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Financialisation and inequality in Australia

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Abstract

The process of financialisation has been cast as a major contributor to increasing inequality of wealth and income in a number of advanced industrialised economies, but the nature of the link requires precise clarification. In this article, we argue that financialisation in Australia has advanced inequality, but in a particular way. Charting several features of 'financialisation of the macroeconomy', we accept that this process has contributed to increased inequality in the sense that the wealthy have increased their wealth faster than households and individuals at the lower end of the wealth distribution. However, there is limited Australian evidence to suggest that income redistribution has occurred as a result of the 'financialisation of the firm'. At the level of the firm, increased inequality of wealth can be attributed directly to financialisation if firm practices are oriented to increasing shareholder value at the expense of returns to other stakeholders such as workers or suppliers, and increased income inequality can be linked specifically to financialisation through increases in earnings to financial agents. We suggest several reasons for the relative absence of a firm-level dimension of financialisation but caution that such a trend remains possible, particularly if regulation of the labour market is weakened.

JEL Codes: P16, E40, G30, J01

Keywords

Financialisation of the firm, financialisation of the macroeconomy, income redistribution, inequality, investment, wealth distribution

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Introduction

Economic inequality is a challenge for modern democratic societies (OECD, 2015; Stiglitz, 2013). Politically, income and wealth inequalities are cited as key motivators for the emerging anti-elite and anti-globalisation movements on both the left and the right (Jackson and Chen, 2012; Stiglitz, 2013). There has been an increase in interest among scholars, the public and policy-makers in the issue of economic inequality in Australia (Wilkins, 2015), including a Senate inquiry on the issue in 2014 (Senate, Community Affairs References Committee, 2014).

Increasing economic inequality has coincided with 'financialisation' especially among Anglo economies. Financialisation has been identified as a major driver of economic change over the last 30 years (Davis, 2009a; Krippner, 2005 van der Zwan, 2014). Davis and Kim (2015) describe financialisation as 'a historical trend since the late twentieth century in which finance and financial considerations became increasingly central to the workings of the economy' (p. 205). A number of scholars have linked economic inequality and financialisation, some suggesting that financialisation is a root cause of increases in income and wealth inequality (see Davis and Kim, 2015; Denk and Cournède, 2015; Martin et al., 2014). Financialisation may exacerbate the inequality of wealth when firm practices are oriented to increasing shareholder value at the expense of returns to other stakeholders such as workers or suppliers. It may also contribute to increased income inequality through increases in earnings to financial agents such as investment bankers and fund managers linked to higher levels of financial transactions (Denk and Cournède, 2015).

The nature of financialisation, and its relationship to inequalities of wealth and income, will play out differently under different institutional and regulatory frameworks. State regulation of corporations and of the finance sector itself, along with redistributive policies and labour market regulation, shapes the dimensions of financialisation and inequality and the connections between the two. This article aims to build a preliminary analysis of some of the connections between financialisation and related forms of inequality in Australia, focussing specifically on the first decade of the 2000s. We propose first that the increasing dominance of finance in the Australian economy has contributed to income inequality as wealthier households have enjoyed growing income from capital and financial assets. Second, we argue that the Australian corporate sector, both financial and non-financial corporations, shows uneven evidence of financialisation. There is weak evidence, at an aggregate level, of the adoption by managers of practices associated with maximising shareholder value. Taken together, these trends mean income earners in the lower parts of the income distribution have not seen their earnings fall, but they have not kept pace with the growth in incomes of high earners. In short, we argue financialisation, thus far, has disproportionately benefited the already wealthy but not at the direct expense of ordinary wage earners. We conclude by cautioning that the continued deepening of financialisation in Australia could generate further increases in economic inequality by not only facilitating growth in income at the top end of the earnings spectrum but by impeding growth at the bottom through a redistribution of 'value' away from workers.

The article is divided into three broad sections. The first section establishes our argument relating to inequality and financialisation. It briefly establishes that, while not a uniform trend, inequality expressed in terms of income shares and the distribution of wealth has increased in Australia since the 1990s. We focus on how income from capital sources has contributed to this inequality in the lead up to the financial crisis of 2007/2008. We then provide a very brief overview of financialisation and propose links between this phenomenon and increasing economic inequality in Australia. The second substantive section introduces evidence of financialisation of the Australian economy in the period 2000–2012. Its sub-sections examine various indicators of increased financial activity in the economy as well as evidence of financialisation within the firm. The final section provides commentary and analysis. We conclude that while there is evidence that finance is becoming more central to the workings of the economy, the idiosyncratic features of the Australian financial system, combined with features of the institutional and regulatory regime such as labour market regulation in this period, presented neither the incentive nor the opportunity for management to financialise the firm.

Financialisation and the inequality of income and wealth

Financialisation has been characterised as a broad historical trend (Davis and Kim, 2015; Epstein, 2005), albeit with different conceptions of how it is best understood and evaluated (see Van der Zwan (2014) and Davis and Kim (2015) for detailed reviews). Financialisation is conceptualised as occurring at different but interrelated levels. While multi-layered financialisation can be seen in changes to financial practices (in terms of the creation, extension and packaging of financial capital) and the extension of financial logics (through the valuation of activity in terms of risk and reward) across the economy so that the relationships between owners, managers, workers and households are transformed by financial transactions and understood in terms of financial value whereby production and consumption take on a financial logic (Davis, 2009b).

