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Governing in a trust deficit

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Abstract: A key component in the exchange relationship between government and business in modern liberal democracies is the level of public trust that each institution enjoys. However, trust does not affect both equally. A fall in trust for government is likely to diminish a government's policy discretion much more than an equivalent fall in trust for business will diminish a business actor's capacity to make profit or shape public policy. In addition, there are good reasons to believe that government will tend to find it more difficult than business to maintain trust from its stakeholders, or to recover it when lost. In this paper, I insert a role for public trust dynamics into Lindblom's theory of the structural power of business. I then return to the debate in this journal on business power and the 2010 Australian mining tax I show that the existing accounts omit the role of trust in the conflict and as a result "discover" much more incompetence from the Australian government than really existed.

1 Introduction

Charles Lindblom's 1973 book, *Politics and Markets*, presents the exchange relationship between government and business as the defining dynamic of liberal democratic societies. His central claim was that business, thought of as an interest group, has special privileges that are born of its position. All members of society rely on the functioning and flourishing of business in order to access the conditions for health and happiness. For this reason, the demands business makes of government are acquiesced to more quickly than those of other groups, or even provided for before demands are made. In efforts to overcome the rigid structuralism in Lindblom's theory, recent interpreters have focused on the role of beliefs held by actors and the competence of different actors in using the resources born

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of their positions in society.[1,2] Both of these works aim to provide some way of explaining why governments sometimes do and sometimes do not refuse business' demands, which they claim Lindblom fails to. While they are valuable additions, I argue here that focusing on how actors use their resources at the expense of differences in their initial resource allocation is problematic. Analysts run the risk of "discovering" less ambition and less competence of government actors to reign in the excesses of business activity than really exists. As I show, this is what has occurred in the analysis of the case study this debate has centered on: the Australian Mining Tax debate of 2010. To amend this, I refocus the analysis to the formation of resources and introduce trust as a source of political power.

The power effects of trust are differentiated structurally. First, trust features in the formation of political resources for both government and business, but does so in different ways. Overall, the role of trust in the formation of the political resources of government is much greater than that of business. This is because liberal governments rely almost wholly on the legitimacy bestowed on them by a willing electorate for policy discretion. Business, on the other hand, relies on its ability to sell goods to consumers and a claim to special expertise in matters relating to selling goods for its resources. There are good reasons for thinking that these may not be significantly diminished as a result of a fall in trust for business as a whole. Second, trust should be thought of as a structural variable in the sense of being shaped, albeit partially, by forces outside of the control of the actors within government or business (those being trusted). That is, while trust affects actors' power resources differently according to their positions, this does not mean that trust levels spring automatically from those positions. The levels of trust that voters and consumers have for the institutions of government and business changes over time. Certainly the behavior of the actors within the institutions affects this, but, I show, this is not the only factor. (Mis)trust can be exported between institutions within society, or linger from one administration to the next within a single institution. A key benefit of adding trust to Lindblom's theory, therefore, is that it provides a partial response to the question of why governments sometimes do and sometimes do not stand up to business' demands. Further, it does so in a way that maintains the value of Lindblom's structuralism.

The paper has three parts. In the first, I outline Lindblom's theory and describe how trust can usefully be thought of as a structural variable within it. In the second Section I respond to recent criticisms of Lindblom, showing how my treatment of trust conforms to the treatment of structural forces that appeared in

1 Bell and Hindmoor (2013).

2 Marsh, Lewis, and Chester (2014).

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Lindblom's text, and why I think this is a legitimate use of the concept of structure. I then use the theoretical discussion to respond to the existing accounts of the Australian Government's very public loss in June 2010 to Australian mining companies over the proposed introduction of a new profits-based resources tax with Australian mining companies. My aim in the paper is primarily to show how trust can be added to the theory of business power, and in this vein, my contribution to the analysis of the case study retains the central claims of the two existing accounts, but adds trust as an important and under-appreciated contextual factor to the dispute. Certainly the factors already examined – an effective Opposition that opposed the tax increase, the ability of the mining companies to run an effective public scare campaign aimed at mobilizing voters in opposition to the new tax, and the failures of the Government in prosecuting the case for it – are important, but these arguments should be made with a view to the disadvantages that the Government faced in the conflict, some of which were structural in origin.

2 Trust and the theory of business power

2.1 Lindblom's theory of business power

The central claim of Lindblom's *Politics and Markets* is that business holds a privileged position in affecting public policy relative to all other interest groups. This is because the well-being of the populace depends on the effective functioning of the business sector. There are five channels by which the structurally derived privileges that fall to business interests accrue in a liberal democratic, capitalist society. First, business is able to present its particular interests as relevant to the welfare of society as a whole. Beyond the provision of the economy wide conditions that meet the needs of business – stable inflation and unemployment and attractive tax and monetary policy settings – there are a range of sector or firm specific inducements that governments are likely to suggest of their own volition. These can include subsidies, investment in infrastructure, patent protection, overseas trade promotion and subsidized research and development.[3] Second, business leaders are often able to claim expertise on complex issues, for example on the need for public investment in certain technologies, which non-experts working in government find difficult to refuse.[4] Third, business interests

3 Lindblom (1973: pp. 185–188).

4 Lindblom (1973: p. 174).

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tend to be more effectively represented in political discussions both because they have greater financial resources and access to political leaders.[5] Lindblom points out that "…business figures are often admitted to circles of explicit negotiation that ordinary citizens are excluded from," and at these, they appear not as representatives of interest groups, but as "public" officials offering disinterested advice.[6] Fourth, business can "threaten" governments with capital strikes if their demands are not met. While this rarely occurs, this implicit threat of underperformance is still relevant:

> *Businessmen rarely threaten any collective action such as a concerted restriction to function. Ordinarily, they need only point to the costs of doing business… and simply predict, not threaten, that adverse consequences will follow on a refusal of their demands.*[7]

Finally, business has the capacity to "manipulate the volitions" of the population. This does not mean that business leaders are able to organize the general population to act as an interest group and agitate for a particular policy decision. Rather, it means that business is able to "… achieve an indoctrination of citizens so that citizens' volitions serve not their own interests but the interests of businessmen."[8] Most importantly this means that the privileged position of business is widely accepted. This is achieved via a pseudo-unified effort to enforce political silence from the population on the core issues of society, this being the arrangement that exists between the democratically elected authorities and business. Typically the arrangement centers on the provision of autonomy for private enterprise, protection of the status quo on distribution of income and wealth, close consultation between business and government, and restriction of union demands to those consistent with business profitability.

