



GOVERNMENT AND INTERNATIONAL RELATIONS INDIVIDUAL ASSIGNMENT/ESSAY COVER SHEET

Surname: Carey

First Name: Lachlan

Student Number (SID): 308166450

University Email Address: Lcar6141@uni.sydney.edu.au

Phone Number: 0425832733

Tutor: _____

Tutorial Day & Time: _____

Unit of Study Code: GOVT4101

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Date: 10/10/2012



THE UNIVERSITY OF
SYDNEY

Faculty of Arts and Social Sciences

School of Social and Political Sciences
Government and International Relations
Room 269, Merewether Bldg, H04
University of Sydney, NSW, Australia 2006
Phone: +61 2 9351 2054
Fax: +61 2 9351 3624
govt.dept@sydney.edu.au

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PRESENTATION					
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AUSTRALIAN FINANCIAL GOVERNANCE:

THE POWER OF THE AUSTRALIAN
FINANCIAL INDUSTRY OVER PUBLIC
POLICY-MAKING IN THE LEAD-UP TO THE
GLOBAL FINANCIAL CRISIS

LACHLAN CAREY

HONOURS IV 2012

DISCIPLINE OF GOVERNMENT AND INTERNATIONAL RELATIONS

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ABSTRACT

The recent Global Financial Crisis (GFC) has once again highlighted the significance of finance and the financial industry to modern economies, the societies they affect and the ability of governments to make autonomous policy decisions. In general, the blame for this crisis is argued to be upon the ‘new financial architecture’ of modern finance, which was ushered in by the large financial firms and their disproportionate influence over government. The paradox of the Australian experience however, is that despite its financial system being firmly embedded in this ‘new financial architecture’, its regulatory framework is generally considered to have eased Australia’s passage through the crisis. Therefore, this thesis seeks to analyse how such a regulatory framework has come into existence and more importantly, whether the Australian financial industry was important in that process. To do so, this thesis will employ the ‘three faces of power’ conceptual framework to existing and original theoretical and empirical evidence so as to better understand the nature of discursive, structural and instrumental power in Australian financial governance. From this analysis one can infer that while finance *as an ideal* has significant power over the policy-making agenda of government, individual financial actors encounter sufficient structural and institutional checks and balances so as to be on a relatively equal playing field to other politically interested actors.

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INTRODUCTION

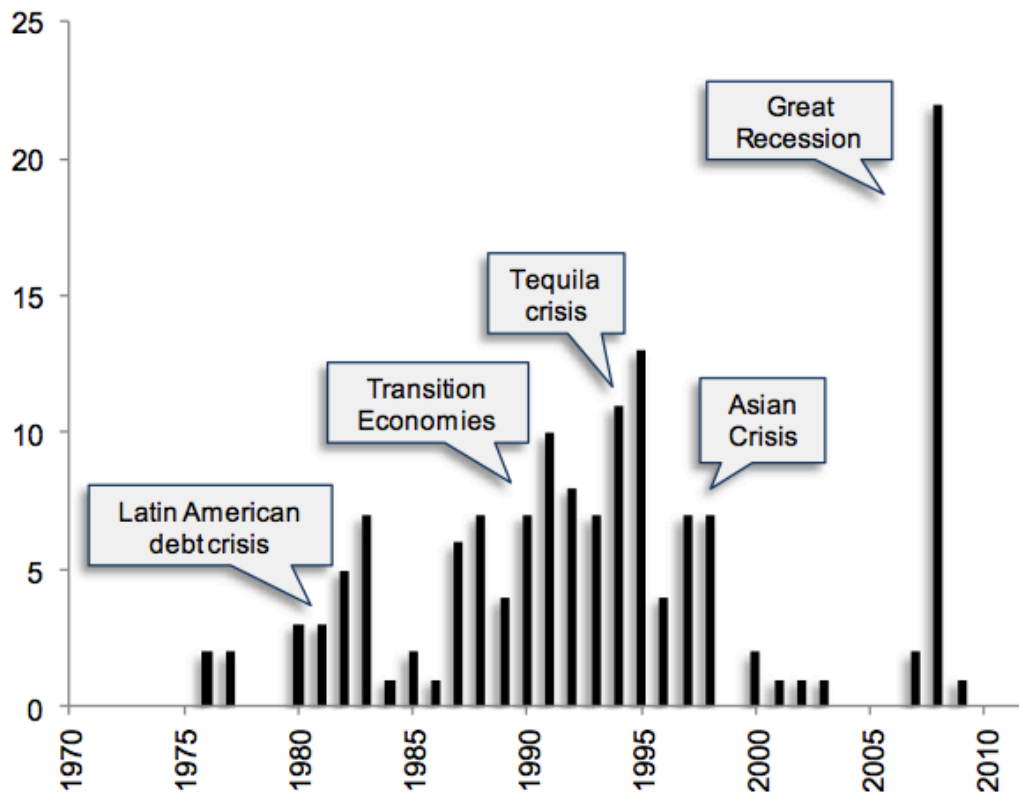
As the world slowly recovers from the sub-prime mortgage collapse of 2007 and the resulting ‘Great Recession’ of 2008, policy-makers are continually reminded of the influence finance has over their economies and their ability to determine policy outcomes. The financial and ‘real economy’ consequences of this ‘Global Financial Crisis’ (GFC) have spurred furious debate world-wide over who is to blame, how it could have been avoided and what it means for the future role of finance and the financial sector in modern economies. The Australian experience suggests that a strong economy, profitable financial sector and stable regulatory framework are interrelated elements in combating such consequences. While there is no shortage of academic writing explaining Australia’s strong economy and its profitable financial sector, this author believes that there is an insufficient understanding of the various discursive, structural and relational factors that go into the formation of Australian financial regulation.

The crucial question therefore, is how policies are formed and who has power over that process. Using the well-established ‘three faces of power’ approach, this thesis concludes that while the idea of finance as a method for allocating resources and stimulating economic growth wields enormous power in public policy decisions, individual financial industry actors encounter the same structural and institutional constraints as any other private actor attempting to influence public policy. This is a significant conclusion, for not only does it help to better understand the nature of Australia’s relative success in regards to the GFC, but it provides a systematic analysis of power relations that has, thus far, been lacking in the Australian literature.

RATIONALE FOR RESEARCH

The underlying rationale for this research is a belief in the ability for effective financial regulation to not only promote economic growth but to prevent, or at least reduce, the effects of financial crises. Finance continues to occupy a position of unparalleled influence in the global and Australian context, a fact that is apparent in the prevalence of financial crises and their impact upon societies worldwide.

Figure 1: Prevalence and Banking Crises



Source: Laeven & Valencia, 2012, p.10

1/Number of systemic banking crises starting in a given year

Figure 1 clearly illustrates the preponderance of systemic banking crises in the global economy and (aside from a brief ‘golden age’ following the 1997-98 Asian Crisis), the high frequency in which they occur. Similarly, the GFC illustrates the potential consequences of poor financial regulation all too clearly. Despite originating in the United States, the economic effects of the subprime mortgage meltdown were experienced right around the globe and especially so in developed nations, who tend to have deeper financial sectors. In 2008, of the world’s seven largest economies, only China and France avoided a recession. Smaller countries such as Iceland fell into severe economic depressions and in the European Union particularly; the crisis is still far from over. Australia on the other hand, managed to avoid recession entirely and despite an increase in unemployment and lower consumption, its economy grew by almost 2% in 2009 (Barr, 2012).

There are three generally accepted reasons for this relatively benign experience of the crisis: (1) that the commodity boom and the resulting profitable mining sector meant domestic banks could invest largely at home and avoid the ‘toxic assets’ that decimated the balance sheets of its European and American counterparts, (2) that the regulatory framework established by the Campbell and Wallis Inquiries kept the banks in check, thus avoiding exposure to risky assets, and (3) that the decisive policy response of the Rudd Government in 2008 to stimulate the economy was sufficient to counter the prevailing forces of a credit crunch and global recession (see Rudd, 2009; OECD, 2010; Country Finance, 2011; Davis, 2011). While the first and third answers require analysis in the discipline of economics, the second delves into a broader debate on the relationship between business and government. A common argument, particularly in the American context, is that finance and financial industry actors held an authoritative status in the policy-making process, which was to blame for the onset of the crisis. This thesis will analyse this argument in the Australian context and by doing so, contribute to the general understanding of the relationship between business and government in a modern, globalised and democratic state.

METHODOLOGY

This thesis employs the ‘three faces of power’ approach that has gained acceptance as the superior methodology for studying power relations. In particular, the work of Doris Fuchs (2007) is drawn upon heavily in deriving an appropriate analytical structure. In her book *Business Power in Global Governance*, Fuchs argues that this approach provides the best systematic assessment of the relations between business and government. Although her study is considerably broader than this analysis, its theoretical foundations for the study of business power remain significant.

Power is arguably the key concept in political science, which has important implications for the functioning of government and hence, the societal implications of policy outcomes (Lasswell & Kaplan, 1950). The inherent problem when researching power relations is that *power can be wielded prior to the decisions and outcomes that are the result of such influence*. For the public policy-making process, this is referred to as the *agenda* of government, whereby potential decisions are organised in or out of the process itself. Such instances of power cannot be observed, but instead must be inferred through qualitative analysis. The ‘three faces of power’ approach is the best methodology for such a qualitative analysis in that it distinguishes between the various ways in which ideas, structures and individual actors can influence both the agenda and policy decisions themselves (Fuchs, 2007).

This framework is then applied to existing theoretical and empirical evidence on Australian governance and the financial industry. Such a qualitative analysis is based on original interview evidence with key office-holders who were chosen for their involvement in influential arenas of Australian governance. These will be analysed to provide first-hand accounts of power relations between finance and government. Where existing theoretical and empirical evidence is used, this ‘secondary-level analysis’ is approached from the perspective of the ‘three faces of power’ approach, which, for the most part, provides an original and unique understanding of these established phenomena.

STRUCTURE

This thesis is made up of five chapters. The first two outline the Australian context and development of the theory within which the analysis is to be conducted. The remaining three are analytical, with each based around one of the ‘three faces of power’. They begin at the broadest level of discursive agenda-setting power, and then narrow their focus on agenda and rule-setting structural power, before concluding with an instrumental analysis of how individual actors gain and wield influence.

Chapter 1 is a context chapter that establishes why this thesis is an important piece of analysis at this time. The chapter first looks at the nature and size of the Australian financial industry before briefly discussing the Global Financial Crisis and the foundation of Australia’s regulatory framework: the Wallis Inquiry. The first section illustrates how important the financial industry is to the Australian economy, the concentration of its various components and how it compares internationally. The second section describes the GFC and how its implications for governance form a puzzle in contemporary literature that requires scholarly investigation. The final section briefly introduces the 1997 Wallis Inquiry and why it forms an important component of this thesis’ analysis.

Chapter 2 briefly introduces the main aspects of this thesis’ methodological approach. These include the ‘three faces of power’ conceptual framework, a brief discussion of the public policy-making process and an outline of how interviews were conducted and with whom. This chapter also illustrates the gap in the Australian literature, which this thesis aims to fill. The first section describes why the ‘Three Faces of Power’ approach is a superior method for systematically analysing power relations and subsequently, why the remainder of the thesis is structured around this approach. The remainder of this chapter seeks to provide a history of how the study of power relations has developed, from instrumentalism through structuralism and finally, the discursive approach. Within this review of the literature, the significant components of each approach are discussed and defined. Finally, the interview process is discussed, including some brief biographies of the interviewees and why their responses are relevant to this

analysis.

Chapter 3 provides the broadest view of the Australian financial industry's power over public policy-making by analysing the discourse of neoliberalism and how this has legitimised the financial industry and subsequently imbued it with discursive power. This chapter is based on the notion that prior to the policy-making process, various norms and ideas are considered legitimate or illegitimate. That is, the dominant discourse or ideology shapes how policy, politics and problems are framed and therefore limits the agenda available to government decision-makers. Based on Kingdon's (1995) analysis of how the agenda of government is formed, this chapter looks at the individual processes of 'policy', 'politics' and 'problems' to analyse how the neoliberal economic paradigm has set the government's agenda and legitimised finance as a key component in how policy-makers seek to allocate resources and promote economic growth.

Chapter 4's analysis of the financial industry's structural power discusses how the economic significance of finance and its role as the allocator of capital instills it with an inherent power over government policy. The government's fear of poor economic outcomes, which are exacerbated in the financial industry by its global connections and international ramifications, limits the agenda of government to the policy options that benefit the financial industry. In addition, this structural power also influences the way in which the government chooses to regulate the industry to the point where an increasing number of traditionally governmental responsibilities are deferred to the industry itself. This 'active' structural power (Fuchs, 2007) further limits the autonomy of government and grants the financial industry with more power over the policy-making process.

Finally, Chapter 5 discusses how individual actors within the private and public sector interact and attempt to promote their own interests within the policy-making process. As discussed, the overarching hypothesis is that although the financial industry is granted significant discursive and structural power via the authority of finance *as an idea*, this does not necessarily afford financial industry actors with disproportionate power over policy-making. Instead, financial industry actors must overcome the same structural obstacles as other industries, and while there are instances of actors utilising their discursive and structural power to gain influence, the case of the Wallis Inquiry is used to

demonstrate how institutions, such as the office of the Treasurer retain significant power and the ability to counteract the best efforts of private actors.

This thesis therefore shows the inherent distinction between the concept of finance as a manifestation of neoliberal economics and the financial industry as a sector of the ‘real economy’ comprised of hundreds of profit-driven actors striving for political influence. This is important in the context of power in that it distinguishes between how the policy-making process is framed and the decisions resulting from that process. Questions over the future of financial governance in a post-GFC world can subsequently be viewed in a new light. The role of finance in modern economies retains its prominent position while individual financial industry actors are subject to the structural and institutional constraints required to maintain the benefits of finance for the economy and society in general.

CHAPTER 1

CONTEXT

FINANCE IN PERSPECTIVE

This thesis develops a scholarly understanding of financial governance and the power relations of Australian government. Such an understanding must inherently be considered in the globalised, crisis-prone world within which it operates. This chapter will briefly examine the nature of finance and Australia's financial industry as well as the events and causes of the recent GFC. Understanding the financial industry is integral to pursuing further analysis of its power relations, particularly when much of this thesis' analysis is concerned with the discursive and structural elements of that power, which occur beyond the superficial indicators of finance. In many ways, the GFC coordinates and drives the analysis of this thesis by indirectly illustrating the key issues, actors and concepts while providing a number of contemporary academic debates from which this thesis will draw upon and contribute to. The final section of this chapter briefly discusses the 1997 Wallis Inquiry and why it is an integral component of this thesis' analysis.

