

RENEWING AUSTRALIA'S PROMISE

Will young Australians be
better off than their parents?

fya



THE FOUNDATION FOR YOUNG AUSTRALIANS FYA IS THE ONLY NATIONAL INDEPENDENT NON-PROFIT ORGANISATION DEDICATED TO ALL YOUNG PEOPLE IN AUSTRALIA. DELIVERING A RANGE OF INITIATIVES CO DESIGNED WITH YOUNG PEOPLE, TOGETHER WE DELIVER CHANGE ACROSS AUSTRALIA.

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FOREWORD

Australians have always been optimistic about the future. Each generation has tried to leave a better life for their children, with a better standard of living, better homes, better education and stronger opportunity.

Youth policy is too often relegated to the edge of the public discourse. It is often considered in isolation, as a niche policy area, separate to the big economic and social challenges facing the 'adult' nation.

The Foundation for Young Australians is looking to close that gap. We want to bring young people into the centre of the national discussion of Australia's long-term challenges because, after all, young people are the ones who will inherit those challenges. The more we invest in young people today, the better equipped they will be to take Australia forward.

With this report and the broader *Unlimited Potential* program we aim to start a national conversation about how we can maximise the potential of young Australians. The first step is to define the challenges they face today. Not a simplistic picture based on anecdote, but actually look at how young people are doing in terms of incomes, health, education, employment and housing.

The *Renewing Australia's Promise* report evaluates the well-being of Australia's young people from a generational perspective - benchmarking young Australians against their parents at the same stage of life. This approach avoids the problems of international comparison across very different countries. And it escapes the often unhelpful comparison of age-cohorts at different stages of life.

This generational perspective is also important because it aligns to the over-arching aim of youth policy. That objective is the idea that each generation should leave behind a better nation for the next. Generational progress is a goal that all Australians can agree on.

This report shows that we have more work to do before we can be confident that this objective will be realised. Young people have many advantages over their parents, but they also face many hurdles that their parents did not.

This report should be read as a contribution to the discussion of policies that will help young people overcome these hurdles to achieve the successful and prosperous lives that are the promise of any generation to the next.

ROBERT MILLINER

CHAIR, FOUNDATION FOR YOUNG AUSTRALIANS

WILL YOUNG AUSTRALIANS BE BETTER OFF THAN THEIR PARENTS?

22%

Only 22 per cent of young Australians expect their life experience will be better than their parents.

1.5

The number of working-age people for every non working-age person in 2050 – down from two in 2012.

30%

Close to 30 per cent of young people are unemployed or underemployed.

80%

Young people will pay an 80 per cent higher share of their disposable income towards housing loan interest than their parents.

1.6

Young people are 1.6 times more likely to complete year 12 than their parents.

3

Young Australians are taking on three times as much debt as their parents once did to buy their first homes.

6.8%

Young Australians earn 6.8 per cent more than their parents did at the same age after adjusting for inflation.

18%

Young Australian women face a gender pay gap of 18 per cent that has not improved since their mothers were entering the workforce.

24k

Today's young people will start their careers with more than \$24,000 more in student debt than their parents.

25%

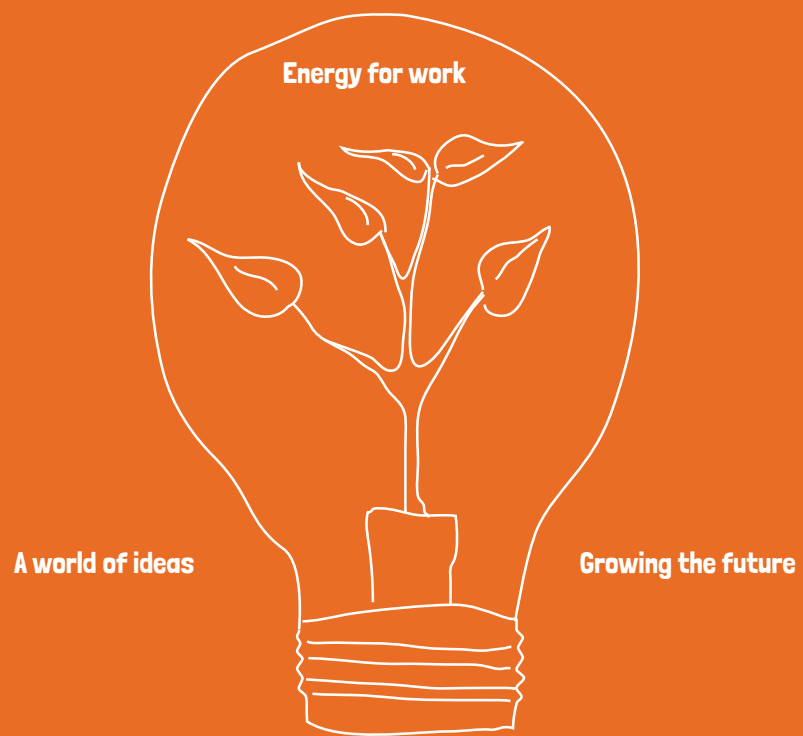
More than 25 per cent of young people do not use their qualification in their job.

4-5

Young people are expected to live four to five years longer on average than their parents.

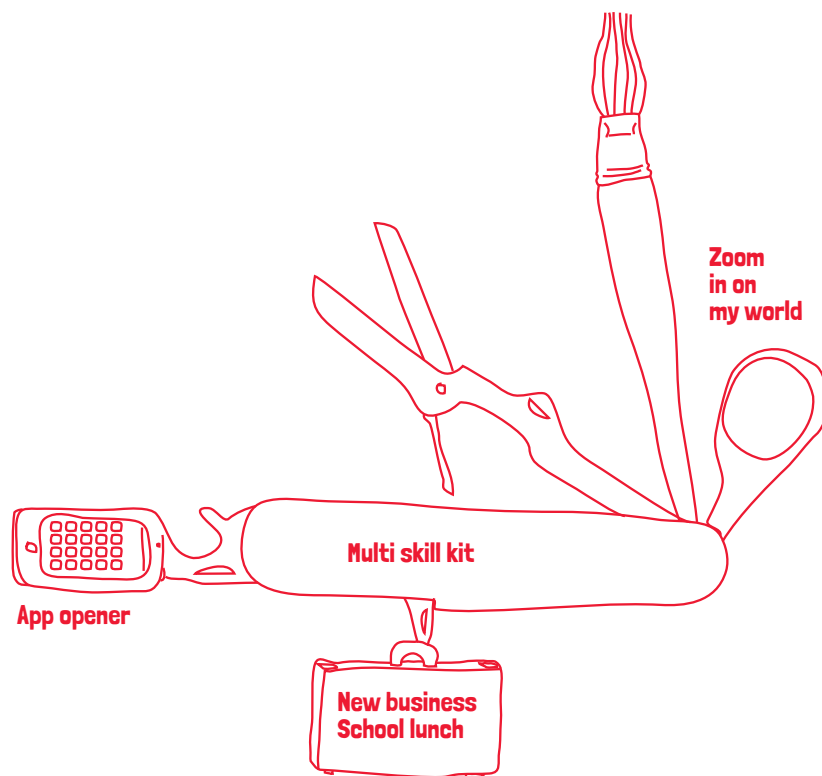
44%

44 per cent of young Australians are in part-time work, up from 16 per cent 30 years ago.



FYA exists to equip and unleash all young Australians. Every day through our work we meet young people who are bright and capable and leaders in their communities. As an organisation, we are fundamentally optimistic about the contribution that this generation of young people can and will make to the country.

PREFACE



This generation has a lot to give, but if they are to fulfil their potential it is important that they get the best possible start to their adult lives. To that end, the *Renewing Australia's Promise* report analyses the progress of young Australians to see where today's young people are getting ahead and where they are falling behind.

While today's generation of young people are doing well in some areas, the report highlights several escalating challenges including high youth unemployment, an education system that may be falling behind, rising housing costs and increasing debt levels.

These challenges must be addressed because the start young people get in life affects not just them, but the whole nation. For example, youth unemployment and underemployment now affects almost 30 per cent of young people in the Australian labour force. This is a tragic waste of the talents of young people and means they miss out on maximising the on-the-job skills they need to thrive in the job market.

This is also a loss for the nation as a whole. Having so many young Australians out of the workforce will cost our economy around half a billion lost hours of work this year. That equates to up to \$13.6 billion in lost GDP for the Australian economy for the year. This means higher welfare payments and lower taxation receipts.

The taxation loss alone adds up to \$3.15 billion in lost revenue for the government each year – which is around 0.8 per cent of total Commonwealth expenditure and more than half the annual cost of the Commonwealth Grant Scheme of higher education subsidies. And these annual impacts are only part of the total long-term cost of youth unemployment to Australia. Periods of joblessness when young increase the chances of being unemployed later in life and reduce lifetime employment achievement. So in addition to the direct cost to young people today, the scarring effect of youth unemployment will impact Australia far into the future.

In every area of life – work, health, education, housing – the challenges facing young Australians today are challenges for Australia's future. Australia will rely on today's young people for its future prosperity and to keep the Australian economy competitive with the rest of the world. If our young people flourish, our nation's prosperity is assured.

This generation of young Australians are now getting their first jobs, making choices about their education, looking to buy their first homes. We have five to 10 years to help them before most of them have moved through this initial phase of their adult lives. Unless young people reach their full potential, the cost to Australia will be enormous. The task to make sure they are in the best position to do that must begin today.

JAN OWEN AM

CEO, FOUNDATION FOR YOUNG AUSTRALIANS

EXECUTIVE SUMMARY

Australians have always been optimistic about the future. Each generation has tried to leave a better life for their children, with a better standard of living, better homes, better education and stronger opportunity.

But when today's young Australians were surveyed about whether their lives would be better or worse than their parents', only 22 per cent of respondents said "better".¹

So less than a quarter of surveyed young people were confident they would exceed the living standards of their parents.

If the majority of young people are correct about their future welfare, they will be the first generation of Australians to do worse than their forebears.

This report considers the prospects for the current generation of young Australians. Will young Australians find it harder than their parents to find meaningful, well-paying work? Will new technologies raise young people's living standards and provide them with opportunities their parents did not have? Will young people's education spur growth in the economy and bring them greater prosperity? Can young Australians aspire to raise their families in affordable housing? Will they have the same access to quality health care and government services? Will their environment support the same lifestyles and livelihoods?

These questions will not be conclusively answered for another 30 years. We don't have a crystal ball to tell us exactly what the future holds for young Australians. But we can observe their start in life and compare their well-being today with their parents' generation at the same age.

We can observe the forces and trends that are likely to affect young Australians into the future. Armed with these facts, we can get a sense of the prospects for young Australians compared to their parents in different aspects of their lives.

Based on the way young people's fortunes are portrayed in the media, their pessimism about the future isn't altogether surprising.

They are faced with news of a daunting housing market, uncertain job prospects and rising costs of everything from child care to university fees. By contrast, their parents enjoyed free education, free health care, climbed onto the property ladder with relative ease and accumulated retirement wealth in a generous tax environment.

1. Full survey question: "To what extent, if at all, do you feel that your generation will have had a better or worse life than your parents' generation, or will it be about the same?" IPSOS MORI poll 2014. 22 per cent of respondents under 30 years of age said "better".



