
Good for the Nation, Good for the People?

An assessment of Paul Keating's
Superannuation Policy

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Plagiarism Declaration

This work contains no material which has been accepted for the award of an other degree or diploma in any university, and to the best of my knowledge and belief, this thesis contains no material previously published or written by another person except where due references is made in the text of the thesis.

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List of Abbreviations

ABS	Australian Bureau of Statistics
ACCI	Australian Chamber of Industry and Commerce
ACTU	Australian Council of Trade Unions
APRA	Australian Prudential Regulatory Authority
ASFA	Association of Super Funds Australia
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BOP	Balance of Payments
CAD	Current Account Deficit
CBUS	Construction & Building Industry Superannuation
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IPA	Infrastructure Partnerships Australia
NBN	National Broadband Network
NMA	National Museum of Australia
SMSF	Self Managed Superannuation Fund

Introduction

Paul Keating wants to be remembered. The twenty fourth Prime Minister of Australia has been remembered for his wonderful political theatre in Parliament, his biting insults of the Opposition, his Zegna suits, even his love of clocks and the classical composer Gustav Mahler. But what he really wants to be remembered for is superannuation. Superannuation is Paul Keating's baby. While it was not specifically named in his 'big picture' – the political vision that included making Australia a republic, reconciliation with Australia's indigenous population and furthering economic and cultural ties with Asia – it was, in Keating's mind, the underpinning policy that could make his big picture possible (National Archives, 2009). Superannuation was to be the foundation of Keating's vision for the Australian nation.

The term superannuation is not widely used outside of Australia and New Zealand. In the United States, similar schemes are referred to as retirement plans, whereas in the United Kingdom they are commonly called pension schemes (Kingston, 2003, p. 204). Regardless of the variety of names employed, the basic principle of superannuation schemes remains the same – to provide an amount of money for workers to live comfortably after they have retired (Podger, 1986, p. 75). Prior to the Keating years, the superannuation landscape in Australia looked markedly different. The first retirement support system in Australia was implemented in 1909. While similar schemes had existed in different forms in New South Wales, Victoria and Queensland since 1900, it was not until 1909 that a pension system was applied federally. The policy was a means tested, flat-rate public pension of £26 per year (ABS, 1988). This public pension system expanded over a forty year period to include specialised pensions and benefits for widows, the sick and the unemployed (ABS, 1988). While this public pension was a universal (although means tested) benefit, there was also a separate way for individuals to prepare for retirement that existed alongside this public pension. An individual could put money into a fund

which would grow this money and return it to the individual come retirement. These funds were initially known as private pension funds, but gradually came to be called private superannuation funds. The problem with these early private superannuation funds was that they were far from common place, and were usually restricted to high income white collar workers in the public sector or employees of large corporations that offered this service (APRA, 2007, p. 3). Thus by 1974, only 32% of the national workforce was covered by the superannuation system (ABS, 1974, p. 544). The Hawke Labor Government sought to rectify this situation somewhat during the 1980s, with the introduction of institutionalised employee superannuation which was tied to industrial awards. While this proved to be successful, as it led to an increase in the rate of superannuation coverage to 64% of the workforce by 1990, it still had numerous problems (Nielson & Harris, 2010). To begin with, it still left a large portion of the Australian workforce uncovered. Also, the system was rather complicated, with many employees who were entitled to superannuation not receiving it due to compliance issues. And finally, the contribution amount of 3% was too small to make much of an impact on an individual's retirement income (APRA, 2007, pp. 3-4). Whilst Australia's superannuation system had come a long way since 1909, by the beginning of the 1990s Australia was left with a complicated, poor performing and unequal system.

By the time he was Prime Minister, Paul Keating had proved to be a fiery political operator. He entered politics at the age of twenty and by the age of twenty four, he had already fought several political battles at the local council level. By the age of twenty five, he was the sitting Labor member for Blaxland, a seat in his home town of Bankstown, South West Sydney. It was not until after the fall of the Whitlam government in 1975, however, that Keating entered the front bench. For eight years, he honed his political skills as an Opposition front bencher before becoming Treasurer under the Hawke government, elected in 1983 (NMA, 2009). Keating had not been formally educated in economics. In fact, compared to his political counterparts, he had fairly little education at all.

He left school after year 10 and never went to University. Yet despite this lack of formal education, Keating had a keen understanding of how things worked, and in no area was this more prevalent than economics (Watson, 2002, p. 59). This made him the perfect match for the role of Treasurer, and he executed that role with vigour. During his time as Treasurer, Keating oversaw a string of major economic reforms that would bring Australia into line with a new type of economic thinking. Between 1983 and 1991, Keating (with Hawke) ushered in the floating of the Australian dollar, the reduction of protectionist tariff policies, and the introduction of a new form of labour market interaction called enterprise bargaining as well as a new Accord reached with the trade unions (National Archives, 2009). These reforms were big changes for the small Australian nation as they marked a move away from government-provided certainty, to individual-owned risk. It was Keating's political magic and media charm that convinced both the Parliament and the Australian public that these reforms were the way to take Australia into the future (Love, 2008, pp. 75-82).

Keating's rise from Treasurer to Prime Minister had been far from bloodless. As political manoeuvres go, it was as delicate as a performance of Mahler's Symphony Number 3 in D Minor played on a gum leaf. Rather than a swift overnight coup, this leadership challenge lasted for months. Keating first challenged the sitting Prime Minister Bob Hawke for the leadership in June 1991. Keating had believed the position was rightfully his. The Labor caucus had other ideas, and the spill failed. Six months later, in December 1991, with growing support this time from his Labor teammates as they watched the political landscape change to one in need of economic integrity, Keating again challenged Hawke. This time he was successful (Watson, 2002, pp. 19-21; National Archives, 2009).

The achievements of Paul Keating the Prime Minister read quite different from that of Paul Keating the Treasurer. Whether time had changed him, or the company he kept influenced him, the economic reform program that had defined his time as Treasurer was replaced by something different - a grander

vision for the nation. Where his previous policies sought to push Australia towards a free market neo-liberal world orthodoxy, his policies as Prime Minister sought to temper this extreme in an effort to strike a balance between free market ideas and government support, between efficiency and equity (National Archives, 2009). It was out of this new found thinking that the Keating model of superannuation emerged in 1992. Unlike the superannuation models of the past, this new model would unite superannuation. The Keating proposal had three pillars. The first, a safety net of sorts, was the government funded pension. This was a means-tested sum of money paid to retirees that would help if the second and third pillars failed. Pillar two, the linchpin of this new model, was the Superannuation Guarantee. This was a government mandated compulsory contribution by employers into employee's superannuation funds which would start at 3% of an employee's income and, in time, reach 15% of an employee's income. The third pillar was voluntary contributions by employees into their own superannuation funds, with tax incentives to promote this option (Superannuation Guarantee (Administration) Act, 1992). Together, the three pillars would create a robust superannuation system to replace the complex and unequal superannuation system of the past. But the Keating superannuation proposal was grander than this; it was a vision for a better Australia. I argue that the promise of the superannuation proposal was that it would be good for the nation and good for the people. Keating's reforms as Treasurer had laid the groundwork for this policy that would not only create a more comfortable life for Australian workers, but catapult the Australian nation to the forefront of the modern world.

The aim of this paper is to analyse this proposal, to understand if Keating's vision corresponds with the superannuation reality of today. To do so will involve unpacking the Keating superannuation proposal and tracing this vision almost 20 years on. Once the policy and its context have been established, I will analyse what I suggest are the two central claims of the Keating proposal: that it is good for the nation and good for the people.

It is important to note here the different approach I take to the history of the Australian superannuation system. Much of the current literature which looks at the history of superannuation in Australia does so by indentifying pragmatic motivators (see: Jones, 2008; Bateman & Ablett, 2000; Barrett & Chapman, 2001; Brewer & Boyle, 1996). For instance, the current literature places superannuation in the context of the government's desire to deal with wage increases and strongly related to this, the desire to quash inflation as a result of these wage increases. In simple terms, the 1980s in Australia were marred by something economists call wage-push inflation, a process whereby a rapid increase in wages leads to an increase in inflation. The Keating Superannuation policy put an end to this inflation spiral as wage increases were offset by superannuation contributions from employers, meaning workers still received a wage increase of sorts, but it did not negatively impact upon inflation. Another approach seen in the literature is to view the implementation of superannuation simply as a means to take the pressure off the federal budget, which struggling to provide public pensions to a growing and ageing population.

These are valid and accurate readings of the history of superannuation in Australia, but I believe they are also too simplistic. They neglect to identify larger themes that underpin the desire to implement the superannuation system. As such, this paper will seek to re-embed these grand overarching motivators into the history of the superannuation system in Australia, and to analyse what I see as the two crucial big ideas, good for the nation and good for the people, which prompted the system to be implemented in the first place

In 'good for the nation' I will address the two claims made of the superannuation policy which purported to help build and protect the nation. The first was the idea that, due to the large pool of savings generated out of the compulsory Superannuation Guarantee, Australia's economy would be protected from external market shocks. The rationale here being that with access to national savings, the urge or requirement to borrow funds from overseas would be diminished. The second claim was that this pool of national

savings would be used to invest in nation building infrastructure projects, helping to create a better nation, as well as allowing superannuation funds to receive a consistent return on their investment. Both of these claims have proven to be incorrect. The nature of global financial markets has meant that the mere fact of having national savings does not protect national economies, and individuals will also continue to borrow overseas regardless of being able to access domestic funds. Likewise, the minor amounts that superannuation funds currently invest in infrastructure are barely of any significance and do little to assist with nation building.

'Good for the people' will analyse the macro effect superannuation has had for individual workers. This chapter will also analyse two claims made of the superannuation policy. The first is the notion that superannuation was meant to be simple and easy for individual Australians, unlike the disjointed and complicated systems of the past. The second claim was that individuals would have a larger retirement income via the use of a superannuation model which utilised the private sector to invest an individual's retirement savings into the marketplace. Like the claims in the 'good for the nation' chapter, these claims also prove to be inaccurate. Rather than create a simple and easy to use system, Australia's superannuation system has turned out to be overly complex, requiring a great deal of financial knowledge in order to reap the most economic benefit. Instead of providing a retirement scheme which balanced efficiency and equity, Australia is left with a two-tiered system, with the majority of Australians being worse off. The system has also failed to fulfil the promise to provide larger retirement incomes to workers. This comes down to issues with the cost, security and general fund performance of the system.

The final section will take the above analysis and assess whether the promised vision could actually occur, by contrasting the Keating proposal with the recommendations set out in the Cooper Review of superannuation. In August 2009, a review panel was convened, headed by Jeremy Cooper, to look into the state of Australian superannuation. On June 30 2010 this review was completed.

It outlines the direction superannuation should take, presenting possible policy options to address the issues with the current superannuation system. This section will assess whether these policy recommendations assist with making superannuation fit with Paul Keating's original vision that superannuation would be, as I term it, good for the nation and good for the people.

Paul Keating envisaged a different Australia. An Australia where personal savings not only meant individuals could retire comfortably without putting great strain on the federal budget, but where those same personal savings could help build a better nation - creating new infrastructure and investment into new industries, all while preventing Australia from being held to the whims of global finance. I will show, through an investigation of the Keating proposal and the way it played out over a twenty-year period, that this vision did not come true. I will demonstrate that the poorly implemented superannuation system created by Keating and distorted by subsequent governments is at a point where it fails to live up to the promise. In its current form, superannuation is not good for the nation and it is not good for the people. The Keating vision was a noble one, a vision worth moving towards. Whether that vision is now possible, given the current state of superannuation in Australia, is yet to be determined.