AUSTRALIA'S FINANCIAL INDUSTRY

Financial markets serve an increasingly fundamental economic function in developed countries like Australia by facilitating the allocation of savings to their most productive use. However, it is important to note the distinction between *finance* and the *financial industry*. The financial industry is the cumulation of private actors in financial markets,

such as equity, bonds, derivatives and debt markets as well as superannuation, insurance and managed funds. That is, all the individual actors seeking to maximize profits and therefore potentially wield political influence in order to achieve favourable policy outcomes. The concept of *finance* as an economic function however, refers to the mobility of capital and the role that plays in facilitating economic growth. As will be discussed at length in Chapter 3, *finance as an idea* is closely associated with the ideological doctrine of neoliberalism, which argues that private markets are the most efficient mechanism for allocating resources. This of course relates to finance in that financial markets allocate capital to the most profitable businesses through investment. Therefore, when this thesis discusses *finance*, it is referring to the ideal of efficient, mobile capital and its ability to maximize economic growth. This is an important distinction, particularly when it comes to differentiating the influence the Australian financial industry wields instrumentally, versus that which is derived structurally or discursively.

According to the Economist Intelligence Unit:

“Australia has a highly sophisticated financial system in which the full range of services is available, and foreign firms compete on equal terms with domestic rivals” (2011, p.2)

Australia is consistently ranked right at the top of international financial centres, for instance the World Economic Forum’s Financial Development Report, 2009 ranks Australia 2nd behind the UK as a financial centre (Australian Financial Centre Forum, 2009). In terms of its contribution to the economy, Australia’s financial sector accounts directly for around 10.9% of GDP, which is comparable to the mining sector, making it the fourth largest industry in the country (Davis, 2011). Its only major differences from foreign financial sectors are the concentration of its banks and the large size of its pension fund. Of course, the other major point of difference is how well Australia’s financial industry dealt with the GFC.

THE GLOBAL FINANCIAL CRISIS

What is now commonly referred to in Australia as the Global Financial Crisis (GFC), began in mid-2007 as a housing bubble geographically isolated to the United States (Cohen & Remolona, 2008). Yet ultimately, through a combination of ‘toxic assets’ and open financial markets, brought about a liquidity crisis and global recession unseen since the Great Depression (Masood et al., 2010). As the effects of this crisis continue to be felt around the world, from a poor recovery in the US to the near collapse of Greece that has enveloped the Euro zone, authors continue to offer their analyses of why this crisis occurred and how such future international calamities can be avoided (see Crotty, 2009; Yeaman, 2010; Wallison, 2010). The Crisis was triggered in the United States by a blend of government backed mortgage companies, poor lending requirements and a proliferation of ‘toxic assets’ such as Mortgage-Backed Securities and Credit-Default Obligations (Randazzo, 2012).

However, the GFC was of course a *global* crisis and could not have spread with such speed or devastation without the ‘new financial architecture’ of modern technologies and light government regulation (Crotty, 2009). This has particularly important implications for Australia, which in an apparent paradox, both largely avoided the crisis and is well-recognised for its open financial markets and deregulated financial environment (FSB, 2011). While there remain scholars who disagree with the consensus view of the causes of the crisis, this thesis leaves such discussions aside. It assumes that this ‘new financial architecture’ was at the very least an important factor and asks the next logical question: how did this system arise and who is responsible for it? The answer in the American literature is that their system arose from the unfair power large financial firms had over the political process. In many ways, this theory is the source of inspiration for this thesis in that few, if any, attempts to test such a hypothesis in the Australian context have been conducted.

Since the GFC, there has been an abundance of American literature analysing the role various actors played in influencing the regulatory decisions that ultimately led to the

crisis. From the Oscar-winning documentary ‘Inside Job’ (2010) to a large-scale quantitative analysis of lobbying and mortgage lenders conducted by the IMF (Igan et al, 2011), authors have generally concluded that the financial industry wielded significant influence over policy-making in the United States via their financial resources. The power of lobbyists and large financial firms can be seen in such cases as the repeal of the Glass-Steagall Act in 1999 (Crawford, 2011), which, by allowing conventional banks to pursue riskier activities more reminiscent of an investment bank, is argued to be one of the key decisions that led to the crisis (Marks, 2009). This has prompted several commentators to argue that it is the lack of such financial influence in Australia’s policy-making process that is responsible for the strong financial regulatory environment and subsequent benign impact of the crisis (Brown & Davis, 2008). While there have been studies on the political influence of the Australian financial industry previously (see Bakir, 2009), there has been little, if any attempt to do so with a specific focus upon the GFC or as a synthesised analysis of discourse, structures and actor relations in the Australian context.

THE WALLIS INQUIRY

Finally, the 1997 *Financial System Inquiry*, known as the Wallis Inquiry, is largely recognised as establishing the regulatory framework that is still the foundation of Australia’s financial industry (see Bakir, 2003). By recommending the ‘twin peaks’ system of regulation as well as a shift from functional to institutional regulation, the Wallis Inquiry created a stable, transparent and efficient framework that many argue was one of the key factors explaining Australian relatively benign experience of the crisis (see Finsia, 2009; Harper, 2009). Whether or not this is true is beyond the scope of this thesis, however what this argument does, is establish a specific context and puzzle for this thesis’ analysis. While this thesis is concerned with a broader time frame (the ‘lead-up to the GFC), this not only includes the Wallis Inquiry, but also due to its apparent significance a decade later, provides a convenient case study for analysis and comparison within the ‘three faces of power’ conceptual framework. Such an inquiry-centric method of analysis

has a strong history within Australian literature on financial and economic governance (see Bakir, 2003; Fitzgibbons, 2006; Bakir, 2009; Eccleston & Marsh, 2011), which this thesis shall draw from and contribute to by broadening its conceptual framework to include notions of discursive and structural power.

CHAPTER 2

METHODOLOGY – THEORY AND EVIDENCE

A CONCEPTUAL FRAMEWORK FOR ANALYSING FINANCIAL GOVERNANCE

The qualitative methodology of this thesis is in applying an established conceptual framework to a contextually relevant situation, using existing and original theoretical and empirical evidence. Hence, this chapter reviews and outlines this conceptual framework while introducing the forms of evidence that will be used in the subsequent analysis, particularly the semi-structured interviews with key office-holders.

Doris Fuchs (2007) points out that political theories of business can either be concerned with the influence of business upon government, or of that which government has upon business. This thesis will be largely concerned with the former. Within this government-centric approach, David Coen et al (2010) describe three fundamental debates in political science. First, the relative power of the market to government; second, whether business enjoys unfair advantages in politics and finally, whether the business-government relationship results in sub-optimal policy. There is of course a burgeoning literature developing with regard to how Australia's financial regulations have affected the economic consequences of the Financial Crisis (i.e. the third of Coen's debates - see Harper, 2009; Rudd, 2009; Brown & Davis, 2008). However, little has been written in regards to the first two debates within this particular context.

This thesis therefore, attempts to fill this gap in the literature by systematically analysing financial business power and whether it enjoys an unfair advantage in politics. Therefore, the first section discusses the conceptual framework. The second briefly reviews what is meant by the 'policy-making process', while the final section outlines

discusses the interviews and how they contribute to this thesis' analysis.

THE 'THREE FACES OF POWER'

Before analysing the 'three faces of power', the term itself must be understood. Consensus among most political scientists is of a broad definition of power similar to that proposed by Max Weber in 1978;

“the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests” (p.53, cited Fuchs, 2007, p.55).

The main point of contention among political scientists is the second half of this definition: the basis upon which the probability of affecting another's behaviour rests. Charles Lindblom (1977) was the first notable theorist to broaden how political scientists conceptualise 'power' in relation to the business-government relationship. He argued that business power can be either 'intentional' or 'structural' in nature. Intentional power is the rubric by which political scientists have traditionally studied business influence in that it is an actor-centred, relational concept (Fuchs, 2007) that explores how businesses influences decision-makers. When Lindblom popularised a structural component to this power, scholars began to consider how business can control the agenda and allocation of policy attention through their capitalist control of the economy. However, as authors such as David Levy and Daniel Egan (2000) have shown, a systematic analysis of business power also requires the use of the less common, yet extremely important third perspective, known as 'discursive power'. Fuchs (2007) argues that this form of power is reflected in the discourse, communicative practices and cultural norms and institutions of a society.

Fuchs labels these three approaches as 'instrumentalist', 'structuralist' and 'discursive'. While it must be acknowledged that there is overlap between each category,

for the purposes of analytical clarity, it is within this theoretical rubric that this thesis will attempt to understand and analyse the power of the Australian financial industry. While such an approach undoubtedly broadens the scope of this thesis quite considerably, any analysis that limits itself to just one ‘face of power’ is insufficient for understanding the policy-making process and nature of the business-government relationship.

INSTRUMENTALISM

Instrumentalism is a conception of power that focuses upon the actor and how their autonomous choices lead to observable consequences. As a seminal figure in traditional theory of business power, Robert Dahl’s (1957) definition as when “A has power over B to the extent that he can get B to do something that B would not otherwise do” (p.201) is an accurate representation of this perspective. Therefore, the majority of instrumentalist discourse is based upon analyses of interest groups, campaign financing and other directly observable instances of business political activism (Hrebener & Scott, 1990). However, while instrumentalists all tend to agree upon this definition of power and the primary actors involved (Fuchs, 2007), the debate over how important these actors are in the decision-making process has evolved dramatically.

Until the 1960s, the dominant perspective on business power was the pluralist approach. Propagated by scholars such as Robert Dahl (1957) and David Truman (1951), pluralism essentially argued that businesses - and therefore the lobby groups who represented them - had a benign influence that was largely limited to providing information to decision-makers. The majority of this literature was based in, and focused upon, the United States. From the ‘transactions perspective’ and its focus on empirical research (see Heinz et al, 1993) to ‘neopluralism’ and the development of a broader perspective on power relations (see Vogel, 1996; Goldstein, 1999), the instrumentalist literature has developed considerably from this relatively simplistic beginning. The dominant perspective now is known as ‘neocorporatism’, which emphasises the plurality of interest groups that operate in institutionalised channels of governance.

There is a strong tradition of instrumentalist approaches to the study of business power in Australian scholarship. Indeed, this literature followed much the same trajectory as its American counterpart (Marsh, 2003), whereby pluralism dominated the discourse until the mid-1960s before more critical approaches gained acceptance. Neocorporatism has become the dominant approach in what, particularly when analysing economic policy, is an inquiry-centric literature (see Bakir, 2009, Zhang, 2010). Similarly, this thesis focuses predominantly on the Wallis Inquiry as the moment of key financial reform and intersection of the ‘three faces of power’.

STRUCTURALISM

Since Charles Lindblom’s (1977) seminal piece; *Power and Markets*, many authors have argued that businesses’ control over the economy is the most significant relationship between business and government (see Bell, 1992). By threatening to shift investment elsewhere, businesses can control decision-makers with their potential to affect economic outcomes. Hacker and Pierson (2002) argue that this form of power is exercised:

“automatically and apolitically...it results from private, individual investment decisions taken in thousands of enterprises, rather than from any organised effort to influence policy makers” (p. 281)

Inherent within this conception of power is the link between capitalism and democracy, since politicians require a strong economy for electoral support, and business investment controls the economy. Therefore, it is clear that this is an entirely different conception of business power in that it does not consider observable instances of policy-making but analyses the *agenda* of government and how the policy-making process can be influenced prior to the decisions themselves.

DISCURSIVE POWER

The “third face of power” (Lukes, 1974) is the least studied perspective on business power, although several authors have argued that it has the potential to be the most pervasive in shaping decisions (Fuchs, 2007). Inherent within this notion of discursive power is a fundamentally structural conception of political actors (Hindess, 1988). Cathy Greenfield & Peter Williams (2007) argue that people’s sense-making capabilities are created through formal and informal institutional training instead of a natural or overarching ‘reason’. Discursive power is essentially a sociological perspective on power relations, requiring different methodologies and different conceptions of actors. The key premise, according to Fuchs, is that it highlights how actors use discourse to shape norms and ideas. This creates two significant differences from the previous conceptions of power: first, discursive power does not simply influence the interests of actors, but it has the power to create them. Second, discursive power is closely tied to the concept of legitimacy; if certain norms and ideas are perceived as legitimate, then this creates and influences the agenda, which can then be recognised through institutionalising it within the policy-making process.

Fuchs (2007) argues that legitimacy can arise from either a moral or pragmatic basis. Moral legitimacy arises when an actor is perceived as having a superior set of morals to other actors. Pragmatic legitimacy on the other hand, is when an actor is considered to be superior in matters such as efficiency, competitiveness, knowledge or expertise (i.e. an expert). Such legitimacy in finance is posited as arising from the hegemonic status of neoliberalism within the policy-making process.

Discursive influence manifests itself in the authority given to actors associated with that discourse, in this case neoliberalism. Authority can be defined as “institutionalised forms or expressions of power” (Buthe, 2003, p. 246), which are considered legitimate in that “there is some form of normative, un-coerced consent or recognition of authority on the part of the regulated or governed” (p.246). The important consideration here is that it is a *recognised* and institutionalised power. This can be better understood using the

analytical rubrics of authors such as Katsikas (2010) and Fuchs (2007). Katsikas discusses the distinction between being *an* authority and *in* authority, while Fuchs argues that legitimacy can be either moral or pragmatic. Katsikas (2010) differentiates between *an* authority, which is when power is recognised as being legitimate based on “demonstrated knowledge, skill, or expertise” (p.115), while *in* authority is possessed “by virtue of holding an office in an organisation” (p.115). Therefore authority can manifest itself either through the financial industry being recognised as possessing superior knowledge and expertise in certain matters (Hall, 2005), or by being a part of recognised institutions.

Such an integrated analysis has previously not been applied to the financial industry, although there is an abundance of literature pertaining to the hegemony of neoliberalism (see Nicholls, 2010; Bell, 1997; Fenna & Tapper, 2012) and its consequences for the business-government relationship. The crucial component of this thesis’ analysis is in relating the neoliberal discourse to the legitimacy of *finance*, which is then incorporated into the more conventional analyses of structural and instrumental power in Chapters 4 & 5.

THE PUBLIC POLICY-MAKING PROCESS

Since this thesis is concerned with the power of the Australian financial industry over the public policy-making process, it is important at this time to define what public policy means. Peters (1986) suggests that:

“Stated most simply, public policy is the sum of the activities of government, whether acting directly or through agents, as it has an influence on the lives of citizens” (p.4)

Jordan (1981) argues that this ‘sum of the activities of government’ can occur only within an ‘iron triangle’ comprised of politicians, the public service and the private sector. These three sectors of policy-making inform much of how this analysis is structured and

the arenas of government from which interviewees would be required for analysis.

INTERVIEWS

Five semi-structured interviews were conducted for this thesis from five key arenas of governance; parliament, the public service, the private sector, media and think-tanks. Three of these five arenas are the ‘iron triangle’ of policy-making (Jordan, 1981); while the media and think-tanks were chosen for the way they influence knowledge and ideas of the general public (Greenwood & Williams, 2007) and policy-makers themselves (Cahill, 2007). The questions used in these interviews have been included as Appendix A. The five “elite” individuals (Burnham et al., 2008) approached for an interview were chosen both for their positions within these five arenas and their participation during the relevant time period of the late 1990s. Although this thesis is analysing the ‘lead up to the GFC’, the significance of the 1997 Wallis Inquiry means that much of this thesis will in fact dwell on this time frame and event as the primary contributor to Australia’s current regulatory framework.