Exposed to these common narratives, young people would be forgiven for thinking they are starting life a long way behind their parents. Indeed, young Australians between 18 and 29 years of age currently only rate their 'life's worth' 60 out of 100.²

However, the data suggests a more nuanced picture. In some areas of life, young people are ahead of their parents.

At the most basic level, today's young people can expect to live healthier lives than their parents, thanks to improvements in medical care and technology that have lengthened life expectancies and curbed disease.

The revolution in computing and communications technology means today's young people have new tools to interact and collaborate with colleagues, can form closer bonds with their friends and family, create new networks across the world and have more platforms for personal expression and more immediate access to an almost infinitely wider range of information and culture. Globalisation has also made new ideas, products and services available to Australians.

The coming decades will see more innovation that will change our workplaces. While their parents' careers spanned a period when computers became ubiquitous, young people are starting work at a time when big data, smarter machines and artificial intelligence are bringing profound changes to the workplace.³

This will provide opportunities for young Australians in the form of new jobs and even new industries. But they will also need the skills to work with more complex systems. Today we have to ensure that our education system is up to that job so that technology augments the productivity of our young workers.

From a financial perspective, statistics on personal finances indicate that young people's incomes are ahead of their parents at the same age. In inflation-adjusted terms, young people's wages are 6.8 per cent higher than they were 30 years ago. An increase to be sure, but a small one given the long period of prosperity Australia has enjoyed and a much smaller improvement than the significant increase in incomes enjoyed by older Australians over the same period.

2. NAB (2014a)

3. Pew (2014)

In these dimensions – health care, technology, incomes – young Australians can expect, on average, their lives to be better than their parents. But in some other areas, the outlook is not as bright and progress is not assured.

Job prospects for young people today are, in some ways, more uncertain than they were 30 years ago. The youth unemployment rate sits above 13 per cent today, rising four percentage points over the last six years.

This rise has led to the average young Australian spending an additional five months unemployed when young, a time of special importance as they look to develop the skills they need for long and fruitful careers. Today's young people are three times more likely to be in part-time and casual work than their parents were at the same age. And they are 3.5 times more likely to be underemployed.

For today's young people, work has become more precarious and their attachment to the labour force is more tenuous. This situation reflects both circumstances and choices: for some young people, the quality of employment opportunities has fallen; others are juggling the competing demands of work and study; and many are coping with the financial impact of rising education expenses. Some will take advantage of a more flexible labour market, where careers are not set for life.

But the more uncertain job market, with rising unemployment, is dangerous for many young Australians because early employment experiences have long-lasting effects. Periods of unemployment and underemployment can cast a long shadow, reducing earnings and career achievement over the entire working lives of those affected.

While incomes for young people have risen modestly, so too have many essential expenses. For most people, a house is not only a home, it is the largest purchase they will ever make and their primary store of wealth. In inflation-adjusted terms, young people will on average pay 2.7 times what their parents did for their houses.

Some young people down the track will have housing pressure alleviated by inheritance from their parents. But this may not help them until well into their adult lives when they already have their own children. Additionally, not all young people will be fortunate enough to benefit from this generational wealth transfer which may exacerbate housing inequity.

All of this means that more young Australians are putting their incomes into rent, rather than building equity in their homes. For those that choose to buy, many will pay more to purchase a lower quality home than their parents did.

So while their net wealth might be larger on paper, they aren't better off in any meaningful sense. And net wealth – the value of the things you own, minus the debt you carry – can be an ephemeral gauge of financial well-being.

Where rising net wealth is associated with high debt levels, young people can be particularly exposed to the vicissitudes of the economic cycle and asset price volatility.

Education is, of course, a critical part of the lives of young people, furnishing them with the basic primary skills to participate in the community and the specific professional skills to start their careers. On the positive side, educational attainment has risen significantly over the last 30 years, with young people today 1.6 times more likely to finish school and 1.4 times more likely to gain tertiary qualifications.

But from the perspective of young people, education is about more than years of study: quality and cost are also relevant. The quality of Australian education, at least as measured by some international benchmarks, is deteriorating. And while more young people are graduating with degrees today, many of them will get a job that does not require their qualification⁴, calling into question whether our education system is actually equipping them with the right skills that they will need to thrive in the changing workplace.

Furthermore, the cost of education has risen dramatically for young people since their parents were last in the classroom. Today's young people face a rising 'opportunity cost' of education (the lost income during the extra years they are spending in study rather than full time work) as well as direct costs through fees charged to students.

The average young person now spends on average about a year more in education than their parents. As long as the education is high quality and relevant to their future occupation, this should increase their lifetime income, but it comes at the cost of removing them from the workforce for that period.

4. Black (2013)



Additionally, the cost of higher education may rise over the next several years by 30 per cent above the around \$24,000 on average that a university degree already costs, a far cry from the free education experienced by their parents.

So will young Australians be better off than their parents? In terms of health, technology and incomes the answer is clearly “yes”, but in employment, housing, costs of living, the environment and the quality of education, the answer might be “no”.

This ambiguity isn't good enough. For at least two reasons we must aspire to give young Australians an unequivocally better start in life than the generations before them. First, because the ‘promise of progress’ is a core value of our community. All parents want to see their children's lives improve.

All citizens want to leave our country a better place than we found it. Second, because the future of all generations depends on the success of our young people.

Recent Australian policy debates have focused heavily on our ageing population. But it's our young people who will provide the real solutions to the ageing challenge.

Young people will be the tax payers, the health workers, the leaders and the carers. It is their ingenuity and toil that will power Australia.

That is why the flourishing of young people is important not just for their own sake, but for the benefit of all of us.

For both these reasons, Australia must address the challenges facing young people and lift their confidence about their own future.

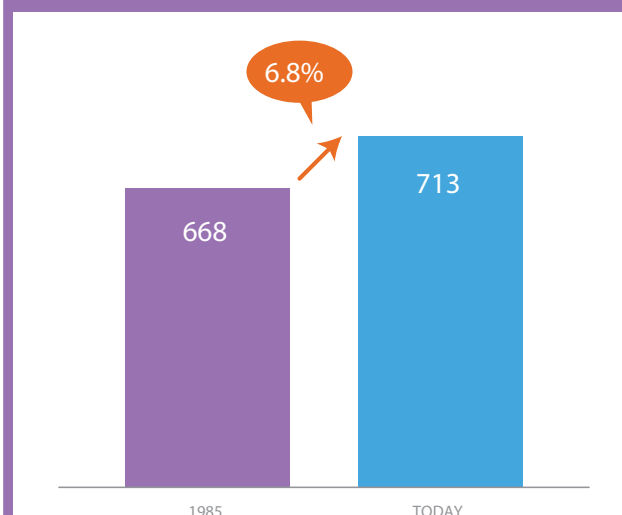
This task is urgent. Over the next five to 10 years this generation of young Australians will pass through school, make choices about further education, look for their first jobs and prepare to buy their first homes. They will have moved from childhood to adulthood and, to some extent, their life path will already be substantially shaped by their formative experiences.

This report shows that there is a narrowing window of opportunity to develop the policy settings that will build the confidence and capability of our young people. Australia must act now to ensure that today's young people don't become the first generation of Australians to do worse than their forebears.

WORK AND INCOMES



WEEKLY EARNINGS OF 15-24 YEAR OLDS
(FULL-TIME EMPLOYEES, MEDIAN WEEKLY EARNINGS
IN MAIN JOB, REAL, 2013)



On a purely financial basis, young people today in full-time work are earning slightly more than their parents did at the same age. Median weekly earnings for Australians aged 15-24 have increased from \$668 per week in 1985 (in inflation-adjusted terms) to \$713 per week today. This is a 6.8 per cent real income increase over the past 30 years.

So as they make their first steps to establishing their financial security, today's young people are modestly ahead of where their parents were at the same stage in life. But even still, income growth for young people has not been as great as it has been for other age cohorts.

Young Australians are capturing a relatively small share of the income growth Australia has experienced over the past 30 years.

The graph above compares this modest growth in weekly earnings for 15 to 24 year olds since 1985 to the more robust growth in earnings over the same period for 45 to 49 year olds. Incomes of Australians between the ages of 45 and 54 have increased 34.4 per cent over the same 30 year period. That is to say that incomes for the 15 to 24 year old cohort has risen five times more slowly than the earnings of the older age group.

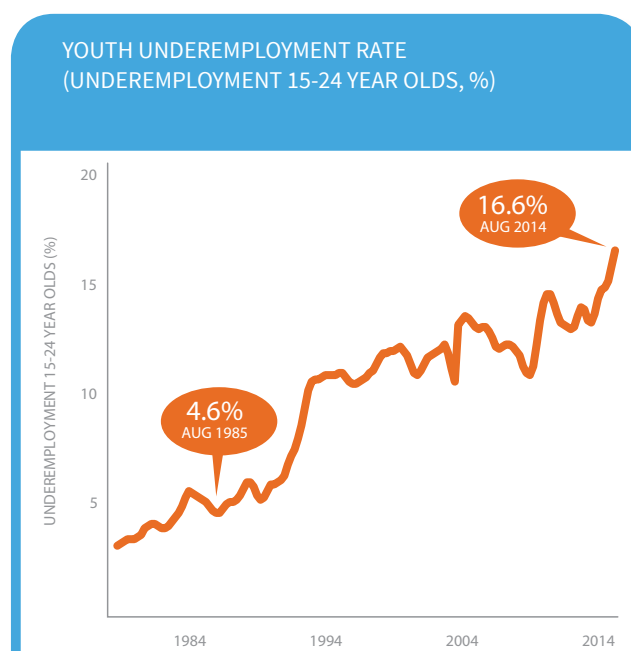
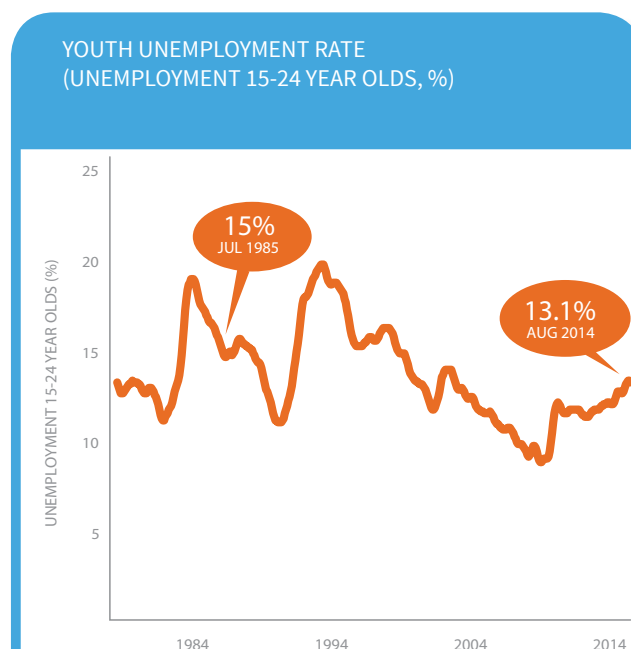
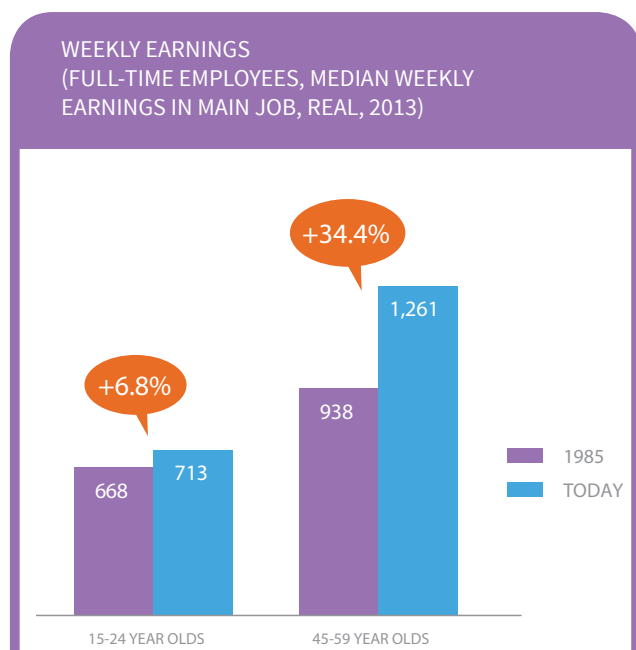
Moreover, their first employment experiences have been, in many ways, more challenging than their parents'. This early time in the labour market is important because it has a long-term effect on individuals' working lives.

