Politics and the Finance Sector: An Introduction

Melbourne JAPE Collective

Changes in the Financial System

The Australian financial landscape has been dramatically altered in the course of the past few years. Removal of most controls on interest rates and prescribed minimum levels and types of asset holdings by financial institutions, the establishment of an expanded foreign exchange market, and the floating of the Australian dollar have all contributed to a vigorous shakeup. The recent announcement that sixteen foreign banks would be granted licences to operate in Australia has further extended the process. Only a few years ago the structure of the financial system appeared fixed and immobile. But now the tide of deregulation has risen and swamped many of the most familiar landmarks of the old system.

Although many of these developments were initiated by a Liberal/National Party (L/NP) Government, the pace of change has undoubtedly quickened during the tenure in office of the present Labor Government. The unfolding of this political impetus can be traced through the two major inquiries that have provided the guidelines for the transformation of the finance sector. It was the Campbell Committee, established by the L/NP Government in 1979, that set down the blueprint.[1] But its recommendations were endorsed by the subsequent Martin Review Group, established by the incoming Labor Government in 1983.[2] Although the composition and the conclusions of the Campbell Committee had been vehemently criticised by the then Shadow Treasurer (Ralph Willis), it was the Treasurer in the new Labor Government (Paul Keating) who took up the task of implementing its central recommendations.

In spite of the flurry of announcements and the succession of official inquiries, there has been only a one-sided, inadequate public debate.

The absence of critical discussion appears in its starkest form within the ranks of the labour movement. Undoubtedly, the image of monetary and fiscal policy as an arcane area best left to experts has helped to cloud the debate. Undoubtedly also, the enthusiasm and speed with which the Labor Government leapt on the deregulation bandwagon - as well as the skill with which the inner group in Cabinet were able to de-mobilise opposition - served to wrongfoot many supporters of the Government.

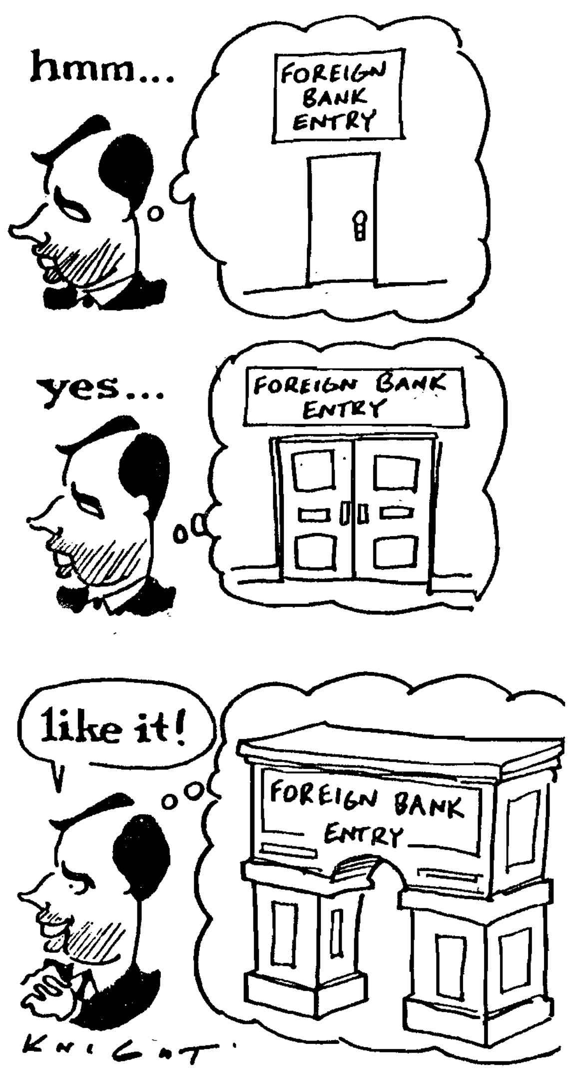
The failure is perhaps a little surprising given the long tradition in the labour movement of concern with finance. Marxist writers since Lenin and Hilferding have stressed the importance of analysing the current stage of capitalism in terms of the role of 'finance capital'.[3] More broadly, the Australian labour movement has long been distinguished by a populist sentiment of antagonism to the 'money power'.[4] Nevertheless, in spite of this tradition, the ability of the Left to resist and to counterpose its own alternatives to the changes in the financial system proved to be poor. These changes have served to highlight major weaknesses in the theoretical and political foundations of Left politics.