Chapter One: Paul Keating's Superannuation System – A History

1992 was a busy year in Australian politics. George Herbert Walker Bush became the first United States President to address the Australian Parliament. The Mabo decision, a High Court challenge in favour of Indigenous land rights was passed. And the Australian Head of State, Queen Elizabeth II visited Australia, leading the British press to dub the Prime Minister Paul Keating the “Lizard of Oz” after he broke protocol and touched the Queen’s back. Amidst all of this political excitement a new policy was being developed. At the end of the year, the Keating government unveiled the new policy, the *Superannuation Guarantee (Administration) Act 1992*. The policy created a three pillar system of superannuation in Australia. The first pillar took the form of the public pension system, a means tested payment to act as a safety net. The third pillar would be individual contributions, with tax incentives to make this option attractive. However, the main drawcard of Keating’s new Superannuation policy was the second pillar, the Superannuation Guarantee. The Superannuation Guarantee is a compulsory payment by employers into the privately managed fund of an employee’s choice. This tax deductible compulsory payment was initially set at 3% in 1992 and was to be increased to 9% by 2002, with a potential increase up to 15% as economic conditions improved (ATO, 2010). This second pillar would ensure all Australian workers were saving for retirement and as such produce equality within the system.

While the Keating superannuation system was a new initiative for Australia, it was not entirely unique on a global level. Twelve years earlier, the South American Nation of Chile had become the first nation to implement such a system. In 1973 Augusto Pinochet, with the United States backing, led a coup d’état to take control of Chile. With the world economy in bad shape, Pinochet set about implementing new policies to pull Chile out of the global economic slump. He was aided by a group of economists known as the ‘Chicago Boys’,

led by one Milton Friedman (New School, 2003). Friedman had been a pioneer of the free market approach to economics which favoured free and open trade and financial markets with limited government intervention (Roberts, 2008). The seven years to 1980 saw the Chicago Boys liberalise much of the Chilean economy. By 1980, they had turned their sights to the Chilean pension system, a system of funds with the same level of complexity and inefficiency as the Australian system had portrayed (Ruiz-Tagle, 1997, pp. 4-6). The solution was to implement an entirely privately run pension system where individuals had to contribute 13% of their salary to a private pension fund (Ruiz-Tagle, 1997, p. 7). The Keating system, while in no way directly linked, shares many similarities to the Chilean model. They both utilise the private sector to run the system, and both employ compulsion as a means to ensure uniformity throughout the system. There is a slight difference in execution however, as the Chilean system puts the onus of saving onto the employee, whereas the Keating system puts that onus on the employer. Regardless, the outcome of both models is the same, with individuals having personal superannuation accounts which require compulsory contributions.

Even though the Keating superannuation system and the Chilean system from the 1980s share much in common, there is no suggestion that Paul Keating implemented the Australian superannuation system as a result of the Chilean experience. On the contrary, the Australian superannuation system is very much a product of Keating's own world view. Paul Keating was a Labor man through and through. As the son of a trade union official, Paul Keating believed strongly in the labour movement, which has a long and rich heritage in Australia. His political idol and former New South Wales premier, Jack Lang, was, for Keating, the epitome of the labour movement. Lang's politics clearly influenced Paul Keating, so much so that between 1962 and 1964, Keating met with Lang on a weekly basis to talk politics (National Archives, 2009). Jack Lang's state government was highly involved in the economy and, as such, the lives of working men and women. Lang spent a lot of government resources on

building and fixing public infrastructure, while also setting up free, state run high schools, improving welfare systems and implementing worker injury compensation policies (Nairn, 2006). Keating admired this type of government involvement in the lives of Australian workers, and the nation (or in this case New South Wales) as a whole. However, the ideals of big government and strong unions combined with working class roots were not all that influenced Paul Keating. While his father, Matthew Keating, was a union official, he was also the owner of a successful engineering business, making equipment for the ready mix concrete industry. The business was small to begin with, but grew quite large, even spawning off its own ready mix concrete company. Even though Paul Keating never showed any great interest in taking over the business himself, his father passed on to him “a respect for markets and the merits of honest business activity” (Love, 2008, p. 57). The result of this meant that Keating had two very powerful influences in his life, a commitment to the labour movement and an understanding and appreciation for the market and the private sector.

By the 1980s, the political landscape had changed dramatically from the days of Jack Lang. The idea of big government was no longer possible; rather, a more subtle, compromising approach was required. Bob Hawke, the Australian Prime Minister from 1983-1991, was the man best suited to these conditions. He exemplified the idea of the politics of inclusion, or as many at the time referred to it, ‘Hawke’s Big Tent’ (Ryan & Bramston, 2003, pp. 112-114). He was able to effectively juggle multiple interest groups and work towards compromise. With Hawke at the helm, the Australian nation was primed for big changes. It was amidst this atmosphere that Paul Keating and Bill Kelty came together to create Australia’s superannuation system. While much of the credit goes to Keating for the system, the role played by Kelty is of vital importance. Bill Kelty was the secretary of the Australian Council of Trade Unions for 17 years (ACTU, 2009). He was first appointed in 1983, the same year the Hawke government was elected. Throughout the 1980s, he worked closely with the then treasurer Paul

Keating. While they shared the same social visions, the two men, Keating and Kelty, seemed nothing alike. Keating was rarely seen without his signature Zegna suit, while Kelty was often seen in jeans and his favourite AFL team colours (Love, 2008, p. 88). Despite appearances, Keating and Kelty worked well together as Keating brought with him his labour movement roots and respect for markets and Kelty brought his strong union heritage and schooling in classical economics (Love, 2008, p. 89). Throughout the 1980s, with Keating as Treasurer, they laid the ground work for the superannuation system, implementing the Prices and Incomes Accord (National Archives, 2009). This strong working relationship continued with Keating as Prime Minister, with the final implementation of the Australian superannuation system in 1992. Together they created a system that appeared to tick all the boxes, which Kelty could sell to the union movement and Keating to the Australian people. The system had government intervention in the form of compulsory payments, while also managing to appease the union movement as well as the market, with wage increases occurring, but being offset into privately run superannuation funds. Behind all of this, of course, as the driving motivator for this reform, was Keating's grand vision for Australia, the idea that superannuation would be good for the nation and good for the people.

The implementation of this system, however, was far from perfect. While Keating had these big picture ideas of the superannuation policy being good for the nation and the people in mind when he created the system, this failed to be incorporated into the system's implementation. The superannuation system was left to be run by private superannuation funds and there was little government regulation to ensure Keating's promises would be fulfilled. In 1996, Paul Keating was removed from office in the worst electoral loss for the Australian Labor Party (ALP) since 1934. It was a crushing blow to the ALP that would keep them out of office for the next 11 years. It also signalled a change. The newly elected Howard Government brought with it a new political idea which was based around the rhetoric of choice and the individual. While

Keating's promised vision of superannuation, that it be good for the nation and good for the people, was based on a collective ideology, the Howard Government took the approach that it was choice that was of the utmost importance, and more specifically, individual choice. This shift towards the importance of the individual came at the expense of Keating's mantra, to create a system which balanced efficiency and equity. The push towards individual choice created undue complexity and as such introduced further inequality into the system. Rather than rely on the Superannuation Guarantee, workers were persuaded to contribute to their superannuation funds themselves via policies such as the superannuation co-contribution scheme where the government would contribute a percentage amount of an individual's contribution (ATO, 2010). There were also various tax incentives to promote further individual contributions (ATO, 2010). However, the biggest move made in favour of the individual choice rhetoric came in 2005 with the implementation of the choice of fund legislation (ACCI, 2005). The legislation allowed individuals greater choice as to which fund their superannuation contributions would be invested.

Keating had it written in policy that the Superannuation Guarantee (which set the rate of compulsory employer contributions) would be raised to 9% by 2002. However, the further rise to 15% which Keating had pushed for as Prime Minister, and continued to push for as a political commentator, never occurred under Howard. The Howard Government had the opportunity to push this through, but instead decided on across-the-board tax cuts, and the introduction of the Future Fund, a fund of government budgetary surplus which would be used to pay for public sector superannuation (APRA, 2007, p. 6). The funnelling of this money off into tax cuts is yet another example of the individual choice rhetoric employed by the Howard government. The election of the Rudd Labor Government in 2007 did little to help Keating's mission to raise the Superannuation Guarantee. The Labor Minister for Superannuation Nick Sherry, acknowledged Keating's desire to have the Superannuation Guarantee increased to 15%. He went so far as to call this desire a 'dream' of Paul

Keating's. For Keating, this was simply a "failure of imagination" (Anne, 2007). Needless to say, there was no increase to the Superannuation Guarantee by the Rudd Government during the first few years of its time in office. Of course, the validity of this increase in the rate of the Superannuation Guarantee is questionable, and a point that will be discussed later. Regardless of the merits of this policy, the inaction on this issue represents the general disregard towards superannuation in Australia since Keating's 1996 election loss.

The world changed in 2008. At least that is how the media now tells the story. The collapse of the investment bank Bear Stearns in March 2008 set off a domino effect leading to what has now been termed the Global Financial Crisis (GFC). The GFC involved a breakdown of financial market systems which highlighted the instability of the current financial system. Fuelled by media reports that the world was heading into another Great Depression, the GFC understandably caused great panic. The financial crisis had a devastating effect on Australian superannuation funds. The result meant large losses for many individuals' superannuation accounts (Graham, 2009). However, it was not only the monetary loss which effected superannuation, the GFC also raised questions regarding the perception of superannuation as a safe option for retirement savings. It also called into question what good superannuation had done, if any, for the nation. With these questions and ideas circling, superannuation, which had fallen out of vogue both in the minds of politicians and everyday Australians, was suddenly back on the front page. A crisis of the financial markets had turned a spotlight on a system which was supposed to be good for the people and good for the nation but which was failing to achieve both. At the beginning of 2010, the Rudd Government announced that the Superannuation Guarantee would be increased from 9% to 12% (Ryan P. , 2010). This increase was designed to bolster the superannuation system which had seen huge losses as a result of the GFC, whether this would achieve the desired result however is a point of contention. This was not the only response by the Rudd Government in regards to superannuation. Rudd also

commissioned the Cooper Review of Superannuation which was handed to government in June 2010, outlining changes to superannuation to make it simpler and better for the people. Unlike the proposed increase to the Superannuation Guarantee, the Cooper Review may have a positive impact on the future of superannuation in Australia.

It has been almost twenty years since Paul Keating introduced Australia's superannuation system. Looking back over the life of the superannuation policy highlights several issues that were present not only from its inception, but also from changes to the policy over time, which have led to its failure to live up to Keating's stated promises. The system as it was originally implemented by Keating in 1992 was far from perfect. Taking Keating's background into account, it is easy to see how Australia got the system it has today. His working class background coupled with his respect for the market system played a crucial role in how he and Bill Kelty developed and implemented the system. Yet it was this very implementation, the use of private firms without strict regulations so as to appease and better utilise the market, which led to the eventual failure to meet Keating's promises that superannuation would be both good for the nation and good for the people. The election of the Howard Government in 1996, and with it the shift to a rhetoric of individual choice, did not help the situation. Rather, the superannuation system, which itself already required a high degree of financial knowledge in order to comprehend, became even more complicated through the introduction of new choices for individuals. The inaction of the Rudd Government until the aftermath of the GFC meant that the system, which had already proven to be problematic, was hit hard by this economic shock. The resulting reactionary policy to lift the Superannuation Guarantee, while garnering industry support, may not have helped anyone but the superannuation funds themselves. The next two chapters build upon this history and examine how the Keating vision failed. They trace the rationale as to why Keating believed superannuation would be good for the nation and good for the people, and analyse how and why this has failed to be the case.

The history of superannuation in Australia over the past eighteen years is a history of poor policy implementation. It is not the ideas that were problematic, rather it was the way Keating and subsequent governments administered, and then neglected the policy, instead relying on the market mechanism and the private sector to run and improve the system.

Chapter Two: Good for the Nation

The first rationale for Keating's superannuation policy, which I term good for the nation, had its roots in the perceived savings crisis of the 1980s and 1990s. The Australian domestic savings level was at an historic low by the beginning of the 1990s. As figure 1 shows, during the mid 1970s, the net savings rate¹ was around 16%. By 1991 this figure had fallen to 2%.

