

Think
Forward▶

**An intergenerational fairness approach
to solving the cost of living crisis.**

May, 2023

1. Executive summary

Think Forward welcomes the opportunity to provide policy analysis and recommendations to the Senate Select Committee on the Cost of Living (**inquiry**).

Think Forward is a bi-partisan not-for-profit organisation run by young people passionate about economic equity in response to growing awareness that young Australians are facing an economic burden entirely unique to previous generations. Current tax and economic policies mean young people are disproportionately impacted by cost of living pressures compounded by insecure work, increasing housing and rental prices, inheriting the cost of the climate crisis and pandemic debt.

We advocate for intergenerational fairness - the idea that there should be economic and social fairness between generations. Intergenerational fairness is not about pitting generations against each other; it is about the implicit generational bargain that underpins the relationship between younger and older Australians and our tax and spending priorities. It comprises two fundamental ideas:

1. Working-age Australians contribute to the care of older and younger Australians (who are not working) and can expect the generation after them to support them in the same way.
2. Economic growth and social development will enable each successive generation to enjoy rising living standards.

Successive Australian governments have implemented short sighted economic policy culminating in this cost of living crisis disproportionately impacting young people. Our tax systems favour older, wealthy Australians leaving young people to bear the brunt of the cost of living crisis with limited chances to build our own wealth as we age.

The current cost of living crisis requires urgent solutions to ease living conditions for struggling Australians in the immediate future. However, broad economic and tax reform that includes an intergenerational fairness lens will ensure cost of living is not an issue for future generations.

This submission highlights the following:

- A. How the cost of living has been an issue for young people long before the current inflationary period.** Young Australians want to move through the same stages of life as previous generations, from a good education, buying a home, starting a family and saving wealth for retirement. These steps have been made much more expensive and difficult to achieve, long before the current cost of living crisis.
- B. How a lack of intergenerational fairness thinking has increased the vulnerability of younger Australians to cost of living pressures.** Economic policy that favours older generations over younger ones, means working people today are suffering for decisions made to benefit older generations with access to accumulated wealth.
- C. The need for the government's fiscal policy response to be targeted and not inflationary.** The government can respond to the situation without triggering further inflation by implementing targeted fiscal policy. Young people need to be considered for support.

D. Short term ways to ease cost of living pressures through the tax and transfer system.

While long-term thinking is required to address the situation, short term relief like increased rent assistance, increasing the threshold for HECS repayments and changes to Centrelink can support struggling Australians right now.

E. Boosting Medicare and mental health funding as a way to ease the cost of living through government services.

As the cost of living skyrockets, the physical and mental health of Australians declines. The government should be increasing access to services that offer support in these areas, especially during this challenging time.

F. (Other matters) Long term solutions to easing cost of living.

Broad economic and tax reform is required to avoid similar situations for future generations. A national conversation about this could be instigated by a parliamentary inquiry for intergenerational fairness.

Summary of recommendations

Think Forward recommends that the Senate Select Committee on the Cost of Living recommends that the Australian Government:

Improve the lives of young people in Australia by reducing cost of living pressures and enabling us to both pay for essentials like rent, food, medication, studies, and save for our futures so we can afford to pursue the same dreams as generations that came before us such as buying a home, starting a family or travelling overseas to visit loved ones.

Increase the rate of Commonwealth Rent Assistance to align with real rental prices (rec 5).

Increase Youth Allowance and JobSeeker payments above the poverty rate (rec 6).

Deliver targeted support to young people through the tax and transfer system (rec 7).

Index HECS debt to real wages growth (rec 8).

Make targeted reductions in the gap payments for mental health care for people with limited financial means (rec 10).

Address the imbalance of tax concessions benefiting older generations with accumulated wealth, and raise the taxes needed to pay for fairer policy measures which ease cost of living pressures for people who need it the most.

Scrap the Stage 3 tax cuts (rec 4).

Remove all aged based tax concessions (rec 1).

Get rid of property tax concessions like negative gearing and capital gains (rec 2).

Broaden the 30% tax concessional rate from people with super balances of 3 million to people with over 2 million in their super balance (rec 3).

Reduce the Medicare levy threshold for senior Australians (rec 9).

Ensure an intergenerational lens is applied to policy making in Australia so cost of living pressures are not disproportionately impacting a generation in a way that perpetuates intergenerational inequity.

