John Button Oration – The Next Generation's Australia

Danielle Wood, Grattan CEO

Thank you to everyone for joining us.

I am coming to you today from Grattan's Carlton office on the lands of the Wurundjeri people and I would like to acknowledge them and pay my respects to their elders past and present.

In a speech about generational obligation, I want to recognise the way traditional owners fostered the invisible bond between their people past, present and future.

Through the idea of care for country – nurturing land, water, flora and fauna – and passing on the knowledge of how to maintain the equilibrium via stories and lores, the bonds between generations were self-perpetuating.

The very idea that people at a point in time would draw on resources at the expense of others to come – would be very foreign to them indeed. I think there is much we can learn.

I was delighted to be invited to give the John Button Oration.

John Button was Australia's longest-serving Industry Minister and by all accounts a man of principle. I suspect he would be both dismayed but galvanised by the state of affairs I want to touch on today.

John Button's legacy made a big impression on me as a young economist. He led the transformation of Australia's industry policy, helping ensure Australia was competitive in increasingly global markets. This was forward looking and brave. Some jobs were lost – as in any transition – but huge number of jobs were also created elsewhere, and the changes helped improve Australian living standards for decades to come.

The management of this transition has important lessons for today.

Economic change comes, regardless of actions by governments. By being on the front foot and actively managing the transition, disruptions to jobs and lives can be minimised and Australia given the best chance to flourish.

Putting one's head in the sand might be politically easier, but it generally leads to more pain in the long run.

John Button, like the best leaders, was able to see what was on the horizon and take the necessary actions.

I was particularly touched to be invited to speak by James Button, John's son and a former colleague of mine. And if someone's legacy is at least partly judged by the children they raise then John leaves an extra-large one. James is a magnificent writer and intellect, but also a thoughtful and kind human being.

Of course this legacy is one very much shared by John's other family. His son Nick, who is here tonight, and David, who the family lost a long time ago, his step-daughters Kate and Jane and partners, Marjorie, Dorothy and Joan Grant.

Great achievements inevitably require significant sacrifices, and these sacrifices are shared by family members.

Thank you to John's family, John Howe and the Melbourne School of Government for this opportunity.

Part 1 - A tale of two protests

On Friday 30 November 2018, thousands of school students took leave from the classroom to attend mass rallies around Australia. With an estimated 300,000 attendees across the country, and parallel events around the world, the Strike 4 Climate Action grabbed headlines.

Children, from primary school to high school, cities to regions, came out to say enough is enough. They were worried for the future they would inherit. These students were decades too young to be sitting around mahogany tables deciding on Australia's policies to tackle climate change. They were too young even to cast a vote in the elections that help decide these policies.

Instead, they made their views heard using one of the only tools they have: their voices.

Lucie Atkin-Bolton, aged 11, the school captain of Forest Lodge public school in NSW, noted:

"I'm the school captain at my primary school. We've been taught what it means to be a leader. You have to think about other people.

"When kids make a mess, adults tell us to clean it up, and that's fair. But when our leaders make a mess, they're leaving it to us to clean up."

Young people are often criticised for their political apathy. So how was this extraordinary mass display of caring, really caring, about policy and their futures received?

Our Prime Minister, Scott Morrison, urged student not to take part in the protest and told them to be "less activist". The Resources Minister, Matt Canavan said he would prefer students to learn about mining and science. "The best thing you'll learn about going to a protest is how to join the dole queue."

That same day at Dee Why RSL in Sydney there was another uprising. Far more mannered but at times no less passionate, retirees with share portfolios gathered to front politicians and share their views on Labor's policy to remove tax refunds for franking credits.

It was unusual for a Parliamentary inquiry – both for being an inquiry into opposition policy, but also in that members of the public were invited to make statements and share their views with the cross-party committee of politicians.

In brisk 3-minute windows, they made their dissatisfaction clear.

The retirees that spoke that day all stood to lose their franking credit refund cheques. For members of a couple, that meant they had a minimum of $1 million in assets,[1] most had substantially more. They received refund cheques rather than a tax deduction because they paid no tax or little tax on their income from this wealth. Even couples with more than $4 million in assets could still benefit from the refunds.

All those speaking firmly condemned the policy as unfair, even akin to stealing. And almost everyone explained that they were not rich and had worked hard for their savings.

