Institute of Public Affairs

IPA RESEARCH NOTE

Corporate consolidation: the changing structure of the Australian economy

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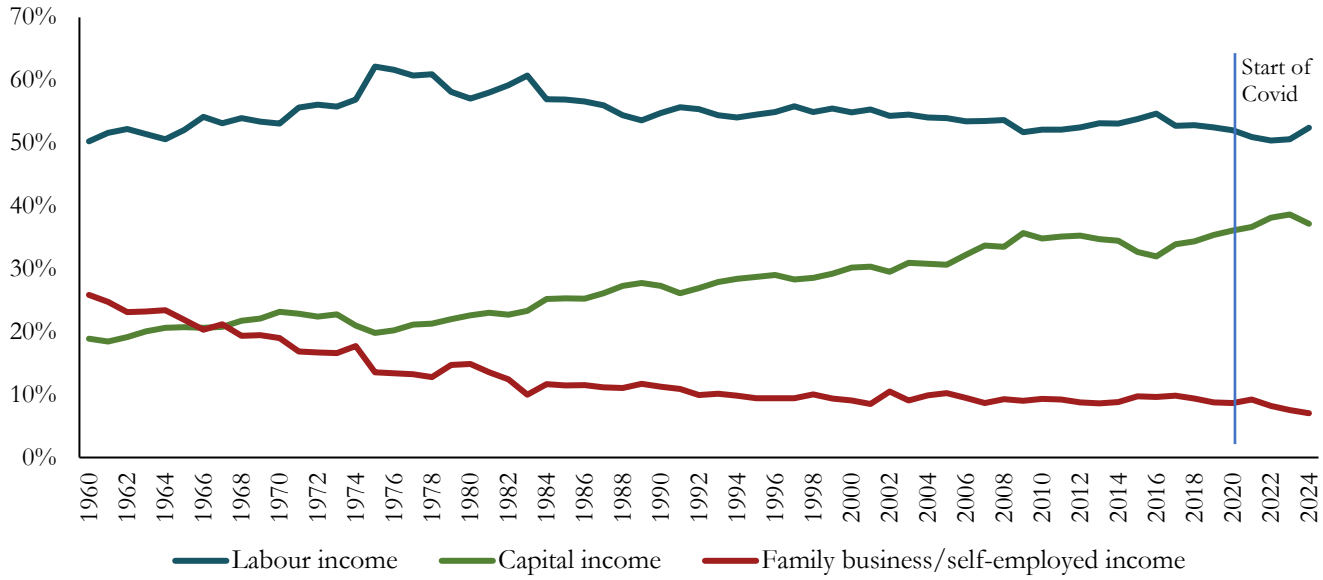
Key findings

This note assesses changes to the structure of the Australian economy by analysing the share of national income (factor income) that is attributed to workers (labour income), owners of capital (capital income), and family businesses and the self-employed (mixed income).

- In the last five years, the corporate share of national income has increased from 26.5 to 28.5 per cent, which has come at the expense of family businesses and the self-employed, which declined from 8.75 per cent to 7 per cent.
    - This is in line with the long run trend from 1960, when corporate share of national income 16.4 per cent and the family business and self-employed share of national income was 26 per cent.
    - This means since 1960, the corporate share of national income has almost doubled, while the share for family businesses and the self-employed is today less than a third of what it was in 1960.
- Between 2020 and 2023, family businesses and the self-employed lost $149 billion, and workers lost $215 billion, in foregone compensation due to the relative decline in their share of factor income.

Figure 1: *Components of factor income*



Source: IPA; ABS

Methodology

The analysis in this note is derived from the Australian Bureau of Statistics' (ABS) measure of total factor income.[1] Factor income measures gross domestic product (GDP) by categories of income. These categories are: compensation of employees (labour income); gross operating surplus of private corporations and financial corporations (corporate income); gross operating surplus of dwellings (housing income), 'mixed' income from the production of unincorporated firms (self-employed/family businesses income), and gross operating surplus of public corporations and of general government (which are excluded in this research note). Capital income in Figure 1 is comprised of corporate income and housing income.

Analysis

In a report published in 2020, the Institute of Public Affairs provided an analysis of structural changes that had occurred in the Australian economy between 1960 and 2019, warning that:

> Small business and entrepreneurship are in crisis, the share of national income attributable to housing is increasing even as the share of the population that own a home is declining, and the share of income accruing to the financial services sector is increasing disproportionately to the tangible value this sector delivers to the economy.[2]

Australia has experienced a number of economic and social challenges since then, particularly through the Covid pandemic and the governmental response to it. This paper provides an update to *The Changing Structure of the Australian Economy*, with new data for the years 2020 through 2024. This data allows us to explore how the Australian economy was changed by lockdowns, both in the short-term and at a structural level.

The Changing Structure of the Australian Economy found that Australia's economy has shown signs of consolidation over the long term: over time, more economic power is being concentrated in the hands of larger businesses, financial corporations, and a declining population of homeowners. Some of the key findings of the paper, based on a 1960-2019 analysis, included:

