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OILS AIN'T OILS AND SUPER AIN'T SUPER

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It is common for people's eyes to glaze over as soon as superannuation becomes the topic of conversation, especially for anyone under the age of forty. If asked, most people would be able to identify the bank where they keep an account and the approximate amount of money it holds. By contrast, surveys reveal that over 50 per cent of Australian employees have little or no knowledge of their super account(s). In 2002, it was estimated that over $7 billion of unclaimed super savings was lost. Businesses such as *findmysuper.com* make money by locating unclaimed super. The vast increase in multiple short-term insecure jobs was partially to blame for people losing track of their super savings. However, the problem with super goes well beyond the contemporary character of the labour market. Super is money, no less valuable than cash in the bank, even if most under-55 year olds can't get immediate access to it.

The fact that superannuation is a foreign language to most Australians tells us much about prevailing notions of citizenship, social policy formation and political economic strategy in contemporary Australia. For too long mainstream policy analysts and the media have narrowed discussions of superannuation to concerns with retirement income. While it is true that the Federal government and the Reserve Bank monitor superannuation fund growth and the quality and quantity of domestic and foreign assets held by super funds, their main interest is monetary policy and financial stability such as savings levels or household and corporate debt. Apart from government regulatory frameworks for the super industry and recent attempts to change early retirement and other policies affecting the aged, superannuation is virtually ignored by Coalition and ALP governments.

Thus, the fate of hundreds of billions of dollars is left in the hands of the private finance sector. This deliberate lack of government interest in the wider socio-economic implications of the largest pool of capital in Australia is truly astonishing. It is no surprise that neo-liberals are happy to leave super to market forces. However, the failure of most of the labour movement and other social movements to develop alternative policies on superannuation is inexcusable and a case of gross political neglect. Although ideas for investing super in nation building and job creation have been around for years, these remain, unfortunately, distinctly minority views or policies expressed by lone voices.

As to citizenship and public policy formation, Australia completely lacks any movements demanding the democratisation of super fund control and decision-making. Whether large retail funds or industry funds, there is virtually no demand by most fund members to scrutinise investment decisions made by managers and trustees. If historically the early liberal state was partly founded on the principle of 'no taxation without representation', the old 18th century news has not reached most super fund members and managers. Instead, fund members receive glossy annual reports containing minimal information about investment decisions carried out by their super fund managers. Like most government and company practice, super funds operate as closed and semi-secret entities. Members are only supplied with information to do with their accounts and retirement options. Investment options are standardised variations of capital stable to growth options. Apart from the recent introduction of 'ethical investment' options, it would still be sacrilege for a super fund to canvas its members about the larger social and economic responsibility of their fund. No wonder super remains a boring topic to most citizens and is perceived in such stereotypical and disempowering terms.

Have all the Horses Bolted?

Few Australians are aware that super funds provide the oil that keep equities markets, financial investments and economic development moving. As Richard Minns (2001) notes, the assets held by pension or super funds equal approximately 43% of total world GDP. Without the

trillions of super dollars flowing into international markets and industries, a massive global economic depression in capitalist societies would be the order of the day. Little wonder that there has been a major competitive struggle in financial markets to gain market share of such ongoing 'riches' in the form of investment funds, management fees and economic power.

Surprisingly, there has been far less political struggle over controlling these gigantic mind-boggling accumulated assets. One exception was the noteworthy defeat in 1990 of the Swedish labour movement's attempt to use super funds to gain power and eventual control of leading Swedish businesses (by buying their shares). Most OECD countries, however, have experienced little political conflict over superannuation. One reason is that many Western European countries have government-run contributing pension schemes and are only now seeing the growth of private super funds. Unless the European Left defeats these trends, over the next ten years the European Union will see the move to Anglo-American pension schemes more similar to Australia's mixture of government and private pension systems. In the North American and Japanese centres of finance capital, the Left have been too weak to have any major influence on pension systems. However, some large North American super funds such as those covering Californian and other State employees, do play a role in ethical investment strategies by vetoing investments in certain unsavoury companies. Nevertheless, there is no coherent or unified national or international macro-economic or social investment strategy pursued by super funds in OECD countries.

