SUPERANNUATION, FINANCIALISATION AND INCOME INEQUALITY

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One of the ironies of modern capitalism is that superannuation and pension funds, established through working class struggle with the aim of bettering the lives of retired workers and giving workers an indirect say over a large and growing pool of capital investment, have unwittingly contributed to income inequality. The irony is particularly evident in Australia because the labour movement was a driving force in establishing the nationwide compulsory superannuation arrangements. As described in the last issue of this journal (Broomhill *et al*. 2021: 72-5), the policy had its origins in the cooperative arrangements established between the ALP governments led by Hawke and Keating and the leaders of the Australian Council of Trade Unions (ACTU). Many in the labour movement continue to regard the establishment of superannuation and pension funds, and their contribution to the welfare of retired workers, as one of the great social policy achievements of the 20th century. Moreover, many trade union leaders are trustee directors of industry-based superannuation and pension funds and regard their trustee function as entirely positive for the working class and consistent with their industrial functions.

This article suggests that, notwithstanding the intentions of the architects of the national superannuation policy, the subsequent influence of financialisation has had a major impact on the investment processes and revenue streams associated with superannuation and pension funds. It posits that the financialisation of economic activity that has accelerated during recent decades has been a significant contributor to income inequality – by decreasing the share of national income going to labour – and shows the role played by financial capital. Analytically, it draws on the classical Marxist labour theory of value to help show that the financialisation of economies extracts value rather than creating value.

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The article explores how the process of extracting value operates through superannuation asset management, before offering strategic responses for consideration by the labour movement.

Pension and superannuation funds: a central and growing component of the financial system

Superannuation and pension fund capital now plays a significant role in the financialisation of global economic activity worldwide. Its total value globally in 2019 was just over USD 50 trillion (OECD, 2019), constituting 9.8 percent of global capital and 11.2 percent of total global institutional capital (Statista 2019). The growth in the global financial stock has far outpaced the growth in underlying GDP. While the global financial stock was similar in size to the world's GDP in 1980, by 2010 it was more than three times larger (McKinsey) and growing. In 2020, global 'assets under management' (AuM) reached $103 trillion, according to Boston Consulting Group (2021). With total global wealth estimated at $431 trillion, that means that the banking and investment sector of funds management accounts for just under a quarter of the world's assets.

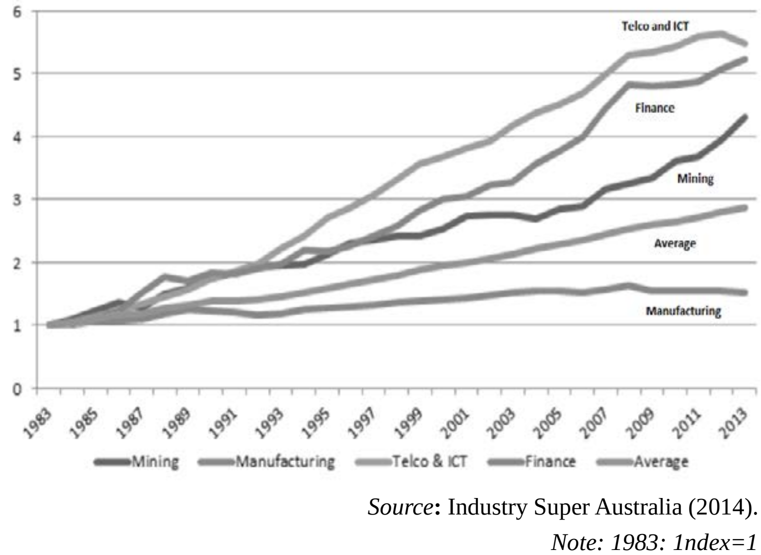
Another way to view this is to compare GDP per capita growth with the rate of return on invested capital over time. The latter has outstripped the former by a considerable margin over the long term in almost all developed nations. This is at the heart of Thomas Piketty's argument that, in an economy where the rate of return on capital outstrips the rate of growth, accumulated wealth will always grow faster than overall increases in prosperity. If this is the future of the world, Piketty argues, then capital-income ratios will continue to rise. In his words: 'when the rate of return on capital exceeds the rate of growth of output and income […] capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based' (Piketty 2014: 1).

