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ViewPoint

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A Case for Compulsory Superannuation

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The idea of a 'compulsory' superannuation savings scheme has never been welcomed by New Zealanders, despite the fact that we are not renowned as being good savers yet are well known as borrowers.

The 1997 referendum on the Compulsory Retirement Savings Scheme (CRSS) was voted down by 97% of those who cast ballots. Putting political considerations aside, the proposal was opposed on the grounds that compulsory saving would leave people worse off, limiting their ability to spend and consume in the present and most people prefer to have the choice as to whether they do these things now, rather than later.

A decade on from the referendum, with New Zealand's population aging, promises from politicians for across the board tax cuts and strong inflationary pressure, and speculative pressure driving our currency, 'compulsory' superannuation savings schemes might be the lesser of necessary evils. In 2005, New Zealand's saving rate, as a percentage of household disposable income, was -14.8%. When compared to -2.6% for Australia, -0.4% for the United States, 2.4% for Japan and 11.6% for France, New Zealand's saving record is seriously lagging behind.

Compulsory superannuation savings schemes would serve to boost New Zealand's saving rate. The Government has taken steps to increase New Zealand's saving levels with the introduction of KiwiSaver in 2007, a voluntary savings scheme. Therefore, most of the necessary infrastructure to support a compulsory savings approach to monetary policy is already in place. So far, KiwiSaver is having some success with a quarter of a million people having already joined, and with nearly 20% of those younger than 25, yet more can be done.

Policy settings in New Zealand have delivered the largest difference between the rate of inflation and interest rates necessary to keep inflation under control in the developed world. High interest rates can act as an incentive for increased saving, yet high lending rates on mortgages and other forms of borrowing can also result in people facing an increased, permanent loss in wealth. Interest payable on loans is money that is gone for good; it does not become available for spending or investing at some later date.

Under a variable rate regime, a compulsory savings scheme could be used as a lever of monetary policy to combat domestic inflationary pressure. The current approach drives a wedge of between the domestic and the external economies - a situation we refer to as the two economies problem. Imports get cheaper, exports get more expensive; and while most people feel happy that they are able to purchase more consumer goods, the economic pain falls on the productive sector as speculative pressure from the globalised financial system drives the New Zealand dollar up to a point where our exporters simply cannot compete – our sawmills close and high technology companies quit New Zealand.

Compulsory superannuation savings plays a significant role in the Monetary Authority of Singapore's (MAS) efforts to manage the exchange rate of the Singapore dollar, and in turn, price stability and inflation. The Central Provident Fund (CPF), the country's mandatory pension fund, places its net proceeds with the MAS, which then uses the money to subscribe to special issues of Government securities. Given the size of these transactions, the CPF is a significant participant in Singapore's banking system and the MAS considers the flow of funds when conducting its money market operations. Potentially, if the contribution rate of the compulsory scheme was variable, the MAS would be able to adjust the supply of money.

Should New Zealand adopt a similar model to the Singaporean style compulsory pension fund scheme, and make the contribution rates variable, the RBNZ would have an effective and immediate way to press back against inflation with the independence of monetary policy being maintained. Along with every monetary policy statement, a minimum contribution rate will be set, which draws money out of the current circulation to reduce the forecasted or existing inflation pressure.

The RBNZ can simultaneously keep the cash rate at the mean of the OECD to deflect the pressure of loose global capital. As a result, people will pay less on what they owe and enjoy lower interest rates. Through superannuation savings, there would be a wider pool of funds available for productive investment and a trade driven exchange rate that would make the world a better place for the external sector and the economy would be unified.

Compulsory saving schemes delay peoples' current consumption and yes, limit their spending power right now, but as an alternative to the current policies of 'buy now, pay later', individual New Zealanders and the economy as a whole would be better off if we 'save now and spend later'. The model provides New Zealand the opportunity to reduce the difference between inflation rates and interest rates, see the strength of the NZ dollar reflect trade, not speculation, and put an end to the two economies problem that could see us miss out on a first world future.

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