Young people who cannot find work, or cannot find enough work, go on to have lower income and a more tenuous employment long into the future.⁵

The current trend in youth unemployment is worrying. Today more than 13 per cent of young Australians looking for work cannot find a job, up more than four percentage points in the last six years since the onset of the financial crisis. But even though youth unemployment has recently spiked, the level of unemployment experienced by young people today is comparable to that experienced by their parents at the same age, many of whom also had difficulty gaining a toe hold in the job market. In 1985, youth unemployment ranged between 14.6 per cent and 16.1 per cent for that year.

In the top right chart on the next page, the recent sharp rise in unemployment is noticeable but it came after a decade where the youth joblessness problem abated somewhat from the high levels experienced by the parents of today's young people.

5. Gregg & Tominey (2004)



While looking at these long-term numbers on youth joblessness it may appear that young Australians face a broadly similar job market to what their parents did, but the national headline unemployment figure does not reveal the full picture.

Youth unemployment, for starters, is much higher than the national average in many regional areas. Several regional ‘hotspots’ have youth unemployment in the high teens or even above 20 per cent.⁶

The official definition of unemployment also requires a job seeker to be actively looking for work, available to start work immediately and not have found any work at all (even a person working for a single hour per week is not officially unemployed). So official unemployment statistics do not capture the experiences of young people who have moved into study because they cannot find work, young people who are working part-time but would like to work more hours, or the experiences of young people who are working in jobs that they are overqualified for.

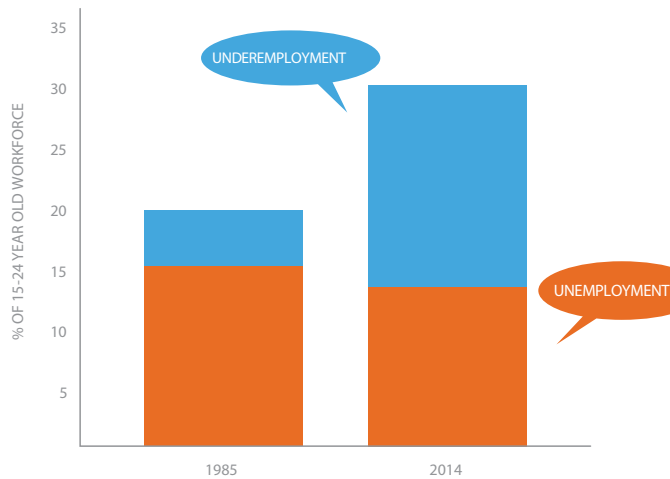
Underemployment is a slightly broader definition of unemployment which captures those working part-time who would prefer to work more. Over the past three decades an ever growing portion of Australia’s young workers have not been able to find as much work as they would like.

The graph above shows the steady upward trajectory of youth underemployment since 1978. There are more young people today in part-time and casual jobs who would like to be working full-time than there ever have been before.

The difference between underemployment for today’s young people and their parents is stark. Youth underemployment rate stood at 16.6 per cent in August 2014; throughout 1985, youth underemployment averaged just 4.7 per cent.

6. Brotherhood of St Laurence (2014)

YOUTH UNEMPLOYMENT AND UNDEREMPLOYMENT RATES (% OF 15-24 YEAR OLD WORKFORCE)



This is a waste of the talents of our nation's young people. It is a cost to the nation in terms of lost national output and a significant detriment to the lives of the individuals involved. Having so many young Australians out of work or without as much work as they would like, will cost the economy around half a billion hours of labour this year, equating to as much as \$13.6 billion in foregone GDP.⁷

As well as the immediate direct cost of lost income for the unemployed and underemployed, time out of the workforce when young has a scarring effect on young people's wages that can last decades into the future. Young unemployed and underemployed people are missing out on 'time on the job', missing out on acquiring skills and building a network of contacts to help them in the job market in the future.⁸

Today, more young people are working in part-time employment than ever before.

While in 1985 only 16 per cent of young people in the labour force worked part-time, today the figure is 44 per cent.

While partly explained by young people spending more time in education, the increase also reflects a reduction in quality of employment opportunities.

The increase in precarious work — part-time and contract positions — is of particular concern for its potential to impact the development of meaningful careers and wealth over time.

The less time young people spend in stable jobs, the less time they build up the human capital and professional networks they will need to thrive in the workforce in the long-term.

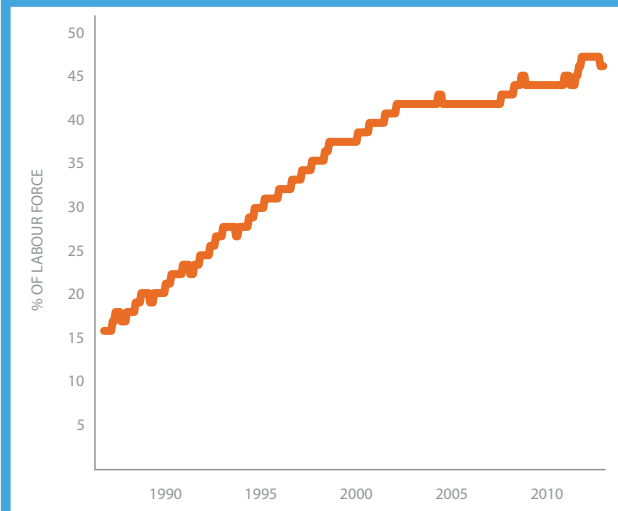
Australia also needs to prepare its young workers for the workplace of the future. The structure of Australia's industries is changing with a decline in blue collar manufacturing jobs. Increasingly low skill jobs are being either automated or offshored to countries with lower labour costs. For their parents' generation, computers became ubiquitous in the workplace; for today's young people a new set of technologies including big data, smarter machines and Artificial Intelligence are bringing profound changes to workplaces.⁹ This will provide opportunities for young Australians in the form of new jobs. But they will also need the skills to work with more complex systems so that technology augments young workers rather than displacing them.

7. FYA estimate based on ABS data.

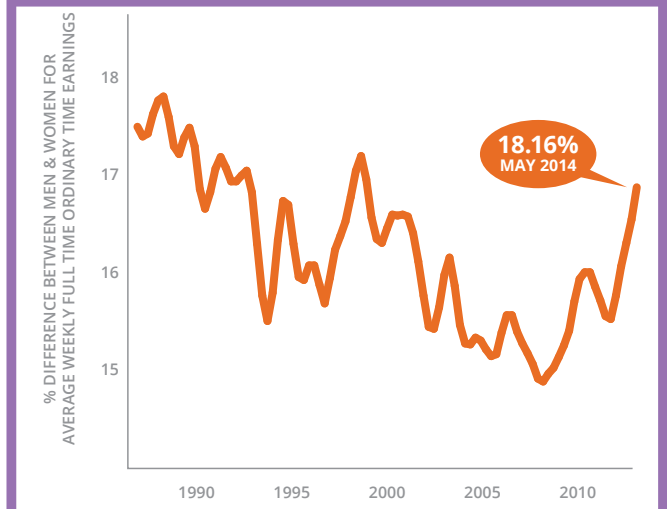
8. See for instance Gregg & Tominey (2004)

9. Pew (2014)

PROPORTION OF 15-24 YEAR OLDS IN PART TIME WORK (% OF LABOUR FORCE)



GENDER PAY GAP



Since the 1980s, Australia has also made little progress in addressing the gap in pay between men and women. Today's young women are entering a workforce in which the gender pay gap is worse than it was for their mothers. Based on average adult full-time ordinary weekly earnings, the gender pay gap generally declined for two decades before spiking again over the last 10 years.

The gap today is more than 18 per cent, above the 17.4 per cent to 17.8 per cent levels of 1985.

The gender pay gap denies women an equal quality of life now compared to men. But it also makes it harder to save over their lifetimes. The persistent gender pay gap, combined with women continuing to be more likely to spend time out of the workforce when they have children, means it is harder for women than men to earn enough for their retirements.

The persistent pay gap is partly caused by the number of women in management positions at companies remaining far too low. While Australian businesses generally say they value gender diversity, women still make up only 23.8 per cent of executive management teams for all Australian businesses, while for ASX 300 companies it is even lower at just 15 per cent.¹⁰

In summary, young Australians have started their lives with modestly higher incomes than their parents, but a significantly weaker attachment to the labour market.

While youth unemployment today is broadly unchanged from a generation ago, the headline data masks a significant change in the attachment of young people to the workforce. Youth underemployment has skyrocketed over the past 30 years from just over four per cent to more than 16 per cent today.

Taking into account the unemployment and underemployment of today's youth, the problem of insufficient work for young people is probably larger today than it was for their parents with close to 30 per cent of young people in the labour force not working as much as they would like.

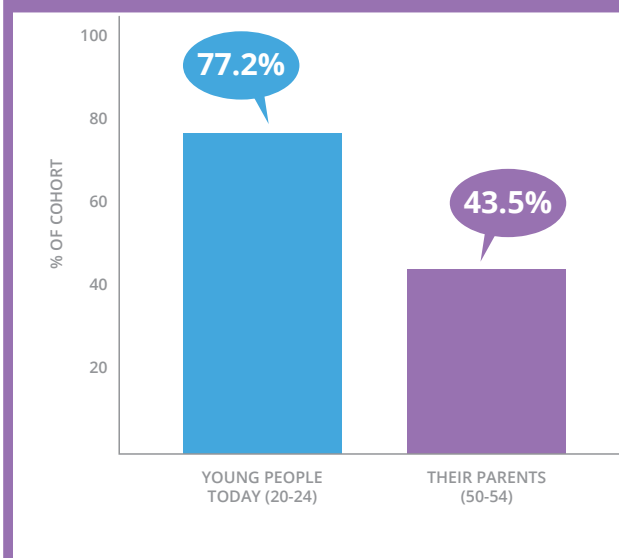
At the same time, Australia has made little to no progress in making the workplace more equal by closing the gap in earnings between men and women.