The changes produced by financialisation are observable at three levels: industry, firm and household (Davis and Kim, 2015). In this article, we focus exclusively on financialisation of industry and of firms using aggregated data. At the industry level, financialisation is exhibited by the growing prominence of the finance industry in the economy and the increasing levels of profit accrued by different financial actors (Davis and Kim, 2015). At a firm level, financialisation of the corporation is linked to both the growing prominence of management practices that seek to maximise shareholder value (whereby financial returns to shareholders are privileged by management over other corporate goals) and the engagement by non-financial firms in financial activities (e.g. Davis, 2009a; Davis and Thompson, 1994; Krippner, 2005). We look for evidence of the first of these sets of changes, namely, the growing prominence of the finance industry (industry level) and shareholder value practices (firm level). While much of the existing discussion of financialisation refers specifically to practices and outcomes in the US, we speculate that a similar trend of extension and penetration by finance can be seen in the Australian economy.

Connections and propositions

Financialisation is seen as a catalyst for both income and wealth inequality (see Denk and Cournède, 2015; Martin et al., 2014). Denk and Cournède (2015) see financialisation causing increasing income inequality both directly (by increased financial sector earnings) and indirectly (by forces in the credit and stock market). We suggest that the links between finance and income inequality can be generalised into two (not unrelated) processes which map against financialisation at an industry level and firm level.

First, financialisation at an industry level may drive income inequality. As Davis and Kim (2015) argue, '… (s)imply put, whereas those who have extra assets to invest enjoy increasing returns, those who cannot join such markets suffer more, enlarging the wealth gap of the entire society' (p. 211). The extension and deepening of finance disproportionately benefits those who already hold financial assets. This might result from the development of new financial products, the expansion of credit, greater liquidity and increases in asset prices. Individuals and households who hold financial assets generally see the value of these assets increase. The expansion in credit simultaneously allows lower earning individuals access to purchase assets but this comes with the accumulation of debt. A consequence is the financialisation of everyday life whereby decisions around borrowing and spending for all manner of activities (e.g. education, training, health care, shelter) are more likely to be framed around risk, reward and return especially if this spending is financed by debt (Bryan, 2010; Chan, 2013).

Second, financialisation may drive income inequality through changes at a firm level. Here, managers in organisations come under increasing pressure to 'manage for the market' (Davis, 2009a). The prioritisation of financial returns over other corporate goals affects management's relationships with stakeholders such as suppliers and workers. The financialisation of the firm entails that the labour force is viewed as a collection of assets to be judged in terms of cost and return. Moreover, economic rents can be transferred from workers and suppliers to owners if costs can be cut and superior financial performance rewarded by the market in the form of higher share price (Davis, 2009b). The manner in which organisations are viewed by the market as bundles of assets, liabilities and resources can then contribute to income inequality with a perceived or actual pressure on management to shift rewards away from workers and suppliers towards investors.

The first of our connections can occur with the expansion of finance and the financial sector. The greater opportunities for investment can drive inequality if income from capital and financial assets accrues at a faster rate than income from labour. The second connection can occur if there is financialisation of the firm. Income inequality occurs through the transfer of rents from wage earners to investors. Together these processes connect financialisation to a widening in the distribution of wealth. The remainder of the article seeks to establish these connections by first examining whether we can observe changes in income inequality and the distribution of wealth which might be linked to the dimensions of financialisation and then by considering whether financialisation has occurred at a sectorial and firm level. We aim to explore whether inequality and financialisation coexist along these dimensions rather than seeking to prove a causative relationship between them.

Financialisation and inequality through the extension of finance

We begin this section by reviewing evidence for economic inequality before evaluating whether it is connected to financialisation. It follows that our focus is necessarily on those areas of inequality that are most likely to be associated with the extension of finance. To this end, we focus on income earned from capital and financial assets as a contributor to the wealth gap between top and bottom percentiles in the wealth distribution. We recognise that there are various data sets used to estimate income inequality which makes it difficult to construct a coherent and constant measure of this phenomenon in Australia over the last 20 years. Consequently there are divergent views about the extent of economic inequality in Australia as well as its social and economic impact (see Australian Council of Social Services (ACOSS), 2015; Fletcher and Guttmann, 2013; Greenville et al., 2013; Wilkins, 2015). The wealth gap, the wealth accrued by the top and the bottom of the wealth distribution, in terms of net wealth, was wider at the end of the first decade of the 2000s than it was at the turn of the millennium (ACOSS, 2015: 36). While high wealth households are not necessarily high-income households, the possession of financial assets by individuals and households at the top of the wealth distribution has provided income from capital which is an important factor in explaining the widening wealth gap.

Financial assets are disproportionately held by wealthier households. This means that income from these assets is skewed towards these households. While income from capital is a very small proportion of total market income (around 11% in 2009/2010), it is highly concentrated among individuals in the highest income groups and has become increasingly so (Greenville et al., 2013). Between the late 1980s and 2010, capital and other income grew by 76%, while labour income increased by 38%, with most of this growth occurring in the 2000s. Growth in income from capital over the last 20 years has been highest for those in the 99th percentile of the income distribution (Greenville et al., 2013: 51–52). The growth in income from capital, concentrated among the wealthiest individuals and households, is an important source of income inequality.