Barry Noland spoke first and tapped the mood:

I was pleased to hear from ACOSS that I am now 'in the upper class' because the superannuation fund has assets exceeding $1 million. However, since we are an egalitarian country, I don't consider myself to be in the upper class.

If this proposal comes into effect, what are the implications for me and what am I going to do in response to it? First, I think I will book a large number of cruises to last me for the next 10 years or so. That will diminish the fund. I will make improvements to the house. I will probably put in solar panels and a few other things—no batteries—and I will whittle away the fund until I qualify for the pension.

It is becoming increasingly difficult for me to provide an 'upper-class lifestyle' from the fund that I have. If you take away the imputation credits, which account for a significant amount of my income, it is a lost cause….

From there the inquiry continued. Hearings were held around the country, from Torquay to Townsville. Disaffected self-funded retirees featured on the

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[1] The policy excluded all pensioners and part-pensioners. People over 65 were not eligible for the pension if they have assets of at least $564,000 outside of their home for homeowners, or $771,000 for non-homeowners. For a retired couple, they will have assets of at least $848,000 (homeowners) or $1,055,000 (non-homeowners).

front pages of newspapers for weeks, peaking with one delivering an infamous *7.30* interview from the back of his yacht eating TimTams.

Their concern about the policy was genuine; many were shaken at the prospect of losing thousands a year in income. This is entirely understandable.

But my question is, how did we land in a place where a proposal that asks a group of comfortably well-off retirees to make some tax contribution for the long run sustainability of public services, generates far more media attention, political backlash and ultimately policy shifts, than an entire generation calling for an inhabitable world?

Part 2 - A fraying generational bargain

Both 11-year-old school captain Lucie Atkin Bolton, and retiree Barry Noland, made powerful statements on the same day. And despite their different subject matter, both unwittingly touched on the idea of the generational bargain.

The bargain is an implicit contract between generations. It is underpinned by a recognition of the obligation of one generation to another.

Families are built around it – we care for our children and grandchildren and they in turn care for us in our older age. And while our first concern is for those nearest and dearest, we also feel a wider duty of care to other generations. Society is held together by this mutual dependence between people of different ages.

But from an economic perspective, what does one generation owe to the next?

The question generates an unusual alignment across ethical schools.

If we accept that people born at one point in time are no less deserving – even though they will be shaped by difference forces – then the egalitarian approach says that we should embrace the Principle of Intergenerational Neutrality – no generation should be preferenced above any other.[2]

Consider the famous Rawlsain veil – if we were to be randomly allocated to be born to any generation past or future, without knowing which, what type of intergenerational transfers would we like to see? Rawls argued that once we

[2] Taking the egalitarian approach of Rawls, we should come to a philosophical position based on how we would wish to be treated ourselves *without knowing what position we would be born into*. In intergenerational matters, from behind this 'veil of ignorance,' not knowing which generation we are part of, we "agree to a savings principle (or principle of intergenerational transfer) subject to the further condition that we must want all *previous* generations to have followed it. (Gosseries, A. 2004, *Penser la justice entre les générations,* section 3.2).

have passed the point in time where generations should make a forward payment to build just institutions, there would be no case for positive transfers.

So each generation stands on its own feet on average – sounds reasonable. But one exception the egalitarians advanced was that if there is legitimate expectation of a major future shock to wellbeing – for example an environmental catastrophe (hold that thought) – people today should at least partly compensate future generations for that harm.[3]

Libertarianism too provides a foundation for principles of intergenerational justice. While individuals may have the right of private output applied to property,[4] this is justified so long as there is 'enough and as good' for those who follow.[5] Translated into intergenerational terms, this implies future generations should have the same opportunities as if the previous generation had done nothing.[6]

Importantly there is no ethical framework that justifies people taking more today at the expense of future generations.

In Australia's, and much of the world's recent history, the generational bargain has gone beyond what ethical principles would demand. The bargain has been both generous and hopeful: we aspire to leave the world a better place for future generations.

And in many ways we have delivered.

Since the Second World War, each generation has been substantially healthier, wealthier and better housed than their parents at the same age.

But is this generation-on-generation progress guaranteed?

The answer is no – and for many reasons, I believe the longstanding bargain is fraying at the edges. We are making decisions that preference current generations over future ones.

