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Trimming the Cullen Superannuation Fund

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What difference will the Government's substantial trimming of contributions to the New Zealand Superannuation Fund make to our ability to fund superannuation in the future, and to the burden faced by tomorrow's workers? The answers are none.

I will illustrate this through a conservative projection of the New Zealand economy to 2036, one generation in the future.

If the New Zealand economy grows at 2.6 per cent a year (the long-run trend), then in 27 years, output (the economic cake) will have exactly doubled (from $180 billion to $360b at 2009 prices). If population grows by 1.2 per cent each year, then real GDP per person (the average slice of the economic cake) will have risen by 45 per cent in 2036. So we should all be considerably better off.

How would the process of liquidation of the Cullen Super Fund in 2036 affect the distribution of income between generations? Let's divide the population into two groups: working-age families and their children, and people aged over 65.

It seems clear the elderly group will consume a bigger share of GDP in 2036 (eg 20 per cent) than people over 65 do today (say 10 per cent in 2009). Some of the goods and services required by the elderly will be bought by liquidating and spending proceeds of the Super Fund. Let's say that such proceeds would have bought 8 per cent of GDP had the fund not been trimmed, but will in fact buy only 5 per cent of GDP in 2036, given the reduced contributions. This 3 per cent shortfall would therefore have to be raised by additional taxes.

So there are two possibilities, given that the actual amount of goods and services to be divvied in 2036 would be the same under both scenarios. Under the Cullen scenario, prices would be 3 per cent higher than under the English scenario, as 3 per cent more money would be chasing the same amount of goods and services. Under the English scenario, taxes rather than prices would be higher. Under both scenarios, working age families would consume 80 per cent of the 2036 economic cake and the elderly would consume 20 per cent.

The only sound economic justification for the existence of the Super Fund is the possibility it might lead to higher productivity growth when the fund accumulates. There is no substantial evidence the fund has yet raised our economic growth rate.

Overall, it has a small disinflationary impact in the years it accumulates, and a small inflationary impact in the years in which it liquidates. Reduced Government contributions will lessen the impacts.

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