The high level of home ownership in Australia combined with increasing house prices in the past two decades has seen the net wealth of many households increase, including low-income households. In addition, the spread of government mandated superannuation since 1992 has resulted in a broadening in ownership of financial assets across households. Nonetheless, the top 20% of the wealth distribution hold 60% of superannuation wealth (ACOSS, 2015). Moreover, financial assets accounted for a larger proportion of the wealth held by the top 20% of wealthiest households in 2013/2014 than was the case in 2003/2004 (Dollman et al., 2015: 15). The share of wealth held by the top wealth quintile in 2013/2014 was slightly more at 62% than it was in 2003/2004 when it was 59% (Dollman et al., 2015: 15). The main determinant in increasing this gap was financial wealth (not house prices) particularly private holdings of superannuation and debt instruments among wealthier households (Dollman et al., 2015: 16).

In order to assess whether the widening gap between top and bottom wealth holders relates to financialisation, we must establish that the Australian economy became more financialised over the 2000s. Accordingly, we consult a range of data sources. Aggregate level data was collected from the Australian Bureau of Statistics (ABS), the Reserve Bank of Australia (RBA), the World Bank and the World Federation of Exchanges (WFE). Corporation level data was accessed through company annual reports and company databases such as Data Analysis and Connect 4. Bringing these data together creates an original picture of financialisation in Australia.

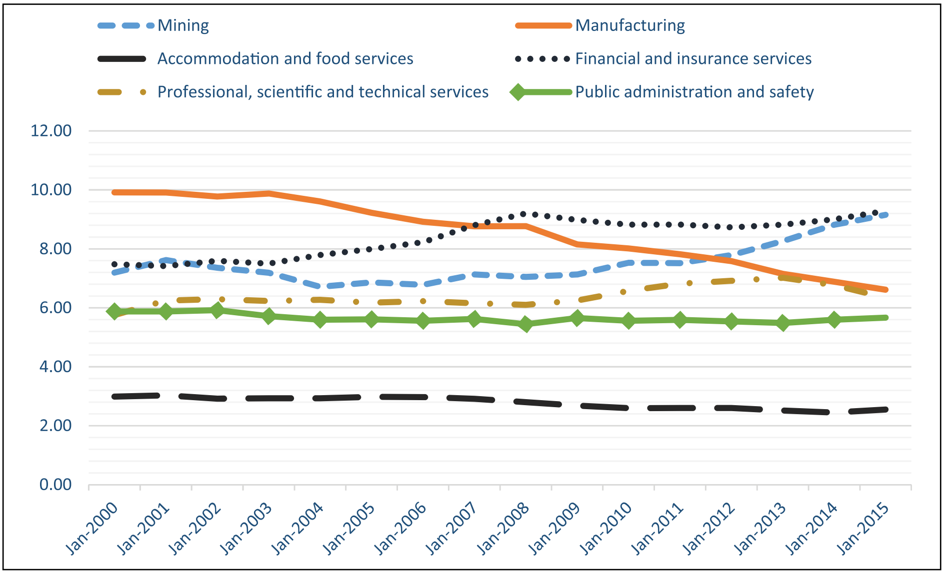

Figure 1. Real gross value added by industry, Australia, 2000–2015.
Source: ABS (2016a: Table 37).

During the 2000s finance, financial actors and financial instruments became both more pervasive and more complex in Australia. One measure of the increasing centrality of finance is the proportion of real gross value added to the economy. On this measure, finance is now the most important sector in the Australian economy (ABS, various years; Maddock, 2013). The sector increased in both size and sophistication following key regulatory reforms introduced in the 1980s (see Battellino, 2000: 16; Commonwealth of Australia, 2014). The financial sector in Australia consists of a combination of domestic financial actors (with domestic and international outlooks) and foreign financial intermediaries operating in Australia (again with domestic and international outlooks). Figure 1 uses national account data to show the relative growth and decline in the contribution of a selection of different industry segments to real gross value added in Australia. While the contribution of manufacturing has fallen (to 6.6% in 2015), Financial and Insurance services' contribution increased from 7.48% in 2000 to 9.3% in 2015.

The significance of finance in the economy is reinforced by the increased total value of assets held by financial institutions. Between 2005 and 2010, the assets of the Australian financial system grew from AUD3 trillion (or around 300% of gross domestic product (GDP)) to AUD4.6 trillion (or around 340% of GDP) (Financial Stability Board (FSB), 2011). The increase in the value of financial assets is linked to the emergence of financial actors such as institutional investors. Institutional investors (generally pension or superannuation funds, life insurance funds and other managed funds) have assumed a heightened profile in the Australian financial system particularly since the introduction of compulsory superannuation in 1992. As Figure 2 illustrates, there has been a steady growth in pension fund assets over the first part of the 2000s from a level of 62% of GDP

