THE CORE OF CORPORATE POWER IN AUSTRALIA

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In 2020, my book *Corporate Power in Australia: Do the 1% Rule?* was published, just as the pandemic hit. The study had been six years in the making, during which I had conducted detailed research into Australia's ten most powerful companies and their major clashes with government over ten years. At first glance, the book is a heavily empirical study of the big corporates' success at securing policies that entrench their privileges. It included details of policy initiatives and the chaotic nature of the democratic process, thereby tending to convey the impression that no one is in control, even as corporate interests triumph again and again.

However, the detail of the policy debates may have distracted readers from the conceptual and theoretical arguments that were also central to the purpose of writing the book. I wanted to contribute not just a real-world account of why inequalities of wealth and political economic power have been growing, but also a conceptual framework for making sense of those developments, hoping that might nudge political economic debate in a more progressive direction. I wanted to offer a conceptual framework for thinking about the major corporates' business models and how they interrelated with government, one that would open new ways of thinking about the 'rise of the 1%' and what different policies could be pursued. Although I took a light-touch approach to explaining the conceptual moves in the book, the argument had quite considered roots.

The inspiration for focusing on the conceptual shifts came from S.M. Amadae's book, *Rationalizing Democratic Capitalism* (2003), which documented ideological battles over the nature of democracy against the backdrop of the Cold War. Amadae argues that neoliberals in the inter-war

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period saw the rise of democracy as a political blow. The ethos of the collective deliberation on the common good was deemed to be aligned with socialism, and the popularity and effectiveness it was experiencing presented a significant threat. She describes how theorists responded by accepting the practical benefits that were flowing from democracy and set out to re-theorise democracies' strengths to align with neoliberal values. She describes how rational choice scholars re-theorised the core of democracy as being a means for mediating between competing interests.[1] She describes how the body of rational choice literature slowly re-theorised democracy until the analysis of politics and the dominant economic analysis of capitalism came into line. She notes that it was not until the 1970s that it began to be consistently argued that there was a natural affinity between capitalism and democracy.

Once neoliberals had made the argument that their values were at the core of democracy, they then proceeded to advocate regulating democratic practice in line with those values. They were able to make the case for a more limited role for government by framing those engaging in democratic politics as 'rent seekers' in pursuit of self-interested advantage. Liberation movements that were agitating for democratic reform to increase social inclusion on the grounds of race and gender were re-cast as narrow interest groups engaged in those rent seeking behaviours. In the Australian context, recall John Howard's descriptions of the 'Aboriginal Industry' and the other 'grievance industries' as sectional interests seeking special privileges (Hindess and Sawer 2004).

The insight I took from Amadae was that, as the political left attempts to rebuild its intellectual foundations in the wake of the collapse of 'actually existing socialism', it needs to take a leaf from the neoliberals' book. Faced with the evident ongoing strength and resilience of capitalism, we need to re-theorise the character of those strengths and offer alternate explanations of how its processes operate. Perhaps by foregrounding alternative explanations of its strengths, we can then create the intellectual space to separate out its more undesirable elements. It may then become possible

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[1] Not all neoliberals were rational choice theorists and not all rational choice theorists were neoliberals. However, there was a cross pollination of the two, with rational choice theory emerging as a preferred methodology partly, if not primarily, because of its role in the ideological contest of the era.

to consider how to regulate and minimise the exploitative and damaging practices.

Coming from this perspective, the common progressive focus on debates about the size of government has limitations. Focusing too much on the role of government cedes the ground to neoliberals that their description of the market is accurate. As long as we accept that it is the competition between self-interested individuals, as mediated through the market, that drives wealth and prosperity, we have vacated the most important ground. Instead, the main focus should be on how to best understand how the economy functions to create wealth and prosperity.

There is a lot of opportunity for such re-theorisation. Significantly, much can be learned from the internal concerns of capitalist businesses themselves. Their characteristic emphasis is on teamwork, rather than individual self-interest, as the means to drive higher productivity. Trust is also regarded as being just as important as competition in making markets work. These features contrast with neoclassical economic frameworks that focus on matters of allocative efficiency but have less to offer to discussions of growth. The business perspective creates considerable scope to re-theorise the essential mechanics of the economy.