Superannuation and pension fund capital is a significant contributor to the structural shift during the last 30 years from industrial capital to financial capital. It is a shift from direct economic production where surplus value is created, to economic circulation where a significant proportion of that surplus value is extracted in the form of rent. In this context, rent is income from redistributing value, not from creating it. Put in another, perhaps more familiar way, rent is income obtained through transactions associated with financial sector exchanges that do not directly create productive capacity nor productive employment. Examples of this type of income include interest from savings accounts, bond interest, income from securitisations and dividends from shareholdings. This is 'unearned income' in the sense of income not acquired through work (labour power) and not directly associated with production (Mazzucato 2018).

Marx referred to this latter type of activity as a claim on the means of production because he recognised, for example, that rising interest charges on increased debt absorb business and personal income, leaving less available to spend on goods and services. Thus, financial wealth can become antithetical to industrial capital to the extent that it takes the predatory form of usury capital or its kindred outgrowth, financial speculation, rather than funding tangible capital formation (Hudson 2009).

The changing balance between productive sectors and finance in the Australian context is shown in Figure 1. Looking at the 30 years 1983 to 2013, we can see which economic sectors experienced relative expansion and contraction.

Figure 1: Growth in the Australian economy by sector



Source: Industry Super Australia (2014).

Note: 1983: 1ndex=1

Figure 1 shows evidence of significant structural shifts. The least impressive performance has been in the manufacturing sector, comprising the production of consumer staples (*e.g.* food, household and personal products); consumer discretionary items (*e.g.* clothing, whitegoods, vehicles); materials and energy. These are all commodities whose production creates surplus value. The total value of manufacturing output grew by about 50 percent over the three decades. By contrast, the value of mining output grew by about 300 percent, although this was a boom period for mining and its growth rate tapered off significantly after 2013. The communications and IT sector has also featured notably rapid and continuing growth, as the top line in Figure 1 shows. Thus, there was a significant shift in the balance within the productive sectors in the economy. However, an equally striking shift - and yet more important in the context of this article's concerns – is evident in the rapid expansion that occurred, both absolutely and relatively, in the financial sector. Over the three decades, it grew by over 400 percent and continues to grow.

Taking a yet longer-term perspective, income attributable to the financial sector has increased almost six-fold, from 1.1% in the 1960s to 6.5% in 2019 (Hussey 2020).

The way in which the growth of the finance sector impacts on production and wealth creation is complex. Analytically, it depends on what proportion of the surplus value extracted by financial institutions is reinvested in value adding production (and what proportion is in sustainable or transformative production). Indeed, there are avenues through which the returns on investments held by superannuation and pension funds may reinvest extracted surplus value in the productive sector of the economy. This principally occurs where superannuation and pension funds are the direct owners of companies in the productive sector and are managing those companies in ways that ensure investment in productive activity is occurring. It also occurs where they invest in private equity or venture capital firms that explicitly nurture start-ups and companies in the productive sector requiring growth capital. Alternatively, an investment may be made in an initial public offering (IPO) of a company in the productive sector (that underwrites new production). Moreover, some of the investment in debt securities such as government and corporate bonds may find its way into productive investment.

However, there are two other factors that bear more adversely on the likelihood of the funds flowing through into productive investment. One relates to the structural shifts that have taken place in the economy, as illustrated in Figure 1. As the relative size of the productive sector of the economy reduces, and the larger the relative size of the financial or non-productive sector becomes, the capacity of the economy to reproduce itself, increase its productivity and deliver surplus value diminishes. This trending structural feature of contemporary economies increases both public and private debt. It also has an impact on taxation revenues, particularly corporate tax (through which some of the profits of businesses are redirected to public revenue). It was for this latter reason that Ross Garnaut and others have advocated a switch from a conventional company tax system to a tax on cash flow or economic rent, suggesting this will be a necessary reform if Australia wants improved economic performance and improved distribution of income (Garnaut *et al.* 2018).

