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ON THE DRY SIDE 161 SUPERANNUATIOON John Hyde

The central questions of the superannuation argument are: Will compulsory superannuation improve equity between members of our own generation? Will it make it easier for the next to keep us in our old age? Will it increase savings and investment? Will it affect the quality of investment? Will it give trade unions and employers' cartels an even greater capacity to impose inequity and diseconomy on the rest of us? Is it fair to increase the cost of employment when there are so many unemployed?

Governments subsidise retirement incomes with age pensions, tax concessions for occupational superannuation and by committing future taxpayers to the cost of superannuating government employees. The effect of all this on current budgets is considerable and some say it will become insupportable in the future.

The huge transfers are the sum of ad hoc attempts to buy votes; they are not designed to comply with anything, least of all with established principles of equity. If they are in fact equitable, economic man not government must be credited with the happy outcome.

In 1982 Daryl Dixon and Chris Foster of the Social Welfare Policy Secretariat calculated net present values of pensions and tax deductions. The pension is equivalent to $86,000 (1981 dollars) received now by a person with average life expectancy. A person earning average weekly earnings gains a benefit from the tax status of his occupational superannuation which has a present value of $26,000, and a person earning three times average weekly earnings gains $75,000. A person who gains both the tax advantages and the pension does very nicely. This practice became known as 'double dipping'. In 1983 it was partially stopped but real action against the practice was vetoed by the Trade Unions.

The subsidies favour people with high incomes and generous occupational superannuation - a group which includes most white collar workers and few blue collar workers.

Dixon comes back to the problem in an article about to be published in **Economic Papers**. For the purposes of calculation he assumes that if superannuated employees were to lose their privileged tax status they would take remuneration of equal current value in the form of ttaxed wages. If the assumption is justified equity between current workers is a problem only if there are unanticipated changes to the rules - market forces have cancelled unequal treatment by the government of its citizens.

However, I am not convinced that the assumption is justified. White collar remuneration is mostly decided in politicised markets. It seems likely that unionised white collar workers have been able to get additional superannuation when they could not have got wage rises. Superannuation is hidden and part of the cost is born by current or future taxpayers who cannot mount an

161

effective protest. Dixon concedes that, 'Replacement of superannuation by an average wage increase for public servants in excess of 20% (the current actuarial cost of most [public sector] schemes) is almost impossible to envisage...'

The present rules are inequitable but the inequity could be greatly reduced by further moves against 'double dipping'.

The second question, equity between generations, is more serious. Will our kids be prepared to keep us in the manner to which we have told ourselves we are entitled? Will they tax - indeed will they be able to tax - enough to pay age pensions and unfunded superannuation to a generation that is living longer and retiring earlier?

To the extent that double dipping is stopped, investment in **funded** superannuation reduces future taxpayers' liabilities.

A properly constructed superannuation scheme should offer incentives to people to take a shorter retirement in greater comfort - to retire later. Thoose who believe that the supply of jobs is a random number unrelated to the demand for jobs see late retirement as a problem. However, those who see the prime cause of unemployment in labour market failure, will see it as an opportunity to increase total output and an opportunity to enjoy a higher material standarc of living. Government support for occupational superannuation should have the prime aim of reducing future taxpayers' liabilities; it should include the full funding of public sector liabilities. I don't think that is what the ACTU has in mind.

Compulsory superannuation payments will in all material respects be an hypothecated tax pledged to investment. It will reduce employers' capacity to pay wages. It should reduce consumption but it will also reduce other investment.

The quality of investment must be preserved. If the over all effect is to divert investment away from its most productive use the long run cost would be appalling. Except by the explicit wish of the individual employee the funds generated should not be controlled by governments, unions, employer collectives or other monopolies which might be tempted to invest for non-commercial reasons.

Trade Practices principles should stop either employers or unions directing employees' investments. Fiduciary principles should bind fund managers to the employees' interests. A fund manager who makes politically or industrially motivated investments should not only lose subscribers but run the risk of gaol. Tax deductability makes the taxpayer a major investor; his interests must be protected by sensible rules such as the elimination of double dipping. Again I don't think it is what the ACTU has in mind.

Finally, employment costs should not be raised until full

161

employment is achieved and the Australian dollar holds a more or less constant value without the prop of the highest real interest rates any of us can remember. The productivity gains in question have already been distributed to those who have recently left the ranks of the unemployed. The Government has, I think justly, claimed credit for improved employment; it has no right to undo that achievment, whatever the ACTU has in mind.

,61