2.2 Defining trust

In prescribing a role for trust in Lindblom's government-business, it is necessary to justify my insistence on treating it as a structural variable. My claim is not that public trust levels spring intrinsically from the arrangement of society. Rather, trust affects the political resources of different actors according to their position; it is relatively more significant to the power of government than business actors.

5 Lindblom (1973: p. 141).
6 Lindblom (1973: p. 179).
7 Lindblom (1973: p. 185).
8 Lindblom (1973: p. 202).

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For this reason, in a general trust deficit – a moment in which trust is low for both business and government at the same time – the political resources of government can be expected to fall further than those of business. As a result, we should expect a diminished capacity for government to carry out its core function of regulating business activity in a context of trust deficit, even a general one where public trust in business is also low. That is, while the trust an agent's stakeholders hold in him or her is certainly affected by their perceptions of his or her performance and character, the impact of changes in these trust levels are affected by the agent's role in society. Secondly, trust is structural in the sense that it is affected by factors outside the agency of the actors being trusted. Trust, or mis- or dis-trust can be exported between societal institutions, or can linger in an institution as the personnel changes. Over the last decade, trust levels in Western states for institutions from government, "Big Business", banks and financial service providers, media, and churches have all seen trust fall to historically low levels and remain there. It is reasonable to say, then, that public trust is not wholly based on the performance of the agents acting within an institution at a given time.

The existing literature has produced four definitions of trust. First, trust can mean the degree of belief held by a principle actor that an agent will act "in good faith": they will act in the principle's interest as the agent perceives it and the methods of pursuing these interests will be ethical.[9] Second, trust can be the degree of belief that an actor has in the capacity of the agent to achieve his or her aims. In this sense, an agent who is seen as incompetent can also be called untrustworthy.[10] Third, trust can mean "the extent to which a person is confident in, and willing to act on the basis of, the words, actions, and decisions of another"[11]; that is, trust can mean predictability. Finally, a more dynamic definition of *political* trust that is used by a number of authors is "the ratio of people's evaluation of government performance relative to their normative expectations of how government ought to perform."[12]

For my argument all of these meanings of trust are significant. As I show in the next section, this is because the power resources of actors are not only affected by the absolute levels of trust that stakeholders place in them, but the qualitative nature of this trust. A business actor who is perceived as behaving unethically

9 Kim (2010: p. 803).
10 Askvik (2008: p. 519).
11 McAllistair (1995: p. 25).
12 Hetherington and Husser (2012: p. 313); c.f. Orren (1997); Sztompka (1999); Van de Walle (2004).

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may not suffer dramatic falls in his or her ability either to sell their products or to impact public policy decisions. A perceived lack of ethics for a politician or public servant, by contrast, may have a major effect on his or her capacity to convince voters of the need to change a particular policy.

My argument is in keeping with a dominant theme of the trust literature that has emerged since the late 1990s, which is that trust levels strongly affect government discretion, particularly in pursuing actions that increase the role of government.[13] This is particularly the case when the increased involvement by government in everyday life requires citizens to make sacrifices that are either material or ideological. As Hetherington and Husser note:

> *When paying costs rather than receiving benefits, people must trust the government to think its programs will produce societal benefit and not waste resources.*[14]

2.3 Trust and the political power

Trust is central to the power of both government and business. To start with the side of government, Lindblom derives all the capacity of government to negotiate with business from the legitimacy bestowed upon it by being elected. In all societies the governing elites rely on the willing cooperation of many other actors, claims Lindblom, and as a result having a monopoly over the use of force or control over material resources is not sufficient to enable a government to unilaterally determine public policy.[15] Of the four types of trust listed in the above section, all are present. A fall in the belief of citizens that government will act in the interests of the electorate (trust type one) or in the competence of government in doing this (trust type two) will both make a dramatic confrontation with business actors more politically costly for a government. Likewise, an unpredictable government (trust type three) may suffer increased costs of pursuing their aims as policy narratives may be harder to construct or convey. Finally, a widening of the gap between the normative expectations of citizens and government performance (trust type four) can also hinder the willingness of citizens to mobilize publicly in support of status quo changing policies. This last form of trust uniquely captures the dynamic of a fall in trust occurring as the standard performance expected from a government rises, due to a particularly effective opposition for example, as was the case in the Gillard government's 2010 capitulation on the mining tax, discussed below.

13 Hetherington and Husser (2012: p. 312).
14 Hetherington and Husser (2012: p. 313).
15 Lindblom (1973: Chapter 2).

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For business on the other hand, the four trust types affect material and symbolic resources in diverse ways. To begin with the material interests of business – the making of profit – trust that consumers have for business is less significant than it might at first appear. For many goods that are traded in simple, one-off transactions, such as buying an apple, trust is present but minimal. Consumers can evaluate for themselves the value of the product and switching suppliers is relatively cheap. For goods where there is a complex or ongoing transaction and an information asymmetry between supplier and consumer – for example financial products like pension funds, insurance or mortgages – the role of trust in the relationship is much greater. Nonetheless, there is some evidence that a fall in trust will not cause consumers to change suppliers readily. A rational actor approach suggests that this is because changing suppliers may be expensive or time-consuming, and a behavioral economics approach suggests that in the face of conditions of "market complexity" and where switching suppliers would involve a positive decision whereas maintaining an existing arrangement would not, consumers tend to remain with their existing supplier.[16] A third reason is that in the case where consumers' trust in the market for a particular good as a whole falls (and where there is no easily available complementary good), there is little incentive to seek a new supplier. The reason for this is that trust in all suppliers has fallen together. In the case where a consumer's trust in banks in general falls, he or she may nonetheless need a place to safely store money, and a bank account may still be perceived as the optimal place to do this. These three reasons are the arguments given by Springford for British consumers not, in the main, switching bank account suppliers as a result of the Global Financial Crisis (GFC). He states on the apparent paradox of British consumers moving towards larger, failing financial institutions through the GFC:

> *Counterintuitively, given policymakers' and financiers' fears that the crisis destroyed trust in the financial sector, this evidence suggest that it actually had nearly no persistent effect on consumer trust. Failure went unpunished: several major banks did not keep consumers' products safe, but that did not make consumers less inclined to rate them more highly than less established players who performed better.*[17]

While trust of consumers may be important for business actors when comparing them to one another, it is not clear that a fall in trust will necessarily diminish the capacities of entire sectors – or business as a societal institution the way Lindblom thinks of it – to produce and sell goods.

