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Research Paper

Does higher superannuation reduce workers’ wages?

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Key Points

1. There is no clear empirical evidence that increasing the Superannuation Guarantee directly lowers wages.
2. The claim that a one percentage point increase in the Superannuation Guarantee will lead to a one percentage point reduction in wage growth is inconsistent with available data.
3. Our analysis finds no evidence to suggest that increases in the Superannuation Guarantee comes out of workers' wages.
4. Cancelling the scheduled increases in the Superannuation Guarantee will only harm workers' overall wealth and income, and there are no conditions in place to translate such a policy into direct wage increases.

The Superannuation Guarantee scheme in Australia is a cornerstone of the country's retirement income system. The minimum employer contribution rate was to rise gradually from 9.5 per cent to 12 per cent over the period 2013 to 2019. However, a series of delays to the legislated increases in the Superannuation Guarantee has affected the future retirement holdings of millions of Australian workers.

Today, there is, once more, a live debate over the merits of gradually increasing the Superannuation Guarantee from 9.5 per cent to 12 per cent over the period 2021 and 2025. But, as this analysis demonstrates, a delay to the increases in the Superannuation Guarantee is unwarranted. **A delay would be unlikely to make a significant difference – or any difference at all – to take-home wages and would assuredly damage future retirement savings.**

Current claims are inconsistent with theory

The Grattan Institute argues employees will bear the full burden of the Superannuation Guarantee increases from 9.5 per cent to 12 per cent over the period 2021 to 2025. Grattan assumes a one percentage point increase in the Superannuation Guarantee minimum contribution rate leads to a one percentage point reduction in nominal wage growth. This claim has become the central talking point for a number of Coalition MPs and commentators who oppose the scheduled increases to the Superannuation Guarantee.

In its analysis, the Grattan Institute assumes lifting the Superannuation Guarantee by 0.5 percentage points each year between 2021 and 2025 would take 0.5 percentage points out of wages each year. It uses this assumption to calculate a $20 billion loss in wages as a consequence of the incremental move up to 12 per cent from the current 9.5 per cent.[1]

Yet the argument that workers will bear the full burden of the changes in the Superannuation Guarantee is inconsistent with fundamental theoretical predictions.

Employers may respond to increases in the Superannuation Guarantee by passing on the added labour costs to consumers in the form of higher prices. Indeed, in a purely competitive economy, where all firms are experiencing the same increases in labour costs through the rising Superannuation Guarantee, economic theory predicts a share of the labour cost increases will be passed through to consumers.

Employers may also absorb a share of the extra costs associated with legislated increases in the Superannuation Guarantee by accepting lower profits. The gap between productivity and a typical

[1] Coates, 2019

workers' compensation has increased dramatically since the mid-1990s.[2] Industries with high productivity-pay gaps are likely to be able to raise contributions to employees' superannuation without lowering wage increases. They have the gains in high productivity to draw on for more resources.