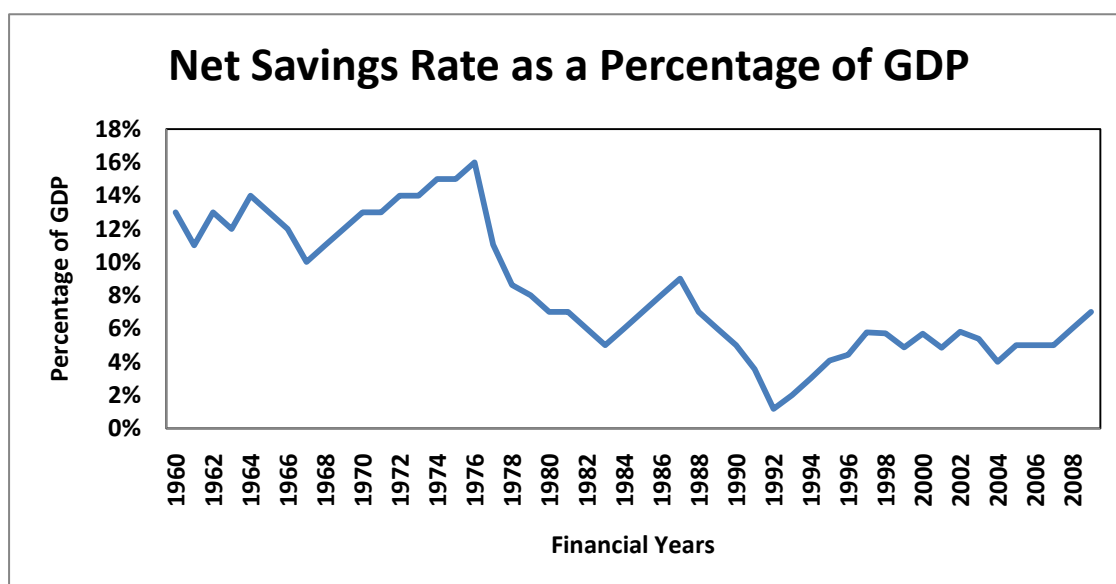


Figure 1. Net Savings Rate as a Percentage of GDP. Source: ABS, Australian System of National Accounts, 2009

Despite the flux in economic thought at the time, there was a general consensus that this poor savings rate needed to improve. There was also a related argument that the Current Account Deficit (CAD) should be curtailed - an argument that Paul Keating was a keen proponent of. The current account is one side of set of national economic statistics known as the Balance of Payments (BOP) which records the transactions between a nation and the rest of the world (ABS, 2006). The current account records the net earnings (if in surplus) or spending (if in deficit) of a nation, and comprises a country's balance of trade, incomes payable and cash transfers. As figure 2 identifies, Australia's current

¹ The net savings rate is calculated by taking the rate of gross savings (resources available for investment) and subtracting depreciation (consumption of fixed capital). Source: ABS Measuring Australia's Progress 2002

account has historically been in deficit. In fact, Australia's CAD has averaged -4.5% of GDP over the past two decades (Gruen, 2005).

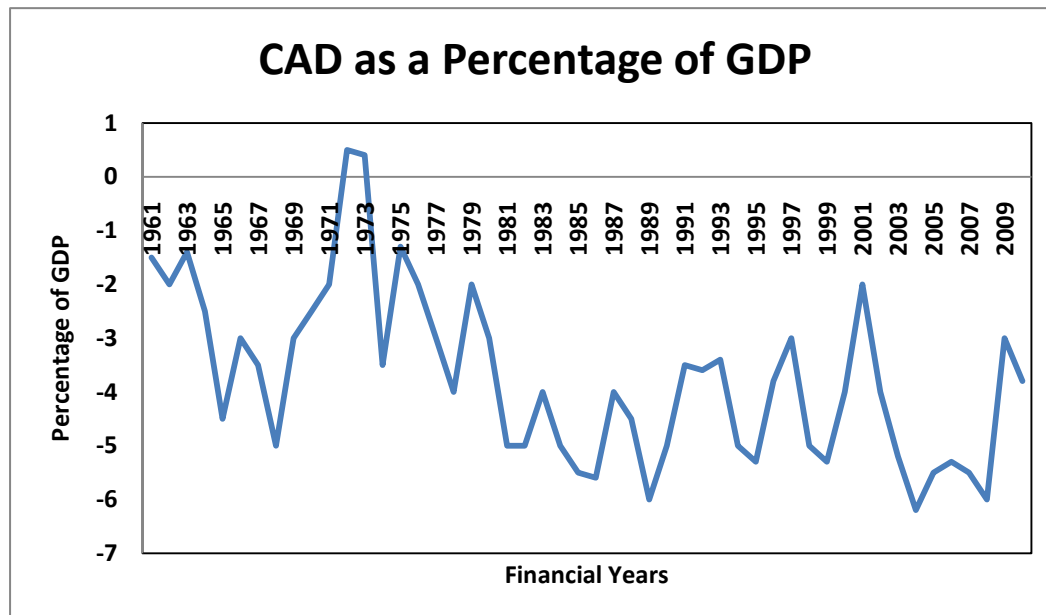


Figure 2. CAD as a Percentage of GSP. Source: ABS, Balance of Payments and International Investment Position, 2010

The current account being in deficit is not, in and of itself, a problem. What is problematic, however, is the size of the deficit - well, at least it was for Paul Keating. Keating was a firm believer that the CAD needed to be controlled, especially seeing as Australia had recently entered a new world of financial risk, with the Australia dollar having been floated and the banking system deregulated in the previous decade. Yet Paul Keating was becoming a lone supporter of this economic position. The 1990s was a difficult time for an economic policy maker. Economic ideas were swirling around and theoretical battles were being fought. What was once believed as gospel was now being questioned. For Keating and his senior advisor Don Russell, the gospel stated that high CADs were bad. From their offices in Parliament House they would argue that something needed to be done to quell the ever increasing debt. But sitting in an office on the other side of Lake Burley Griffin, not ten minutes away, was an economics professor at the Australian National University who would question that very belief. John Pitchford was the economist and in 1989 he made his views on the CAD clear. Pitchford argued that the CAD was not a

cause for concern and should not be the focus of government policy. The reason for this drastic departure from previous thought stemmed from new economic ideas that put greater emphasis on the efficiency and rationality of individuals in the market place. As such, Pitchford stated that the current account comprised simply of private transactions between consenting adults who were making “considered market judgements” (Bell, 2004, p. 62). And if this was the case, then government policy directed at reducing this deficit was not required. Pitchford’s views on the current account took off and led to an almost unanimous turn away from the idea that the CAD should be the target of government policy, in particular monetary policy. Even the Reserve Bank of Australia, which is responsible for monetary policy, was in agreement with Pitchford’s ‘consenting adults’ thesis (Bell, 2004, p. 63).

Keating was furious that his economic advisors had turned against him. It took most of 1990, but eventually he came around and agreed that the Reserve Bank policy should no longer be to target the CAD and instead they should focus on inflation. The result was a defeat for Keating’s own economic world view, but all was not lost. In 1992 Keating unveiled his superannuation policy. You could imagine Keating’s delight as his treasurer, John Dawkins, read out the Superannuation Guarantee Bill to the parliament and stated that this new compulsory superannuation scheme would “increase overall national savings so as to reduce Australian reliance on the savings of foreigners” (Senate Standing Committee, 1995). In other words, Keating’s superannuation policy would help to fight the CAD by reducing Australian reliance on foreign savings (the income account of the current account). It formed one of the foundations for Keating’s vision that superannuation would be good for the nation. If the current account could be held in check, meaning Australian investors were not having to borrow offshore, then the Australian economy would be shielded and protected from the world of unpredictable and risky financial markets. It is this claim that will now be analysed.

Superannuation: protecting the Australian economy

The idea or rationale that a large pool of superannuation created national savings, which currently sits at \$1.23 trillion, would shield Australia from economic shocks is a simple one (APRA, 2010, p. 5). It is a two part argument. Firstly, if the private sector can borrow from a local, national savings pools, then they will. Secondly, if the private sector has the ability to do this, then Australia's net borrowings from overseas (as indicated on the current account) will be much lower. The result is that fluctuations in the international economy, which may affect the level of debt repayments on borrowed money, will not be as problematic for Australia, as individuals will have borrowed from local reserves. The problem with this argument is that it is no longer suited to the modern world economy. The bedrock on which the above argument rests goes back to the balance of payments, in particular the current account.

The balance of payments has only been in existence for a relatively short period of time, having only been officially implemented as a national accounting system in the 1920s (Wasserman & Ware, 1965, p. 105). While its history is short, it is rather fascinating, especially in the Australian context. The story begins in the 1930s, with the focus being on the current account, arguably the most important aspect of the balance of payments. Australia, like the rest of the world in the 1930s, viewed the current account as an important economic indicator, yet one lacking in statistical information to make sound policy judgements. (Edwards, 2001, p. 2). The importance of deficits on the current account became less and less important as the twentieth century wore on, with strong world growth a possible cause for the increasingly relaxed attitude. For Australia (and much of the world) the early 1970s marked yet another change in government's attitude to the current account. As Australia's CAD continued to increase, there was growing concern that such a large deficit (at that stage around 4.5% of GDP (Belkar, Cockerell, & Kent, 2007)) could lead to serious issues for the Australian economy (Hawkins & Harris, 2006, p. 61). The consequence of this in the 1970s and following on into the 1980s was the idea

that such high levels of foreign debt indicated by the CAD were unsustainable. What if the foreign lenders all decided to demand their money back? What would happen to Australia? These concerns led to a policy decision, spearheaded by Paul Keating, to make the CAD a target of the Reserve Bank of Australia. A booklet on Australia's debt problem put out by Macquarie Bank in 1989 explains this fear of the CAD: it likened Australia's large CAD to a "frog immersed in water that was initially cold but was gradually being heated. Failing to realise the impending danger, the frog is eventually boiled" (Stevens & Hariss, 2004). As explained earlier, this position changed again towards the end of 1989 with John Pitchford's 'consenting adults' thesis. Today, balance of payments figures are still collected, and the CAD is regularly reported in the media, yet it rarely raises any alarm bells – and for good reason. The balance of payments, and in particular, the current account, is an outdated form of national accounting. The BOP was suitable for a time when governments heavily protected trade, currency and financial systems. But in this current age of globalisation, characterised by floating currency and unregulated markets, this form of national accounting is no longer sufficient (Bryan, 2001, pp. 57-58).

The major changes in the world economy that have made the BOP an outdated form of national accounting are the innovations in financial markets and the growth of multi-national corporations. During the 1970s and 1980s, most national economies underwent a period of economic liberalisation where their currency was floated and banks were deregulated. The result of these liberalising reforms was the creation of new types of financial products such as derivatives. A derivative is a financial product that 'derives' its value from another asset. Owning a derivative means owning a position on the price fluctuation of that asset as opposed to owning the asset itself. The concept of a derivative in the financial world is not a new one. In fact derivatives can be dated back to the 12th century Flemish traders, and were predominant during the 17th century in both Amsterdam (then the financial capital of the western world) and the Osaka Rice Market (Bishop, 1996, p. 6). As such, derivatives

have a long history in the financial world. What makes current derivatives of the past two decades different is the volume of trade and the much larger and wider range of products one can own a derivative in. The derivative market is now so large that total global derivative transactions equalled US\$615 trillion by the end of December 2009 (Bank for International Settlements, 2010, p. 1). The other major area of global economic change was the growth of multinational corporations. Like derivatives, the concept of a multinational corporation is not new. The Dutch East India Company of the 17th century was the first and perhaps the most famous historical example of a multinational corporation. A multinational corporation is one that operates in multiple countries, often without a strict attachment to a 'home' country (Hennary, 2000, p. 72). Both derivatives and multinational corporations create problems for national accounting systems like the BOP and as such call into question the validity of Keating's argument about superannuation and the protection it offers Australia.