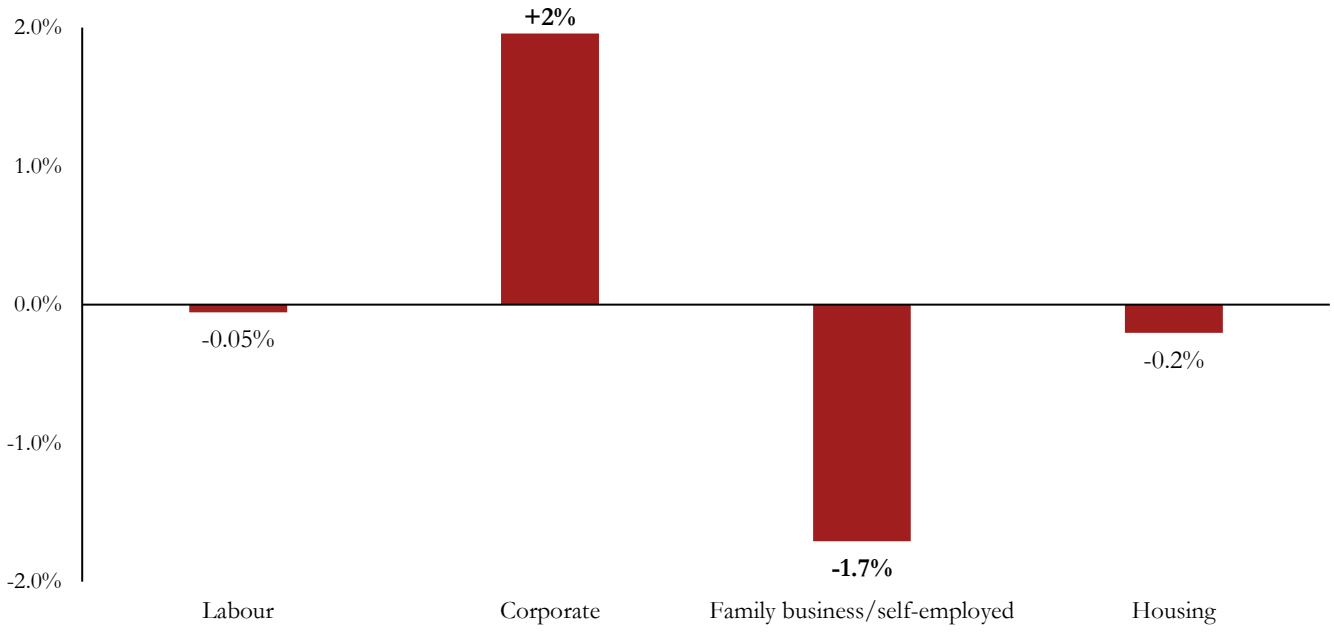
- Workers receive a stable share of national income over the long-term.
- While national income accruing to capital did increase from 19 per cent to 36 per cent, more than half this increase was due to higher shares of income accruing to the financial sector and property owners.
    - National income accruing to property owners increased from 2.4 per cent to 8 per cent.
    - National income attributable to the financial sector increased from 1.1 per cent to 6.5 per cent.
- National income accruing to family-owned and the self-employed declined from 26 per cent to only 9 per cent.

This update reveals that these trends were largely exacerbated by Covid lockdowns. Figure 1 above shows the three primary components of factor income: labour income, capital income, and mixed income (referred to as family business/self-employed income). Popular reporting of the factor income shares often focuses on labour and capital income. As can be seen in the chart, since the previous report the labour share of income saw a decline through 2021-2023, before a recovery in 2024. The capital share mirrored these movements, increasing through 2020-2023, and declining in 2024. Family business/self-employed income fluctuated in 2020 and 2021, and since then has been in a concerning decline.

The Covid-era trends are unsurprising. Through the pandemic, the IPA tracked the disproportionate impact that lockdown measures were having on workers (particularly in the private sector and among lower-paid employees) and family businesses compared to large corporates.[3] While an analysis of changing factor income shares shows that this shift came at a substantial cost of $215 billion to workers, and $149 billion to family

businesses and the self-employed, between 2020 and 2023,[4] the labour share of income returned closer to its long-run average in 2024. However, more concerning is the apparent structural shift in the share of factor income accruing to corporations and to family businesses and the self-employed. Between 2019 and 2024, the share of national income for corporations increased from 26.5 per cent to 28.5 per cent, while the share for family business and self-employed decreased from 8.75 per cent to 7 per cent.

Figure 2: Change in factor income shares, 2019 to 2024



Source: IPA; ABS

While not exclusively the result of policy decisions, the changing structure of the Australian economy can in large part be explained by policies pursued in the post-Second World War context. The ever-rising number of regulatory restrictions and laws, for example, has placed a disproportionate burden on small business. Zoning and other development restrictions, combined with high immigration rates, have contributed to rising house prices and falling homeownership rates. The introduction of compulsory superannuation has entrenched the financial sector.

The first-order consequences of these structural changes are economic. The second-order consequences are cultural and pose a threat to Australia's political system as it has traditionally existed as an asset-owning democracy. A course correction would see ownership—of homes, businesses, and savings—increase throughout the community so that gains accruing to capital can be widespread, rather than concentrated.

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End Notes

1. Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product, March 2025* (4 June 2025).
2. Cian Hussey, *The Changing Structure of the Australian Economy* (Institute of Public Affairs (IPA) Research Report, December 2020) 2.
3. See Cian Hussey and Kurt Wallace, *Economic Scars: How the lockdowns have permanently disfigured the Australian economy* (IPA Research Report, October 2020); and Cian Hussey and Kurt Wallace, *Not in This Together: An analysis of the economic and social impact of the Covid-19 lockdowns* (IPA Research Report, February 2021).
4. Measured as the difference between the average shares they received in 2015-2019, minus the actual shares they received between 2020-2023.

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THE CHANGING STRUCTURE OF THE AUSTRALIAN ECONOMY

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Institute of Public Affairs

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Introduction

One of the existential challenges to the Australian way of life arises from a small group of elites who have captured the Australian economy at the expense of working and middle-class Australians and small business owners.

Australia has long been a robust asset-owning democracy. Small business creation, home ownership, access to work, and control over personal and retirement finances in particular have given Australians a stake in their local communities, the success of the economy, and the future of the country. However, a number of structural changes have been occurring which undermine the Australian way of life, including declining rates of home ownership and small business creation, the loss of control over retirement savings to superannuation funds, and high rates of underemployment and youth joblessness.

This paper assesses these structural changes by analysing the distribution of factor income, which can broadly be divided into capital and labour income. Simply stated, factor income measures the share of gross domestic product (GDP) that can be attributed either to workers or owners of capital. Income attributed to workers is referred to as labour income and is comprised of total remuneration, the largest component of which is wages. Income attributed to owners of capital constitutes capital income. There is a third, separate category, called "mixed income" which, as the name suggests, is income which cannot be delineated neatly between its composite labour or capital components. It is standard in the literature for mixed income to serve as a proxy for the self-employed and family businesses, as explained later in this paper.

The main interest in public debate on factor income has been on the supposed decline in the share of total factor income attributable to workers. This assertion often forms the basis for claims that workers are suffering at the expense of business owners, and that higher taxes on the latter are required to distribute to the former.

However, the best available evidence suggests that the labour share of national income is stable and has remained relatively unchanged since 1960 when records began. The often-cited decline to labour income since the mid-1970s is misleading given that the share of income attributable to labour was abnormally high at that time, compared with the long-term average. In mid-1960 the labour share of income was 50.5%, compared to 52.1% in mid-2019. The current labour share of income is slightly below the 60-year average of 55%.