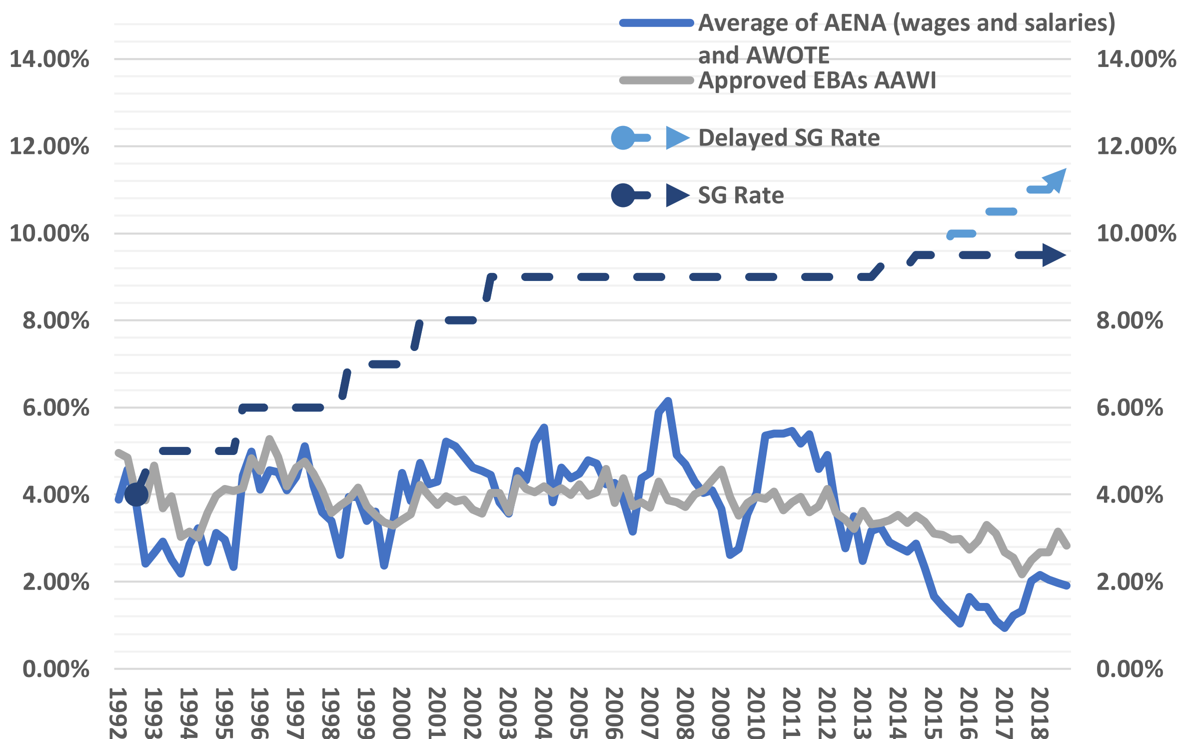
Increases in the Superannuation Guarantee may also increase firm productivity. According to efficiency wage theory, employers can run their operations more efficiently and become more productive if they pay wages above the equilibrium level because employees are putting in more effort into their work and are less likely to quit. This reduces costly turnover, and makes employees healthier, less stressed, and thereby more productive. Employers with wages above the equilibrium level may also attract more skilled and higher quality employees. A combination of one or more of these factors will allow employers to recoup some of the higher labour costs associated with increases in the Superannuation Guarantee through productivity gains.

So conventional economic theory does not support the Grattan Institute's argument. Neither, however, does Australia's economic history.

Empirical evidence that higher super causes lower wages is lacking

The claim that a one percentage point increase in the Superannuation Guarantee minimum contribution rate will lead to a one percentage point reduction in wage growth is nothing more than speculation, as there is no empirical evidence to suggest the extent of this reduction.

Figure 1: Labour cost growth and Superannuation Guarantee rate



Source: Author's calculations based on ABS and Attorney-General's Department's Workplace Agreements data.

[2] Jericho, 2017.

The Grattan Institute's analysis on the impact of the Superannuation Guarantee increases on wages relies heavily on assertions, such as excerpts from the Fair Work Commission's Annual Wage Review 2012-13[3] and the Henry Tax Review[4].

For example, the Henry Tax Review concluded that:

> *Although employers are required to make superannuation guarantee contributions, employees bear the cost of these contributions through lower wage growth.*[5]

It was also stated in the Fair Work Commission's Annual Wage Review 2012-13 that the increase in minimum wages is lower than it otherwise would have been in the absence of the Superannuation Guarantee increase.[6] However, the Fair Work Commission did not quantify its effect, and in fact, explicitly deemed it inappropriate to do so:

> *As a result, although it would not be appropriate to quantify its effect, the increase in minimum wages we have determined in this Review is lower than it otherwise would have been in the absence of the Superannuation Guarantee increase.*[7]

But these arguments rarely cite the data.

Our approach

In this article, we reassess the question of the impact of the Superannuation Guarantee increases on wages empirically. This analysis adds to the limited evidence base on the effects of the Superannuation Guarantee increases on wages.

The article assesses a range of available measures of labour costs to provide insights into how increases in the Superannuation Guarantee affect wages. Each measure captures a slightly different concept of labour costs. The measures that the article incorporates in the analysis are the Average Annualised Wage Increases (AAWI) implied from approved enterprise bargaining agreements (EBAs) in the federal workplace relations system, Average Earnings from the National Accounts (AENA), and Average Weekly Ordinary Time Earnings (AWOTE).

In order to isolate and examine the effect of increases in the Superannuation Guarantee on wage growth, it is important to control for as many as possible of the other influences on wage growth. This gives information on whether, *ceteris paribus*, an increase in the Superannuation Guarantee minimum contribution rate would reduce wage growth.

The analysis finds no evidence to suggest that a one percentage point increase in the Superannuation Guarantee minimum contribution rate will lead to a one percentage point reduction in wage growth.