Hold an inquiry into intergenerational fairness with a specific review of the ways in which Australia's young people are impacted unfairly through our tax and transfer system (rec 11).

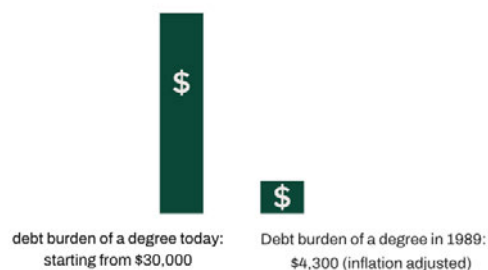
2. How the cost of living has been an issue for young people long before the current inflationary period

Young Australians want to move through the same stages of life as previous generations, from a good education, buying a home, starting a family and saving wealth for retirement. These steps have been made much more expensive and difficult to achieve, long before the current cost of living crisis.

Getting an education

From an education perspective, the intergenerational bargain means that working-age people support Australians to get an education, which then contributes to Australia's economic wellbeing through the development of a skilled workforce. However, instead of providing a relative amount of support to prior generations, the burden and cost of an education for young people has been rising.

The Higher Education Contribution Scheme (HECS) was introduced in 1989 at a flat rate of \$1800 per student (prior to that students made no contribution to their education as it was covered by society through the government). The Howard Government significantly increased HECS fees in 1997, introducing three separate HECS bands with higher rates for courses like science, law and medicine. Then in 2005 the Commonwealth Government allowed universities to increase HECS fees another 30 per cent. In 2023, a standard three-year course can now easily cost students over \$30,000, and often much more.



Through HECS, students are required to repay their loan. This system works well in theory, but with the cost of an education now being so large, young people can be repaying their loan for many years. According to the Futurity Investment Group's University Debt Report, 68 per cent of people who attended university have HECS-HELP debt right into their thirties.¹ With this year's inflation rate, many people will see their debts grow faster than they can pay them off, as determined through the government's own repayment system.

¹ AMP (2023) "Futurity Blog":
<https://www.futurityinvest.com.au/amp/futurity-blog/2023/03/06/the-impact-of-hecs-debt-and-help-debt/UHlWZmlJM29yMzJtQEZseVZMaHlrYklrRFU0PO2>>

From a cost of living perspective, the challenge of this is that young people and young families are losing 5-12 percent of their incomes on HECS repayments during the time of their life when they face large financial challenges like buying a home and starting a family. The Debt Report survey also found that for 59 percent of people surveyed their HECS debt had impacted their ability to purchase a home. 35 percent reported the debt has had a moderate to very large impact on their ability to start a family and 3 percent revealed debt acquired at university has impacted their ability to get married. Indexing HECS debt to real wages growth would more accurately reflect a person's ability to repay their debt while managing costs for other big steps at this stage of life.

Getting a good job and earning a good income

At the same time as the costs of education have increased, Australia's young, educated workers face many barriers to moving into full time, secure employment.

Young people are entering a workforce that is increasingly casualised, and often need to undertake unpaid internships as a normal part of getting a job. These unpaid internships are part of the unrealistic expectations of employers, who can demand advanced degrees and experience, instead of taking on the responsibility of training their junior staff.

Even for young people who find a job, the Productivity Commission has found that workers aged 20-34 experienced no growth in real wages between 2008 and 2018, while workers aged 15-24 experienced a large decline in secure full-time work.² Since then, we've had the pandemic and the cost-of living crisis, sending real wages tumbling further.

Even among those who find employment post university, job quality is inferior to earlier generations in terms of job security and hours of work³. Many young people will never find a meaningful place in the labour market that matches their skills and ambitions, or at the very least provides secure on-going employment.

Buying a home

Many younger people are struggling to secure affordable housing, whether rented or bought.

Secure and affordable housing is, or should be, a right for everyone. But housing is now traded in a marketplace where the playing field tilts towards already wealthy, older Australians. Tax concessions like negative gearing and capital gains have turned our housing system into an investment market, driving up prices and locking out younger Australians.

² Productivity Commission (2020). Climbing the jobs ladder slower: Young people in a weak labour market. <https://www.pc.gov.au/research/supporting/jobs-ladder>

³ The Grattan Institute. (2019). Generation gap: ensuring a fair go for younger Australians.



The increase in house prices (and our obsession with property) has not made Australia a better economy, it has simply transferred wealth from young to old. This is placing significant cost of living pressures on young people, whether they bought a home and now face rapidly increasing mortgage costs, or are stuck in the rental market which is in crisis.