The interviewee from parliament is Joe Hockey, who is currently the Shadow Treasurer under Opposition Leader Tony Abbott in the Liberal/National Coalition. What is particularly relevant to this thesis stems from his previous role as the Minister for Financial Services and Regulation from 1998-2001 in the Howard Government, where he was responsible for the implementation of the Wallis Inquiry and Corporations Reform Act 2001. He was also Treasurer Peter Costello’s Junior Minister throughout this period of financial reform.

From the public service, Tony D’Aloisio was interviewed. Mr D’Aloisio was the Chairman of the Australian Securities and Investment Commission (ASIC) from 2007-2011. He was also a Director of the Business Council of Australia, a member of the Board of Taxation, the International Legal Services Advisory Council and the Chairman of its Globalisation of Legal Services Committee. In addition, he was Managing Director and

Chief Executive Officer at the Australian Securities Exchange (ASX) from 2004 to 2006. During this time, he was also a Director of the World Federation of Stock Exchanges.

As a representative of private sector interests in the financial industry, David Murray, the former CEO of the Commonwealth Bank of Australia (CBA) was also interviewed. In addition to his 13 years as CEO from 1992-2005, Mr Murray was the inaugural Chairman of the Australian Government Future Fund Board of Guardians between 2006 and 2012. In 2007, he was appointed an Officer of the Order of Australia for his services to the financial industry both domestically and overseas.

Since it is the proposal of this thesis that the power relations between the Australian financial industry and government also occurs at the discursive level, part of its analysis discusses the role of the media and think-tanks in influencing the policy-making process. From the media, this author interviewed prominent financial commentator Ross Greenwood who is currently a finance reporter for *Today*, *Nine News* and presents *Money News* on 2GB Radio.

Finally, from the Centre for Independent Studies, Senior Research Fellow Robert Carling was interviewed as a representative of third-party actors influencing the ideological context of financial regulation.

CHAPTER 3

DISCURSIVE POWER

HEGEMONY AND LEGITIMACY IN POLICY-MAKING

The discursive approach to the study of power analyses how ideas, norms and social relations influence the actors exposed to them. Such an approach is particularly important in that it wields influence prior to the policy decisions by setting the agenda available to policy-makers. Peter Hall (1993), whom Colin Hay (2004) identifies as perhaps the most notable theorist in this field, illustrates this most effectively:

“Policy makers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing...This framework is embedded in the very terminology through which policymakers communicate about their work, and it is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole” (1993, p.279)

In the context of this thesis, the discursive power of the financial industry refers to the way in which finance, *as an idea*, influences the agenda of the policy-making process. It is argued that ‘finance’ is the purest embodiment of the neoliberal economic paradigm that has risen to a ‘hegemonic status’ in policy-making and therefore, the subsequent legitimacy of neoliberalism translates into the legitimacy of *finance*. Therefore, this chapter will illustrate the discursive environment within which the structural and instrumental power of the financial industry operates. The hegemony of neoliberalism as the dominant economic discourse establishes finance and market-oriented strategies as clear goals of

governance. But more importantly, it recognises the financial industry as *an* authority in the policy-making process via the expertise of legitimate finance. Kingdon (1995) argues that there are three interrelated elements in how the agenda of government is determined, prior to the policy-making process itself. These are: (1) policy - the ideas and goals influencing decisions; (2) politics - the interrelationship of decision-makers; and (3) problems - the way social, political and economic issues are framed. Therefore, for the purpose of analytical clarity, this chapter will use this framework to distinguish between the different ways in which the neoliberal discourse influences the government's agenda and hence, the policy-making process itself. This analysis will primarily rely on the interview evidence conducted by the author with individuals from each of the arenas posited to influence the norms and ideas that shape the policy-making process, that is; politics, bureaucracy, the private sector, the media, and think-tanks.

This is a new approach taken to the study of power, and especially power in the Australian context, in that it combines several recognised approaches to form a unique hypothesis relating the Australian financial industry to policy-making through discourse. According to Fuchs,

“discursive power is the capacity to influence policies and the political process as such through the shaping of norms and ideas” (2007, p.139).

It is therefore argued that a) the hegemony of neoliberalism shapes the norms and ideas of the political process; b) that such norms and ideas legitimise finance as a goal of policy and the political process and finally c) that these policies and the political process formulate the government's agenda, thus establishing the financial industry as *an* authority in that process. The following chapter will demonstrate these phenomena in three sections; the first section on theory briefly expands upon the concepts of discursive power and ‘hegemony’; the second section reviews the rise of neoliberalism and outlines what that means for the legitimacy of finance and financial actors; finally, the third section uses Kingdon's agenda-setting framework of ‘policy’, ‘politics’ and ‘problems’ to analyse what hegemonic neoliberalism means for the shaping of the policy-making process and hence, demonstrate how such phenomena translate into *power*.

THEORY

The strength of this theoretical approach is that it incorporates an analytical framework of policy-making with recognisable constructs that make sense of the notoriously difficult concept of ‘discursive power’ (Fuchs, 2007). From a review of the literature, it appears that the hegemony of neoliberalism has not been studied as a form of discursive power through its ability to legitimise the Australian financial industry. This chapter will also use the Gramscian notion of a ‘hegemonic discourse’ (Sinclair, 2000) as opposed to similar concepts such as the ‘master social narrative’ (Nicholls, 2010) due to the way it interacts with Kingdon’s (1995) framework of the policy-making agenda. According to Timothy Sinclair (2000);

“hegemony refers to the use of consent and coercion to establish and maintain a prevailing system of social relations, including supportive forms of government, policy norms and trade-offs between productivity and social cohesion” (p.488).

The ‘use of consent and coercion’ is the way in which discourse frames the policy, politics and problems that are identified by Kingdon (1995) as setting the policy-making agenda. The development of neoliberalism as a hegemonic paradigm in each of these components of the policy-making process is the key link between neoliberalism and power. Since power is the ability of one actor to influence another, power in this context derives from a ‘prevailing system of social relations’ (neoliberalism) that sets the policy-making agenda through the interrelated processes of policies, politics and problems. It is also posited that the degree to which neoliberalism can be considered the ‘prevailing system of social relations’ within these policy-making processes can be illustrated through its *legitimacy*.

As was outlined in Chapter 2, legitimacy is when an actor is considered to have a superior set of morals or expertise to another. This legitimacy is then recognised through

the “institutionalised forms or expressions of power” (Buthe, 2003, p.246), known as ‘private authority’. This chapter demonstrates how the legitimacy underpinning such authority has been attained (i.e. through the hegemony of neoliberalism). Using original interview evidence and secondary analysis of key policy documents, it will also demonstrate how through this legitimacy, the financial industry is now, in many ways, *an* authority within the policy-making process.

NEOLIBERALISM

Alex Carey (1996), an Australian political scientist, wrote in his well-renowned piece *Managing Public Opinion* that:

“The 20th century has been characterised by three developments of great political importance: the growth of democracy; the growth of corporate power; and the growth of propaganda as a means of protecting corporate power against democracy” (p.131)

It is the contention of this chapter that the Australian financial industry has risen to an authoritative status based on the legitimacy awarded to it by the ‘propaganda’ of neoliberalism. There is a strong history of ‘hegemonic neoliberalism’ within political economy literature, such as James Richardson (1997) who argues that the promulgators of neoliberalism are “in command of the political high ground” and “beyond effective challenge” (p.53) or Alan Finlayson et al (2005) who posits that neoclassical economics operates as a “master social narrative” that “structures the bounds of the possible and impossible, the acceptable and unacceptable” (p.520). Therefore, this conclusion is neither new nor specific to the Australian context. Rather, it is the approach taken by this chapter that offers a unique insight into the relationship between finance and the Australian government.

Colin Hay (2004) argues that the neoliberal economic paradigm can be summarised by the following traits:

- i. A *confidence* in the market as an efficient mechanism for the allocation of scarce resources
- ii. A *belief* in the desirability of a global regime of free trade and free capital mobility
- iii. A *belief* in the desirability, all things being equal, of a limited and non-interventionist role for the state and of the state as a facilitator and custodian rather than a substitute for market mechanisms
- iv. A *rejection* of Keynesian demand-management techniques in favour of monetarism, neo-monetarism and supply-side economics
- v. A *commitment* to the removal of those welfare benefits which might be seen to act as disincentives to market participation
- vi. A *defence* of labour-market flexibility and the promotion and nurturing of cost competitiveness
- vii. A *confidence* in the use of private finance in public projects and, more generally, in the allocative efficiency of market and quasi-market mechanisms in the provision of public goods (*emphasis added*, 2004, p.508)

This illustrates the significance of ideas in determining the government's agenda, in that it is a *confidence* or *belief* in the various ideas of neoliberalism and how such ideas are considered to be legitimate. These features of neoliberalism became a prominent feature of developed countries' economic policies in the late 1970s, after the 'stagflation' and economic collapse of the oil-price hikes shook policy-makers' faith in the Keynesianism that had been the dominant economic ideology since the Second World War (Davidson, 1992; Marsh, 2005). This too was the case in Australia, where the Campbell Report began the process of deregulation, privatisation and marketisation that has dominated the policy agenda for 30 years (see Argy, 1998; Cahill, 2010; Carroll & Head, 2010). In this time-period, it is argued that the economic paradigm of neoliberalism has reached a 'hegemonic status' (Cahill, 2007). Through this discussion, it becomes clear that neoliberalism has become the dominant discourse in shaping the norms and ideas of

government and hence, imbued authority upon those industries seen to represent such norms and ideas.

NEOLIBERAL LEGITIMACY AND THE FINANCIAL INDUSTRY'S DISCURSIVE POWER

This chapter's analysis of discursive power is based upon the assumption that 'finance' embodies the neoliberal economic paradigm and hence, the industry derives power from its hegemonic status. This assumption is based on the traits of neoliberalism outlined above and the history of Australian financial policy-making over the last three decades (see Nicholls, 2010).

The key characteristic of the neoliberal paradigm is a confidence in the market as the most efficient allocator of scarce resources (Hay, 2004). No industry better exemplifies this trait than the financial industry in that the service it provides is one of efficient resource (capital) allocation (investment). That this is the view of Australian policy-makers can be seen consistently from policy documents, speeches and this author's own interviews. For example, the Wallis Inquiry states that:

“Financial contracts play a fundamental role in the efficient functioning of commerce, facilitating the settlement of trade and channeling resources efficiently across time and space.” (FSI, 1997, p.179)

Similarly, in an interview with Shadow Treasurer Joe Hockey (M.P), who was also the Minister for Finance during the time of the Wallis Inquiry, he exemplified this *belief* and *confidence* in finance as an idea:

“It's like the flow of blood. You're not the brain, you're not the heart, you're not the hand. But I tell you what, if the blood doesn't flow, nothing works. It's the same with money” (Hockey Interview, 2012)

This analogy was continued in his commitment to the third trait of neoliberalism,

which is the minimal role for state intervention:

“It’s just simple. You can slow down the blood flow if you’ve got clogs. And the clogs are more tax and higher regulation.” (Hockey Interview, 2012)

Therefore, finance is regarded as the market whose role it is to allocate capital to its most efficient use, much like blood analogously flowing to where it is most needed in the human body. Of course, each of these traits can be discussed in greater detail, and indeed have been (see Hay, 2004), however there is little, if any, disagreement over this fundamental point; the interrelationship between the fundamental characteristics of finance, and those of neoliberalism. This chapter is concerned with a more contentious issue, which is the legitimacy of neoliberalism as a ‘hegemonic’ paradigm. Since this hegemony is posited to have influence over the agenda-setting capacity of the policy-making process, the remainder of this chapter seeks to analyse how each element of this process has been influenced by the neoliberal paradigm through Kingdon’s ‘Three Ps’ framework.

THE AGENDA OF POLICY-MAKING: NORMS AND IDEAS IN POLICY, POLITICS AND PROBLEMS

Like its structural counterpart, discursive power works primarily through the shaping of the political agenda. Therefore, as a hegemonic paradigm in policy-making, the neoliberal discourse is posited to limit the policy options available to government to those which fit the traits of neoliberalism outlined above and by association, legitimise finance and empower the financial industry. This section will analyse the agenda available to public policy-makers through the analytical rubric of Kingdon’s (1995) ‘Three P’s’ and how each of these independent processes has been influenced by the hegemonic neoliberal paradigm. It is argued that a movement of business elites has led to neoliberalism being the dominant paradigm in economic *policy*; that there is a *political* consensus for such a paradigm; and that this has been legitimised via the potential *problems*

associated with globalisation. However, this is not to say that there is a perfect correlation between the hegemony of neoliberalism and the legitimacy of the financial industry. The following section will also demonstrate the inconsistencies in neoliberalism's hegemonic status and how the neoliberal paradigm is pragmatically wielded by policy-makers and to their own advantage. This is significant in that it illustrates how hegemony does not necessarily equate to monopoly, nor power to complete control over policy outcomes.

POLICY

The most obvious way to analyse the rise of neoliberalism is through a study of policy outcomes and how well these correlate with the economic paradigm. Over the last three decades, there has been an exhaustive body of literature describing, analysing and quantifying the preponderance of neoliberal policies in the Australian context (see Dixon & Mara, 1994; Marsh, 2005; Nicholls, 2010). Stephen Bell argues that:

“It would seem, however, that as far as Australia is concerned, debating the loss of sovereignty or neoliberal convergence issue has become something of an academic exercise...there has been an almost complete policy convergence on neoliberalism” (1997, p. 358)

Therefore, this section will not review the rise of neoliberalism historically, but first illustrate how domestic actors have created this neoliberal hegemony within the ‘policy stream’ of policy-making. Next, it demonstrates how the current state of regulation does not entirely mirror the neoliberal discourse and hence, illustrate why the subsequent chapters on structural and instrumental power are similarly significant in understanding power relations and policy changes.

AN ELITE MOVEMENT?

The formation of public policy and the norms and ideas that come to dominate it, are inevitably shaped by the actors who are a part of that process. Alongside the public bureaucracy, there is also the use of consultants by the public service (Martin, 1998), the role of business associations as research-based advocates (Bell, 1997) and perhaps most importantly, the growing significance of conservative think-tanks as independent experts in the policy-making process. Together, these actors have been characterised as ‘hijacking’ Australian politics in a ‘radical neoliberal movement’ of business elites (Carey, 1997; Cahill, 2008). This argument has been proposed in a number of developed economies; including criticism of Britain’s ‘Third Way’, neo-conservatism in the U.S, and even the anti-globalisation movement of the late 1990s. Also known as the ‘neoliberal coalition’ (Bell, 1997) and the ‘neoliberal power bloc’ (Kaptein, 1993), two distinctive features of this ‘movement’ remain consistent; first, that the movement claims to represent an ‘expert’ opinion based on the objective truths of rationality and the inherent efficiency of markets; and second, that the movement has explicitly targeted and gained prominence at the expense of alternative political opinions.

