

The Exoteric Politics of Bank Mergers in Australia

CANER BAKIR

Department of International Relations, Koc University

The Australian government's 1997 policy ban on in-market mergers among the largest four domestic banks has been a key intervention shaping the direction of bank consolidation in Australia as such mergers significantly accelerated from 1997 through 1999 in developed economies. This paper will show that the knowledge about the social and economic impacts of the bank mergers and the Treasurer's merger veto power made the policy debate exoteric (political and public) by including interests outside the banking policy community (i.e., interest organisations of employees, customers, and farmers, as well as political parties, and the broad public). Thus, the merger policy discussions were not esoteric, technical and limited to a small number of influential public and private sector institutions leaving policy discussions vulnerable to be structured to favour the interests of large, financial firms over other interests. This, in turn, created significant pressure on government for to retain the policy. The paper also outlines the significance of the domestic political conflicts and electoral politics in a world of global finance.

Introduction

Governmental financial system inquiries in Australia are significant because of past reforms which resulted from their recommendations.¹ One of the first acts of the Treasurer of the Howard Coalition government, Peter Costello, was to establish the third major national inquiry to review the Australian financial system on 30 May 1996.² The Wallis Inquiry (named after its chairman Stan Wallis) was asked to review the financial regulatory framework.³ One aspect of this regulatory framework is the power granted under the *Banking Act* and the *Insurance Act* to the Treasurer to

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¹ Mervyn K. Lewis, "The Wallis Inquiry: Its Place in the Evolution of the Australian Financial System", *Accounting Forum*, Vol. 21, 2 (1997), pp. 229-53; I. Harper, "The Wallis Report: An Overview", *Banking and Finance Review*, Vol. 13 (1998), pp. 449-71.

² There were three major reviews of the Australian financial industry: the Royal Commission (1936); the Campbell Inquiry (1981), and the Wallis Inquiry (1996). Anderson is mistaken that the Campbell Inquiry was "the first inquiry" into the financial industry: Tom Anderson, "Financial Deregulation: Why Did Competitive Market Fail?", *Journal of Australian Political Economy*, Vol. 31 (1993), pp. 57-73 at 59. For excellent comparisons of these three inquiries: see V. Edwards, and T. Valentine, "From Napier to Wallis: Six Decades of Financial Inquiries", *Economic Record*, Vol. 74, 226 (1998), pp. 297-312; Lewis, "The Wallis Inquiry". For comprehensive overview of the Wallis Report: see J.O.N. Perkins, *The Wallis Report and the Australian Financial System* (Melbourne, 1998); D. Harding, "Wallis Report Offers Blueprint for Competition", *International Financial Law Review*, Vol. 16, 7 (1997), pp. 17-20.

³ For a detailed analysis of the role of the Wallis Inquiry in Australian financial policy making: see C. Bakir, "Who Needs A Review Of The Financial System In Australia? The Case Of The Wallis Inquiry", *Australian Journal of Political Science*, Vol. 33, 3 (2003), pp.511-34.

determine whether or not mergers among the largest financial firms can take place.⁴ The Wallis Committee made 115 recommendations on 18 March 1997. The government fully accepted 113 of these 115 recommendations; recommendations 82 and 83 which advanced the largest four banks' (or the majors) interests on the merger issue were not accepted by the government.⁵ Number 82 recommended that "The Trade Practices Act should provide the *only* competition regulation of financial system mergers".⁶ In doing so, the Treasurer's power over mergers under banking and insurance laws could be removed. Number 83 advocated removal of the "six pillars" policy — the government ban on in-market mergers between the largest four banks and two insurance companies.⁷

On the one hand, the government publicly announced that it would preserve the Treasurer's merger power and replace the "six pillars" policy with the "four pillars" policy which only prevented mergers between the majors in April 1997. On the other hand, it wanted to erode the "four pillars" policy at the legislative stage through a package of legislation which gave effect to the two apparently rejected Wallis recommendations in March 1999. Nevertheless, the government's manoeuvre was subsequently blocked by the opposition in the Senate.

Mergers among the largest domestic banks are one of the most significant trends in financial globalisation process.⁸ However, Australia did not follow this trend. The existence of the "four pillars" policy in Australia shows the importance of political processes and conflicts, and electoral politics in a world of global finance.⁹ This paper will show that domestic politics and institutions continue to shape policy outcomes and the impact and trajectory of financial globalisation with special reference to "merger policy debate" in Australia.¹⁰ In order to do so, this paper offers an explanation for the

⁴ Throughout this study, merger refers to "an amalgamation of two or more firms into a new firm" (D. Rutherford, *Routledge Dictionary of Economics* (London, 1995), p. 256).

⁵ Lewis provides detailed analysis of the Wallis recommendations. However, he is mistaken on his argument that the only "recommendation not accepted by the government was number 83 [...]": Lewis, "The Wallis Inquiry", p.259.

⁶ *Financial System Inquiry Final Report*, p.425, emphasis added.

⁷ The policy prevented three different types of potential mergers: mergers between the largest four banks; the largest two insurance companies; and any of the largest four banks and the largest two insurance companies.

⁸ Indeed, the Group of Ten recently found a high level of merger and acquisition activity in the 1990s among financial firms in developed countries with a significant acceleration in consolidation activity between 1997 and 1999: see *Consolidation in the Financial Sector* (Group of Ten Report, 2001) (available at <http://www.imf.org/external/np/g10/2001/01/Eng/>). For analysis of fostered consolidation in banking sectors via mergers in advanced economies in the 1990s: see A. Berger, R. De Young, H. Genay, and G. Udell, *Globalisation of Financial Institutions: Evidence From Cross-border Banking Performance* (Washington D.C., 2000).

⁹ The role of domestic politics in globalisation processes is subject to ongoing debate. In this debate, convergence and divergence theses constitute two competing perspectives: The convergence thesis holds that growing international financial integration leads to a convergence of policy outcomes, and hence downplays socio-economic and cultural differences between countries, and the importance of domestic political conflicts. The divergence thesis, however, expects a continuing divergence of domestic policy outcomes across countries, and thus an enhanced role for domestic political struggles: See A. Busch, *Divergence or Convergence? State Regulation of the Banking System in Western Europe and the United States* (Working paper) (Oxford, 2002); Edward S. Cohen, "Globalization and the Boundaries of the State: A Framework for Analysing the Changing Practice of Sovereignty", *Governance*, Vol. 14, 1 (2001), pp. 75-97.

¹⁰ Further, the Australian response to mega bank mergers does not support the argument that "There is no evidence that regulators have interfered in banking mergers other than to push a weak, nearly

existence of the “four pillars” policy.¹¹ It will show that the merger policy debate was “exoteric” (open, formal and partisan) rather than “esoteric” (private, informal and technical).¹² The paper will argue that this is not only because of knowledge¹³ about the social and economic consequences of the banks’ rationalisation decision (i.e., branch closures, job losses and reduced consumer choices). This is also because of Australia’s distinctive institutional framework that politicised the bank merger debate, especially the Treasurer’s veto power over bank mergers.¹⁴ Accordingly, public and legislative debates on merger rules were also determined by historically-rooted trajectories leading to a different merger policy outcome in Australia.

A combination of interviews and written sources was the main approach to data collection in this research. The interviews were held with very senior people with intimate knowledge of the policy issues.¹⁵ Further, Hansard (the official written record of the proceedings of the Parliament), submissions made to the Inquiry by some of the key private and public sector actors, the Financial System Inquiry Final Report, the government’s response to the recommendations made by the Inquiry; and annual reports and press releases of respective public sector actors were analysed. Daily

insolvent bank into the arms of a strong bank to save it from bankruptcy”; D. N. Chorafas, *New Regulation of The Financial Industry* (London, 2000), p.230.

¹¹ Contemporary aspects of the politics of banking have not been sufficiently studied by political scientists. To illustrate, Australian politics and public policy literatures exclude in-depth analyses of banking policy outcomes (for example, see S. Bell, & J. Wanna, *Business-government Relations in Australia* (Sydney, 1992); D.C. Corbett, *Australian Public Sector Management*, 2nd ed., (St Leonards, N.S.W, 1996); S. Bell and B. Head, eds, *State, Economy and Public Policy* (Melbourne, 1994); R. G. Stewart, *Government and Business Relations in Australia* (Sydney, 1994); J. Warhurst, “Changing Relationships Between Governments and Interest Groups”, in S. Prasser and G. Starr, eds., *Policy and Change: The Howard Mandate* (Sydney, 1997), pp. 111-27).

¹² Moran first made the distinction between the concepts “esoteric” politics and “exoteric” politics in financial policymaking. He defined British banking politics as “esoteric” prior to 1970. By this he meant that the term “esoteric” points to a private, informal and technical tendency in banking policy discussions: See M. Moran, *The Politics of Banking* (London, 1984). In the comparative analysis of five countries, Coleman also finds that financial services politics covering banking and securities markets is still “esoteric” [...] where the policy game continues to be structured to favour the interests of large, financial services firms over other interests” in the UK as well as in the US, Canada, Germany and France: W. D. Coleman, *Financial Services, Globalization and Domestic Policy Change* (New York: 1996) p. xi.

¹³ Throughout this study, knowledge is defined as “[a] well-probed belief, whether empirical or evaluative”: C. Lindblom, *Inquiry and Change: The Troubled Attempt to Understand and Shape Society* (New Haven, 1990) p. 123. For the role of knowledge in public policy process, see C. M. Radaelli, “The Role of Knowledge in the Policy Process”, *Journal of European Public Policy*, Vol. 2, 2 (1995), pp. 159-83; J.W. Kingdon, *Agendas, Alternatives, and Public Policies*, 2nd ed. (New York, 1995).