It is true that there was an attempt to take a stand. The issue of foreign bank entry witnessed some resistance, and indeed there was a widespread mobilisation of the Left of the Labor Party in the period preceding the 1984 A.L.P. National Conference. Three points can be made here. First of all, and most obviously, this resistance was brushed aside. Led by Paul Keating, the supporters of foreign bank entry were able to reverse stated policy and to secure endorsement for a proposal that a 'handful' of foreign banks would be granted licences under specified terms and conditions. In the wake of this endorsement the way was clear for the government to proceed as it liked. Indeed, when the decision to grant licences to the sixteen was finally announced, the Managing Director of Westpac was moved to express his amazement "that the door locking them out should be ripped off its hinges and thrown away".[5]

Secondly, and quite independently of the balance of political forces, it should be noted that the Left was unable to mount an intellectually powerful case. It was able to draw on misgivings concerning the effects of changes but it was unable either to counter in any detail the arguments of the proponents of foreign banks entry or to advance any compelling alternative of its own. To a large extent it was forced to fall back on vague sentiments, for example of suspicion of change and of hostility to the effects of foreign multinationals.

Finally, it can be argued that the ALP Left's choice of foreign bank entry as **the** issue on which to mobilise was itself a poor choice. It appeared to be a choice dictated by the symbolism of the issue rather than its significance, and it led to a virtual abdication from many of the other economic and political debates within the ALP.

This left far too much room for the frail arguments of the Right to stand uncontested. Although it is true that much of the talk of the weakness of the Left's economic contributions at the National Conference must be viewed in the context of political point-scoring with the ALP, it does contain at least an element of truth. The debate had clearly reached a degenerate level when Paul Keating could feel confident enough to play off the Left's hostility to the 'money power' against its hostility to multinationals, by arguing that the entry of foreign banks would serve to tame Labor's traditional foes - the local, private banks.



An Historical Link

This response can be compared with that to the last major review of the finance system - the 1936 Royal Commission on Monetary and Banking Systems in Australia. Like the Campbell Committee, the Royal Commission was established by a non-Labor government and was generally regarded as stacked in favour of the interests of finance. Although it conducted its investigations in the shadow of the Depression and the major financial crises of the 1920s, its recommendations reasserted the central role of the private banking system (with the addition of a few criticisms of the activities of the private banks and recommendations for stronger powers for the Commonwealth Bank).

Nevertheless, there was at least one central point of contrast with the Campbell Committee. Although the labour movement did not expect much from the Royal Commission and did not press its own policies, the Commission did contain one ALP appointee - Ben Chifley, later to be Labor Prime Minister. Chifley brought down a minority report that presented both a forceful critique of the banking system and an alternative. He argued that:

> Banking differs from any other form of business, because any action - good or bad - by a banking system affects almost every phase of national life. A banking policy should have one aim - service for the general good of the community. The making of profit is not necessary to such a policy. In my opinion the best service to the community can be given only by a banking system from which the profit motive is absent, and, thus, in practice, only by a system entirely under national control.[6]