Turning to business' political resources, there are several reasons why a fall in trust in the institution of business does not affect business power as much

16 Prendergast et al. (2008: pp. 36–37).

17 Springford (2011: p. 31).

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as might be expected. The main reason is that most of the structural bases of business power rely on government actors', consumers', and voters' perceptions of the *competence* of business actors, rather than their good will or the belief that the business actor will behave ethically. On the first channel of structural power – that business can present its interests as the interests of society – a fall in ethical behavior trust (type one) does not diminish the strength of this claim. On the second – that business actors are experts in their area of activity – ethical trust does not appear at all, though a fall in the perception of the competence of business actors (type two) may diminish the credibility of their arguments and therefore the strength of their demands. The same dynamic applies to the third channel of business power – the greater access business actors have to public policy decision-makers – and the fourth channel – adverse consequences will follow from business' needs not being served adequately.

The fifth channel of business power – the ability to manipulate the volitions of the population – is more complicated. Note again that Lindblom's claim is not that business actors can impress any belief upon any subject. Rather, they are able to limit certain issues from coming on to the public agenda or limit the capacity of government actors to change the status quo on "core issues" easily. There are three advantages, Lindblom claims, that fall to business actors in doing this. First, business' arguments opposing changes to the core issues of societal arrangement are usually able to easily tap into already existing and powerful discourses that have been inculcated into citizens from a young age. An example is the confluence of the "freedom" to buy and sell goods with the political freedoms on which liberal society is based. A second advantage is that there is a natural cohesion of a number of lines of argument that business actors can make that all happily conclude that not changing existing arrangements is a better option. It can be argued that the issue is not worth the citizens' energies *or* that it is discouragingly complex *or* that agitation on the issue is not likely to be successful *or* that corporate autonomy is a good thing, and these all lead to the same practical result. Thirdly, it is generally easier to dissuade citizens from organizing politically to effect change than it is to persuade them to take the time and effort needed to mount a campaign to change public policy. Sowing division is an easier task than building unity and there are many tactical options available to do this.

In inserting a role for trust in this channel of business power, it is clear that we are talking about processes of ideational manipulation of some sort, which Lindblom's interpreters have invoked either Schattschneider[18] or Lukes[19] to

18 Culpepper (2011); Bell and Hindmoor (2013: p. 3). The latter reference is actually to Lukes' term of 'two-dimensional' power, which is agenda setting or Schattschneider's power.
19 Bell and Hindmoor (2013: p. 10); Marsh and Lewis (2014: p. 2).

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explain. In either case, there is an implication that actors' openness to persuasion is important and therefore that trust in sources of information, including business leaders, is likely to figure centrally. It is not necessarily true, however, that a fall in the trust that citizens have for business actors will cause them to find the arguments business actors make less compelling. Nor is it clear that a general belief that business actors are more interested in their own profits than those of their customers or society generally will cause them to agitate for public policy changes. A fall in trust in the competence or good faith of business actors on behalf of citizens may have little effect on their volitions to support political initiatives that adversely affect business profits, if they still believe that change is unlikely to succeed or that the issues are overwhelmingly complex. Further, if the fall in citizens' trust in business actors is matched by a fall in trust for in the competence or right intentions of government, then the volitions of citizens to actively petition for changes to public policy are likely to remain the same or even fall. It is not only the qualitative nature of changes in trust that mediate the special privileges of business in political conflict, but also the trust levels that citizens have for business and government relatively.

3 Lindlom's interpreters

3.1 Bell and Hindmoor

The main criticism of Lindblom's original text that has been made by Bell and Hindmoor is that it says very little about how the structural powers of business and government change over time.[20] This leaves no room for Lindblom to explain why it is that business interests are not privileged all the time,[21] or how the consensus on the "grand issues" of politics came to be formed in the first place. Thus it is difficult, using Lindblom, to explain the varieties of liberal-democratic capitalism that exist. In short, as Bell puts it, Lindblom's framework is "too structuralist".[22] It is not adequate to presume that the interests and beliefs of different actors can be "read off" the structural arrangement of society.[23]

Bell argues that in understanding the supposedly structural power of business, it is necessary to examine the "… ideas and ideational process through

20 Bell and Hindmoor (2013).
21 For a similar criticism, see Bell (2012); Marsh (1983).
22 Bell (2012).
23 Bell and Hindmoor (2013: p. 6).

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which government and state leaders construct threat perceptions regarding structural power."[24] Through understanding the ways in which ideas shape power, Bell suggests, we are better placed to explain why states sometimes stand up to business pressure. It also allows us to reinsert a more appropriate position for agency into Lindblom's framework. Acknowledging the necessarily ideational component of power, it is possible to restate the effects of structures not as impositions on actors "from above", but a relationship between actors that is predicated on their beliefs as well as their differing capacities and attributes.[25]

The problem with this position is that to frame the structure-agency problem in these terms implies that as every agent has the possibility of acting differently, the structural forces must function *within* the bounds of their agential discretion. This is not the case. Firstly, it is not *always* the case: the fact that in order for my action of buying an expensive car to be limited by its prohibitive price requires my awareness of the price of the car does not mean that this constraint is in any meaningful way a function of my agency. I cannot buy the car given my resources whether I am aware of the fact or not.[26] Secondly, the move to insert agency into the framework in this holistic way elides the question of *how possible* alternative action is, which is to say, it does not acknowledge the tendential effects of structures. Lindblom's claim is not that governments *cannot* stand up to business power, but rather that there are a number of reasons why they do not or why they find it difficult to be effective when they do.