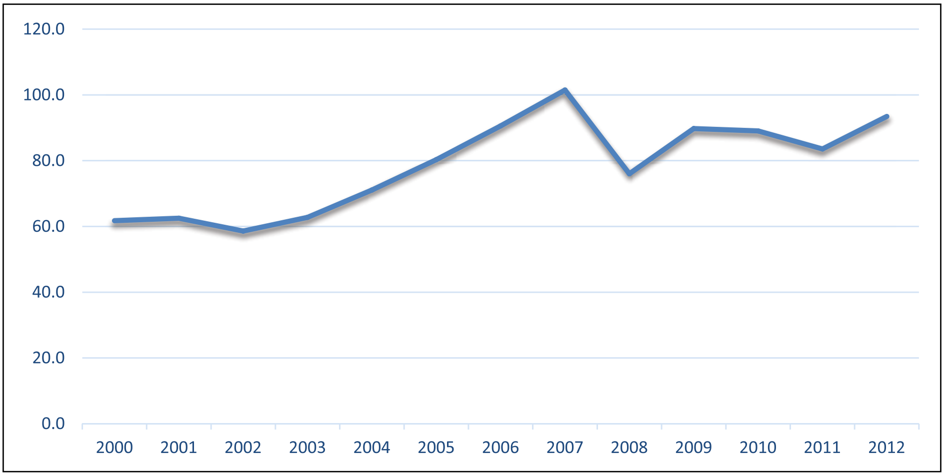

Figure 2. Pension fund assets to GDP (%), Australia 2000–2012.
Source: World Bank (2017).

in 2000 to 102% of GDP in 2007. While institutional investors have become more significant actors in the Australian financial sector, they have not displaced banks in terms of assets held.

Alongside the rise of institutional investors has been an increase in alternative investment funds. A healthy alternative investment segment emerged in Australia in the 2000s, albeit from a very low base, with the growth of private equity (PE), venture capital and hedge funds supported through legislative adjustments by federal governments (Westcott and Murray, 2014). These funds are associated with more 'active' investment of assets and are often associated with financialisation of the firms under their control. However, this segment remains small. On one measure, PE is less than 1% of funds under management and hedge funds account for around 3.6% of funds under management.[1]

There have been other developments in financial market infrastructure and activity in Australia that point to the increasing significance of finance in the economy. Trading of financial instruments and equities has increased and the forums for doing this have also expanded, suggesting a deepening of finance. The WFE reported that the Australian Securities Exchange (ASX) ranked 10th in terms of size among WFE members in 2012 (WFE, 2017). Stock market capitalisation as a percentage of GDP remains high in Australia, and financial market liquidity has also increased over the 2000s (World Bank Statistics, Global Financial Development database). The number and velocity of trades have increased markedly since 2000, some variation in the value of trades notwithstanding.

Furthermore, the number of markets for financial trading has increased in Australia. The last decade has seen the opening of a small number of public exchanges in competition to the ASX which itself has also expanded its trading operations to include markets other than equities (Australian Securities and Investments Commission (ASIC), 2013). As well as the trading of equities, the market for the issuance (either exchange traded or private issuance) of bonds expanded in Australia in the first part of the 2000s. Even so the privately issued bond market in Australia remains relatively small and is dominated by financial companies. In 2012, the size of the market was estimated at AUD825 billion or around two-thirds of the market capitalisation of ASX listed companies (Black et al., 2012: 1). Most domestic issuers are financial corporations, and the largest proportion of buyers of Australian corporate bonds are foreign investors. These expansions in both the opportunities for trading and financial products themselves can be linked to the growing income earned from financial assets by wealthy individuals and households in the 2000s and are suggestive of a connection between financialisation at a sectorial level and wealth inequality.

Inequality and financialisation of the firm

We have proposed a second connection between financialisation and inequality which occurs when management pursues strategies prioritising shareholder value within the firm. Here, managers may undertake to capture and redistribute rents away from workers and suppliers and direct them towards owners. In this way, financialisation of the corporation can have a direct impact on labour (Thompson, 2003, 2013). Again, we briefly touch on some evidence around income inequality to assess whether there may be evidence of this redistribution. We then evaluate whether the evidence relating to income inequality could be the result of financialisation of the firm in Australia over the same period.

Redistribution of rewards between stakeholders at a firm level would be difficult to identify at a national level. This process may be captured by changing shares of wealth accruing to labour and capital. Indeed, labour's share of GDP fell over the 2000s. However, this was at a time when income earned by labour grew at rate faster rate than in the 1990s (Parham, 2013). The national economy grew over the course of the 2000s, most particularly in the lead up to the global financial crisis (GFC), but extremely strong growth in capital income resulted in a reduction in labour's proportional share. Over the first decade of the 2000s average real labour income grew across the labour force (in each decile grouping when income distribution is calculated in this manner), but it grew faster for those in the top percentile (Greenville et al., 2013: 32–33). Income growth has also been unevenly distributed within the top decile itself and also between part-time and full-time workers (see Burkhauser et al., 2015; Greenville et al., 2013). Among households, net income growth in the bottom two deciles occurred at a higher rate than in previous decades, but this growth was lower than average net income growth in top decile of households, particularly between 2003 and 2010 (Greenville et al., 2013).