But I'm not here today to put my hands up in despair – the generational bargain might be frayed, but it's not broken. I genuinely don't believe middle-aged and older Australian today care less about our future Australians than previous generations – but the need for that care to find expression in our policy choices is becoming more urgent.

Part 3 - Have you ever had a pay rise?

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[3] *ibid*. The other is differences in population size, that might require positive savings to ensure that each generation has equivalent access to resources.

[4] Starting with Locke in the 1600s.

[5] Peter Singer (2002) *One World: The Ethics of Globalisation* p. 31.

[6] Steiner, H. and Vallentyne, P. (2009) "*Libertarian Theories of Intergenerational Justice*" Chapter 2, *Intergenerational Justice,* Oxford University Press.

What do generational labels even mean? The Silent Generation, Boomers, Generation X, Millennials, Gen Z -- the boundaries are fuzzy, but generational cohorts are often grouped by demographers and sociologists to draw generalisations about those who grew up in similar times with perhaps similar formative life experiences.

In an economic sense, it is also true that generations share experiences that shape their ultimate living standards.

If I had only one question to ask to identify someone's age by their economic experience it would be this: have you ever had a pay rise?

For most of us, it seems a silly question. But for many under-35s, the answer – at least in terms of a pay rise that improved their real living standards -- would be no.

The 2008 GFC – like all economic crises – saw employment take a hit. But unlike other crises, we were still seeing the effects in labour markets at the time the coronavirus began to disrupt our lives in 2020.

While weak wages growth has bitten all ages groups, for younger people it has been particularly pronounced. Workers aged 20-34 experienced close to zero growth in real wage rates from 2008 to 2018.[7]

Contributing to poor outcomes is that younger people are 'falling down the jobs ladder', in the words of former Bank of England Chief Economist Andy Haldene.[8]

The Australian Productivity Commission has found that people joining the workforce in the past decade have graduated into less attractive occupations on average, for a given level of education, than previous generations.[9]

And with young university graduates moving into lower-level roles, other young people without the same qualifications are pushed even further down the ladder – in jobs more likely to be characterised by part-time and causal work.

This has been accompanied by a big rise in underemployment – workers not getting all the hours they want – particularly among younger age groups.

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[7] de Fontenay, C., Lampe, B., Nugent, J. and Jomini, P. 2020, Climbing the jobs ladder slower: Young people in a weak labour market. Productivity Commission Staff Working Paper.
[8] Haldane, A. 2019, 'Climbing the Jobs Ladder', Speech, Bank of England, Glanford Park Stadium, Scunthorpe.
[9] de Fontenay, C., Lampe, B., Nugent, J. and Jomini, P. 2020, Climbing the jobs ladder slower: Young people in a weak labour market. Productivity Commission Staff Working Paper.

The overall effect of flatlining wages and rising underemployment? Under-35s in 2018 had, on average, lower incomes than those of the same age a decade earlier.[10]

Australian youth are far from alone in this experience.

Just before the COVID crisis, the Institute of Fiscal Studies in the UK released analysis that showed those born in the 1980s were the first post-war generation not to have higher median incomes in their early 30s than those born a decade earlier.[11]

Similarly in United States, Millennials are less well off than members of earlier generations were when they were the same age, with both lower earnings and less wealth.[12]

The takeout is clear: when growth is weak and labour markets have excess capacity – younger people bear the brunt through stagnant wages and high underemployment. Without strategies to boost activity, productivity, and wages, generation-on-generation progress on incomes is NOT guaranteed.[13]

Where young people emerge from the more recent COVID shock remains to be seen. Youth unemployment hit 16% at the worst of the crisis, and underemployment touched another 24%.[14] While jobs are bouncing back strongly, it is not yet clear whether we have the right policy settings to have our young people climbing that jobs ladder again.

This must be a priority.

But while the impact on labour market outcomes remains uncertain, what is clear is the COVID shock has widened even further the generational chasms in wealth.

Part 4 - the Great Australian Nightmare

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[10] Productivity Commission 2020, *Why did young people's incomes decline?*

[11] Jonathan Cribb 2019, Intergenerational Differences in Income and Wealth: Evidence from Britain. Fiscal Studies, Volume 40, Issue 3.

[12] Kurz, C., Li, G., and Vine, D. 2018, *Are Millennials Different?* Finance and Economics Discussion Series.