While the ideas and perceptions held by actors are always relevant, their inclusion in explanations of particular conflicts should not be at the expense of truly structural factors, one of which being the existing levels of trust in different actors and institutions at a given moment. While the decision of a voter or a consumer to trust a particular government or business leader obviously involves a choice, from the perspective of each leader, these things are to a certain extent given. These constraints cannot be changed by selecting one course of action over another, or believing one idea to be true instead of another. The trust that a leader perceives that his or her constituents hold in different institutions is best treated as a structural constraint in relation to a particular action in the same way that the price of an expensive car is a structural constraint to me.

Secondly, in noting the ideationally mediated nature of structural forces, it is necessary to acknowledge that there are tendencies in this mediation that affect actors differently according to their positions. These patterns become more

24 Bell (2012: p. 661).

25 Bell (2012: p. 662).

26 Akram and Marsh (2014) make the same point when they criticize Bell and Hindmoor for conflating the ideational-material problem with the structure-agency problem.

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pronounced when we insert a role for trust. There are structural reasons for the public's trust in the institution of government to be lost more easily than in that of business, and to take longer to recover after a fall. Firstly, failures in business can occur constantly, but with little impact on citizens' trust in business as an institution. Failed companies drop out of the market and are lost to sight, and this is properly thought of as a normal and healthy part of a functioning, competitive market. Failures in government, by contrast, are highly public and leave a much greater effect on the electorate's beliefs about the competence and legitimacy of government as an institution. Such failures remain in public sight as inquiries and tribunals lasting years are held and the government actors and their indiscretions continue to appear in print and television news spots. The dynamic rests on the belief that businesses are multiple, but the government is unitary.[27] In addition, government must regularly regain the foundation of their political capital in support from a coalition of voters, while business' foundation – the ability to produce goods and services and sell them – is comparatively constant. Indeed, if business as a whole fails to produce and distribute goods adequately, this becomes a problem that government must intervene to resolve.

A second reason is that the tasks that government is expected to perform are often significantly more difficult than the tasks business is expected to perform. The 2009 Edelman Trust Barometer found that while "[g]overnment and business share responsibility for causing global issues…" such as energy costs, the financial credit crisis, global warming and affordable healthcare, "…[g]overnment [was] held most responsible for solving these issues."[28] To return to the definition of trust as the space between expected and perceived performance (the fourth definition above), trust in government may be more

27 This is the usual treatment of business and government in the structural power arguments (Bell and Hindmoor 2013: p. 14). While the implication is usually that unity bolsters government's power, as it can bring all institutional force to bear in a conflict with business, my point here is that unity can also be a weakness: government actors, by dint of acting in explicit cooperation with each other provide a target for attack. Business actors on the other hand, who are formally in competition with one another, offer no such target. In the case of the Australian Mining Tax debate, below, I follow the practice of Bell and Hindmoor (2013) and Marsh, Lewis, and Chester (2014) in referring to the miners as a quasi-unified entity, while at the same time examining the decisions of individual actors and coalitions within the government. This reflects both the fact that in the case of the Mining Tax debate, the miners were remarkably unified in their actions, and also the general dynamic of business actors appearing as if they are unified, as a result of arguing for the same end result, even as they are (often) not formally collaborating and prosecute their case in multiple, unconnected ways. This is much more likely to be the case when the conflict relates to a "core question" of the business-government relationship (see Lindblom 1973: Chapter 13).

28 Edelman Berland (2009: pp. 23–24).

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difficult to maintain simply due to the fact that we expect more from government than business.

Where trust in government actors is high, the ability to withstand demands from business is likely to be greater. It will be easier to convince the electorate that the issue being debated is important enough to justify its place on the political agenda and that the changes to public policy being proposed are valid. Likewise, when trust in business actors is high, they will have a relatively easier time in arguing that a change to the existing arrangement will adversely impact the welfare of the population. This effect will be greater for cases where this trust is based on the perception that the actors have expert knowledge in their areas of specialty or are competent in their societal role of allocating productive resources. The levels of trust that citizens hold in societal institutions is one variable that affects why government sometimes do and sometimes do not stand up to business demands or do or do not succeed when they do. These trust levels are inherently subjective and inter-subjective phenomena, but from the perspective of the decision-makers in the institutions, it is not a variable that should be thought of as existing internally to their agency.

In any case, the claim that structural forces are always mediated by the ideas held by actors does not fall as far outside Lindblom's theory as Bell and Hindmoor claim. Lindblom insists throughout his book that actors do not have *a priori* "preferences" in politics in the way that economists talk about economic subjects' preferences. Treating preferences as static things that simply exist, and being held by interest groups in society in a way that government can balance, as per the pluralist imaginary, is precisely what Lindblom is rejecting in the book. He prefers to use the term "volitions", the point being that actors' interests are *produced* through engagement with complex information presented to each actor, formed in part through the "unceasing mutual persuasion by all participants" in political systems and in part through moral reflection.[29] His claim is that *in this process of ideational mediation*, business actors have advantages that other groups, including government actors, do not. To criticize Lindblom for treating structure as determinist and insert a role for ideas to relieve this is a straw man. Even when reframing the power being exerted from Schattschneider's agenda-setting, or "second face" power to a Lukesian power, as Bell and Hindmoor do,[30] the essential point remains that there are reasons for believing that business actors will often find this power easier to wield than any other group in society. A key reason for this is the nature of trust dynamics.

29 Lindblom (1973: Chapter 9).

30 Bell and Hindmoor (2013: p. 10).

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3.2 Marsh, Lewis, and Chester

In criticizing Bell and Hindmoor's position, Marsh, Lewis, and Chester[31] claim that while the resources that business and government actors are endowed with can be thought of as structurally determined, in explaining variations of the relationship and changes to it, we must look more closely at the competence of the government and business actors in using these resources. This position makes the same mistake of overemphasizing the place of agency in explaining business-government relations. To examine an individual failure of a government to stand up to business interests and frame one's explanation predominantly in terms of the government's incompetence, as Marsh, Lewis and Chester do in the case of the Australian government's capitulation on a new mining tax in 2010, runs the risk of mis-assessing the relevance of the special privileges of business actors in political conflicts, including their special advantages in ideational contests. To say that a more competent government would have made the case for the tax more effectively is like pointing out that a football side reduced to eight players would have won the game regardless, had the remaining players included Lionel Messi and Christiano Ronaldo. The claims of government incompetence are not necessarily incorrect, but do not present the whole story.