The movement to promote neoliberalism in Australian political discourse is generally characterised as one made up of elites (Smith & Marden, 2008), who have disproportionate access to politicians, regulators and the media. These academics, journalists and business people are unified by their belief in free markets, individualism and the rational nature of humanity (Cahill, 2004). Unlike the broad social movements that changed the political landscape of the 1960s, the ‘neoliberal movement’ has an extremely small social base that exercises influence at the highest level, through gradual change and the supposedly apolitical experts who proliferate neoliberal ideas; namely conservative think-tanks and to a lesser extent, business associations. In Australia, these groups include organisations such as the Business Council of Australia (BCA) and the Australian Chamber of Commerce and Industry (ACCI), but also corporate-funded think-tanks such as the Institute of Public Affairs (IPA) and the Centre for Independent Studies (CIS), just to name a few. What is clear, even from the names of these institutions,

is their attempt to appear independent and as a representative voice for effective public policy and the national interest, acting as ‘experts’ rather than lobbyists. Of course, if these institutions are effective in being perceived as experts, this translates not only into the hegemony of neoliberalism itself, but the pragmatic legitimacy of those market actors who policy-makers associate with the neoliberal paradigm.

The image of conservative think-tanks as experts stems from two sources; the active efforts by such institutions to appear independent; and the nature of the assumptions that underpin the neoliberal ideology. Through the names of these institutions, their policy prescriptions, general publications and media involvement, think-tanks actively cultivate an image of independence that is designed to maintain their intellectual credibility and defend them from criticism. By appearing to act in the public interest and through their avoidance of party affiliations, Smith and Marden (2008) argue that:

“From this position, think-tanks are strategically placed to parade their own ideology abstaining from genuine critical engagement or, indeed, any critical self-reflection, and dismiss any contrary opinion as politically motivated” (p.700)

Therefore, private actors such as think-tanks, business associations and academia, have contributed to the legitimacy of the neoliberal paradigm by appearing as independent ‘experts’ who espouse ‘objective truths’, which are in the national interest. This strong neoliberal belief by business elites and policy-makers partially explains the hegemony of neoliberalism as a paradigm of economic policy, however the history of policy changes indicates that such hegemony is far from monopolistic.

HEGEMONY OR MONOPOLY?

In many ways, the ‘radical neoliberal movement’ argument has been dramatically overstated, as can be seen from this thesis’ interviews and indeed, a basic analysis of policy outcomes themselves. For example, foremost among these arguments is the notion that a ‘radical neoliberal agenda’ can be proven by the policies of deregulation and privatisation. While it is indeed true that many of the key elements of the neoliberal

economic paradigm are present - and in many cases dominant - within the economic policies since the early 1980s, the extent to which these perfectly reflect neoliberal discourse should not be overstated. Senior Research Fellow at the CIS, Robert Carling maintains a similar position:

“In the mid 1980s, there was a shift in that [neoliberal] direction...But I would reject any suggestion that it was ever totally dominant. That is exaggerated in the public discourse, but I would certainly accept that there was a move in that direction, and a desirable one.” (Carling Interview, 2012)

Despite this, many authors point to the extensive history of deregulation and privatisation that have characterised much of Australia’s economic policy over the last three decades as evidence of neoliberal hegemony (Hay, 2004), which is often used to refer to neoliberal monopoly. This ‘retreat of the state’ thesis contends that neoliberalism has eroded many of the state’s capacities and instead adopted a *laissez-faire* approach to economics, whereby all markets are left to their own devices. Instead, such a view misrepresents the history of policy-making, or what Damien Cahill describes as ‘Actually Existing Neoliberalism’ (2010), in at least two ways. First, the size of the state has actually increased over this time period. As a proportion of GDP, government expenditure has increased from 18.2% in 1973-74 to 24.4% today, which is in direct contrast to claims of a ‘withering away of the state’ (Cahill, 2010). The second misrepresentation is that while on its surface neoliberalism may appear as if the government is taking a more ‘hands-off’ approach to economic policy, it has in fact increased the scope of its regulatory framework considerably. John Braithwaite (2008) has defined this as ‘regulatory capitalism’ where:

“rather than neoliberalism leading to a retreat of the state, regulation has been transformed, leading to an expansion in the regulatory functions of the state” (P.303).

In the context of analysing the power of the Australian financial industry, this gives an important insight into the evolving nature of the business-government relationship, in

that the financial industry is attaining greater influence over the policy-making process, while that process continues to grow in the scope of its regulatory capacity. While this thesis remains committed to its contention of the Gramscian hegemony of neoliberalism, Gramsci himself recognised “laissez faire liberalism” as “a form of state ‘regulation’, introduced and maintained through legislative and coercive means” (Gramsci, 1971, p.160). Neoliberalism, therefore, should not be understood as the only force guiding public policy-making, but rather as a hegemonic ideology that must continually compete with an evolving economic and political context.

POLITICS

The second component of Kingdon’s (1995) three agenda-setting processes is politics, which of course in a democracy such as Australia’s involves not only obtaining consensus in parliament, but public support as well. Therefore, this section will first look at the ‘convergence thesis’ and how the two political parties have been reasonably consistent in their support of the neoliberal ideology, before briefly analysing the role of the media in ‘normalising’ neoliberalism. Finally, these trends will be considered in light of changes in public opinion towards finance.

A NEOLIBERAL CONVERGENCE?

It is increasingly common for political scientists to argue that the two major Australian political parties have converged upon a single, neoliberal definition of economic policy (Goot, 2004), which therefore illustrates the pre-eminence of neoliberalism as the dominant economic paradigm. Colin Hay (2004) argues that the ‘normalisation’ and institutionalisation of neoliberalism has led to a situation in certain democracies - notably Australia and Britain with their parliamentary systems - whereby opinions on economic policy-making have converged to a become largely de-politicised and de-democratised:

“Elections, it seems, are increasingly about appointing officers to be trusted to take the necessary technical decisions dictated by shifting external circumstances; they are not public plebiscites on manifesto policy commitments” (Hay, 2004, p.502).

This appears to be true of the financial system where much of the regulation and oversight of key economic issues are handled by independent institutions such as the RBA, APRA, ASIC, and the ACCC. This depoliticisation has been largely true during the ‘deregulation era’, with both parties creating, maintaining and altering these institutions in a similarly neoliberal direction. However, this effect should not be overstated, especially because such independent institutions have little influence over major policy decisions that are the primary subject of this thesis.

This is just one example of the ‘convergence thesis’, which argues that the two major Australian political parties have become largely indistinguishable, particularly on economic policy. There are a number of problems with this argument however; first, ‘convergence’ isn’t a new argument (Goot, 2004) and indeed, has been a focus of political science since well before economic rationalism rose to prominence; and second, much like the simplistic ‘retreat of the state’ theses, the ‘convergence thesis’ also assumes that neoliberalism is a unified, distinctive paradigm in which there can be no variation.

However, this is clearly not the case. For instance, while the Hawke/Keating Labor government implemented many market-oriented ‘neoliberal’ policies - particularly in finance - it also created a social safety net for families, the unemployed and the aged, while rebuilding national healthcare and implementing many other policies characteristic of a ‘welfare state’ and the Keynesianism that predated economic rationalism (see Watson, 2002; Megalogenis, 2006). Therefore, while neoliberalism has clearly risen to a hegemonic status of sorts in policy-making, it is not so dominant as numerous scholars would contend. Market-oriented policies have gained legitimacy, as have market actors, yet differences still exist within and between the political parties over the best course to take with this neoliberal paradigm.

A PUBLICLY SET POLICY AGENDA?

The inherent nature of Australian politics, in its system of parliamentary democracy, is that much of the agenda and hence policy, is set by how it is perceived by the public. The number of factors potentially influencing the way the public perceive government and its policies is quite simply beyond the scope of this thesis. Therefore, this section will analyse two of the more recognisable processes influencing public opinion in this context; namely the media and the economy. As the primary mechanism for dispersing norms and ideas throughout society, the media has played an extremely important function in ‘normalising’ neoliberal ideas and securing its hegemony as the dominant economic paradigm (Greenfield & Williams, 2007). Cathy Greenfield and Peter Williams (2007), in a study of how the media has covered issues of finance on television for the last three decades, argue that the Australian population has been equipped with a financial rationality based on the concerted efforts of political actors who understand how important legitimacy is in the formation of public policy. The authors argue that:

“Media attention to and coverage of finance does not simply reflect changed priorities; it has promoted and helped secure the new centrality of the finance sector” (p.417)

This ‘centrality of the finance sector’ is referred to as ‘financialisation’ by Greenfield & Williams (2007), and illustrates how the neoliberal discourse has influenced the government’s agenda via the dissemination of norms and ideas in the media. As the public better understands the arguments of neoliberalism, the agenda available in the policy-making process from a political standpoint is altered. Ross Greenwood, a prominent financial analyst and commentator for Channel 9 and 2GB, explains how significant the media is to government:

“Government now, is so much more critical and vigilant in watching the media coverage...We ultimately have somebody from one of the minister’s offices calling up and telling us whether they liked it, or didn’t like it more

likely, and it happens on a regular occurrence...so there is no doubt that the government tries to influence media coverage. Because lets be honest, the government wants people to think the economy is in great shape and they're great managers of the economy” (Greenwood Interview, 2012)

This clearly illustrates how public legitimacy is a key goal of government when it comes to economic policy, and that much of this legitimacy is derived from media coverage. The more the public associate neoliberal discourse with economic success, the greater the legitimacy of that discourse and hence, the easier it is to set a neoliberal policy agenda via the ‘political’ process of policy-making.

Public opinion and the so-called ‘public mandate’ (Goot, 1999) are the final aspect of the ‘political’ process setting the government’s agenda. According to Ian McAllister (2003), there is a reasonably strong relationship between economic performance and public approval of government, particularly in the short term. The extent to which this translates into a ‘public mandate’ or an electoral endorsement of specific or general policies remains a contentious issue in political science debate (see Goot, 1999). However, since economic issues have played a significant role in Australian elections since the 1970s (McAllister & Bean, 2000), it is not unreasonable to assume a positive opinion of government is an approval, and indeed legitimisation of the economic policies leading to economic success. Therefore, Australia’s economic successes during the ‘deregulatory era’ have made translating the hegemony of neoliberalism into pragmatic legitimacy easier politically and hence, allowed for an increasingly neoliberal agenda.

As was noted in Chapter 1, Australia has had considerable economic success over the majority of the ‘deregulatory era’, much of which has been attributed to neoliberal policy reforms (MacFarlane, 2006). A fairly rudimentary yet effective indicator of how this has influenced the public’s perception of this economic paradigm, and subsequently legitimised those associated with it, is the use of opinion polls in elections. For example, in 1993, unemployment was the most important issue for 27% of voters and had declined to just 2% by 2007. Similarly, in 1990 some 74% of respondents believed that their financial situation had ‘become worse’ over the past year in 1990, a number which had declined to just 5% by 2004. Greater faith in the policies of government is indicated by the figures for

‘Government Effect on Country’s Finances over Past Year’, which increased from 9% saying it had a ‘good effect’ in 1990 to 35% claiming a ‘good effect’ by 2004 (McAllister & Clark, 2008). Of course, these numbers do not prove that the public has legitimised the financial sector to the point of authoritative status through a publicly mandated hegemonic neoliberalism. However, such numbers illustrate a greater satisfaction with economic policies, or at the very least, less dissatisfaction with them, which by implication, would indicate that neoliberal hegemony is less questioned by the public, and therefore easier to adopt politically. The relationship between the economy and legitimacy is a significant component of how neoliberalism shapes the policy-making agenda, particularly the way in which it deals with economic problems.

PROBLEMS

Finally, the policy-making agenda is strongly influenced by problems that arise. This forces policy-makers to find solutions where such an agenda may not have been considered otherwise. What is known as the ‘externalist’ position (Bell, 1997) on the rise of neoliberalism as the dominant economic paradigm in Australian policy-making, argues that the structural implications of globalisation have made neoliberalism an economic necessity, leading policy-makers to respond with pragmatic solutions based on the neoliberal paradigm.

REACTIONARY GOVERNANCE?

This third process of setting the agenda for policy change has arguably been a significant component in every financial reform of the ‘deregulatory era’. This was particularly true of the Campbell Committee, which was commissioned following the recessions and stagflation of the 1970s. According to Edwards & Valentine (1998), the heightened maturity of financial markets, increased liquidity and greater volatility were all contributing factors necessitating “the Government’s free enterprise objectives” (p.299).

While the Wallis inquiry was notable for its “proactive approach to policy making rather than a reactive one” (Bakir, 2003, p.522), the possibility of future problems was certainly a significant agent driving change. For example, in its introductory chapter, the Inquiry states the following:

“The financial system has entered an era of accelerated change that is likely to continue into the next century. Change in the financial system implies the need to adapt regulations imposed on financial institutions and markets. Regulation must adapt both to facilitate greater competition and efficiency in the financial sector and to secure the integrity and stability of its operations” (FSI, 1997, p.1)

In many ways, one can read into this as an example of how the status of neoliberalism as the ‘prevailing system of social relations’ had changed by the time of the Wallis Inquiry. Whereas the Campbell Committee required almost a decade of economic instability for the deregulatory agenda to be promoted and adopted, the Wallis Inquiry pursued such objectives based only on the possibility of future crises in “an era of accelerated change”. That the only way to prevent and prepare for such future problems is through “greater competition and efficiency” illustrates the hegemony of neoliberalism and how the policy-making agenda has been set by this economic paradigm.

However, some authors have criticised the view of neoliberalism as an economic necessity, arguing that policy-makers have used it to deflect criticism and hide the inadequacies of neoliberalism; particularly its founding assumptions. Colin Hay writes that:

“the appeal to globalisation thus conjures a logic of economic necessity and, indeed, compulsion, driving a non-negotiable agenda for welfare retrenchment and labour-market reform” (2004, p.519).

Hay goes into some detail to point out how the ‘logic of economic necessity’ is based upon a number of neoliberal assumptions that are “at best dubious, at worst demonstrably false” (p.520), and indeed criticism of the logic underpinning neoliberalism is widespread (see Nicholls, 2010). Yet this does not in fact alter the hegemony of

neoliberalism, nor reduce the pragmatic legitimacy of the financial industry, its authoritative position, or the discursive power it subsequently wields over policy-making. So long as the general public believes its policy-makers are acting out of economic necessity - and achieving strong economic results - the hegemony of neoliberalism remains secure. This is the key to the 'externalist' position as a mechanism of discursive power; pragmatic legitimacy is acquired through the perception of either necessity or expertise in policy-making. Therefore, whether it is the expertise of the 'neoliberal movement' or the necessity of global structural forces, so long as neoliberalism is perceived as the best paradigm, it remains as the hegemonic paradigm. The financial industry in turn, derive legitimacy from this hegemony and through their recognition by policy-makers and policy outcomes, are recognised as *an* authority within the policy-making process.