The second reason for thinking that the growth of the financial sector has adverse effects on productive investment and income inequality has to do with the role that asset managers play in relation to the funds being invested through superannuation and pension funds. This requires a more *micro* political economic perspective, looking at what the asset managers actually do. Such investigation echoes the classic article by political economist Stephen Marglin, titled 'What do Bosses Do?', which showed that the actions of managers of capitalist business enterprises had more to do with class interest than business efficiency (Marglin 1974). To see whether there is a similar phenomenon operating here – in this case, finance capital operating at the expense of both labour and industrial capital - requires consideration of the role and effects of asset managers' activities in superannuation and pension funds.

What do asset managers do?

Superannuation and pension funds have been, and remain, among the largest clients of asset managers. The former engage the services of the latter to advise, manage and invest allocations of workers' accumulated retirement savings. As of March 2018, 47.4 percent (or A$1,109 billion) of Australian pension fund assets (of A$2,339.2 billion) was invested through asset managers, 46.8 percent (or A$1,195.5 billion) was directly invested in financial markets, and 5.8 percent was invested directly in life insurance corporations (ABS 2018). Asset management has become a self-sustaining feature of finance capital, aggressively marketed, largely unregulated and opaque in algorithm-driven risk methodologies, governance and accountability arrangements.

Asset management businesses extract fees for the function they perform, often unrelated to the actual service provided or quality of performance. Just three asset managers have controllled 70 percent of the global exchange traded funds (ETF) market (Forbes Magazine 2017). Asset managers are heavily marketed, including by asset consultants such as JANA and Frontier (in Australia). The Productivity Commission (PC) estimated (conservatively) that, in total, Australians pay over $30 billion annually in superannuation system fees, excluding insurance premiums (Productivity Commission, 2018: 131). The Australian Prudential Regulation Authority (APRA) reports that about 32 percent of fees are attributable to asset management (APRA 2018a: 14). Significantly, the PC found that by applying data on average international costs to the aggregate asset allocation in Australia, total investment fees should be about 0.4 percent of the total value of the assets being managed, substantially less than the 0.68 percent actually occurring in Australia (Productivity Commission 2018: 17).

Even the fund managers seem to concede that fees have been excessive. IFM Investors, the asset manager wholly owned by 27 industry superannuation funds, with A$111 billon funds under management (FuM) in 2018, announced on 4 September 2018 that it would return to investors a 7.5 percent rebate of management fees paid for the 12 months ending June 2018. IFM Investors also announced that its long-term objective is a gross profit margin of no more than 25 percent, which the then CEO, Brett Himbury, indicated is significantly lower than the post-tax profit margin of over 40 percent being extracted by asset managers globally (Australian Financial Review 2018).

Given that the 27 superannuation funds that own IFM Investors operate on an all-profit-to-member business model, it is notable that IFM Investors ‘profits’ from the asset management service it provides to these all-profit-to-member superannuation funds. This IFM Investors ‘profit’ is best regarded as economic rent or extracted value, derived from its agency or intermediary role. Its shareholders, and ultimately the beneficiaries of those shareholder superannuation funds – their members – are providing that extracted/transferred value.

This example is confirmed in the UK Financial Conduct Authority Asset Management Market Study report (FCA 2019) which found high levels of profitability, with average profit margins of 36% for the firms sampled. It also found that bonus payments to fund manager staff make up around a quarter of asset management costs (FCA 2016: Annex 8).

Asset managers come in various forms – passive managers, active managers, private equity, hedge funds, venture capital funds. Most of the superannuation and pension fund allocations invested through these asset managers are invested in listed equities (APRA 2018).

Table 1 provides a snapshot of the overall asset allocation of Australian superannuation funds (in their default MySuper products). It shows that 48 percent is allocated to listed equities and a further 26 percent to fixed income (debt securities like bonds) and cash.