The importance for me in wading into what quickly becomes a meta-theoretical debate about structure and agency between the above commentators is that when we introduce the dynamics of trust to Lindblom's theory, there are potentially serious consequences to overemphasizing the agency that government actors have in their conflicts with business: it is likely to create the impression of greater incompetence on behalf of government actors than really exists. If this view proliferates, it can be expected to lead to greater mistrust in the institution of government via the competence channel of trust, which, ironically, is likely to further constrain government actors' abilities to stand up to business demands. While this spiral of disaffection might be a predictable dynamic from the political commentary that appears in popular media, academics should be a force against overly simplistic narratives.

4 The case of the Australian mining tax

The case study that the debate between Bell and Hindmoor and Marsh, Lewis and Chester centers on is the watering down of a proposed super-profits tax on

31 Marsh, Lewis, and Chester (2014).

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resources by the Australian Government in June 2010. In this Section I will criticize their respective accounts and provide my own. My analysis does not deny the central claims made by either of the existing accounts, but adds three points of context to the tax concessions that have not thus far been given adequate weight. They are: Prime Minister Gillard came to hold her office in a way that was considered improper by much of the electorate, albeit not technically illegitimate. Second, she entered her prime ministership at a time when the Global Financial Crisis was wreaking havoc on the government's budget, undermining much of the momentum for the policy initiatives from Labor's original mandate. Finally, she came to office in the middle of a "trust deficit" that had afflicted government and other institutions in Western states since the early 2000s, and which reached its lowest point between late 2009 and late 2010. Australia was not immune to this trend. The existing analyses insist on foregrounding the agency of Gillard and her ministers, and as a result underplay these factors and underestimate the costs that a bloody, drawn out conflict with the mining industry would have wreaked on the Government. The lesson we should draw from the mining tax debacle is that special advantages fell to the mining companies almost exactly as Lindblom would have predicted. Adding a focus on public trust to the analysis only adds depth to this conclusion.

In June 2010, after deposing the sitting first term prime minister, Kevin Rudd, Julia Gillard resolved to do whatever it took to remove the "mining tax" from the political agenda as it had become toxic.[32] In the face of a television advertising campaign paid for by a small number of very large mining companies, Gillard made a deal with the miners to significantly water down the new tax. In comparison with the originally proposed Resource Super Profits Tax (RSPT), the Minerals Resource Rent Tax (MRRT) reduced the tax from 40% to 30%; lifted the tax-free threshold to the long-term bond rate plus 7%; and reduced the number of companies on which the tax was expected to fall from 2500 to 320.[33] While made for political reason, the decision by Prime Minister Gillard was not necessarily populist: given that the original RSPT enjoyed support both from the electorate and from a number of vocal interest groups, most notably several major workers' unions,[34] and consistently met the approval of more than 50% of respondents in polling. Given this oddity, apart from the change of Prime Minister from Rudd to Gillard, the government ministers responsible for the policy did not change, and sudden and extreme changes made to the policy before the final MRRT was

32 Maiden (15 March, 2011); Brisbane Times (6 February, 2012); Ferguson (2015).
33 Marsh, Lewis, and Chester (2014: p. 5).
34 Coorey (May 7, 2010).

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settled, appear to indicate that the case is a good example of Lindblom's claims about the special privileges of business in affecting public policy.

The ways the conflict played out that are anticipated by Lindblom's theory are as follows. First, executives of key mining companies were heavily consulted by the government in developing the policy change. The Government was widely criticized for not including more firms in the consultations,[35] but the essential point that high-level access to decision-makers was present is not contested.[36] In fact, following the public deal being struck on 2 July 2010, the working party that continued to negotiate in the months following and which made a number of further significant concessions to the tax's form, was headed, alongside a government minister, by Don Argus, the former BHP chairman, in what was known as the "Argus Committee".[37] In a curious subversion of Culpepper's claim that business' leverage over government can be expected to fall when a conflict is taken to a public setting,[38] in the case of the mining tax, it is clear that Gillard's aim was to move the issue from the "noisy" realm of public debate to one of "quiet" consultation, and that she was willing to make huge concessions in order to do this. The miners' power in the conflict though June 2010 rested on a threat to keep the issue on the political agenda indefinitely.

Second, in the public debate over the introduction of the tax, which lasted through May and June 2010, the miners argued that an increase in taxation leveled on the mining industry would be to the detriment of the Australian economy as a whole. In Lindblom's terms, the miners argued that the interests of business were synonymous with the interests of society, and drew on heavily embedded discourses, like the idea that more tax was a disincentive to investment. These lines were countered by the Labor Government who argued that the tax changes taken as a whole could be expected to provide a number of benefits to the economy as a whole, and not harm investment in the mining industry specifically. First, it was argued that the changes would raise net investment in the economy via a related set of business tax cuts, including a reduction of the corporate tax rate from 30% to 28%. Second, it could be expected to increase investment and jobs in the mining sector, as a third of the revenues were to be earmarked for infrastructure investment there. Third, a rebate from the federal government was offered that would cover any state government-levied royalties.[39] These arguments found little traction.

35 Marsh, Lewis, and Chester (2014, p. 19).
36 See Uren (2010) for a summary of the extent of consultation.
37 Maiden (15 March, 2011).
38 Culpepper (2011).
39 Hewett (2010).

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There are a number of hypotheses concerning why the Government's arguments were ineffective at this stage of the conflict. Then-Finance Minister Lindsay Tanner has claimed that the complexity and technicality of the government's argument contrasted poorly with the simplicity of the miners' argument.[40] It has also been suggested that the miners were able to use the context of the GFC effectively by pointing out that it made no sense to overtax the sector that had sheltered the Australian economy from the ravages of global financial turmoil, and had the capacity to continue to do so.[41] These are not mutually exclusive explanations, and both accord comfortably with advantages that Lindblom claimed would tend to fall in to business actors in political conflicts: first, that business tends to be defending the status quo arrangement of the core agreement between business and government, and as a result tends to be able to take a simpler line of argument than the change-seeking government. Second, the miners were able to use several divergent lines of argument that all lead to the happy conclusion that the increase in tax was not a good thing: that it was a complex tax change, that change in a time of economic uncertainty was dangerous, and that the tax increase would hurt interests wider than workers and owners in the mining industry.