Corporate power as evidence for a different frame

The process of re-theorisation can most fruitfully occur at the most fundamental level, focusing on foundational theoretical heuristics. The simplifying heuristics of academic theories are important in how we make sense of complex phenomena. As Paul Krugman (1997: 173) noted:

> the strategic omissions in building a model [theory] almost always involve throwing away some real information […] and yet once you have a model it is almost impossible to avoid seeing the world in terms of that model – which means focusing on the forces and effects your model can represent and ignoring or giving short shrift to those it cannot. The result is that the very act of modelling has the effect of destroying knowledge as well as creating it. A successful model enhances our vision but it also creates blindspots.

Foundational heuristics of academic theories become the foundations on which more complex frameworks are built. The blindspots of the simplifying heuristics become the blindspots of the frameworks that guide public policy making and political debate.

Corporate Power in Australia sought to advance a reframing that replaces the common neoclassical approach. The key argument is that to advance a progressive way of analysing the economy requires shifting from talking about ‘market economies’ to talking about ‘long chain economies’. The central economic image in the neoclassical view is intersecting demand and supply curves, leading neoliberals to argue for more ‘market freedoms’ that allow the forces of demand and supply to work more efficiently. In contrast, an institutional political economic approach can usefully focus is on the long production and supply chains that characterise all complex economic systems, thereby opening up space to highlight the factors that shape how wealth is distributed along the chains.

Corporate Power in Australia sought to justify this reframing through detailed empirical analysis, demonstrating that this was useful for understanding increasing inequality. The book noted that the top 100 firms listed on the Australian Stock Exchange accounted for 47% of GDP (Sims 2016). Further taking account of the production by large multinationals not on the Australian stock exchange, the Australia’s economy is clearly dominated by a small number of very large companies. The internal chains, as well as external links, of these companies are substantial.

Zooming in to examine Australia’s ten largest and most powerful corporates, the study found that they all operated in industry sectors dominated by 1-4 businesses. Each of these companies tower over long production and supply chains, and a significant element of their corporate strategy centres on scraping the wealth out of those chains and concentrating it in their own hands. Furthermore, their conflicts with government have been over laws that determine where the wealth is realised in the chains.

During the period of the study, the biggest of the companies in Australia were the major retailers, centring on the supermarkets Coles and Woolworths. My research examined their ongoing clashes with farmers and other suppliers over the need for a code of conduct to govern inter-business relations in the sector. First, the research analysed the extent to which the supermarkets’ business strategy centred on redistributing wealth along the chain. It revealed the extent of the aggressive tactics to squeeze the prices being paid to suppliers. Second, it revealed that the public policy debate was over laws that would regulate where the wealth would be realised in the chain and whether the government would put curbs on their predatory behaviour. The study found the supermarkets were shockingly successful at avoiding effective regulation of their behaviour.

Other case studies in the book looked at battles over laws that shape where the profits are realised along the chain. One was the now infamous dispute over newly proposed mining taxes during the Rudd-Gillard periods of government. A central issue was whether the new taxation would be borne primarily by the small and often Australian-owned exploration companies that did the high-risk work of finding deposits, or by the major international mining companies that exploited the deposits and exported the ore. The major miners won this battle at the cost of both the Crown and the small exploration miners.

Another chapter considered the case of the banks and the financial advice scandals, showing that the central issue at stake was how investment wealth would be distributed along the wealth management sector chain. The question was how the profits would be distributed between the banks that produced most of the wealth management products, the banks' in-house financial advisers, the commissioned financial advisers that acted as their distribution network, non-commissioned financial advisers, and customers. Again, we saw an outcome that strengthened the banks and their in-house advisers against the commissioned and independent financial advisers, but hopefully increased protections for customers to some degree.

Similarly, the book's case study on Telstra was also about whether the profits in the telecommunications sector would be captured by the owner of the wholesale network or the retailing companies that were supposed to be competing to provide services to customers. Telstra engaged in an extraordinary range of aggressive tactics to use their control of the wholesale market to try to capture and scrape wealth out of the retailing part of the chain.