CONCLUSION

In conclusion, this chapter has sought to analyse the discursive power of the financial industry using the following logic: a) that neoliberalism promotes and aids *finance* as a goal of governance; b) that neoliberalism has reached a hegemonic, though not necessarily monopolistic status as the 'prevailing system of social relations'; c) that this hegemony has influenced the policy-making process in some capacity in all three arenas; and d) that such influence has set a neoliberal agenda that legitimises *finance* and lays the foundations for power in a structural and instrumental context. While the evidence for such conclusions is by no means exhaustive, and indeed further research is required if some sort of measurement of this legitimacy was to be established, it does illustrate a significant trend that has particularly important implications for those faces of power that are easier to discern empirically; namely structural and instrumental power.

CHAPTER 4

STRUCTURAL POWER

ECONOMIC LIMITATIONS UPON GOVERNMENT BEHAVIOUR

Like Chapter 3's discussion of discursive power, this chapter will demonstrate how the agenda of available policy options is limited by the perceived role of finance. Whereas the discursive power of the financial industry is based on the legitimacy of finance *as an idea*, its structural power is derived from its control of economic resources and significance to the functioning of Australia's economy. As previously noted however, the distinction between structural and discursive power is not perfect and indeed, the two are intrinsically interrelated. Particularly, the hegemony of neoliberalism and resulting legitimacy of finance furthers the notion that not only is the financial industry significant to the economy, but that it *should be*. This frames the way in which policy-makers view the industry's control of economic resources and hence, exacerbates their fear of poor economic outcomes from inefficient financial regulation.

The structural approach to business power argues that the underlying socioeconomic institutions and organisational procedures of business activity are inherent constraints upon the agenda and rule-setting capacities of government. As outlined in Chapter 2, structural power refers to the influence business derives from its control over economic resources and outcomes, which then *limits the scope* of policy decisions via the implicit threat of poor economic performance. One way to conceptualise structural power in layman's terms is as influence derived through *fear*. The government's agenda is limited by its fear of poor economic performance, and hence those elements of the financial industry that can hurt the economy. As will become clear throughout this chapter, these

fears are exacerbated and complicated by the increasingly international and fluid nature of finance. The major difficulty in studying such power is that unlike instrumental power, which involves directly observable power struggles, structural power “may not ‘leave a trace’ to begin with” (Fuchs, p.59). This is why the conclusions of this chapter are inferred from key policy documents and interviews with expert actors, which make clear indications of where and how the agenda of financial policy-making is limited by structural power.

Through an analysis of the key policy documents ‘The Wallis Inquiry’ and *Australia as a Financial Centre Report*, as well as interviews with influential figures who have been highly involved in the policy-making process, this chapter will illustrate the authoritative status finance has in Australian economic policy. It will do so in two main sections based on the differentiation between *passive* and *active* structural power, as outlined by Fuchs (2007). Instances of structural power can be either agenda or rule-setting, and of a passive or active nature. Passive structural power refers to the influence derived from the implicit threat of economic power, whereby certain policy decisions are organised as either ‘in’ or ‘out’ based on the likelihood they will lead to unfavourable economic outcomes. Active structural power on the other hand, occurs when businesses set their own rules and regulations, thus limiting the scope of government policy directly, or ‘capturing’ aspects of regulation previously held by government. Each of these two sections is divided into roughly three logical steps: (1) how this form of structural power exists within Australian public policy-making *in general*, (2) the peculiar characteristics of the financial industry that differentiate it from other industries in regards to structural power, and (3) why this can be characterised as an authoritative status.

SETTING THE AGENDA – ECONOMIC SIGNIFICANCE AND POWER

As discussed in Chapter 2, the study of business’ structural power focuses upon the

significance of economic resources and how the control of such resources will inevitably lead to influence (see Lindblom, 1977; Bell, 1992). This is based on the logic that governments rely upon business profitability and its subsequent economic growth for their own financial resources and electoral success (Grant, 1985). Authors such as Asa Bengtsson (2004) among others (see Nannestad & Paldam, 1994; Lewis-Beck & Paldam, 2000) have illustrated the importance of economic issues within elections, which, unsurprisingly, results in policy objectives that prioritise business interests. Thus, structural power in this way is exerted not through conscious decisions by key actors, but “automatically and apolitically” (Hacker & Pierson, 2002, p.281), thus prompting Lindblom to refer to it as the “automatic punishing recoil” (1982, p.328). Tony D’Aloisio, the former head of ASIC, the ASX and Business Council of Australia agrees with this analysis when he says that:

“There’s no question that the weight of opinion or the weight you give to something [politically] will be in proportion to what the implications are for the economy” (D’Aloisio Interview, 2012)

Consequently, this section will proceed by first illustrating the significance of the financial industry to Australia’s economy prior to arguing that this has resulted in a consistently pro-business policy agenda and authoritative position. This policy agenda will be demonstrated through an analysis of two key policy documents as well as the interviews conducted by the author. The first of these documents is the Wallis Inquiry, which, as was noted earlier, remains the key intellectual basis of financial reform in Australia. The second is the *Australia as a Financial Centre* report, which encapsulates both the intellectual assumptions of the Wallis Inquiry and the normative prescriptions of current policy objectives.

THE ECONOMIC SIGNIFICANCE OF THE AUSTRALIAN FINANCIAL INDUSTRY

As the fourth largest industry in Australia and as the allocator of capital throughout the economy, the financial sector is an extremely important component of the economic system (Australian Financial Centre Forum, 2009). As of June 2009, the financial sector contributed around 10.9% of GDP directly to the economy, which is roughly equal to the mining sector and only slightly below property and business services or manufacturing (ibid). These figures are similar to the relative size of the financial sector in other advanced economies such as the US, UK, Japan or Canada. Significantly, those involved in the policy-making process also see the financial sector as being integral to the Australian economy. For example, Joe Hockey states that:

“[The financial industry] is essential. Without the flow of capital, we don’t have a capitalist society, and without the pricing of risk, we don’t have a capitalist society...it’s vitally important” (Hockey interview, 2012)

Similarly, former CEO of Commonwealth Bank and inaugural Chairman of the Australian Government Future Fund argues:

“[The financial industry] is absolutely fundamental to any modern economy because it finances, one way or another, as an intermediary, most or all activity in the economy” (Murray Interview, 2012)

This illustrates the most important aspect of the financial sector’s contribution to the Australian economy is in its role as the allocator of capital, which in Australia’s case, means not only being an intermediary to most economic activity, but financing the Current Account Deficit (CAD). The CAD is an economic indicator that measures all financial flows in and out of the Australian economy. Due to low domestic savings and high demand for investment Australia has run a consistent CAD for over 30 years at an average of -4.2% of GDP from 1980 to 2011 (ABS, 2012). That it consistently runs a deficit means there are more investment opportunities in Australia than domestic savings to finance them. This results in significant dependence upon foreign capital and at least in

part, explains the highly international character of the Australian financial industry. This role is crucial in the day to day functioning of the Australian economy in that it provides the capital for private sector investment in every sector, thus facilitating growth, government revenue and ultimately, electoral success. This demonstrates not only the contribution that the financial sector makes to the Australian economy, but also how damaging ‘capital flight’, or the sudden withdrawal of funds from international investors could be.

It is important to note that such perceptions - realistic as they may be - are also derived from the hegemony of the neoliberal discourse as discussed in the previous chapter. The faith in the market mechanism legitimises the financial industry and promotes its growing significance to a modern economy. Hence, not only are policy-makers aware of the economic significance of the financial industry, but there is also a dominant belief that it *should* have such a vital role. The following section will therefore analyse Australian regulators’ response to this situation through key documents and interviews that demonstrate how this economic significance has translated into an authoritative status for the financial industry based on the legitimacy it has gained through neoliberalism as well as its tangible economic benefits.

ECONOMIC OBJECTIVES AS STRUCTURAL POWER

The basic argument for structural power is that:

“whenever governments introduce or shape social policies in order to meet the needs of business, as they often must, policy-makers can be said to be responding to structural power” (Farnsworth, 2004, p.7).

While this may be a little simplistic, it does illustrate the nature of structural power and how it can be inferred from the behavioural patterns of policy-makers. However, a key component of this paper’s hypothesis is that finance has attained *authority* in public policy-making, which implies that there are differentiating features from other industries.

The key to the private authority thesis within this analysis is not in comparing the financial industry to its counterparts, but rather demonstrating an authoritative position based on the legitimacy awarded to it by the hegemonic neoliberal discourse discussed in the previous chapter. Consequently, the following analysis will demonstrate how Australian decision-makers not only implement policies in the best interests of the industry, but that they consider this to be a particularly important task given finance's disproportionate control of, and contribution to, the Australian economy (i.e. the legitimacy of *finance* as a key component of Australia's economy). Such structural factors are exacerbated in the globalised world of finance, and especially so within a country that relies upon foreign investment to fill its savings gap and sustain economic growth (MacFarlane, 2006).

STRUCTURAL POWER AND MARKET FAILURE

Much of how the Australian government views the financial services sector can be drawn from policy documents, inquiries and recommendations. It is argued that this is particularly true of the Wallis Inquiry, which is still the foundation of Australia's financial regulatory framework (Rich, 2009; Finsia, 2009). From Chapter 5 of the Report - entitled 'Philosophy of Financial Regulation' - it is apparent that there are two key justifications for how the financial industry is, or should be regulated. The first 'philosophy' given by the Report is that:

“The general case for regulation is found in market failure” (p.175)

Market failure is defined as being an inefficient set of outcomes produced by a market (Wallis et al, 1997). As it states, this is the general argument behind all regulation and is not necessarily proof of any structural power. When viewed alongside the second justification for regulation within the financial market however, the presence of a passive agenda-setting force becomes more apparent. This second philosophy is the neoliberal concept of 'allocative efficiency', which, according to the report, is the idea that:

“Free and competitive markets can produce an efficient allocation of resources and provide a strong foundation for economic growth and

development” (p.176)

Therefore, this Report illustrates how financial regulation is designed to: a) avoid market failure, which inherently b) promotes allocative efficiency, a concept that must be achieved through c) free and competitive markets. This illustrates how neoliberal hegemony underpins structural as well as discursive power. Since neoliberalism argues that it is in the best interest of businesses for their markets to be free and competitive (Collier et al, 2006), it is clear that the very nature of financial regulation is to promote the interests of business, which, by definition, is a manifestation of business’ structural power. However, for the most part, this philosophy of promoting allocative efficiency permeates through the government’s approach to the regulation of all industries (see Collier et al, 2006). Thus, the remainder of this section will seek to demonstrate how the financial industry occupies authoritative status in the policy-making process and hence, has a disproportionate influence over government and its decisions.

THE AUTHORITATIVE FINANCIAL INDUSTRY

In the neoliberal model of Australian policy-making, there are two resources, which can be used to create economic output; namely labour and capital (Dawkins & Rogers, 1998). Since the financial services sector in one way or another controls all movements of capital, it is unsurprising then, that it occupies such an authoritative position. The authors of the Wallis Inquiry have demonstrated this philosophy clearly in their report:

“Financial contracts play a fundamental role in the efficient functioning of commerce, facilitating the settlement of trade and channeling resources across time and space” (1997, p.179)

The pursuit of such efficiency has been at the core of Australia’s ‘deregulation era’ and is generally considered to be one of the primary drivers of economic growth, as argued within the report:

“Long-run growth in the Australian economy is the result of increases in inputs of productive factors (notably capital and labour) and increases in productive efficiency” (p.666)

Analysing similar policy prescriptions over the decade after the Wallis Inquiry, one can see the consistency of this economic philosophy within Australian policy-making (see Nicholls, 2010). The significance of this to the Australian government is explained clearly by Mr D’Aloisio:

“I don’t think you can take away from the fact that deregulating and providing that environment has actually increased the wealth of the nation, and increasing the wealth of the nation has increased the ability of government to do things it may not have otherwise been able to do in a smaller economy” (D’Aloisio Interview, 2012)

One example that clearly illustrates both the significance of neoliberalism to policy proposals, but also the authority of the financial industry - noting that ‘authority’ is the recognition of legitimacy - is the report *Australia as a Financial Centre*, produced by the Australian Financial Centre Forum (2009). The Forum’s view of the elevated status of the financial industry is apparent from the very first sentence of their report:

“The financial sector is *at the core of the economic system*...economic research demonstrates a well-established causal link from financial sector developments to economic growth. Having an open, efficient, well-regulated and competitive financial sector is thus in the interests of all Australians” (*emphasis added*, 2009, p.1)

This strategy - to turn Australia into a regional financial centre - has been a consistent feature of Australia’s policy agenda since the Hawke/Keating Labor government of the 1980s. It was also a key policy initiative under the Howard Government, who in its report *Investing for Growth* (1997) advocated promoting Australia’s financial industry internationally. Further analysis of both reports reveals how the government’s agenda has been influenced, limited, or manipulated by the passive structural power of finance. One can see that in both reports, the role of government

policy is as a facilitator of market efficiency and economic growth. Repeated appeals to neoliberal notions of ‘allocative efficiency’ and market competitiveness reinforce the argument that Australia’s policy-makers see the greater role of finance as a legitimate goal of governance, and hence institutionalise its authority in such reports. Such authority is only exacerbated by the international character of the industry and hence, the inflated economic consequences of poor financial regulation.

THE IMPLICATIONS OF AN INTERNATIONAL INDUSTRY

The Wallis Inquiry of 1997 described the changing financial landscape:

“As barriers to trade and commerce are reduced through a combination of government policy and improved communications, markets for financial services are becoming increasingly global, further intensifying competitive pressures and challenging regulatory arrangements” (p.140)

The globalisation of financial markets has two important implications for the Australian financial industry’s structural power: (1) the economy’s persistent CAD needs to be financed in order to satisfy demand for investment and maintain economic growth. As discussed above, the financial industry’s role as the allocator of capital is perceived to be vital to the overall functioning of the economy and therefore the sector’s ability to attract foreign capital and compete with global markets guarantees its structural power. (2) The ability to compete with international financial markets could also bolster economic growth via the benefits of economies of scale and exporting financial services. This further strengthens the structural power of the financial industry as the government ‘fears’ any loss of potential growth. This is particularly true in an industry with such growth potential, as can be seen from financial centres such as London, New York or Singapore.

THE FEAR OF INTERNATIONAL RETRIBUTION

The structural power inherent within international markets has been the subject of much academic debate, with authors such as Robert Cox (1994) and Susan Strange (1995) advocating the ‘loss of state sovereignty’ or ‘retreat of the state’ thesis, whereby the autonomy of governments is eroded by the power of the market. Similarly, international political economy scholarship discusses the capacity of Trans-National Corporations (TNCs) to punish and reward countries for their policy choices (see Wallerstein, 1979; Frank, 1987) and in so doing, wield significant influence over domestic policy-making. Stephen Bell (1997) argues that, while overstated, there is considerable merit to such analyses. He illustrates how financial integration increases the international effects of domestic policies, while simultaneously weakening the effectiveness of macroeconomic policy instruments (p.353). Bell argues that the structural power of finance lies in its capacity to determine the cost and availability of capital and currency, as well as its ability to move huge amounts of capital almost instantaneously. Together, these factors create a situation where the implications of detrimental economic policy are extremely potent. Thus, through the legitimacy awarded to finance as the best way to allocate capital, and the control the financial industry has over economic resources and outcomes, it is apparent that this sector now holds an authoritative status within the process of Australian policy-making.

