

The tens of thousands of young people who were protesting at the school climate strike two weeks ago know that they are being left a stinking great environmental mess to clean up.

But I suspect that many are yet to appreciate that this is not the only mess they'll be left with.

Australia's tax and welfare system is built around an [implicit generational bargain](#). Working-age Australians, as a group, are net contributors to the budget – they pay more in taxes than they receive in either 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 expect the generation after them to support them in the same way as they age. But this longstanding bargain is under threat.

A bargain betrayed

The number of working-age Australians for every person aged 65 and over 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 we all have to live with.

But what's less easy to accept is a series of policy decisions that have substantially increased the size of the transfers workers will have to make to older people – expanding their good fortune at the expense of the generations who come out of them.

Let me tell you how.

Budgets have been tilting the scales

First, future pension costs have climbed as a result of deliberate policy decisions to boost the rate and eligibility for the pension. As a share of average weekly earnings it has climbed [from 30% to 37%](#) over the past two decades.

The ever-widening gap between the rate of the pension and Newstart, and the increasing ease with which retirees can get at least some pension, speaks to the political perception that there are deserving and undeserving welfare recipients, “lifters” and “leaners,” in the words used by Treasurer Joe Hockey in the 2014 budget.

Newstart recipients now live on A\$40 a day compared to [A\\$65 for full-rate pensioners](#) .

Second, 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 climbed 3.7% a year.

The increase has been particularly stark for those in their 70s and 80s – with average health spend per person increasing by over A\$4,000 [in just twelve years](#) .

Read more: [***Tough choices: how to rein in Australia's rising health bill***](#)

Most Australians support increased health and pensions spending. They might not, or might not support it as much, if they realised where it was coming from.

A series of tax policy decisions over the past two decades – tax-free superannuation income in

retirement, refundable franking credits and special tax offsets for seniors – have meant we now ask older Australians to contribute a lot less 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 that age did 25 years ago. Indeed, the share of older households paying any tax has fallen from 27% in the mid 1990s to 17% today.

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

Read more: [***Why every generation feels entitled***](#)

An older household earning A\$100,000 a year pays on average less than half the total tax of a working-age household earning the same amount. Considered another way, an older household on A\$100,000 pays about the same tax as a working-age household on A\$50,000.

And these calculations exclude dividend imputation franking credit refunds that largely benefit older Australians. There is simply no policy justification for this degree of age segregation in the system.

We are facing intergenerational theft

One argument that is sometimes advanced to defend age-based tax breaks is that older Australians have “paid their taxes”. But in a generational sense, this argument does not hold water. Younger households today are underwriting the standard of living 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 forties – and at that point they were contributing an average of A\$3,200 a year to support older generations in retirement. An average 40-year-old today, born at the tail end of Generation X, is paying an inflation-adjusted [A\\$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 around A\$11,400 a year by the time he or she reaches 40 just to sustain the current levels of benefits in retirement.

And ever-bigger budget deficits

In an economy that is growing, it can be sustainable for each generation to take out more than it put in, knowing it will be easier for the next one to put money in, but the sheer size of this growth in payments far exceeds that capacity.

That's why the treasury produces an [Intergenerational Report](#) every five years to remind us how ugly business-as-usual looks.

Without policy changes, budget deficits are set to grow ever bigger (even after what will probably be the temporary return to surplus promised in Tuesday's budget) and net debt will expand to uncomfortable levels.

The unwanted fiscal inheritance will fall on the generation of Australians that have seen its incomes and wealth stagnate – the generation that has missed the property boom and is entering the workforce during a period of flatlining real wages.

So what would a budget that seriously tackles these issues look like?

We could still put things right

First, it would wind back some of the tax concessions for older Australians who can afford to make a contribution. It is simply [no longer sustainable](#) for comfortably off older Australians to opt out of taxes for two or three decades they are in retirement. The obvious place to start would be a [tax on superannuation earnings](#), and winding back the [pensioners tax offset](#) [seniors and](#).

The politics isn't easy. The reaction to Labor's franking credit policy gives a sense of what governments face when trying to wind back these transfers. The public hearings for the inquiry into the franking credits policy sometimes looked more like the frontline in a generational war than a staid government inquiry.

Read more: [**Words that matter. What's a franking credit? What's dividend imputation? And what's 'retiree tax'?**](#)

Here the contrast with the climate strike is difficult to ignore: while older Australians picket for their franking credits, young people are protesting for their very future.

Second, there would be no decisions that further undermine the structural position of the budget. If there is one lesson to take from the past two decades it is that commodity windfalls come and go. We should not lock in higher recurrent spending, or offer another round of tax cuts, every time revenues surprise on the upside. Nor should we pile uneconomic infrastructure investments off budget. To do so is to further weaken the generational bargain.

What if Tuesday's budget was a start?

Expect a budget that breaks the intergenerational bargain, like the one before it, and before that

Written by Danielle Wood, Program Director, Budget Policy and Institutional Reform, Grattan Institute

Ahead of tomorrow's budget I should say that I hope I'm wrong.

I hope this government will use this budget and its election commitments to address our long-term challenges. I hope we can discuss generational fairness without it descending into generational warfare.

I hope none of us would want our legacy to be mortgaging our children's environment and their economic future.

Danielle Wood presented a longer version of this article as part of the [Women In Economics](#) federal budget perspectives event at the National Press Club in Canberra on Wednesday March 27, 2019.

[Watch the discussion here](#)

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