¹⁴ In the US, the UK, Germany, and France, contrary to Canada and Australia, the Finance Minister’s (or Treasurer’s) approval of bank mergers is not required (see Group of Ten Report, 2001, pp.98-104, 106-8). And mega bank mergers took place during the second half of the 1990s in these four countries: Citigroup and Bank of America Corp in the US; HSBC Holdings and National West Bank in the UK; Deutsche Bank and HypoVereinsbank in Germany; and Credit Agricole Groupe and BNP Paribas in France emerged as a result of such mergers (see *The Banker*, July 2000, p. 176, July 1999, p. 94, July 1998, p. 98, May 1998, p. 5). Thus, it may be that the much more esoteric process is, in part, the effect of how decision-making takes place. I would like to thank William D. Coleman for this point.

¹⁵ The semi-structured interviews with open-ended questions took place in the three major Australian cities: Melbourne, Sydney and Canberra between January 2001 and October 2002.

newspapers and the weekly financial press as well as other written media sources along with biographies were also widely used.

The “Six Pillars” Policy¹⁶

May notes that “[s]uspicion of bankers, particularly private bankers, and more generally of the ‘money-power’ has a long history in radical and reformist politics [of Australia]”.¹⁷ In particular, the Australian Labor Party (ALP) has a long distrust of the “money-power”.¹⁸ In particular, the ALP’s private domestic bank nationalisation attempt in 1947 generated the most severe battle between the banking community as a whole and the Labor government.¹⁹ Arguably, the public announcements of the mergers between the Union Bank and the Australasia Bank, and that of the National Bank of Australasia and the Queensland National Bank in February 1947 and March 1947 respectively were among the reasons that facilitated the Chifley Labor government’s nationalisation decision on 1 May 1947. Labor’s nationalisation attempt laid the seeds of a close ideological and financial relationship between the banking community and the Liberal Party (which was formally established in February 1945).²⁰

The nationalisation attempt became the key electoral issue before the 1949 election. In regard to this issue, the Liberal Opposition Leader, Robert Menzies, provided the political support needed by the banking community: “It sounds like a piece of petty pique for the defeat of the banking case in the High Court.”²¹ For Menzies, the nationalisation issue became a symbol to portray the election as a choice between democracy and socialism.²² And the massive political and public campaign of the banking community led by the National Bank of Australasia (now the NAB) played a vital role in the Liberals’ electoral success in 1949.²³ Ideological similarities between the Liberal Party and the banking community centred on the suspicion of government intervention and ownership, and the protection of private ownership rights.

Apparently, the ALP’s suspicion of “money-power” revived on 2 April 1990 when the Australia and New Zealand Banking Group Limited (ANZ) and National Mutual

¹⁶ A full treatment of the factors associated with the history and evolution of bank merger regulation, and discussion of its practical and theoretical aspects in Australia extends beyond the scope of this paper. For a comprehensive review of the Australian merger policy, see special issue of the *Australian Economic Review*, Vol. 31, 1; G. K. Goddard, “Bank Mergers Policy and Competition Law Enforcement: A Comparison of Recent Experience in Australia and Canada”, *Banking and Finance Law Review*, Vol. 15, 2 (2000), pp. 181-248.

¹⁷ A. L. May, *The Battle for the Banks* (Sydney, 1968), p. 1. For extensive literature covering this history, see also P. Kelly, *The Hawke Ascendancy* (Sydney, 1984); P. Love, *Labour and the Money Power: Australian Labour Populism 1890-1950* (Carlton, Vic., 1984); R. Gollan, *Commonwealth Bank of Australia* (Canberra, 1968); L.F. Crisp, *Ben Chifley: A Biography* (Melbourne, 1961).

¹⁸ The history of the relations between the Australian Labor Party and banking community before the Campbell Inquiry can be considered as historical background in this context: see May, *The Battle for The Banks*; Love, *Labour and the Money Power*.

¹⁹ May outlines Labor’s reasons for nationalisation: “He [Chifley] said the government believed complete control over banking was essential, especially in view of the unstable economic conditions overseas which could affect Australia. Additionally, the banks must never again be allowed to pursue a policy opposed to that of the government, as they had during the depression”: May, *Battle for Banks*, p. 12.

²⁰ *Ibid.*, pp. 5, 126-27.

²¹ *Ibid.*, p. 15. The Labor government’s nationalisation attempt was overturned only by an appeal to the Privy Council in London.

²² *Ibid.*

²³ Following the 1949 election, the Labor Party was out of office for twenty-three years until 1972. It was defeated again in 1975.

Holdings Limited (NM) announced plans to merge in order to form the largest financial conglomerate in Australia. Paul Keating, the then Treasurer in the Hawke Labor Government, withheld approval and opposed the merger on competition grounds. He stated that the proposed merger between the major bank and the major life office might not be allowed, even though it would have been approved by the Trade Practices Commission (now Australian Consumer and Competition Commission, ACCC).²⁴ In announcing his decision, Keating said that the merger would “detract more from effective and vigorous competition than is in the national interest”.²⁵ Coinciding with this decision, he announced the “six pillars” policy on 23 May 1990.²⁶ The policy blocked mergers among any of the largest four banks: the NAB, the ANZ, the Westpac Banking Corporation (WBC), and the Commonwealth Bank of Australia (CBA); or the largest two insurance companies: the Australian Mutual Provident Society Limited (AMP) and the National Mutual Limited (NM).

The “six pillars” policy was a political/administrative decision which did not require new legislation. It was framed under Section 63 of the *Banking Act 1959* regarding banks²⁷ and under Section 5(1) of the *Insurance Acquisitions and Takeovers Act 1991* in relation to insurance companies.²⁸ These banking and insurance laws provide an institutional framework that give the Treasurer the right to approve or refuse a merger between the major banks and insurance companies.

Political Money

Arguably, the majors are among the most powerful corporations in Australia.²⁹ Each of the largest four banks is a financial conglomerate with a broad customer base dominating almost all market segments within the retail and wholesale sectors of the industry.³⁰ Moreover, they are among the most profitable and largest Australian corporations.³¹ Further, the major banks are considered to be among the world’s largest banks.³²

²⁴ In fact, the Trade Practices Commission approved the merger on competition grounds: see Goddard, “Bank Mergers Policy and Competition Law Enforcement”, fn. 20, p. 193.

²⁵ P. Keating, *Press Release on Proposal for Merger of ANZ Banking Group and National Mutual Life Association* (Canberra, 1990).

²⁶ It should also be noted that Ian Harper, member of the Wallis Committee, is mistaken that the “six pillars” policy was introduced “in the late 1980s”: I. Harper, “Mergers in Financial Services: Why The Rush?”, *The Australian Economic Review*, Vol. 33, 1 (2000), pp. 67-72 at p. 67

²⁷ The Act does not provide guidance on how the Treasurer is to exercise his discretion while stating that the Treasurer’s consent shall not be unreasonably withheld. In practice, the Treasurer considers “any prudential considerations, the potential efficiency gains resulting from any rationalisation, and any potential losses resulting from reduced competition in the financial sector”: Department of Treasury, “Australian Financial System Inquiry Submission” (Canberra, 1996), p.143 (available at <http://www.Treasury.gov.au>).

²⁸ These laws required an approval from the Treasurer for any party wishing to buy more than 15 per cent of a bank or insurance company shares.

²⁹ See G. Murray, J. Bierling and M. Alexander, “The Rich Countries: Australia, New Zealand and Japan”, *Current Sociology*, Vol. 43, 1 (1995), pp. 11-62; G. Murray, “Interlocking Directorates: What Do They Tell About Corporate Power in Australia”, *Journal of Australian Political Economy*, Vol. 47 (2001), pp. 5-26.

³⁰ For a detailed discussion on the economic power potential of the majors and how they translate this power into the exercise of bank powers over customers, employees and communities in retail banking: see C. Bakir, “Bank Powers and Public Resistance to Mega Bank Mergers”, *Journal of Australian Political Economy*, Vol. 54 (2004), pp. 67-93.

³¹ *Business Review Weekly*, in its 500 biggest Australasian companies survey, noted that the NAB, the CBA, the ANZ and the WBC were ranked the first, the fourth, the fifth and the seventh respectively

Private corporate interests can be advanced by donating money to political parties.³³ In the words of Andrew Murray, a senator of the Australian Democrats, “ever since the first political donation changed hands, money has been used to influence electoral outcomes and the process of government [in Australia]”.³⁴ Yet, it is difficult to assess the true magnitude of the effect of business donations to political parties.³⁵ As Wanna puts it: “Donors can evade disclosure by making donations to [a] party’s administrative costs or by donating under false names or through nominees.”³⁶

Nevertheless, *visible* donation expenditure (or political money) of the majors may provide an indicator of their political clout in Canberra. In particular, the political money transferred from the majors to the Liberal Party can be grouped into four main categories: direct donations for electoral purposes, indirect donations through foundations, credit facilities via generous overdrafts³⁷ and a “gesture” (a bank’s forgiving of a loan made to a political party). In this perspective, the NAB, the ANZ and the WBC had considerable economic power potential to influence the then insolvent Liberal Party’s banking policies.³⁸

According to figures released by the Australian Electoral Commission (AEC) between 1992-93 and 1996-97 financial years, the political donations of the major banks to the Coalition reached around A\$1.95 million (or 11 per cent of the Coalition’s total of A\$177 million) whereas the ALP received around A\$701,020 (or 5 per cent of Labor’s total donations of A\$128 million) from the majors despite being in government for the bulk of the same period.³⁹ The WBC, the NAB, the ANZ, and the CBA donated A\$763,791, A\$757,659, A\$400,105, and A\$33,294, respectively to the Coalition parties during this period.⁴⁰ In particular, during the 1996-97 financial year, the NAB,

in net profits totalling A\$2,869 billion in 1997. The NAB, the CBA, the ANZ, and the WBC were ranked among the biggest ten companies in Australasia as measured by market capitalisation in 1997: see *Business Review Weekly*, 28 April 1997, p.66.