Despite setting up a near universal super levy, the Australian labour movement was easily defeated by the Hawke government and business lobbies in its attempt to develop a publicly managed super system. We have a peculiar system that is mandated by government but privately controlled. Although still young, the super system is already seriously dated and fails to cover the needs of all those in unpaid work or in the post-centralised wage fixing labour market. In fact, the Hawke and Keating governments were highly praised by the OECD for adopting neo-liberal retirement system policies well before the current politically controversial implementation of neo-liberal retirement policies in Germany and other OECD countries. Like the unnecessary cost imposed

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on the health system by private health insurance funds, there is little doubt that compulsory super could have been managed by the Federal government for a fraction of the billions of dollars in management fees continually creamed off by existing private finance firms.

Finance capital has captured the 'super goose that lays golden eggs' and there is little chance that this powerful sector will ever let go. To mix one's metaphors, some of the super 'horses' have definitely bolted. However, all is not lost. There are many ways for the Federal government to help shape the direction that super could take in Australia by exercising greater control and creative policy innovation. According to various estimates in the finance industry, super assets will grow to between $1.3 and $1.8 trillion in the coming 15 years (or twice the size of Australia's current GDP). It is therefore imperative that the Left and social movements awaken from their slumber and help to develop and agitate for new super policies.

Ever since the positive initial interventions of the union movement, seeking to gain near-universal super coverage for paid workers in the 1980s, few alternative super policy strategies have been developed. A number of ex-labour movement activists now sit on the boards of various industry super funds. Yet, one hears very little from these former activists about the possible broader role of super funds. Unfortunately, existing labour movement discussion (including official ALP policy on super) is largely confined to the dominant finance industry discussion about super taxes and charges. Leaving aside the positive idea to increase compulsory super contributions from 9% to at least 15%, the prevailing concerns of the labour movement are about extending industry fund financial services for members, keeping management fees low and reducing the super contribution tax from 15% to 13% or even to zero. In other words, super is largely seen in *conventional* financial terms – little different to the agenda favoured by the main private retail funds and lobby groups such as the Association of Superannuation Funds of Australia (ASFA). Every week the media regurgitates ASFA policies in money management and investment supplements. These policies are regressive as they largely benefit high-income employees and threaten the $5 billion plus revenue (collected from super funds) that is vitally needed for neglected public social programs.

Politically, the world has changed dramatically from the old divisions between workers and a tiny minority of bond-holders and affluent retirees living off their investments. While most pensioners still largely rely on the government pension, millions of workers now have a vested interest in the fate of their accumulated super. Also, we need to differentiate between the ideal of raising extra revenue to combat inequality and poverty, and the source of this additional revenue. For instance, it would be suicidal for a political party to advocate the removal of the approximately $12 billion of annual tax concessions given to super funds and their members. While this measure could successfully combat poverty, it would also simultaneously disadvantage low and middle-income super members. Hence, it would be as politically unpopular with ordinary employees and voters as any proposal to introduce capital gains tax on the family home. Similarly, the labour movement cannot afford to experiment with well-intentioned but risky super fund policies that jeopardise the accumulated super savings of workers and retirees. However, it is not necessary to impose radical tax measures or treat super as a limitless magic pudding to fund endless projects and social programs. The application of just tiny proportions of total super assets can dramatically help broaden the super agenda so that progressive social, environmental and economic objectives can be pursued.

Before outlining some alternative suggestions, two additional conventional Left policies must, however, be declared politically unfeasible. First, although desirable, it is necessary to forget about the goal of having one large low-cost, government-run super scheme. This goal is politically unrealistic and would only be achieved if, for instance, the finance industry collapsed. But if this financial catastrophe happened there wouldn't be much super left in the kitty, anyway. It may be remotely possible to roll all the existing State and local government and industry super funds into one national public sector fund, but even this objective would meet great political opposition from State governments and other organizations. I will shortly discuss the possibility of setting up a parallel government-run national super fund alongside existing private and industry funds.

Second, the idea of refloating the Swedish Meidner strategy (championed recently by people such as Robin Blackburn), is fanciful (see Blackburn

2002:50). To think that capitalist corporations will permit workers via their super funds to carry out a takeover of businesses by stealth is politically unreal. Even if by some political miracle this objective was achieved, it would change very little. To remain profitable, future corporations (now controlled by workers' super funds) would still have to maintain very similar competitive cost-cutting practices in global markets if they were to pay dividends to their new employee-controlled owners. I believe, however, that Blackburn and other Left analysts are partially right in advocating super strategies that help prevent numerous instances of corporate swindling of workers' pension funds. It is also desirable for super funds to invest in regional and local employment and community services in the face of corporate downsizing. Suffice to say that there are many reasons why a super fund strategy (whether conventional or alternative) that is essentially dependent on investing in private market companies is equally vulnerable to supranational and national boom/bust cycles.

