***[Cowardly politics is robbing our children blind. It’s time to be brave](https://www.smh.com.au/politics/federal/cowardly-politics-is-robbing-our-children-blind-it-s-time-to-be-brave-20250327-p5lmz1.html)***

**[Ken Henry](https://www.smh.com.au/by/ken-henry-p536oi" \o "Articles by Ken Henry)** Former Treasury secretary - March 29, 2025

We find ourselves in an election campaign framed by immediate [cost-of-living](https://www.smh.com.au/link/follow-20170101-p5lk8y) issues, with the principal contenders pandering to an [electorate](https://www.smh.com.au/link/follow-20170101-p5lmkm) they believe to be interested in nothing else.

But are we so venal? Are we so disinterested in the nation’s future? Are we content with being the first generation of Australians unable to state with confidence that future generations will be even better off than we are?

Until the COVID pandemic, the popular view was that Australians were doing well in the 21st century. We were enjoying the tailwinds of a strong Asian market for iron ore, coal and gas that pushed the terms of trade to levels unimagined by any previous generation.

In the two decades pre-COVID, the Australian economy – uniquely in the world – managed to avoid any instance of recession. By contrast, the last two decades of the 20th century saw two deep recessions and a trend decline in the terms of trade.

And yet, with a mining boom, and no recessions, we have managed real GDP per capita growth of less than three-quarters the rate in the 1980s and ’90s. The poorer GDP per capita performance this century is almost fully explained by weaker productivity growth, driven by a succession of populist policy choices. These relate principally to –

1. the structure of the tax system,
2. incompetent handling of the mining boom; and
3. juvenile political antics in climate policy.

[**Budget rules have gone the way of skinny jeans, no matter who wears the pants**](https://www.smh.com.au/politics/federal/budget-rules-have-gone-the-way-of-skinny-jeans-no-matter-who-wears-the-pants-20250327-p5ln05.html)

[**David Crowe**](https://www.smh.com.au/by/david-crowe-h0waa9)Chief political correspondent - [**Australian economy**](https://www.smh.com.au/topic/australian-economy-1m3k)

Australia should have been a great place to do business in the first two decades of the 21st century. Yet, notwithstanding the strength of the mining sector, we have had a decade of business investment at levels previously recorded only in deep recessions. Young Australian workers find themselves in an economy so starved of investment that it has been incapable of supporting durable increases in real wages.

And that’s not all.

Because of the structure of the tax system, today’s young people are being denied a reasonable prospect of home ownership, and they are burdened with a trillion dollars of public debt. They are being held back by a tax system that relies increasingly upon fiscal drag, forced to pay higher and higher average tax rates even when their real incomes are falling. This week’s budget papers confirm that fiscal drag remains a core element of the fiscal strategy.

The first intergenerational report (IGR1) was published in 2002. It emphasised that the fiscal implications of an ageing population should be viewed as a growth challenge. If we could lift the rate of economic growth, then we might avoid the need to raise income tax rates on young workers, a cohort destined to make up a declining share of the population.

[**The real truth on productivity: The bosses aren’t trying hard enough**](https://www.smh.com.au/business/the-economy/the-real-truth-on-productivity-the-bosses-aren-t-trying-hard-enough-20250302-p5lg7c.html)

[**Ross Gittins**](https://www.smh.com.au/by/ross-gittins-hve16)Economics Editor - [**Productivity**](https://www.smh.com.au/topic/productivity-hzy)

IGR1 made the case for a set of policy reforms that would lift the rate of real GDP per capita growth modestly above the experience of the 1980s and ’90s, explaining that a failure to do so would impose a heavy fiscal burden on future generations of Australians. But, in the period pre-COVID, we missed the IGR annual growth target by almost a full percentage point.

Other things being equal, had we achieved the target, the Commonwealth budget would be in strong structural surplus, not the decade of structural deficits projected in the latest budget papers. Of course, “other things” have not been equal. Most importantly, the tax system has not been reformed as it should have been, especially to deal with fiscal drag and to boost capital investment and productivity.

This is where some of the higher growth would have come from, with the right reforms. Young workers would have benefited from stronger productivity growth and increases in real wages. Average Australian incomes, pre-tax, would be about 20 per cent higher in real terms. And average after-tax incomes would be even higher.

The economic reforms of the late 20th century were sparked by the Hawke government’s understanding that several decades of poor economic performance, and poor social outcomes, were due to policy squabbles over the distribution of a shrinking pie, a political system disinterested in future generations.

[**Federal budget**](https://www.smh.com.au/topic/federal-budget-5x3)

[Government spending takes $35 billion chunk out of the budget](https://www.smh.com.au/politics/federal/government-spending-takes-35-billion-chunk-out-of-the-budget-20250319-p5lkwm.html)

Once again, we find ourselves in that place, in need of leaders with vision and courage. Leaders motivated to put an end to policies and practices that deprive future generations of a set of opportunities most of us have taken for granted.

Australia should be an optimistic country, open to the world, globally competitive, with high rates of productivity growth. To secure that vision, we need an economic policy transformation. Kicking the policy reform can down the road simply won’t do it.

Our leaders should be capable of engaging robustly and effectively with other world leaders, contributing strongly to co-ordinated global action to deal with a set of shared threats to the prosperity of future generations.

Our leaders should have the courage to fix the tax system, to end the lazy reliance upon fiscal drag, to foster high rates of capital investment, and to remove tax distortions that favour investments in capital gains over investments that support productivity and real wages growth.

Our leaders should understand the foundational role of natural capital. They must fix Australia’s broken environmental protection laws. The failure to do so imposes an increasingly large risk burden on a set of investments that will be required to underpin future prosperity, including renewable energy projects. And they should deliver nature repair at scale.

Australia’s next government will have the opportunity to put an end to decades of intergenerational theft. That must be its legacy.

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