THE ALLURE OF INTERNATIONAL GROWTH

This can be illustrated through the presence of reports such as the *Australia as a Financial Centre* policy proposal (Australian Financial Centre Forum, 2009). The very existence of a report that aims to make the Australian financial sector not only internationally competitive, but a regional centre, demonstrates the global nature of the industry’s structural power. The pragmatic legitimacy of *finance*, as discussed in the previous chapter is thus recognised by Australian policy-makers as ‘private authority’. For example, the report states that:

“It is thus crucial that domestic policies do not inhibit companies...from expanding into offshore markets and transacting with offshore counterparts; and also that domestic policies do not inhibit offshore international financial services companies from competing domestically or from using that financial centre as a regional base” (Australia as a Financial Centre Forum, 2009, p.9)

Similarly, Tony D’Aloisio argues that:

“We shouldn’t put barriers in the way of the financial industry’s global rise” (D’Aloisio Interview, 2012)

This illustrates how international considerations form an important part of the policy-making process, whereby the ‘fear’ of TNCs and ‘capital flight’ set an internationally-focused agenda. As discussed briefly in Chapters 1 & 3, this business-oriented policy agenda has been pre-eminent within financial sector reform since the early 1980s, yet as the industry becomes increasingly global, this ‘pro-business’ agenda must also be increasingly ‘pro-globalisation’ (Daley, 2003). This argument is similar to the ‘externalist’ position briefly discussed in the previous chapter, in that global forces are responsible for an international convergence of neoliberal policies. In that section, it was argued that the legitimacy of neoliberalism is secured by the perception of its necessity as the one way of adapting to globalisation and particularly, the internationalisation of finance. This legitimacy has clearly been recognised by government through the increasingly authoritative status given to finance via policy proposals such the *Australia as a Financial Centre* report.

Therefore, this section has demonstrated not only how regulation designed to promote the interests of the financial services sector is a manifestation of that sector’s structural power, but also how this power is particularly potent given its authority as the allocator of efficient capital. This is further strengthened by the influence of global forces in determining its ability to fulfil this role. While the government retains control over system stability, ever since deregulation of the industry began, it has forfeited much of its ability to allocate capital. This function is believed to be critical to economic growth,

national prosperity, and electoral success (Bengtsson, 2004).

SETTING THE RULES - SELF-REGULATION AND INTERNATIONAL CONVERGENCE

Given the global character of the financial sector, many of its businesses operate in several countries and therefore are subject to numerous sets of rules and regulations. In the context of hegemonic neoliberalism, the financial industry argues that efficiency can be gained not only from international regulations, but also when they are formulated by the industry itself. Referred to as 'self-regulation' by Doris Fuchs (2007), in many respects it epitomises the structural power of business in that through this process, private actors can design, implement and enforce their own rules and procedures, thus limiting the scope of public governance actively rather than passively. The authority of the financial services industry is illustrated through the various self-regulatory schemes that have been put in place, particularly those that have come from global institutions. These recognise finance's pragmatic legitimacy and the belief in market-based initiatives. Therefore, this section will first look at this notion of self-regulation and how it is a government priority in all areas of modern economic governance, much like market failure is the impetus for all regulation as discussed in the previous section of this chapter. This section then discusses the nature of self-regulation in the context of international finance and how it represents the authority derived from hegemonic neoliberalism. Finally, this section briefly reviews the implications of internationally determined regulations and policy procedures such as the Basel Accords and what that means for the influence of Australia's financial industry.

SELF-REGULATION AS STRUCTURAL POWER

Tony Porter and Karsten Ronit (2006) argue that a definition of self-regulation must acknowledge the capacity for it to include norms and informal arrangements, while excluding those that are insufficiently institutionalised or formal to be recognisable:

“We may define self-regulation as an arrangement involving formal or informal procedures or norms, that is widely recognised as having the purpose of constraining the conduct of a set of private actors, where the procedures, rules and norms are shaped to a significant degree by some or all of these actors” (p.43)

This definition is reasonably similar to the one adopted by the Australian government, as outlined in the 2000 report; *Industry Self-Regulation* prepared by the Taskforce on Industry Self-Regulation. Within this report, the philosophy on modern Australian governance is made clear in that efficiency, and not welfare has become the primary motivating factor in determining regulation (Banks, 2010). For example:

“The Government is committed to providing a competitive market environment while attempting to reduce the regulatory burden on Australian business. Industry self-regulation is often a more flexible alternative to direct government regulation” (Collier et al, 2000, p.vi)

The quote above illustrates how the government conceives of self-regulation as being a method for improving business efficiency, and is therefore a clear example of structural power, while deriving the legitimacy for such ideas from the hegemonic neoliberal discourse. However, as has already been established, this is the structural power wielded by all industries, yet such power has different implications in the international context of Australia’s financial industry.

MARKET CONVERGENCE AS STRUCTURAL POWER

The authority given to the financial industry via internationally set self-regulatory regimes affirms the notion that the neoliberal discourse discussed in the previous chapter legitimises finance in Australian governance. Known as active, or rule-setting structural power in the literature (Fuchs, 2007), the scope of Australian policy-making is particularly limited in the financial industry due to more and more of its responsibilities being deferred to international organisations, committees and privately set codes of conduct. This arises from the hegemony of neoliberalism, which legitimises the financial industry as having an ‘expert’ opinion and hence, the best knowledge of what rules and regulations will lead to the most efficient outcomes. This ‘fear’ of inefficient outcomes gives the financial industry structural power over the government’s agenda, which results in policies that increasingly limit the scope of government authority. However, in addition to this fear of inefficient outcomes is the fear of ‘capital flight’ if such internationally set rules and regulations were to be ignored . Therefore, internationally composed rules and regulations are inherently in the interests of finance based on the hegemonic discourse of neoliberalism, which are then accepted by Australian policy-makers, both due to this hegemony and the passive structural power of global finance.

VOLUNTARY MARKET PRESSURE

The market-based perspective on international financial regulation argues that domestic financial markets must adopt the international voluntary regulatory standards set by multinational bodies in order to maintain their competitive advantage. The importance of a strong financial sector to a country like Australia, as well as the capital injections that accompany it, mean that such market influences are particularly strong. Hyoung-Kyu Chey (2000) argues that:

“Owing to these market pressures, governments concerned with the competitiveness of their financial sectors adopt the relevant standards and firms comply with them so as to avoid market penalisation” (p.296)

Shadow Treasurer Joe Hockey makes a similar argument when he says that:

“If you’re sitting there in London and you’re an asset allocator, you’re going to sit there and say ‘look, if I don’t understand the rules, I’m not going to invest. Whereas 90% of the world have one set of rules, I’ll invest there” (Hockey Interview, 2012)

Similarly, the 1997 Wallis Inquiry states:

“In order to ensure that Australia remains a participant in global financial markets, it is often necessary for regulations in Australia to be in harmony with those overseas” (p.153)

This clearly illustrates how the underlying economic considerations, and particularly the fear of ‘capital flight’ are an important factor in the government’s decision to adopt international arrangements. As a result, the Australian financial regulatory landscape is increasingly characterised by internationally dictated voluntary self-regulation, which is then embedded within official pieces of domestic regulation. This process is known as ‘regulatory capture’ (O’Connell, 2003). Examples of this include: the IOSCO Code (2004) on Credit-Rating Agencies, who are exempt from Financial Service Licenses under ASIC; the International Financial Reporting Standards; the twelve codes of the Financial Stability Forum - now known as the Financial Stability Board - and the Basel Accords I,II and now III. Most of these rules and regulations are minimum requirements that are not only sensible and necessary, but leave room for policy-makers to adjust if they see fit. Indeed, all of these examples of self-regulation are beneficial in some way to the financial industry and Australia’s economy as a whole (MacFarlane, 2006), yet they are also examples of ‘private authority’ and ‘regulatory capture’. The remainder of this section will focus on the Basel II accord as a par exemplar of the structural power the Australian financial industry has derived from international self-regulation.

BASEL II

Agreed to in 2004, and subsequently replaced in 2010 by Basel III, the Basel II Capital Framework was developed to formulate one set of capital adequacy requirements for banks and improve upon the standards laid out in Basel I. The framework is based upon 3 pillars of capital adequacy; strong and accurate risk assessment, the importance of supervisory review and market discipline. Although the central bank governors of the ‘Group of Ten’ countries established the Basel Committee in 1974, it is commonly argued that it involved extensive consultation with, and the subsequent influence of, the private sector (Tsingou, 2010). What such influences mean for the structural power of the Australian financial industry is that many of the rules governing their capital adequacy requirements were not determined by local authorities, but rather by an international body that generally appears to represent the interests of private financial institutions. Thus, structural power is exerted upon Australian policy-makers via the market mechanism where, for fear of being punished with less investment and subsequent economic growth, the government must adhere to international regulatory standards such as the Basel Accords. Since these standards are generally created by, or at least written in the interests of, highly developed financial sectors like Australia’s, the finance industry is reaping the benefits of active international rule-setting.

CONCLUSION

In conclusion, through its contribution to economic growth and role as the allocator of capital, the financial industry possesses structural power over policy-making by limiting the available policy options for government. This chapter has shown that the financial industry can wield such power in either a passive or active capacity, which in turn limits the agenda of government in varying ways. Inherent within this influence is the legitimacy indirectly awarded to the financial industry via the hegemony of neoliberalism, in that

through its confidence in market-oriented strategies and a limited role for government, the perceived role of the financial industry and its significance to the ‘real economy’ are accentuated, thus entrenching the industry’s structural power.

CHAPTER 5

INSTRUMENTAL POWER

SALIENT INTERESTS AND ECONOMIC POLICY- MAKING

The instrumentalist or relation approach to the study of business power is concerned with the role of private organisations as political actors in the policy-making process. This actor-centred concept of power focuses upon the direct influence that one actor can wield over another. Therefore, this chapter analyses the power key actors have in the policy-making process. It is the contention of this thesis that the Australian financial industry wields power and has gained authority through the discursive and structural power of *finance*, yet the individual actors within the sector are subject to the same institutional limitations as other industries in their attempts to further their own interests.

This chapter is in three sections: (1) a brief analysis of the structural limitations upon instrumental business power in the Australian context; (2) an analysis of key public and private sector actors in the realm of finance; and (3) a case study of the 1997 Wallis Inquiry and how it exemplifies the aforementioned hypothesis. Since instrumental power is the study of relations between key actors, the interviews with notable office-holders forms a significant component of the following analysis. Instrumental power has the greatest ability to be directly observed and therefore, from their positions within the bureaucracy, parliament and private sector, these individuals provide significant expertise and insight into the power relations of financial industry regulation. As stated in the Chapter 2, each individual was specifically chosen not only for their significant experience and position within important institutions, but because they were each involved in the policy-making process to some extent during the 1997 Wallis Inquiry, and hence provide

crucial evidence in the final section of this chapter.

INSTRUMENTAL POWER RELATIONS: AN AUSTRALIAN CONTEXT

The financial industry operates within the specific context of the Australian policy-making process and hence, the ability of actors to wield power is strongly associated with their ability to overcome its inherent structural limitations. This section will analyse those elements of Australian governance that are particularly relevant to the financial industry and the potential for its actors to exert power. Despite the authoritative status of *finance*, the financial industry's ability to wield instrumental power is similarly limited by such structures. These expectations of private power are based on an analysis of Australian democracy, its public service and private actors.

DEMOCRACY

According to the Economist Intelligence Unit, Australia is the world's 6th 'best' democracy and hence, should be particularly accountable to the public's interests and the power of private actors (2011). Scoring perfect 10.00s for 'Electoral Process and Pluralism' as well as 'Civil Liberties' in the *Democracy Index 2011* (EIU, 2011), it is clear that all actors have the best possible chance of influencing the political process. Since instrumental power is the ability of one actor to influence another, this accountability has significant implications for the ability of business to wield this form of power.

However as Stephen Bell (1995) notes, the particular characteristics of individual democracies can alter just how responsive a given democracy is to citizen interests. In Australia, the fragmented nature of its political system is argued to diminish the potential

instrumental power of private actors by disaggregating business associations and interest groups (Bell, 1995). On the other hand, the growing size and strength of the executive branch (Davis, 1997) may counter these effects somewhat. John Warhurst (1998) argues that the greater significance of the executive branch means that lobbyists and business associations can overcome the political fragmentation by targeting key decision-makers in the Cabinet.

Together these factors make for a set of structural limitations that have not led to definitive conclusions regarding private sector influence. Instead, one can say that private sector actors tend to target the executive branch in order to overcome the problems of fragmentation and due to the accountability and transparency of Australia's democracy, such interests have the *potential* to exert significant influence over the policy-making process.

THE PUBLIC SERVICE

In Jordan's 'iron triangle' theory of policy-making (1981), the public service also play a crucial role in the formulation of public policy and hence, the nature of its activities are integral to understanding instrumental power. The defining trend in the Australian public service since the 1980s has been one of neocorporatism, whereby private solutions and an increasingly 'managerial' approach to public policy are favoured over purely government responses (Martin, 1998). This would appear to give private interests a greater potential for influencing policy outcomes, particularly in roles of consultation.

Most importantly, this has led to a prolific use of large, public inquiries, which seek to legitimise policy changes by giving private actors a process where they can voice their opinion and potentially influence future outcomes. As has been discussed several times throughout this thesis, this process has been particularly prevalent for financial sector reform, with the Campbell and Wallis Inquiries remaining the dominant philosophical and normative foundations of current Australian financial policy. These inquiries are

generally instigated by the executive, who then appoints members from the private and public sector to provide recommendations for future government policy. These recommendations are based upon submissions received by the Inquiry, from the various competing interests around the country. Depending upon the nature of these recommendations and the political climate at the time, some or all are then turned into policy outcomes and new pieces of regulation. While there is a long-standing argument that states the inquiry process is simply a process used by the government to legitimise existing policies or defer decision-making (see Peters & Barker, 1993), evidence for such a conclusion is inconclusive (Martin, 1998) and thus, this chapter will continue in the tradition of inquiry-centric analysis of economic policy.

PRIVATE INTERESTS

Political lobbying has become a well-recognised component of the policy-making process in Australia (Warhurst, 1998) and despite it not having the same financial potency as some of its international counterparts, it can still influence the nature and direction of policy outcomes. The most significant aspect of political lobbying in the Australian context is this apparent lack of financial resources and its subsequent role as an advisor or consultant to decision-makers. In the broadest study of how lobbyists use money to ‘buy’ influence in Australian politics, Iain McMenamin (2008) found that only 5% of firms donate to a political party every year. While this can lead to greater political access for such firms, there is no evidence of a causal link between political donations and policy outcomes. There is a link however, between the size of a firm and its political access, although this is likely to be a direct manifestation of the structural power wielded by large corporations discussed in the previous chapter.

