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ON THE DRY SIDE FUTURE COST OF SUPERANNUATION John Hyde

The case against budget deficits has several strands. One is that it is unreasonable to leave our children to pay for things which will not be of sufficient benefit to compensate them for the additional taxes they must find - many dams, roads, railways and buildings will never pay interest on the debt incurred to build these things -. Even worse, from our children's point of view, are expenditures, financed by our debts and their taxes, which benefit our generation almost entirely such as our current pensions, benefits and health care. (Our parents left us the war debt but that purchased a free society which has endured to our generation and which we value.)

The United States official public sector deficit is only slightly more than half as great a proportion of their economy as our deficit is of our economy; even so, it comes as a surprise that Milton Friedman should dismiss this, or any, government laxity as relatively unimportant.

He argues this way: "The debt recorded on the books is only the tip of the iceberg. (The United States) is committed to pay future benefits to retired persons under Social Security, federal employee and retirement programs, and future medical costs under Medicare. Future receipts from the taxes now on the books to meet these costs are far from adequate... Estimates of the unfunded debt vary, yet even the most conservative one sets it at currently more than $6 trillion (that is twelve zeros or a million squared) and more pessimistic estimates go as high as $10 trillion, which is more than seven times as large as the official public debt.

I know of no similar estimates for Australia but portions of the problem have received analytical attention. The increasing burden of old age pensions has been worrying public policy makers for some time, and now some minor steps have been taken to reduce their future cost by reintroducing income and assets tests.

Aspects of public sector superannuation have been, or are now, subject to enquiries in Canberra, Melbourne, Sydney, Hobart and Adelaide. Of these, the most comprehensive has been that conducted by the Victorian Parliamentary Economic and Budget Review Committee. This was Parliament working as we like to pretend it always works - the committee members must have put to one side many opportunities to take partisan kicks at opposing heads, protect the retirement incomes of old mates and protect old prejudices from the harsh light of fact as they tried to identify the long term public interest.

Its chairman, Mr. B.J. Rowe, had this to say in the introduction to A Review of Superannuation in the Victorian Public Sector released in April of this year: "...in a very real sense, public sector superannuation will cause severe financial difficulties. The projected long run costs of the State Superannuation scheme under reasonable assumptions, is likely to exceed one billion dollars in 1981 prices within the next 46 years."

Unlike nearly all of the private sector, most government super' is not backed by investments made with employee's and employer's contributions to a scheme. In the jargon, it is not fully 'funded' but met on a 'pay as you go' basis.

Today's governments are making commitments to their employees which future governments may not be able to keep without raising taxes to unacceptable levels. Past commitments are most unlikely to be kept if further similar commitments continue to be made. Future governments faced with an impossible taxing task will find an obscure way to welsh on the deal.

The Victorian Parliamentary Committee obtained estimates, previously commissioned by the Thompson Government, of the past cost of the Victorian State Superannuation Scheme: from 1974-75 to 1982-83 the increase was 142% in real terms.

They also commissioned estimates of future costs: "On a reasonable set of assumptions including, growth in the membership of the scheme of 1% per annum, salary growth of 10% per annum and pension updating of 8% per annum (equal to the CPI), the cost to the State measured in 1981 prices, is projected to increase from $140 million in 1981 to $1000 million in 2030 (a 614% increase); expressed as a proportion of the total salaries of members, the projected increase over the same period is over 70%."

The committee in its last report, of September last, designed a superannuation scheme to reduce the Victorian Government's problem to manageable proportions. For ethical reasons they recommended that, although public sector benefits were about twice as generous as private sector, benefits earned to date should not be reduced. These were after all a condition of employment, without which the employee might have sought other means of support; and the government had the legal authority, if not the moral justification, to commit future taxpayers to service the debt thus incurred.

The proposed scheme (VICSESS) calls for lump sum payments on retirement. Under present rules this will transfer some of the burden of keeping these ex public sector employees in retirement onto taxes raised from the same taxpayers by the Commonwealth Government. However, whatever the Victorian Government does, and however militant the ACTU is about the matter, I don't think the Commonwealth can for ever avoid the remaining inequities inherent in lightly taxed lump sums and 'double dipping' to take both pension and tax advantage.

The real difficulty with VICSESS is that while it halves the problem in the long run, it probably involves some minor short run costs for the Victorian taxpayer. The politician who looks beyond the next election is that rare creature, a statesman. Statesmanship, learned and practiced on parliamentary committees is sometimes forgotten in cabinet.

If the cost of this 'hidden deficit' is not reduced, eventually the promises we have made our generation will be broken by our children who have become fed up with the cost.

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