Capital has been taking a larger share of national income than labour, but in the context of growing national income. While labour income grew in the first decade of the 2000s, it grew fastest at the top of the income distribution. Together this represents an overall increase in income inequality. However, we suggest that it is not the case that capital has increased earnings at the expense of labour. We contend that the changing shares of income in a growing economy was not symptomatic of firm-based processes of redistribution between workers and owners. There is little systematic evidence, thus far, of financialisation of Australian corporations. We exercise some caution in formulating this conclusion as our evidence is drawn largely from national data rather than corporate balance sheets. Our conclusions are drawn by examining the extent to which financial institutions have assumed ownership of corporations; the evidence of a market for corporate control, the reliance of corporations on financial markets through direct debt raising; and the behaviour of management in companies towards owners (in particular, whether they are endeavouring to return a greater share of firm earnings to owners). We recognise that this aggregated evidence is not a complete indication of what has occurred at the level of the firm.

Ownership

Institutional investors have been portrayed as 'universal investors' with little loyalty to a particular holding or investment position (Marshall et al., 2009). Institutional investors may induce management to pursue firm strategies which maximise value primarily through the threat, perhaps more implied than explicit, of exit from an investment position if returns are below expectations. We have established that institutional investors have become more prominent in Australia over the 2000s. Perhaps counterintuitively, this growth has not led to widespread moves by Australian corporates to pursue shareholder value strategies.

Institutional investors have amassed a sizable number of assets since the 1990s in Australia. It is unsurprising then that institutional investors now hold a significant proportion of Australian equities (see Black and Kirkwood, 2010: 26; Marshall et al., 2009). As shown in Figure 3, the proportion of equities held by institutional investors has increased over the last decade, from 33% in 2001 up to a pre-crisis peak of 41% in 2007 (ABS, 2012).[2] While the equity holdings (as a proportion of the total on offer) of institutional investment fell following the financial crisis, it was restored to pre-crisis levels by 2011.

The increased importance of institutional investors as owners has not translated into outcomes reflecting a financialisation of the firm. For example, the market for corporate control remains weak, with relatively low levels of merger and hostile takeover activity (Dignam, 2007; Dignam and Galanis, 2004). Using data from the Connect 4 database, we identified 687 successful takeovers between 2000 and 2011 (with annual variations between a high of 84 in 2007 and a low of 38 in 2002). Of these takeovers, the proportion where directors had not endorsed the takeover bid was extremely low, only 13% on average for the period (a high of 25% in 2003 and a low of 6% in 2011).

While the Australian market for corporate control is relatively weak, many of the largest corporations in Australia are owned by parent companies listed on foreign stock exchanges or foreign-based parent companies (see Table 1).

The largest group among the top 500 companies in 2012 were those that were wholly or majority owned by an entity or entities from outside Australia. A number of these companies were subsidiary companies or in some cases project companies established by foreign owners. Table 2 presents a preliminary analysis of this foreign owned segment of the 2012 Top 500. It shows that the vast bulk of these companies – 160 out of 199 – were owned by a parent company listed on a foreign stock exchange. The largest proportion of these companies was listed on the New York Stock Exchange (NYSE). Together parent

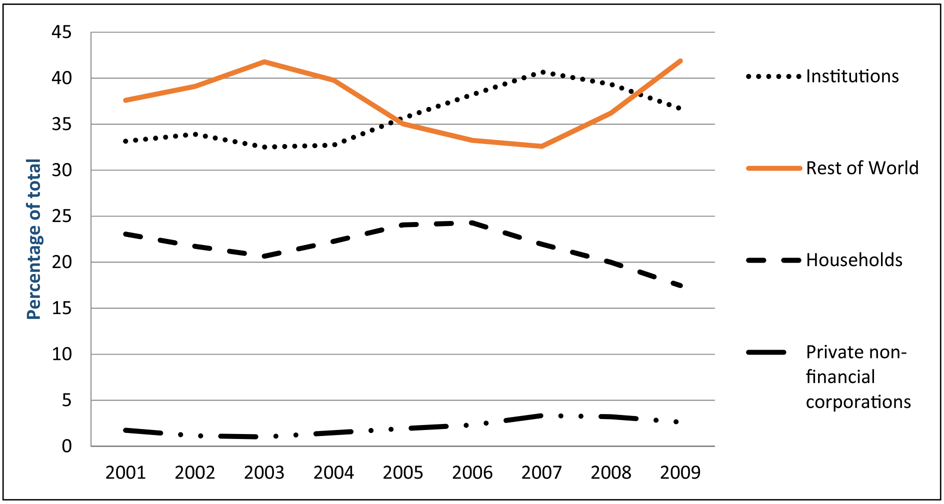

Figure 3. Australian equity market, equities held, 2001–2009.
Source: ABS, Financial System. Financial Markets – Equity Market (30 June), Years 2004–2009/2010. In ABS Cat. No. 1301.0 (ABS, various years).

Table 1. Ownership of Australian Top 500 companies in 2012.

Top 500 companies	1994 (Stapledon, 1996)	%	2012	%	Top 500 (non-financial companies)	%
Publicly listed (ASX)	176	37.2	151	30.2	150	30
Privately owned (all)	130	26	93	18.6	71	14.2
Superannuation funds			24	4.8		
Private owned (excl. Super funds)			69	13.8		
Foreign owned	137	27.4	183	36.6	199	39.8
Publicly listed on a foreign exchange					160	32
Privately held					23	4.6
Government owned (foreign)					16	3.2
Government owned (Australian)	57	11.4	73	14.6	80	16

Sources: Stapledon (1996).
ASX: The Australian Securities Exchange.
Adapted from Business Review Weekly (BRW, 2013).

companies listed on Anglo exchanges (NYSE, NSADAQ, LSE and New Zealand Stock Exchange (NZX)) accounted for 50% of foreign owned companies. It may be the case that management of the subsidiary companies operating in Australia come under some referred share market pressure caused by share price variations on their home exchange which in turn might encourage shareholder value practices. Conversely, they may also be insulated from such pressures as subsidiaries of a wider corporate grouping.