Generalising from these case studies, the book sought to demonstrate how this conceptual reframing of the economy was useful for explaining the increasingly concentrated wealth in the hands of the most powerful economic players. It showed the flaws in the neoliberal belief that demand and supply are the sole factors determining where wealth is realised in the chains. Delving into the practical realities of the various industries and their business models revealed the broader range of factors that shaped how much leverage different players in the chain actually had, with the balance of demand and supply being only one factor in the mix.

Furthermore, the case studies highlighted how neoliberals' neglect of the role of power meant that they turned a blind eye, effectively enabling the most powerful players to scrape wealth out of the chains. The businesses were then able to use the leverage of their wealth and economic importance to lobby for regulatory environments that further entrenched their privileges. It found Australia is teetering on the edge of a 'Medici Cycle' where economic and political power has become mutually reinforcing, and the largest companies use their political power to secure laws to further entrench their economic dominance.

This reframing of these economic debates to focus on sectoral chains may seem like uncontroversial common-sense in these cases. Yet, in using this framework to explain why we are seeing increasing wealth being held by the most powerful segment of society, I was seeking to focus attention on a framing of the economy that has more progressive potential than might immediately meet the eye. To understand this potential, it is useful to unpack the method in the context of the debates over the fundamental framing contests between progressives and neoliberals.

The framing contest

Basic framing assumptions have significant flow-through effects, acting as foundations on which other analyses and arguments are built. Amadae demonstrated how important the contest over these fundamental frames were in thinking about the value of democracy. Here I seek to build on Amadae's observations about the framing debates between left and right over democracy in the Cold War, and then apply them to the analysis of the market. This is intended to explain how the long chain framing of the economy makes progressive critiques of the market more visible in public debate, and how it opens the opportunity to distinguish between productive and exploitative profits.

Identifying the left frame: What are progressive values?

If we are to re-theorise capitalism to identify its strengths in alignment with progressive values, we need firstly to consider what those progressive values might be. After all, by many definitions, finding strengths in capitalism is an anathema to left thought. In Amadae's analysis of the post war ideological debates, she associated the left with collectivism.

Although state socialism is no longer appealing to most on the left, a strong commitment to notions of co-operation persists. Seeing collective deliberation on the common good as the best way of organising social relations continues to be a key thread uniting the diverse array of progressive thought (Edwards 2013).

The ongoing centrality of co-operation in left thinking is most apparent when pitted against the ideological competitors (Edwards, 2018). On the one hand, conservative ideologies tend to emphasise the importance of authority and hierarchy in policing traditional social norms that dictate peoples' roles in society. On the other hand, neoliberalism has come to focus on competitive individualism as mediated through mechanisms such as the market and competitive democracy. These are both clearly at odds with co-operative approaches that are either implicit or explicit in almost all progressive movements.

Indeed, the emphasis on co-operation is a key feature of the 'family resemblances' among the increasingly diverse progressive political movements, ranging from the 'thick co-operation' associated with collectivism to the 'thin co-operation' associated with commitments to social inclusion, mutual respect, and equality that are characteristic of many liberation movements. The connecting theme is that, as people are inevitably embedded in social relationships, cooperation is essential for organising relations between people that deliver dignity and justice for all. Thus, people should ideally come together as equals, collectively deliberating on how to solve shared problems, with a view to advancing the common good. The legitimacy and stability of any co-operative agreement stems from treating all parties justly (Edwards 2009).

The Cold War ideological debates about whether co-operation and competition provide the better way to solve social relations are still relevant to current debates, even though modern progressive movements seek to apply cooperative ideals in very different ways to very different contexts.

