SUPERANNUATION POLICY

Commentary on an Interview with Paul Keating, former Prime Minister

Paul Keating was Treasurer, and then Prime Minister, from 1983 to 1996. This is the period in which Award and compulsory superannuation were introduced, and Keating justifiably regards his own leadership as instrumental in its conception and implementation.

Along with Medicare, compulsory superannuation represents a significant legacy of the Hawke/Keating Labor governments, significantly altering the course of future social provision and, arguably, also having impacts on financial markets and the broader economy.

How better, then, to start the *JAPE* special edition on superannuation than with a summary of an interview with Keating on the subject? Guest editors Nick Coates and Sacha Vidler spoke with the former Prime Minister on 19th April.

The interview reminded us of the remarkable process through which – for better or worse – economic ideas inform and justify policy changes which profoundly alter economic interactions between individuals, classes and the state.

The Politics of Award and Compulsory Superannuation Reform

It is tempting, with the benefit of hindsight, to count winners and losers from a reform such as compulsory super, and argue that the winners achieved implementation through Machiavellian intrigue. In the case of super, the list of winners would include those involved in fund administration and management, including unions and the life insurance industry.

However, from Keating's description of the early policy development phase around 1983 and 1984, superannuation reform faced stiff opposition from the life insurance industry, and a mixed reception in the union movement. The life insurance industry was firmly opposed to changes to the tax treatment of superannuation, which had previously been extremely generous (5 per cent of lump sums taxed at the marginal income tax rate). Superannuation had been the preserve of public and private sector professionals and executives, and this highly favoured tax treatment was seen as too generous to share more widely among the community. Even as late as 1986/87, the 'pygmies' of the life insurance industry, as Keating describes them, didn't anticipate the enormous potential benefits from compulsion.

The union movement was divided over the issue, partly because a small number of unions had, during the 1970s, achieved access to the existing superannuation structure, with its highly preferential tax treatment.

Superannuation ('private pensions' in most countries) has been promoted by neoliberal economists such as Martin Feldstein and Franco Modigliani since the 1970s. In the 1990s, the World Bank also became active in promoting such arrangements in developing countries. It might be expected then, that the reform would have been supported by econocrats and conservative politicians, who, as Keating reminded us, traditionally promote the moral and economic virtues of thrift.

However, both groups were opposed to Award and compulsory super. The conservative Coalition's opposition was shaped, believes Keating, by a strong prejudicial suspicion that labour would gain financial independence, or, even worse, influence in financial markets, through superannuation. According to Keating, the Coalition held:

> The paltry philosophical view that workers shouldn't manage money … that if you don't have a Liberal Party ticket burning in your pocket and you don't work for a financial manager, then you are not entitled to manage money.

According to Keating, the bureaucracy was also opposed to universal superannuation, seeing only the budgetary cost of revenue foregone. The bureaucracy did not find arguments related to increased national saving compelling in the early days. This is a surprising insight, given the emphasis of numerous statements from the bureaucracy during the

1990s, which develop the central argument of the Fitzgerald report that compulsory saving was necessary to increase national saving, especially in the context of an aging population (e.g. Gallagher *et al*, 1993).

In summary, then, universal superannuation was driven by the Executive of government, in a type of policy leadership that Keating notes is lacking from the nation today:

> The decision to implement superannuation was political. It was driven at the political level, as was the deregulation of the financial industry, as was the abandonment of centralised wage fixing. These were the days when the Ministers ran the policy; now they live off briefing notes.

Theoretical and Ideological Context

Keating reminded us of forgotten economic concerns which dominated public debate in the 1980s when Award superannuation was implemented. A central task of Keating as Treasurer was to close the budget deficit by 2.5% of GDP, in order to repair the current account deficit. This goal is a product of the 'Twin Deficits Theory', in which the current account deficit is thought to be directly caused by public borrowing, which 'crowds out' private borrowing and forces them offshore.

The budget balance changed by 6%, according to Keating, however the current account imbalance remained, because as economic conditions improved the demand on available savings increased further, requiring ongoing foreign borrowing.

The administrative structure of superannuation was shaped by the strong commitment of the Hawke-Keating governments to markets and competition as drivers of efficiency and growth. Keating referred to the significant fall in mortgage margins, down to 170 basis points from 350 as an example of positive impact of competition in the finance industry.[1]

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1 Whether this example is analogous is a moot point (see Vidler, this issue pp.27-44)

> The essence of this scheme is that it is government sponsored but privately managed.
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> I think competition will probably make the difference in the end. When funds were earning 8% to 10%, managers could sneak away with a couple of percent. Now they are working on 5% to 6% returns, it is not so easy.
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> When I talk about choice, I am talking about getting fee structure down and returns up. I think, for example, that more people will buy index funds, which are cheaper.