In short, advocates of alternative super policies cannot magically wipe the slate clean and develop ideal super policies that ignore the massively privately controlled super industry and the hundreds of thousands of DYI funds all operating in a insufficiently financially regulated international system. Super funds are inseparable parts of the era of capitalist financialisation based on debt-fuelled asset accumulation by businesses and households, speculation in equity markets and the need to self-finance lifecycle needs (housing, education, health care and retirement income) due to neo-liberal policies of user pays. What can be done within such a restructured and restrictive neo-liberal political and socio-economic context to shift the policy debate about super? I have argued in *When the Boat Comes In* (Frankel 2001) for a rethink of conventional Left and social movement re-distributive and alternative socio-economic policies. Let me highlight a few suggestions for further policy debate.

Situating Super in a Wider Social and Political Agenda

It is clear that the sheer size of existing and future assets in super funds begs attention from all people interested in a socially just and democratic society. We must stop treating super as super. The more we continue to

maintain the prevailing narrow discourse of super as solely retirement income, the more we will fail to link the largest pool of financial assets to crucial welfare, environmental, industry, education, tax and other major policy issues. Actually, the current policy debates and media focus on ageing, labour market policy and retirement income offers an ideal opportunity to broaden the debate over super. I have argued that the growth of super funds and their pattern of investment must be understood in relation to the neo-liberal restructuring of the 'politics of distribution' affecting welfare, housing, health, poverty and inadequate community services. It is not accidental that the ability to accumulate super is closely tied one's position in the new politics of distribution, that is, what income, marital status, employment or community support affects individual lifecycle chances and family relations. These highly unequal micro-family and individual choices must in turn be closely related to the 'politics of production'. Australia is increasingly characterised by lopsided trade patterns and highly uneven domestic investment, employment, education and industry policies. To intervene in all these policy areas without thinking of the direct and indirect role played by super funds is truly myopic.

Revolution and radical change are not on the agenda. Yet, there is absolutely every reason why advocates of greater social equality and environmentally sensitive economic policies should begin developing an overarching and coherent social industrial strategy that challenges the dominant politics of distribution and politics of production policies. Rethinking policies requires a recognition that we cannot simply revive an inadequate old social democratic model in a new era of financialisation, low tariffs and a restructured labour market. Likewise, the Latham Third Way version of 'neo-liberalism with a human face' will also leave intact widespread Australian inequality and fail to address industry problems and neglected public services. This means that while the social democratic objective of higher taxation is desirable, there is little prospect that the major parties will embrace this policy. The oft-cited Blair government's very modest increase in taxes, for instance, has largely left social inequality entrenched while bolstering a finance capital driven unsustainable private debt binge similar to Australia's.

It has been abundantly clear for decades that the Australian private market has been unable to provide sufficient full-time or part-time employment while public services and the environment have deteriorated. What can de done to alleviate and partially remedy this malaise in the absence of unlikely higher tax policies and an adequate revenue base? Part, but certainly not all of the answer, is to be found in a rethink of super policies. Rethinking super must be linked to an alternative vision and an alternative funding strategy.

One way of combining the need for political institutional reform with innovative social policies is to develop what I have called an environmentally sustainable 'social-industrial complex'. Rather than the mindless pursuit of market-driven technological innovation, a social industrial complex provides the resources and space necessary to strengthen life-affirming social and ecological needs. From care for neglected and marginalised groups, to the encouragement of cultural diversity and excellence in public design, creative arts and education, a social-industrial complex must become the overarching model, the framework within which the foundation of a revived civil society can grow and be sustained.

While the private sector will remain the dominant part of the economy for the near future, those industries and institutions within a social-industrial complex must set the cultural, resource allocation and regulatory pace by virtue of leadership and new organisational and ecological priorities in a whole range of areas. Securing bio-diversity must accompany the fostering of cultural diversity. Sustaining habitats must be given similar priority to guaranteeing social security for individuals. This requires reversing or inhibiting those destructive practices – whether in the private or public sectors – which callously mistreat employees, welfare recipients and refugees, or pollute and debase urban and natural environments.

One reason for calling the framework for a new social citizenship a 'social-industrial complex' is that it is diametrically opposed to existing military-industrial complexes. These military-industrial complexes in North America and Europe have successfully 'locked-in' businesses, workers, educational institutions, scientific and technological R & D, and whole regions dependent on military bases and military industries. In

other words, political, business and cultural interests are mobilised into reproducing, growing and defending a massive allocation of fiscal and other resources for what are ultimately wasteful and destructive purposes.

