EDITORS' INTRODUCTION

This special issue of JAPE considers how compulsory superannuation is working, now that more than ten years have passed since its introduction in Australia.

The Australian retirement income system is unusual, consisting of a low cost public pension and compulsory private funded system. The development of the latter aspect – superannuation – grew out of the major reforms that took place between 1983 and 1992 under the Hawke and Keating Labor governments. Superannuation had previously been the preserve of privileged private and public sector workers, but access was extended to Award-based workers in the 1980s, and then all employees in 1992 through the Superannuation Guarantee Contribution (SGC). Employer superannuation contributions increased incrementally according to a schedule laid down in 1992, reaching the maximum planned level of 9 per cent in July 2002.[1]

Superannuation reform was a pragmatic 'fix' for a number of perceived policy issues. First, retirement incomes in Australia had been low by OECD standards. Australia's Age Pension is paid out of general revenue and represents only 25 per cent of average weekly earnings, leaving almost a third of Australian elderly people in poverty (Smeeding, 2002).[2] Several earlier attempts to establish a more generous contributory public system like those in Europe and North America had failed.[3]

Second, the employee share of income had been falling during the early 1980s because of the wage freeze imposed by the Fraser government.

1 Labor also planned a 3 per cent employee contribution, to be matched by 3 per cent from the government. This was scrapped by the Howard Coalition Government.

2 With funded pension systems there is a lag of a generation between implementation and full impact on retirement income, so incomes in retirement in Australia, particularly at the bottom end of the income distribution, remain very low.

3 Inquiries supporting implementation of such schemes occurred in 1928, 1938, and 1976, but each failed, due to a lack of bipartisan support, opposed financial interests, and ambivalence on the part of the labour movement (Kewley, 1973).

Coming into office in 1983, the ALP government wanted to halt or reverse this trend but also to avoid any inflationary pressures that could result from rising wages. The first round of employer superannuation contributions, in lieu of wage increases, was agreed upon as part of a renegotiation of the Accord between the government and the unions.

Third, superannuation was expected to boost national savings, providing additional domestic funds for investment. This, it was hoped, would provide the basis for future economic growth without additional foreign borrowing.

Superannuation is the subject of ongoing policy debate. Key issues include:

- the effectiveness of the system in meeting its original goals, especially adequate retirement incomes, and increased national savings and investment;
- the uniqueness and desirability of the system, given an aging population; and
- new reforms, particularly increased choice and competition.

This volume combines contributions which touch on all three of these areas. It begins with an article based on an interview with Paul Keating, former Treasurer (1983-1991) and former Prime Minister (1992-1996), who is one of the original architects of the system. Keating's belief in the fundamentals of the superannuation system has evidently not wavered. The SGC increases saving for retirement, financial markets provide allocative efficiency for investments, while fund competition keeps fee levels in check. Moreover, the adequacy of retirement incomes would not be an issue if the Howard Government had carried out the planned schedule of contribution increases.

An interview with Greg Combet, Secretary of the Australian Council of Trade Unions (ACTU), then presents a view of superannuation as an industrial achievement of the labour movement. He believes that industry funds have been remarkably successful in getting reasonable returns for a lower cost than retail funds, and he has significant faith in financial markets to continue to deliver those returns. There is a theme of consensus politics running through Combet's depiction of the industry funds developing out of Accord era.[4]

The next pair of articles assesses the appropriate role of competition and choice in superannuation administration and fund management. This issue is central to current debate on superannuation and recent legislative reform. Sacha Vidler's contribution challenges the economists who support this legislation, pointing out that fees that are higher than necessary reduce retirement savings by around 25 per cent. Vidler argues that consumer apathy, product and pricing complexity, inadequate disclosure, misleading representations by financial planners, and misleading product marketing prevent adequate price competition and allow the more expensive funds to gain market share to the detriment of retirement incomes and national savings objectives.

Natalie Gallery *et al* analyse a particular aspect of choice: the power of the 'default' investment option in shaping investment choices, and the implications of this for the debate regarding choice. Reviewing data in the US and Australia, they find that such a high proportion of employees use default fund and investment options that increased choice may be meaningless and counterproductive for many employees.

Next comes a group of articles focusing on the contribution of superannuation to saving, investment and growth. This is a key set of issues, because superannuation was intended and expected to increase national savings, expanding the pool of domestic investment. Nick Coates argues that this expectation has rested on unsound foundations, and that superannuation has not increased national savings. He seeks explanations for this in the difficulties of treating savings in national income accounting, accentuated by the global integration of capital

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4 At times the recent work on pension funds by the French Regulation economists (Aglietta, 2000; Boyer 2000) reverberates in some of Combet's statements. These so-called post-Fordists argue that pension funds and retirement income are the new wage-labour bargaining mechanism. For them the emerging system is a financed-based growth regime where pension funds become the institutional feature of the class compromise. In this context, Combet's discussion of the importance of finding an acceptable basis for government, employers and employees to raise super contributions to 15% becomes particularly important.