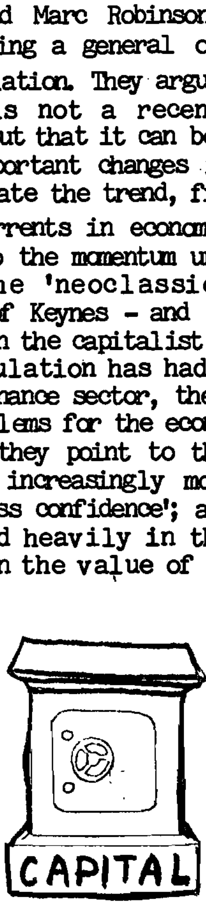
Chifley's intervention helped to mobilise the opposition of the labour movement and to lend it an intellectual authority. It provided the platform on which subsequent Labor governments, rather than merely capitulate to the prevailing economic fashions, were able to assemble at least a tentative programme of reform. The contrast with the present is sharp.

Deregulation and Economic Theory

This special issue of the Journal of Australian Political Economy seeks to examine the background to the current changes in the finance sector. In particular, it is concerned to assist in sparking off a more serious discussion of these changes within the labour movement and to lay the foundations for a more concerted socialist analysis of the likely developments and possibilities for intervention in the finance sector.

Many of the articles take their starting point from a critique of the theoretical and political positions that have dominated the discussion up to now. Most broadly, these include the arguments thrown up in the traditional debates between Keynesian and monetarist economics, as well as the overall ideas of deregulation. In addition, some of the articles address the particular arguments advanced by the Campbell Committee and the Martin Review Group. On the other hand, many of the articles are also concerned to assess and to challenge the prevailing themes in many of the Left responses to the changes in the finance sector.

John Quiggan and Marc Robinson introduce the issue by providing a general overview of the trend to deregulation. They argue strongly that deregulation is not a recent economic or political fad, but that it can be traced through many of the important changes in the post-war period. They relate the trend, first of all, to the dominant currents in economic theory - and in particular to the momentum unleashed by the triumph of the 'neoclassical synthesis' interpretation of Keynes - and then, secondly, to the changes in the capitalist economy itself. Although deregulation has had its strongest impact in the finance sector, they argue that it poses major problems for the economy as a whole. In particular, they point to the way in which the economy is increasingly mortgaged to the whims of 'business confidence'; a point that has been underlined heavily in the wake of the recent falls in the value of the Australian dollar.



Some of the currents in economic theory referred to by Quiggan and Robinson are taken up in more detail in the review articles by Stuart McGill and Robert Dixon. McGill examines the critique of monetarism developed by Nicholas Kaldor, and argues that it remains limited by its loyalty to the neoclassical theory of value. Dixon provides a more sympathetic commentary on the work of another 'post-Keynesian' - or as he terms it 'post-Kaleckian' - economist, Hyman Minsky. Both articles support lines of analysis derived from classical political economy.

'Efficiency' and the Tasks of a Left Response

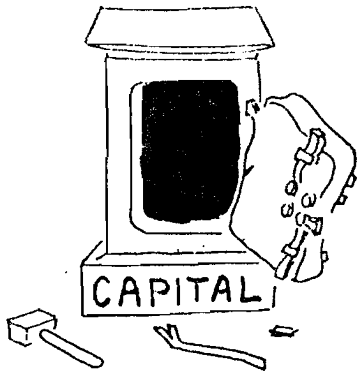
The remaining articles in this issue are more narrowly focused on the Australian situation. In order to place these in context it is useful to say a little more both about the approach taken by the Campbell Committee and the Martin Review Group and about the overall thrust of deregulation. This in turn allows a better understanding of the tasks confronting the Left in relation to the current changes.