4.1 Trust and Australian mining tax

Bell and Hindmoor's position retains the central dynamic of the structural power of business, but emphasizes the roll of the beliefs held by key government ministers in mediating the power of the miners. They argue that while it is unlikely that Labor ministers were convinced any serious risk of capital flight existed, mining companies were able to convince voters that the health of the mining sector was crucial to the health of the Australian economy, and that in the context of a continuing GFC, it made no sense to threaten the sector that had saved Australia from a recession. Bell and Hindmoor acknowledge that the mining industry was assisted by the weak electoral position of the Rudd Government with an election upcoming as well as the Labor Party's leadership election rules, but they maintain that the crucial factor was that Labor politicians were surprised by the lack of support for the MRRT from the Australian electorate. As a result, "… Kevin Rudd was deposed by a Parliamentary Caucus who believed that the Prime Minister had lost his way and that the RSPT was an electoral liability."[42] Marsh, Lewis and

40 Labor Finance Minister Lindsay Tanner in an interview with Bell and Hindmoor (2013: p. 12).
41 Franklin (26 April, 2010).
42 Bell and Hindmoor (2013: p. 11).

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Chester, criticizing Bell and Hindmoor, suggest that the government lost support from the electorate largely as a result of losing credibility due to ineptness. They claim the Government under Prime Minister Rudd failed to consult mining companies effectively, breached the faith of miners by publishing budget revenue estimates including revenue from the tax before the tax was announced, and exaggerated the extent of increasing profits to the mining industry.

My contribution does not refute the empirical claims of either account. Rather, I refocus the question on to the structural and contextual factors that made the government's task more difficult. First, in a slight correction to Bell and Hindmoor's treatment of the polling data approving or disapproving the introduction of the tax, there was consistently more support among voters for the tax than opposition to it, and that total support for the tax change outnumbered opposition and "don't know" responses combined.[43] Where Bell and Hindmoor interpret the polling as indicating that miners were able to produce more popular resistance to the tax than the Labor politicians expected, in light of Lindblom's dynamics of political argument, it seems more likely that the significance of the polling was that public opinion on the mining tax was consistently split.[44] The "revelation" to the Government (and the mining companies) was not that the Australian people did not support the tax, but that a conflict over it would be protracted and divisive. In short, for "success" the miners needed only to establish the existence of division, which is rarely a difficult political task, and to ensure that the issue remained on the political agenda.

In addition to this point regarding the smaller political task of the miners relative to the Government, a number of contextual factors are not given sufficient weight in the existing accounts. First, and to state the obvious, the conflict occurred in a highly uncertain economic environment. While Australia had largely been sheltered from the worst of the Global Financial Crisis by continued strong exports to China, as well as a swift and sizable fiscal and monetary stimulus domestically, the Australian electorate was aware of a heightened need for competent economic governance. The policy agenda that the Government had brought into office had been sidelined by the need to focus on the stimulus delivery, which was a large and technical task. This was exacerbated by a rapid deterioration of the budget as revenues slowed and as a necessary corollary of the fiscal stimulus. Despite – or possibly due to – having avoided the worst of the crisis relative to other developed countries, in conjunction with the appearance of an effective Opposition, the Australian electorate was responsive to the

43 See Marsh, Lewis, and Chester (2014: pp. 14–15) for details.

44 Marsh, Lewis, and Chester (2014: p. 14).

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argument that the budget's deterioration and continued projected fiscal deficits for years into the future amounted to incompetent economic management by the Labor Government. While there is data to support this claim in polling, the more relevant evidence for it is that the Gillard Government believed even in June 2010 that the electorate was open to such an argument, and consented to the election campaign in August 2010 and the entire subsequent term of office being largely defined by "deficit politics", where both sides competed to promise an end to fiscal deficits. The need to defend the Government's economic credentials raised the prospective costs of a conflict introducing a new tax.

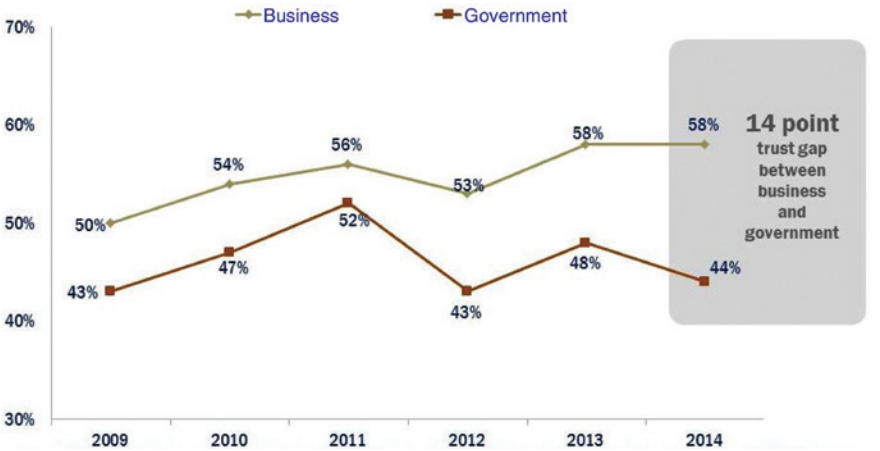
Secondly, there was a perception that the electorate's trust in the government was at a particularly low level. The sitting Prime Minister, Kevin Rudd, had been deposed on the basis of internal polling and the momentum of a number of back-bencher members and senators, who predominantly occupied marginal seats. It is reasonable to imagine that ministers' perceptions of Labor's capacity to galvanize support for a new signature policy in June 2010 was low.