[13] Most of the analyses that argue that each generation will be better off rely on the fact that income growth will continue to ensure rising living standards. For example, Schelling suggests we should be wary about expending our own resources for the benefits of our wealthier descendants. See discussion in: Cass R. Sunstein (2009) *Worst Case Scenarios*, Cambridge: Harvard University Press, p. 272.

[14] ABS labour statistics.

Since World War II, Australia has been a nation of homeowners. Home ownership rates peaked at over 71% in 1966.[15] Almost three-quarters of the nation was on the property ladder and living the dream – home ownership was celebrated as an indicator of success, security, and quality of life.

Ownership rates declined very gradually in following decades but then sharply since the early 1990s, when house prices and incomes started to diverge. At the 2016 Census, home ownership rates were at their lowest level since 1954.[16]

But what has been particularly striking is the drop among young people.

In 1981, when the boomer generation was settling down and having families, 67 per cent of 30-year-olds owned their own home. In 2016, the equivalent figure was 45 per cent.

But even this hides an even more concerning disparity – the huge fall among poorer young people. In 1981, 60 per cent of the poorest 25-34 year-olds owned a home.[17] Today the figure is just 20 per cent.[18]

In contrast, for the richest 20 per cent of young people, ownership rates have fallen only modestly in 40 years -- demolishing the suggestion that plummeting ownership rates reflect different preferences or the breakfast choices of today's young people.

Young people want to own their home as much as ever, but the fact remains that it is now only the richest ones, or the ones with the richest parents, that can afford to.

Along with the challenges of renting in a country that has some of the least-friendly rental laws in the world, the locking of young people out of the housing market has undercut their capacity to accumulate wealth, especially compared to older generations that have reaped the windfall gains in wealth that have come from the spectacular rises in house prices, and those of other assets, over the past 25 years.

The wealth of households under 35 has barely moved in 15 years. And poorer young Australians have less today than poorer young Australians did 15 years ago.

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[15] Kryger, T. 2009, *Home ownership in Australia—data and trends*. Department of Parliamentary Services Research Paper.

[16] Eslake, S. 2021, *Housing affordability and home ownership*. Submission to the House of Representatives Standing Committee on Tax and Revenue's inquiry into Housing Affordability and Supply.

[17] Those in the bottom wealth quintile.

[18] Wood, D., Griffiths, K., and Emslie, O. (2019). *Generation gap: ensuring a fair go for younger Australians*. Grattan Institute.

In contrast, wealth for older households has grown rapidly. A household headed by someone aged 65-74 had on average $1.3 million in assets in 2017, up from $900,000 for the same age group in 2004. Rising asset prices over the past 5 years, mean this figure is almost certainly substantially higher now.

These growing wealth gaps are not because young people don't work hard: more young people today combine work with post-school study to get by, and if they are lucky enough to get a full-time job on graduation, they can expect to be working around 38-39 hours a week, the same as their parents were in the 1980s.[19]

Nor can we blame too many avocado brunches: young people spend less on 'discretionary' items – recreation, alcohol and tobacco, clothes and personal care, household services and furnishings -- in real terms today than people of the same age three decades ago.

To the extent that they are spending more it's on essentials -- housing, power, food, medical care, and transport – with rises in housing costs being the biggest contributor.[20]

Let me be clear about what younger people (and indeed some older people) are up against.

Think about your job for the past year – if you were one of the lucky ones that had one – and everything you put into it. The hours, the physical, mental, and emotional energy. For those life-dominating efforts, the average Australian worker earned about $68,000,[21] or just over $90,000 for the average full-time worker.[22]

Now think about your house, if you own one. Your shelter, the place you return home to. I'm sure you spent some time on maintenance and upkeep. But unless you are featuring in the next season of Grand Designs, I'm guessing it consumed substantially less of your time and energy than your job did.

Guess what your house made you last year – about $140,000 for the average house in Victoria, and more than $200,000 for the average house in New South Wales.[23]

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[19] ABS Labour Force Survey, October 2021

[20] Wood, D., Griffiths, K., and Emslie, O. (2019). *Generation gap: ensuring a fair go for younger Australians*. Grattan Institute.

[21] Average weekly earnings (all persons), May 2021.