While the labour share of income has remained stable, there have been significant changes in the other factors of national income. From a public policy perspective, interest should be focused on the changing composition of capital income which shows that the structure of the Australian economy is being skewed so that a declining share of the population are receiving a greater share of national income.

Specifically, the total share of national income accruing to family businesses and the self-employed has been declining since at least 1960. At the same time, the share of national income accruing to corporations, and the financial sector in particular, has been increasing, and the share of national income accruing to property owners has been increasing even as the home ownership rate has declined. The total share of national income accruing to family businesses and the self-employed has declined from 25.7% in 1960 to 8.9% in 2019. At the same time, income accruing to property owners has more than tripled, from 2.4% to 8%, income attributable to the financial sector has increased almost six-fold, from 1.1% to 6.5%, and income to corporates has increased from 16.4% to 27.7%.

Further, this paper estimates that 65% of the increase to the total share of national income accruing to capital since 1960 is attributable to the growth in property and financial sector incomes. Specifically, 33% of the increase to capital income is from growth to property income and 32% is from growth to financial services sector income.

These changes to the distribution of national income are primarily – though not solely – driven by public policy. Rapid population growth underpinned by mass migration alongside regulation and red tape on development has inflated housing values; compulsory superannuation and regulatory restrictions on competition have inflated the size of Australia's financial sector; and high taxes, a complex industrial relations system, and red tape have stymied the growth of family businesses and the self-employed.

This report begins by providing an overview of factor income and discusses how it can be broken down into its components. It then demonstrates the stability of the labour share of factor income and discusses how national accounts statistics can be misrepresented to paint a false narrative that workers are exploited to the benefit of capital income. The report then presents two findings that indicate a concerning change in the structure of the economy. The first is that 65% of the increase in the share of capital income since 1960 has been driven by increasing housing income and the growing financial services sector. The second is that, where corporate income has increased, this has come at the expense of family businesses and the self-employed, rather than at the expense of workers.

These structural changes to capital income should be the focus of public policy going forward. Small business and entrepreneurship are in crisis, the share of national income attributable to housing is increasing even as the share of the population that own a home is declining, and the share of income accruing to the financial services sector is increasing disproportionately to the tangible value this sector delivers to the economy.

This paper concludes by offering some policy recommendations. Rather than focusing on the false narrative that workers are not receiving a share of national income commensurate with their contribution, policy makers should be concerned with what the composition of capital income reveals about the structure of the economy.

Over-regulation, compulsory superannuation, and record low interest rates have contributed to a transfer of wealth and economic power to existing homeowners, landlords and financial corporations. By contrast, family businesses are in decline and fewer Australians, particularly among younger generations, are able to have a stake in their community and the broader economy through home ownership.

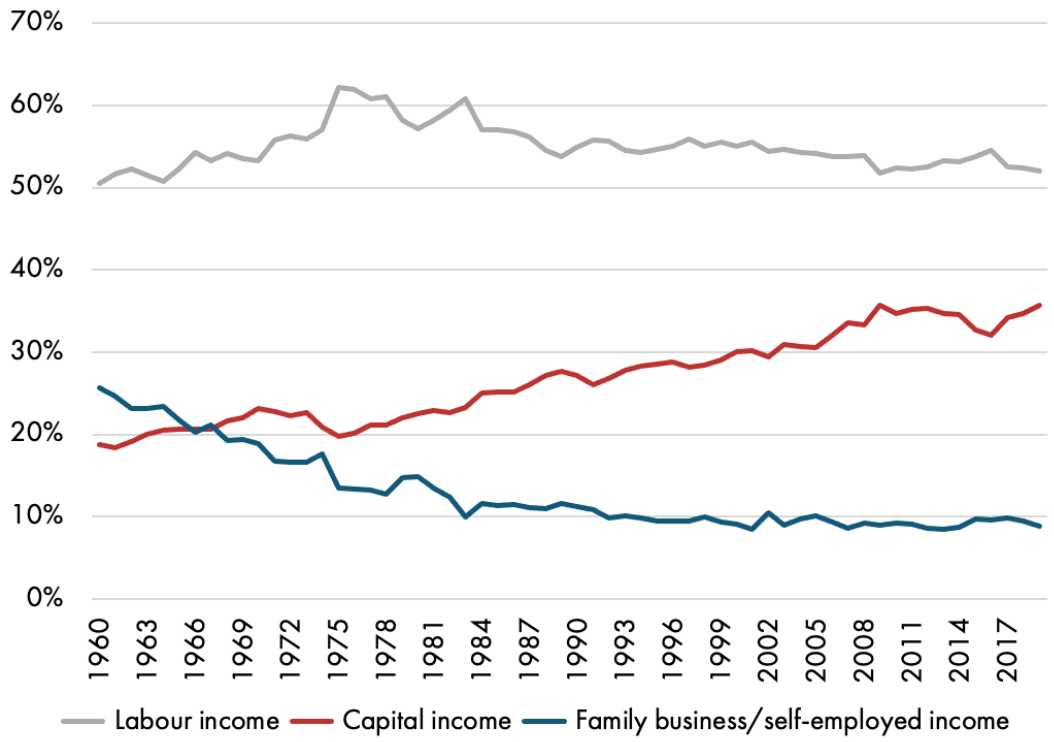
To encourage an asset-owning democracy where the gains accruing to capital are spread throughout the community, policy makers must remove the impediments to Australians starting, running and expanding their own business, buying a home, and planning for their retirement.

Factor Income

The Australian Bureau of Statistics (ABS) measures and publishes total factor income each year.[1] Factor income is used as a way of measuring gross domestic product (GDP), and is often broken down into the broad categories of labour income and capital income which currently make up over 85% of total factor income. The remaining 15% of factor income is made up of mixed income, and the gross operating surplus of general government and public corporations.

Graph 1 below shows the three most basic components of factor income: labour income, capital income, and mixed income (referred to as family business/self-employed income, for reasons explained below).

Graph 1: Components of factor income



Source: IPA, ABS cat. no. 8204.

When factor income statistics are released by the ABS, the main components discussed in public debate are labour income and capital income. Factor income can be broken down further however, with the ABS measuring six components in total.

1 Factor income measured in the national accounts is released on both a quarterly and annual basis. In this report, the annual figures are used because, as explained later, the broad, structural, long-term trends in the shares of factor income are more important than short-term fluctuations. Using annual figures removes some of the 'noise' in the data while still accurately demonstrating long-term trends.