Savings, Investment and Growth

As mentioned above, during the 1990s, the government emphasised beneficial relationships between superannuation, national savings and investment. It is only possible for superannuation to have a positive effect in terms of aging – i.e. for an increasingly large group of retirees to live comfortably off their savings – if those savings are invested in a manner that improves productivity and economic growth.[2]

Keating was, and remains, strongly committed to the idea that superannuation helps boost savings. He says:

> We would be in a better position if we could augment savings by 2.5% to 3%. Taking super up another 6% of wages would do that.
>
> All things being equal, when the savings position gets better, the position for investment becomes propitious.

The foil for many an economic policy initiative is, however, that all things are not equal. According to conventional measures, saving has fallen to the lowest levels ever in the Anglo-American countries, all of

2 Bryan (this volume, pp. 100-114) explores the paradox of a whole community 'in retirement' trying to live off the surplus of a shrinking (or non-existent) younger working class.

which have significant superannuation or private pension savings schemes.[3]

Keating argues, in relation to the Australian case, that this does not necessarily indicate that superannuation has failed:

> First we need to realise that, across the West, there is a secular decline in savings. America is now down to 3.5% of GDP; in Japan it was 21% 10 years ago and now it is 5%. This has happened across the board.

The implication being that Australian saving rates would be at an even lower level if not for superannuation. It may be pertinent to point out that arguing about a counterfactual – i.e. what would have happened if we *had* or *hadn't* acted in a particular way – is purely conjectural. In effect, we can not really know what would have happened to saving in the absence of compulsory superannuation.

Keating recognises, however, that compulsory superannuation may not have provided the expected boost for national savings because individuals are able to reduce other types of savings:

> People may adjust their discretionary saving due to compulsory saving. Alternatively, compulsory superannuation may prevent earlier repayment of household mortgages, which is also a form of saving.

This comment suggests an awareness of the mainly US literature that examines the impact of savings schemes on overall levels of saving, which includes several studies finding that households simply move savings around to take advantage of tax breaks (e.g. Engen *et al*, 1996).

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3 Coates (this volume, pp. 81-99) questions the value of conventional measures of saving.

Gender Equality and Inclusivity

A major criticism of retirement income systems based on self-provision is that they do not provide adequately for those with broken work patterns, especially women.[4]

Keating noted that this issue required further consideration, but emphasised the benefits women received due to changes to preservation laws.

> I thought, in fact planned, that women would be one of the beneficiaries of the changes, because they were one of the most seriously disadvantaged by lack of preservation in previous arrangements.
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> If women left the workforce to have children, they would get a cheque at that time and it would generally be paid on the mortgage or household affects and that would be it. They would re-enter the workforce with no benefits.
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> Preservation does not, of course, mean that women get more money; only that they get it later. No superannuation is paid in relation to unpaid caring work; nor for that matter, paid caring work, if it is in the informal labour market.

Current Debate – Adequacy and the Retirement Age

Keating was scathing in relation to the current government's approach to super. He argued that Prime Minister John Howard and Treasurer Peter Costello started by breaking election promises made in 1996 that they would provide the 3% of income in Labor's planned co-contribution via a benefit supplementation which never emerged.

The co-contribution (3% from the employee matched by 3% from government), would have taken overall contributions to 15% of income.

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4 Discussed directly in Olsberg (this volume, pp. 161-178) and O'Brien and Burgess (this volume, pp. 179-190).

> I never believed 9% to be adequate. We introduced the scheme when a large part of the working life of the baby boom generation was already over. At a 9% contribution rate, the earnings on their accumulation were not sufficient to bridge the gap that they needed to retire on.
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> The scheme I had in mind, meant that if you joined the workforce at 20, retired at 60, preserved your funds, and had an earning rate of somewhere between 5% and 5.5%, you would retire on a pension equal to average weekly earnings.

Keating argued that the Coalition’s planned increase in the retirement age reflected a failure stemming from the fundamental lack of support for an increase in contribution levels.

> On the Coalition’s policy of increasing the retirement age, I would rather go to the core issue and build a mature adequate superannuation system. Let people be their own judge of when they ought to retire rather feel they are mandated to stay on because their pool is too inadequate.

Conclusion

Keating is proud of superannuation and his role in its implementation. The system is a pragmatic response to address the lack of retirement income provided via the public pension in Australia. Keating remains committed to private administration, believing competition will eventually lead to efficient delivery of services.

Keating recognised the impact on saving was not as high as expected, and thought this indicative both of global patterns of saving and the potential for households to offset increased superannuation contributions with reductions in other forms of saving.

Nonetheless, he remains committed to the role of superannuation in achieving macroeconomic goals, and still believes it would be beneficial for the government to increase contributions to 15%, including a 3% government contribution.

His intended goal was a private pension equal to final earnings based on 40 years of contributions; explicitly assuming full-time, lifelong work. As far as those with broken work patterns, particularly women, are concerned, equal access can only be achieved in an idealised nuclear family structure in which income and other benefits are equally shared.

References

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Gallagher, P., Rothman, G. and Brown, C. (1993), *Saving for Retirement: The Benefits of Superannuation for the Individual and the Nation*, RIM Taskforce, Conference Paper – 93/2. Available online at www.rim.treasury.gov.au.