[22] Average weekly earnings (full-time total earnings), May 2021.

[23] ABS Residential Property Price Indexes, June 2021.

How can it be that a relatively low risk, low effort investment can often provide greater returns than a year of hard work? And for those saving for a deposit? They are almost invariably further away than they were a year ago.

Part 5 – the Jane Austen world

The inevitable riposte to these concerns about widening gaps in generational wealth accumulation is, 'inheritances will fix the problem'.

It is true inheritances will be a huge feature of the Australian economy in future decades.

With a swelling of our national household wealth to $13.4 trillion – up more than 120 per cent since the GFC[24] most in the hands of older Australians, there is an awfully big pot of wealth to be passed on.

Big inheritances boost the jackpot from the birth lottery. Richer parents tend to have richer children.

Among those who received an inheritance over the past decade, the wealthiest 20 per cent received on average 3 times as much as the poorest 20 per cent.[25]

And inheritances are increasingly coming later in life. As the miracles of modern medicine have extended life expectancy, the age at which children inherit has increased. The most common age to receive an inheritance is late-50s or early-60s – much later than the money is needed to ease the mid-life squeeze of housing and children that Gen Y's face.

Of course many parents are also dipping into their savings to help their children into housing now. Indeed, Reserve Bank Assistant Governor Luci Ellis belled the cat earlier this week that this is now the *only* realistic way for many young Australians to enter the housing market.[26]

But this, too, is mainly the domain of the wealthy.

Large intergenerational wealth transfers can change the shape of society. They mean that a person's economic outcomes relate more to who their parents are than their own talent or hard work.

French economist Thomas Piketty has warned of a "Jane Austen world" where inequality is exacerbated by ever-growing inheritances.

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[24] ABS National Accounts (seasonally adjusted).

[25] Wood, D., Griffiths, K., and Emslie, O. (2019). *Generation gap: ensuring a fair go for younger Australians*. Grattan Institute.

[26] Adams, D. 2021, *The best bet for young people who want to buy a home is to have parents who already own one, the Reserve Bank has admitted*. Business Insider Australia.

Easing intergenerational inequality means policies that work for the whole generation, not just those lucky enough to have a private safety net.

Part 6 – An intergenerational swindle

'Demography is destiny' or so French sociologist Auguste Comte told us.

Every five years the Australian Government releases an Intergenerational Report, reminding us of one facet of this destiny: that, without action, an ageing population and other changes will leave public finances looking ugly.

The fallout from COVID means the 2021 report was a sea of red. Budget deficits for 40 years, with net debt still at 34.4% of GDP in 2061, and the interest cost of serving that debt growing to 1.7% of GDP.[27]

But even these numbers are based on rosy assumptions about productivity, and discounting the future costs of climate change.

The underlying structural challenge comes from the different size of generations and the implicit generational bargain we have weaved into our tax and welfare system.

Working-age Australians, as a group, are net contributors to the budget – they pay more in taxes than they receive in either welfare benefits or spending. These contributions support older Australians who take a lot more out in spending and pension payments than they contribute in taxes.

Today's working-age Australians of course anticipate that the generation after them will support them in the same way as they age.

So far so fair.

But what will make it more challenging for today's young people to uphold their end of the bargain is that the destiny of demography is working against them.

The number of working-age Australians for every person aged 65 and older fell from 7.4 in the mid-1970s to 4.4 in 2015, and is projected to fall to just 3.2 in 2055.

This could be seen as just bad luck for today's young people. There are swings and roundabouts that all generations have had to grapple with.

But what I think is less easy to accept is a series of policy decisions that have substantially increased the size of the intergenerational transfers – supercharging these future demographic pressures.

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[27] Commonwealth of Australia 2021, *Intergenerational Report: Australia over the next 40 years*.

First, health spending is climbing. Commonwealth health spending has been climbing by 3% a year over and above inflation for the past decade. State health spending has grown at 3.7% a year in real terms.

The increase has been particularly stark for those in their 70s and 80s – with average health spend per person increasing by more than $4,000 in just 12 years.

Second, age care spending is also growing strongly.

Australian Government spending on aged care has increased by over 40 per cent in real terms since 2012-13. While the number of people living in residential aged care facilities has remained relatively stable in recent years, the number of people accessing a Home Care Package has increased markedly, growing from around 60,000 in 2015 to around 170,000 by the end of last year.