Compensation of employees

Compensation of employees refers to the total value of wages and salaries earned by employees plus social contributions made by their employer, such as superannuation payments, and is referred to as 'labour income' in this paper.

Gross operating surplus of private corporations

Gross operating surplus of private corporations is revenue above the sum of intermediate consumption, compensation of employees, and taxes less subsidies on production and imports. It is calculated before deduction of consumption of fixed capital, dividends, interest, royalties and land rent, and direct taxes payable. In this paper, gross operating surplus of private corporations is referred to as 'corporate income'. Corporate income is a slightly different measure to profits because consumption of fixed capital, interest payments, royalties, land rent and taxes have not been deducted.

Gross operating surplus of dwellings

Gross operating surplus of dwellings is derived as gross actual and imputed rent[2] minus operating expenses, but before the deduction of consumption of fixed capital (the value of assets 'used up' due to normal wear and tear, foreseeable obsolescence and accidental damage). In this paper, gross operating surplus of dwellings is referred to as 'housing income'.

Gross mixed income

Gross mixed income refers to the gross operating surplus of unincorporated firms and is a proxy for income of family businesses and the self-employed.[3] The term 'mixed' is used as it is not possible to distinguish how much of the income can be attributed to labour, and how much to capital. For example, for a self-employed bricklayer with a $200,000 operating surplus, it is not clear how much of this surplus is attributable to his labour and how much to his capital (tools, ute, trailer, and so on).

To overcome this issue, some scholars assign part of the figure to capital income and some to labour income, either at a fixed rate or based on the overall distribution between capital and labour income.[4]

2 Imputed rent is where owner-occupiers are regarded as receiving rents from themselves as consumers.

3 Unincorporated firms include sole proprietorships, partnerships and family trusts, therefore encapsulating family and small businesses and the self-employed. See François Lequiller and Derek Blades, 'Understanding National Accounts: Second Edition', OECD Publishing, http://dx.doi.org/10.1787/9789264214637-en, p. 176-177; Declan Troo and Leo Vance, 'Adjusting the Australian Labour Share for Depreciation, Housing, and Other Factors, 1960-2016', 2018, doi: 10.1111/1759-3441.12210, p. 413-414; Alexei Izyumov and John Vahaly, 'Income Shares Revisited', *The Review of Income and Wealth*, vol. 61, no. 1, 2015, doi: 10.1111/roiw.12072, pp. 179, 187.

4 For fixed rates, see Declan Troo and Leo Vance, 'Adjusting the Australian Labour Share for Depreciation, Housing, and Other Factors, 1960-2016'. For averaged rates, see Alexei Izyumov and John Vahaly, 'Recent trends in factor income shares: a global perspective'.

There are a number of limitations to this approach, however, and in this paper mixed income is maintained as a separate category. Firstly, it requires making assumptions about the distribution of income between labour and capital, which is likely to vary depending on decisions and business operations at the firm-level. Secondly, the decline in mixed income reveals something in itself – the decline of entrepreneurship in Australia. Mixed income is a proxy for income accruing to family businesses and the self-employed. This is because unincorporated enterprises are businesses that have not been formed as a company, meaning they are sole traders, partnerships or trusts. Sole traders are self-employed, and partnerships and trusts are often created by families in order to operate a business. In their study of Australian factor income between 1960 and 2016, Declan Troo and Leo Vance refer to mixed income as self-employed income.[5] According to the OECD, family businesses are referred to in national accounts as unincorporated enterprises.[6] Alexei Izyumov and John Vahaly note that mixed income is comprised of revenue accruing to "unincorporated enterprises owned by households."[7] As such, the decline of entrepreneurship, an important structural change that threatens Australia's asset-owning democracy, is masked if mixed income is distributed between labour and capital income rather than maintained as its own category.

In this paper, gross mixed income is referred to as 'family business/self-employed income'.

Gross operating surplus of public corporations and gross operating surplus of general government

Gross operating surplus of public corporations is the same as gross operating surplus of private corporations, except it applies to corporations that are owned and controlled by a government, such as NBN Co and the Port Authority of NSW. Gross operating surplus of general government equals the general government's consumption of fixed capital. For the purposes of this paper gross operating surplus of public corporations and general government will be excluded as they comprise a very small part of total factor income at around 5%[8] and are irrelevant to the broader purpose of the paper.

5 Troo and Vance, 'Adjusting the Australian Labour Share'.

6 Lequiller and Blades, 'Understanding National Accounts,' p. 170.

7 Izyumov and Vahaly, 'Income Shares Revisited', p. 187

8 General government gross operating surplus has remained practically unchanged for the period 1960-2018. Aside from a brief period from around 1980-2002, gross operating surplus of public corporations is an even smaller component than general government gross operating surplus.

The Labour Share of Total Income

Much of the focus on national factor income has been on the apparent decline to the labour share of income. In 2017, for example, the Australia Institute published a paper claiming that there has been a "structural trend in income distribution" from labour income to profits and other income.[9] This sentiment was matched in an article from *The Guardian* in the same year, where it was claimed that "the share of national income going to employees [is] at 50-year lows."[10] This was not the first time these claims have been made. It has been the subject of a number of academic articles,[11] where it is sometimes referred to as the "labour-share squeeze",[12] and can be traced as far back as Karl Marx. This narrative of the "oppressor and oppressed, stood in constant opposition to one another"[13] continues to be a popular explanation, leading to contemporary complaints of workers not receiving their "fair share" of prosperity.

While this narrative may be popular, it is not accurate. As Graph 1 shows, the labour share of income is stable over the long run. In 1960 the labour share of income was 50.5%, compared to 52.1% in 2019, although this is slightly below the 60-year average of 55%. One apparent feature of the labour share of income is the peak which occurred between 1975-83. This, however, is an aberration to the long-run trend, not the norm. Analyses which use data beginning in this period, as with the Australia Institute,[14] are misleading as they do not take into account the fact that the labour share of income was around the current long-run average before this.[15]

9 Jim Stanford, 'Labour Share of Australian GDP Hits All-Time Record Low', *The Australia Institute Centre for Future Work*, 13 June 2017, https://d3n8a8pro7vhmx.cloudfront.net/ theausinstitute/pages/1500/attachments/ original/1497298286/Labour_Share_Hits_ Record_Low.pdf?1497298286, p. 6.