Table 1: Australian industry superannuation funds (MySuper products): Asset class allocation 30 June 2019

Characteristics	**Amount ($billion)**		**%**
Cash	29		4
Australian fixed interest	98		13
International fixed interest	70		9
Australian listed shares	157		20
Listed property	17		2
Unlisted property	56		7
International shares	219		28
Infrastructure	59		8
Hedge funds	0		0
Unlisted equity	41		5
Other	26		3
	778		**100**

Source: APRA Statistics, *September quarter 2019.*

International and Australian shares clearly comprise the largest to allocations of the funds. While the shares in listed equities are issued by companies across all sectors of the economy, including the productive sector, trading in those shares, by itself, does not add to nor influence the productive capacity of those companies.

Share trading is a zero-sum game, where for every winner there is a loser. Neither the purchase of shares (unless a new issue), nor trading of shares, influences the capital available to a company to invest in productive activity. Share trading is a secondary market. The only way that it can be positive for the capital available to a company to invest in productive activity is if an improved share price impacts the company's capacity to access capital (and perhaps the price it pays for that capital – the cost of capital). On the whole, share purchase and share trading by a superannuation or pension fund is nothing more than an exercise in money circulation (what may be described as the world's largest casino). The fees extracted by asset managers (or going to the salaries and bonusses of superannuation fund executives for those with in-house asset management) comprise a rent that is ultimately extracted from surplus value created in the productive sector of the economy.

Rent seeking behaviour is further illustrated by company share buy-back strategies (also illustrative of the short-termism of current corporate governance models). It is notable that the Coronavirus Aid, Relief, and Economic Security Act passed by Congress in the USA on 27 March 2020 bans borrowing companies from conducting any share buybacks during the loan's term plus one year after its repayment.

Another large allocation of workers superannuation and pension fund savings is to private equity managers. The prevailing business model there is for those private equity firms to buy and sell unlisted companies (usually over a short cycle of 5-7 years), typically small to medium enterprises (SMEs), or restructuring those businesses to increase dividends and raising the equity value to improve the prospects of making a capital gain at the time of sale. Invariably, a proportion of the debt purchased to raise the equity value is carried with the business to the new owner. This business model, largely funded with superannuation and pension fund allocations, has been hugely successful for the private equity firms and for their superannuation and pension fund investors. However, acquisition churn does not by itself result in an increase in productive activity and creation of surplus value.

The restructuring of business by private equity firms is not primarily aimed at improving the long-term productive performance and sustainability (and hence capacity to create additional surplus value), though this may be a secondary outcome. Rather, the aim is to restructure management to procure a different dividend payout policy for the private equity owner, to improve equity or resale value and where an initial public offering (IPO) is intended, to extract management fees. One popular means by which these sorts of outcomes are achieved is by reducing labour costs in the companies owned by the private equity firm – in the form of reduced employment levels, increased employment insecurity and or reduced remuneration levels. In some cases, it has been achieved through outright theft of wage and superannuation entitlements and tax avoidance.

Wage theft in private equity has been exposed by the US Private Equity Stakeholder Project (2021). Its recent report documented systematic wage theft at fast food companies owned by private equity firm Roark Capital Partners, such as Dunkin' Donuts, Jimmy John's, Sonic Drive-Ins, and others. It reported that, since 2010, there have been more than 450 investigations by the US Department of Labor (DOL), resulting in Dunkin' Donuts being ordered to pay over US$1.5 million in back wages to over 3,600 of its workers for its minimum wage and/or overtime violations. Other companies owned by Roark Capital – Jimmy John's, Sonic Drive-In, Jamba Juice, Buffalo Wild Wings, Arby's, Hardee's, and Carl's Jr – have also paid out millions of dollars for minimum wage and overtime violations.

An example of a private equity firm in which some Australian superannuation funds remain invested is Archer Capital. It previously owned Aerocare, an airline services provider which was the subject of a strong industrial and capital strategies campaign by the Transport Workers Union and Australian Services Union due to its violations of labour standards at Australian airports (also predominantly owned by superannuation funds). Archer Capital also owns Allity, an aged care provider. In a report prepared by the Tax Justice Network for the Australian Nursing and Midwifery Federation (ANMF 2018), Allity was found to be engaged in tax avoidance practices, while at the same time receiving large government subsidies. Archer Capital also previously owned Craveable Brands, the operator of franchise brands Red Rooster, Oporto and Chicken Treat. The franchisees of these brands were among the most vocal in calling out the unfair business practices of Craveable Brands, as franchisor, in the Australian Senate's 2018 inquiry into the Franchising

Code of Conduct. Franchisor business practices are the impetus that leads franchisees to turn to wage theft and other illegal labour and employment practices to maintain small business profitability.