³² To illustrate, the NAB, the WBC, the ANZ and the CBA were ranked in 64th, 84th, 89th, and 101st respectively among the world’s top 1000 banks in total assets in 1996: see *The Banker*, July 1997, p. 147.

³³ T. Dye, *Top Down Policymaking* (New York, 2001), ch. 4; see also G. Gallop, “From Government in Business to Business in Government”, *Canberra Bulletin of Public Affairs*, Vol. 83 (1997), pp. 81-5.

³⁴ A. Murray, *Media Release*, 20 January 2000.

³⁵ D. McEachern, “Political Parties of Business: Liberal and National”, in Bell and Wanna, *Business-Government Relations in Australia*, pp. 80-91 at 84.

³⁶ J. Wanna, “Furthering Business Interests: Business Associations and Political Representation”, in Bell and Wanna, *Business-Government Relations in Australia*, pp. 66-79, quotation p. 71.

³⁷ An overdraft is a credit facility which is given by a financial institution to a corporation. The aim is to allow a bank’s customer to obtain credit on its current account in excess of the account balance.

³⁸ The word “potential” is used here because there is no automatic transfer of a power potential into an exercise of power: see Coleman, *Financial Services, Globalization and Domestic Policy Change*, p. 47.

³⁹ Michael Millett, “Labor Losing Ground On Donations”, *Sydney Morning Herald*, 18 March 1998, p.4. The analysis of the AEC’s annual returns between 1995-1998 revealed that fourteen firms operating in the banking and finance sector were the largest donors among Australian Stock Exchange listed companies to political parties with A\$2,974,252: see I. Ramsay, G. Stapledon, and J. Vernon, *Political Donations By Australian Companies* (Melbourne: 2001), Table C, p. 36. All of these fourteen firms donated A\$1,709,661 to the Liberal Party whereas ten out of fourteen firms gave A\$1,030,619 to the ALP. In particular, the WBC with A\$1,272,346 was the largest direct donor while the NAB with A\$455,330 placed ninth among the publicly-listed company donors during this three year period: see *ibid.*, p. vii.

⁴⁰ *Ibid.*

the WBC and the ANZ donated A\$241,439, A\$100,000, and A\$125,000, respectively to the Liberal Party.⁴¹

Apart from direct donations, foundations were the main vehicles to mask corporate donations to political parties. To illustrate, Charles Barrington Goode, the then chairman and director of the ANZ, was also the director of the Cormack Foundation. Between 1994-1998, Goode raised and donated A\$4,683,000 to the Liberal Party via the Foundation.⁴²

Among these banks, the NAB, the largest and most profitable of the majors, had the most significant economic power potential over the Liberal Party as its banker and the largest corporate donor. For example, the Liberal Party owed A\$10 million, or 82 per cent of its total debts of A\$12.2, to the bank before the federal election in 1996.⁴³ The Liberal Party's then federal Treasurer, Ron Walker, the millionaire property developer, gave a *verbal* guarantee to Don Argus, the NAB's managing director and the chief executive officer at the time, for the bank's loans to the Liberal Party in 1992.⁴⁴ Apparently, a verbal guarantee from Walker was enough for Argus to extend the Party's overdraft for three years between 1992 and 1995. Further, in order to force the Liberal Party to pay the debt, the NAB would have liquidated the Party's premises in 1995. As Colin Gracie, the Party's former corporate services manager, noted:

Subsequently, the Party was unable to repay the loans at the time required by the bank, and the bank called upon Mr Walker to honour his guarantee [...] In 1995, in order to prevent the possibility of the NAB from selling the Party's headquarter premises to enable repayment of loans, Walker provided a written personal guarantee to the bank.⁴⁵

Accordingly, the NAB effectively bankrolled the election campaigns of the insolvent Party by extending its A\$10 million debt through highly generous overdraft facilities before the federal election.⁴⁶ As Walker, to whom the Party had become indebted, said: "Argus is the backbone of this [the 1996 federal election] campaign."⁴⁷ In the words of a senior Member of Parliament, there was a "big pressure" exercised by the NAB over the Liberal Party.⁴⁸

⁴¹ Ben Mitchell, "Political Donations Fall, ALP Investment Firm Emerges As Most Generous", *The Age*, 3 February 1998, p. 2; David Luff, "Labor's Corporate Love Lost As Business Puts Liberals On A Bankroll", *The Advertiser*, 3 February 1998. It should also be noted that figures released by the Electoral Commission did not actually disclose the true magnitude of financial benefits because the *Electoral Act* was not requiring disclosure of all political donations (see *Australian Financial Review*, 20 April 2001, p. 72). For instance, loans made to political parties, donations made through foundations and a loan write-off by a bank were not captured by the Commission's reports. As will be shown below, in fact, the NAB was the largest corporate donor to the Liberal Party.

⁴² See Laura Tingle, "Liberals' Campaign Squeezed By Debts", *The Australian*, 2 February 1996; Margo Kingston, "Big Donors Give Liberals Generous Lead Over ALP", *Sydney Morning Herald*, 3 February 1998, p. 5; Mitchell, "Political Donations Fall", p. 2; Lenore Taylor, "Liberals Receive A\$4.6m Secret Loan", *Australian Financial Review*, 3 February 1998, p. 3; *The Age*, "Banks Dole Out Cash To The Parties", 2 February 1999, p. 2.

⁴³ Laura Tingle, "Kernot Questions Coalition Bank Deal", *Australian*, 8 March 1996.

⁴⁴ Lenore Taylor, "Liberals Disclose \$4.8m Debt Paid By Party Treasurer", *Australian Financial Review*, 31 July 1998, p. 5.

⁴⁵ *Ibid.* See also Anne Davies, "Liberal Loan Guarantee Confirmed", *Sydney Morning Herald*, 21 February 1996, p. 6.

⁴⁶ *Ibid.* See also, Taylor, "Liberals Disclose"; Pamela Williams, "Operation Lodge: Inside the Liberals' War Room", *Australian Financial Review*, 5 March 1996, pp. 1, 16-17 at 16.

⁴⁷ Tingle, "Kernot Questions Coalition Bank Deal".

⁴⁸ Interview, 22 January 2001.

Arguably, the majors anticipated that the election of the Liberal Party in the 1996 election would open a window of opportunity to scrap Labor's merger policy ban. The NAB, in particular, did not hand over millions of dollars to the Liberal Party without expecting a return on its investment. It used the policy of stick and carrot to exercise its economic power over the Party in the wake of the Inquiry. On the one hand, it was using the policy of stick when it required the Party to repay its debt in 1996. Unsurprisingly, the Party was unable to repay the loans at the time required by the bank. Thus, Argus called upon Walker to honour his guarantee. Walker personally repaid A\$4.75 million of Party debt to the NAB⁴⁹ in the 1996-97 financial year covering the Wallis Inquiry period. On the other hand, the NAB was using the policy of carrot when it did a "gesture" by writing off the Party's bank overdraft facility of A\$1 million in 1996.⁵⁰ It also continued to support the Party with a A\$1 million credit facility in 1998.⁵¹

Economic power may provide financial firms with a potential to influence public policy outcomes.⁵² Apparently, direct and indirect corporate political donations and generous overdraft facilities, along with the loan write-off, provided significant economic power that was used to advance the commercial interests of some of these banks over the government in regard to the merger policy discussions. Not surprisingly, opposition forces within and outside the parliament accused Argus of having a strong influence on the Inquiry in the wake of the NAB's donations to the Liberal Party.⁵³ Cheryl Kernot, a former Australian Democrats leader, for example, questioned the NAB's A\$10 million loan to the Liberal Party and warned the government on the mergers policy: "We're well aware of NAB's interest in the area and we'd be watching like a hawk."⁵⁴

As will be shown in the next section, the banking policy community agreed that both the Treasurer's veto power and the "six pillars" policy should be abolished.⁵⁵

A Battle for Esoteric Politics

The majors had government relations divisions and expert professionals which enabled them to build up their own policy expertise to define their own interests and to translate those interests into policy recommendations.⁵⁶ They articulated and defended explicit

⁴⁹ Taylor, "Liberals Disclose".

⁵⁰ Ramsay, Stapledon and Vernon, *Political Donations By Australian Companies*, fn. 117, p. 26.

⁵¹ Marian Wilkinson, "For Liberal Donors", *Sydney Morning Herald*, 28 September 1998, p. 1.

⁵² Coleman, *Financial Services, Globalization and Domestic Policy Change*.

⁵³ Unsurprisingly, the close financial relationship between the bank and the Party increased the speculation that the Inquiry was set up to ease bank merger rules. In some circles, as *Business Review Weekly* notes, "the Wallis Inquiry is referred to as the Argus Inquiry...": *Business Weekly*, 3 February 1997, p. 14. Accordingly, the view among commentators and opposition forces was that the Inquiry's conclusions on the policy had already been decided by some of the major banks: see Tom Allard and Diane Stott, "Reserve Chair for Bank Mergers", *Sydney Morning Herald*, 6 July 1996, p. 2; "Fees Up, Choices Down", *Sun Herald*, 7 July 1996, p. 40.

⁵⁴ Tingle, "Kernot Questions Coalition Bank Deal".

⁵⁵ The concept of "banking policy community" refers to key regulators and regulated firms in the banking sector.