By contrast, a social-industrial complex would have entirely different socio-economic objectives, and especially cultivate different conceptions of citizenship as well as quite different institutional arrangements. However, championing a social-industrial complex could unite the fragmented union, community and environmental groups and organisations by imitating the institutional capacity and political strength of military-industrial complexes. One way of doing this is to build support amongst significant sectors of Australian business that goes well beyond the usual social welfare and community sector constituencies. This objective could be accomplished by 'locking-in' a significant number of businesses who would depend on the growth of social goods and services for their livelihood and survival.

Campaigners for improved community welfare, public services and social infrastructure are currently marginalised by dominant business sector lobbies and lack political muscle. An expanded educational, health and community sector, however, could become a much larger *direct* employer of full-time rather than casual jobs, and a much larger *indirect* provider of business contracts and private sector employment (schools, hospitals, community services all need regular supplies, infrastructure built and so forth). Neo-liberals would find that attacking a growing social-industrial complex would become much more difficult politically, as the economic and social interests characterising this developing 'social space' would also be defended by significant elements within the private sector serving the social-industrial complex.

Consequently, the aim of a social-industrial complex would be to realign the political 'mainstream' over a ten-year period. Social and community services could gain additional legitimacy and lobbying power and would therefore better match those economic forces promoting existing market priorities. One primary objective of a social-industrial complex would be the improvement of living standards for disadvantaged Australians and those in desperate need in developing countries. Gradually expanding a public institutional space or sector of the economy that is able to provide

non-market services and essential community needs, will also help consolidate the ideals of social citizenship rights and values currently devalued in contemporary Australia.

Although it may be possible to gain the support of sections of the private sector, there should be no illusions about the opposition of a range of businesses to a proposed social-industrial program. However, the development of such a socio-economic sector would be attractive to many struggling businesses, especially in regions and suburbs with poor public infrastructure, services and lack of private or public investment. Many Australians would be very sympathetic to the promotion of a new concept of social citizenship and a broad-based reform agenda. Like any alternative policies, the success of a sustainable social industrial strategy depends on mobilising political support for feasible alternatives. Sceptics may immediately respond by asking how such a relatively radical agenda could ever be implemented and financed. That is, what makes it more feasible than the numerous unrealistic radical tax and socio-economic proposals which have circulated for the past few decades?

Providing a New Source of Funding

Significant new parts of a social-industrial complex could be financed without the need to impose higher taxes or threaten existing corporate control over key sectors of the economy. While it is certainly possible to introduce new levies for specific health, education or other programs, the traditional social democratic and radical advocacy of higher company, wealth, carbon and other taxes, is unlikely to succeed. It is far too confrontational and threatening to powerful business and social constituencies. Electorally, many heavily indebted middle-income households would probably oppose substantial tax increases, as their disposable income is already over-committed. Also, one can always find tax subsidies, loopholes and other measures to cut, close or alter in order to raise needed revenue. While I support many of these proposals, they would not raise sufficient revenue to make large inroads into unemployment and poverty. How will an environmentally sustainable 'social-industrial complex' be funded?

Among the various options I propose is the establishment of a Federal statutory body called the National Investment Fund (NIF). The NIF would be given legislative power to raise funds from superannuation and managed funds. At the beginning of 2004, these funds totalled nearly $700 billion of which approximately $550 was in superannuation funds. It is projected that the combined pool of capital in superannuation funds and non-super managed funds will reach a massive $2.3 trillion by 2015 or much, much larger if the super levy increases to 15% Reserve Bank of Australia figures quoted in Axiss Australia, 2003. Crucially, these massive amounts of pooled savings and investment income are not being used in a way that either guarantees security of retirement income or optimises possible social and individual benefits.

It is forgotten by many that until the 1980s financial institutions in Australia (especially large insurance offices and other promoters of managed funds and retirement plans) were required by the federal government to invest 30% of their funds in government bonds and securities in order to be eligible for tax concessions. This 30/20 rule – at least 20% had to be invested in Commonwealth government securities and 10% or less in State Government bonds was, ironically, abolished by the Hawke government just as the superannuation industry was beginning its rapid growth. The proposals outlined here are far less onerous on finance capital than the old 30/20 rule. Not only do they avoid the perennial political difficulties of fighting an election on a platform of higher taxation, but they also circumvent the conservative mantra about the dangers of deficit budgeting. For example, many on the Left have long argued that the government simply issuing new debt could finance major progressive social objectives. Institutional investors (including super funds) would subscribe to these issues without any external compulsion, as risk-free government debt is attractive to investors, despite providing low returns. This scenario is indeed desirable but would be very difficult politically to sell. However, with the NIF raising government guaranteed funds that do not appear as new Federal debt in the annual budget papers, the charge of deficit budgeting could be avoided and still remain politically attractive to the electorate.