10 Greg Jerico, 'Why workers are losing their share of Australia's national income', *The Guardian*, 15 August 2017, https://www.theguardian.com/business/grogonomics/2017/aug/15/imf-report-shows-lower-unionisation-leads-to-lower-wages.

11 For example, see Loukas Karabarbounis and Brent Neiman, 'The Global Decline of the Labour Share', *Quarterly Journal of Economics*, vol. 129, no. 1, doi: 10.1093/qje/qjt032.

12 Alexei Izyumov and John Vahaly, 'Recent trends in factor income shares: a global perspective'.

13 Marx, *Communist Manifesto*, p. 74.

14 For example, in the International Monetary Fund's publication *World Economic Outlook, April 2017: Gaining Momentum*, the authors claim that in advanced economies "labor [*sic*] income shares began trending down in the 1980s", and present a chart showing the income share of advanced economies beginning in 1970. In an academic paper published in 2014, Loukas Karabarbounis and Trent Neiman state that "the global labor [*sic*] share has declined significantly since the early 1980s". See Mai Chi Dao, Mitali Das, Zsoka Koczan and Weicheng Lian, 'Understanding the Downward Trend in Labor Income Shares' in *World Economic Outlook, April 2017: Gaining Momentum?*, International Monetary Fund, Washington, 2017, p. 121; Loukas Karabarbounis and Trent Neiman, 'The Global Decline of the Labor Share,' *The Quarterly Journal of Economics*, vol. 129, no. 1, doi: doi:10.1093/qje/qjt032, p. 61. Countless similar analyses can be found in the literature, and an entire body of research has emerged to point out this bias. In 2018 The Australia Institute Centre for Future Work published an infographic comparing the labour share in 1975 to 2018. Like the claims identified above, this creates a false narrative by not acknowledging the data that existed before 1975 and choosing the year with the highest-possible share to make a comparison. The infographic can be found at Jim Stanford, 'Infographic: The Shrinking Labour Share of GDP and Average Wages,' *The Australia Institute Centre for Future Work*, 31 August 2018, https://www.futurework.org.au/infographic_the_shrinking_labour_share_of_gdp_and_average_wages.

15 A number of recent papers have acknowledged the existence of this bias, as mentioned above. See Gilbert Cette, Lorraine Koehl and Thomas Philippon, 'Labor Shares in Some Advanced Economies', *NBER Working Paper Series*, Working Paper 26136, August 2019, http://www.nber.org/papers/w26136.

While there is no agreed explanation as to why the labour share of income remains stable, it has been demonstrated in many empirical studies. A paper published in 2016 by Declan Trott and Leo Vance from the Department of Jobs and Small Business' Workplace Relations Policy Group noted that in Australia there is "a tendency for the labour share to remain fairly stable over the long run".[16] The paper highlights that the labour share of income in 2016 was at its historical average. Noting that short-term economic conditions can affect the labour share, such as the "fluctuations upwards during the oil, wage and other shocks of the 1970s, and downwards in the mining boom of the 2000s",[17] the paper finds that these fluctuations do not have an effect in the long run. The paper was an important contribution to the body of literature that disputes the claim that employees are being exploited by employers, noting that the perceived shift in factor income from workers to corporations has been exaggerated by housing and depreciation, and by beginning analyses in the 1970s when the labour share was at an all-time high.

These two misrepresentations are discussed further in a 2019 paper for the National Bureau of Economic Research (NBER) in the United States.[18] This paper outlines the measurement issues that have been identified by other academics in recent years. These are:

- Start and end periods for empirical analyses.
- Accounting for self-employment.
- Accounting for residential and real-estate income.

Discussing the first measurement issue, the NBER authors note that the labour income share in many countries was above its steady state in the late 1970s and was therefore bound to return to its long run average. As such, studies that use the period of 1973-1985 as a starting point will inevitably find a decrease in the labour share.[19]

The second measurement issue arises from the difficulty of distinguishing between capital and labour income arising from self-employment. The standard practice has been to assume that the self-employed earn the same wages as employees in their industry. The same NBER paper notes that this adjustment "can be biased since it assumes that self-employed workers are identical to other workers" and it "matters especially when the share of self-employment varies over time".[20] As noted above, rather than attempting to assign mixed income to labour and capital, treating at it as a separate category offers an insight into the decline of self-employment and family businesses.

16 Declan Trott and Leo Vance, 'Adjusting the Australian Labour Share for Depreciation, Housing, and Other Factors, 1960-2016', *Economic Papers*, vol. 37, no. 4, 2018, doi: 10.1111/1759-3441.12210

17 Ibid, 422.

18 Cette, Koehl and Philippon, 'Labor Shares in Some Advanced Economies'.

19 Ibid, pp. 2-3, 9.

20 Ibid, p. 9.

The third measurement issue is the subject of the following section, which explores the effect of housing income on the capital share of income. The authors argue that to understand the impacts of "technology, trade, or market power" capital income arising from real estate should be excluded.[21] Doing so allows for a more accurate assessment of how income is shared between workers and corporations.

Accounting for these three issues, the paper finds that there has been no general decline in the labour share in their sample of developed countries.[22] This adds to the body of literature that contests the notion that labour shares are declining and that corporations are benefiting at the expense of their workers.[23]

The long-run stability of the labour share of income in Australia is also consistent with well-established theories of economic growth. Bowley's Law, for example, holds that the labour income share of national income remains constant in the long-run.[24] Arthur Bowley was an English statistician and economist whose empirical work exploring factor income in Britain since 1860 found that the labour share of income remained relatively constant, averaging around 40%.[25] In his own words "it is remarkable that we get very nearly the same percentage, 40 to 43, according to the definition of income, from 1880, or even from 1860, to 1935."[26] The stability of labour income was acknowledged by a number of economists throughout the twentieth century,[27] and was immortalised as a stylised fact of economic growth by Nicholas Kaldor in 1957.[28]

21 Ibid, p. 10.

22 The sample includes Belgium, Germany, France, Italy, Spain, The Netherlands, and The United States.

23 See Benjamin Bridgman, 'Is Labor's Loss Capital's Gain? Gross Versus Net Labor Shares,' *Macroeconomic Dynamics*, vol. 22, 2018, pp. 2070-2087, doi: 10.1017/S1365100516001000; Matthew Rognlie, 'Deciphering the Fall and Rise in the Net Capital Share: Accumulation or Scarcity?,' *Brookings Papers on Economic Activity*, 2015, pp. 1-54.