Changes in the recent budget are expected to add around $4.5 billion per year in extra spending.[28]

Most Australians support increased health and aged care spending.

And the result – providing older people with longer, healthier, and more fulfilled lives -- is something we should be proud of as a nation.

But at the same time as we have decided as country to pay more to support better outcomes for older Australians, we have made a series of tax policy decisions – tax-free superannuation income in retirement, refundable franking credits, and special tax offsets for seniors – which mean we now ask older Australians to make a much smaller contribution to the delivery of services than we once did.

Incomes for households over 65 have more than doubled over the past 25 years -- substantially faster growth than for households under 55.

But households over 65 pay virtually no more income tax than people of the same age 25 years ago. Indeed, the share of older households paying *any* tax has fallen from 27% in the mid-1990s to 17% today.[29]

And that has contributed to a tax system where someone's date of birth is almost as important as their income in determining their tax contribution.

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[28] Commonwealth of Australia 2021, *Intergenerational Report: Australia over the next 40 years*.

[29] Wood, D., Griffiths, K., and Emslie, O. (2019). *Generation gap: ensuring a fair go for younger Australians*. Grattan Institute.

An older household with income of $100,000 pays about the same tax as a working-age household on $50,000. There is simply no policy justification for this degree of age segregation in the system.[30]

One argument that is sometimes advanced to defend the generosity of age-based tax breaks is that older Australians have “paid their taxes”. But the idea of the tax system as an individual’s piggy bank is silly if you believe in a progressive tax and welfare system and the provision of public goods like roads and defence.

Not does it does not hold water in a generational sense. Younger households today are underwriting the living standards of older households to a much greater extent than in the past.

People born in the late-1940s, at the beginning of the baby boom generation, reached their peak contribution to the tax system in their early 40s – and at that point they were contributing an average of $3,200 a year in today’s dollars to support older generations in retirement. An average 40-year-old today, born at the tail end of Generation X, is paying $7,300 a year.

That is more than they are contributing to their own retirement through compulsory superannuation.

Under current policy settings, the child of today’s 40-year-old will need to pay an inflation-adjusted $11,400 by the time he or she reaches 40 just to sustain the current levels of benefits in retirement.[31]

That’s what the Intergenerational Report reminds us of: that without policy changes, budget deficits are set to grow ever bigger over time and net debt will increase as a share of the economy in decades to come.

The unwanted fiscal inheritance will fall on the generation of Australians who have seen their incomes and wealth stagnate – the same generation who missed the property boom and entered the workforce during a period of flatlining real wages.

Part 7 – At what cost the planet?

[30] Ibid.
[31] Ibid.

But all of these debates about tax and even house prices seem small compared to the ultimate generational transfer – the impost of a changing climate and the shifting of most of the heavy lifting on mitigation.

Climate change policy debates come with their thorny ethical issues – to what extent should we 'discount' future harms from today's decisions,[32] how do we factor in likely improvements in technology in deciding the right time path for action, how much extra lifting should the developed world do to reflect the fact that we have already reaped the economic benefits from carbon-intensive development?

While these are interesting and important questions, the bottom line is we are a very long way from these grey zones.

The world has not done enough and is unlikely to do enough, based on the most recent Glasgow negotiations, to keep temperature rises within the 1.5 degrees needed to avert serious and potentially irreversible shifts in environmental systems.

Scientists estimate that at 1.5 degrees – which we are on track to reach in the next decade – intense heatwaves will happen at four times the historical rate, and droughts and floods at almost twice the historical rate.[33]

At rises of 2 degrees, which is on the cards between now and 2050 without much more significant ambition from the world to reduce emissions, a bushfire event of the magnitude of our disastrous 2019-20 summer will be four times as likely to occur.[34] Also at 2 degrees, only 1 per cent of corals in the Great Barrier Reef will survive.[35]

Large parts of the world will become uninhabitable, and the World Bank predicts there will be 143 million climate refugees by 2050 in Sub-Saharan Africa, South Asia, and Latin America alone.

In the words of United Nations secretary-general Antonio Guterres, a "code red for humanity".

Weight this up against the idea that we should bear some modest costs to our lifestyle today, and make an investment in transitioning carbon intensive jobs and regions, and it seems less like the greatest moral *challenge* of our time, and more like a clear moral *imperative*.

