Why I no longer support an increase in the compulsory superannuation contribution rate, as I used to until about two years ago

For some years now, every month I've participated in a survey which asks over 40 economists from around Australia their response to a topical question, and also how confident they are about their answer. These surveys were initially conducted by Monash University on behalf of the Economics Society of Australia, but more recently they've been run by *The Conversation*, a news and opinion site supported by 39 universities from across Australia and New Zealand.

Last month's survey asked participating economists whether, in their opinion, the legislated increases in compulsory superannuation contributions, which are set to climb from 9.5% of wages to 12% over the next five years, should proceed as planned, be deferred, or be abandoned.

If I'd been asked that question at almost any time since the increase in the SGC rate was first proposed by the Rudd Government in its response to the Henry Review of Australia's taxation system, I'd have said 'yes', unequivocally.

I've been a supporter of compulsory superannuation contributions since the Keating Government legislated the Superannuation Guarantee in 1992. I've never had any particular hang-ups about the SG scheme giving unions a role in the management of superannuation savings that (in the eyes of some) is greater than warranted by their declining membership.

Apart from supporting the SG scheme's stated objectives of extending the benefits of superannuation (including very generous tax concessions) to a much larger proportion of Australians than had traditionally enjoyed them (public sector employees and white-collar private sector employees), and reducing the proportion of retired Australians who were solely reliant on the age pension, I also supported the SG scheme because of the effect it was expected to have in lifting overall national saving.

For the first two decades or so of my career as an economist, the need to increase Australia's national saving was seen as one of the most important policy challenges the nation faced.

Australia has long had a 'capital intensive' economy. That is, because mining (an inherently capital-intensive form of economic activity) accounts for a much larger share of Australia's GDP than that of other countries; because we have a relatively small population spread over a very large area, we have to spend relatively more on transport infrastructure (another capital intensive activity) than other countries; and because we as a people have historically chosen to live in larger houses on larger blocks of land than people in most other countries, we also spend more on housing and (hence) on urban infrastructure than most other countries.

In other words, investment has long been higher as a proportion of GDP in Australia than in most other 'advanced' economies.

And although we've also typically saved more, as a proportion of GDP than many other 'advanced' economies, we typically haven't saved enough to fund all the investment that we've wanted to undertake.

Hence, for most of our existence as an independent nation, we have needed to 'import' savings from overseas – in the form of borrowing or foreign equity investment – in order to make up the difference between what we want to invest and how much we're willing to save.

The counterpart of that requirement for foreign savings has been the deficits we've typically run on the current account of our balance of payments.

And during the 1980s and 1990s, when the current account deficit averaged 4.2% of GDP, up from an average of 1.6% in the 1960s and 1970s; and we funded it largely by borrowing from abroad, so that our net foreign debt increased from 6% of GDP in 1981 to 40% of GDP by June 2000. Between 1988-89 and 2009-10, almost 11% of our export revenues were absorbed by interest payments on our foreign debt – including a peak of over 18% in 1988-89.

In this environment, 'increasing national saving' was a core objective of economic policy. It was the main reason Paul Keating, as Treasurer in the Hawke Government, gave for pursuing budget surpluses in the late 1980s (since running budget surpluses meant that the public sector was adding to national saving rather than absorbing it).

It was one of the main reasons why the Reserve Bank, with the endorsement (as was required in those days) of Paul Keating as Treasurer, pushed interest rates up to 17½% in the late 1980s, bringing on the 'recession we had to have' (it was only after the event that history was in effect re-written to say that it had actually all been about 'snapping the inflation stick').

And following the Report on National Saving commissioned by John Dawkins as Treasurer in the Keating Government, and written by Vince FitzGerald, it became one of the main arguments for the Superannuation Guarantee scheme.

Of course since those days we've learned that countries can run larger current account deficits for longer periods than was thought possible back then. And more recently Australia hasn't been running current account deficits at all: since the June quarter of 2019, we've been running current account surpluses for the first time since 1974. Or, put differently, national saving has exceeded national investment for the first time in more than 45 years.

So the 'national saving' argument for increasing the SG contribution rate no longer applies.

But that's actually not the main reason why I actually answered *The Conversation*'s survey question in the opposite way to how I would have done had it been asked as recently as three years ago.

The main reason I changed my mind about the desirability of further increases in the SG contribution rate was that I had read a report published in November 2018 by John Daley and Brendan Coates of the Grattan Institute (where, disclosure: I had worked between August 2009 and December 2011) which, in my opinion, convincingly demonstrated that a SG contribution rate of 9½% was sufficient to guarantee the 'average worker' a retirement income of more than 90% of their working income – well above the OECD 'benchmark' of 70%.

Daley and Coates also showed, persuasively, that lifting the SG rate to 12% would produce, for many workers, the perverse outcome of having a higher income in retirement than they did whilst working, and for others, particularly lower-income workers, a net reduction in their retirement incomes because the higher income from higher superannuation savings would be more than offset by a reduction in the age pension to which they would otherwise have been entitled.

Brendan Coates, together with Grattan colleagues Matt Cowgill and Will Mackey, followed this up with a Working Paper published in February this year demonstrating that although SG contributions are formally paid by employers, at least 80% of increases in compulsory contributions were in effect passed on to workers in the form of lower wage rises than they would otherwise have obtained.

This is entirely consistent with the intentions of the founders of Australia's compulsory superannuation system. When the ACTU, under the leadership of Bill Kelty, first pursued the idea of wider access to superannuation for workers, in the second half of the 1980s, it was in part meant to be a 'trade-off' for wage increases that the Hawke Government was trying to keep a lid on, in order to prevent an acceleration in inflation at that time. As Paul Keating himself has since said,

> "the cost of superannuation was never borne by employers. It was absorbed into the overall wage cost […] In other words, had employers not paid nine percentage points of wages, as superannuation contributions, they would have paid it in cash as wages".

The Fair Work Commission explicitly took into account the last increase in the compulsory SG contribution rate, from 9% to 9¼% in 2013, when awarding a smaller increase in the national minimum wage "than it otherwise would have been in the absence of the super guarantee increase".

In the years prior to the onset of the current pandemic, persistently slow wages growth had become a matter of increasing concern to policy-makers. RBA Governor Phil Lowe, in a speech to a peak business group in June 2018, went so far as to say that "slow wages growth is diminishing our sense of shared prosperity', and that if it persisted, it could "make needed economic reforms more difficult".

And of course wages growth has slowed even more since the onset of Covid-19, and (as forecast in the Government's most recent Economic and Fiscal Update) is expected to remain slow in the years ahead.

None of which is to deny that there aren't problems with Australia's current superannuation system.

In particular, it isn't delivering for women: women retire with 47% less superannuation, on average, than men – which given that women live five years longer than men on average means that women's retirement income is far less likely to be 'adequate' than men's.

But no-one has explained how increasing the SG contribution rate to 12% for everyone is going to address that problem.

So I answered *The Conversation*'s survey question about the desirability of proceeding with the currently legislated increase in the SG contribution rate in the negative – the exact opposite of how I would have answered it had the question been asked two years ago – and I expressed a relatively high degree of confidence in my response, something I don't always do.

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