10. Pew (2014)

EDUCATION



YEAR 12 COMPLETION



Education is vital to the future of young people. The education young people are acquiring now will be a major determinant of their well-being over the next 30 years. More and better education will benefit young people in the long-term through higher earnings and the country through a more skilled workforce.

Is the education of young Australians – the knowledge and skills that will prepare them for the future – better or worse than their parents?

Looking purely at the time they are spending in educational institutions, today's young people are getting more education than their parents. Australia has done well in improving the year 12 completion rates of young people.

Today's 20 – 24 year olds are close to 1.6 times more likely to have completed year 12 than their parents. While young people aged 20 – 24 have a completion rate of 77 per cent, less than half 50 – 54 year olds completed high school.

It is no doubt an important and welcome development that more young people are finishing school. Getting to the end of year 12 is a major milestone for any young person. It marks the end of a long journey young people take to acquire the basic skills that as a society we consider important.

Year 12 completion is also a requirement for many jobs and for entry to university. Young people who complete year 12 will earn more across their lifetimes than those who don't. Higher rates of year 12 completion also benefit the country as a whole through having a more skilled workforce and the higher taxes that year 12 graduates pay.

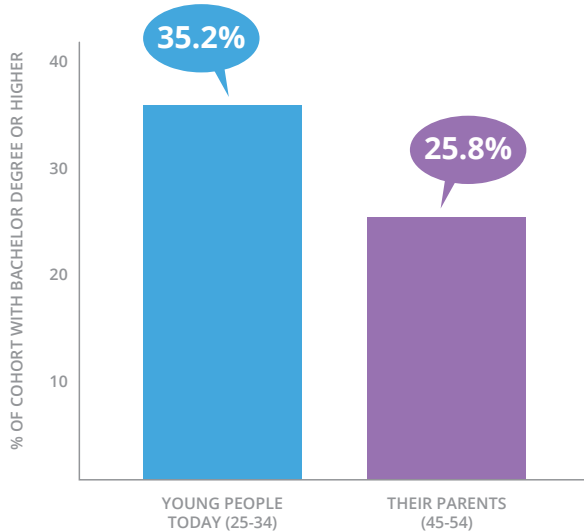
More young people are also going on to university and completing degrees at higher rates than their parents. While it's too early to have data on degree completion for 15 – 24 year olds, people in the slightly older cohort of 25 – 29 year olds are 1.4 times more likely to hold a bachelor degree than 45 – 54 year olds.

As more young people complete degrees, it should bring them benefits across their lifetime. The estimate of the earnings gap in Australia between those holding bachelor degrees and school leavers ranges between 30 per cent and 74 per cent.¹¹ Universities are also the places where young people acquire the specialised skills across various fields that will drive the economy in a more and more competitive international environment.

But a 'better education' is about more than the time spent at school. It is also important to consider the quality of learning and how much it costs.

11. Leigh (2008); Norton (2012); Cassells, Duncan, Abello, D'Souza & Nepal (2012)

UNIVERSITY GRADUATION



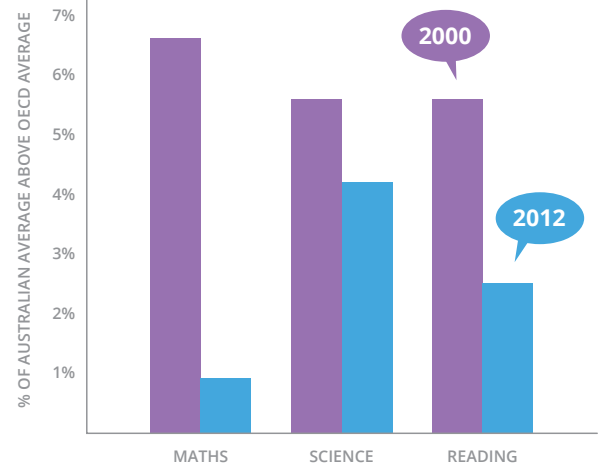
Are we teaching young people as well as we used to? Long-term data allowing the comparison of high school education quality across generations is not available. But the evidence since 2000 is that Australian high school students' performance in reading, science and mathematics has slipped in comparison to their OECD peers.

Whereas in 2000 Australian students performed almost seven per cent above the OECD average in mathematics and almost six per cent above in science and reading, by 2012 they were less than one per cent above the average in mathematics, 4.2 per cent above in science and only 2.4 per cent in reading.

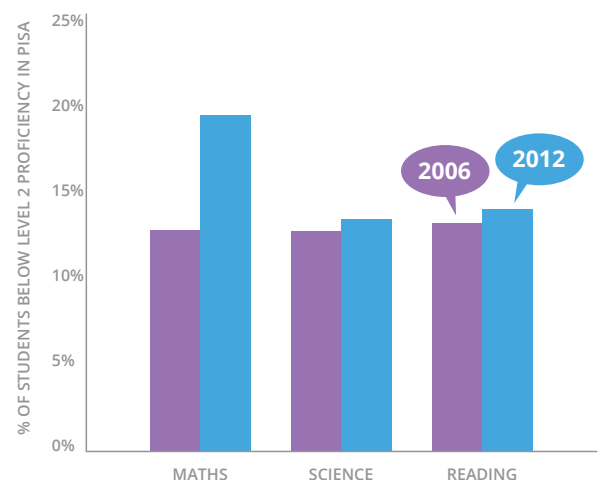
A growing proportion of Australian students are also slipping through the cracks. Between 2006 and 2012 the share of students in all three subject areas not achieving basic proficiency has increased with a particular pronounced uptick in mathematics.

In mathematics, 19.7 per cent of Australian students did not reach basic proficiency in 2012, compared to 13 per cent in 2006, in science 13.6 per cent failed to reach that level, up from 12.9 per cent, and in reading 14.2 per cent were below basic proficiency, up from 13.4 per cent.

AUSTRALIAN PISA PERFORMANCE



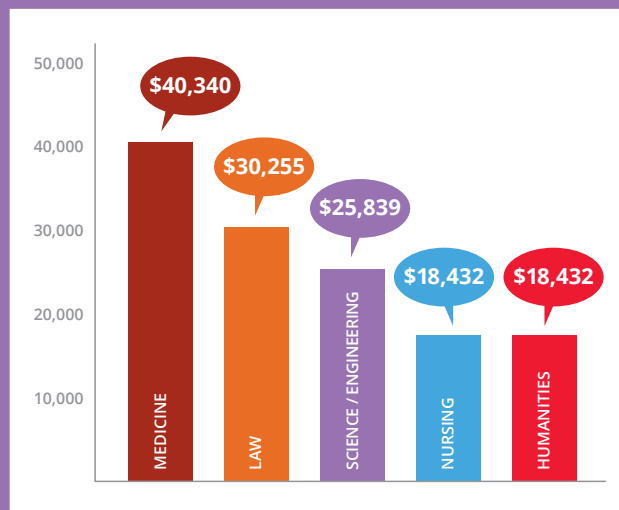
LOW PERFORMING STUDENTS



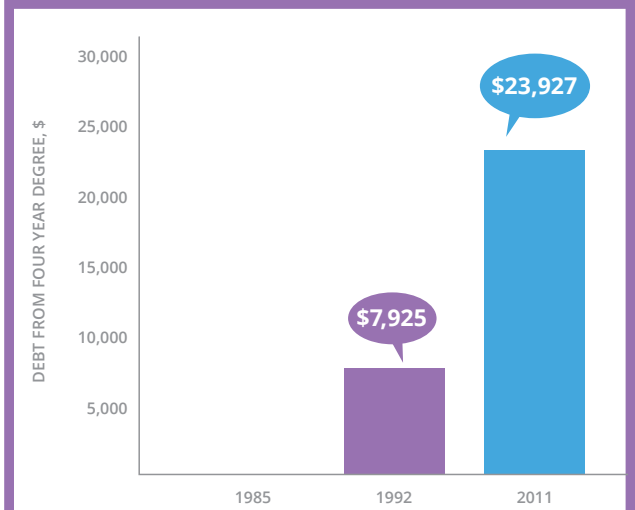
Additionally there is evidence that young people's further education beyond school may not be very well-matched to the jobs that they are getting. Over a quarter of 20 – 24 year olds are over-educated for the positions they hold.¹² While this may be due to this cohort of young people still being at university and working in jobs that do not fully utilise their education, for the slightly older cohort of 25 – 34 year olds the rate of over-education is still 21.1 per cent. More than one fifth of people between 20 and 34 are not using their education in the jobs they have suggesting that the education system is illpreparing them for the workforce.

12. Black (2013)

DEGREE COSTS



AVERAGE STUDENT DEBT



As well as quality, when assessing whether the extra time spent learning is leaving today's young people better off than their parents, it is also relevant to consider what it is costing them.

Over the last 30 years the costs of education for young people have increased considerably, both in terms of opportunity cost and the direct monetary cost. The more time spent in school and university has an opportunity cost for students in terms of their foregone income that they would have had in the workforce. As a corollary, the more time spent studying also leaves young people less time to accumulate the savings they will need to raise a family and eventually to live on in their retirement, offsetting somewhat the lifetime boost to incomes from education.

Additionally, while university education was still free in the 80s for their parents' generation, today's young people are charged up to \$10,085 a year to attend university. By the end of their degrees they can end up having paid fees of over \$40,000, as seen in the chart above which shows the costs of studying for several disciplines.

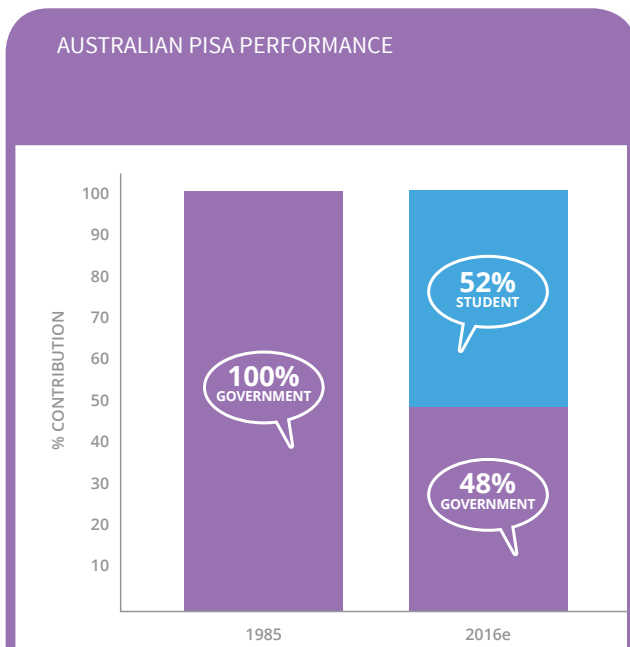
These increased costs are leaving young people with a large student debt on graduation while their parents entered the workforce debt free.

The average debt of a graduating student from a four year degree in 2011 was \$23,927, as shown in the graph above which compares average debt for students graduating in 2011 with 1985 and 1992, when the first who entered university after the introduction of the Higher Education Contribution Scheme graduated.¹³

University fees and student debt on graduation will rise further in the next few years for today's young people under the government's proposed reforms to higher education. The changes see the Commonwealth Grant Scheme, the government program that subsidises most Australian university students, cut by 20 per cent. If universities cover the gap this leaves in their revenues by raising fees, student contributions will need to rise by 30 per cent.

