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Superannuation needs a new public debate

Superannuation has fallen short of fulfilling its promise to reduce the need for old-age pensions

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Fundamentally, superannuation is in place to ensure today's income earners finance their own retirement.

Around the world, old-age pensions, provided as a right for the aged, have only been in place for the past hundred years or so – that is, they came into being once the masses achieved political power and older people were able to require politicians to provide them income – paid, of course, by those currently in gainful employment.

There is a great deal wrong with the current system of superannuation and the taxation base is behind it. Importantly, as Peter Swan says, one fifth of a superannuant's final balance is taken up by administration, half of which goes to trade unions, who are given a privileged position in the legislation. Moreover, individuals' savings in super funds are vulnerable to government seizure or direction into areas favoured by political rather than commercial objectives. We've seen this in particular with the current Labor government.

Peter Swan argues that people are better off managing their own choices about how they provide for their future. This is clearly the case were it not for the fact that those who don't provide for themselves will, in democratic elected societies, force others to provide for them. This exercise of political power is likely to upset the appropriate balance between consumption and savings. In the longer term, this will lower the rate of economic growth and could even send it into reverse.

Additionally, Peter Swan claims that people would be better off putting the money into housing rather than into superannuation. This has certainly been the case in Australia for many years now. Indeed, during the past 25 years, house prices have increased by 150 per cent in real terms, compared to shares on the Australian stock exchange rising by 130 per cent. But in my opinion, the only reason housing has increased in value more than investments in general is that government regulation has created artificial value by restricting the amount of land available for new housing, thereby constantly raising its price and that of existing housing.

This may not always be the case and indeed is not the case in many jurisdictions.

For example, during the current century Texas and Michigan have respectively seen real increases in house prices of 50 per cent and 10 per cent. This compares to a 300 per cent real increase in the value of US stocks. Similarly, in Germany real house prices have risen about 15 per cent during the present century compared to stocks, which even in the lacklustre German economy, after inflation, have risen by 80 per cent; in real terms France has seen a 4 per cent increase in house prices compared to stocks, which were up 50 per cent. In Italy we've actually seen house prices decline by about 20 per cent (perhaps an early symptom of demographic collapse resulting from a birth rate close to one per female). Italian shares increased by about 20 per cent.

Peter Swan also argues that houses are a better investment because they are essentially tax-free, but again this is simply an artefact of government in creating different taxation classes with different goods. Of course, all investments should be subject to the same taxation regime. The tax advantage given to housing is actually likely to drive excessive house-related expenditure at the expense of other, more productive uses of capital. Indeed, the Japanese post-1945 economic miracle was funded from essentially tax-free returns to millions of savers who placed their funds in the Post Office Savings Bank, which, in turn, was constrained to lend to industry rather than for housing. That distortion paid huge dividends, lifting Japan from a war-devastated economy to one of the world's most prosperous.

The issue needs a new debate. One suggestion is that people can opt out of superannuation if they offer assurances that they will not be a future burden on the taxpayer. Such assurances are about as valuable as government assurances that the terms of forced superannuation savings will remain forever unchanged.

Paul Keating, as the architect of the present superannuation system, showed his masterly grasp of political realities and of the self-interest that motivates people. He courted trade union support by funding a future fund that would reduce the burden that increasingly numerous older people would place on younger generations.

Superannuation has fallen short of fulfilling its promise to reduce the need for old-age pensions. This does not mean that we should abandon compulsory superannuation. But the excessive management costs of superannuation, and the causes of these, must be addressed, perhaps alongside the various distortions in the taxation and regulatory regimes for investment and savings.