Derivative transactions as well as the movements of multi-national corporations are distorting the balance figures on the BOP and more crucially the CAD (Kester, 1995, p. 3). The integration of capital markets, of which derivatives play a prominent role, as well as the floating of national exchange rates has meant that the BOP, once considered the authoritative source of a nation's external position, is now "merely one way of sorting economic transactions into categories that present a balance sheet of residence-based, currency specific trade and capital flows" (Julius, 1990, p. 85). In other words, the BOP now tells us very little about a nation's economic position. Take the following example regarding derivatives. Kangaroo Bonds are a form of derivatives defined as debt securities issued by non-residents in the Australian domestic market (ABS, 2006). These bonds are predominantly bought by domestic Australians. Where this becomes interesting is how these bonds show up on the BOP. While they *should* show up as a debit on the financial account, there is a growing argument that instead they show up as debit on the current account due to a mistake in

accounting practices, artificially inflating the CAD, and distorting the national accounts (Statistics New Zealand, 2008). Multinational corporations are also responsible for this distortion. To better understand how they affect national accounts look at the following example. Imagine a company that is based within the United States, but is also present in other countries. This company is performing quite poorly in the United States, yet in Australia, a country where this company also operates, it is performing outstandingly and producing record profits. Given this scenario, it is difficult to determine what this means for Australia's economic performance, and what this means for the United States' economic performance. In fact, all we can really tell is the performance of a United States corporation in specific areas around the world. And therein lies the problem with current national accounting procedures. The performance of this company would have shown up on both sets of national accounts and yet, for the nation itself, it means very little (Lipsey & Kravis, 1992, p. 74).

What both of these examples of derivatives and multinational corporations demonstrate is that current national accounting methods are flawed. This is of vital importance to understand when analysing the claim that superannuation can help protect Australia from external economic shocks. The Keating claim is based around the perceived danger of a high CAD. For Keating, a large CAD means that Australia is borrowing at large amounts offshore, which puts people in danger should international situations change. As such, argues Keating, the introduction of national savings as a result of the Superannuation Guarantee would lower the CAD. But as shown, these current account figures are no longer accurate. They are distorted by new financial products or the movements of multinational corporations. So a high CAD may not actually mean anything given this highly interconnected global economic environment in which we live. As such, the premise on which Keating based this claim is inaccurate. This is not to say that Australian investors have not utilised this national pool of savings at all – they have and they do. However, it is wrong to connect the use of these funds with the idea that Australians would use up these funds before

borrowing overseas and as such claim that this national pool of savings is protecting Australia. In fact, the moment foreign exchange controls were relaxed in Australia, Australians, including private pension funds, insurance companies and investment trusts all began to borrow and invest heavily overseas (Anil & Daly, 2004, p. 2). Figure 3 highlights this rapid increase in net foreign debt (demonstrating the amount borrowed or invested by private individuals internationally) which saw a dramatic increase from 6% of Gross Domestic Product (GDP) in 1980, before foreign exchange controls were introduced, to 32.9% of GDP by 1990.

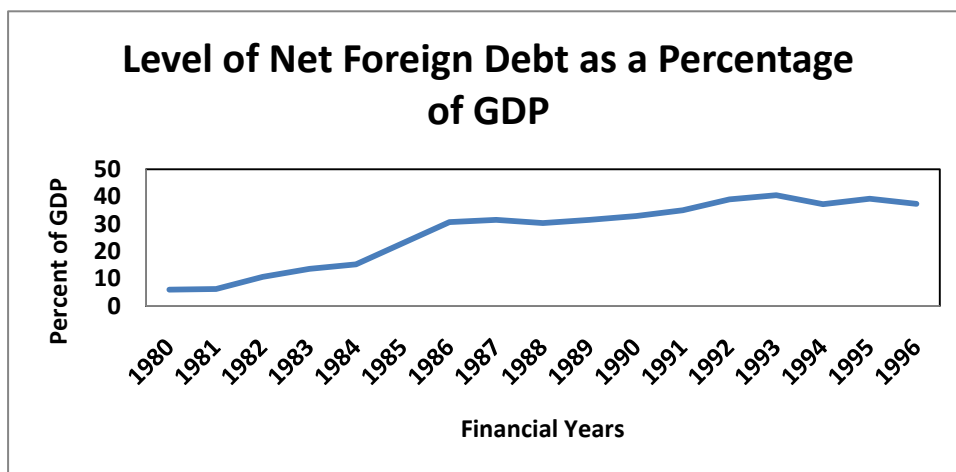


Figure 3. Level of Net Foreign Debt as a Percentage of GDP. Source: Australia's Foreign Debt and Trends, Parliamentary Library, 2009

This investment and borrowing from overseas has continued to rise since the 1990s, with several investments banks as well as private individuals regularly raising funds (in other words borrowing money) overseas to fund investment, despite Australia's national pool of savings generated from the Superannuation Guarantee (Chong, 2003; Manning, 2009, p. 159). What this demonstrates is that in a globally connected world, people will seek out the cheapest means to borrow funds, even if that means borrowing overseas. So, national accounting figures are incorrect and Australians also continue to borrow from overseas at high levels, despite national savings. This means that claiming that superannuation produces a national pool of savings which protects Australia

from international economic shocks is incorrect. In this sense then, it would be fair to say that superannuation has not proven to be good for the nation.

Superannuation and Infrastructure

While claims that superannuation would be good for the nation by protecting Australia from international economic shocks have proven to be incorrect, there is another argument for the national benefits of superannuation. For Paul Keating, the Australian nation was at a point where it needed to expand. Australia had been plunged head first into a new financial environment, and while this new world of free markets, floating currency and unregulated banking was more risky than the relatively risk free world of old, it also came with new opportunities. Keating's vision was to see innovative investment into new industries and new infrastructure within Australia. Unlike his mentor, Jack Lang, Keating was unable to rely solely upon government funding to achieve this goal. Shifting views on government spending and a tightening of fiscal policy, meant that the government option was no longer a possibility. The solution then was for this new investment to be undertaken by the private sector. The 1992 Superannuation Policy provided the vehicle for this process. National savings would be increased, creating a national pool of funds from which the private sector could borrow and invest in these big picture visions that Keating had.

The reason Keating thought events would play out in this fashion had to do with his involvement in helping create the success of an Australian investment giant, known then as Hill Samuel Australia. Hill Samuel Australia started out in 1969 as a small merchant bank, a subsidiary of the London investment bank Hill Samuel & Co. Australia in the 1970s, like much of the world, was a closed economy with a fixed exchange rate, a regulated banking system and tightly regulated foreign exchange controls. All of this was liberalised by Keating as Treasurer during the Hawke Government years in the 1980s. This turned out to be a stroke of good fortune for the small merchant bank of Hill Samuel Australia. They applied to become a trading bank and were given a licence by

the treasurer Paul Keating in 1985. In light of becoming only the second private trading bank in Australia's history, Hill Samuel Australia changed their name to Macquarie Bank after Governor Lachlan Macquarie, the Governor of New South Wales who oversaw the transformation of Australia's penal colony into a thriving economy (Macquarie Bank, 2009). The granting of this licence by Keating was all part of his vision to see superannuation savings used as the building blocks of a better nation. During the 1980s Keating was setting the stage. On one hand he ushered in the economic and financial reforms described above. And with the other he worked with Bill Kelty and the Union movement to put in place the superannuation system. In the 1990s, with Keating as Prime Minister and his stage set, he opened the curtains. The private superannuation funds set up under the 1992 Superannuation Policy were now being filled with the savings of millions of Australian workers. Macquarie Bank, now firmly established as a trading bank, was ready to do business. Macquarie Bank needed funds, and the superannuation funds needed somewhere to invest. Macquarie Bank took the money and created new infrastructure all over Australia - toll roads, power stations, by-passes and even an airport (Love, 2008, p. 107). Macquarie made a fortune with the specially packaged financial products they used to fund, build and sell these developments. Likewise, the superannuation funds made a steady and relatively risk free return on their investment.

Unfortunately, history did not continue to play out in this way. As superannuation funds continued to increase in size, they began to diversify their investments beyond infrastructure and towards more risky, yet potentially more rewarding investments in share holdings and new financial products such as derivatives. Today, the state of investment in Australian infrastructure by superannuation funds is looking dire. As an aggregated figure, superannuation funds invest 3.1% of member funds into infrastructure (Ferguson, 2008). However, that figure also includes international infrastructure investment, so the standalone Australian figure is smaller still. I canvassed a selection of

Australian superannuation funds to see how they dealt with investment in Australian infrastructure. Today, superannuation funds see infrastructure as an ‘alternative’ investment option, which is split apart from the ‘normal’ investment options such as shares, property, fixed interest securities and cash (ESS Super, 2010, p. 21). Infrastructures status as an ‘alternative’ investment option is made clear when looking at amounts invested in particular sectors. Figure 4 shows the proportion of assets held by superannuation funds in their default accounts.

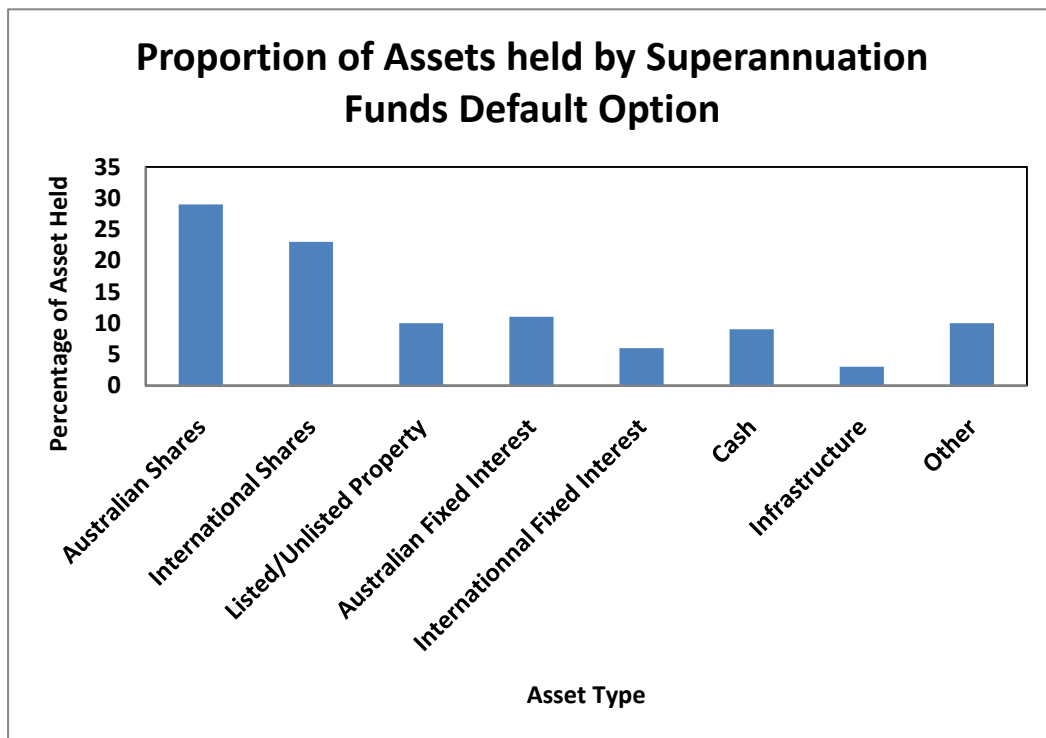


Figure 4. Proportion of Assets held by Superannuation Funds Default Option. Source: APRA, Annual Superannuation Bulletin, 2009

Take for instance an example from Colonial First State Super. Colonial First State Super is a ‘retail’ or wholesale master trust fund, which means it is a superannuation fund run by a financial institution (ASFA, 2010). Retail funds, like that of Colonial First State Super, are the largest form of superannuation funds in Australia (APRA, 2010, p. 5). Figure 5 (next page) details a graphical representation of the proportion of members in each superannuation fund type.