In addition to this, there was evidence that the Australian electorate had not accepted Gillard as their new Prime Minister, did not understand or accept the reason for the removal of her predecessor, and consequently did not believe Gillard to have taken the leadership legitimately. While this could be overstated – Gillard has recently revealed[45] that she had not anticipated the backlash that accompanied her "midnight coup" and which dogged her entire 3 years as leader.[46] However, given the consistency of these polling themes throughout Gillard's leadership, it is easy to believe that internal polling would already have produced the descriptions of Gillard as untrustworthy, linked with her "knifing" of Rudd and the fact that she was a woman.[47] The decision to take the leadership was certainly the result of a choice made by Gillard, and public mistrust for her on this basis is not "structural" in itself. The larger point though is that business leaders do not have to justify their occupation or acquisitions of positions of power, at least not in a comparable way to government office-holders. While Gillard struggled immediately to communicate with the electorate, this point should not come at the expense of recognizing the headwinds that Gillard faced from her first day in office: the government she led was mistrusted on the basis of competency, and she was personally distrusted on the basis of a breach of good behavior.

Finally, even beyond the loss of faith suffered by the Administration led by Julia Gillard (on top of the losses suffered under Rudd), there is reason to believe

45 Ferguson (2015).
46 Newspoll/The Australian (2013).
47 Ferguson (2015).

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Graph 1: Global trust in business and government 2009–2014; Edelman Berland (2014a: p. 1); annotation in original.

that public trust in government and business as general institutions were at low levels, historically speaking, through 2010. The Edelman Trust Barometer reports from the years 2001 to 2014 produce a narrative of two distinct general trust deficits – moments when trust in government and business are low together – appearing consistently across Western liberal states over the period.[48] The first was in the middle of the 2000s and the second in the years during and after the GFC. Following a fall in citizens' trust in "big business" after the dot-com bubble and the Enron scandal, there was a period of steadily increasing trust in business until 2008, after which a sharp fall and a second period of rebuilding through to 2011 occurred.[49] In a historical anomaly for the period in which surveys have been taken, business became more trusted than government in 2007,[50] and this has remained the case until the present, as seen in Graph 1. On the other side of the equation, trust in government fell after 2003, then grew slowly over the 5 years to 2008. It then fell to a historic low of 43 percent in 2009 as the GFC hit, and then again in 2012, presumably in response to widespread disappointment in the effectiveness of responses to the Global Financial Crisis.

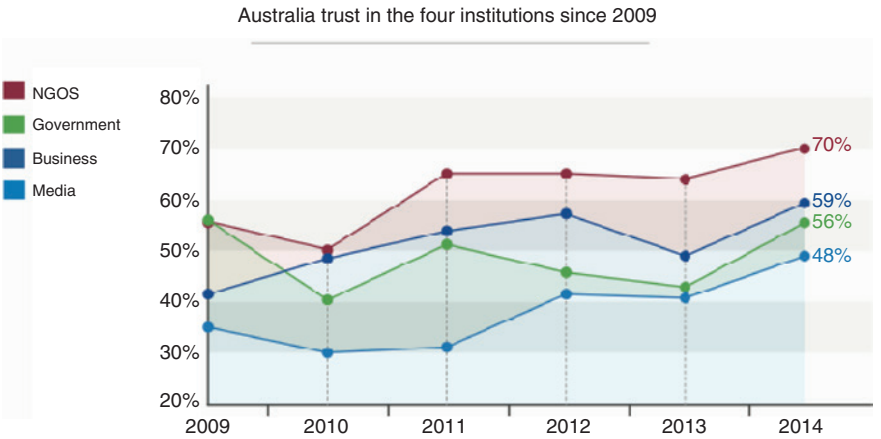
Regarding Australia specifically, trust in business fell in the 2009 Edelman survey to a level significantly below that of trust in government, unlike the

48 There are many problems with the empirical data sets on public trust that currently exist. For my comment on these, see endnote.

49 Edelman Berland (2007: p. 4; 2009: p. 11; 2014a: p. 1).

50 Edelman Berland (2009: p. 3).

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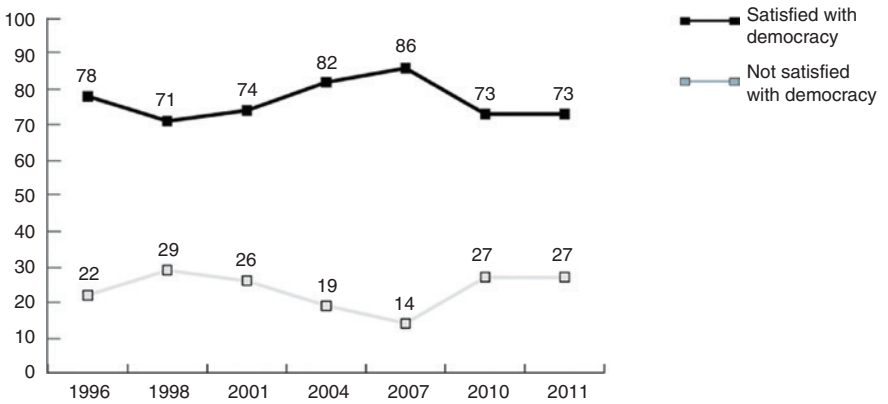
Graph 2: Trust in Institutions: 2009–2014; Edelman Berland (2014b: p. 5).

results either globally or in the major Western states that year. This can be seen in Graph 2. Then, in keeping with the global results, there was a relatively swift period of recovery until 2013 before a second fall. Trust in government in Australia suffered the post-GFC fall in the 2010 survey, consistent with the fall experienced in the 2009 survey by most developed nations, but occurring a year later.[51]

At the time of Prime Minister Gillard's deposition at the hands of Kevin Rudd in June 2013, the Edelman Trust Barometer recorded that an incredibly low percentage of Australian survey respondents trusted government leaders to solve social or societal issues (7 percent), correct issues within industries that are experiencing problems (10 percent), make ethical and moral decisions (7 percent) and tell the truth, regardless of how complex or unpopular it is (7 percent).[52] The 2011 ANUpoll on Government Services reiterates these findings. While satisfaction with democracy in Australia in 2010 and 2011 remained high by international standards, it was "lower in 2010 and 2011 than in the earlier part of the decade."[53] The 2011 ANUpoll report attributed the fall in satisfaction with democracy to "concerns about the quality of government", noting that the proportion of respondents "… mentioning "better government" as the main problem facing Australia doubled since the previous poll", from 9 to 18 percent.[54] The option of "better government"

51 It is possible that the fall in trust occurred at the same time, but was not recorded until the 2010 survey.
52 Harrington (2013).
53 McAllister (2011: p. 5); see Graph 3.
54 McAllister (2011: p. 5 and p. 21).