The Australian Government can choose to remove negative gearing and other tax concessions on housing to put downward pressure on prices.

Taxation

Current government tax and spending policies are underwriting unprecedented transfers from younger households to older ones. Wealth held in property, shares and superannuation is taxed at a much lower rate than wages. This means that older Australians receive increasingly generous handouts from the government like tax-free superannuation income in retirement, refundable franking credits, negative-gearred properties and special tax offsets.

These handouts are not available to young people who don't, and may not ever, own a home, or have the money to build a share portfolio. The Government argues that they can't provide cost of relief pressures for everyone. But while these handouts are being allowed to continue, it's clear the focus is on supporting older, richer Australian's over younger cohorts. According to the Grattan Institute, "Working-age Australians are underwriting the living standards of older Australians to a much greater extent than the Baby Boomers or earlier generations did for their forebears." ⁴

In addition, the current generation is leaving significant structural debt burdens to young people and future generations. Young families and young people are being left to pay for the rapidly increasing costs of aged care and the pension, while also paying back Australia's record levels of debt, not to mention dealing with climate change. Younger generations may find that in the coming decades all the money in the budget has already been allocated to these structural costs, and nothing is left to invest in their own priorities.

⁴ The Grattan Institute. (2019). Generation gap: ensuring a fair go for younger Australians.

Gen Y and Z have experienced demographic bad luck in having to support the much larger Baby Boomer cohort in their retirement. The injustice comes from policy changes which have made this burden heavier by substantially increasing transfers of money to older households. In a cost of-living-crisis where older Australians hold an enormous amount of wealth and younger people are struggling to get by, the handouts and structural deficit feel particularly unjust.

Building wealth for retirement

While older Australians are the richest in Australia's history off the back of the housing boom, young people are being left behind and locked out of the ability to create wealth. For young people who don't inherit wealth, their outlook is increasingly shaky. The wealth gains of today's older generations are unlikely to be repeated.

Given the cost of living, wage stagnation, cost of housing and the centrality of home ownership to our retirement system (and climate change impacts on the economy), many young people may never build up wealth to retire comfortably.

Within this argument Think Forward finds it important to note that older women are the fastest growing group to experience homelessness in Australia.⁵ This is largely due to the fact that they have been unable to purchase their own homes and must continue to rely on the rental market into retirement. This should serve as a warning for the lack of intergenerational thinking in policy making because our retirement system currently relies on people owning their own homes at the age of retirement. If young people continue to be locked out of the housing market, the problem older women are currently facing will grow across the board.

One solution economists put forward is that young people may eventually inherit wealth from their parents. But relying on inheritances to transfer wealth is unjust. Inheritances benefit the already wealthy turbocharging inequality. Economic security and the ability to navigate the cost of living crisis isn't so much determined by hard work and skill, but rather at birth. That is a terrible outcome for a country with Australia's egalitarian values.

RECOMMENDATION 1

Remove all aged based tax concessions.

RECOMMENDATION 2

Get rid of property tax concessions like negative gearing and capital gains.

⁵ Mercy Foundation (2023) "Older Women and Homelessness." Available at:
<https://www.mercyfoundation.com.au/our-focus/ending-homelessness/older-women-and-homelessness/>

RECOMMENDATION 3

Broaden the 30% tax concessional rate from people with super balances of 3 million to people with over 2 million in their super balance (rec 3).

3. How a lack of intergenerational fairness thinking has increased the vulnerability of younger Australians to cost of living pressures.

Australia's Millennial generation is at risk of being the first generation since federation to have worse economic outcomes than the generation before.⁶

The current cost of living crisis is challenging for everyone, but Millennials have been battling declining economic outcomes for over a decade. Millennials came of age during the global financial crisis, the Covid-19 pandemic, the climate crisis and the stagnation of real wage growth. Young people are particularly vulnerable to a cost of living crisis as they have not built up a savings buffer or wealth to draw on. Economic policy that has typically favoured the (formerly) larger Baby Boomer voting block has only increased the vulnerability of young people. For future elections, voters under 40 will now outnumber older Australians but economic policy has not shifted to reflect the realities of shifting demographics.