Zhang (2010) points out that there are numerous other avenues for interest groups to influence the activities of government, public relations campaigns, however many of these depend upon the salience of an issue for the broader public. Financial issues are unlikely to provoke broad social movements - the lacklustre Australian ‘Occupy’ campaign being

a recent example -, which according to Stephen Bell (1994) has led to business interest groups seeking to influence government “based on solid research and intellectual rigour” (Zhang, 2010, p.81; citing Bell, 1994). Therefore, lobbying for Australian businesses is not based on financial power, but rather through advice and consultation. As previously discussed, the most significant avenue within which this occurs is the submission process of inquiries, hence validating the use of the Wallis Inquiry as an illustrative case study.

ACTORS IN FINANCIAL POLICY-MAKING

The previous section briefly outlined some of the structural limitations upon private influence and the avenues of influence that need to be analysed in the context of financial governance. The interaction between the executive and private sector groups appears to be the highest level of the relationship between business and government actors; the public service maintains its role as the primary source of policy ideas, yet its increasingly ‘managerial’ style means that inquiries and consultation form a significant component of this process; finally, lobbyists and private interests participate strongly in this inquiry process, particularly as they have shifted their focus from traditional lobbying techniques to ‘research based advocacy’ (Bell, 1997). The following section looks at these expectations in two sections: (1) public actors - namely the Treasurer and Treasurer as the most significant actors in the public service and executive within financial policy and (2) private actors - the ‘big four’ banks and prominent business associations such as the Business Council of Australia (BCA).

PUBLIC ACTORS

THE TREASURY

The Australian Treasury department is arguably the most significant public actor in

the realm of economic policy (Bakir, 2003). Although it is not directly responsible for the regulation or supervision of the financial industry, it advises the Treasurer, who is responsible for instigating the inquiries that often do so. Specifically, the Treasury:

“advises and assists the Treasurer, and through him the Government, in the discharge of his and its responsibilities in relation to economic, fiscal and monetary matters. The Department’s main responsibilities lie in the field of general economic management” (Treasury’s Annual Report, 1983; cited in Wanna, 2011, p.347).

Whitwell (1986) argues there are five factors that give the Treasury a privileged position within the economic bureaucracy: (1) its function as a financial controller, (2) possessing both superior and neutral knowledge, (3) that it is the only department responsible for the whole Australian economy, (4) that it is relatively insulated from sectoral and sectional interests, and (5) that it is dedicated to giving advice based on the public interest.

Part of the difficulty in assessing how much of this ‘privileged position’ translates into policy output is that Treasury’s advice is delivered through the Treasurer, making the department inherently tied to the performance of the Treasurer as a political actor (Whitwell, 1994; Wanna, 2011). Despite there being a designated Department of Finance and a Minister for Finance and Deregulation, the Treasury is the more significant political actor for this analysis in that it maintains an economy-wide view of policy. Therefore the largest instances of finance reform - namely the Campbell and Wallis Inquiries - have been predominantly overseen and implemented by the Treasury (Bakir, 2003). However, except for the inquiry process, the Treasury has little contact with businesses or private interest groups. Therefore, it is influenced primarily by the discursive and structural elements of business discussed in the previous chapters, which set an agenda that is then passed on to the Treasurer through their policy advice.

THE TREASURER

The Australian Treasurer is a minister in the governing cabinet and therefore subject

to the ebbs and flows of public opinion and political manoeuvring. The Treasurer is responsible for the political management that is inherent within the policy-making process, much as the Treasury is largely responsible for designing the policies themselves. As a member of the executive, the Treasurer is also the public actor who interacts most with the private sector. Joe Hockey echoes this view of the Treasurer's importance:

“Outside the Prime Minister, it is arguable the Treasurer is the most important cabinet minister” (Hockey Interview, 2012)

As was outlined in the previous section, private actors and their representative groups recognise the broad powers of the Australian executive and therefore, those who feel they need to be heard in regards to economic policy are most likely to contact the Treasurer. According to Joe Hockey, many different private actors communicate with the Treasurer:

“Well both [lobby groups and financial institutions], I mean really it's an interaction at the CEO level...and on a regular basis, senior government relations people” (Hockey Interview, 2012)

It is important that the Treasurer responds to these requests as it is in his political interests to maintain the support of businesses and their representatives. Apart from the fact that these private actors may donate to the party, there is the risk of a negative public relations campaign that could deteriorate political support for the Treasurer and his party. Joe Hockey in his interview, however downplayed the role of political donations in this process:

“No [money doesn't lead to political access], because if that were the case then a whole lot of people who don't give money wouldn't get access. I mean, as far as I'm aware Gina Rinehart doesn't give money to the Liberal Party but if she wanted to see somebody, they would...there are different powers and influences that cause somebody to see someone...it's not because they're a donor, I wouldn't know if they're a donor” (Hockey Interview, 2012)

Implicit in this response, in mentioning Gina Rinehart, is the influence private actors

can have over public opinion. Gina Rinehart, of course, was one of the leading figures in opposing the mining tax of the Rudd Government through a public relations campaign that had significant political ramifications for Kevin Rudd himself, and his government (Yeates, 2012). According to this author's interviews, in interactions with the private sector at this level, it is commonplace for a CEO of one of the 'big four' banks to call the Treasurer if they have a policy concern. For example, David Murray, the former CEO of the Commonwealth Bank of Australia states that:

“In the major banks you always do [have some interaction with the Treasury and Treasurer]...that's always a healthy process when you can step back and talk about the issues.” (Murray Interview, 2012)

While once again it is impossible to quantify how much this political access translates into favourable political outcomes. It is therefore apparent that interactions between the Treasurer and the private sector is a crucial component of an instrumental power analysis and one in which the structural expectations of a strong executive and disaggregated private interests remains true.

PRIVATE ACTORS

According to Tony D'Aloisio - who is not only a former director of the Business Council of Australia, but has been intimately involved in the public sector side of the policy-making process as the head of ASIC - private actors continuously attempt to exert influence over public policy:

“As an overall proposition, every group tries to influence government, because that's the function of those groups and the function of government is to make policy. The function of the groups is to input and governments welcome that input because how else can they make laws” (D'Aloisio Interview, 2012)

Therefore, this section analyses those groups who are either a part of the financial industry, or represent their interests and how they attempt to influence government. Of course, there are hundreds of financial institutions and a myriad of collective interest groups who seek to further financial industry interests, which means this section will limit itself to those seen to benefit most from the structural and discursive power of the industry discussed in the preceding chapters; namely the ‘big four’ banks and large, consultative interest groups.

When one refers to the ‘Australian financial industry’ they are referring to the cumulative total of banks, non-banking financial institutions (NBFIs), the superannuation industry, insurance companies and a whole range of corporations that deal in an ever-growing variety of financial instruments. Kevin Davis (2011) of the RBA notes that

“while all financial systems are different and have idiosyncratic features, at an aggregate level the structure and scale of the Australian financial system is not markedly different from that of other high-income countries” (p.305).

There are some differences however, including a particularly large mutual funds industry as a result of compulsory superannuation payments, a persistent Current Account Deficit (CAD), and most significantly for this analysis, a highly concentrated banking system.

THE ‘BIG FOUR’

The ‘big four’ domestic banks dominate the domestic market, namely; the National Australia Bank, Commonwealth Bank of Australia, Westpac and ANZ. Together these four banks account for roughly 75% of Authorised Deposit-taking Institution assets, which is the largest component of the financial industry, representing 60% of total assets (FSB, 2011). Joe Hockey illustrates the political ramifications of this very clearly in his interview:

“The banks are not only an essential part of the economy, and in Australia

they're a far larger part of the leading index, the ASX 200, they're a far larger component of that than they would be in other countries...they're also probably, as a group, the four major banks would probably be the biggest company tax payers in the country...the other thing is they give you a very good indication of how things are performing...if any of the top 20 CEOs rang the Treasurer or key people...we always take their calls...they're bargaining with the future of the economy...a bank is like an airline, you need it to be safe and profitable...so unlike a retail company falling over, if a bank falls over its almost inevitable that the government will step in" (Hockey Interview, 2012)

Here, Joe Hockey illustrates both the political access given to these corporations and how this can be seen as an implicit manifestation of their structural power. Yet, according to David Murray, the former CEO of CBA, this structural power does not necessarily translate into favourable policy outcomes for individual actors:

"Again, I don't think it would differ substantially from other industries. There tends to be quite a significant dialogue because of this issue of...this interdependency between the parties based on confidence in the system. And therefore the need to be aware of issues as they progress. On the other hand, I've seen plenty of examples in the banking industry of new regulations and codes etc being proposed and even drafted, without the slightest consideration of unintended consequences on the industry." (Murray Interview, 2012)

This demonstrates the differentiation between *finance* and financial *actors* that forms the core of this thesis' argument. The "confidence in the system" described by Murray - i.e a neoliberal confidence in *finance* - further entrenches the "interdependency" - otherwise known as structural power - between the government and financial industry. However, for individual actors, which is of course the perspective Mr Murray has as the former CEO of a big four bank, this does not "differ substantially from other industries". Part of this disparity also arises out of the nature of the 'big four' who are undeniably and exclusively profit-driven (Bakir, 2009) with few international aspirations. This means that

the four largest players in the Australian financial industry are largely competing with each other, rather than forming an organised bloc that represents their collective interests. Prominent financial commentator, Ross Greenwood explains:

“[The big four] do [have disproportionate power] except for one fact, and that’s that the banks themselves have displayed a healthy sense of independence...the truth is that when the banks want to tell their own tale, they’re more than happy to do it themselves” (Greenwood Interview, 2012)

Unlike in financial industries such as the United States, where large financial actors often lobby collectively because of the huge potential for international growth in that market (Fitzgibbons, 2006), the Australian banks give a higher priority to competing amongst one another, which seems to somewhat nullify the discursive and structural power they wield as an industry.

COLLECTIVE INTEREST GROUPS

This is not to say there aren’t business associations that represent the interests of the Australian financial industry. These groups confront the same problems of fragmentation and gaining political access as has been posited in the interest group literature described in the previous section. Some of the larger, relevant interest groups include the Business Council of Australia (BCA), which is an association of 100 CEOs from Australia’s largest corporations; the Australian Bankers Association; and the Insurance Council of Australia. Whereas most analyses of interest group influence concentrates on political donations and other forms of financial influence (Fuchs, 2007), as previously noted, this does not appear to be the case in Australian policy-making. Although the political parties rely on private donations for their funding (McMenamin, 2008), the distribution of this funding between industries largely mirrors their contribution to overall GDP. The financial industry, between 1998 and 2007 for instance, made 435 donations, with a total value of \$9,527,105 (Australian Electoral Commission, 2012). This was 8.9% of total donations during this period and is roughly equivalent to their proportion of GDP, which is 10.9%.

Former director of the BCA, Tony D'Aloisio, illustrates the role of lobby groups and business associations in Australian policy-making and how insignificant financial resources appear to be in that process:

“In some cases people use lobby groups...in other cases people may seek to see ministers or the prime minister direct...in the financial industry you see a lot of working groups that are chaired by ministers for example, you see consultation meetings where either the senior minister or the junior minister is involved...whether you are successful in influencing that minister or not depends on the issue, and depends on the minister, the policy and cabinet...our system has got a number of checks and balances”
(D'Aloisio Interview, 2012)

This reiterates the expectation outlined in the previous section whereby business associations and interest groups increasingly serve a consultative role of ‘research-based advocacy’ in private meetings and inquiry submissions, rather than more traditional methods such as political donations and public relations campaigns. This is a particularly important conclusion, for not only does it emphasise the significance of discursive and structural power, but it also validates the inquiry-centric methodology of analysis that has traditionally been implemented in such studies and is continued within this thesis.

CASE STUDY - FINANCIAL SYSTEM INQUIRY 1997 (WALLIS INQUIRY)

The policy-making process for the Australian financial industry is one that can largely be characterised by the use of inquiries and consultation, particularly during its most significant periods of reform. Since the Report of the Royal Commission into Monetary and Banking Systems in 1937, there have been just two ‘watershed’ inquiries that have led to the financial system that exists today (Edwards & Valentine, 1998); the Campbell Inquiry, or the *Australian Financial System Inquiry* 1981; and the Wallis Inquiry,

known as the *Financial System Inquiry* 1997. The Campbell Inquiry began the process of deregulation that has placed Australia among the most open and competitive financial sectors on the planet (Merrett, 2002), while the Wallis Inquiry is recognised for having established the much-lauded ‘twin peaks’ regulatory framework (Rich, 2009). Therefore the following section will focus on the Wallis Inquiry in its study of instrumental power, due to its greater applicability to current political actors and as a contextually relevant factor in the GFC. Since this thesis has already looked at the content of the Wallis Inquiry in its analysis of discursive and structural power, it is clear how it illustrates the authoritative status of *finance* in Australian policy-making. This section on the other hand, will analyse those actors involved in the inquiry process itself and demonstrate how expectations of the capacity of the state and power of financial industry actors is apparent within that process. This is done by first, looking at the nature of the Inquiry; second, who and what led to its creation; third, the ‘political window’ of such policy change; and finally, how the various opposing forces illustrate the aforementioned capacity of the Treasurer and difficulty financial actors have in exerting power.

A NEUTRAL PROCESS?

The prolific use of the inquiry process in financial policy in Australia has led a number of scholars and critics to argue that rather than being a medium for discussing and forming new ideas, this process only serves to legitimize the previously held ideas of politicians or their public service (see Peters & Barker, 1993). Unsurprisingly, this has also been the case with the Wallis Inquiry (see Bakir, 2003). Therefore, one needs to consider the submission process and how that translates into new policy ideas and changes. In Tony D’Aloisio’s opinion:

“In my experience, the influence that you seek to have over government policy is fairly transparent. It tends to be at industry-submission level. It can be followed up by discussions with the bureaucrats...and it tends to be by government actually actively consulting and asking for views...so, by far that’s mostly how it works and it’s quite transparent” (D’Aloisio Interview, 2012)

While this illustrates how the process is quite transparent, it does little to indicate how neutral those involved in the inquiry itself are. Since it was the Treasurer Peter Costello who commissioned the inquiry, much of this discussion is closely tied to an analysis of this executive position and the Treasury. One indication that the Wallis Inquiry was not entirely open to all ideas is that Costello, his advisers and the Treasury, chose the members of the panel and its secretariat. Each member of the Committee was a recognised market-oriented individual from either academia or the financial services industry itself (see Bakir, 2003, p.524). For instance, Stan Wallis, the Inquiry chairman was president of the BCA, as well as the director of Australian Mutual Provident Society Limited (AMP), Australia's largest insurance and funds management company at the time. In addition, the Treasury provided 8 out of the 14 staff to the secretariat, including its head. This clear bias in favour of the financial industry in how the inquiry was set up and conducted can also be seen to be the result of the discursive and structural power of the industry discussed in the previous chapters. The well-noted hegemony of neoliberalism creates and shapes how the economic policy-making process is conducted, while the recognised economic significance of the industry also set a clear agenda that would benefit the financial industry. Therefore, the process was skewed in favour of *finance*, yet this thesis' contention is that financial industry *actors* do not possess significant instrumental power, and hence, the role of individual actors in the Wallis Inquiry requires analysis.