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Table 2. Top 500 Australian companies that were foreign owned, 2012.

Listed exchange of parent	Number	%
State owned	16	8.0
Private	23	11.6
Listed		
NYSE (USA)	42	21.11
TSE (Japan)	28	14.07
LSE (UK)	19	9.55
NZX (New Zealand)	13	6.53
XPAR (France)	10	5.03
Nasdaq (USA)	9	4.52
Borse Frankfurt (Germany)	8	4.02
SWISS Six (Switzerland)	6	3.02
NASDAQ OMX Nordic	5	2.51
JSE (South Africa)	3	1.51
SGX (Singapore)	3	1.51
HKEx (Hong Kong)	3	1.51
Borsa Italiana (Italy)	3	1.51
KRX (Korea)	3	1.51
Others (all 1)	5	2.50
Total	199	100

If pressure on management to prioritise shareholder value flows from owners through the market, assessing who owns the companies listed on the ASX may provide an indication of whether this pressure can be exerted. However, identifying the beneficial shareholders – those who actually own and benefit from the shares – is problematic as nominee shareholding allows the beneficial owner to obscure their holding. Consequently, making accurate observations about the nature of ownership of Australian listed companies is difficult. One indicator of ownership concentration would be the presence of substantial shareholders. In 2012, 176 companies out of the ASX 200 reported a substantial shareholder (with 7 not disclosing substantial shareholders in their annual reports). Of those companies with substantial shareholders, 43 (24.4%) reported a substantial shareholder with a block holding of 20% or more, and 24 (13.6%) reported a substantial shareholder with a block holding of 30% or more. These high concentrations of ownership (>30% block holding) were not limited to smaller companies (7 in the top 50, 11 in the top 100 and 17 in the top 150). Only one of these substantial shareholders was a nominee bank with the rest a mix of individuals (3), private companies owned or controlled by individuals (7), private companies (1), parent companies (7), PE funds (2), sovereign wealth funds (2) and state governments (1). It seems that even though institutional investors hold a significant proportion of Australian equities, large block holders (substantial shareholders) are more likely to be individuals or their private companies rather than financial institutions in Australia. This situation may mean the 'universal owner' effect of institutional owners is less pronounced. We next consider whether corporate management can be seen to be implementing strategies associated with financialisation pressures.

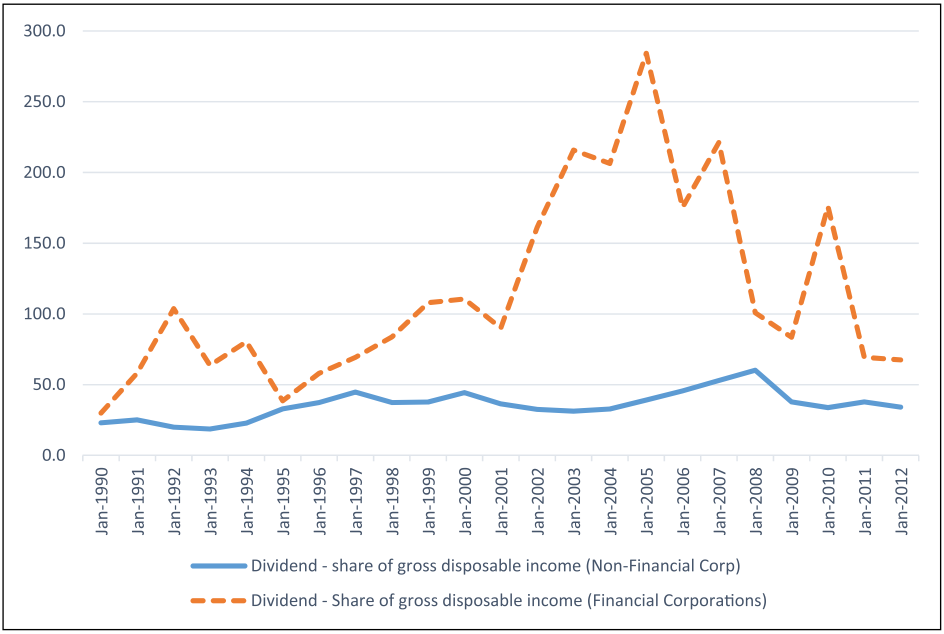

Figure 4. Dividend payments, share of gross disposable income, 1990–2012.
Source: Derived from ABS (2016b).

Managers and investors

Increasing financialisation of the corporation may take the form of a movement away from 'retain and reinvest' towards 'downsize and distribute' (Lazonick and O'Sullivan, 2000). The trade-off between retaining or distributing is a somewhat simplistic binary for listed companies as limited investment opportunities may see management distribute earnings rather than retaining them. Distribution to shareholders would take the form of dividend payments and share buybacks. As is evident in Australia, the regulation and tax treatment of dividends and buybacks will affect their extent and which mechanism shareholders find attractive. Notwithstanding, the evidence for an increasing emphasis on 'downsize and distribute' in Australia is mixed for the 2000s.