Both the Campbell Committee and the Martin Review Group concentrate on the issue of 'economic efficiency', and indeed this has been a central theme in much of the literature advocating deregulation. For the Campbell Committee this orientation was spelt out in its terms of reference, which asked for an investigation of the finance system "in view of the importance of the efficiency of the financial system for the Government's free enterprise objectives and broad goals for national economic prosperity".[7] Similarly, the Martin Review Group was established by the new Labor Government to "have regard to the recommendations of the Campbell Committee, the Government's economic and social objectives, and the need to improve the efficiency of the financial system".[8]

It is easy to agree that efficiency is indeed an important issue; one which bears both on the financial system itself and on the forms of regulation of that system. Nevertheless, it should also be clear that efficiency is an elusive concept. It cannot be independently defined, but must be considered in terms of **particular objectives**, in relation to which particular means are judged to be 'efficient' or 'inefficient'. And this in turn indicates that when, as in the case of the financial system, there are a variety of objectives, so too must there be various ways of assessing 'efficiency'.[9]

In the light of these remarks, it is possible to recognise one of the central failings of the Campbell Committee Report. In spite of its close attention to the demands of 'efficiency', it in fact uses the term in an uncritical and unexamined way. It takes up just one notion of efficiency, which holds that the role of the financial system is to direct funds into the highest yielding forms of investment and that it is towards this goal that such means as increased competition and freer information flows should be directed.

But this represents only the narrowest version of efficiency. It misses, for example, what Tobin refers to as 'functional efficiency', which is based on an assessment of the services that financial institutions provide for the economy as a whole.[10] This latter dimension of efficiency, with its implications for issues such as the level of productive investment, is of the utmost importance. There is often little direct relationship between a bustling financial market and the flow of funds into productive investment. Or, to put it in more general terms, there is no necessary connection between profitability as such and the overall social advantage of the community.[11] Indeed, the theoretical conditions required for the 'allocative efficiency' championed by the Committee are so stringent as to be inapplicable in the current capitalist economies.[12]



A failure to focus on the broader social and economic objectives of the financial system also marks much of the subsequent discussion of the recommendations of the Campbell Committee. Even the **Financial Review** has been moved to remark that, apart from the discussion of market efficiency, little attention has been paid to "what type of financial system we should be aiming for, and how to achieve it".[13] In this respect the current debate offers another point of contrast with the debate initiated by the 1936 Royal Commission. In the latter case, both the majority recommendations and Chifley's minority report - together with the contributions in the ensuing discussion - were firmly founded on particular, albeit conflicting, conceptions of the appropriate place of the financial system in the economy of the time.

This points to one task for the Left. It should be able to raise the issue of the objectives of a financial system and to draw attention to the links between the financial system and the remainder of the economy. This in turn can provide the platform for the development of its own objectives. For example, financial efficiency can be assessed in relation to the achievement of full employment and an acceptable level of output.

The current discussion of efficiency therefore provides an opportunity. But it is an opportunity that is double-edged. It must be recognised that in many ways the discussion of efficiency also has implications for the traditional approach adopted by the Left. Too often the Left has taken its standpoint from a defence of regulation as such. Regulation has been identified as a **principle**. It has been identified with 'social control', or the imposition of social priorities on the market mechanism, and in this way more pertinent social objectives have tended to be collapsed into a simple defence of the principle of regulation. At the same time - precisely because regulation itself has come to be treated as an objective - the issue of the efficiency of particular regulatory measures has tended to be neglected.

This traditional standpoint is naive and mechanistic. It also falls into the traditional error of assuming that the state is a ready-made vehicle for social reform (the much-debated problem of statism). It cannot provide a basis for formulating a rejoinder either to the general thrust of deregulation or to the particular recommendations of the Campbell Committee. If, in challenging these ideas, the Left is content to counterpose an undifferentiated 'regulation' as the centrepiece of its alternative set of objectives, then the battle would seem to have been already lost. There is a need for a quite different standpoint.

An indication of this need can be gained from a brief review of the deregulationist push. It is clear that this push is gathering strength, not just in Australia, but throughout the advanced capitalist world, and it appears likely to supply the central tenets of a new conservatism. In the thin atmosphere of Opposition, the Liberal Party has come increasingly under the sway of the principles of deregulation.[14] And, of course, under the cover of 'economic rationalism', the sweep of these principles extends far beyond the formal boundaries of the conservative parties.