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[32] Economists typically use a discount rate to compare a stream of costs and benefits over time – to recognise that people generally preference benefits today over the same benefits in the future.

[33] Milman, O., Witherspoon, A., Liu, R., and Chang, A. 2021, *The climate disaster is here*, The Guardian; Levin, K. 2018, *Half a Degree and a World Apart: The Difference in Climate Impacts Between 1.5˚C and 2˚C of Warming*. World Resources Institute.

[34] Milman, O., Witherspoon, A., Liu, R., and Chang, A. 2021, *The climate disaster is here*, The Guardian

[35] Australian Academy of Science 2021, *The risks to Australia of a 3^{0}C warmer world*.

That is why it is extraordinarily frustrating to see the political sideshow that is climate policy in Australia.

As a close follower of the news, I read, heard and watched 100s, probably 1000s of stories about Australia's climate policy in the lead up to the recent COP26 conference.

The vast majority focussed on trivialities regarding the Coalition (and Opposition) manoeuvring and messaging – would Australia support net zero by 2050, 'preferably' or without qualifier? How much would the Nationals extract in regional pork barrels for this commitment? What did Matt Canavan tweet today? Will Anthony Albanese get politically wedged on the issue?

I can't speak for the rest of the 80 per cent of Australians who support climate action,[36] but I suspect many others shared my frustration that for all the heat and light, Australia turned up with nothing but a techno-optimist PowerPoint deck and a cheque in the mail to improve in 30 years' time.

I will leave the policy post-mortem to my expert Grattan Institute colleagues Tony Wood and Alison Reeve.

But what I do want to explore, is why in this tsunami of coverage on the issue, was there virtually no mention the intergenerational case for acting? Almost no mention of the impacts of global inaction on our children and their children's safety, health, economic opportunities and wellbeing.

Not from the media. Not from the Government. Nor from the Opposition.

I heard probably hours of Barnaby Joyce opining about the impact of policies on the jobs of 0.2% of the Australian population, but I did not hear him face a single question about the lives of future generations.

The Treasurer, the Business Council, the Opposition Leader did articulate a compelling case for Australia to act. But their focus on avoiding trade and capital market penalties for recalcitrance, and getting first-mover advantage on green industries and jobs, play to self-interest of today's generations rather than appeal to their sense of obligation to future ones.

What should take from this? Are we a venal bunch with no care about the future? I don't believe this is the case, but at the very least the media's insatiable appetite for the new and shiny, and a seeming inability to differentiate its tone and coverage for issues that are small and those that are very large, seems extremely ill-suited to quality coverage of a slow-moving but existential threat to humanity like climate change.

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[36] Colvin, R., and Jotzo, F. 2021, *If 80% of Australians care about climate action, why don't they vote like it?* The Conversation.

We need to do better.

Part 8 - What does better look like?

What would make a better Australia for the next generation is not a simple question.

We should listen to the voice of young people and what they think is needed.

A coalition of youth-organised groups including Think Forward, the Foundation for Young Australians, Youth Action, Youth Development Australia, and the Youth Affairs Councils from several states have called for a parliamentary inquiry to start the conversation on intergenerational fairness.[37]

They take their inspiration from the 2018 House of Lords inquiry in the UK. The report from this inquiry *Tackling Intergenerational Unfairness* published in 2019, observes that intergenerational fairness had become an “increasingly pressing concern for both policy makers and the public”.

They found that:[38]
The relationship between older and younger generations is still defined by mutual support and affection. However, the action and inaction of successive governments risks undermining the foundation of this relationship. Many in younger generations are struggling to find secure, well-paid jobs and secure, affordable housing, while many in older generations risk not receiving the support they need because government after government has failed to plan for a long-term generational timescale.

It all sounds highly familiar.

I wholeheartedly support young people’s calls for an Australian parliamentary inquiry, and if I could treat this as a pre-emptive submission I would highlight the following priorities:

- First, getting our macroeconomic policy settings right, with a focus on creating jobs and lifting wages growth. That means not being trigger happy on interest rates at the first sign of inflation, and not pushing for budget consolidation until unemployment is durably low and wages are rising.

- Second, revisiting the long list of productivity-enhancing reforms advanced by Grattan Institute, federal and state productivity commissions and others to boost long-term living standards.