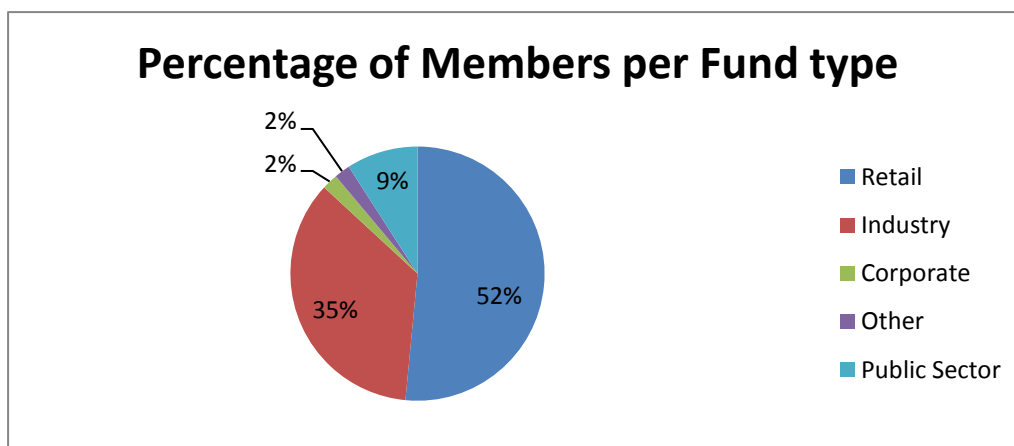


Figure 5. Percentage of Members per Fund type. Source: APRA, Annual Superannuation Bulletin, 2009

Colonial Super invests a total of around \$4 million in Australian Infrastructure. In contrast, in just *one* 'share' investment fund, they invest \$161 million (Colonial First Choice Super, 2010). There is a similar trend with other retail super funds. For example, a fund like AXA invests very little in infrastructure, and when they do it is usually an investment in an infrastructure fund or trust which packages up a small amounts of Australian infrastructure with a very large amount of international infrastructure (Macquarie, 2010, p. 1) (AXA, 2009, p. 9). The same can be said for the superannuation accounts managed by AMP, which also invests only small amounts in infrastructure. However AMP does have some direct investments in infrastructure, via the AMP Capital Investors fund, which owns 50% of Melbourne Airport (Ferguson, 2008). The trend differs slightly however when looking at Industry Superannuation funds which are run by a particular industry or union. Although they are the second largest fund type in Australia, they are a very distant second from retail superannuation funds (APRA, 2010). When canvassing a selection of industry superannuation funds, it is clear that these funds invest more in Australian infrastructure than their retail fund counterparts. For instance Australian Super invests 14% of member funds into Infrastructure (Australian Super, 2009). The Construction and Building Industry Super Fund also invests more prominently in Australian infrastructure, with large stakes in the Motorway 4 and Motorway

5 in New South Wales, as well as the Citylink motorway in Victoria (CBUS, 2006). While these investments are larger than retail funds, they are still proportionately small compared to the amount of member funds invested elsewhere.

This snapshot of the current superannuation situation demonstrates a failure of the original 1992 promise. Superannuation funds are no longer investing substantially in Australian infrastructure and as such it can no longer be claimed that superannuation is good for the nation. It is important here to address an evolution of policy ideas on this issue. The Howard and Rudd government have, without actually stating this, admitted that superannuation is no longer good for the nation in this sense. Australia has seen this via the introduction and use of the Future Fund, as well as the commissioning of policy papers into how superannuation can better work for infrastructure. The Future Fund was introduced by the Howard Government in 2006 in response to concerns about an ageing population and the strain this would have on the federal budget in having to pay out public sector superannuation (Future Fund, 2009). In 2008 the Rudd Government amended the purpose of the Future Fund so that it now also acted as a nation building fund (Future Fund, 2009). This meant that money in the Future Fund would be invested in Australian infrastructure projects. A good example of the use of these funds was the proposal for a new broadband network, known now as the National Broadband Network (NBN). The NBN would use funds from the Future Fund to lay fibre optic cable to 93% of Australian households (NBN Co, 2010). By doing this, the Rudd Government essentially bypassed superannuation funds and instead sought to use federal funding, in combination with some private enterprise, in order to fund this large infrastructure project.

This is, of course, in stark contrast to the way Keating envisioned infrastructure projects being funded in Australia. In the case of the NBN, the federal government could have issued bonds for superannuation funds to invest in, providing the government with the funds for development whilst also

providing superannuation funds with a steady, long term return. What this example demonstrates is a failure of the system. In order to fund the NBN, one of the largest infrastructure projects in Australia's history, government was not willing to push for this form of infrastructure funding and superannuation funds were not demanding this form of investment. Another example of the implicit acceptance of this systemic failure is the government backed policy documents into how superannuation can better work for infrastructure. For example, in 2005 the NSW and Victorian state governments launched a new organisation known as Infrastructure Partnerships Australia (IPA). The purpose for creating this organisation was to create links between funding bodies and infrastructure projects. In April of 2010, IPA released a report titled: *The Role of Superannuation in Building Australia's Future*. The report began with an admission that while superannuation should be the perfect fit for infrastructure funding, it has thus far failed at the task, with only a few funds being truly involved in infrastructure development (IPA, 2010, p. 8). The rest of the report investigates how superannuation funds can be encouraged to invest in infrastructure, as it is clear that the 'national good' argument has not been sufficient.

These examples strike at the heart of the issue. The policy implemented in 1992 was such that it was never going to be able to live up to the promises made. Now in 2010, Australia has an alarming shortage of funds for infrastructure development (IPA, 2010, p. 9). The 1992 policy put forward a model in which private superannuation funds were, in a sense, running the show from that point onwards. To assume that these private entities would invest for the national good (even though it may make economic sense) was naïve. Superannuation funds, in particular the retail funds which also have shareholders to contend with, have increasingly sought new and innovative ways to invest their money, with hopes of large returns. There is no overall government regulation on superannuation funds dictating where they are to invest member funds (Superannuation Industry (Supervision) Act, 1993).

Despite this, most superannuation funds invest a large proportion of their default portfolio (the fund to which most members subscribe) into Australian shares, equities and cash, with the argument that this type of investment is good for Australia. As such, they can claim that they already fulfil the requirement to be good for the nation. However, it can be argued that an investment in many Australian shares, or Australian asset backed securities, can hardly be called 'Australian' for the same reasons outlined in part one above on the BOP. Financial market transactions mean that these products are distorted due to their lack of a 'national' home. Consequently, it can be seen that the only way superannuation funds can be truly good for the nation would be investment in infrastructure. Such investments, while potentially sending small profits overseas, would still largely be advantageous as they create a public good both in, and for, Australia. Yet without the necessary regulation to enforce this, these privately run superannuation funds have chosen different investment options at the expense of nation building, and subsequently, at the expense of Keating's 1992 promise.

Both of Keating's ideas as to why superannuation would be good for the nation have not lived up to the promise. The ideas themselves were not bad - the vision itself was a noble one - yet the system which was put in place to carry out these ideas was fundamentally flawed. Concepts such as of the Balance of Payments can no longer be used to judge a nation's economic performance or implement accurate policy. Likewise private individuals will not voluntarily borrow from national savings when they can receive cheaper borrowing rates elsewhere in the world. In this instance, the nationalist ideals of the superannuation system were not in keeping with the globalised nature of the current world economy. In terms of national investment, the establishment of private funds devoid of any regulation to invest in specific infrastructure or industry meant that rather than invest in these areas, these private superannuation funds elected share holdings and new financial products as their go to investment options. Whilst it may have meant greater short term

gains for superannuation funds, superannuation has not helped the nation in the way Keating intended it would. The poor implementation of Keating's superannuation vision has meant that, in its current form, superannuation is not good for the nation.

Chapter Three: Good for the People

Chapter two demonstrated that superannuation in its current form cannot be said to be good for the nation. It fails to live up to the two stated arguments in defence of this position. However, the Australian superannuation system cannot be seen as a failure simply because of this. There was another, arguably more important promise made of the 1992 superannuation vision and this was that superannuation would be good for the people. Like the good for the nation claim, good for the people also consists of two main arguments. The first regards ease and simplicity. Superannuation pre-1992 was a complex and complicated system of private pension funds with no real link between any of them. There was no Australian superannuation system per se. The introduction of Keating's Superannuation Guarantee in 1992 created the three pillar system that Australia has today, and as such Australia finally had a unified superannuation system. An argument for this move was that it would simplify the superannuation system. Without much thought from the individual, he or she would be allocated a superannuation fund to which 3% and eventually a minimum of 9% employer contributions would be contributed. That individual could then rest assured that over the course of their working life, they would be accruing superannuation so that when that individual retired they could retire comfortably. The second argument for why superannuation would be good for the people was the idea that it would allow individuals to retire with a large retirement income, reducing pressure on the federal budget by way of decreased public pensions and allowing individuals to have a better quality of life during retirement. The argument here was that by investing an individual's superannuation contributions in the newly deregulated market place, superannuation funds would be able to grow an individual's pool of retirement funds, adding to the contributions from the individual and the employer over the course of their working life. The problem with this and the previous claim is that they are not true. The purpose of this chapter is to explain how and why

this is the case and to demonstrate why superannuation in its current state is not good for the people.

Simpler Super

A simpler superannuation system sounded like a very good idea. And what could be simpler than a compulsory contribution from an employer into an employee's superannuation account? This system would ensure that all workers, even those who could not take part in the third pillar of individual contributions, would have some form of income for their retirement. In reality however, this system has proved to be far from simple. There are two intertwined reasons as to why superannuation is not as simple and easy as was promised. The first has to do with the complexity of superannuation funds growing out of the choice given to the individual. And the second has to do with the assumed knowledge of individuals, with the burden of risk for future retirement savings shifted from the government to the individual.

When the superannuation policy was rolled out in 1992, employers and union were the ones who made the decision as to which fund an employee's superannuation contributions were to be invested. Employees had no real input into this process but were simply informed of the pre-allocated fund (Fry, Heaney, & McKeown, 2007, p. 267). The rationale for this policy implementation was to keep superannuation simple. Employees would be guaranteed to receive superannuation contributions from their employer without any action on their part, meaning that they would have an income stream at retirement. It was a way to ensure that all workers were able to enjoy the benefits of superannuation. However, this model greatly limited choice. By allowing employers or unions to decide upon which superannuation fund contributions were to be invested meant that employees ended up with no say on where and how their money would actually be invested. While Paul Keating believed his policy implementation was the best way to fulfil his vision of a system with efficiency and equity, the Howard Government, elected in 1996, held a different view. The Howard Government saw individual choice as a vital

component of a good nation (Brett, 2006). As a result of this differing intellectual paradigm, in 2004 the Howard Government introduced the *Superannuation Legislation Amendment (Choice of Superannuation Fund) Act*. This new legislation meant that employees were now given a choice as to which superannuation fund they wanted their employer to contribute to (Superannuation Legislation Amendment (Choice of Superannuation Funds) Act, 2004). While employees do not have to exercise this choice (they can opt for the employers default fund choice) simply providing employees with this choice has increased the complexity of the superannuation process (ACCI, 2005, p. 1). There is nothing inherently wrong with offering choice. The problem occurs when individuals do not have sufficient information, or are not able to process that information, so that they can exercise that choice. In this instance, a lack of financial literacy leads to an inability to make a choice. And the choice of superannuation fund is not the only choice an individual can make, it is simply the first. Once a fund has been selected, the individual has a choice of which investment portfolio to invest their money. On average, superannuation funds offer 33 investment options (Gittins, 2010). However, these 33 options are only the standard bundles, individuals can opt to choose their own level of investment in the different areas offered by the superannuation fund, picking from Australian shares, International shares, property, fixed interest and cash – to name just the standard options. What becomes clear by looking at all these choices is the large amount of financial knowledge an individual would need to have in order to make them. The problem of course is that the majority of Australians do not have this financial knowledge, and so the superannuation process becomes far from simple.

When Australia, like the majority of the world, began to deregulate financial markets in the 1980s, it was inevitable that individuals of those countries would need to become more involved in matters of finance and the economy in general. By deregulating their economies, nations were essentially shifting the risk associated with economic decisions away from the state, and towards the

individual. Before deregulation, the nation state protected its citizenry from economic shocks, as best it could. For instance, currency markets were either fixed or pegged, providing certainty in regards to the value of the national currency and, as such, reducing the risk of fluctuation in product prices. Likewise, the banking sector was also heavily regulated meaning individuals did not have to worry about a loss of savings due to a banking crisis. This certainty disappeared after the deregulation programme was complete. This meant that individuals were no longer protected by the state but were now subject to the whims of global economic conditions. While this affected people in relation to currency fluctuations (product prices) and banking (cost of interest), the introduction of compulsory superannuation meant individuals were also exposed to fluctuations in global markets in respect to their retirement investments. In order to manage this new level of risk, individuals needed to become financially literate. The economic paradigm at the time of deregulation, and the one that influenced subsequent governments, believed that individuals, being rational decision makers, would be able to take in this new situation and process all the information so as to make correct decisions given all of the choices (Orhler & Werner, 2008, p. 254). The problem is people are not rational decision makers. Rather than all individuals making rational decisions, there is a large proportion of Australians who do not have appropriate levels of financial knowledge to make the necessary decisions to offset this new risk. This is most clearly seen with superannuation.