Data from the Finder and their Consumer Sentiment Tracker in early 2023 reveals that the cost of living crisis is having intergenerational impacts:⁷

- An average Baby Boomer has over \$50,000 in cash savings (which excludes their wealth in other assets), while Millennials have just over half that amount, and GenZ less than a third of that amount. This means older generations have larger capacity to weather the cost of living crisis.
- 90% of GenZ and 89% of Millennials have reduced their spending, compared to 72% and 59% for GenX and Baby Boomers.
- 70% of Gen Z and 61% of Millennials are now reporting being in financial stress
- A third of GenZ and 11% of Millennials are now missing mortgage repayments, and
- 56% of GenZ and 45% of Millennials are feeling like they need to get a second job.

Stage 3 tax cuts

Young people are facing unprecedented economic hardship because successive Australian governments have failed to plan adequately for our future. The housing crisis, the cost of education and the ever present climate crisis are all burdens that our younger and future generations will need public funding to fix. At the same time we keep hearing that there isn't enough money to support young people

⁶ The Grattan Institute. (2019). Generation gap: ensuring a fair go for younger Australians.

⁷ Consumer Sentiment Tracker (2023) Available at: https://www.finder.com.au/cst#sentiment_linko

with things like freezing HECS debt or raising Job Seeker payments. Yet, the Labor Government is willing to lose \$243 billion over 10 years by implementing the Stage 3 tax cuts. \$243 billion that could be used to support young people right now and lift the economic burden for our future generations.

- Two thirds of people aged 18-29 don't support the tax cuts.
- Taxing workers who earn \$45,000 and high income earners who earn \$200,000 at the same rate is unfair and undermines our progressive tax system.
- 80% of tax cuts will go to older Australians already earning over 120,000 per year (the top 14% of income earners).
- Under 25 year olds will only receive 2.8% of the tax cuts.

RECOMMENDATION 4

Scrap the Stage 3 tax cuts.

4. The need for the government's fiscal policy response to be targeted to those most in need and not inflationary

The Government's fiscal response does need to be targeted to avoid inflationary pressure. Young people should be considered a priority group for support. They have faced a challenging decade, and further erosion of their economic security has immediate consequences, but also further delays their ability to get an education, buy a home, start a family and build wealth. This delay has long-term consequences for the economy and Australia's economic and social wellbeing.

Rising interest rates are meant to cool the economy, but inevitably they also break something. In the USA, the breakage is starting to occur in the banking sector, starting with the collapse of the Silicon Valley Bank. In Australia, we should be worried that where something breaks will be our young families, saddled with student loans, large mortgages or high rents, and facing the increasing cost of energy and food. Our younger generations do not have deep pools of savings to draw on to see them through. For these reasons, we recommend targeted support for young people in the short-term.

While the recent adjustments to Youth Allowance, Austudy and the single parent payments are a step in the right direction, the rate at which they have been raised is insufficient to truly make a difference for young people struggling with the cost of living.

RECOMMENDATION 5

Increase Youth Allowance and JobSeeker payments above the poverty rate.

RECOMMENDATION 6

Increase the rate of Commonwealth Rent Assistance to align with real rental prices.

5. Short term ways to ease cost of living pressures through the tax and transfer system.

A major contributor to the current cost of living crisis is the lack of intergenerational fairness in Australia's tax and transfer system. The tax system favours those who are older and wealthy, while young people are being left the tab for the pandemic (through Australia's debt), action on climate change and the increasing cost of aged care, while also funding tax concessions like the Capital Gains Tax discount and negative gearing for wealthy, older Australians in retirement.

While broad change to the system requires thorough review, there are short term actions the government can take to ease the pressure on struggling Australians right now. This would give space for conversations around broader reform to happen in an environment more favourable to long term thinking.

In the short term, the government can:

- Increase the threshold for HECS repayments so people on low incomes are keeping more of their incomes.
- Remove indexation of HECS to allow young people to repay their loans faster and get on with their lives.
- Increase the rate of JobSeeker, which is not keeping up with the cost of living. An additional \$2.85 per day is not enough to lift people out of poverty. People already struggling are stuck in a precarious situation where they cannot take on more work for risk of losing their benefits, but are also not earning enough to make ends meet. This again unfairly impacts students and young people who have a higher rate of underemployment.
- Further increase payments that support students. Young people giving up their education due to cost of living pressures is a terrible outcome for the long term prosperity of our economy.
- Further Increase Commonwealth Rent Assistance payments to assist young people, who are typically renters, who are in rental stress. \$15 per week is far less than rents themselves have risen in recent years.