Similarly, superannuation fund allocations to debt securities do not directly help firms to raise capital and grow – to produce goods and services and hence, surplus value. Debt securities function more as an instrument to redistribute taxes across generations than to allocate capital from savers to borrowers (McKinsey 2010). The stock of debt securities increases through issuance of government debt and through increased issuance of private debt by businesses and financial institutions, without a direct link to underlying GDP. For example, if a person buys a house with a mortgage that the bank funds through issuing a mortgage-backed security (MBS), the net result is that an investor who bought the MBS has provided funding to the person who bought a house, without any underlying increase in GDP (McKinsey 2010: 46).

Superannuation and pension funds are further extending the financialisation of economies through the various means discussed above. The method by which they secure 'returns' is through the extraction of economic rent, rather than though creation of surplus value. Furthermore, the investment allocations of superannuation and pension funds are clearly very heavily weighted towards non-productive activities in the economy – such as share ownership/trading, private equity and securities – and not to productive activity in the economy.

Most mainstream economists did not see a problem with the astronomical growth of finance capital (relative to industrial capital) in the immediate period preceding the 2008 financial implosion. Indeed, not long before the market crash, these economists were cheerfully predicting that there would be no more major crisis of capitalism because 'creative financial innovations', usually designed by asset managers, had essentially insured the market against risk, uncertainty and crash (Hossein-Zadeh 2016).

In the wake of the crash, some neoliberal economists blamed the 'irrational behaviour of economic agents' while Keynesian economists blamed 'insufficient government regulations', as Hossein-Zadeh notes, but the Marxian theory of financial instability (and of economic crisis in general) digs deeper. It focusing on the dynamics of the capitalist system that fosters both the behaviour of the market agents and the policies of governments. It helps us to understand the 2008 financial meltdown, for example, as the logical outcome of the over-accumulation of financial capital relative to the aggregate amount of surplus value produced by labour in the process of production.

Marx characterised this subtle transfer of (real/labour) value from productive to unproductive fictitious capital as ‘an extreme form of the fetishism of commodities’ in which the real, but submerged, source of surplus-value is concealed. By ignoring this insight and embracing finance capital, superannuation and pension funds join the host of other forces responsible for contributing to finance market instability, for rising income inequality, for the declining share of national income going to labour and for the acceleration in the pace of change in employment arrangements and work organisation to the detriment of labour. These latter factors are contributors to a weakening of trade union density, organisation and power, and to a declining share of income going to labour.

Financialisation, inequality and social costs

There is growing awareness that the effects of financialisation and the growth of the finance sector may be detrimental from the perspective of inequality. A previous article in this journal (Peetz 2018) has identified the connection between the decline in the labour share of national income and the changing power relations between labour and capital resulting from financialisation. Peetz analysed the rise or fall of the labour share in growing and declining industries and found that the decline in the labour share was most extreme in the financial sector, the fastest-growing industry sector in the Australian economy. Peetz concluded that the widely recognised shift in income from labour to capital is really a net shift in income from labour, and from capital in other industries, to finance capital.

Other macroeconomic implications result partly from the impact of the growing structural economic imbalance in the composition of the economy, to the extent that this adds to the public cost of carrying the rising debt burden (interest, amortization and penalties) as well as regulatory costs[1]. Such effects tend to reduce the demand for commodities by absorbing a growing component of disposable business and household income. This leaves less to be spent on goods and services, causing gluts

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[1] Note that the 10 largest investment banks globally paid US$9.79 billion in fines during the first 8 months of 2016 alone (Financial Times 2016).

that lead to crises in which businesses scramble to maintain profitability and, if failing to do so, start laying off workers which causes a downward economic spiral. In this way, finance capital can be antithetical to the expansion of profits and tangible physical capital investment (Hudson 2015). Other costs include the cost to society resulting from lower tax revenues and increases in the cost of capital for production.