Under this scenario today's young people would be the first to cover more than 50 per cent of the costs of their tertiary education, while their parents' education was fully covered by the government.

13. Chapman and Higgins (2013)



To summarise, in terms of raw educational attainment today's young people are doing better and set up better for the coming decades than their parents. More than three quarters of young people complete year 12, whereas less than half their parents did.

More than 35 per cent of young people will receive bachelor degrees, while only a little over a quarter of their parents did.

But education is about more than time in study. There is a worrying trend that our education system, in terms of the basic skills with which it must equip young people in order for them to thrive, has been slipping for more than a decade relative to the rest of the OECD. Whereas in 2000, our high school students were near seven per cent above the OECD average in mathematics and more than six per cent above the average in science and reading, in 2012 they were less than one per cent above for mathematics, 4.2 per cent for science and 2.4 per cent for reading. More students are also failing to reach basic proficiency in those subjects.

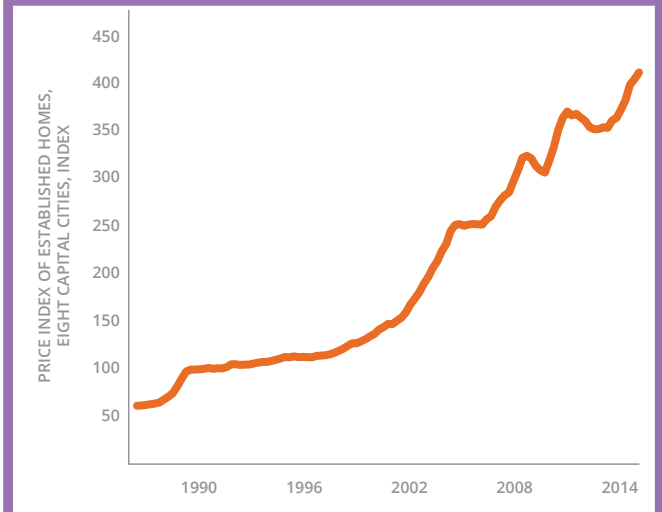
Additionally, our education system may not be teaching our young people the skills they need as more than one in five of them are not using their qualification in their jobs.

The costs of education have also risen for young people. While it was still free for their parents to attend university, today's students graduate with tens of thousands of dollars in debt. The average student debt for a four year degree is more than \$20,000, while for the most expensive degrees it reaches more than \$40,000. If universities make up the shortfall of government cuts to student subsidies with increases in student fees, today's young people will be the first that are asked to pay back more than half of the costs of their education.

HOUSING



HOUSE PRICE INDEX



Affordable housing is crucial to a person's well-being. Home is where they spend most time and will for many people be the most significant purchase they make. Since so much of a young person's savings can be tied up in their first house purchase, it is a decision that will affect them for a long time. The debt they take on to afford their dream home could also be a burden for many years.

House prices that young people face today as they enter the property market are much higher than they were 30 years ago and have risen much faster than incomes over that period.

Today the ratio of house prices to incomes is nearly twice as much as it was when young people's parents were buying their first homes. The increase has meant that housing debt levels are much higher, particularly for today's first homebuyers, straining their household budgets for many years.

The starting point to look at housing affordability is of course how house prices have changed over time and the picture is stark. The house prices that young people face today are much higher than they were for their parents 30 years ago.

The graph above shows the rise in house prices across capital cities since 1985 that has left them nearly six times as expensive today, with the most rapid increases seen in the Sydney and Melbourne markets.

There are few options for young people seeking to escape the rapid rise in the cost of homes. Some choose to purchase apartments, but available data from 2003 to 2014 show that 'attached dwelling' prices rose by almost as much as houses (61 per cent compared with established home prices which rose 71 per cent over the same 11 year period).¹⁴

Others choose to rent, but rental prices have increased almost as quickly as house and apartment prices (ABS rental price index increased 58.1 per cent over the same period from 2003 to 2014).¹⁵ Other young people may choose to remain at home with their parents.

The rising cost of houses and apartments would not be a problem if incomes had risen just as quickly, keeping relative affordability at the same level. Unfortunately, this is not the case. Since 1985, house prices have risen much faster than income.

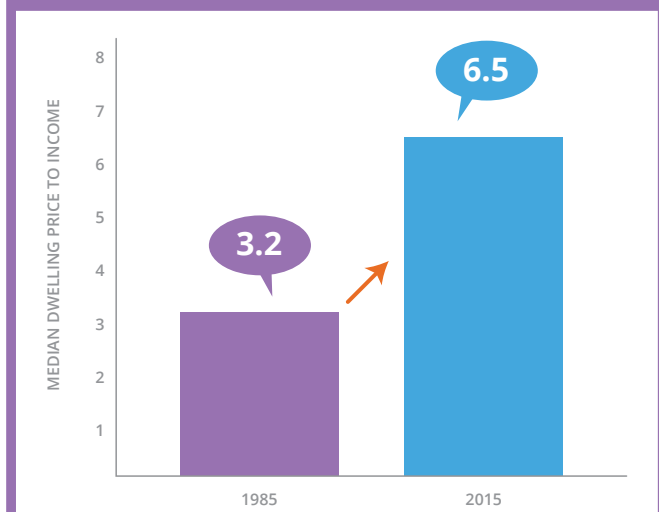
In 1985, as the parents of young people were buying their first homes, houses cost 3.2 times average income. Today a home buyer pays 6.5 times the average income for their home as illustrated below.

Some young people down the track will have housing pressure alleviated by inheritance from their parents. But this may not help them until well into their adult lives when they already have their own children. Additionally, not all young people will be fortunate enough to benefit from this generational wealth transfer which may exacerbate housing inequity.

14. ABS Attached Dwellings Price Index, Weighted average of eight capital cities, Index Numbers, Original, September 2003 to June 2014, Series ID: A83728457T.

15. ABS, 6401.0 - Consumer Price Index, Australia, Sep 2014, Series ID: A2331876F.

HOUSE PRICE / INCOME RATIO



This sharp rise in house prices has seen home buyers take on more debt to pay for their homes. Today's young people are likely to have much more housing debt than their parents did, leaving them more vulnerable to economic downturns, income volatility and asset price corrections over the long term.

Average housing debt used to be 27 per cent of average income in 1985, but has increased to 136 per cent over the past 30 years.

Most pertinently for young people, first home buyers' debt has increased by even more than general housing debt in the past 30 years. The parents of young people as they were entering the property market had an average home loan of \$30,000. For young people today the average home loan for first home buyers is \$308,000.

In real inflation-adjusted terms this is more than a tripling of the loan that first home buyers are taking out to own their own place.

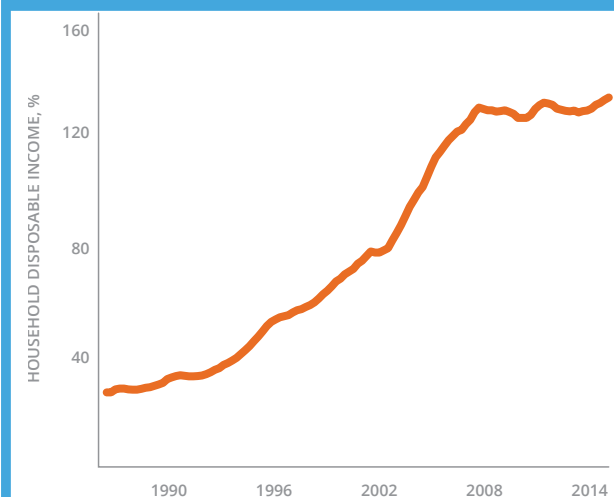
The higher debt burden naturally leads to higher interest payments, which will put more strain on the weekly family budgets of young people as they grow older. In 1985 interest payments on housing debt were less than four per cent of disposable income.

Today interest payments are more than seven per cent of income. The rise has meant that debt servicing costs are eating up a very large chunk of the incomes of young people. In 2010-11 average weekly housing costs for first home buyers with a mortgage were \$499, amounting to 23 per cent of gross household income.

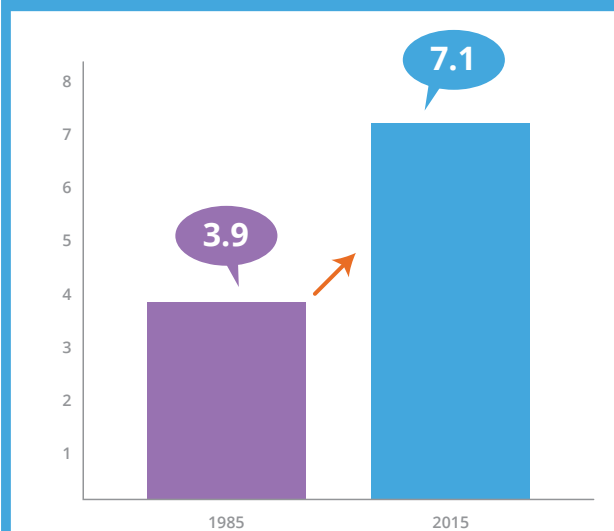
In summary, housing today is much more expensive for young people than it was for their parents. Today's houses are six times more expensive than they were in 1985.

The rise in house prices has made them much less

HOUSING DEBT TO INCOME



HOUSING INTEREST TO INCOME

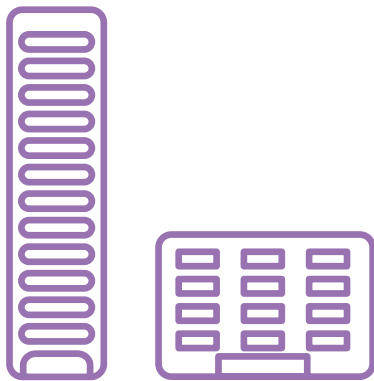


affordable for young people as incomes have not risen nearly as quickly.

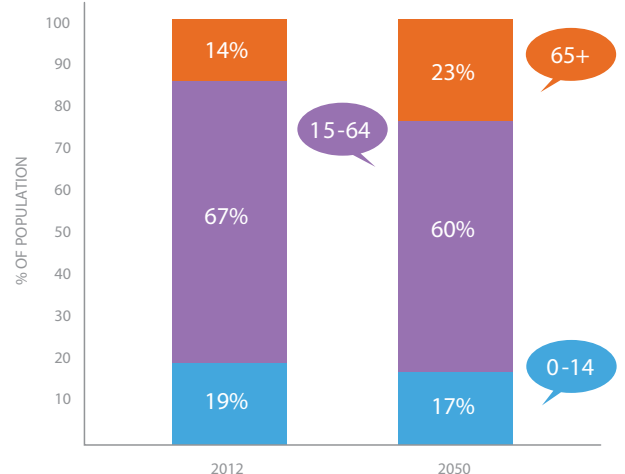
House prices today are 6.5 times average income, whereas in 1985 they were 3.2 times.

Because of the rise in house prices, housing debt is also now much higher as today's young people enter the property market, compared to when their parents were buying their first homes. The rise in debt levels leaves young people more vulnerable to swings in their income and the repayments strain their weekly budgets. Average housing debt was 27 per cent of average income in 1985, today it is 136 per cent. The home loan that first homebuyers take on has tripled in real terms. Weekly spending on housing by first home buyers is now nearly a quarter of average income.