Legislation would require each fund to invest a mere 2% of the total value of its assets at 30th June into the NIF. Instead of being a new tax,

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these compulsory levies would earn each superannuation or managed fund the 10 year government bond rate (currently between 5.5% and 6% per annum) for the duration of the 10 to 30 year loan. These loans would be repaid in full to each super and managed fund on or before maturity. The small amount of 2% per annum would only add up to a maximum of 20% of each fund's total assets by the end of a ten-year period. Tax revenue earned from the significant boost to new employment and economic activity would make possible the regular repayment of the annual 2% after the initial years of NIF operation. Thus, the NIF could conservatively raise approximately $14 billion per annum for large employment creation in dilapidated public and community services, social infrastructure and repair to environmentally damaged habitats. For example, approximately $7 to $9 billion could dramatically reduce poverty and unemployment by creating hundreds of thousands of full-time jobs.

In addition, the NIF would also seek voluntary contributions from superannuation funds and other investors as it would co-ordinate and help fund a range of activities offering investors government guaranteed secure returns as opposed to uncertain investments in share and property markets. Government guaranteed loans (as opposed to the compulsory loan levy of 2%) could voluntarily raise an additional $5 to $15 billion per annum for infrastructure, regional investment and many other projects currently avoided by super funds because they are less attractive than equities markets. Just voluntarily reducing the approximate 18% of fund assets invested abroad to 16% would raise about $14 billion for the domestic economy. Conservatively, the combined compulsory 2% loan and 2% voluntary investment could total an additional $28 billion in today's figures. Given that European Union countries raise an average of 6 to 8% more tax as a per cent of GDP than Australia – or between $42 and $56 billion in equivalent Australian figures – my proposal for super and managed funds is relatively modest. However, the socio-economic consequences of an additional $14 to $28 billion on employment generation, community services and environmental repair would be dramatic.

Among the various proposals for new social institutions, decentralised community sector organizations I have outlined elsewhere (Frankel,

2001: Part Two) include measures to expand superannuation. For example, pre-retirement aged individuals over the age of 18 and living in households whose combined income is less than $70,000 per annum would be eligible for an annual superannuation contribution of $1000 per annum (indexed for inflation). This would apply to all those performing unpaid domestic labour, care for sick and aged relatives and so forth. Many sole parents, spouses of low-waged workers, farmers and the long-term unemployed between the ages of 18 and 65 would benefit from the compound accumulation of these superannuation contributions. If they entered the paid workforce then annual superannuation payments made by government on their behalf would cease (although their accumulated savings would be preserved until retirement). Once in the workforce, individuals would be covered by the criteria of the bridging superannuation scheme but if paid work ceased for more than one year, annual superannuation payments would be renewed.

This scheme would not be a substitute for the government aged pension scheme but rather constitute a vital addition to individual and pooled public savings. Citizens would not be able to collect lump sums upon retirement but rather would have a larger capital base from which to draw an indexed superannuation income in addition to their full or part-pension. Like some public sector employee superannuation funds that have large unfunded liabilities without endangering the savings of employees, this minimum superannuation scheme for unpaid low-income citizens could be instituted without major annual fiscal burdens on the Federal budget. Periodic injections of capital by the federal government would sustain liquidity levels of the government superannuation fund. All future claims by retirement-aged individuals for pensions could be adequately financed out of recurrent revenue. In short, a parallel low-cost government-run super scheme could cover all those not currently members of super funds or casual and part-time workers unable to accumulate significant super.

There are doubtless many ways to improve on these suggestions. A serious debate would elaborate detailed measures to take into account the various types of super funds and their relationship to domestic and international markets. The editors of *JAPE* are to be congratulated for sponsoring a critical focus on super funds. Superannuation is far too

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massive and important to be left unchallenged in the hands of finance industry lobby groups. Just as neo-liberals have creatively off-loaded State and Federal budgets by privatising debt and sponsoring various public-private investments, so advocates of progressive social change must think creatively about new social agendas and sources of funding other than the old tax recipes. The task is to help change the dehumanising political culture by shifting its financial priorities and procedures. That is why super ain't super.

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