There is now so much choice in the world of superannuation that it has led to, what I term, a two tiered system, those who possess the required levels of financial literacy to make the relevant choices, and those so confused by the system that they become apathetic towards it. Unfortunately, the vast majority of Australians fall into the second tier. A report commissioned by the Australian Securities and Investment Commission found that the majority of Australians thought very little about superannuation until they were reaching the retirement age. Coinciding with this apathy towards the superannuation

system was a mild scepticism about its security, with many questioning whether they should invest all their retirement savings into superannuation (ASIC, 2004, p. 2). This apathy and scepticism is particularly prevalent amongst the youth of Australia. Many young people are confused by the superannuation system and also believe it is not something they need to care about, not yet at least. In fact many young Australians actually see home ownership as a more important aspect of setting up for their retirement than they do contributing to the superannuation system (Gittins, 2010). This view no doubt comes from a history of home ownership in Australia, and the status homes have as a high valued asset, one which increases dramatically in price. Since 1987, housing prices in Australia have increased almost 150% in real terms (factoring in inflation). As a comparison, Britain's housing market increased 70% and the US market 40% over the same time period (The Economist, 2010). As such, the idea that home ownership is a solid investment for one's retirement has some credibility in Australia. Of course, how long this can last, considering Australia's housing prices are around 7.5 times higher than the average Australian income is a pressing concern (Grantham, 2010), and not one that can be adequately addressed here. What all this has led to is a great deal of Australians (not only the youth) either opting for home ownership as a means of 'superannuation' (which, going by the statistics, is a risky endeavour), or being overwhelmed by the superannuation system, ignoring it entirely and as such keeping their super at the standard, default option (Trembath, 2010).

On the flip side are those who are well informed and well educated in financial matters and are able to make the choices available to them. The largest growing sector of the superannuation industry is Self Managed Superannuation Funds (SMSF) (ATO, 2007). A SMSF is basically a 'do it yourself fund' whereby the individual controls the investment of superannuation contributions as well as the payment of benefits (ATO, 2010). This differs from a typical superannuation fund where the investment and payment is completed by a third party. While SMSFs are the fastest growing sector of the industry, this does not mean the

majority of Australians are moving towards this do it yourself model. To run a SMSF requires a high degree of financial literacy in order to invest wisely, a minimum of \$200,000 in superannuation savings, as well as being able to cover the running costs (ASIC, 2009, p. 5). In other words, SMSFs are not for just anybody. SMSFs are not the only option for a financially literate individual. There is also the ability to remain with a traditional superannuation fund and choose from the range of investment options available to create an individualised investment portfolio. There are also taxation benefits for those with a higher degree of financial knowledge. A good example of this exists in the taxation benefits arising from salary sacrificing. If an individual is financially literate enough they can invest a portion of their income into their superannuation fund, which lowers the tax they would pay on that amount of income (Sampson, 2010). This is obviously a great incentive to invest in superannuation, and a great way to increase one's retirement income, but one which many individuals are simply not aware of and as such miss out on.

There is a clear inequality in the current superannuation system as it currently stands. By creating such a complex system that requires a high degree of financial knowledge to be able to make the choices to improve one's superannuation, Australia has essentially created a two-tiered model where the majority of Australians are not able to receive the true benefits of superannuation. While some are able to work the system to their advantage by understanding which investments to make, the majority of Australian's not only stick to traditional superannuation funds, but also do not deviate from the default option offered by these funds, with approximately 80% choosing this option (Graham, 2009). In fact, the system has become so complicated for most Australians that there is \$13.6 billion dollars (or about \$400 per person) of 'lost' superannuation in the system - meaning people have opened multiple accounts, not known how to transfer these funds, and simply forgotten about them (Blue, 2010). In this sense, superannuation has not proven to be good for the people as its complexity has created an intellectual entry barrier requiring

financial knowledge which most Australians do not have, or are now too apathetic to learn about.

Greater Income in Retirement: cost, security and fund performance

The barriers to entry of the superannuation system are not the only reason it is not good for the people. The other promise made of the superannuation system was that it would allow individuals to retire with large retirement incomes. Like the promise of simplicity, this promise has also been broken; to analyse how and why means looking at three interconnected issues. These are the cost, security and general fund performance of superannuation. Each of these issues will be addressed in turn.

The cost of superannuation is an interesting one. Superannuation is more than just the savings of an individual over the course of their lifetime. What makes superannuation so appealing is that individual savings are invested, growing that pool of savings wealth instead of having it sit in a bank and as such losing value due to inflation. This task of investment is passed on to private funds, which are not only better equipped with the knowledge of how to invest, but have the added benefit of lots of people's retirement savings at their disposal, meaning they can make larger and more aggressive investments than a lone individual could. However, having these private superannuation funds invest on behalf of individuals does come at a price. Before going on it is important to re-iterate the different types of superannuation funds in Australia. There are two main groupings of superannuation funds, those that are run for profit, which include retail and corporate funds, and those that are run not-for-profit, which include industry and public sector funds. Retail and industry funds make up the largest portion of the superannuation industry in Australia. Needless to say, no matter what category of fund, all superannuation funds serve the same purpose and generally offer the same services.

When canvassing the price various funds charge for investing an individual's savings, it is interesting to see the price charged track quite consistently along the profit/not-for-profit line. For instance, retail and corporate funds charged on average 1.19% to 1.86% p.a. for this service, whereas industry and public sector funds charged on average 0.67% to 0.94% p.a (Chant West, 2008, p. 2). This difference is obviously due to the fact that retail and corporate funds are designed to turn a profit, and must answer not only to their customers (the individual investing their savings) but also to shareholders. What is interesting to note is that industry superannuation fund fees, which are known for lower fees and not paying commission to financial advisers (Weaven, 2006), have actually been increasing since 2005 (Chant West, 2008, p. 4). While they are not at the levels of retail fund fees (the highest of all funds), it does shorten the gap between retail and industry superannuation funds. Another cost, often somewhat hidden, is that many default funds, even those from industry funds, charge insurance premiums for death and disability insurance (Kehl, 2000). The problem is an individual may not be aware of this, and may not even want or require it if they are already covered by some other form of private insurance. Nevertheless, people in these default funds can be charged almost \$3 a week for a service they may not be aware of or even need (McIlwraith, 2010).

It may appear unfair to criticise the superannuation industry for charging fees, and admittedly small percentages of fees, and to conclude that this is an argument for superannuation not being good for the people. However, by simply paying 1% in fees each year, an individual could lose up to 20% of their total retirement savings over a 30 year period (ASIC, 2010). Likewise with insurance premiums, \$3 a week may not sound like much, but over that same 30 year period, that amounts to \$4,680 out of that persons retirement savings. As such, these 'small' fees really do add up. And as these savings are not just leisure savings for a bit of extra spending, but are vital for an individual to have a comfortable retirement, these fees pose a great threat to the potential size of

an individual's retirement income and as such to the benefit people can get out of superannuation.

The security of superannuation, and by that I mean whether individuals will receive their superannuation entitlements in full and on time (Stanford, 2003, p. 80), is also an important issue when assessing the promise of a larger retirement income and as such how good superannuation is for the people. In Australia, the goal is to get all workers to utilise the superannuation system for their retirement needs. Among other more visionary goals, a simple rationale for this move is to take the pressure of retirement funding off the federal budget. Australia's superannuation system has three pillars: compulsory superannuation, individual contributions, and the public pension. Before Keating's 1992 superannuation policy (prior to the three pillar system being officially implemented), the main form of retirement income for workers was from the public pension. For years this worked well, with individuals able to retire, comfortable in the knowledge that the government was there to support them. Throughout an individual's life, they could, if they chose, put some extra money away for retirement, but that was not a necessity. However, the population began to dramatically increase, and governments began to realise that they would soon be faced with an ageing population which would increase the cost of retirement funding, something the budget would not be able to handle. The solution to this came in the form of superannuation as we know it today, where it is the individual who is responsible for the money they will have come retirement. This raises the question of security. While previously it was the government that ensured a flow of income to individuals in retirement, now that role was moved to the financial institutions (the superannuation funds) with whom an individual invests. In other words, the security of an individual's retirement has shifted from the public to the private sector. This shift alone was not the only cause for concern. Alongside this shift came the move to invest an individual's retirement savings into the marketplace. As stated previously, this was seen as a way to further increase the size of an

individual's portfolio. However, with this potential gain, there is also the potential for loss.

In 2008, the superannuation industry experienced this potential flipside. 2008 was of course the year of the Global Financial Crisis, the year when several of the world's investment banks and insurance agencies collapsed (or almost collapsed). The nature of global finance meant that superannuation funds that may not have directly invested in the 'toxic' assets that led to the crisis in the first place, were still hit with the flow on effects of a crashing world market. The result was sharp losses for superannuation funds – or in other words, for the retirement savings of Australians. By April of 2008, \$70 billion dollars had been wiped from the total value of superannuation in Australia (Pryor, 2008). By the year's end, the industry was down 17.6% (Graham, 2009). What all this means is that the portfolios of individuals actually decreased dramatically during the crisis. Superannuation funds were quick to point out that superannuation is a long term investment, and that while the losses were bad, it was no reason to panic or lose faith in the industry. While this rationale may hold true for younger people, it provides little comfort for those already nearing retirement who have just seen a large portion of their savings wiped off which they may not be able to regain before retirement all because they were forced to put their trust in the superannuation industry. By shifting the onus of security for an individual's retirement savings from the state onto the private sector that then invests this money in the global market, creates an unnecessary and unfair risk, which at the end of the day, only harms the individual should things go wrong.

The final issue that calls into question the promise that superannuation would lead to an increased retirement income for each individual and as such make superannuation good for the people is the issue of general fund performance. Rather than simply save retirement money in a bank, where it would not earn anything, but rather would lose value due to inflation, the Australian superannuation system is set up so that those savings are invested in the market, with the hopes of achieving strong returns. This chapter has already

explored the security issue that goes along with this model. What this section hopes to elucidate is whether superannuation funds are actually the best method of growing an individual's retirement savings. The previous section already identified, via the example of the global financial crisis, that superannuation funds are subject to the whims of the global market place, and, as such, a positive return on investment is not guaranteed. Since Keating's implementation of the superannuation policy in 1992, superannuation funds have had several 'bad' years. As mentioned, the superannuation industry counters any suggestion that these 'bad' years indicate that superannuation is a bad investment by pointing out the long term nature of superannuation. The argument normally goes something along the lines that superannuation funds aim for a high average return which is achieved by making investments which "yield high returns in many years but which produce the occasional year of negative returns" (Valentine, 2003, p. 110). So the argument is that overall, in the long term, superannuation will produce the best results. The problem with this argument is that it is not correct. The average yearly growth of superannuation between 1997 and 2010 was 3.04%. To put this figure into context, the rate of inflation during that same period averaged 2.8%, meaning the real average growth rate of superannuation was 0.24% (Long, 2010). What this means is that the 'real' growth of superannuation over the long term is almost (and if you exclude 1997-1999, actually is) non-existent. These statistics don't include the fees paid for these investment services, or the money lost in inactive funds due to the complexity of the system. Were they to be factored in, there would most likely be no real gain at all. What is even more startling is that if all the money that was invested with superannuation funds over that period had been invested in a ten year Australian Treasury bond, the average growth rate would have been 5.75% (Long, 2010). What these figures identify is that the final argument for superannuation's promise to deliver larger retirement incomes is simply not true.