A Bank of International Settlements (BIS) working paper also found that the growth of a country's financial system drags down productivity growth and reduces real growth, concluding that this results from the financial sector competing with the rest of the economy for resources (Cecchetti and Kharroubi 2015). These BIS authors also found that credit booms harm those sectors of the economy that are regarded as the engines for growth, like manufacturing that are more research and development (R&D) intensive. Cheap money (credit) is diverted to property and asset accumulation where rent can be extracted.

This journal has also recently published an article that points to structural underpinnings of the problems of inadequacy, inequity and risk in Australia’s superannuation system (Broomhill *et al*. 2021). Some of the latter concerns reflect defects in the system’s design, but the underlying political economic tensions need consideration too. My argument here is that the deeper explanation lies in the fact that the ‘profit’ from finance capital derived from the financial exchange facilitated by financial sector service providers, like banks and asset managers, does not come from creation of surplus value but from a rent on the exchange itself, such as an interest rate or a fee for service. In effect, an interest rate is a fee for the service of matching a lender and a borrower – nothing is produced by that exchange itself. While it may aid the return on capital for any one institution, is does not add to the overall productive capacity of the economy.

The differentiation between surplus value creation and rent extraction is at the heart of this issue. Yet it is not readily apparent because of the way national income or GDP is conventionally measured nor in the way that ‘economic growth’ has come to be regarded as the core measure of economic performance. National income is measured using a different notion of value to that adopted by the classical economists. The national accounts are built on the theory of exchange, which says that value is the market price, which is determined by the behaviour of (allegedly) rational and fully informed consumers interacting with suppliers of products in competitive markets – the higher the price, the greater the value of a product or service. Political economists have often pointed to the absurdity of such forms of valuation that ignore broader social and environmental costs.

The effects of cost-shifting have also to be considered. As the relative size of the value adding (productive) sector of the economy reduces, there is a corresponding pressure on capitalists in the productive sector to find ways to reduce the costs of labour to maintain profit rates, which is particularly important for being able to attract new capital. Hence the shift to labour-replacing technologies, to new forms of work organisation, to non-standard employment models and for lobbying of governments by capitalists to further regulate the labour market.[2] Recent work explaining how finance is increasingly dominating workers and households (Bryan and Rafferty 2018) has posited the transference of risk to workers and households as a key dimension of modern capitalist strategy.

Notwithstanding that this process of value extraction has delivered positive results for superannuation and pension fund beneficiaries by increasing their retirement savings, it has come at a big price for workers generally. The question is this: is such an outcome inevitable, or are there strategies whereby both beneficiaries and workers could simultaneously gain from superannuation and pension funds pursuing different investment approaches?

Response strategies for the labour movement

One immediate challenge for the labour movement is to transfer the investment of workers' capital away from rent-seeking and value extraction to financing the means of production and value creation under a socialised model for economic development and sustainability. Financing a just transition to a more ecologically sustainable economy is an obvious focus (Stilwell 2020). This requires increased pressure on

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[2] The popular notion is that capitalists want to deregulate the labour market and trade unions want to regulate it. The reverse may be closer to the mark. What capitalists actually want is stronger regulation – greater restrictions on the right to withdraw labour, restrictions on the right to participate in decisions impacting on work and employment, restrictions on what can be included in collectively bargained agreements, etc. What unions and workers actually want is deregulation – much less limitation on the opportunity for labour to exercise and enjoy their ILO Labour Convention rights.

governments to adopt and implement transformative economic policies of this sort, reducing the influence of finance capital through new approaches to corporations and superannuation law, and promoting productive capital formation.