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On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in Australia?

Sources AES 1996–2010; ANUpoll on Government Services, 2011

Graph 3: Satisfaction with democracy in Australia, McAllister (2011: p. 7).

was one of thirty-one possible responses, including residuals, and was second only to "Economy/Jobs", which accounted for 22 percent of responses.[55]

The public mistrust that raised the costs to the Gillard Government of entering a drawn out dispute with Australian mining companies should be understood as part of a larger story of a general trust deficit in Western institutions that began around 2003. While some mistrust can be attributed to the actions of the Rudd Government, the idea that it was incompetent to a degree that would justify the survey data outlined here is not tenable, and the fact that the trust trends in Australia correlate highly with those in similar Western advanced states should not be treated as coincidental. Trust is structural first in the sense of having different effects on business and government power, and second structural in the sense of being shaped by forces not meaningfully subsumable to government and business actors' agencies. While recognizing that Labor's introduction of the mining tax could be more effective and that the beliefs of voters are always mediated by

55 These figures are backed by the Australian Constitutional Value Surveys 2008, 2010, 2012 and 2014, which chart long-term falls in positive responses to the questions 'how well do you think democracy works in Australia today' (Brown 2014: p. 3) and 'how would you rate the performance of the federal level of government?' over the period 2008 to 2014 (Brown 2014: p. 7); There is weak corroboration of these trends in the World Values Surveys for Australia in the responses to questions dealing with confidence in 'the government,' 'parliament' and 'the political parties'. These are taken every five years however, and the curves produced, while being compatible with the narratives of the other three sets of data, are not sufficiently frequent to contribute much strength to the claims.

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politicians who in the final account always possess agency, these points should not be at the expense of an appreciation of the real constraints and disadvantages faced by government relative to business. Many of the constraints outlined by Lindblom appeared exactly as per his theory in the case of the Australian mining tax, and several more constraints come to light when we consider the role of trust dynamics to the structural power of business generally, and the case of the mining tax particularly.

5 Conclusion

My aim in this paper has been to insert a role for public trust in the theory of business power. Trust, thought of as a political resource, is highly consonant with Lindblom's central claim that business has special privileges in the shaping of public policy that do not appear for other interest groups. These are exemplified when examining the power relationship that Lindblom called the "core" relationship in society: that of government and business. Business is less likely than government to suffer sharp falls in trust as it is expected to complete less difficult tasks, is not subject to constant public scrutiny, and is not held up to the same expectations regarding ethical behavior that government actors are. Business can be expected to regain trust more quickly than government after a fall, as it is imagined as a less unitary institution, and failure is imagined as a standard feature of its operations. A fall in trust is likely to diminish business' political resources less than an equivalent fall in trust for government, as business relies less on public trust for its political power, when we are examining questions of influence over public policy. These advantages are structural, not in the sense that they shape conflicts in a deterministic way, or that governments are never able to resist business' demands, but in the sense that the political resources and constraints on actors are affected by the places they hold in society.

Endnote: It is very difficult to measure trust empircally. The data drawn on in the final section is from the annual Edelman Trust Barometer surveys, the Australian Constitutional Values surveys, and the Australian National University's 2011 Attitudes to Government and Government Surveys (the ANUpoll). It is based on responses to questions such as "Overall, how much trust and confidence do you have in each of the following levels of government to do a good job in carrying out its responsibilities?" from the Australian Constitutional Value surveys or "[b]elow is a list of institutions. For each one, please indicate how much you trust that institution to do what is right using a 9-point scale where one means that you

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"do not trust them at all" and nine means that you "trust them a great deal"" from the Edelmann Trust Barometer surveys. It is not clear if respondents are answering on the basis of their assessments of the actors who happen to be in positions of power in these institutions at the time of questioning or their perceptions of the more lasting characteristics of the institutions, such as cultural characteristics. It is also not clear which of the four trust types outlined in section one their responses refer to – trust as keeping a good faith principle-agent relationship, trust as capacity, trust as predictability or trust as meeting normative expectations. While both use a narrowing phrase, neither question above contains the specificity needed to differentiate between these trust types. Finally, in the case of more diffuse "institutions" like "the media" or "big business", it is not clear which specific media organizations or companies are informing the respondents' opinions. This means, for example, that while a respondent's trust in "media" might be low, it is possible that they might nonetheless continue to hold strong faith in the accuracy of information provided by their favored newspaper or t.v. channel. In addition to this, There are methodological problems with the population samples used to produce the data for the Edelman reports. The surveys generally only involve 1000–1300 people per state and for many of the data years the only respondents are "informed opinion leaders", meaning that they are university-educated, have incomes in the top quartile for their age, read or watch business/news media at least several times per week, and follow public policy issues several times per week.

I have two justifications for using the data nonetheless. First, the theoretical claims I am using them to defend are at a very general level. The first is that levels of trust in different societal institutions – government, big business, banks, media, and NGOs – change over time and therefore cannot be "read off" the structural positions that they hold in society. The second is that these changes are affected by forces larger than the actions of the leaders of these institutions, and are therefore to some extent outside of their control. Falls in trust for an institution can linger from one administration to the next, be imported between the same institution in different states, or have knock on effects for other institutions in the same state. Taken together, these two claims suggest that trust may be a variable worth including when trying to explain variations in the outcomes of government-business conflicts.

The justification for using the data to support my empirical claims is simply that the five sources used – the Edelman Trust Barometer reports, The 2013 OECD report on Trust in Government, the World Value Surveys, and the Australian National University's 2011 Attitudes to Government and Government Surveys (the ANUpoll), and the Australian Constitutional Value Surveys – all indicate trends in line with each other. I have deliberately kept my empirical claims to a

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bare minimum – essentially that trust in business and government were both at low ebbs, historically speaking, at the time of the mining tax conflict. Given the context of the economic and electoral cycles, this is not an enormously surprising result. While the situation of these trust ebbs within a larger cycle stretching back to 2003 is interesting, it is not a vital component of my argument.

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