⁵⁶ Bell and Warhurst argued that "large Australian corporations [which also included the largest four banks and the AMP] interact with governments" through "a new mechanism: [...] government relations function"; Stephen Bell and John Warhurst, "Political Activism Among Large Firms", in Bell and Wanna, *Business-Government Relations in Australia*, pp. 57-65 at 65, my italics. Conversely, the Australian banking community has a long history and strong experience in direct lobbying through their public and government relations departments. An interest in such departments was born in response to the nationalisation attempt in 1947: May, *Battle for Banks*, pp. 129-30.

positions in their submissions to the Inquiry. Further, an open and formal inquiry process along with the extensive media coverage of the banks' inquiry submissions also enabled the majors to communicate their justifications for mega bank mergers to the broader public. The major banks, along with the two largest insurance companies, unanimously supported that the "six pillars" policy should be abolished.⁵⁷ In particular, the WBC and the CBA proposed that the Treasurer's veto power in assessing a proposed merger on competitive grounds should also be removed.⁵⁸

The key bureaucratic regulatory agency in the merger policy discussions in Australia is the ACCC. Mergers are assessed under Section 50 of the *Trade Practices Act* (TPA) and administered by the ACCC.⁵⁹ The ACCC, like the major banks, wanted the removal of the Treasurer's merger veto power.⁶⁰ Specifically, it sought to have the *Banking Act* (s.63) amended to make it explicit that the Treasurer's consent should not be withheld on competition grounds. A very senior ACCC bureaucrat at the time explained the reasons behind this policy position:

If there are reasons connected with prudential policy as to why someone else should be able to veto bank mergers then I have no problem with that. What I am not enthusiastic about is the situation where the government of the day makes the competition policy judgements on mergers. I think that is best left to the ACCC and processes of the Trade Practices Act. [...] Treasurers may have a legitimate role for other reasons such as prudential policy but not for competition policy.⁶¹

This policy position of the ACCC accommodated the majors' policy preferences. In an attempt to leave the merger decisions to technocrats and industry experts, some of the major banks had already proposed that this merger assessment should be left to the ACCC and the TPA. Particularly, the WBC criticised the Treasurer's powers under banking and insurance laws for lacking transparency and creating uncertainty.⁶²

As Bakir showed, the Treasury Department was the pre-eminent bureaucratic organisation determining the Inquiry's recommendations.⁶³ Thus, the Treasury's view on the merger policy was also significant. The Treasury explicitly favoured the repeal

Further, contrary to the generalisation of Bell and Warhurst ("Political Activism", p. 65) that the large corporations mobilise via government relations divisions "[i]n response to changes in government policies which they perceived as a threat to their firms' interests [...]" such large corporations may mobilise to exploit the opportunities presented by, for example, a new government and/or an Inquiry as the majors did.

⁵⁷ National Australia Bank, "Financial System Inquiry Submission" (Melbourne, 1996), p. 9; Australian and New Zealand Banking Group, "Financial System Inquiry Submission" (Melbourne, 1996), p. 2; Westpac Banking Corporation, "Financial System Inquiry Submission" (Sydney, 1996), p. 8; National Mutual Life Assurance, "Financial System Inquiry Submission" (Sydney, 1996), ch.5; Australian Mutual Provident Society Limited, "Financial System Inquiry Submission" (Sydney, 1996), p.2 (all available at <http://www.Treasury.gov.au>).

⁵⁸ WBC, "Financial System Inquiry Submission", p. 8; CBA, "Financial System Inquiry Submission".

⁵⁹ For the legal aspects of the merger policy, see R. Baxt, *Banking Mergers and Section 50 of the Trade Practices Act* (Caulfield East, Vic., 1990); Goddard, "Bank Mergers Policy and Competition Law Enforcement".

⁶⁰ Australian Competition and Consumer Commission, *Financial System Inquiry Submission* (Melbourne, 1996), (available at <http://www.Treasury.gov.au>).

⁶¹ Interview, 1 March 2001.

⁶² Westpac Banking Corporation, "Financial System Inquiry Submission" (Sydney, 1996) (available at <http://www.Treasury.gov.au>), ch. 9.

⁶³ C. Bakir. "Who Needs A Review Of The Financial System In Australia? The Case Of The Wallis Inquiry".

of the “six pillars” policy.⁶⁴ It adopted a similar line to the major banks and the ACCC, namely that merger issues should be left to the ACCC and the TPA rather than the Treasurer:

Rather than maintaining the so-called ‘majors policy’ [six pillars policy] [...] the submission suggests that competition concerns should be left for the ACCC to determine under s50 of the TPA.⁶⁵

To sum up, there was a consensus on the direction of the merger policy change within the banking policy community as well as the Treasury.⁶⁶ With the removal of the Treasurer’s powers on merger issues by leaving the merger decision solely to the ACCC’s merger assessment process and decision, the accountability for such a decision would be removed from those who are publicly accountable to a bureaucratic entity. The merger discussions, in turn, would remain largely “esoteric”. In fact, this would end the government’s capacity to continue to have the policy.

National Politics

The possibility of the merger policy change activated opposition forces whose own interests would be affected adversely by the proposed change. A series of responses to the banks’ merger agenda came from employee, customer and farmer interest organisations as well as from the formal political area. As will be detailed in this section, consumer, employee and farmer pressure groups formed an opposition alliance coupled with political support from the ALP and the National Party. Further, the Liberal Party also faced pressure from the small business sector which had concerns on the negative effects of the mergers on small business lending.

The Finance Sector Union of Australia (FSU), an interest organisation of bank employees, drew attention to the employment effects and the growing problem of access to financial services due to branch rationalisations.⁶⁷ In its submission to the Wallis Inquiry, the FSU emphasised that the removal of the “six pillars” policy would not mean just one big bank merger but two.⁶⁸ It referred to research by McIntosh Baring in 1996, *Australia’s Banks, a Ready Reckoner*, which showed that 35,000 jobs would be lost as a result of such an amalgamation process.⁶⁹ The ALP used to receive

⁶⁴ Department of Treasury, “Financial System Inquiry Submission” (Canberra, 1996) (available at <http://www.Treasury.gov.au>).

⁶⁵ *Ibid.*, p.5. Also, there was no noteworthy resistance to merger policy change from the Reserve Bank of Australia (RBA). In fact, Bernie Fraser, the then governor of the RBA in 1996, publicly favoured big bank mergers: *Sun Herald*, “Fees Up, Choices Down”, 7 July 1996, p. 40.

⁶⁶ However, as will be detailed later, the policy change did not occur in spite of this consensus in the banking policy community. This finding challenges the core argument of the policy community thesis that “policy change generally took place only when the relevant ‘policy community’ agreed it was necessary and consensus existed on the direction of change”: J. Richardson, “Government, Interest Group and Policy Change”, *Political Studies*, Vol. 48 (2000), pp. 1006-25 at 1006.

⁶⁷ Finance Sector Union of Australia, “Financial System Inquiry Submission” (Melbourne, 1996), pp. ii-iii; James Kirby, “Union Warns Wallis on 40,000 Job Losses”, *The Australian*, 4 September 1996, p. 37. The FSU was representing the interests of 115,000 staff employed in the banking, insurance, credit union and friendly society sectors in 1995.

⁶⁸ A merger between two banks would certainly force the remaining two big banks to get together (*Australian Financial Review*, 30 November 1998).

⁶⁹ Finance Sector Union of Australia, “Financial System Inquiry Submission”, p. 13. The figure corresponds to almost 22 per cent of the total number of employees (160,150) working in the four major banks in 1996 (for distribution of employees among the four banks, see *The Banker*, July 1997, p. 142). Employment in the financial services industry declined from 365,000 (almost 4.5 per cent of total wage and salary earners) in 1990, to below 300,000 (or 3.5 per cent) in mid-1995 (NAB, 1996,

traditional support from trade unions.⁷⁰ It provided political support that the FSU needed. Further, the ALP was also competing for regional and rural votes before the 1998 election.⁷¹ In the light of these possible future consequences of mega bank mergers, the ALP's then shadow Treasurer, Gareth Evans, made the Party's position on the issue clear:

The Inquiry has enormous implications for employment, particularly in regional Australia where branch banking has already become a dying service [...] A green light for any merger between the major banks would mean the immediate loss of thousands of jobs, with rural and regional Australia particularly hard hit.⁷²

Along with the FSU, the Australian Consumers Association (ACA) claimed that branch closures would mean reduced consumer choice and the banking sector was not creating significant competitive benefits for retail consumers in such banking services as credit cards, personal loans and deposit products.⁷³ Furthermore, there was no empirical evidence that greater size necessarily leads to a greater efficiency that would reduce the cost of financial transactions in Australian banking.⁷⁴ In particular, the banks' fee income grew continuously and fees paid by households grew faster than fees for business during the 1990s.⁷⁵ Accordingly, as one Labor Senator put it:

Everybody knows somebody who has direct experience with lesser services [and] higher fees. And banks are not doing it for your good [...] They have massive profits on the back of higher fees and less services.⁷⁶

The National Farmers' Federation (NFF), a peak association established in 1979 which has been associated traditionally with the National Party, believed that little consideration had been given to the needs of people in rural Australia in 1997. There was strong empirical evidence to support claims about the long-term impacts of branch closures such as depressed economic activity in rural Australia.⁷⁷ The NFF argued that

ch. 1, p. 11). Between 1992 and 1997, 40,000 full-time jobs were lost alone from the four major banks. See Anna Burke, "Financial Sector Reform Bill", Commonwealth Parliamentary Debates (CPD), House of Representatives, 22 April 1998, p. 336 (available at: <http://se.../ParlInfo.ASP?WCI=NavBar&EesultsID=1SdE2b&action=view&WC>). During the six years between 1990 and 1996, the biggest four banks, especially the CBA and the WBC, cut 47,000 jobs: see Jeremy Flint, "Cost-cutting ANZ to Slash Esanda Staff", *Sydney Morning Herald*, 4 March 1997, p. 25.