GOVERNMENT SERVICES



AUSTRALIANS IN DIFFERENT AGE GROUPS



When today's young Australians are in the middle of their working lives, they will find that demands on services are greater than ever but the number of Australians contributing smaller than ever. The ageing of the population will increase government spending just as the relative size of the workforce dwindles. This will have consequences for the level of taxes that the next generation will pay, and the quality of services they can expect from the government.

Whereas in 2012, the proportion of young Australians over the age of 65 was 14 per cent, it will grow to around 23 per cent by 2050.¹⁶

The graph above shows the proportion of Australians in age brackets in 2010 and 2050. Note the shrinking share of the population that is working age, 15 to 64 years, and the increasing proportion of over 65 year olds.

As the population of older Australians increases, they will naturally consume a growing proportion of government expenditure. In addition, technological developments are increasing the costs of services provided to older Australians, especially health and aged care.

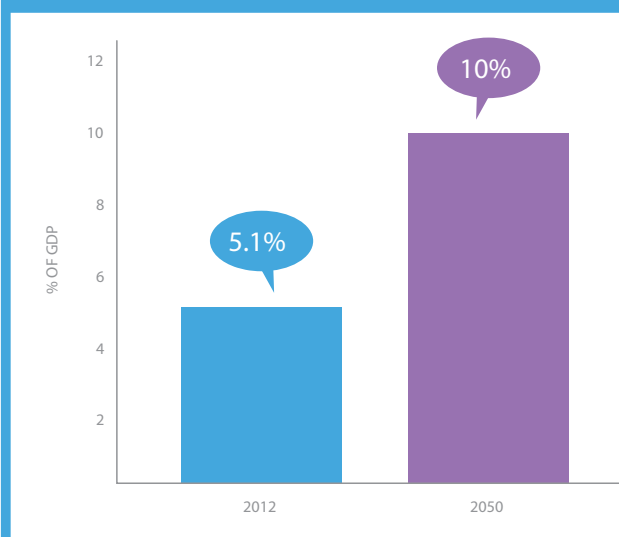
All together this means that over the coming years a growing share of Australian government expenditure will go to programs more closely associated with older Australians, while a lesser share will be devoted to programs mainly directed towards younger Australians, such as education and family payments.

Currently the categories of Commonwealth expenditure that are most closely associated with older Australians (aged care, pensions and some healthcare) make up around 5.1 per cent of GDP. By 2050 this is expected to rise to 10 per cent of GDP.

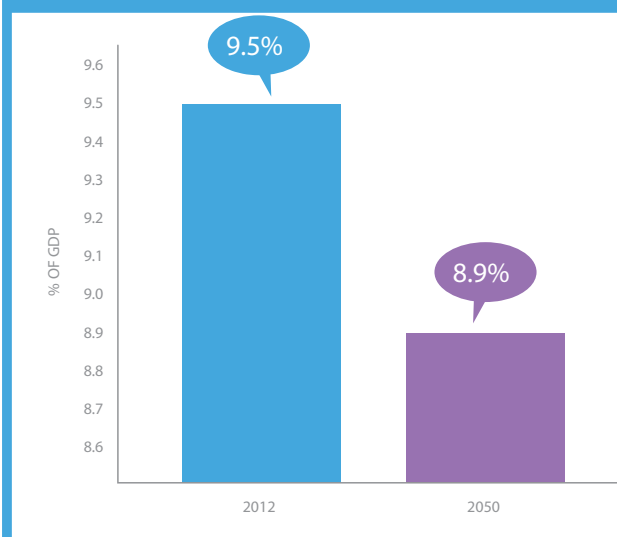
Commonwealth expenditure on categories most closely associated with younger Australians (education, family payments, unemployment benefits and other social assistance) are expected to fall as a share of GDP from 9.5 per cent in 2012 to 8.9 per cent in 2050.

16. Productivity Commission (2013)

COMMONWEALTH GOVERNMENT EXPENDITURE ON OLDER AUSTRALIANS (% OF GDP)



COMMONWEALTH GOVERNMENT EXPENDITURE ON YOUNGER AUSTRALIANS (% OF GDP)



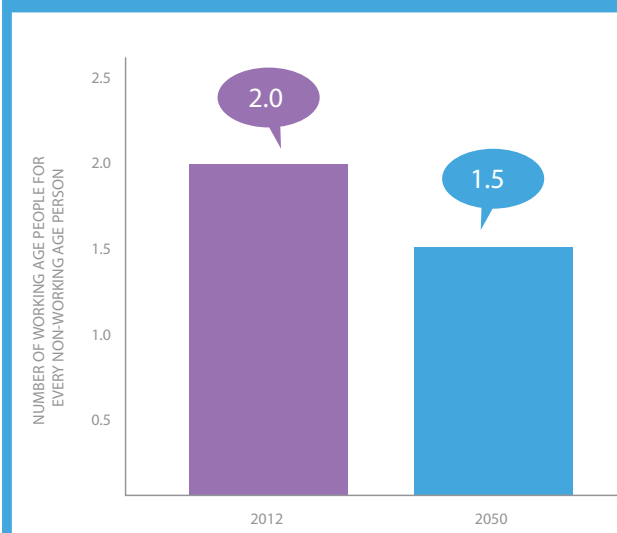
Overall, Government expenditure on categories that focus on older Australians will increase from 25 per cent of Commonwealth expenditure to 41 per cent. Expenditure items more associated with younger Australians will fall from 46 per cent of the Commonwealth expenditure to 37 per cent.

As a result of the ageing population, all of these government services will need to be supported by a proportionately smaller working age population. While today's young Australians will be contributing more, they will be seeing less back from the government in terms of services to support them and their families.

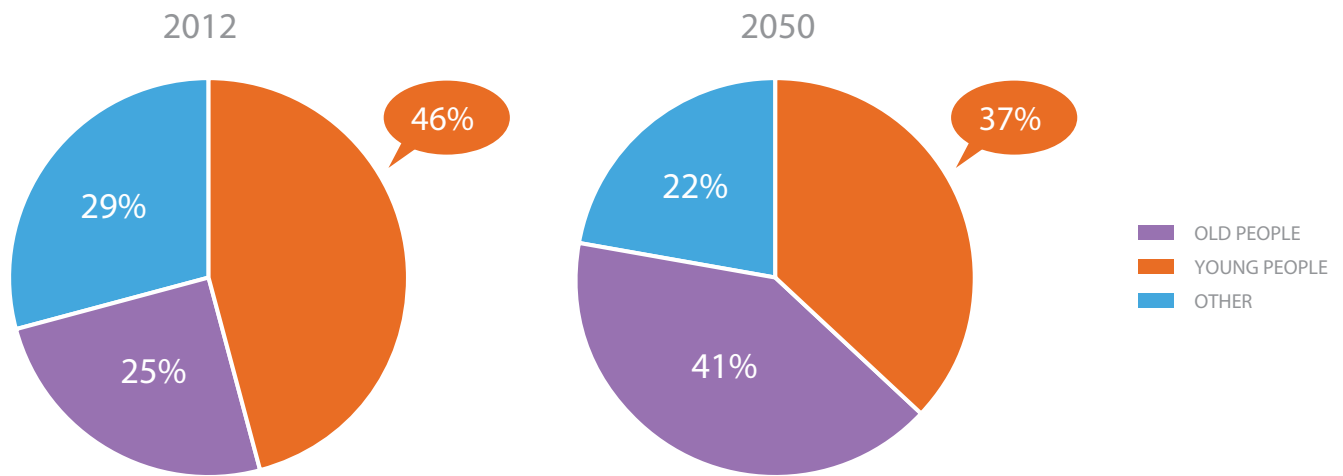
This means that if Australia is to care for an ageing population, while also continuing to provide services and support to young people and their families, the tax burden on young Australians will be higher in the future than it is for their parents today.

The graph to the right shows the fall in the inverse dependency ratio (IDR) – that is, the number of working age people to non-working age – that can be expected as the population ages. In 2012 there were two working age people for every person not of working age, by 2050 that will fall to only 1.5.

INVERSE DEPENDENCY RATIO



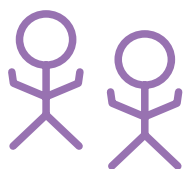
COMMONWEALTH GOVERNMENT EXPENDITURE
(% OF COMMONWEALTH EXPENDITURE)



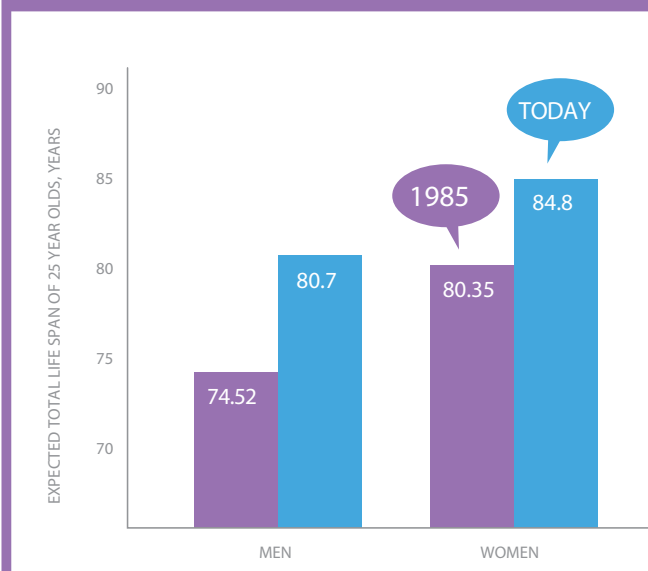
In summary, the ageing of the Australian population will change the spread of government spending. As the population ages, today's younger people will contribute more in terms of taxes as the relative size of the working age population decreases, while also receiving less back in terms of services to support them.

Whereas in 2012 government expenditure on programs that mainly service older Australians made up 5.1 per cent of GDP, this will rise to 10 per cent by 2050. Programs that mainly service younger Australians will go from 9.5 per cent to 8.9 per cent of GDP. Expenditure on those categories that focus on older Australians will go from 25 per cent to 41 per cent of total government expenditure, while those categories that focus on younger Australians goes from 46 per cent to 37 per cent.

While they will be receiving less, younger people in the workforce will be relied on more to provide the tax revenues to fund government services with the working age population set to fall relative to the non-working age population.



LIFE EXPECTANCY OF 25 YEAR OLDS



Today's young people will live longer, healthier lives than their parents did. The combined effects of advances in medical technology and healthier lifestyles have seen life expectancies steadily increase since 1985. There has also been some progress in dealing with the two biggest killers of Australians, cancer and heart disease.

A 25 year old man can expect to live more than five years longer than his father did in 1985, while a 25 year old woman can expect to live more than four years longer than her mother did.

The increase in life expectancy has been associated with the effective public health campaign against smoking. Between 1985 and today the proportion of Australians that smoke roughly halved. Partly due to this effort, Australia's two biggest killers, cancer and heart disease, have somewhat abated.

Major coronary events, i.e. heart attacks or acute myocardial infarctions, are used as a proxy for incidence of heart disease. From when data is first available in 1994 to the latest available data from 2009, major coronary events have fallen from 758 per 100,000 people annually to 463.

Not only are fewer Australians suffering from heart attacks, but the survival rate when they do has gone up. The chance of surviving a major coronary event, which was 45 per cent in 1994, had increased to nearly 63 per cent by 2009.