Taking first the payment of dividends, there is no discernible trend among Australian listed companies since the 2000s. The most important impetus for increased dividend payment was the introduction of a dividend imputation scheme in 1987 for Australian residents holding shares in Australian listed companies which resulted in an increase in the dividend payout ratio (Callen et al., 1992). The RBA estimated that financial corporations have consistently paid a higher proportion of dividends than non-financial companies. This observation is mirrored in our own calculations shown in Figure 4 which reveal dividends as a share of gross disposable income for financial corporations increased dramatically over the first half of the 2000s.[3] Our figures also show that this share decreased equally as dramatically following the financial crisis. The RBA, using a more focussed measure of corporate dividend payouts, has charted three broad phases in the dividend payments of Australian companies in the decade since 2003, the third of which is a strong increase in the payout ratio of listed companies following the financial crisis (Bergman, 2016).

The most recent increases in the dividend payout ratio of all companies have largely been driven by the dividend policies of banks and major mining companies. Furthermore, the payment of dividends was concentrated among the largest listed companies (Bergman, 2016) meaning that their policies had a disproportionate influence on overall dividend payout figures. Financial corporations and particularly banks (which currently comprise four of Australia's largest companies by market capitalisation) in Australia developed a practice of having a high payout ratio. However, it is difficult to identify a trend in payout levels across the listed sector more broadly. The lack of a trend notwithstanding the RBA has observed, based on firm-level data of several hundred dividend paying companies, that a majority of companies seek to increase or at least maintain dividend payments when earnings fall (but not when they record a loss) (Bergman, 2016). This would suggest that corporations are paying greater attention to shareholders through dividend payments.

Companies could also choose to distribute earnings to shareholders using share buy backs. The regulation of both dividends and buy backs in Australia has seen companies prefer the former as a means of distributing earnings. Share buy backs were prohibited until 1989 and then heavily regulated until 1995 (Brown et al., 2015). Since 1996, there has been an increased use of share buy backs, but evidence shows a variation in the number of announcements and the value of buyback schemes from year to year between 1996 and 2012 (Brown et al., 2015). Despite some growth, share buybacks remain a very small proportion of total distributions to shareholders, with ordinary dividends overwhelming preferred by companies (Bergman, 2016).

Another indicator that firms are becoming more financialised is the level of gearing or the extent to which firms choose to finance activities through debt rather than equity. If companies are showing greater concern for returning earnings to shareholders, particularly if they intend to maintain a consistent level of dividend payments regardless of earnings, they may resort to greater levels of debt to finance operations. Debt can also act as a mechanism to discipline corporate management as performance thresholds must be attained in order to service loans or fulfil securities obligations. We can identify a trend in the debt to equity ratio for non-financial firms, but there are also important variations in the use of debt across different sectors. Between the mid-1990s and 2008 there was an increase in the levels of debt to equity for non-financial companies in Australia. While the ratio of debt to equity slowly increased from 0.7 to 1 between 1994 and 2004, it increased dramatically between September 2004 (1) and December 2008 (2.1). Many companies paid down debt and raised equity in the period following the GFC resulting in the debt to equity ratio falling significantly before stabilising at the end of 2011 (ABS, 2014a).

The increasing proportion of debt to equity reflects a growing use of external funding rather than internal funding by Australian non-financial companies prior to the GFC (which is suggestive of a shift away from 'retain and reinvest'). In the aftermath of the financial crisis, companies have generally reverted to a reliance on internal funding (see Graph 5.18, RBA, 2014: 121). The growing use of external funds in the 2000s obscures some important differences in the way that non-financial companies raised finance and obscures distinctions between companies based on size and business model. Small companies on the whole made little use of securities as a means of raising debt and relied more on intermediated debt (RBA, 2014: 124). In contrast, large listed companies in Australia made greater use of non-intermediated debt particularly in the early part of the 2000s (RBA, 2005).

The broad trend national evidence in this section does not exhibit a uniform picture consistent with financialisation of Australian firms. However, we can see that there are important differences between financial corporations and non-financial corporations (in terms of their distribution to shareholders and their external funding) and between large publicly listed companies and smaller companies (who continue to rely on intermediated finance rather than access debt markets directly), and between sectors (mining which uses internal funding vs infrastructure that required debt). While there is consistent evidence to support the contention of the growing centrality of finance in the Australian economy in the 2000s, financialisation of the firm is less pronounced, albeit according to the general measures we have employed.

Discussion and conclusion

Some organisational scholars have called for greater examination of the connections between broader economic changes, organisations and social outcomes (Riaz, 2015; Walby, 2013). Our article considers the ways that financialisation might drive economic inequality through changes in the economy, particularly through the expansion of the financial sector, as well as through changes in organisations themselves. We sketch an important connection between inequality and financialisation through the broadening and deepening of the finance sector, but a looser connection between the financialisation of Australian firms and the distribution of income shares.

