SUPERANNUATION AND ACCUMULATION: A REJOINDER

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Tony Ramsay's article presents a broad statement of a nationalist economic policy position on superannuation. His article, a case for the reinstatement of a National Development Fund (NDF), engages extensively with arguments made previously in this journal, *Super Imposed* (Coates, 1997). The paper sets out a different theoretical analysis of superannuation and investment, but also misinterprets the argument on accumulation in that paper. This rejoinder clarifies some of those misinterpretations and shows that the sorts of policy packages proposed by Ramsay are internally inconsistent and unfeasible.

Coates (1997) argued that the ACTU / TDC (1987) proposal to transfer funds from superannuation into a NDF placed significant costs on employees. Foregone wage increases, which superannuation payments represent, effectively lower employee lifetime wages. Lifetime wages now stretch to pay for retirement consumption in addition to PAYE tax payments that traditionally funded universal public pension schemes. The ACTU / TDC motivation for this proposal was to fund, via a subsidised loan system, manufacturing rejuvenation during the height of the so-called deindustrialisation of the 'First World'. Additional costs to employees came from potentially lower returns on this investment because these soft loans were designed to fund projects that would not otherwise gain financing.

While Ramsay accepts that the initial burden falls onto employees, the core point of difference centres on what happens later in the accumulation process. In particular, he argues superannuation investment could be used more productively (than currently) to create "a high skilled full employment economy with higher wages" (p. 121). In other words a virtuous cycle created from investing super in full employment schemes would increase future income offsetting sacrifices to current income and consumption.

The notion of a virtuous cycle is well understood, but the processes that keep it on track are highly particular, with multiple conditions needing to be met (Toner, 1999), and these being far from guaranteed. A 'super-fuelled' multiplier creating continuous rounds of growth is akin to the frictionless economics that most would repudiate in the model of perfect competition. It denies the historical and political context both of the origins of superannuation and its subsequent history.

Coates (1997) showed that there are costs with viewing super as an unlimited pot of gold to fund a national development scheme. Superannuation policy is not a blank canvas to be painted on; it has a political history with winners and losers associated with these changes. The fact that super came out of foregone wages (during a wages freeze) in the early eighties should be evidence of this. Moreover, superannuation now represents a semi-privatised pension system, and defined contribution (accumulation) accounts transfer risk onto the individual worker. As such, how super is used is critical to future retirement income (and poverty). A policy change that ignores this history faces exacerbating existing inequalities.

In making that point, it is not necessary to deny a role for super in the accumulation process. The question is how does super contribute to accumulation, to what extent, and at what cost? Further, the investigation of this critical and open question is not helped by Ramsay's suggestion that the role of wages in capital accumulation was ignored (pp. 122-123). Of course, wages garnered for superannuation are directly tied to accumulation, and any suggestion to the contrary simply diverts attention from the real and important issues of debate between us.

Superannuation is both retirement income AND investment funds. This duality represents an important change from when people (workers) could not afford to hold household wealth as shares and bonds. It is a change that has implications for accumulation, which can be illustrated using the Marxian two-sector model of reproduction. In Department 1

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(production of capital goods) super is investing in the means of production. In Department 2 (production goods sector), super is tied to the value of labour power[1], reproducing the means of consumption (specifically in retirement but also on a intergenerational basis). To build a policy agenda around super's function as an investment policy in Department 1, misunderstands the process of accumulation.

The two departments interact in the reproduction of capital. Thus, an inherent tension exists here: a concentration of surplus (super) in Department 2 slows the pace of accumulation; alternatively a concentration in Department 1 cuts retirement incomes, lowering the value of labour power (and the ability for labour to reproduce itself). No doubt Ramsay's focus on full employment (i.e. the old effective demand debate about Marx's expanded reproduction scheme), would lead him to take the Keynesian perspective on the two-department model. However, that approach is recognised for ignoring the conditions for the reproduction of capital (Giussani, 1991: 475) and the value of labour power is central in that regard.

When Ramsay talks about 'part-appropriation' of super for a national development scheme he is proposing to transfer surplus from Department 2 to 1. To justify this, solid arguments need to be proposed as to why the virtuous cycle will develop and not meet endogenous obstructions. In particular, an NDF would need to systematically identify 'good' investments (productive) from 'bad' investments (unproductive) to ensure the on-going virtuous cycle. It would also need to distinguish 'domestic' from 'foreign' investment, so that Australian workers can have the employment benefits. In each case, moreover, there would need to be differentiation before the relevant investment was undertaken! While this was examined in the earlier article it is worth providing some examples.

- Super funds investment is primarily in equities listed on the secondary share market; many see such investment in existing securities as unproductive and speculative. However, that negates the function of the secondary share market has in providing liquidity

1 Or basic wage across the life-cycle to use a 'real world' proxy for our purposes.

to the primary share market. Venture capital, private equity and Initial Public Offering (IPO) investment, broadly 'productive' investment, would not exist if the asset could not be liquidated on a secondary market later.

- With private sector bonds, the process of securitisation sees asset-backed bonds that might be 'unproductive' (because they are used for housing mortgages) become 'productive' when funding an infrastructure project. In fact the very process of securitisation sees formerly illiquid investments get funding.
- Even derivative instruments, supposedly speculation *par excellence*, have productive functions. As exchange rate and interest rate risk management devices they facilitate investment, trade etc. For instance, a hedging arrangement would allow for the establishment of a production facility by insuring the loan against interest rate rises.