⁷⁰ H. Manning, "The ALP and the Union Movement: 'Catch-All' Party of Maintaining Tradition?", *Australian Journal of Political Science*, Vol. 27, 1 (1992), pp. 12-30.

⁷¹ Philip Hudson and Jill Ferguson, "ALP to Back Banks in Bush", *The Age*, 17 July 1998, p. 3.

⁷² Cited in Paul Daley, "Fears Over 'Private' Inquiry on Banking", *Sunday Age*, 19 May 1996, p. 8.

⁷³ Helen Shield, "Finance Players Split On Likely Wallis Fallout", *Sunday Age*, 23 March 1997, p. 17.

⁷⁴ G. Walker, "Banking on Size: Australian Evidence", *The Australian Banker* (June 1995), pp. 113-16. For the international evidence supporting the lack of a relationship between size and efficiency, T. Siems, "Bank Mergers and Shareholder Wealth: Evidence from 1995's Megamerger Deals", *Financial Industry Studies* (Texas, August 1996); Deloitte Touche Tohmatsu International, *The Future of Retail Banking: A Global Perspective* (London, 1995); A.N. Berger and D.B. Humphrey, *Megamergers in Banking and the Use of Cost Efficiency as an Antitrust Defence* (Washington, D.C., 1992).

⁷⁵ Between 1991 and 1995, the average of the major banks' fee charges increased by twofold in account servicing fees and more than 30 per cent in transaction fees: *Reserve Bank of Australia Bulletin* (June 1999), Table 1, pp. 1-3.

⁷⁶ Interview, 14 February 2001.

⁷⁷ D. Beal and D. Ralston, "Bank Branch Closures in Rural Communities", *The Australian Banker* (August 1997), pp. 126-29.

the rationalisation of branch networks and unemployment would pose serious economic and social consequences for the rural community:

When bank branches close, people in rural communities have to travel greater distances to access bank services and deal with the inconvenience and added costs involved. When people travel to larger centres they also conduct other business there, reducing the viability of local businesses and other service providers. The loss of jobs can result in the out-migration of households and the loss of business and participants in community organisations.⁷⁸

Australian farmers had gained greater access to the Liberal-National coalition government through the National Party.⁷⁹ As Woodward notes, “the National Party emerged as the political arm of rural interest groups. [...] [It] has relied on the support of both farmers and those living in regional Australia generally.”⁸⁰ The NFF claimed that “economic and social effects [of bank branch closures] place the sustainability of rural communities at risk”.⁸¹ As the maintenance of rural communities was thought to be at risk, so was the electoral base of the National Party.⁸² Further, the National Party was itself under extreme political pressure to fight off a challenge from Pauline Hanson’s One Nation Party in its electoral heartland.⁸³ In particular, Argus became the prime target of the National Party politicians.⁸⁴

The Liberal Party also felt pressure from a number of sectors including some of its traditional constituent groups. As Wanna neatly summarises, “the Liberals [are] tending to accommodate the concerns of urban business, finance and the service sector, small business and (at times sections of) manufacturing”.⁸⁵ The non-financial big business community, in the words of one top bureaucrat, did not “care” about the outcome of the merger debate whereas small business⁸⁶ was “quite concerned”.⁸⁷ Small business organisations were concerned that consolidation would have a negative effect on the availability of credit to small businesses and communities.⁸⁸ This sector was

⁷⁸ *National Focus*, “Trends in the Delivery of Rural Health, Education and Banking Services”, National Farmers Federation (1997) (available at <http://www.nff.org.au/pubs/focus11.html>). See also New South Wales Farmers’ Association, “Financial System Inquiry Submission” (Sydney, 1996), p. 4 (available at <http://www.Treasury.gov.au>).

⁷⁹ Q. Beresford, *Governments, Markets and Globalisation* (St Leonards, 2000), p. 119.

⁸⁰ D. Woodward, “The National Party”, in D. Woodward, A. Parkin, and J. Summers, eds., *Government, Politics, Power and Policy in Australia*, 6th ed. (Sth. Melbourne, 1997), pp. 188-99 at 189.

⁸¹ *National Focus*.

⁸² The serious implications of bank mergers in rural and regional Australia were also recognised by the ALP, which was also competing for rural and regional votes before the 1998 federal election. Evans argued that 102 country communities lost their bank branch between 1995-1998 and a further 201 rural towns were under threat: see Philip Hudson and Jill Ferguson, “ALP to back banks in bush”, *The Age*, 17 July 1998, p. 3.

⁸³ M. Kingston, *Off the Rails: the Pauline Hanson Trip* (Sydney, 1999).

⁸⁴ George Lakais and Louise Dodson, “MP’s Prop up Four Pillars as Renew Assault”, *Australian Financial Review*, 9 December 1998, p. 36.

⁸⁵ Wanna, “Furthering Business Interests”, p. 70.

⁸⁶ Small business is defined as one that is independently owned and employs fewer than twenty people. This sector constituted almost 50 per cent of the workforce in all private sector business employment with 3.5 million people in 1996: see W. McLennan, *Small Business in Australia* (Canberra, 1997), p. 1.

⁸⁷ Interview, 1 March 2001.

⁸⁸ There was no empirical evidence supporting improvement in small business lending and bank mergers in Australia.

expecting better deals in small business lending from the banks when the Liberal Party came to power.⁸⁹

Accordingly, the “bank mergers debate” was politicised and opened to the large number of stakeholders and the general public due partly to knowledge about the economic and social effects of the bank mergers (i.e., unemployment, bank branch closures, and reduced customer services). As a senior Liberal member of the Economics and Legislation Committee in the Senate at the time observed:

At that time, some people were concerned about the consequences of mergers as it worked out in practice with the closure of branches, reduction of physical working services, replacement by electronic services and so on. A broader cross section of the public became concerned about banking issues. Earlier on when we were talking about the mergers it was a bit ‘esoteric’, theoretical. Now it is down on the ground. Some of the consequences become apparent. I think that broadened the debate publicly.⁹⁰

The Government and the Wallis Committee on the Merger Issue

One of the reasons behind the establishment of the Inquiry was Costello’s personal agenda to consolidate his power within markets and politics.⁹¹ In regard to the bank merger policy, Costello was “very pro getting rid of the ‘four pillars’” said a senior Labor member of the House of Representatives Standing Committee on Economics, Finance and Public Administration at the time.⁹² Indeed, he did not rule out the possibility of the merger policy change following the establishment of the Inquiry. Rather, he indicated that the Wallis Committee’s recommendations on bank mergers would be pivotal: “[...] the question of mergers is to be fully investigated [but] the policy would remain in force at least until the government receives and considers the Final Report of Inquiry.”⁹³

Although Costello emphasised the Wallis committee is “genuinely independent”, the committee was not independent of both government and business, and was “packed” by the government in accordance with its regulatory policy preferences.⁹⁴ Further, the role of the committee was to legitimise the government’s policy preferences publicly.⁹⁵ Not surprisingly, the committee members were strong proponents of the repeal of the “six pillars” policy. For example, Wallis, the AMP’s director at the time, publicly supported the removal of the “six pillars” policy.⁹⁶ Apart from Wallis, Ian Harper, professor of finance at Melbourne University, and Bill Beerworth, a lawyer and a merchant banker experienced in takeovers and trade practices law, had pro-merger

⁸⁹ For example, Rob Bastian of the Council of Small Business Organisations of Australia said: “The Government has also said it would look at ways to help small business get better access to equity capital. We expect good things because I believe John Howard has a good feeling for the sector”; cited in *Sunday Age*, 10 March 1996.

⁹⁰ Interview, 8 May 2001, emphasis added.

⁹¹ Bakir, “Who Needs A Review of The Financial System in Australia?”.

⁹² Interview, 22 January 2001. However, Costello publicly pretended that he did not want mergers among the majors: see Joanne Gray, “Rival Parties Rule Against Bank Mergers”, *Australian Financial Review*, 5 February 1996, pp. 1, 31.

⁹³ Cited in Glenda Korporaal and Paul Cleary, “Inquiry to Change Face of Banking”, *Sydney Morning Herald*, 31 May 1996, p. 21

⁹⁴ Bakir, “Who Needs A Review of The Financial System in Australia?”.

⁹⁵ *Ibid.*

⁹⁶ Mark Westfield, “Wallis’s Global Perspective Should Trump Fels’ Caution”, *The Australian*, 26 1996.

views within the committee.⁹⁷ Arguably, one of the government's initial aims was to legitimize the repeal of the "six pillars" policy through the Inquiry's recommendations.⁹⁸

On 24 March 1997, the Wallis committee submitted its 771-page final report containing 115 recommendations to the government.⁹⁹ Not surprisingly, the committee recommended that the "six pillars" policy and the Treasurer's power of veto for the purposes of assessing the competition implications of a merger under the banking and insurance laws should be abolished.¹⁰⁰ In terms of procedure, it suggested that the competition policy should solely be administered by the ACCC under the provisions of the TPA to test the potential anti-competitive effects of mergers.¹⁰¹ In doing so, the Howard government sought to remove the Treasurer's veto power to depoliticise the issue of bank mergers through the recommendation of the Wallis committee. In the words of a member of the Wallis committee:

The fact that the Treasurer has a veto power does mean that in the final analysis the issue will be decided on political grounds. If it would just have handed over to the competition authority [i.e., the ACCC] which, of course, we recommended then arguably it [merger discussions] would be less politically controversial.¹⁰²

However, during the Wallis era (1996-97), Costello had the opportunity to observe the strong public and political reaction to the bank merger policy change which would jeopardise the thrust of the Inquiry.¹⁰³ Further, the possibility of massive job losses after a big bank merger could have posed a political risk to Costello as well. As a then senior Labor member of the parliament observes:

From an electoral point of view, there was enormous backlash if the banks bought each other because there would be enormous job fallouts. There had already been massive job fallouts just through natural downsizing attrition [...] They [the majors] have not recreated those jobs [...] I think, in a political sense, the Treasurer has got to be sensitive to that.¹⁰⁴

Thus, in the words of Terry Aulich, a former Labor Senator, "[t]he political danger for Costello is that he might be seen as the person who accelerated job losses in the industry".¹⁰⁵ Apparently, the "exoteric" nature of the merger policy debate made it

⁹⁷ I. Harper, "Let's Face Reality: Go Global", *Australian Financial Review*, 21 July 1999, p. 16; I. Harper, "Merger Mania: Why Four Pillars Should Go", Paper Presented at the Macquaire University Applied Finance Centre (Sydney, 1999); Harper, "Mergers in Financial Services: Why the Rush?"; Toni O'Loughlin, "Banks Will Merge Soon", *Sydney Morning Herald*, 30 July 1998, p. 23.