Pursuing such a transformation is also partly within the power of the trade union nominated trustee directors on superannuation and pension funds, working in partnership with fund members, the working class and its institutions more broadly. There are no technical or legal barriers that prohibit trustees from changing course. Indeed, trustees have a fiduciary duty to change course when facing changed economic conditions or global catastrophe: otherwise, they should incur the wrath of the millions of workers for whose wealth they are collectively responsible. As the COVID-19 crisis unfolded, governments once again provided publicly funded instruments to support bank liquidity, with only light-touch conditionality around corporate governance and executive salaries. However, they did nothing about the directionality of their lending or lending practices, allowing the continuation of rent-extraction to the detriment of surplus value creation. This perpetuates the falling share of wealth going to labour and the further undermining of public sector activity. Change should be an imperative when workers realise that finance capital is impoverishing their economic and social wellbeing.

Trustee directors on superannuation and pension funds have at their disposal a range of investment strategies to make significant change towards the required transformation. These operate on both the demand and supply sides. On the demand side, there is a need for capital to support the start-up, growth (particularly to secure a place in global value chains) and sustainability of the thousands of small enterprises that play a role in the supply chains contributing to the production and distribution of goods and services (broadly, advanced manufacturing) to meet societal needs. These firms will need assistance (through a new industrial policy) to modernise and move into high-value production to improve their capacity to create surplus value and to ensure their survival and sustainability.

On the supply side, workers superannuation savings has the potential to become an increasingly important source of capital as co-investment with public capital to meet the capital requirements of the productive sector of Australian industry. This implies: (a) the need for transformation in the deployment of workers capital to create surplus value, where funds under management (FuM) are growing rapidly; and (b) the alignment of values between industry development and good jobs on the one hand and the fiduciary duty that obliges workers' capital to be invested in the interests of beneficiaries on the other.

Some of the available strategies include:

- In the equity asset class - to shift investment strategy from minority share ownership and share trading to strategic majority stakeholdings in the productive sector of the economy, and imposition of cooperative/participative governance models in those majority owned firms.
- In the private equity asset class – to shift allocations to those private equity firms, with a not-for-profit business model, that purchase poorer performing companies in the productive sector, including essential service provider companies, and provide management and capital support to sustainably grow those companies, reduce debt and transform management and governance structures.
- In the venture capital asset class – to shift investment to those venture capital firms that focus on innovation/commercialisation that can help build the small capital sector where future high skilled jobs are likely to emerge.
- Taking control of asset management in-house (provided executive salaries are controlled) and by-passing/eliminating rent seeking asset management firms.
- Working with government to return privatised public services, especially those that deliver services that are a human right, back to majority public or cooperative ownership (at the original purchase price); and simultaneously introducing cooperative and participative management and governance structures.
- Adoption of new company management models, including worker self-management, to democratise workplaces under a charter to deliver surplus value for reinvestment, including in R&D that repositions these companies at the frontier in the knowledge age.
- Support the establishment of a political economy finance academy to train and educate a new cohort of trustee directors, trade union officials/delegates/workers, finance sector managers; as well as public servants in the economic and social portfolios of government, with a focus on financing investment in productive activity and on socialised retirement income vehicles.

In parallel, trade unions could campaign for and organise around:

- A transformation of the role of the state and its institutions, including the priority for establishing in Australia a national industrial transformation agency (NITA) and a superannuation investment agency (SIA) as a first step (Pickette 2019), guided by a mission-based new industrial policy.
- Building coordinated civil society social movements alongside trade unions, embedded in communities, to collectively provide the bedrock for helping define and sustain citizens' rights and needs, and to hold the state accountable.
- A phased nationalising and democratising of the banking sector (commencing with the challenger banking sector that is in many cases already operating on not-for-profit principles), with a corporate investment charter to support and nurture the productive sector, as a lender of first resort, based on sustainable investing principles.
- Ensuring the social capture of benefits from new technologies such as automation, artificial intelligence (AI), big data and the 'Internet of things', *i.e.* ensuring new technologies are instruments for social and financial emancipation (value creation), not instruments to deepen financialisation (value extraction) (World Economic Forum 2018).
- Prohibiting further privatisation of social and community services and restoring essential services (those that a considered a human right – education, health, water, household energy for cooking and heating, public transport, communications) as publicly provided services. This needs to include a prohibition on privatisation or outsourcing of public service policy advice.
- Restructuring corporation law governing finance sector actors, aiming to eliminate rent-seeking finance vehicles and to reframe corporate governance on transparent and democratic principles that facilitate the creation of new relations between the owners of capital, the controllers of capital, and labour; and reframing competition policy to promote cooperativism and collaboration.
- Taxation of rent as well as profit, and introduction of a global financial transactions tax.
- Tax and industrial policy support for productive capital formation that supports missions for sustainable advanced industries linked to