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[3] Fair Work Commission, 2013
[4] Henry et al., 2009
[5] Ibid.
[6] Fair Work Commission, 2013
[7] Ibid.

Data and methodology

The analysis is conducted on aggregate-level data taken from the Australian Bureau of Statistics (ABS) and the Attorney-General's Department's Workplace Agreements database.

The analysis in this article mainly focuses on wage growth as measured by AAWI, AENA and AWOTE.

AAWI provides a measure of changes in wage rates and is constructed by the Department of Employment. It is the average annualised wage increase in federally registered EBAs that provide for quantifiable wage increases over the life of an agreement. It is a measure of wage growth at the agreement level and does not measure job- or employee-level wage growth. Consequently, the limited variation in outcomes of EBAs within industries reduces the effects of compositional change, making them less volatile than wage bill measures like AENA and AWOTE. As a result of being less volatile than wage bill measures, AAWI is likely to be more helpful in gauging short-term wage movements.

Both AWOTE and AENA are measures of the average wage bill. AWOTE is a measure of average weekly earnings for full-time adult employees, excluding overtime and superannuation. AENA is calculated as total compensation of employees (i.e. total remuneration, in cash or in kind, paid to an employee, including both wages and salaries and contributions by employers to pension and superannuation funds) divided by the number of wage and salary earners. AENA wages and salaries are analysed separately from AENA contributions by employers to pension and superannuation funds (i.e. social contributions). Both AENA and AWOTE tend to be more volatile than other measures of wage growth as they are affected by compositional change and quality improvements.

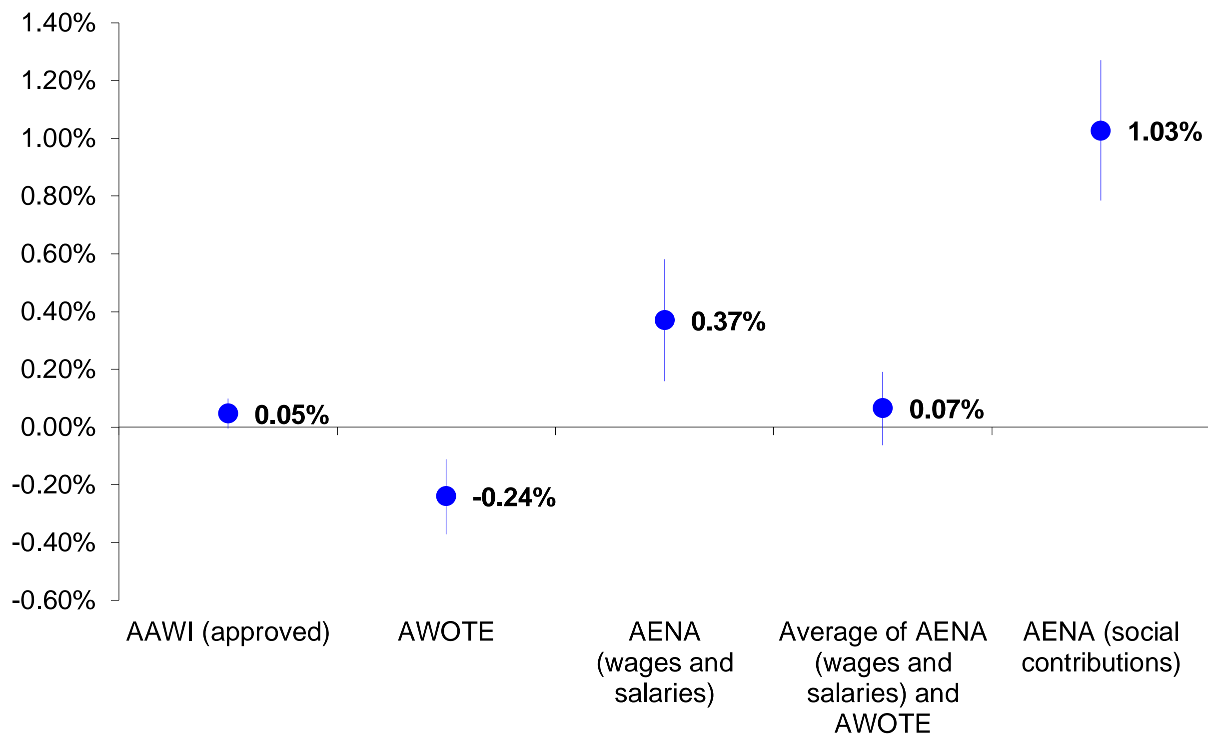
The main challenge in estimating the effect of Superannuation Guarantee increases on wage growth is that it is hard to disentangle the effects of changes in the Superannuation Guarantee minimum contribution rate from the effects of everything else that is going on in the labour market. For example, if the Superannuation Guarantee rate is adjusted around the same time as lower-than-usual inflation and productivity growth, then any change in wages that occurs around the change in the Superannuation Guarantee rate may in fact be due to other determinants of wage growth rather than the increases in the Superannuation Guarantee.