⁹⁸ With the election of the Howard Liberal government in 1996, "[b]usiness is no longer excluded or marginalised in policy-making forums. Its views are taken into account and accommodated" (Doug McEachern, "Class Analysis" in D. Woodward, A. Parkin and J. Summers, eds, *Government, Politics, Power and Policy in Australia* (Melbourne, 1997), pp. 373-391, quotation p. 388).

⁹⁹ Argus also knew that the committee had proposed the removal of the "six pillars" policy before the release of the Wallis report. Therefore, the NAB stepped up the pressure on the government ahead of the release of the Wallis report, urging that it fully implement the Inquiry's recommendations: see *The Age*, "Costello Urged to Act on Wallis", 5 April 1997, pp. B, B3 at B.

¹⁰⁰ *Financial System Inquiry Final Report*, p. 428.

¹⁰¹ *Ibid.*, p.425.

¹⁰² Interview, 25 October 2002.

¹⁰³ Michael Dwyer and Ian Rogers, "Wallis Inquiry: Costello Warns Banks Against Mergers", *Australian Financial Review*, 24 March 1997, p. 1.

¹⁰⁴ Interview, 22 January 2001.

¹⁰⁵ David Forman, "Political Reality in the Wake of Wallis", *Business Review Weekly*, 21 April 1997, p. 25.

difficult for Costello and the government to justify the full repeal of the “six pillars” policy. The government, in turn, could not fully accept the recommendation. Instead, it replaced the “six pillars” policy with the “four pillars” policy, which continued to block mergers between the major banks while allowing mergers between any one of the big banks and the two big insurance companies. However, Costello did not rule out the possibility of the repeal of the “four pillars” policy in order not to alienate the Liberal Party’s chief corporate donors:

[The four pillars] will be reviewed when the government is satisfied that competition from new and established participants in the financial industry, particularly in respect of small business lending, has increased sufficiently to allow such mergers to be considered.¹⁰⁶

As a member of the Wallis committee correctly interprets Costello’s words without any prompting from the author, “[...] what he means is until such time as the political row that he believes would ensue has calmed down”.¹⁰⁷ In response to the Wallis recommendations on the merger policy, Costello announced in his public statements that he would “retain the [veto] power to reject mergers”.¹⁰⁸ These public statements of Costello, however, were not genuine. As will be shown later, the government introduced technical changes in the Wallis package of bills in 1999 to finance sector reform that took away the Treasurer’s discretion over bank mergers under the *Banking Act*.

Corporate Politics¹⁰⁹

As a response to the government’s public announcement of the “four pillars” policy, the majors, the NAB in particular, mobilised individually¹¹⁰ rather than collectively.¹¹¹ Apart from government relations divisions, elite networking and hiring lobbyists were the other two venues by which the majors exercised influence over the government. Elite networking was a significant avenue available to the senior managers of these banks to communicate their policy preferences to the executive members of the

¹⁰⁶ Cited in Ian Henderson, “Wallis Topples Pillars of Banking: But Big Mergers on Hold”, *The Australian*, 10 April 1997, p. 1.

¹⁰⁷ Interview, 30 May 2000.

¹⁰⁸ Henderson, “Wallis Topples Pillars of Banking”, p. 1. See also, *Canberra Times*, 10 April 1997.

¹⁰⁹ Political mobilisation of the largest four banks to effect contemporary policy outcomes or the direction of policy debates has not been previously examined in the Australian political science and public policy literature. For a general treatment of the role and activities of large firms in the policy process in Australia: see Bell and Warhurst, “Political Activism Among Large Firms”.

¹¹⁰ This finding, to be detailed in this section, will confirm Bell and Warhurst’s previous research that large firms “become more actively involved in the policy process [in Australia]”. As Bell and Warhurst note, “[f]or firms, decisions about how to approach government, whether directly or through an association, appears, in Australia at least, to depend on how specific an issue is to the firm’s immediate interests or concerns”: *ibid.*, p. 65.

¹¹¹ The Australian Bankers’ Association (ABA), an interest organisation of the banking sector, is not regarded as an effective political lobbying group for the banking community. As a senior Labor member of the Parliament observes at an interview on 22 January 2001: “The [ABA] has not been very successful as a lobby group for anybody [...] Because the industry is so competitive and so much dominated by commercial-in-confidence that the ABA really cannot be a peak body.” Further, smaller regional banks supported the preservation of the Treasurer’s powers under the *Banking Act*. See, for example, Bank of Melbourne, “Financial System Inquiry Submission” (Melbourne, 1996), available at <http://www.Treasury.gov.au>; Advance Bank, “Financial System Inquiry Submission” (Melbourne, 1996), available at <http://www.Treasury.gov.au>. As a result of the division between the largest four banks and small banks over the merger issue, the majors were unable to present their individual interests as being the common interests of the banking sector.

government. For example, the banks' chief executives belonged to the powerful Australian corporate elite having direct access to Howard.¹¹² Argus also wrote letters to Howard and Costello expressing his concerns over the government's decision to ban mergers between the largest four banks in May 1997.¹¹³ In addition, the NAB and the ANZ hired highly influential ex-Liberal lobbyists to steer the government towards allowing the major bank mergers.¹¹⁴ As a senior Labor member of the Economics References Committee in the Senate at the time observed:

They [the major banks] were one of the most effective and powerful lobby groups behind the scenes. They pushed this [Howard] government very hard [for the removal of the 'four pillars' policy].¹¹⁵

Financial Globalisation Rhetoric

The majors' political mobilisation was also coupled with their public campaign. In the case of the government's bank merger policy, the banks realised that they needed to make their case before the Australian people. Specifically, they used the rhetoric of financial globalisation in an effort to transfer their corporate agenda into a public agenda and influence the policy debate. Rhetoric or "the art of words and persuasion" plays a central role in any policy debate.¹¹⁶ In particular, the "rhetoric of globalisation" is increasingly used to explain and justify policy decisions by public and private sector actors as well as governments.¹¹⁷ The objectives of bank mergers have often been conceived in a rhetoric of financial globalisation that "by becoming larger, they [banks] stand a better chance of competing both domestically and internationally".¹¹⁸ The majors were among the top nine corporate globalisers in Australia while their chief executives were among Australia's top individual globalisers.¹¹⁹ They argued that the main forces driving consolidation elsewhere were the similar forces which confront Australian banks: pursuing economies of scale and scope, and obtaining better access

¹¹² See Neil Chenoweth and Karen Maley, "Australia's New Establishment", *Australian Financial Review*, 13 September 1997, pp. 23-25.

¹¹³ Joanne Gray, "Argus Protests Against Merger Ban", *Australian Financial Review*, 21 May 1997, p. 29.

¹¹⁴ *Idem*, "Why The Big Banks Hate Canberra and Each Other", *Australian Financial Review*, 23 July 1997, p. 1. Argus hired Michael Kroger, the former president of the Victorian Liberal Party, to lobby the government on its major bank anti-merger policy in 1997: see *AAP News*, 26 November 1998 (electronic source); *Australian Financial Review*, 30 November 1998; *Sydney Morning Herald*, 25 November 1997. The NAB did not rely on just one powerful lobbyist. It also hired Ian Kortlang, the principal of Gavin Anderson Kortlang, a public relations consultant and lobbyist close to the Liberal Party: see *Australian Financial Review*, 23 July 1997. The NAB's employment of Philip Ryan to lobby the backbenchers will be discussed later.

¹¹⁵ Interview, 14 February 2001.

¹¹⁶ W. Parsons, *Public Policy: An Introduction to the Theory and Practice of Policy Analysis* (Aldershot, 1995), p. 177.

¹¹⁷ See A. Tickell, "Global Rhetorics, National Politics: Pursuing Bank Mergers in Canada", *Antipode*, Vol. 32, 2 (2000), pp. 152-75; T. Conley, "The Domestic Politics of Globalisation", *Australian Journal of Political Science*, Vol. 36, 2 (2001), pp. 223-46.

¹¹⁸ International Monetary Fund, *International Capital Markets: Developments, Prospects, and Key Policy Issues* (Washington, 1998); G. Dymski, *The Bank Merger Wave: The Economic Causes and Social Consequences of Financial Consolidation* (Armonk, N.Y., 1999); *The Banker*, July 1997, p. 146.