24 Paul A. Samuelson in his book Economics coined the term Bowley's Law, referring to Sir Arthur Bowley's work that showed the stability of wage's share of national income. See Paul A. Samuelson, *Economics: An Introductory Analysis, Sixth Edition*, McGraw Hill, New York, 1964.

25 See Arthur L. Bowley, *Wages and Income in the United Kingdom since 1860*, Cambridge University Press: London, 1937, p. 92.

26 Ibid, p. xvi.

27 For a discussion highlighting these economists, and noting their tensions with predecessors, see Hagen M. Krämer, 'Bowley's Law: The Diffusion of an Empirical Supposition into Economic Theory, *Papers in Political Economy*, vol. 61, no. 2, 2011, doi: 10.3917/cep.061.0019.

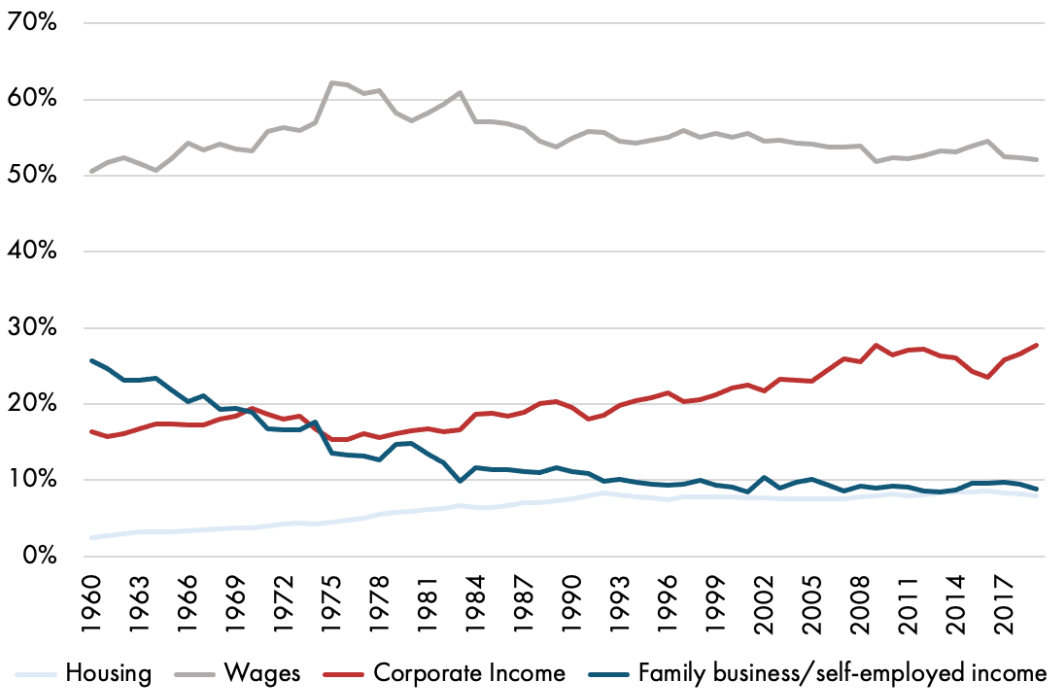
28 See Nicholas Kaldor, 'A Model of Economic Growth', *The Economic Journal*, vol. 67, no. 268, 1957, doi: 10.2307/2227704.

65% of the Increase to the Share of Capital Income in Australia is Due to Rising Property Values and the Growth of the Financial Sector

It is true that the total share of factor income that accrues to capital has increased substantially over the past sixty years, from 18.8% in 1960 to 35.7% in 2019. From a public policy perspective, however, it is important to understand what is driving this increase. Simplistic analyses may assume that the increase to capital income necessarily comes at the expense of labour income. Indeed, many analyses simplify the factor income distribution to only show labour and capital. In doing so, they combine gross operating surplus of dwellings and both public and private corporations in their measure of capital income.

However, as shown in Graph 2 below, capital income can be broken down into its constituent components. Graph 2 shows a more sophisticated breakdown of factor income than Graph 1 above.

Graph 2: Detailed components of factor income



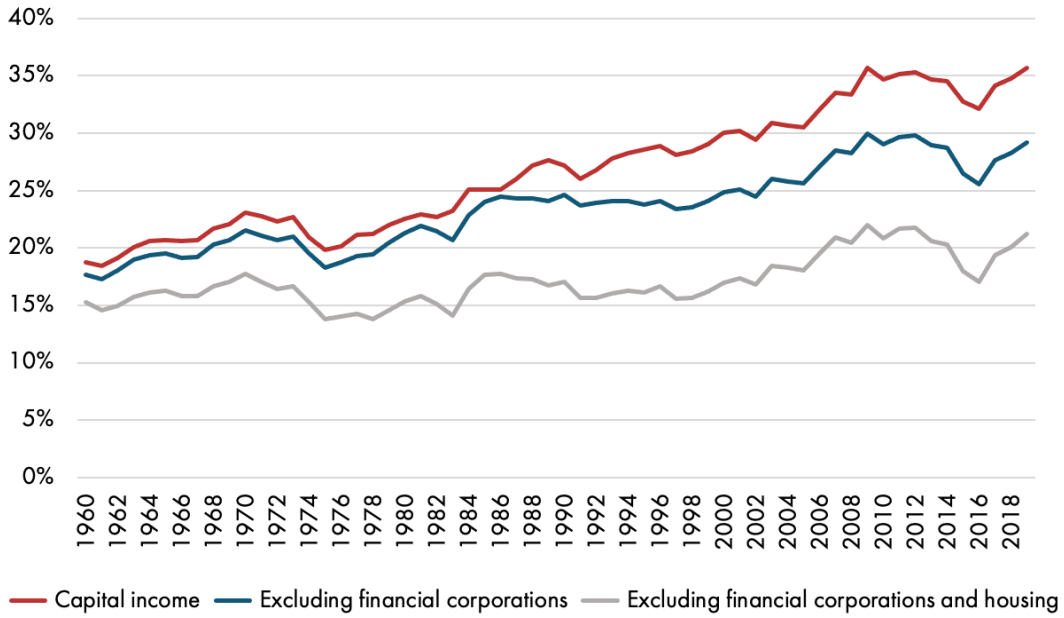
Source: IPA, ABS cat. no. 8204.