How 'rational choice' theorists decentred the left frame

Consideration of neoliberal critiques of co-operation and collective action can help to identify the pivotal conceptual moves of which we need to be mindful when considering a re-formulation of the strengths of capitalism. 'Rational choice' theorists, for example, engaged in a concerted effort to undermine the notion that co-operation for the common good could be an effective form of social order during the post war period (Arrow 1951; Buchanan 1984; Downs 1957; Olson 1965; Riker 1968). These arguments began with Arrow's 'social choice' theorem, which sought to demonstrate that there was no way that individual interests could be aggregated to produce a measure of the common good. They continued with Olson's consideration of the problems of collective action, seeking to show why it is not rational to co-operate even if an individual stands to gain from that co-operative action.

These rational choice critiques of co-operation turn on two critical points. The first relates to gains from co-operation. These gains are essential to the co-operative paradigm, even if the gains are simply the security and confidence of knowing things will be handled systematically, competently, and fairly. Key neoliberal critiques of co-operation, such as Arrow's, turn on excluding the notion of gains from co-operation and instead paint political and economic choices as zero-sum games (Edwards 2005). Secondly, rational choice scholars such as Olson - who did concede gains from co-operation - built their arguments by redefining what constituted rationality (Tuck 1999). They constructed rationality as a focus on a narrow short-term interest, whereby individuals exclude from their calculations any consideration of how their behaviour would affect the behaviour of others.

Critical elements in the framing of the economy

There is a long tradition of critiquing foundational constructs, such as the assumptions of scarcity and perfect competition, and the use of intersecting demand and supply curves to describe how allocative efficiency is achieved. Such criticisms of the neoclassical model go back at least as far as Thorstein Veblen (1912). J.K. Galbraith (1973) was particularly scathing, not only because of the limited extent to which these assumptions described the world, but also because of the political purposes served by what these models concealed.

Significantly, for our purposes, taking scarcity as the universal problem sets up the central economic question as a zero-sum game. It establishes a view about how resources are distributed among people that assumes their interests are fundamentally competitive. Furthermore, perfect competition assumes actors pursue their short-term self-interest without considering the possible impact of their behaviour on the choices and wellbeing of others. These are framings that exclude any role for co-operation in understanding the economy or in explaining its strengths.

A further framing device that needs to be de-centred in our analysis of the economy is the use of demand and supply analysis. It is not possible for conventional demand and supply curves to represent systematically different behaviours of different groups, power imbalances, class conflict or gender and racial norms. Aggregating people's behaviours into demand and supply analyses has a 'flattening' effect, removing group differentiation and silencing many institutionalist concerns. This is highly problematic as a political construct.

I only realised in retrospect that the effectiveness of my first book, *How to Argue with an Economist* (2002), hinged on having been able to explain the ideal of allocative efficiency without using demand and supply curves (2007). The book explained how the pursuit of profit led entrepreneurs to identify products that were highly valued and cheapest to make; and to prioritise production accordingly. It argued that this was why the pursuit of profit can be a socially useful method of decentralised coordination. However, because the explanation did not presume a market equilibrium, it was able to integrate institutionalist critiques of the consumer sovereignty 'ideal' within the same conceptual frame. Displacing, or at least de-centring, demand and supply is an important element in any re-theorisation of the economy that seeks to foreground progressive concerns.

The importance of 'long chain' framing of the economy

The crux of the proposed reframing of the central questions of microeconomics is deceptively simple and is targeted primarily at classically trained economists. For students of political economy, it is about making explicit something that is often implicit (Gibbon *et al.* 2008; Pistor 2019). The argument builds on the traditional left critique of exploitation in production chains within firms, extending it to include the supply chains within a sector. In this view, what counts as a link in a production chain and what is a link in a supply chain is fluid, recognising that corporates regularly alter which parts of production they out-source or bring in-house. The view also challenges some of the assumptions about where power lies in the chains. Small businesspeople might be owners of capital, but they may have considerably less power in the chain than executives in the larger corporates who are technically salaried but manage vast amounts of capital. It is the ownership of capital that has traditionally been seen as the ultimate source of leverage and power; yet this framing suggests that, while this *may* be the case, it isn't necessarily so in the world of mega-corporates.