The Australian economy has become more financialised along a number of dimensions at the same time as the wealth gap has been increasing. We suggest that the increasing importance of finance in the Australian economy facilitated the earnings and wealth of the already wealthy – particularly the very rich. The growth in income drawn from capital and financial assets among this group outstripped the growth in income from labour. Income from capital remains the province of the very rich. The congruence between increasing financial activity and increasing asset values suggests that finance was also an important contributor to increasing wealth for owners of financial assets. The broadening and deepening of financial activity, including the emergence of new actors in the finance sector prosecuting different investment strategies, has allowed those possessing financial assets to increase their income and wealth at a faster rate than those reliant on labour income.

At the same time, we found little consistent evidence to suggest that Australian firms became more financialised over the first decade of the 2000s. The connection between financialisation and income inequality at a firm level, whereby value is redistributed away from workers towards owners, is much less evident during this time. We contend that Australian corporations were relatively insulated from financial market pressures as a consequence of the way they were financed as well as the nature of corporate ownership. As a result, pressure from owners to return financial value were relatively weak. Moreover, even if companies were motivated to redistribute value away from the workforce towards owners, the regulatory regime, particularly in relation to labour and industrial law, stifled their opportunities to do so (Westcott and Murray, 2014).

This insulation of corporations from financial pressures arose in part because of the continued reliance on intermediated debt and the entrenchment of the major banks in the Australian financial sector. This affected the debt market in two ways. First, corporations (with the exception of larger companies) relied less on the issuance of bonds to finance activity resulting in the Australian bond market remaining relatively small. Second, the banks retained their role as important providers of debt and were insulated to some extent from competitors.

Moreover, the relative stability of ownership may have also inhibited the financialisation of Australian corporations. Problems identifying beneficial shareholders aside it appears that while institutional investors have become more important as owners of Australian companies (as seen by their equity holdings), there remained a degree of ownership concentration which shielded the Australian corporate sector from unhindered financial forces. Moreover, the lack of hostile takeover activity in Australia suggests a weak market for corporate control, again offering Australian corporate management some insulation from financial pressures.

Finally, if the drivers for increasing financialisation of the firm seem to be weak in Australia, there were also protections in labour law that provided disincentives against management initiatives to restructure the labour force in order to extract value (Westcott and Murray, 2014). While there has been a weakening in the rights of trade unions to bargain collectively since the late 1990s, the Fair Work Act 2009 (FWA) constrained owners, particularly new owners from restructuring their business and redistributing value away their labour force (Westcott, 2013). This does not mean that companies did not seek to reduce their wage bill through engaging labour in a more flexible fashion by switching to casual workers or contractors. The recent debate around of penalty rates (see Productivity Commission, 2015) suggests that there may well be scope to reduce nominal wages under the FWA, which would create opportunities to redistribute rewards within the firm. The dilution of legislative protections of working conditions would create a greater capacity to financialise the firm, which would directly contribute to greater inequality as has been the case in countries such as the US.[4]

We have not examined the broader financialisation of everyday life and how this may be associated with inequality. Some workers increasingly view decisions with respect to skill acquisition and work roles in terms of investment and return (Chan, 2013). Growing access to superannuation may encourage workers to identify more closely with investors, especially with the growth of self-managed superannuation funds, which may shape the way they engage with work more generally. These are important issues which, although they remain outside the scope of this article, could be integrated into and addressed in further studies which pursue the links between inequality and financialisation that have been drawn out here.

Finance and inequality have emerged as key political issues in the Anglo world. We contend that increasing wealth inequality is linked to the importance of financial assets as a source of income for high income earners. The increases in wealth for the wealthiest individuals and households has thus far not come about due to reduced income for lower income earners, which may explain why there has been little by way of a popular backlash to date over widening inequality. While the increased significance of finance in the Australian economy has contributed to the widening wealth gap, the financialisation of Australian firms remains limited. In the early 2000s, the corporate sector appeared to be insulated from pressures to maximise financial value via redistributing income from workers to owners. Greater exposure to financial pressures associated with increased cross border capital flows and further liberalisation of industrial laws may provide companies with both the incentive and the opportunity to pursue redistribution, which in turn could contribute to greater economic inequality.

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Notes

1. The Australian Private Equity and Venture Capital Association (AVCAL, 2014) estimate that their members hold AUD25.1 billion in funds under management (for both Australian and foreign investors in June 2014), the Australian Securities and Investments Commission (ASIC) estimated that hedge funds hold around AUD95.9 billion in funds under management in 2014 (ASIC, 2015) and there was a total of AUD2489 billion in funds under management (Australian Bureau of Statistics (ABS), 2014b).
2. The ABS data refer to the holders of all equities and units in trust on issue (both listed and unlisted), these figures are for listed equities and units in trust only. Those holders grouped together under the category of institutions include: Banks, Other Depository Corporations, Life Insurance corporations, Other insurance corporations, Pension Funds and Financial Intermediaries. The classifications of different equity holders were changed by the ABS in 2011.
3. These are very broad categories, see ABS, 2015: 62–63 for definitions. The income accounts for both financial and non-financial corporations reported in the National Accounts use the category of 'Gross Disposable Income' to refer to 'Total Gross Income' minus 'Total Income Payable'.
4. The extent of financialisation and impacts on labour are quite uneven across nations. See Westcott and Murray (2014) for a series of national cases including one on the US.

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