measure | Current | 40-year projection |
|--|---------------|--------------------|
| Population | 25.7 million | 38.8 million |
| Population growth | 0.1 per cent | 0.8 per cent |
| Working-age people : over 65-year-olds | 3.9 : 1 | 2.7 : 1 |
| Participation rate | 66.3 per cent | 63.6 per cent |
| Real GDP growth | 1.2 per cent | 2.6 per cent |
| Underlying cash balance | -7.8 per cent | -2.3 per cent |
| Net debt to GDP | 30.0 per cent | 34.4 per cent |
| Spending Projection (per cent of GDP) | Current | 40-year projection |
| Health | 4.6 | 6.2 |
| Aged care | 1.2 | 2.1 |
| Age and Service Pension | 2.7 | 2.1 |
| Payments to individuals | 4.8 | 2.7 |
| Education | 1.9 | 1.2 |



Key Findings

1. The Australian population is growing slower and ageing faster than expected, with impacts on economic growth and workforce participation.
2. The Australian economy will continue to grow, but slower than previously thought, and will continue to be dependent on productivity gains.
3. Debt is sustainable and low by international standards, but the ageing population will put significant pressure on revenue and expenditure.

Initiatives

Tax

Stage three is legislated to remove an entire tax bracket. Further, the company tax rate for businesses with an annual turnover of less than \$50 million will be 25 per cent. The Treasurer reaffirmed that tax receipts would be capped at 23.9 per cent of GDP, which is forecast to be reached in 2035-36. This has in part reflected the fall in GDP during the pandemic. This will continue to be affected by bracket creep in personal income tax and may be affected by the movement to establish a global minimum company tax rate.

[Full expensing of investments](#) and the [loss carry-back](#) will continue for another year. The Treasurer also foreshadowed that the patent box announced in the 2021-22 Federal Budget may be extended to other sectors such as energy and manufacturing.

Climate

The Treasurer acknowledged that there are physical risks and transitional risks associated with climate change. Some industries like agriculture are subject to physical risks, others like mining are affected by transitional risks. Banking and finance could face a combination of the two. Central to the Government's plan are mitigation, adaptation, technology, and investment.

He outlined opportunities in the [technology investment roadmap](#). The Treasurer flagged that there would be continued opportunities in hydrogen, carbon capture and storage (CCS), and gas as a transition fuel.

Productivity

The Treasurer referred to two prongs of labour productivity: capital deepening and multifactor productivity.

To promote capital deepening (increasing investment by business), the Treasurer highlighted an extension of expensing provisions, an expansion of the patent box, and flagged that the Government would like to revisit legislation for enterprise Agreements for greenfield sites.

For multifactor productivity (increasing capital and labour inputs), the Government has continued the JobTrainer program, passed consumer data right protections, passed the automatic mutual recognition (AMR) of occupational licences amounting to a \$2.4 billion productivity gain, and passed [Your Future, Your Super](#) reforms.

Migration



Migrants will be Australia's largest source of population growth. Immigration accounted for 60 per cent of population growth over the past decade, and this is expected to rise to 74 per cent by over the next 40 years. The long-run assumption for immigration is 235,000 fixed per year. The contribution of migration to overall population growth over the projection period declines each year.

Conclusion

The Treasurer indicated that there were "no more big bang reforms" like those seen in the past (floating the dollar and the creation of the Future Fund). He flagged that there would be a Productivity Commission report five years on from the 2017 '[Shifting the Dial](#)' report.

For more information

To read the Intergenerational Report, [click here](#).

To read the Treasurer's Media Release, [click here](#).

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