Deregulation policy draws on a body of economic literature that can be seen to have three central elements:
i) At the most general level, this literature celebrates the efficiency of the market mechanism. Where the mechanism has been demonstrably inadequate, it is argued that the failure derives, not from any inherent defect of the market, but from the incorrect specification of property rights;
ii) it seeks to demonstrate the inefficiency of particular regulations in dealing with the problems they purport to solve; and
iii) it seeks to demonstrate that regulatory agencies face an impossible task.

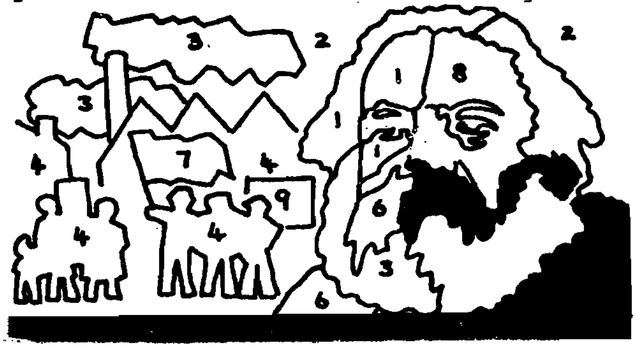
This literature can be readily challenged at the most general level, by drawing on the many excellent and devastating critiques of free market economics. But it is important that any challenge should not rest at this point. In particular, it would be wrong to fall back into a defensive posture that simply upholds the principle of regulation. This risks duplicating an ideological appeal to the principle of the 'free market' with what appears to be an equally ideological appeal to 'social control' or 'government intervention'. More significantly, it risks sidestepping, and thereby lending too much legitimacy to, the evidence of the partisans of deregulation concerning the failures and inefficiencies of particular regulatory measures. In this way, the opponents of deregulation render themselves vulnerable to one of the most powerful weapons in the deregulation arsenal and inhibit their own capacity to mount an effective response.

The Left must be able to take up the evidence of inefficiency, if it is to successfully confront the conclusions drawn by the deregulationists. Free of any commitment to shibboleths, it must be capable of supplying its own analysis of particular forms of regulation and particular regulatory agencies, taking into account their objectives, their efficiency, their mode of operation and degree of accountability, as well as their relation to the overall strategic perspective of the Left. Included here must also be a capacity for analysing instances of deregulation, taking into account that these may in fact produce benefits for working people. This in turn is the basis on which the Left can then develop, within an overall strategic perspective, its own proposals for forms of government action.[15]

This argument applies with particular force to the case of deregulation of the financial system. All of the elements in the deregulationist case can be found in abundant supply within the Campbell Committee Report. Similarly, it is easy to see that the subsequent endorsement by the Martin Review Group can be traced back to the simple fact that it shared the same underlying conception of the working of a financial sector within the economy.

In responding to this viewpoint, it is possible to draw out the ideological dimension of the arguments. It is even possible to point out that there is a particular twist in the application of deregulation to the financial system. All firms in a fully competitive market have the risk of failure - and the prospect of higher profits in new areas is often balanced by attendant higher risks. In banking, however - and the point is abundantly apparent in the U.S. Government's bail-out of the Continental Illinois Bank in May 1984 and its more recent response to the run on the banks in the state of Ohio, as well as in the Bank of England's rescue of insolvent gold trader Johnson Matthey in September 1984 - there is very little risk of failure. Governments will come to the rescue, simply because of the massive effects of the financial system for the rest of the economy. The 'market discipline' of failure is therefore much less in the case of banks, especially large banks, and free competition could well lead into frighteningly risky areas.

But the response must extend further. It must be recognised that both the Campbell and Martin Reports were able to mount a strong case against many existing regulations. Changes in the international and domestic financial system had clearly created a need to review the operation and rationale of these regulations.