In summary, the long chain heuristic is important in three ways. Firstly, *it foregrounds co-operation rather than competition as the key ingredient in driving increased prosperity*. Traditional microeconomics focusses on the problem of scarcity and argues that competitive markets resolve this challenge. In contrast, with a long chain approach we return to Adam Smith's view of the division of labour as the principal driver of increased productivity. It is the gains from specialisation, including embedding specialised knowledge in capital goods, that continues to drive the growth in societal wealth. The specialised economy presents a string of co-ordination challenges, relating to how we combine the efforts of specialised workers and how we decide what products to produce. As humans, we can manage those co-ordination challenges in a variety of ways, ranging from hierarchies and bureaucracies that may be overseen by corporate boards, non-profit boards or democratic government, through to regulations, markets and price competition. No matter which way these specialised workers are coordinated, the creation of the final product is reliant on each of their unique contributions. As such, the proposed re-framing, opens up consideration of how co-produced wealth should be shared, in a way that speaks more directly to neoclassically trained economists and to the different people in the chain.

Secondly, the long chain model *offers an overarching framework for progressive critiques of neoliberalism to be articulated* in a way that is intelligible to mainstream economists and accessible to both expert and non-expert audiences. In the long chain model, neoliberal approaches to the economy assume that impartial market forces of demand and supply determine how wealth is distributed along those chains, presuming that each link in the chain gets paid what they are worth. Neoclassical theory posits that each worker – indeed, each of the 'factors of production' – is paid their marginal product. In contrast, the progressive alternative sees economic power, class relationships, government laws and regulations, together with cultural norms including attitudes to race, gender and the environment, all impacting on how wealth is distributed along the chain. In this latter view, the demand and supply situation is just one potential leverage factor, but not the only one nor necessarily the most important.

Theorising the economy in this way foregrounds progressive concerns and highlights the insights of institutionalist political economic analysis in our thinking about the economy.

Thirdly, and most importantly, the long chain heuristic *allows us to conceptually distinguish between productive and exploitative sources of profits.* Productive profits arise when new chains are created to meet new demands. In this context, the co-ordinating function of the pursuit of profit is that it incentivizes entrepreneurs to identify unmet needs in society and to construct chains that deliver a product to meet that need. The more people value the unmet need the higher price they are prepared to pay; and the entrepreneur is rewarded for finding the lowest cost way to meet that need. This type of socially productive profit seeking can be distinguished from exploitative sources of profit which arise, for instance, when business leaders take existing chains and use their leverage and power to redistribute wealth along those chains. Such forms of exploitative profit making - or what I refer to as 'profit bludging' - move money around rather than creating new wealth. Worse still, the resources spent in the process of redistribution may reduce the overall wealth.

Distinguishing between productive and non-productive profit making opens the conceptual space for debating which areas of the economy benefit from being 'for-profit activities' and in which areas a profit motive serves little productive purpose and is most likely to result in profit bludging. Furthermore, by allowing us to clearly identify exploitative profit bludging as distinct from productive profits, it creates the intellectual space to consider public policies that regulate against, or otherwise constrain, exploitative profit seeking.

The future of 'long chain' theoretical framing

The initial impetus in writing *Corporate Power in Australia* was that my previous work on the history of ideology (Edwards 2013) had shown that ideological change stemmed from ideas that could make sense of emerging social crises. In demonstrating how a conceptual reframing of the economy could make sense of the flashpoint criticism of neoliberalism, I had hoped to nudge economic thinking post-neoliberalism. However, it is now clear that neoliberalism's demise is less likely to stem from its own internal contradictions than from external events. The geo-political economic environment has been radically transformed in the wake of the pandemic, the Russian invasion of Ukraine, the increased assertiveness of China, and the crisis in US democracy. These are now the more likely drivers of a new economic age.

Nonetheless, the issue of long economic chains is likely to be central to economic debates going forward, just not in the way that I anticipated. As parts of the world de-couple and move to shorten or relocate global supply chains to ensure greater national control, discussions about the pros and cons of long chains are likely to be pervasive. I hope that readers of this article may consider the utility of its progressive re-framing of the central questions of microeconomics as we grapple with what a new economic order might look like.

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