[37] Think Forward n.d., *We urgently need a parliamentary inquiry into intergenerational fairness*.
[38] https://lordslibrary.parliament.uk/intergenerational-fairness-and-provision-committee-report/

- Third, not increasing the Superannuation Guarantee – compulsorily taking more money off young people now when they need it, given that they are already being forced to save for a higher living standard in retirement than they enjoy today.

- Fourth, serious steps on housing affordability including boost housing supply by changing planning rules to allow more homes in the inner and middle rings of our capital cities, reducing tax breaks for investment in housing including reducing the capital gains tax discount to 25 per cent and winding back negative gearing, and exploring more innovative proposals like shared-equity schemes.

- Fifth, improving outcomes for people who don't own their homes, by changing rental laws to give tenants more rights, increasing the supply of social housing, and boosting rent assistance for those on income support.

- Sixth, increasing support for accessible and affordable early learning and care – giving the next generation the opportunity for enriching early childhood development while supporting their parents to participate in the paid workforce without facing prohibitive out-of-pocket care costs.

- Seventh, winding back aged-based tax breaks by taxing superannuation earnings in retirement at 15 per cent, and removing the seniors' and pensioners' tax offset, and the special Medicare levy rate for over-65s.

  This would re-establish the principle that existed pre-Howard, that income tax contributions should be based on income rather than age. And crucially it would represent a de-escalation of policy decisions that cumulatively ask working-age Australians to underwrite much larger transfers to older Australians than any previous generation has supported.

- Finally, seriously grapple with taxes on intergenerational transfers, at least for very large ones. If the money collected were used to fund income tax cuts, most people under 50 would be ahead financially. At a minimum, we should not be subsiding inheritances via some of the existing rules that allow the accumulated value of super tax breaks to be inherited by the next generation as well as the exclusion of virtually all the home from the age pension asset test.[39]

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[39] For more detail see: Wood, D., Griffiths, K., and Emslie, O. (2019). *Generation gap: ensuring a fair go for younger Australians*. Grattan Institute.

And whether or not it is in scope for such inquiry, Australia must align with other developed countries to set more ambitious targets for emissions reduction by 2030 -- including a proper set of policies to help us get there. If governments are looking for inspiration, the recent Grattan Net Zero series is filled with evidence-based suggestion of relatively low-cost things we could do right now that will help put Australia on the right trajectory.

The alternative is we continue to be part of the problem rather than the solution to this generational, indeed existential, global challenge.

Part 9 - Calling time on generation warfare

I understand my comments today are strong, and my policy suggestions might feel confronting.

I may be accused of trying to whip-up generational conflict. But, let me be clear, that is the exact opposite of what I hope to achieve.

I believe that most Australians care deeply for other generations and want to restore that hopeful bargain.

For all the Gen Z 'OK Boomer' eye rolling, young Australians gave up their social lives and in some cases their jobs to protect the welfare of the older and more vulnerable Australians during COVID. Polling throughout the pandemic suggested young Australians were more strongly in favour of lockdowns than any other age cohort.

And for all the pious boomer lectures about brunch choices, much of the concern I hear about house prices and their impacts actually come from the older generations, many of whom say they would be happy to see the prices of their own assets reduced to ease the pressure on future generations.

Similarly, look around any climate change lecture or protest, you will find grey haired attendees as common as tattooed ones in the crowd. Care about the future is alive and well.

A proper debate about the impacts of policy settings on the outcomes for different generations can only occur when we reject once and for all 'generational exceptionalism': the damaging belief that differences in life outcomes between generations are driven by differences in work ethic, talent, or attitude, rather than luck and policy choices.

American political philosopher Michael Sandel notes how such belief systems corrode civic sensibilities:

For the more we think of ourselves as self-made and self-sufficient, the harder it is to learn gratitude and humility…

And without these sentiments, it is hard to care for the common good.[40]

While every generation has its own unique challenges and opportunities, the only rational place to start is the idea that people born at different points in time are no less deserving than others.

So let's drop the petty generational warfare, and work together to ensure that the Australia we leave to our children is better than the one we inherited. With the right policy settings, I believe we can restore the hopeful bargain.

[40] Sandel M., *The Tyranny of Merit*. Penguin Press.