national and global value chains delivering goods and services to satisfy human needs; and providing quality jobs.

- A shift in trade and foreign policy towards strategic economic, trade, capital and labour alliances, particularly with the emerging economies and other economic clusters with strong central economic coordination, and within a charter to seek commitments to demilitarisation, observance of human rights, equality and sustainability.

Conclusion

The continuing allocation of superannuation and pension fund capital to finance sector rent-seeking activities, where economic value is extracted rather than created, is expediting the financialisation of economies and sapping their productive capacity. As Marx described it, this is parasitic behaviour. The effect is a squeeze on the amount of industrial capital allocated to productive activity where surplus value is created. The consequences are capital misallocation, reduced access to bank capital for SMEs, lower multi-factor productivity, and downward pressure on labour costs as industrial capitalists seek to maintain profit levels. In these circumstances, industrial capitalists predictably seek ways to maintain levels of surplus value by tying to reduce the price of labour (wages) and the ability of labour to engage in collective action to maintain their labour power (meaning their contribution to the productive process, not to be confused with industrial power).

In this environment workers have reduced capacity to restore or expand their labour power by purchasing the requirements to provide their capacity to work (such as food, shelter, transport, education and communications). This causes further reduction in the aggregate demand for the very goods and services they produce. This is the vicious cycle of wage stagnation that the Australian economy, and others, has experienced during the last decade. While it is not wholly attributable to the role played by finance capital, measures such as the share of national income going to labour versus the share going to capital, and to the financial sector in particular, provide a window into this interconnected set of political economic relations. They also take us to the heart of the problem of growing income inequality.

These fundamental political economic problems and challenges may have been temporarily pushed aside by the advent of the COVID-19 pandemic and its economic impacts. However, the behaviour of the financial system, including that of the superannuation and pension system, has revealed yet again that the notions of profit, value and the role of the state need radical transformation. A deeper understanding of the root cause and transmission of pandemics can come from study of the natural barriers to pandemics in nature and ecology, which capital is destroying, and the tendency towards monoculture in food production that has been encouraged by capital. The state's capacity to respond in the interests of its citizens (rather than the interests of corporations) and the allocation and role of capital are similarly critical issues that have been highlighted and need to be addressed.

The contradictions of capitalism are being starkly revealed to the global citizenry. They are manifest as inequalities both within and across nations, the misallocation of investment in the health sector of the economy and the contradictions of the finance market that are exposed for all to see. Meanwhile, people in the working class have played a heroic role as front-line responders and in critical supply chains, while many not in front line roles have been without enough work and sustainable incomes (particularly those across the globe in the informal economy who have little or no regular income). Simultaneously, private corporations and businesses have been rewarded with transfers of public finance without adequate conditionality, dressed up as employment sustaining initiatives.

Can the political left develop, articulate and win widespread support for a strategic response – a program of achievable and staged actions - that prevents a return to the *status quo* and addresses the fundamental contradictions of capitalism as we emerge from the pandemic? Workers' capital and how it is managed is particularly important in this context. Trustee directors on pension fund governance bodies are responsible for setting the investment strategy of their superannuation and pension funds, as part of their fiduciary duty. They have within their trustee power the capacity to change the way their superannuation and pension funds allocate capital - to be undertaken as a collective task alongside the trade unions that nominate them for their trustee role. If superannuation and pension funds are to responsibly invest that capital in ways that promote equality and restore both labour capacity and industrial power, they should shift capital away from rent-seeking value extraction to productive value creation. It *can* be done and there is a fiduciary duty to do so.

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