Paul Keating's vision for the Australian superannuation system was for it to be good for the people. The idea was that a system would be implemented that would be simple and effective enough that all Australians would be able to partake and as such have a comfortable retirement. Keating worked hard with Bill Kelty, then head of the Australian Council of Trade Unions, to implement the superannuation system we have today. Kelty, like Keating, shared the view that all Australian's needed a strong retirement savings system, so helped convince the trade union movement, which was a far mightier force at the time and represented considerably more Australian workers than it does today², to support Keating's vision (ABS, 1997). Sadly however, these lofty and noble ideals were failed by poor policy. It seems that Kelty did his membership a disservice by supporting the Superannuation Policy as it has proven to be far from good for the people. To begin with, the system is unnecessarily complex. This creates a two tiered system in which a small minority are able to use the system to their advantage, while the overwhelming majority are left with multitudes of choices and options, and no clue of what to pick.

The result is that most Australian's select the default option (which is rarely the best performing) and also end up with hundreds of dollars missing in lost superannuation funds from changing employment, and thus changing funds. But this complexity is not all. The system was also meant to allow workers to retire with a large retirement income. However, this has not proven to be the case. The superannuation system turns out to be expensive in terms of fees, which must be paid in order to have an individual's money invested by these private superannuation funds which, as legislated, is compulsory. Having paid fees for these services, individuals then expect their money to be wisely invested and thus grow during the course of their working life. Yet, superannuation funds are regularly hit by 'bad' times as a result of the fluctuating global marketplace, which, over time leads to a fairly lacklustre rate

² Approximately 42% of the Australian population in 1992

of growth, barely above inflation. The result is that individuals are left with much less upon retirement than promised.

Regardless of these realities, the superannuation system continues to be vehemently defended by its proponents. The most vocal of these is the system's architect, Paul Keating. For years Keating has urged government to increase the compulsory contribution rate from 9% to 15% (Anne, 2007). This, according to Keating, would cement the success of the superannuation system for the people. However, as this chapter has sought to demonstrate, the system thus far has been far from successful. It begs the question then, what would be the result of an increase in the compulsory contribution rate. Keating claims it would increase the amount of money individuals will have come retirement. If we assume that regulations stay as they currently are, then just like the promise made in 1992, this promise will also be broken. Considering the history of superannuation's growth rates and fluctuations due to market conditions, there is no guarantee that individuals would actually see more money come retirement. In fact I would argue that the only beneficiaries of an increase in the compulsory Superannuation Guarantee would be the superannuation funds themselves, who would now have more money to invest. What all this means is that Paul Keating's superannuation policy, his vision that it would be good for the people, has failed to live up to the reality of the situation, and any proposed changes to the system like an increase in the Superannuation Guarantee are unlikely to change this. In its current state, superannuation seems to be good only for a very select few people, those with the knowledge to use the system, and those who run the superannuation funds. For the rest of the Australian people, the superannuation system is a complex, costly and underperforming reality of everyday life.

Chapter Four: A Vision Shifted?

In 1992, the Australian people were promised great things by the Keating superannuation proposal. It would be the greatest reform for workers, a policy to lay the groundwork for a better, richer, and more comfortable and secure Australia. Eighteen years later, Australia must face up to the harsh reality that these promises have not been fulfilled. An outsider looking at today's superannuation system would be at odds to reconcile the 1992 vision with the 2010 outcomes. The vision of a better nation brought about by superannuation has shifted. Sadly, it has not been a shift in the right direction. In August 2009, the Rudd Labor Government commissioned a report into the state of superannuation in Australia, to be chaired by Jeremy Cooper. On July 5th 2010, Cooper handed down the report findings. At the official tabling of the *Cooper Review of Superannuation* the minister for Superannuation, Chris Bowen, commented that the purpose and outlook of the Cooper Review was clear: to make "superannuation good for individual Australians and very good for the nation" (Bowen, 2010). In a way, it was an admission (although unintentional) of how far the vision has shifted, that the Cooper Review's intention was to make superannuation exactly what Keating promised it would be eighteen years earlier. This chapter will examine the report and the proposed changes to the superannuation system as a means of assessing the future for superannuation. In eighteen years, Australia has seen a vision unfulfilled. What is important now is to assess whether that vision can ever become a reality.

I have argued that there were two main promises made of the Australian superannuation system by Paul Keating in 1992, in simple terms, that superannuation would be good for the nation and good for the people. While others focus on pragmatic motives, for instance wage relations and inflation issues, I have focused on these broader issues which I believe Keating saw as integral to building a better nation, and which superannuation would be used to achieve. It was these two promises which were sold to the Australian people.

The previous two chapters have examined in detail why these claims have not turned out to be correct. While the promises were split above for the purpose of analysis, it is fair to say that both promises are inextricably linked. In other words, good for the people and good for the nation are two sides of the same coin. In general terms, the superannuation system has failed to boost infrastructure projects, protect the Australian economy and provide a simple, high growth option for individuals to invest their retirement savings. As such it is fair to say that superannuation has not been good for the nation and good for the people. While this is problematic in its own right, what makes the situation all the more dire is that superannuation in its current state is actually becoming harmful. This is more the case for people rather than for the nation. By creating a system that is so complex and prone to market shocks, people are actually forced, due to the compulsory nature of the Australian system, to invest their money into a system that may not provide them with the security that is essential for an individual's retirement savings. For superannuation to be successful, it must be easily accessible for all workers and ensure that the money invested is returned to individuals at retirement. Currently, this is not the case. Not only is it too complex and requires too high a level of financial knowledge to make suitable choices, but the real growth rates on investment are in some cases producing negative results. Yet this is the system that has been implemented, and the one which is continuing to take over the role of the public pension. What is clear from the argument so far is that the Australian Superannuation system is flawed. Far from living up to the promises of 1992, which would have made superannuation a success, it looks more like it has become the great superannuation swindle – bad for the nation, bad for the people.

The future of the superannuation system is unclear. In July 2010, Jeremy Cooper completed and submitted his report into the state of superannuation in Australia. In his report he identified several problems with superannuation as well as listing numerous possible changes that could improve it. While little

progress has been made on these recommendations, the report represents the clearest insight into the superannuation zeitgeist, an indication of how superannuation is perceived and the possibilities for its improvement. The Cooper Review approached the issue of superannuation from a different theoretical standpoint to the current economic orthodoxy. While it acknowledged the existence of mainstream theory that states free markets efficiently allocate resources via competition, and as such that the private free market industry of superannuation *should* produce the optimum results, the report argues that this does not apply to the Australian superannuation system. There are numerous reasons for this argument, many of which reflect the criticisms I made of superannuation failing to live up to its promise to be good for the people. For instance, there are the issues that go along with the complexity of the system highlighted in chapter three, in that individuals often do not make the choice of fund but simply select the default employer fund. Likewise, there is a lack of interest towards superannuation amongst individuals until they are almost ready to retire. There is also the fact that the compulsory contributed amount does not come directly out of an individual's pocket, but is completed on the employer side, which furthers the lack of interest and awareness of the system. In other words, approaching the issue of superannuation from a critical, non-mainstream perspective, the review panel were able to identify several key issues with superannuation. From this standpoint, the review panel were able to propose changes to the current system which are designed to make superannuation good for the people.

Armed with the knowledge that superannuation has proved so far to not be good for the people, that the orthodox 'leave it to the free market' approach has not worked, the Cooper Review put forward some recommendations to improve the Australian superannuation system. The review recommended that the entire superannuation system be restructured to implement what the review calls the 'Choice Architecture Model' (Cooper, 2010, p. 10). This new structure would split the superannuation system into three regulated areas. The first, and

largest, would be called 'MySuper'. The aim of MySuper is to address the majority of issues raised previously which highlight the failings of the current superannuation system. MySuper would become the 'default' option that individuals were allocated if they did not make a choice. Rather than suffer from an inadequate level of performance like current default fund types do, the MySuper fund would be regulated so that trustees (those that run the fund) are required to deliver a high quality product without high fees. As such, individuals would no longer be inadvertently punished due to their inaction. Clearly the MySuper option is aimed at those who do not care about or are too disillusioned and apathetic about the superannuation system, as well as those that are aware, but simply want a "large, low-cost, well managed product" (Cooper, 2010, p. 11). While this would make up the majority of Australians, it is obviously not for everyone.

A key component of the Australian system has been to allow individuals choice, something the Cooper Review did not want to remove. As such, there are two more fund options as part of the reviews 'Choice Architecture Model': 'Choice' and 'Self Managed Super Funds'. The 'Choice' sector of this new model, unlike the MySuper fund option, is not a prescriptive sector. It works like the current system works in that an individual may choose a different set of investment options for their superannuation investment rather than remain with the default option. The difference with the new 'Choice' model is that this sector would have stricter regulations imposed. Rather than the onus of financial literacy being solely on the individual, this model would allow regulators such as the Australia Prudential Regulation Authority (APRA) or the Australian Securities and Investments Commission (ASIC) to assess the investment options offered by the fund. This would provide independent information and ratings of these options so that an individual may not inadvertently invest in a financial product that is not suitable for long term retirement savings investment (Cooper, 2010, pp. 11-12). In other words this new 'Choice' model still provides the choice that the existing model does, but

provides greater assistance to individuals rather than assuming they are able to gather and process all the relevant information so as to make correct decisions. 'Self Managed Super Funds' are the final sector of the proposed model and work in the same way as they currently do. They are available for individuals who want even greater choice, flexibility and control over their superannuation and have the financial knowledge and funds to do this.

The Cooper Review's proposed superannuation model is designed to counteract the failings of the current superannuation model. It does not reinvent the wheel with a vastly different system, but rather works within the current confines of Australia's system, that being a privately run, individual choice based system, and tweaks existing legislation and regulation in order to improve it. In chapter three I argued that the current superannuation model had created a two tiered system. The bottom tier consisted of the majority of Australians who felt superannuation was too complicated and as such had tuned out, sticking with their employers default fund, and the default investment option of that fund. The second tier consisted of those with the financial knowledge to understand and make choices within the superannuation system. While the Cooper Review's proposed model does not wholly eliminate the tiered system, it does blur the lines and make the system far more equitable. Under the Cooper model, an individual is no longer penalised for *not* making a choice. Rather, it is assumed that the majority will remain with the default option, and as such the default option has been greatly improved. Regulations have also been strengthened so that the risk of losing retirement savings decreases. Likewise, those willing to learn more about investment options are not left on their own, but rather supported by regulatory bodies which will provide digestible information on investment options. So while on the surface the proposed Cooper Review model may not seem overly dissimilar from the current system, the underlying philosophy of the Cooper Review model is vastly different. The Cooper Review model does not assume individuals are rational self maximisers, nor does it assume a high degree of

financial knowledge. Rather, it takes a self proclaimed “libertarian paternalism” standpoint, legislating for the lowest financial literacy level, ensuring an equal coverage for all Australians, while also allowing for choice within the system (Cooper, 2010, p. 9). In other words, it aims to transform a system that has failed the majority of people, and turn it into one that will actually live up to Paul Keating’s promise.

Of course, Keating did not only promise that superannuation would be good for the people. The other aspect of the vision was that superannuation would be good for the nation. In chapter two I assessed the claims that went with this promise, that superannuation would help protect the Australian economy from external shocks, and that the large pool of savings would be used to fund infrastructure investment. Given the current economic system in which we live, the overly nationalist idea that superannuation savings could help protect the Australian economy cannot co-exist in a world of globalised financial markets. As such this is not a promise that can be kept with the current system. That leaves the idea that superannuation would help fund infrastructure investment. While Chris Bowen stated at the launch of the Cooper Review that its purpose was to make superannuation good for the people and the nation, this did not include a model to make superannuation assist nation building. This does not mean that no work has been done in this area. On the contrary, this is an area that has received considerable attention from government and the private sector. This literature generally begins with the assumption that Paul Keating made, that the large pool of savings generated out of superannuation could be used to fund infrastructure investment – that it in fact seemed the perfect fit. At the time Keating made these claims, this seemed like a fair enough point, given the way Macquarie Bank was utilising the newly available superannuation finances. However, the use of superannuation funds for infrastructure has dwindled to incredibly low levels. The problem is that infrastructure funds have been told that they must make the most prudent and well performing investment decisions available to them. While infrastructure is often a stable

long term investment, it pales in comparison to the returns available from new financial products such as derivatives. Basically, the way the superannuation system in Australia was set up was based on the assumption that these private funds would actually invest in nation building infrastructure without actually regulating for this. The result of course has been for superannuation funds to invest in more liquid and less costly assets (Nielson, 2005).