The starting point of the Martin Group is in fact easy to endorse: "the Government would wish regulatory provisions to be subject to careful scrutiny, so as to ensure that regulation actually achieves the desired effect".[16]

A Left response must be capable of assessing the arguments concerning particular forms of regulation. It can draw attention to the need to devote more attention to social objectives, but this must go beyond a defence of regulation as itself an important social objective. In effect, it must be capable of responding at a detailed level: accomodating an analysis of existing forms of regulation and introducing an alternative discussion both of particular objectives and of the appropriate means by which to achieve them.

Towards a Detailed Critique

This issue contains one article that seeks to start down the path to a more detailed critique. Tony Nippard examines the case of housing interest rates. While acknowledging the flaws in the current system of regulation, he argues that the conclusions of those supporting a general deregulation are based on dubious empirical evidence. In particular, he points out that a reliance on market forces alone will not necessarily achieve the distributional effects sought by the Campbell Committee. He suggests that what is required is the development of different forms of regulation that can better achieve progressive ends.

Other articles adopt a more general approach, although one that still gestures to the need for detailed analysis. Russell Wright draws on some recent British writings in order to establish the point that it is necessary to reformulate the Marxist concept of finance capital in terms of the diversity of economic and political practices constituting the financial sector. He forcefully criticises the traditional orientation to general themes of 'control'. He suggests that the form in which this appears in the traditional socialist alternative - that is as nationalisation - serves as an evasion of the need to formulate detailed socialist objectives for particular sectors and firms.

Dick Bryan similarly takes up the Marxist concept of finance capital. He devotes his attention to clarifying the concept and drawing out the important links between money capital and industrial capital. In particular, he argues that finance capital should be seen as the key mechanism in the restructuring of the Australian economy within the context of international capitalism. In this way he draws attention to what should be one of the central issues in any consideration of finance - its relation to investment and the flows of capital into different sectors of the economy. Bryan also goes on to take up some of the political implications of the analysis. He appends a sharp note on the issue of foreign bank entry, arguing that the dominant Left response has been drastically mistaken on the direction and significance of the internationalization of the Australian economy.

Both Wright and Bryan return the discussion to a fundamentally political level. In this respect, it can be seen that to appeal for a detailed analysis by no means implies a retreat into empiricism or a crudely pragmatic politics. On the contrary, it is to open up the entire question of political objectives and political strategy. The challenge of deregulation is indeed a challenge to develop an alternative framework for assessing the objectives and means that constitute the different parts of the economic system.

The Left is poorly prepared for such a challenge. Yet the material for developing an alternative framework is scattered around in many historical and empirical studies of the financial system. Two of the articles in this issue illustrate some of the issues that must be taken up.

Mark Considine examines two of the key reforms in the area of finance proposed by the Whitlam Labor Government. By means of this study he is able to throw some light on the relationships between the policy process, a reform government, and the State. In particular, he points to the dilemmas posed by the ability of established financial institutions to mobilise opposition to any reforms seen as threatening their interests. This is a powerful political theme which can be traced back to Chifley's own troubles in the late 1940s and which even finds an echo today (for example, in relation to the attempted reforms of the workers' compensation system). Considine proposes changes in the relations between Labor governments and the State. Even if this is seen as only a partial step, it is clear that his argument draws attention to many of the most important political issues associated with the use of the State in the cause of reform.

Haydon Manning takes a somewhat different tack, concentrating on the impact of the changes in the finance sector on the workers employed within that sector. He highlights the effects of deregulation in speeding up restructuring snd technological innovation in banking and examines the consequences for banking workers. In particular, he draws attention to the emergence of a quite different division of labour, characterised by the consolidation of a distinction between career and non-career work. His article serves to remind us that, in spite of its appearance as an arena for strange economic rites, the financial sector is like other industries in being made up of particular labour processes incorporating particular groups of workers. It also serves to remind us that in developing alternatives it is necessary to take into consideration the interests and the demands of these workers.