A POLITICAL PROCESS?

According to Bakir (2003), the Treasury Department had been actively pushing for the 'twin peaks' regulation and many of the other proposals of the Wallis Inquiry some time prior to the review itself. At that stage, both the Treasurer Ralph Willis and his Liberal counterpart Peter Costello were amenable to their ideas, however the Prime Minister Paul Keating as well as the RBA, were strongly opposed. Kingdon (1995) argues that without a 'political window' or an obvious problem in the current system, a set of potential policies is not enough to create policy change. This 'window' occurred in 1996 when the Liberal Party was elected into office and the Treasury Department had the

political support of both the Treasurer and the Prime Minister. Upon becoming Treasurer, Peter Costello was particularly important in this process, as Ross Greenwood, a close personal friend of Mr Costello and leading financial commentator for various media outlets would attest:

“Costello was number 1,2 and 3. No doubt about it. He was the one who set it up, he was the one who had that philosophy.” (Greenwood Interview, 2012)

Similarly, Joe Hockey, who was Mr Costello’s Junior Minister and Minister for Finance and Deregulation at the time, believes that:

“Peter Costello drove it and initiated it, and the view was that the financial services sector needed to have [the Wallis Inquiry], following the implementation Campbell, primarily by Paul Keating. You know, you’d had your bank failures in the late 80s and early 90s with the state banks, there was a view that the prudential regime and the financial system needed a period of stability and therefore, we needed to have a more coherent system” (Hockey Interview, 2012)

The reasons for this strong push by Costello for change in the industry have been widely discussed, including the argument that Costello needed to prove himself to be a strong Treasurer to the financial industry but also wanted to assert himself early with a significant political victory in order to set himself up as the future leader of the party (Bakir, 2003). Therefore the policies of the Treasury were now coupled with the ‘political window’ of an assertive Treasurer who was keen to establish himself. This suggests a number of important conclusions; first, that the Treasury and the Treasurer had clear agendas going into the Wallis Inquiry; also, the Inquiry was never intended to be an independent process as it was a political necessity of a ‘neo-corporatist’ public sector to achieve this agenda; and finally, the office of the Treasurer remains of vital importance in the policy-making process. This relative power can be clearly seen in the opposition to much of the Wallis Inquiry by the private sector.

A PLURALIST PROCESS?

The private sector was given a considerable opportunity to voice their opinions in the formation of the Wallis Inquiry through the submission process. Individuals, interest associations, public departments and businesses were all given the opportunity to make submissions, which would then inform the Committee in the formation of their final report. The Inquiry received 268 initial submissions and a further 155 supplementary submissions from a wide range of interested parties. As previously stated, there is some argument as to how much influence these submissions have, or whether they are a method to placate potential opposition and legitimize subsequent policy changes. This can be seen in the high level of opposition voiced by prominent private actors in their submissions to the Wallis Committee. ANZ, the Commonwealth Bank and Westpac were all opposed to the changes, as was the Reserve Bank (Bakir, 2009) and many of the other departments that stood to lose their power, including the ISC, ASC and AFIC. According to Joe Hockey, they opposed the changes because:

“I mean, they were out of a job. The Reserve Bank didn’t want to lose prudential supervision” (Hockey Interview, 2012)

For the banks, their primary motivation was the maintenance of their strong profits, which they feared would deteriorate under a new regulatory regime. This can be seen in a number of the banks’ submissions to the Inquiry (see ANZ, 1996, pp. 3-6; CBA, 1996, Ch. 5; WBC, 1996, pp. 4-12), such as that of ANZ:

“ANZ considers that banking regulation has served us well in an international context and we would want to preserve that advantage going forward...[there is a] desirable framework of total deregulation of products and pricing, and streamlined institutional regulation for prudential purposes only” (1996, pp.3-4)

This clearly illustrates the banks’ desire to maintain the status quo (which they believed had contributed to their success), achieve significant deregulation, and maintain an institutional, rather than functional form of regulation. The other economic

bureaucracies also opposed the changes, since many of them stood to lose many of their responsibilities (such as the RBA's responsibility for banking supervision) or cease to exist entirely. Therefore, the Treasury and in particular, the Treasurer himself, appear to be the dominant political actors in the policy-making process of financial regulation, since the opposition of private actors and competing bureaucracies did little to counter the policies of the Treasury and the 'political window' achieved by the new Treasurer.

While of course, this is just one inquiry and as noted, the specific political conditions were a large component in aiding the 'Treasury bloc's' (Bakir, 2009) success, similar results have been found in regards to the Campbell Inquiry (see Fitzgibbons, 2006). Much like the Wallis Inquiry, the Campbell Inquiry was initiated by Treasury, rather than sought by the private sector. Also, the banks and NBFIs were resistant to change, opposing the competition that financial deregulation would bring and hence, the potential threat to their profit margins (Fitzgibbons, 2006). The Inquiry process had a similar system of allowing for submissions, which were then used to determine a final report, and, much like at the time of the Wallis Inquiry, the Campbell Committee was commissioned at the beginning of a new party's tenure in government. Therefore, many of the general conclusions of the relationship between business and government actors illustrated in the first two sections of this Chapter can clearly be seen in both 'watershed' financial inquiries, which indicate that private actors have limited instrumental power when there is a consensus on policy in the Treasury and a 'political window' for those ideas to become a reality.

CONCLUSION

This chapter has demonstrated how, despite the authority of finance as an ideal of modern governance, the 'iron triangle' of Australian public policy-making shares power reasonably evenly. As the more general research into private influence has indicated, political lobbying and particularly, the role political donations, rarely wields significant

power over policy-making. This is especially true when there is a clear agenda within the public service – in this case, neoliberalism and the promotion of an economically significant financial industry – and when there is an appropriate political context for change. For financial governance, when there are large-scale reforms, the Treasurer and Treasury maintain significant power over the process, despite their motives and agenda being largely set by the discursive and structural power of finance. The inquiry process clearly illustrates how a) the public service’s agenda is shaped by the hegemony of neoliberalism and significance of the financial industry; b) the executive’s motives are similarly shaped, although this is tempered somewhat by their greater interaction with private actors and the political requirements of public office; and c) that private actors are allowed significant access to the political process, both through submissions and consultations but also in private interactions with the Treasurer, however there is no indication that such access leads to significant political influence, and certainly no more so than their counterparts in other industries and arenas of governance.

CONCLUSION

When one criticises banks, is it the idea of finance as a function of a modern economy or the actions taken by that bank which is the subject of criticism? When the financial industry is blamed for the GFC, does the fault lie with neoliberal philosophies or the actions of salient actors? Can policymakers pursue a philosophy of governance without being at the mercy of those required to make it work? These are the puzzles at the heart of this thesis and the questions it has sought to answer through the application of the ‘three faces of power’ conceptual framework. By applying this framework to original and existing theoretical and empirical evidence, it is now clear that the role finance and financial industry actors play in the Australian policy-making process is very different. The hegemony of neoliberalism in economic policy-making has legitimised finance and entrenched its fundamental role in Australia’s economy. This frames the agenda of policy-making in a very specific fashion, inherently promoting neoliberal solutions, of which finance lies at the forefront. Similarly, the importance of economic growth and absence of market failure to the Australian democracy imbues the financial industry with power over the options available to government and how they conceive of economic strategies to promote growth, or avoid failure. These forces underlie relations between financial industry and public actors, yet the checks and balances of Australia’s democracy are largely sufficient to avoid overtly preferential treatment in the formation of public policy.

SUMMARY - THE THREE FACES OF POWER

The nature of power is such that its presence and significance can only be inferred rather than observed; much as the distinctions between its varieties can only be assumed rather than proven. Each category of power within the ‘three faces of power’ conceptual

framework overlaps with the other, yet for heuristic purposes, this framework serves to simplify and clarify the process of inference that is this thesis' method of analysis. From original and existing theoretical and empirical evidence, this thesis has inferred that finance holds an authoritative position in the policy-making process while financial industry actors encounter sufficient checks and balances to be in similar positions of power to their counterparts in other industries and arenas of governance. This conclusion was developed in three chapters, which each addressed a different component of business power and its effect upon the policy-making process.

Chapter 3's discussion of discursive power in Australian financial governance argued that the hegemony of neoliberalism has legitimised finance as the authoritative component of economic policy-maker's strategy for an efficient and growing economy. This hegemony influences the agenda of government via the way in which policies, politics and problems are framed ideologically. While the hegemony of neoliberal discourse in Australian economic policy is a well- established discovery, the way in which this hegemony leads to the discursive power of the financial industry is a fairly novel proposition. This discursive power is wielded via the legitimacy of finance, which, in the neoliberal discourse, is considered to be the best method for efficiently allocating resources and stimulating economic growth. This legitimacy frames how policy-makers perceive their range of policy options, the political limitations upon economic policy and what are the best strategies for overcoming economic problems, thus awarding the financial industry status as *an* authority within policy-making. Therefore, this chapter set up the broad ideological parameters within which both structural and instrumental power operates.

Chapter 4 analysed the nature of structural power and how, through the legitimacy of finance and its economic significance, the financial industry is *in* a position of authority. The passive structural power of the financial industry is the influence derived from the government's fear of poor economic outcomes. Due both to the neoliberal analysis of finance and the international nature of the industry, policy-makers are particularly aware of how much the financial industry contributes to the economy, and the potential

ramifications of policies that do not continue to develop and consolidate that significance. Through an analysis of the key policy documents, The Wallis Inquiry and the *Australia as a Financial Centre* report, as well as original interviews with key office-holders, it is apparent that not only do such perceptions of its economic significance exist, but that this translates into favourable policy outcomes for the industry as a whole. Active structural power, on the other hand, exists when an actor sets their own rules and regulations, thus directly limiting the policy options available to government via a process often referred to as 'regulatory capture'. Such power is increasingly wielded by the financial sector as a growing number of internationally set self-regulatory regimes are agreed to and essentially forced upon governments, particularly in smaller economies such as Australia's. Therefore, much as discursive power granted the financial industry status as *an* authority via the expertise of neoliberalism and legitimacy of finance, structural power means that the industry is now *in* a position of authority whereby the institutions and structures of governance recognise that legitimacy.

Finally, Chapter 5 considered the power of the financial industry from the instrumentalist perspective, whereby power relations are viewed as the interactions between salient actors vying for influence. The first section examined some of the general findings in political science regarding the ability for private actors to exert influence. From this literature, it is clear that most authors expect a fragmented interest group movement with little financial power and are kept largely in check by the institutions of Australian democracy. These findings are largely reflected in an analysis of economic policy-making in Australia in that the Treasurer in particular, has the ability to hear both sides of a debate, yet ultimately put forward an independent policy platform. While banks and other large financial institutions certainly receive political access, this does not appear to be a result of excessive political lobbying or donations but a manifestation of their structural power and the kind of structural power wielded by any large corporation in Australia. Finally, the case study of the 1997 Wallis Inquiry illustrates how the Treasurer can overcome competing interests and put forward a clearly pro-finance piece of legislation, which largely adheres to the neoliberal ideology through a transparent inquiry process of submissions and consultation.

IMPLICATIONS

This thesis has a number of implications for financial governance both in Australia and internationally. While these will require further research with varying methodological approaches, it is important to consider what such implications may well be. This analysis has inferred several conclusions about the nature of Australian financial governance:

- a) That neoliberalism is hegemonic but not monopolistic
- b) This hegemonic neoliberalism has legitimised finance as a core component of the modern economy
- c) Such legitimacy fosters the perception of an ‘expert’ financial industry, imbuing it with the status of *an* authority in the policy-making process
- d) Such legitimacy fosters the perception of an economically significant financial industry
- e) This perception is exacerbated by the international nature of the industry itself
- f) This economic significance influences the underlying agenda of government decision-making
- g) This has manifested itself in a pro-finance agenda and in the self-regulatory regimes that are characteristic of an actor who is *in* a position of authority
- h) That such legitimacy and authority can in fact create a policy agenda that benefits the industry as a whole, while maintaining the fairness of a democratic process to individual actors
- i) That Australia’s inquiry-centric policy-making process appears to be an effective mechanism for balancing an ideological agenda, the interests of salient actors and the political ambitions of key individuals

Further research on these findings could be conducted in varying contexts or using a different methodological approach. For example, it would be interesting to see how well these conclusions fit the European system, or even a close neighbour such as New Zealand. Similarly, quantitative research into any of the above phenomena would yield important results. Statistical modeling of the inquiry process for example, could quantify how important the submission process is to the development of new ideas or how much of

an inquiry's agenda is determined by neoliberalism and economic considerations.

Most importantly, this research indicates that if financial crises can not be avoided in a globalised world, with the right democratic institutions and structures, the effects of such a crisis may at least, be reduced somewhat. Since there are no signs that financial crises will cease being a regular event, any and all research that aims to improve how governments and societies respond to the global calamities is surely worthy of scholarly attention. In this way, much as the paradox of Australia's experience through the crisis informs future decision-makers domestically and abroad, the conceptual framework and analysis of this thesis should contribute to how we understand the policy-making process, power relations in a modern democracy and the very nature of the business-government relationship.

APPENDIX A

SEMI-STRUCTURED INTERVIEW QUESTIONS

1. What status does the financial industry have in society? How important is it to the Australian economy?
2. How would you characterise the relationship between the financial industry and government?
3. How involved, would you say, is the industry in the policy-making process? In what way?
4. In general, do you believe that private interest groups have a significant influence over the political process? If so, how? If not, why not?
5. In your opinion, how important is money in the political process? For instance, as influence deriving from campaign contributions, or the resources available to particular industries.
6. How about as an advisory role? Do you think the financial industry wields influence through the information it provides, and the expertise it has?
7. How important do you think economic variables such as unemployment figures, business confidence, or stock prices are in the policy-making process?
8. Do you think businesses, and particularly the financial industry, take advantage of this, even if it's sub-consciously?
9. Do you think banks can be 'too-big-to-fail'? Why is it, you think, that the financial industry can get special treatment in this way?

- 10.** Do you think the financial industry should regulate its own activities? For instance, is the significance of credit ratings agencies a healthy system?
- 11.** How important do you think popular indicators featured on daily news programs – such as stock prices or the exchange rate – are to the national economic psyche? How about to the actual economy?
- 12.** Do you think the public has more faith in the expertise of private actors – such as the banks – or the government? Why do you think this is the case?
- 13.** Finally, between the power of ideas, its economic weight, and direct lobbying of government, how much influence do you think the financial industry has over policy-making?

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