Unfortunately it is now not simply a matter of regulating that superannuation funds should invest in infrastructure projects. To rectify this failing of the system, it must be approached in the same way the Cooper Review approached the failing of superannuation for the people - working within the confines of the system but from a different philosophical mindset. History has shown us that these private superannuation funds will not, of their own accord, invest heavily in infrastructure. So legislating with that assumption in mind will be unsuccessful. Instead, government must adopt the mindset that, left up to the market, private enterprise will *not* invest in nation building infrastructure. A possible policy solution would be to clear up and tighten regulation of the infrastructure industry. The uncertainty around regulation of new infrastructure industries, such as technology, water or carbon markets, means that superannuation funds are less willing to invest in these areas. More importantly, the government could establish an infrastructure body in order to centralise the process for investing in infrastructure projects. This would help provide certainty for superannuation fund investors as the projects are then seen as a national initiative and less likely to be abandoned, or fail. However, the government can do more than this. With the establishment of a national infrastructure body, the government could even issue infrastructure bonds, which the superannuation funds could invest in, again simplifying the process of investing in national infrastructure (Ernst & Young, 2009, pp. 8-10). With measures such as these, infrastructure would become more attractive to superannuation funds, and would allow the superannuation system to fulfil the role that Keating envisaged for it.

The system of superannuation in Australia, established in 1992, was far from perfect. While it is hard to say it has been warmly embraced considering the shortcomings of the system, it is fair to say that it is generally accepted that the system is here to stay. It is of course not without possible contenders. To many policy makers pre 1980s, the mere idea of a privately run system such as Australia has implemented seemed absurd. A possible alternative, as suggested by Keith Hancock to the Whitlam government in the 1970s, was a system in which superannuation savings were kept in public hands. Hancock suggested a model in which a progressive income tax for superannuation was placed on each individual, and paid into consolidated revenue. The portion paid by each individual was set aside for them, with a real (meaning taking inflation into account) interest rate payment of 1% per annum added to this sum, which would provide a defined benefit to each individual (Davidson, 2007, pp. 3-4). This money would be a supplement to the public pension under the Hancock model. Such notions of public models died off quickly, as theories of government involvement in the economy changed, as well as the growing concern that even a public model such as Hancock's could not be sustained by the federal budget with a growing and ageing population. By 1992, the prospect of a public system seemed like distant, naïve thought. The future of retirement funding would come through the private sector; the only question was what form that would take. It was Paul Keating who finally chose what form that would be. Keating knew what he wanted to achieve from the superannuation system. It was part of his big picture for Australia, to make Australia a greater nation going into the new millennium. If a system could be implemented that utilised the market, while also providing for the nation and for the people, then it would help to relax the governments direct role in this area and thus free up the government to pursue the progressive social agenda that Keating also saw as vital – it was all interconnected.

What Australia was left with though is a thoroughly flawed system. It has been the purpose of this paper to identify these failings, to analyse the promise and

present the reality. What should not be overlooked however are the ideas that underpin Keating's system. The ideas behind Australia's superannuation system, simplified into two broad categories: to create a better nation, to provide for the people, were grand, noble and even visionary. They are the ideas that make a great social democracy – legislating for a better nation for the betterment of the people. Superannuation was supposed to be the driver of this, the system that made it all possible. While this paper has demonstrated that it has failed at achieving this goal, this chapter has sought to highlight that all is not lost. What is required is taking those ideas of Keating and applying them to policy, but from a different philosophical mindset; tweaking the current policy, rather than re-inventing and re-creating a new system to put in its place. This is what the Cooper Review of Superannuation has done, and what could also be achieved in regards to infrastructure investment. The Cooper Review is working within the confines of a broken system – but with new eyes and new ideas. What the Cooper Review does is mould an unfair and unequal system into one which works for all Australians, not just those with the financial knowledge to utilise the system, or those that run the superannuation funds themselves.

Likewise, all is not lost for the superannuation industry and infrastructure investment. The trillion dollar industry that is the superannuation system could easily be put to use creating nation building infrastructure, it just takes a different mindset. To make superannuation good for the nation and good for the people means abandoning notions of market infallibility. It means accepting that private enterprise will not necessarily work towards the social good. And it means having the willingness to legislate for change in an industry, despite the vested interests.

To reconcile Paul Keating's vision with reality will take more than the small, and in the end, pointless gestures which have been proposed. Calls for an increase to the Superannuation Guarantee serve no one but those who have benefited all along, the superannuation funds. This type of pseudo-policy will

only exacerbate the problems of the superannuation system. The idea that superannuation can be good for the nation and good for the people is still a plausible one, but to make it a reality will require a shift in thinking, and possibly even a shift in vision.

Conclusion

Unlike most ex-Australian Prime Ministers, Paul Keating is quick to enter into public policy debate. On no topic is he more vocal than superannuation policy, which makes sense considering he was the architect of the system Australia has in place today. While Keating had pragmatic motivations in mind when implementing this system, such as concerns of continual wage increases and the pressure this put on inflation, it is naïve to think these were the only concerns. Paul Keating was a believer in big picture politics. To borrow a phrase from Bill Kelty, a co-architect of sorts of the superannuation system, Keating was a 'romantic' of politics - a believer in some positive ideal of good (Kelty, 2009). It is from this ideological mindset, I argue, that Keating created and implemented Australia's superannuation system. So while pragmatic concerns were of course a factor, the idea that superannuation could achieve some greater end goal - to improve the nation, to provide for the people, was at the heart of the policy. For Keating, the superannuation system was the foundation upon which his big picture could flourish. A better nation needed better infrastructure and economic security, something that the superannuation system would provide. By creating a large pool of savings, superannuation would allow investors to borrow domestically as opposed to overseas, and as such limit Australia's exposure to foreign debt. Likewise that same pool of funds could be used to invest in new, nation building infrastructure which would be vital in catapulting Australia onto the world stage, and not simply remaining an insignificant nation at, to quote Keating's infamous phrase, the 'arse end of the world'. Of course, the superannuation system would bring social benefits as well. The system would provide a simple, uniform model that all Australian's would have access to. By using the private sector to invest individual's savings, the system could provide a higher growth rate and as such larger retirement incomes to individuals than the federally funded public pension ever could. These were the ideas underpinning Australia's superannuation system. They were also the promises made to the Australian people.

Eighteen years later, it has become clear that these promises were never fulfilled. Superannuation has not proven to be good for the nation. While the savings pool created out of the superannuation system has been used for borrowing, it has not stopped individuals from borrowing overseas and opening Australia up to external economic shocks. The idea that superannuation savings would protect the Australian economy was based on a nationalist idea and as such was incompatible with the new globalised context Australia found itself in. The deeply interconnected nature of derivatives markets and multinational corporations have obscured and complicated the figures that these claims were based on. As such, claims that the balance of payments and the current account deficit would be helped by the large pool of superannuation savings are simply untrue.

Superannuation is not assisting with nation building infrastructure either. While superannuation was supposed to lead to an increase in the building of Australian infrastructure by investing retirement savings into these projects, the reality is that superannuation invests only small amounts into such areas. While the actual amount invested by each fund varies, as a whole, the superannuation system invests less than 3% into Australian infrastructure. The main reason why is that these privately run funds have no regulations imposed upon them to invest in infrastructure, and instead choose to invest in other financial products which have the potential to produce higher returns, benefiting both their customers, as well as their shareholders in the case of the retail superannuation funds. The failure of both of these policy promises has meant that superannuation as it currently exists in Australia is not benefiting the nation as a whole.

Sadly, the same is true for the claims that superannuation would be good for the people. Rather than provide a simple and cost effective way to grow retirement savings, the superannuation system has turned into an unnecessarily complex, costly, unsafe and poor performing system. The financial literacy level required to properly utilise superannuation in Australia has meant the creation

of a two tiered system, a minority who can use and benefit from the system, and the overwhelming majority who are so confused by it that their retirement savings are actually in danger of producing real losses at maturity. In its current state, the superannuation system is in no way good for the people.

One purpose of this paper was to track and assess the state of superannuation in Australia today, compared to the promises made by Paul Keating of that system in 1992. What the paper has shown is a stark gap between what was promised and what was delivered. From the analysis presented, one could easily draw the conclusion that superannuation in Australia is a flawed and corrupted system. That assessment would not be entirely incorrect. However, when analysing Australia's superannuation system, it is important to look beyond the actual policy that was implemented, to the ideas that created it. The system was imagined at a time when Australia was finding its feet in a new economic world. The new Prime Minister Paul Keating had a clear vision for Australia's future that went beyond pure pragmatic policy. He saw the possibility of a better Australia, which would be made possible through a series of economic and social changes. Apart from the superannuation system, most of the economic changes had already been completed by the time he was Prime Minister, he had made sure of that during his time as treasurer under the Hawke Government. But it was not until Keating was Prime Minister that his social policies became a large part of the agenda. Of most significance was the reconciliation with the Indigenous Australians, and the seeking of cultural ties with Asia, yet there were of course several other social policies being implemented as well. Alongside these social policies was the last piece of Keating's economic reform and the final piece of the puzzle that would allow his social policies to flourish, his superannuation policy.

The result of all this was that Keating and his government were left juggling several important policies at once. So rather than be able give the policies, in particular the superannuation policy, the attention they deserved, the government was focussed on pushing through with as many of these big

picture policies as possible. The casualty in all of this turned out to be the superannuation system. The poor implementation of the system meant it lacked the regulatory regime to ensure that the ideas could become a reality. Rather than implement a system that would see the flourishing of Keating's vision, Australia was left with a system that was doomed to fail. Successive governments would only make things worse as the rhetoric of 'choice' infiltrated the lexicon, creating further complications and inequalities to a system already riddled with complexity. So, to conclude that Australia's superannuation system is a failure only scrapes the surface. Beyond the failed exterior of the system there are still the ideas which Keating envisaged eighteen years ago. In other words, what this paper has sought to highlight beyond an assessment of the promises and the reality, is that while the system itself is flawed, its foundations, the ideas upon which it was created, still exist. It is from these ideas that we can take some hope that the Australian superannuation system can be salvaged.

This is where the work of Jeremy Cooper comes in. The Cooper Review of superannuation represents a step forward in salvaging the Australian superannuation system. The review concerns itself with the failure of the current system to be good for the people. By highlighting these failures it is able to propose an amended model that works within the guidelines of the current system. What makes the review's proposal so successful is that it takes the ideas set out by the Keating vision, and approaches them from a different philosophical position to what Keating and his advisors did in 1992. Rather than assume that the market and private sector would provide the desired outcomes, the Cooper Review panel instead assumed that the market would fail and the private sector would not work in the best interests of all Australians. The result is a proposed system that is targeted at the lowest financial literacy level so as to increase the level of equality and efficiency of the system – an ideal that Keating always wanted to achieve. While the Cooper Review did not include proposals to make up for the failings of superannuation for the nation,

this does not mean that that promise cannot also be realised. Again, approaching the system from a different mindset, but with the same ideas proposed by Keating, it is possible to amend the system to be good for the nation. For instance governments can enforce regulations on infrastructure industries to create stability, or be proactive in promoting infrastructure investment to superannuation funds by creating and releasing infrastructure bonds. What these proposals, and those presented in the Cooper Review demonstrate, is that all is not lost for the Australian superannuation system.

Paul Keating wants to be remembered, and most notably, wants to be remembered for his superannuation system. What this paper has shown is that his superannuation system is far from the perfect model he made it out to be. Eighteen years after Keating implemented his superannuation vision into policy, Australia is faced with a big decision. As the Cooper Review and proposals around infrastructure demonstrate, the Australian superannuation system can still be salvaged. It is up to the current federal government to act quickly, to seriously consider the proposals presented to them and reform this deeply flawed and in many ways dangerous system. While Paul Keating's vision has not become a reality, Australia currently has the opportunity to make it happen.

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