For cancer the story is more ambiguous since incidence rates have gone up since 1985. While in 1985 400 Australians of every 100,000 had been diagnosed with cancer by 2010, the rate had reached more than 490.

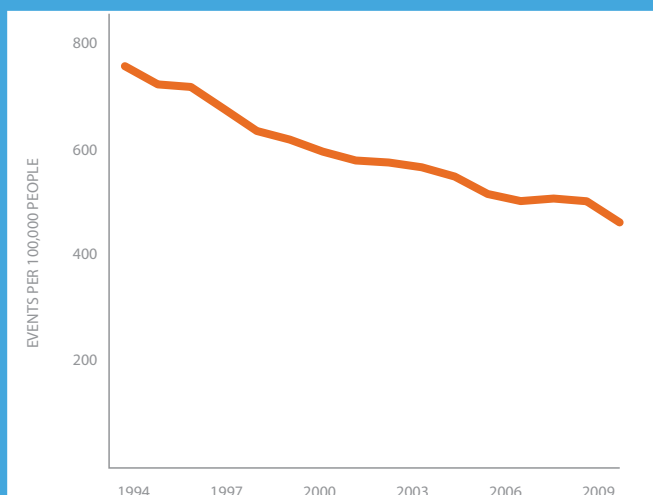
However, the number of annual deaths per head of population from cancer has still fallen due to big improvements in survival rates for cancer patients.

The proportion of people with cancer who die from the disease each year has fallen from more than a half to a third since 1985.

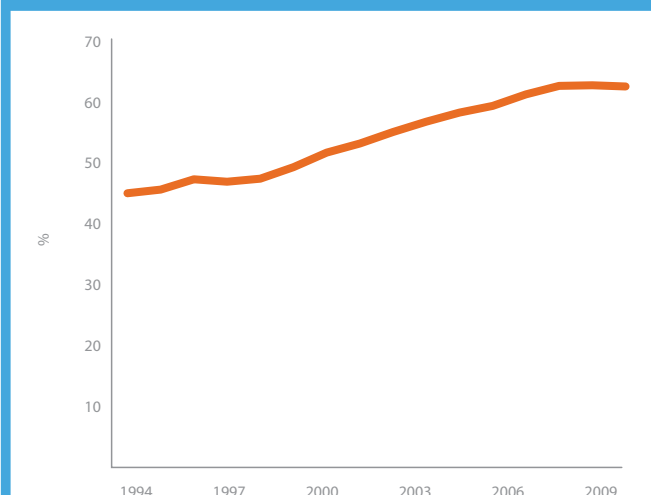
If the trends continue for cancer and heart disease today's young people will die of these afflictions at lower rates than their parents did.

However, increasing rates of overweight and obesity in Australia will offset some of these gains. In 2012 more than 38 per cent of 18 to 24 year olds were overweight or obese, compared to 31.6 per cent in 1995 when the first data is available. These higher rates of overweight and obesity will increase the risk to young people of diabetes, heart disease and stroke.

RATE OF MAJOR CORONARY EVENTS



PROPORTION OF PEOPLE AGED 40-90 YEARS SURVIVING A MAJOR CORONARY EVENT



Additionally Australia needs to do more to address the problem of mental health amongst young people.

Mental health problems and disorders account for almost 50 per cent of the burden of disease among young people.¹⁷

While historical data is scarce and not easily comparable due to changes in survey methods, the latest data available show that more than a quarter of Australian 16 to 24 year olds suffered from at least one mental disorder in the last twelve months with 15.4 per cent of them suffering specifically from an anxiety disorder.

Many young people struggling with mental illness are not getting the services they need.

Less than a quarter of those young people who had a mental disorder in the preceding 12 months accessed mental healthcare services, meaning that one in five young people have a mental disorder that is going untreated.

We cannot say if the mental well-being of today's young people is better or worse than for their parents' at the same age but it is still a significant problem for them. At a time in their lives when they are undergoing critical development in school and in their first jobs, too many young Australians are suffering from mental illness.

Most tragically 12 of every 100,000 20 – 24 year olds took their own lives in 2012, the most recent year for which data is available.

The health gap between Indigenous Australians and the non-Indigenous population also continues to be a major problem. Both Indigenous men and women have life expectancies around a decade shorter than for the non-Indigenous population.¹⁸

About two thirds of Indigenous deaths occurred before the age of 65, compared to 19 per cent for non-Indigenous Australians.

And over the last decade Indigenous Australians did not experience the same improvement in cancer mortality rates as the general population, increasing the gap in cancer mortality.

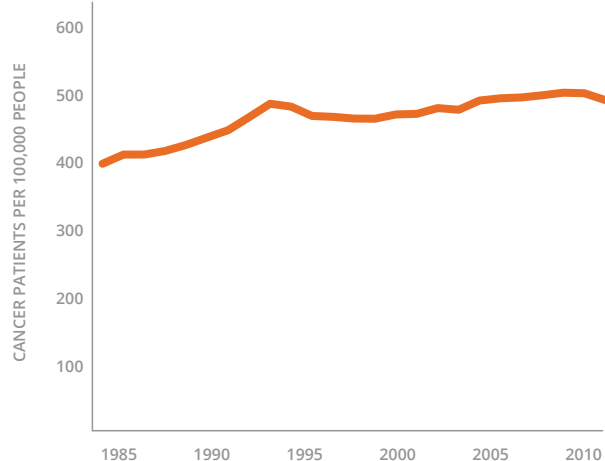
In summary, today's young people have longer life expectancies, though the around decade gap for Indigenous Australians is unacceptable. Some progress is being made in combating the biggest killers of Australians: heart disease and cancer. But while the general health outlook is good, some of these gains will be offset by the increase in obesity among young people.

Moreover the mental health of young people now is concerning with more than one in four young people suffering a mental disorder in the past 12 months on the latest data and the vast majority of those not receiving treatment.

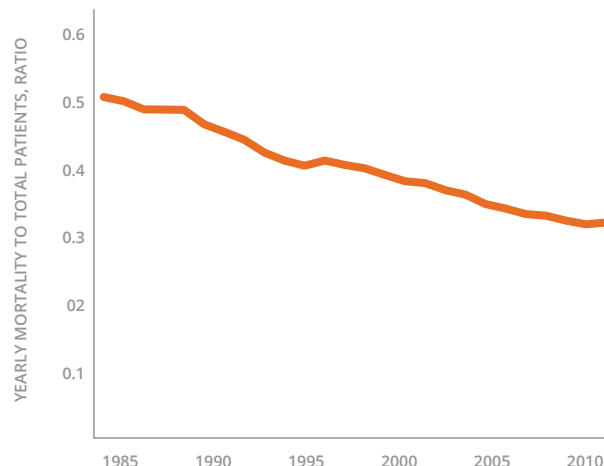
17. AIHW (2011)

18. AIHW (2014)

RATE OF CANCER DIAGNOSES



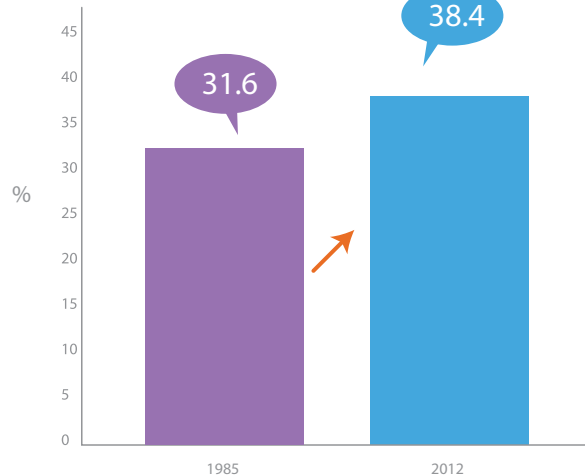
CANCER MORTALITY TO INCIDENCE RATIO



MENTAL ILLNESS AMONG 16-24 YEAR OLDS
(REPORTED MENTAL DISORDER IN THE LAST 12 MONTHS)



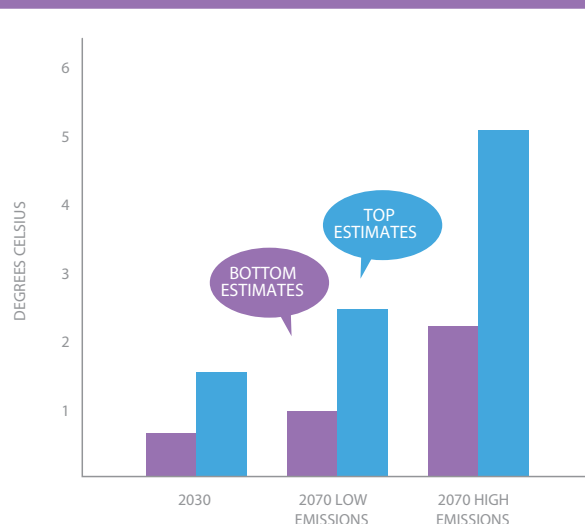
PROPORTION OF 18-24 YEARS OLDS
OVERWEIGHT OR OBESE (%)



ENVIRONMENT



AVERAGE ANNUAL TEMPERATURE INCREASE
ABOVE 1990 LEVELS



The Australian environment is a vast and complex system. Over the next 30 years, decisions will be made at every level of administration, from the local to the national, that will decide whether today's young people are fortunate to live in an Australia as blessed with natural beauty, bounty and heritage as their parents. Policymakers will be asked to make difficult decisions that balance conservation with the need to pursue development. To make a definitive assessment of whether they are likely most of the time to get these calls right is beyond the scope of the report.

Instead this section will focus on the major changes to the environment that will be experienced by most young Australians wherever they live in the coming decades and for which Australian society needs to prepare.

Today's young people will live their adulthood on a land that is hotter and drier than it was for their parents.

Average annual temperatures across Australia are forecast to rise on average by 0.6°C to 1.5°C by 2030 relative to a 1990 baseline.¹⁹ By 2070 average temperatures will depend on the path of global emissions.