Conclusion

As a central component of a capitalist economic system, financial relations are an important subject of investigation. Marx himself begins **Capital** with money in the abstract and approaches a conclusion with sketchy notes on credit money. As one commentator has remarked: "the credit system appaears more and more as a complex centrepiece in the marxian jigsaw of internal relations.[17]

It would be wrong to pretend that the articles in this special issue are able to assemble the pieces of this jigsaw. There are many aspects of the debate on finance that remain unexamined; for example, the current political concern over aggregate levels of savings and foreign debt, relations between the finance system and the state, the complex financial and accounting practices of economic agents, the impact of these practices on output and investment levels, and such broad issues as the spatial implications of changes within the finance sector. There are also important differences in the approaches taken by each contributor. There is a variation in the extent to which the traditional commitment to the principle of regulation is criticised. Similarly, while some are committed to recovering the authentic sweep of marxist theory, others are more abrupt about the deficiencies of this approach. And these variations overlap and cut across differences in economic and political perspectives concerning the future tasks of socialist analysis.

Nevertheless, there are certain important areas of agreement. This special issue was devised on the basis of the presumption that the changes in

finance - and the general push towards deregulation that they express - are significant economic and political developments that require a fundamental revaluation of the traditional Left approaches. In this sense, there is general agreement on the need for a concerted critique of the pretensions of deregulation and a much more thoroughgoing analysis of the possible alternatives.

One area that emerges as the scene for further work concerns the setting of socialist objectives with respect to the finance system. It is perhaps the strategic political dimension that is the most important for the Left. This special issue of the **JAPE** points to some of the issues that need to be investigated. It also seeks to contribute to the modes of analysis that must be used. It suggests that, rather than accept deregulation as a **fait accompli**, it should be recognised that the very process of deregulation opens up new strategic points of entry for a refocused socialist debate (the current move to review existing legislative and supervisory controls because of the blurring institutional boundaries in the finance sector is one case in point). The special issue is intended as a first step in the process of developing a strategic political dimension by Australian socialists for the finance sector.

NOTES

1. 'The Campbell Committee', Australian Financial System, Final Report of the Committee of Inquiry (Canberra: AGPS, 1981).
2. 'The Martin Review Group', Australian Financial System, Report of the Review Group (Canberra: AGPS, 1984).
3. V.I. Lenin, Imperialism: The Highest Stage of Capitalism (Moscow: Progress Publishers, 1969) and R. Hilferding, Finance Capital, (London: Routledge and Kegan Paul, 1981).
4. Peter Love, Labour and the Money Power: Australian Labour Populism, 1890-1950 (Melbourne: Melbourne University Press, 1984).
5. Bob White, Australian Business, April 1985.
6. Report of the Royal Commission appointed to inquire into the Monetary and Banking Systems, Commonwealth Parliamentary Papers, Session 1937, vol5, pp.262-8.
7. The Campbell Committee, op.cit., p.1.
8. The Martin Review Group, op.cit., p.1.
9. This is a point developed in James Tobin, 'On the Efficency of the Financial System', Lloyds Bank Review, No.153, July 1984, pp.1-16.
10. ibid.
11. See John Maynard Keynes, General Theory of Employment, Interest and Money, (New York: Harcourt Brace, 1936), pp.156-160.
12. See Andrew Graham, 'Deregulation, Competition and Supervision', Economic Papers, Vol3 No2, June 1984.
13. Australian Financial Review, 12 November 1984.
14. Thus many of the recent Liberal Party policy objectives brought down from the heights of Thredbo are concerned with deregulation.
15. See Jim Tomlinson, 'Regulating the Capitalist Enterprise: The Impossible Dream?', Scottish Journal of Political Economy, Vol30, No1, February 1983.
16. The Martin Review Group, op.cit., p.3.
17. David Harvey, The Limits to Capital, Oxford: Basil Blackwell, 1984), p.239.