¹¹⁹ L. Sklair, "Who are the Globalisers? A Study of Key Globalisers in Australia", *Journal of Australian Political Economy*, Vol. 38 (1996), pp. 1-30 at Table 2, pp. 19-24.

to capital and human resources.¹²⁰ Argus, for example, asserted that “we have not got the size we want [...] and we have got to fill that gap”.¹²¹ According to Argus, the world banking industry required massive global banks and the Australian financial companies needed to build a critical mass in the domestic market if they were to become big enough to compete internationally.¹²²

The rhetoric of financial globalisation was channelled into public opinion-making processes through the financial press or business pages of newspapers which stand at the “crucial intersection between the world of finance and the world of government”.¹²³ As one very senior bureaucrat at the ACCC observed:

The [banking] industry also arranged a lot of newspapers articles trying to make that [mergers] agenda. [...] In terms of vested interests on the side of those who want the change [of the bank merger policy] were most of the largest four banks. The National [Australia Bank] had been particularly prominent.¹²⁴

On the eve of the October 1998 federal election, the merger issue was pushed again by the banks. To persuade the public about the need for mergers, Argus shifted his treatment of globalisation and presented it somewhat differently. He used nationalist themes in pushing for the mergers to be allowed that create “national champions” — companies which are big enough to compete in world markets:

I am sure that if a [foreign] predator came down and tried to take over National Australia Bank, I would be wrapped up in the Australian flag very quickly. It would be a shame to lose national icons, but equally, I think is a shame to restrict national champions.¹²⁵

Further, the major banks through the ABA also did a A\$1.2 million deal in 1998 with Australia’s leading radio commentator, John Laws, to improve their negative public image.¹²⁶

Apart from these massive media campaigns, the majors, the WBC in particular, were also quick to respond to the government’s criticisms on the lack of competition in small business lending.¹²⁷ Howard welcomed the bankers’ efforts in reducing the small

¹²⁰ *The Banker*, December 1997, p. 47; April 2000, pp. 60-62; Argus, “Global Banking”, p. 40.

¹²¹ Cited in *Business Review Weekly*, 18 August 1997, p. 20.

¹²² Andrew Cornell, “NAB’s Asia Strategy, Gains Focus”, *Australian Financial Review*, 17 July 1996, p. 29. The ANZ or the WBC was regarded as the NAB’s takeover target (*Age*, 30 July 1996). Although Bob Joss, the managing director of the WBC at the time, did not engage in a strong public campaign like Argus, he echoed the views of Argus (*Australian Financial Review*, 8 August 1996). He told shareholders that “well-conceived, well-planned and well-executed in-market mergers are very powerful strategies” (cited in *Age*, 21 January 1997).

¹²³ J. Palmer, “The Harlot’s Prerogative”, in R. Boston, ed., *The Press We Deserve* (London, 1970), cited in W. Parsons, *The Power of the Financial Press: Journalism and Economic Opinion in Britain and America* (Aldershot, 1989), p. 4; Dye, *Top Down Policymaking*, ch. 6; I. Ward, “Media Power”, in J. Summers, D. Woodward, and A. Parkin, eds., *Government, Politics, Power and Policy in Australia*, 7th ed. (Frenchs Forest, 2002), pp. 401-14.

¹²⁴ Interview, 1 March 2001. See also Andrew Cornell, “Australians Must Shed Cloistered View: Argus”, *Australian Financial Review*, 7 April 1997, p. 55.

¹²⁵ Cited in Andrew Cornell, “How the Bank Stared Down the Government”, *Australian Financial Review*, 12 May 1998, pp. 22-3 at 22.

¹²⁶ Errol Simper, “Hand That Signed Letter Takes Fall”, *The Australian*, 12 April 2000, p. 3. In regard to the banks’ negative image, see also W. S. Weerasooria, *Banking Law and the Financial System in Australia*, 5th ed. (Chatswood, 2000), ch. 6.

¹²⁷ Hans van Leeuwen and Ian Rogers, “Follow the Leader: Banks Trim Rates”, *Australian Financial Review*, 5 December 1998, pp. 1-2. They held a 78 per cent share of small business lending in 1998.

business lending rates to historical lows on 31 March 1998.¹²⁸ Not surprisingly, following the November 1998 election, some of the Wallis committee members predicted that the government would remove the “four pillars” policy in 1999.¹²⁹

However, there was still such public disdain for the banks that any relaxation of bank merger policy would mean the political risk of antagonising voters. In particular, the knowledge of public opposition to the removal of the “four pillars” policy was evidenced by an opinion poll in November 1998. Newspoll conducted a public opinion poll based on interviews with 1,200 people across Australia on bank mergers.¹³⁰ The poll indicated that almost two-thirds of the Australian public were against the mergers among the four major banks and one-third of respondents were less likely to support a party that allowed a merger.¹³¹ Job losses, branch closures, and higher fee charges were the main reasons for public opposition to the big bank mergers.¹³²

Why was the public opinion running so strongly against such mergers? The major banks’ exercise of economic power over customers, employees and communities in retail banking planted the historical roots for this strong public opposition to the mega bank mergers.¹³³ As Bakir recently argued:

They did so by denying access to credit, banking products and services particularly in rural and regional Australia via extensive branch closures and mergers; by terminating banking jobs and/or by threatening to do so; and by placing constraints upon customers’ action-environment in the form of increased costs for banking products and services (e.g. higher account servicing, transaction and credit card fees, and higher interest margins in small business lending).¹³⁴

It is assumed that politicians attach a great value to public opinion.¹³⁵ Because of the threat of an electoral backlash, elected officials are expected to respond to the public’s policy preferences.¹³⁶ The Howard government was no exception. It was the first Australian government to rely on regular party polling to adjust its political messages and ensure that it closely monitored voter concerns.¹³⁷ In particular, the Howard

¹²⁸ “Transcript of the Prime Minister the Hon. John Howard: Radio Interview with Alan Jones Radio 2UE” (available at <http://www.pm.gov.au/news/interviews/1998/jones31-3.htm>).

¹²⁹ For example Wallis said that: “Ultimately there will be changes in the policy, but not right now. I would be very surprised if there are any changes in the existing policy in the short-term [between 10 months and 18 months]”: cited in Anne Nyland, “Wallis Sees Bank Merger Barrier Gone in 18 Months”, *Sydney Morning Herald*, 13 October 1998, p. 2. Harper shared this view: “My particular prediction is that if this government is returned, this ban will go, and four banks will become two”; cited in Malcolm Maiden, “Four Pillars Tipped to Tumble”, *The Age*, 18 June 1998, p. 2.

¹³⁰ Jeremy Flint, “Australians Opposed To Big Bank Takeover”, *Australian Financial Review*, 27 November 1998, p. 58.

¹³¹ Its report showed that: “Views about bank mergers amongst the largest four banks are very firmly held, and given the high intensity of opinion will be difficult to change quickly [...] Approximately two-thirds of marginal-seat voters are strongly against the government changing its policy to permit mergers. The political risk of supporting mergers can therefore safely be assumed to be very high”; Sean Aylmer, Tom Allard and Toni O’Loughlin, “PM’s Rethink On Mega-banks”, *Sydney Morning Herald*, 28 November 1998, p. 1.

¹³² Apparently, among other things, the banks’ campaign that placed financial globalisation as a major drive behind mergers proved counterproductive for generating mainstream public and political support for their campaign.

¹³³ Bakir, “Bank Powers”.

¹³⁴ *Ibid.* p. 69.

¹³⁵ A. Downs, *An Economic Theory of Democracy* (New York, 1957).

¹³⁶ L. Jacobs and R. Y. Shapiro, *Politicians Don’t Pander* (Chicago, 2000).

¹³⁷ Louise Dodson, “Coalition Aims to Keep Tabs on Voters’ Mood”, *Australian Financial Review*, 14 March 1996, p. 5.

government was very sensitive to public opinion on the mergers due to its vulnerability in rural/regional Australia. The rise of Pauline Hanson's One Nation during the first term of the government placed the National Party under threat in regional electorates, creating a pressure over the government to win back rural votes.¹³⁸ Unsurprisingly, Howard, with the opinion poll results in hand, restated at the annual meeting of the NFF on 24 November 1998 that the government would not change its big bank merger policy.¹³⁹

A Battle at the Legislative Stage

The "four pillars" policy, as Bob Joss, the managing director of the WBC at the time said, is "always something that is appropriate to be on the table — before elections, during elections and after elections. It ought to be a matter for determination by the ACCC".¹⁴⁰ Apart from pressuring the government executives in tandem with an effort to convince the public through media campaigns, the major banks also lobbied backbenchers over merger regulation in order to affect a package of legislation to give effect to the Wallis recommendations. As a then senior Liberal member of the Senate observed in May 2001:

Over the last 18 months or so the banks have become more active in talking directly to backbench members of parliament than they were previously. I guess they recognise that they can deal with some of the issues that relate to them. They have got to cast their information and lobbying a bit wider than just at the executive. Certainly, in an earlier period they were not active [in legislature]. It was due to recognition that a lot of these issues have broad electoral sensitivity and, therefore, dealing purely with the executive and bureaucracy is not going to get the outcome they might seek.¹⁴¹

Again the NAB was the most pre-eminent one among the largest four banks in this legislative lobbying. The bank appointed Phillip Ryan, a strategic marketing expert and former Tasmanian Liberal adviser, as the NAB's community and internal communications manager to lobby government backbenchers in the Senate and the House of Representatives.¹⁴² Ryan also activated elite networking between Argus and backbenchers. One of these backbenchers was Joe Hockey, the Minister for Financial Services and Regulation at the time.¹⁴³ Not surprisingly, on 27 November 1998, Hockey stated: "The 'four pillars' policy is in place and the government is committed to it. But, all policies are under review and that's one of them."¹⁴⁴ A few days later, Geoff Prosser, Liberal Member of Parliament at the time, unveiled the government's true intentions: "Now we need to abolish the 'four pillars' policy. If we are confident about our prudential regulation and supervision, the level of competition in the banking

¹³⁸ Katharine Murphy, "Howard Makes A Play For The Rural Vote", *Australian Financial Review*, 19 October 1998, p. 6.