In Graph 2, capital income has been split into its two sub-components, housing income and corporate income. By doing this, it becomes clear that housing is responsible for a significant portion of the increase in the share of factor income attributable to capital income seen in Graph 1 above. Housing income has increased from 2.4% in 1960 to 8% in 2019, and corporate income has increased from 16.4% in 1960 to 27.7% in 2019. The increase in corporate income will be further broken down later in this paper.

In Graph 3 below, the capital share of income is shown, both including and excluding certain components. The top line shows the basic measurement of capital income used in this paper. The second line shows capital income excluding income accruing to housing (referred to as corporate income in this paper). And the final line shows capital income excluding housing and the financial sector.

This allows for a more detailed analysis of the data, revealing that rising property values and a growing financial sector have been the factors driving the rising share of capital income. Of the 16.9 percentage point increase in capital income from 1960 to 2019, 5.6 percentage points are attributable to housing and 5.4 percentage points are attributable to the financial sector. This means that 33% of the increase in the capital income share of factor income is due to the increase in housing income. A further 32% of the increase can be attributed to the financial sector alone, meaning that 65% of the increase is explained by housing and financial services.

Graph 3: Housing and finance sector contribution to capital income



Increase in housing income

Increased demand and a lack of supply have bid up the cost of housing substantially. The increase in housing income can be broken down into two factors: 'real' and 'nominal'. Real increases represent the changing preferences of consumers, such as higher demand for bigger and better-quality houses, and was important between 1960 and 1990 but has been less so since.[29] The nominal factor, on the other hand, reflects relative increases in the price and value of property that are not explained by changes in preferences. Between 1960 and 2019, the real and nominal factors each accounted for around half of the increase in the price of housing, although the real factor has been declining since the mid-1990s.

This increase in the cost of housing is a feature of public policy, rather than a normal market function. Rapid population growth and artificially low interest rates, coupled with supply-side restrictions on residential development have created a surge in demand and hamstrung suppliers in their efforts to provide more housing. This has created a number of second-order issues, including contributing to a declining home ownership rate. The home ownership rate (both with and without mortgages) declined from 71.4% in 1994-95 to 66.2% in 2017-18.[30]

The decline is even more stark for younger generations. As noted in a 2016 Parliamentary Library publication, demographic factors such as an ageing population "have hidden the effect of falling home ownership rates amongst younger households from Australia's aggregate home ownership rates".[31] The falling rate of home ownership, coupled with an increasing share of national income, is an important and concerning structural shift that has seen a greater share of income accruing to declining share of the population.

Increase in financial sector income

Similar to the shift in housing income, public policy has driven the substantial increase to national income accruing to the financial sector. The Reserve Bank of Australia's Gianni La Cava has highlighted the role of the financial services sector in explaining the increasing capital share of income. A 2019 paper he authored notes that some of this increase may be due to deregulation in the 1980s, although there are issues with measuring the output of the financial sector.[32] What the paper fails to mention, however, is the introduction of compulsory superannuation and the effect that this has had on the financial services industry.

29 Gianni La Cava, 'The Labour and Capital Shares of Income in Australia', Reserve Bank of Australia, March 2019, https://www.rba.gov.au/publications/bulletin/2019/mar/pdf/the-labour-and-capital-shares-of-income-in-australia.pdf, p. 8.

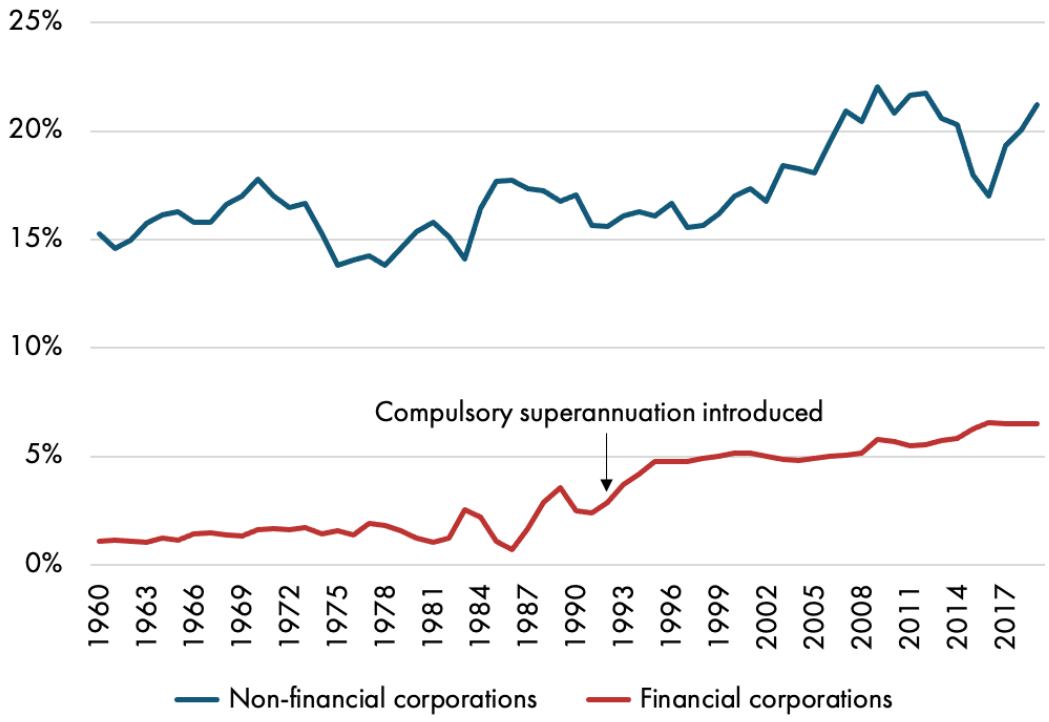
30 Australian Bureau of Statistics, cat. no. 4130.

31 Alicia Hall and Matthew Thomas, "Declining home ownership rates in Australia," *Parliamentary Library Briefing Book*, https://parlinfo.aph.gov.au/parlInfo/download/library/prspub/6801783/upload_binary/6801783.pdf, p. 134.

32 Gianni La Cava, 'The Labour and Capital Shares of Income in Australia', Reserve Bank of Australia, March 2019, https://www.rba.gov.au/publications/bulletin/2019/mar/pdf/the-labour-and-capital-shares-of-income-in-australia.pdf, p. 2.