RECOMMENDATION 7

Deliver targeted support to young people through the tax and transfer system.

RECOMMENDATION 8

Index HECS debt to real wages growth and increase the minimum repayment threshold to the median wage.

6. Boosting Medicare and mental health funding as a way to ease the cost of living through government services.

For decades, Australians have taken pride in a robust and accessible healthcare system. As the cost of living increases however, more and more people are foregoing GP visits in lieu of paying for basic necessities. More than half (53%) of Australians cite cost concerns for GP medical appointments and are going less often, given the realities of the decline of bulk billing practices.⁸ In addition, mental health services like Lifeline are receiving record activity with an increase in help seekers who have never experienced financial stress before.⁹

The government's announcement to triple bulk billing incentives is welcome. However, Australia's Medicare system remains intergenerationally unfair due to the age based concession on the Medicare levy. Older people are paying less for Medicare services at a time when they are typically using them most, while young people are paying more for services they are finding increasingly difficult to access. Early intervention for health problems saves the government money.¹⁰ If people are putting off medical care, the bill will only grow down the line, where younger generations will be left to pay it off.

Reducing the Medicare levy threshold for senior Australians to the same level as working Australians would offer a viable path to inject more money into the healthcare system.¹¹ It could be used to provide more access to mental health services for young people who need it most, as the cost of living crisis hits them hardest. This policy shift would encourage intergenerational fairness as it would see people paying for access to needed services based on their income rather than their age.

RECOMMENDATION 9

Reduce the Medicare levy threshold for senior Australians.

⁸ Australian Patients Association (2021) "More than half of Australians are forced to skip the GP due to cost." Available at: <https://www.patients.org.au/more-than-half-of-australians-are-forced-to-skip-the-gp-due-to-cost/>

⁹ Nicholson (2023) "What The Cost Of Living Crisis Is Doing To Our Mental Health." Available at: <https://www.womenshealth.com.au/cost-of-living-lifeline-increased-demand/>

¹⁰ Parliament of Australia - Former Senate Committees (2006) "A national approach to mental health – from crisis to community First Report." Available at: https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/mentalhealth/report/index

¹¹ Wood & Griffiths, Grattan Institute (2019) "Generation Gap: Ensuring a fair go for younger Australians." Available at: <https://grattan.edu.au/report/generation-gap/>

RECOMMENDATION 10

Make targeted reductions in the gap payments for mental health care for people with limited financial means.

7. (Other matters) Long term solutions to easing cost of living.

The government should be looking at ways to reduce the economic burden currently resting on the shoulders of young people and future generations. While immediate interventions are needed to support struggling Australian's right now, Think Forward knows that broad economic and tax reform is needed to secure the prosperity of our country's young people and avoid the severity of a cost of living crisis like this in the future. To start the conversation, Think Forward, with a coalition of youth organisations, is recommending an inquiry into intergenerational fairness, including a specific focus on Australia's tax system and spending priorities, be held.

A similar inquiry has been held in the UK. The inquiry there found that there had been:

- Persistent short-termism in government outlook and policy.
- No consideration of the impact of policies on different generations.
- A failure of successive governments to ensure a sufficient supply of affordable housing.
- A failure to provide education and training that fits the needs of a changing labour market and the industries of the future.
- A failure to stop the erosion of workplace rights and the casualization of the workforce.
- A failure to make proper provision for the ageing population, which will burden younger taxpayers.

At Australia's first National Summit for Intergenerational Fairness, hosted recently by Think Forward, over 100 advocates joined the call for an inquiry. So many of the challenges we see today in regards to the housing crisis or the cost of education are symptoms of a much deeper problem - a lack of intergenerational thinking in policy making. An inquiry would serve to address the problem at its core and start a discussion about how we can avoid a cost of living crisis affecting young people so disproportionately in the future.

RECOMMENDATION 11

Hold an inquiry into intergenerational fairness with a specific review of the ways in which Australia's young people are being impacted unfairly through our tax and transfer system.

About Think Forward

We are a group of young people that conduct advocacy, research and education around issues of intergenerational fairness and the tax and economic reform that will see equity between generations realised. With a coalition of youth organisations, we are currently calling for an inquiry into the intergenerational inequity present in Australia today.

Our vision is for all political parties to develop and implement policies that ensure an Australian economy that works for all generations.

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