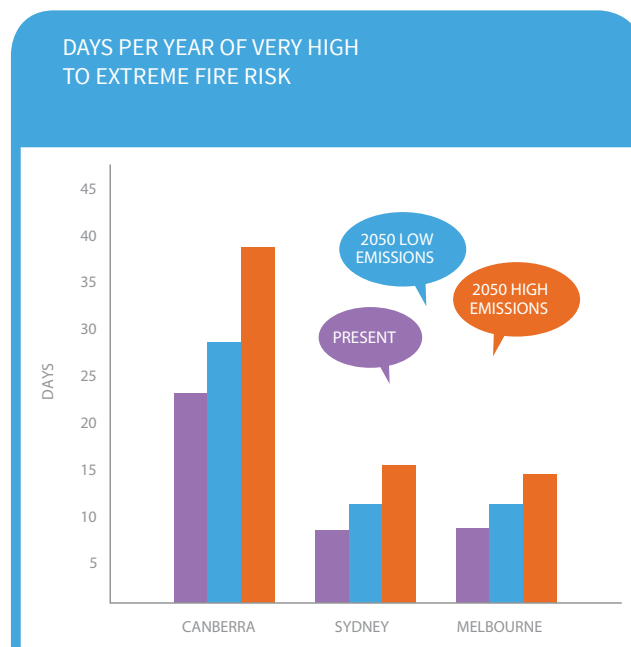
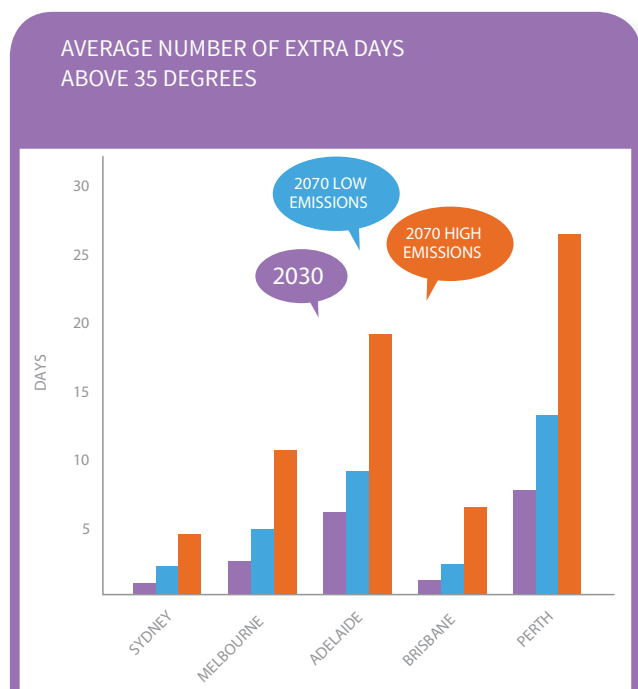
Under a low emissions scenario the rise will be 1.0°C to 2.5°C, while in a high emissions scenario the rise will be 2.2 to 5°C. The graph above shows the bottom and top estimates for annual temperature increases above a 1990 baseline for 2030 and two separate scenarios for 2070, one with low global emissions and the other with high emissions.

As temperatures rise, Australian cities will experience more days of extreme heat. Sydney, for instance, is expected to experience 4.4 per year above 35°C by 2030, up from 3.5°C now, and between 5.3°C and 8.2°C by 2070 depending on the path of emissions.²⁰ The left chart on the next page shows the midpoint estimate for expected extra days per year over 35 °C for major Australian cities by 2030 and by 2070, under both a low emissions and high emissions scenario. The infrastructure of cities struggles on extremely hot days and the productivity of workers is reduced due to the discomfort of sweltering conditions. More gravely these hot days in cities are expected to cause more heat-related deaths over the next 40 years.²¹

19. CSIRO (2007)

20. CSIRO (2007)

21. PricewaterhouseCoopers (2011))



The higher temperatures will also increase the bushfire threat.

The number of days with very high or extreme fire danger in southeast Australia will increase in the range of 4-25 per cent by 2020 and by 15-70 per cent by 2050.²²

The graph above right shows the forecast number of days per year of extreme fire risk today compared to 2050 under the low and high emissions scenarios for Canberra, Sydney and Melbourne. More days of fire risk mean a longer fire season, giving fire services less time to prepare in winter for bushfires and potentially exacerbating the damage they could cause.

As well as becoming hotter, Australia will become a drier place in coming decades. Months spent in drought are forecast to rise by up to 20 per cent by 2030 for most of Australia.²³

The decline in rainfalls will see the value of agricultural production in the Murray Darling Basin fall by up to 49 per cent by 2050.²⁴ As the Basin accounts for 40 per cent of Australia's total gross value of agricultural production at the moment, the fall will represent a significant hit for the agricultural sector.

The drier conditions will not just be a problem for the bush, the water supply in Australia's cities will also be strained as today's young people grow older. Most cities and major conurbations across the country will need to supplement their existing water supplies if it is to be adequate for their populations.²⁵

In summary, Australia is likely to become a hotter place as today's young Australians grow older. Temperatures are forecast to rise by up to 5°C by 2070 and Australians will experience more days where temperatures are above 35°C, putting them more at risk of heat related deaths.

Australia will also be more at risk from fire and drought. The decrease in rainfall will lead to sharp reductions in agricultural production and strain the water supplies of our cities.

22. CSIRO (2007))

23. CSIRO (2007))

24. Garnaut (2011)

25. Garnaut (2011)

CONCLUSION

The over-arching objective of youth policy is to ensure that the next generation inherits a better nation than the last generation. That is a goal that most Australians can agree on.

This report has reviewed the progress of young Australians in a number of areas of their lives. In many ways, young people are fortunate. They live at a time when technology has allowed them to work more efficiently with colleagues and brought them closer to their family and friends. Young people will continue to benefit from technological innovation, as long as they are equipped with the skills they need in more complex work environments. Australia's young people can also expect longer lives and will enjoy better medical care. They live in a society that is more open than ever to products and ideas from around the world. And Australia's long period of growing prosperity has allowed young people to earn modestly more than their parents at the same age.

But despite all of this, many young Australians are anxious about the future and face many hurdles that are higher than those jumped by their parents. Young people are facing a job market that can be uncertain and precarious. Youth unemployment, while at similar levels to what it was for their parents, is the highest it has been in over 12 years.

Additionally underemployment is a much bigger problem for today's young people than it was for their parents. Close to 30 per cent of today's young people in the labour force do not have as much work as they would like, compared to fewer than one in five of their parents. This early frustration in the job market is likely to cost young people significantly as ephemeral attachment to the job market when young decreases earnings for years down the track.

The prospects for young people of finding affordable housing are also much less bright than their parents' were. House prices have risen more quickly than incomes over the past 30 years, making it more difficult for young people to buy their first home and leaving them saddled with more debt than their parents when they do so. Inheritance will address some of this shortage but years into the future and with implications for equity.

The ageing population will mean that young people are relied on more to fund government services as the working age population dwindles relative to the overall population. As a share of GDP, government expenditure on services for young people will fall over the next 30 years.

Young Australians can also not be sure that Australia's environment will continue to provide the bounty it did for their parents. Climate change will make the country a hotter and drier place. Cities will experience more days of extreme heat and their water supplies will be strained, while the bush will face more drought and agricultural production will fall.

FYA is fundamentally optimistic about young people and the contribution they can make to this country. As a generation, even though young, they have already demonstrated their willingness to learn and to contribute as much as they can to Australian society. The future, through technology, global connectedness and growing prosperity, will bring them many opportunities if they are prepared for them.

But unless we take steps in the next five years to address the challenges young people face, there is a danger that the headwinds pushing against the progress of young people will overpower the tailwinds. To allow this to happen would be a tragic waste of the potential of today's young people.

ABBREVIATIONS AND ACRONYMS

ABS	Australian Bureau of Statistics
AI	Artificial Intelligence
ACIM	Australian Cancer Incidence and Mortality
AIHW	Australian Institute of Health and Welfare
CPI	Consumer Price Index
CSIRO	Commonwealth Science and Industrial Research Organisation
DoHA	Department of Health and Ageing
°C	Degrees Celsius
FYA	Foundation for Young Australians
GDP	Gross Domestic Product
HECS	Higher Education Contribution Scheme
HPI	House price index
ICT	Information and communications technology
IDR	Inverse dependency ratio
IGR	Intergenerational Report
NATSEM	National Centre for Social and Economic Modelling
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
PISA	Programme for International Student Assessment
RBA	Reserve Bank of Australia
Treasury	The Commonwealth Treasury

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DATA SOURCES

Weekly earnings of 15-24 year olds (full-time employees, median weekly earnings in main job, real, 2013 \$).

Source: ABS, Employee Earnings, Benefits and Trade Union Membership, Australia. Today is latest data: 2013. 1985 data adjusted to 2013 using CPI index.

Weekly earnings (full-time employees, median weekly earnings in main job, real, 2013 \$).

Source: ABS, Employee Earnings, Benefits and Trade Union Membership, Australia. Today is latest data: 2013. 1985 data adjusted to 2013 using CPI index.

Youth unemployment rate (unemployment 15-24 year olds, %).

Source: ABS 6202.0 - Labour Force, Australia, A2426064A

Youth underemployment rate

(underemployment 15-24 year olds, %).

Source: ABS 6202.0 - Labour Force, Australia, A3345699J

Youth unemployment and underemployment (% of 15-24 year old workforce).

Source: ABS 6202.0 - Labour Force, Australia

Proportion of 15-24 year olds in part-time work (% of labour force).

Source: ABS 6202.0 Labour Force, Australia

Gender pay gap (% difference between men and women for average weekly full time ordinary time earnings).

Source: ABS 6302.0 Average Weekly Earnings, Australia

Year 12 completion (% of cohort).

Source: ABS 6227.0 Education and Work, Australia

University graduation

(% of cohort with bachelor degree or higher).

Source: ABS 6227.0 Education and Work, Australia

Australian PISA performance

(% Australian average above OECD average).

Source: Programme for International Student Assessment

Low performing students

(% of students below level 2 proficiency in PISA).

Source: PISA

Degree costs (minimum student fees, \$).

Source: Department of Education, Authors' calculations

Average student debt.

Source: Chapman and Higgins 2013

Higher education funding (% contribution).

Source: Authors' estimate

House price index

(price index of established homes, eight capital cities, index).

Source: ABS 6416.0 - Residential Property Price Indexes, A2333613R

House price / income ratio (median dwelling price to income).

Source: ABS, RBA

Housing debt to income (ratio of housing debt to annualised household disposable income).

Source: RBA E2 Household Finances, BHFDIHH

Average first home buyers loan (\$'000).

Source: ABS, A2412825X, Pre-1992 constructed

Housing interest to income (ratio of interest payments on housing debt to annualised household disposable income).

Source: RBA E2 Household Finances, BHFIPOH

Australians in different age groups (% of population).

Source: PC 2013

Commonwealth Government expenditure on older Australians (% of GDP).

Source: Calculations based on PC 2013

Commonwealth Government expenditure on younger

Australians (% of GDP). Source: Calculations based on PC 2013

Commonwealth Government expenditure (% of commonwealth expenditure).

Source: Calculations based on PC 2013

Inverse dependency ratio (number of working age for every non-working age person).

Source: PC 2013

Life expectancy of 25 year olds (expected total life span of 25 year olds, years).

Source: ABS 4125.0 - Gender Indicators, Australia

Rate of major coronary events

(incidence of major coronary events per 100,000 people).

Source: AIHW National Hospital Morbidity Database and AIHW National Mortality Database

Proportion of people aged 40-90 years surviving a major coronary event (%).

Source: AIHW National Hospital Morbidity Database and AIHW National Mortality Database

Rate of cancer diagnoses (cancer patients per 100,000 people).

Source: AIHW ACIM books

Cancer mortality to incidence ratio

(yearly mortality to total patients, ratio).

Source: AIHW ACIM books

Proportion of 18-24 year olds overweight or obese (%).

Source: ABS 4364.0 - Australian Health Survey

Mental illness among 16-24 year olds (reported mental disorder last twelve months, %).

Source: ABS 4326.0

Proportion of 18-24 year olds who are overweight or obese (%).

Source: ABS 4364.0 - Australian Health Survey

Average annual temperature increase above 1990 levels (degrees celsius).

Source: CSIRO

Average number of extra days above 35 degrees (days).

Source: CSIRO

Days per year of very high to extreme fire risk.

Source: CSIRO

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