Although there were large fluctuations in the income of financial institutions during the 1980s,[33] the noticeable and sustained increase came after the introduction of superannuation in 1992 and can be seen in Graph 4 below. It is unsurprising that the financial services industry has experienced this increase, given that superannuation fund assets have increased from just under $150 billion in 1990[34] to $3 trillion at the end of 2019,[35] a 20-fold increase. In other words, compulsory superannuation amounts to a forced wealth transfer from workers to the financial sector as reflected in the rising share of national income commanded by the financial services sector.

Graph 4: Financial and non-financial sector share of factor income



Source: Australian Bureau of Statistics cat. no. 5204.

33 Ibid, p. 3.

34 Insurance and Superannuation Commission, 'Annual Report 1992-93', Canberra, 1993, p. 56. Available from Trove, nla.gov.au.

35 Australian Prudential Regulation Authority, 'Quarterly Superannuation Performance Statistics Highlights: December 2019', https://www.apra.gov.au/sites/default/files/2020-02/Quarterly%20superannuation%20performance%20statistics%20highlights%20December%202019.pdf, p. 3.

Corporate Income has Increased While Family Business and Self-employed Income has Declined

The share of factor income accruing to family business and the self-employed has decreased from 25.7% in 1960 to 8.9% in 2019. This reflects, as noted by Gianni La Cava, the "gradual fall in the share of workers that are self-employed, particularly in the farm sector."[36] While most of the decline to self-employed income occurred between 1960 and 1983, and this was likely largely driven by declining self-employment in the agricultural sector, the decline of small and family-run businesses has been a trend across the economy and is continuing. Previous IPA research has shown that in 2018, 16% of total employment was made up of owner-managers compared to 20% in 2000. Additionally, 44% of workers were employed in a small business (with fewer than 20 employees) in 2018, down from 50% a decade prior.[37]

The decline of family business and self-employed income seen in Graph 1 above has been driven, in part, by public policy. For example, there has been a consistent increase in red tape which stifles smaller firms more generally.[38] As noted in previous IPA research, red tape is "advantageous to larger firms relative to smaller firms, because larger firms can absorb compliance costs across a higher volume of output."[39] This has been supported in empirical studies which have demonstrated that increased regulation and red tape disproportionately effects small businesses.[40]

The broad decline of family-run and small businesses is a deeply troubling trend. Small business ownership is central to the Australian way of life, and owning a business provides individuals and families a stake in their community and in the way that community is governed. Undermining business ownership, then, undermines democracy and the Australian way of life. To strengthen Australia's democratic system, and to ensure that the benefits of economic growth are distributed across society, policy makers must promote widespread asset ownership. Public policy has undermined entrepreneurship through an ever-growing red tape burden which disproportionately harms the smallest businesses that are least able to afford to comply with it. Reducing the red tape burden will reduce the cost of starting new businesses, make smaller businesses more likely to be viable, and give entrepreneurial Australians the freedom to start and run their own firm.

36 Gianni La Cava, 'The Labour and Capital Shares of Income in Australia', Reserve Bank of Australia, March 2019, https://www.rba.gov.au/publications/bulletin/2019/mar/pdf/the-labour-and-capital-shares-of-income-in-australia.pdf, p. 18. See also Trott and Vance, 'Adjusting the Australian Labour Share,' pp. 416-417; Yu Sheng, 'Measuring Output, Input and Total Factor Productivity in Australian Agriculture: An Industry-Level Analysis,' *The Review of Income and Wealth*, vol. 63, 2017, pp. S189, doi: 10.1111/roiw.12250.

37 Kurt Wallace, 'How to Solve Australia's Small Business Crisis,' Institute of Public Affairs, 2019, https://ipa.org.au/wp-content/uploads/2019/08/IPA-Research-How-to-solve-Australia%E2%80%99s-small-business-crisis.pdf.

38 Patrick A. McLaughlin, Jason Potts and Oliver Sherouse, 'RegData: Australia,' *Mercatus Working Paper*, Mercatus Center at George Mason University, Arlington VA, 2019.

39 Matthew Lesh, 'The Decline of Small Business: How Red Tape is Undermining Opportunity, Prosperity, and Community', Institute of Public Affairs, 2018, https://ipa.org.au/wp-content/uploads/2018/07/IPA-Report-The-Decline-of-Small-Business.pdf, p. 5.

40 See Dustin Chambers, Patrick A. McLaughlin and Tyler Richards, 'Regulation, Entrepreneurship, and Firm Size', Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, 2018.

Conclusion

Analysing the shares of factor income demonstrates how the economy changes over time. This paper has presented the entire time series of national income data published by the Australian Bureau of Statistics to explore how it has changed, why it has changed, and some of the implications of these changes.

The narrative that works are receiving a diminishing share of national income is not supported by the best available evidence. The labour share of income has remained relatively stable since records began in 1960, with a brief aberration between around 1975 and 1983.

These facts become evident by looking at the long-term data, rather than year-to-year fluctuations which are unhelpful and allow for misleading analyses. The focus of policy makers should be on long-term trends, as they reveal the changing nature of the Australian economy.

The most striking change that has occurred over the past sixty years is the changing composition of capital income. Specifically, national income accruing to property owners has more than tripled, from 2.4% to 8%, and income attributable to the financial sector has increased almost six-fold, from 1.1% to 6.5%. At the same time, the share of national income accrued by family and small businesses has declined from 25.7% to only 8.9%.

These changes to the distribution of national income are primarily – though not solely – driven by public policy. Rapid population growth underpinned by mass migration alongside regulation and red tape that constrains development has inflated housing values; compulsory superannuation and regulatory restrictions on competition have inflated the size of Australia's financial sector; and high taxes, a complex industrial relations system, and red tape have stymied the growth of family businesses and the self-employed.

The results of these policies are concerning. An increasing share of housing income is accruing to fewer people, as the home ownership rate declines, particularly among younger generations. Individuals and households have been denied the opportunity to plan and save for their own retirement as compulsory superannuation has removed choice and retirement savings are diminished by fees and charges. And family businesses and the self-employed have been forced out of the economy, strangled by red tape and regulation that favours larger firms.

These structural changes represent a threat to Australia's asset-owning democracy and to the Australian way of life.

Small business and home ownership are essential pillars in Australia's democratic system. The challenge for policy makers is that the undermining of asset ownership has been largely driven by public policy, as explored in this paper. Addressing such policy failures is central to ensuring widespread prosperity and the future of the Australian way of life.

FACTOR INCOME PAPER

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