¹³⁹ J. Howard, Speech delivered at NFF 46th Annual Meeting (available at <http://www.pm.gov.au/news/speeches/1998/nff2411.htm>). In the light of improved competition in small-business lending, Beerworth, however, expected a mega bank merger in 1999: see, Ian Rogers and Hans Van Leeuwen, "Markets Bank On Collapse of Four Pillars", *Australian Financial Review*, 27 November 1998, p. 1.

¹⁴⁰ Sean Aylmer, "Westpac Backs Mergers", *Sydney Morning Herald*, 30 April 1998, p. 29.

¹⁴¹ Interview, 8 May 2001.

¹⁴² Joanne Gray, "NAB pulls the pin on hand-grenade lobbying", *Australian Financial Review*, 27 October 1997, p. 1

¹⁴³ *Ibid.*, pp. 1, 25 at 25. See also *Canberra Times*, 6 April 1997.

¹⁴⁴ Kelvin Thomson, "Joe Hockey — A Career in 'Progress' — Career 'Highlights'", CPD, House, 2 March 2000, (available at <http://wipi.aph.gov.au/search/ParlInfo.ASP?action=view&item=0&resultsID=MDXs4>).

sector, and the power of the ACCC, then a merger between the four big banks should not be resisted.”¹⁴⁵

It became clear that Costello’s and Howard’s previous public announcements on the government’s intention to preserve the “four pillars” policy and the Treasurer’s veto powers should be taken with a grain of salt.¹⁴⁶ The government’s aim was to make future merger assessments “esoteric” by removing an important legislative safeguard for the “four pillars” policy: the veto power of the Treasurer. The major banks’ merger policy concerns were addressed by the Liberal Party through specific, technical changes in the language of some of the reform bills implementing the Inquiry recommendations in March 1999.¹⁴⁷ As the senior Labor member of the House of Representatives Standing Committee on Economics, Finance and Public Administration observes:

The Treasurer had said nothing when the legislation came out before Parliament. Joe Hockey was taking the lead with this legislation. I would not suspect that the Treasurer and Joe Hockey would like to see the ‘four pillars’ gone [...] The legislation looked like where they wanted to go; certainly the demolition of the ‘four pillars’ policy.¹⁴⁸

In specific terms, the Financial Sector Reform Bill (Transfers of Business) 1999 and sections in the Financial Sector Reform (Amendments and Transitional Provisions) Bill (No.1) 1999 stipulated that the mergers could be decided by technocrats and industry experts. The former made it technically possible for the bills to operate to erode the “four pillars” policy as the Treasurer’s consent to mergers was not required while item 51 of schedule 2 of the latter amended Section 63 of the Banking Act 1959 so that the Treasurer’s consent in mergers was no longer required if the Australian Prudential Regulation Authority (APRA) makes an order to that effect.¹⁴⁹ In other words, not only the Treasurer’s veto power was going to be removed but also the ACCC’s role in merger assessments was going to be eroded under these reform bills.¹⁵⁰ These were not unintended consequences of the drafting of the reform bills. Given the major banks’ massive efforts for the removal of the merger policy ban by repealing the Treasurer’s merger veto power, clearly this was a deliberate effort of the government to make merger policy discussions “esoteric”. As a result, merger decisions could be left to civil

¹⁴⁵ Geoff Prosser, “A New Tax System (Goods and Services Tax) Bill 1998”, CPD, House, 8 December 1998, p.1628 (available at <http://wipi.aph.gov.au/search/ParlInfo.ASP?action=view&item=4&resultsID=MDXs4>).

¹⁴⁶ As Dye notes: “Politicians know that the memory of voters is short, but the memory of contributors [i.e., donors] is more lasting. The further away in time the next election is, the more likely it is that the dilemma will be resolved in the contributor’s favour”: Dye, *Top Down Policymaking*, p.77.

¹⁴⁷ On paper, the government proposed an innocent mechanism that would facilitate the transfer of business for credit unions, building societies and friendly societies to the Commonwealth prudential regime from the states and territories. The formal aim was to protect depositors or policy owners where a financial institution was in distress. However, this mechanism also applies to the majors eroding the ACCC’s and the Treasurer’s role before mergers can occur between the majors.

¹⁴⁸ Interview, 22 January 2001.

¹⁴⁹ S. Conroy, “Four Pillars: Tumbling to the Government’s Amendments”, Press Release, 13 May 1999.

¹⁵⁰ Section 12 of the Bill stated that the APRA *may* consult with other regulators including the ACCC and the ASIC about the competitive and corporate effects of transfers that need to be assessed

servants and could be structured to favour the interests of large financial firms over other interests.¹⁵¹

Dye's following observation in the US context seems highly relevant for the Australian merger policy debate:

Many contributors [i.e., donors] have very specific policy concerns — concerns that can be addressed by specific, technical changes in the language of laws. Masses are unlikely to even be aware of these kinds of policy actions [...] When the wishes of major contributors conflict with opinion polls showing the clear preferences of voters, elected officials confront a dilemma. More often than not, such a dilemma is resolved in favour of the contributor's position.¹⁵²

However, the Howard government's dilemma could not be resolved in favour of the majors: the government did not have the majority to control the Senate. Thus, any legislation could be blocked, amended or delayed in the Senate if the opposition were to vote against the government. Accordingly, the ALP's support for the regulatory change was significant. The *Financial Sector Reform Bill (Transfers of Business) 1999* was rejected by the Senate on 29 March due to the votes of the opposition. The ALP, in its Minority Report (1999) to the Senate, argued that the reform bills "could technically allow banks to short circuit the four pillars policy".¹⁵³

The government did not have any choice but to accept the amendments that had been put by the opposition. The Treasurer's merger veto power was emphasised: the *Financial Sector Reform (Amendments and Transitional Provisions) Bill (No.1) 1999* was amended so as to preserve the need for the Treasurer to give or refuse his consent to mergers and acquisitions under the *Banking Act 1959*. The amendments also extended this requirement for transfers of business occurring under the *Financial Sector Reform (Transfer of Business) Bill 1999*. These bills passed through the Senate on 27 May 1999.¹⁵⁴ As a result, bank merger decisions were not left to the bureaucracy. The future mega bank merger decisions have become more than something that can be decided by technocrats and industry experts. As in most competitions, the legislative process has its winners and losers. The majors lost another front in their battle.

Conclusion

The issue of whether or not to allow mergers between the largest Australian banks has been the subject of an on-going policy debate over the past eight years, effectively since the establishment of the Wallis Inquiry. During the Wallis era, not only did some of the big banks exert a good deal of influence initially in the debate and have a strong economic power over the insolvent Liberal Party, but also there was a broad consensus within the banking policy community for the policy change allowing mergers among the largest four banks. Further, the Wallis committee delivered what the majors and the government wanted by recommending the abandonment of the merger policy ban.

¹⁵¹ Among the interest organisations opposing the merger policy change, the FSU was the only active one in the legislative debates. On 29 April 1999, the FSU appeared before the Senate Economics Legislation Committee to argue that the government was trying to dismantle the "four pillars" policy by eroding the Treasurer's veto powers, and the ACCC's role in merger process.

¹⁵² Dye, *Top Down*, p. 77.

¹⁵³ Australian Labor Party, "Minority Report", CPD, Senate (available at http://www.aph.gov.au/senate/committee/economics_fte/fin/minority.htm). For the required amendments, see "Financial Sector (Transfers of Business) Bill 1999", CPD, House, 29 March 1999, p.458 (available at <http://wipi.aph.gov.au/search/ParlInfo.ASP?action=view&item=0&resultsID=MDXs4>).

¹⁵⁴ Following the approval of the Senate's amendments by the House of Representatives, these Bills became effective in July 1999.

However, the government could not accept the recommendation. This was due to the fact that knowledge about the social and economic impacts of the bank mergers and the Treasurer's merger veto power made the policy debate exoteric (political and public) by including interests outside the banking policy community (i.e., interest organisations of employees, customers, and farmers, as well as political parties, and the broad public). This, in turn, created significant pressure on the government for the retention of the policy in the wake of the 1998 federal election.

However, the majors did not lower their guard in their effort to remove the policy. They lobbied government executives and backbenchers via elite networking, lobbyists and their government relations divisions in tandem with massive media campaigns to convince the Australian public of the merits of the mega bank mergers. The Howard government found a solution to the dilemma of the majors' policy preferences and public opposition to the policy change in favour of the majors by attempting to make future merger discussions esoteric. In March 1999, the government masked the repeal of the "four pillars" policy behind a package of legislation to give effect to the Wallis recommendations. It introduced specific, technical changes in the language of the Wallis reform bills eroding the Treasurer's veto powers stemming from the banking and insurance acts. As a result, the government's ultimate political responsibility for a merger decision would have been removed by shifting such decisions from the Treasurer to unelected technocrats and industry experts. The aim was to limit future merger policy discussions to only the privileged few comprising regulators and regulated. However, the legislative battle for the esoteric politics of bank mergers failed due to the opposition. The preservation of the Treasurer's veto power meant that the ultimate political responsibility rested with the government for a merger decision in which all citizens had a substantial interest, both economic and social.

This paper has outlined the significance of domestic politics and institutions that continue to shape policy outcomes, and the impact and trajectory of financial globalisation. In specific terms, policy and legislative debates on mega bank merger rules were determined by historically-based trajectories leading to different national policy outcomes in Australia.