There is no need to suggest that these financial markets are rational or efficient (as in the efficient market hypothesis[2]), but the nature of modern financial systems is that financial forms vary substantially and fixed distinctions to identify these 'productive' investments are not going to hold[3].

Assuming that extensive monitoring and regulatory apparatus could meet these requirements simply ignores these issues of differentiation, and is in danger of trivialising the reality of the task involved in the Ramsay proposal. Evidence of this in the Ramsay article can be found in the following statement:

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2 The efficient market hypothesis is the orthodox finance proposition that security prices reflect available (perfect) information so that these prices closely relate to the economic fundamentals underlying the securities market values, due to the speed of arbitrage.

3 Indeed, the IMF admits its categorisation of asset classes when measuring portfolio investment does not hold. Global portfolio liabilities, because of these accounting problems, vastly outweigh global portfolio assets (IMF, 2004). On that basis then would a prescriptive distinction between productive and unproductive investment be any better equipped to classify investment sources?

> Domestic financial deregulation and the concomitant of finance do not preclude the nation state from instituting a NDF with the purposes of utilising pooled savings for productive investment (p.124-125).

Such a statement oversimplifies real difficulties via a purely rhetorical response. The nation state is not precluded from instituting an NDF, but that is not the issue. The issue is how effective the NDF will be in achieving its stated objective, and that is where the obstacles, such as those I have nominated, become the most important issue in a serious engagement of policy.

Finally, there is an inherent nationalism that gives circularity to Ramsay's proposal, and one that was explicitly challenged in *Super Imposed*. For Ramsay's virtuous cycle to occur, a central requirement (amongst many) is that the cycle is not subject to national 'leakages': flows of funds internationally. As argued in the earlier paper in this issue of *JAPE*, there are indeed, 'leakages', as super funds invest globally in search of the best-perceived rate of return. This is a reality of globalised financial markets. To invert it, and ensure that all accumulation is domestic is both debatable as to its inherent merits and virtually impossible to implement. Yet here, as before, the problem is addressed by unsubstantiated simplification. For example:

> Unlike other forms of capital accumulation that are subjected to domestic and international inputs, capital accumulation derived from domestic savings is inherently 'home based'. Pool wage earnings only become internationalised after, not before, the accumulation process (p. 125)

This proposition is difficult to interpret at face value. Superannuation (and household saving more generally) and super funds themselves are an integral part of global accumulation (Coates, 2002; 2003). This happens on a variety of levels:

- From the moment super payments from wages are pooled in superannuation funds, they are part of internationalised accumulation because the super funds themselves are internationally integrated (Coates, 2002; 2003).

- There is also nothing inherently national about household saving to begin with. A significant amount of household saving takes place through the repayment of home loans. The repayments act as another form of forced saving (in addition to superannuation). Moreover, mortgage providers generally fund the home loans by borrowing on international capital markets So, foreign saving funds domestic saving and the 'inherency of home-based' saving quickly erodes. Those wanting to argue that super is more national and than these mortgage repayments need to remember that substitution effects between these two categories is attributed as the reason national savings has not statistically increased in Australia (see the article by Coates in this issue).

A notion that wages sit in a domestic pot and only then get allocated globally (and is that 'after accumulation'?) is a complete misunderstanding of how superannuation contributions are used within funds. The proposition does nothing to address the problem of unscrambling integrated investments. Nor does the simple assertion that control of the domestic pool for productive investment is a political choice "over how much saving remains in its borders" (p. 129).

The NDF is both limited in capacity and very difficult to implement in a way that is consistent with progressive politics. Furthermore, problems with such proposals are that they not only mask, but also indeed may worsen existing class antagonisms. By making the success of workers retirement incomes contingent on the success of an NDF, almost the entire burden of a national accumulation strategy must fall upon labour. In the absence of any way of tying capital to this project (such as binding capital controls, monopoly taxes and price controls), the only way to guarantee the success of an NDF is to ensure that the rate of return on domestic capital is higher than other (global) alternatives.

Should the virtuous circle of cumulative causation not occur or occur too slowly, proponents of an NDF will be faced with two choices. Permit the NDF to return lower rates of return (reducing the pool of accumulated savings to pay retirement incomes), or accept that workers in these NDF funded industries must have their conditions squeezed to create profitable returns on the NDF fund. Some combination of the two is a further possibility.

In any case, one does not need to subscribe to a Marxist world-view to see the strong possibility that this proposal would amount to at least a double exploitation. Workers are having their wages compulsorily cut to pay for what used to be provided by right, and with an NDF they may be held responsible for guaranteeing the rate of return on the funds that will be later used to provide their retirement incomes. The task before us is to address these difficulties head-on and openly. Attempts to paint idealised pictures of policy potential that simply ignore the problems or, worse, re-specify them so as to make them appear incoherent, do a disservice to an alternative economic project. Those who base the alternative around simplified models of idealised growth, where all gaps are plugged by astute regulation and nationalist spirit, are still a long way from presenting something persuasive.

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