To account for some of the determinants of wage growth in the baseline model, nominal wage growth is explained by changes in the Superannuation Guarantee minimum contribution rate, inflation expectations, non-farm GDP deflator, as well as the level of the unemployment gap and the change of the unemployment rate (Appendix A).

Results

Results from the regressions (Annex Table 1) show that the relationship between increases in the Superannuation Guarantee and wage growth over the period March 1992 – December 2016 varies, dependent on the wage measure examined. Figure 2 shows coefficient estimates for all specifications.

Figure 2: Effects of one percentage point increase in Superannuation Guarantee on alternative measures of wage growth, March 1992-December 2016 (Percentage points)



Source: Author's calculations based on ABS, RBA and Attorney-General's Department's Workplace Agreements data.
Notes: Markers show coefficient estimates, and lines display 95 per cent confidence intervals. Figure is based on Annex Table 1.

The analysis finds statistically significant superannuation-wage elasticities of -0.24 and 0.37 for wage growth measured as AWOTE and AENA (wages and salaries), respectively. Importantly, these wage bill measures are sensitive to changes in the composition of labour that firms use and can give volatile and divergent pictures of wage growth. One simple way of reducing this volatility is to look at the average growth in the two wage bill measures.

The analysis finds a superannuation-wage elasticity of 0.07 for wage growth measured as the average of AENA (wages and salaries) and AWOTE. This is in line with our measure of changes in wage rates. For wage growth measured as AAWI, the regression estimate of the superannuation-wage elasticity is 0.05. Both estimates are not statistically different from zero.

The analysis finds a statistically significant superannuation-wage elasticity of 1.03 for wage growth measured as AENA (social contributions). This implies that a one percentage point increase in the Superannuation Guarantee leads to a one percentage point increase in contributions by employers to pension and superannuation funds.

Despite some volatility in the estimates, there is no evidence to suggest that a one percentage point increase in the Superannuation Guarantee minimum contribution rate will lead to a one percentage point reduction in wage growth. In fact, there is little evidence to suggest that increases in the Superannuation Guarantee come out of workers' wages.

Conclusion

The purpose of this article has been to isolate and examine the effect of increases in the Superannuation Guarantee on different measures of wage growth. After controlling for other determinants of wage growth in our regressions, we find no evidence to suggest that a one percentage point increase in the Superannuation Guarantee minimum contribution rate will lead to a one percentage point reduction in wage growth.

The likely explanation for these findings, supported by economic theory, is that employers (and workers) respond on multiple fronts to any increases in the Superannuation Guarantee. Individual firms will follow different paths that depend on a complex set of circumstances that data cannot fully capture or explain. Some employers may raise prices (particularly if their competitors are experiencing similar labour cost increases in response to legislated increases in the Superannuation Guarantee). Some employers may see their profits fall. And workers may respond to the higher labour costs by working harder. Any of these channels of adjustment might be enough to eliminate the need to lower wage increases to a level below where they can be reliably measured.

Yet, the Grattan Institute, Andrew Bragg and the other backbench activists seem to think that workers are better off without the increases in the Superannuation Guarantee. That is, workers should be able to get the money through wage increases rather than having it locked away. It seems, at face value, tempting to scrap the increases in the Superannuation Guarantee in exchange for wage increases, especially when you take into account the extent of the wage growth slowdown in Australia. But such claims are difficult to square with concerns that if workers' superannuation do not rise 2.5 percentage points, that they would receive an equivalent amount in additional wages over the period 2021 and 2025.

The bottom line is that reducing labour costs via delays in the Superannuation Guarantee alone will not deliver the goods for workers unless the right socio-political and institutional conditions are in place to translate it into wage increases. And our analysis suggests that increasing the Superannuation Guarantee 2.5 percentage points will give workers a share of productivity they have not been getting in the market – with minimal loss, if any, to their cash wages.

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