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markets. He argues the investment-saving relation is now globalised by capital market integration.

The following article by Boris Frankel takes a quite different tack, exploring the potential for the growing pool of superannuation savings to fund employment creation, community services, social infrastructure and environmental projects. He develops the argument originally outlined in '*When the Boat Comes in*' (2001) for linking superannuation to a National Investment Fund.

A similar theme is evident in the later contribution by Tony Ramsay, putting the case for linking superannuation to an alternative national economic strategy. Drawing on Keynes's call to socialise investment in order to create full employment, Ramsay argues that superannuation could fund productive investment and thereby create a virtuous cycle of growth through a multiplier effect, providing workers with increased incomes and consumption in the long term. This reasoning builds on the original national development fund proposal by the ACTU in 1987, as part of *Australia Reconstructed* (ACTU / TDC 1987; see also *JAPE* special issue No 39, 1997). Ramsay restates the case for the development fund by engaging critics of that proposal, principally Coates (1997). In the spirit of encouraging open discussion and debate, Nick Coates then presents a critical reply. His rejoinder sets out a different theoretical analysis, arguing the investment and retirement income functions of superannuation represent a contradiction in the accumulation process. This analysis highlights problems with implementing national development and investment funds.

The article by Dick Bryan provides a different conceptualisation of the superannuation issue, drawing on Ricardo's theory of rent and developing a surplus theory for interpreting the stresses arising from an aging population. Aging is represented as a crisis in the (re) production of surplus, lowering capital accumulation. This paints a more complex picture than the usual interpretation of state fiscal crisis that 'self-funded' retirement was designed to solve.

To complete this set of articles on the savings and investment implications of superannuation, James Gifford reviews the impact of socially responsible investment (SRI) on superannuation funds. His article explores the modern history of pension funds and SRI, from opposition to Apartheid onwards, and the main methods by which SRI occurs in superannuation funds, including both positive and negative screening of different investments or portfolios. He reports on the rapidly emerging area of shareholder engagement, a particularly active form of SRI.

The next pair of contributions deals with the critical issues of inclusion and the adequacy of superannuation. An effective privately funded retirement system is contingent on employees having access to regular well-paid employment. Martin O'Brien and John Burgess explore how superannuation is based on the assumption of a full working life, but point out that such a working life is currently unattainable for many workers. In a similar vein, Diana Olsberg emphasises that the clearest lines of division in this regard are those of gender, as broken work patterns are the norm for women. Her article relates patterns of gender exclusion in the workplace to outcomes in superannuation accumulation and retirement income.

Finally, there are two articles on the issue of population aging. These focus on debates and reform processes in countries with more generous public pension arrangements. Jerry Heavey reviews the debate in the USA, where the public system is now in surplus but is predicted to fall into deficit in around a decade. Heavey argues that the current surplus will not aid payment of future pensions because the general budget will also be in deficit in the future, and will only be able to repay current debt by issuing new debt. He suggests a range of practical measures to redress fiscal imbalance, including raising the ceiling on pension contributions, which would increase the tax base at the top end of the income distribution. Jens Meyer's article then considers the process of reform in Germany, where the public pension provides over 80 per cent of income at retirement for an average retiree, and consumes 22 per cent of income for the average worker. This system is deep in fiscal deficit due to advanced aging in that country, and prolonged structural unemployment. Reforms have recently reduced public pensions and created tax incentives for voluntary and occupational private pensions for the first time.

These articles focussing on overseas arrangements feature last only because the journal puts primary attention on Australian political economic issues. A student of pension economics could consider starting with these contributions. Australian superannuation was made universal because a contributory public pension could not be implemented. Now many OECD countries with contributory public systems are moving to implement funded pension systems like Australian superannuation as part of proposed solutions for existing or anticipated fiscal problems. These articles help to show the economics and politics associated with those reforms.

JAPE is a forum for debate on economic policy issues. We hope to have continued the tradition in this volume through a review of one of the grand policy initiatives of the 1980s and 1990s. The volume does not exhaust all the current concerns with superannuation, but it canvasses a range of opinions on the origins and goals of the policy, its performance to-date and potential areas of reform for the future.

Nick Coates, Sacha Vidler and Frank Stilwell, June 2004

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