1. Introduction

This book was written at a time of heightened concern about the global economy, global warming and, within Australia at least, how to deal with devastating bushfires in Victoria and floods in Queensland. Fran Bailey, a local Australian Federal politician was the latest to repeat the well-worn phrase ‘such devastation must never happen again’ in response to the fires that swept though Marysville, a regional town in her electorate where 34 residents lost their lives. These events were just the latest examples of successive crises that motivate governments and communities to want to learn from their current suffering so that future harm can be avoided. In each arena, the frenzy of policymaking begins. At the centre of many such initiatives is the drive to regulate and control the capricious risk and create an environment where lives, communities, environments or finances are safe (Braithwaite and Drahos 2000; Hancher and Moran 1998). Such regulatory responses are diverse: from strengthened building regulations to provide protection from the expected increased intensity of bushfires to a cap on executive salaries to ensure the pain of recession is shared more evenly. What these responses have in common, however, is the goal of avoiding, or at least reducing, the risk of future harm.

I would argue that much can be learnt about regulation from studying the crises of the recent past. It is here that the problems and possibilities of a regulatory solution to the risk problem become clear. It is then possible, when emotions are less intense, to ask why certain paths were chosen and not others, to determine, in light of the challenges of implementation, what the regulatory approaches devised actually accomplished and whether the reform momentum was sustained.

To understand the strengths and limitations of regulation requires more than a close-grained analysis of a recent disaster and identification of what rules, if implemented could prevent a recurrence of tragedy. I argue the urge to regulate must be placed alongside perennial demands that we are over-regulated. In the lull between disasters, prominent debates revolve around how contemporary societies are being swamped by the proliferation of regulations that threaten individual liberties, dampen entrepreneurial zest and blunt our competitive edge. This demand for more and more protection is an indication, we are told, of how risk averse we are becoming and how the ‘nanny state’ has
been revived in the guise of the regulatory state and the regulatory enforcement officer.

It is this paradox of regulation, namely the presence of conflicting imperatives that is important to understand. Significant benefit can be gained from exploring what these seemingly inconsistent demands can tell us about the shape of our society. This is a study that teases apart the underlying pressures and needs that result in governments espousing in one moment ‘this must never happen again’ and in the next bemoaning the complexity of laws and regulations that seek to control risk. In doing so, the reality of regulation as at once a technical, political and social project comes to the fore. As such a project, the problems and possibilities of avoiding harm and controlling future risk through regulation become clearer.

The analysis in this book suggests that a lack of effective regulatory techniques may rarely form the central weakness of a regulatory risk reduction strategy. Rather, the analysis here suggests the limited effectiveness of regulation is caused by two different factors. First, regulation as the quintessential instrumental form of policymaking is both politically and technically attractive, but can be thwarted when the risk to be reduced is not amenable to narrow, targeted interventions. Nonetheless, regulation may remain popular as it allows claims that progress has been made and that, this time, the lessons from tragedy have been learnt. Secondly, the analysis here suggests that even when regulation can be effective in avoiding catastrophe it needs sufficient political support to ensure its implementation; but not overweening political intervention that prevents the regulator framing the regime in the optimal direction.

Three separate disasters form the bedrock of the analysis. The first, an industrial explosion at the Longford Gas Plant in Gippsland, Victoria, took the lives of two people and cut gas supplies to the State for two weeks in 1998. Such an event was devastating to the families of those who died, costly for the local businesses across the state that suffered a loss of gas supply and an inconvenience to those Victorians forced to shower in cold water or wait in queues for kindly hotel operators to allow them to use their facilities. The second, the terrorist attacks of 11 September 2001, in the United States of America, was as global in its impact as Longford was parochial. The final catastrophe was the collapse of HIH Insurance, to date the largest financial collapse in Australia; a corporate demise resulting in losses totalling some $3 billion AUD. In each case, the changes to regulation within Australia were of primary concern.

These particular disasters give life to the analysis of the paradox of regulation. Essentially, this is a book about regulation and risk. It traces the impact of political pronouncements of ‘Never again!’ that resonated in the wake of these three disparate events. In each case, these injunctions were followed by
regulatory reform. In the case of Longford this resulted in a ground up reworking of what it meant to control catastrophic risk of explosion and fire, but only in the state most closely affected. Following September 11 the regulatory demands placed on sea and airports poured forth from government in the wake of the event, creating a new breed of regulators drawn from the military, rather than industry or the professions, and a level of surveillance in some locations (but not other equally vulnerable sites) that would astonish George Orwell himself. The collapse of HIH occurred during a maelstrom of reform already occurring in the financial industry. Financial regulatory agencies were tentatively reshaping at the behest of the Australian Commonwealth Government to bring their activities in line with contemporary ideas of risk-based regulation, a regime argued to both increase the efficiency and effectiveness of financial regulation. The severity of the impact of the collapse of HIH, however, pointed to weaknesses in risk control and sent shockwaves through the two regulators most closely affected, the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA).

I argue throughout this book that regulation embodies the promise of modernity. It creates the vision of technical mastery over threats (whether from technology, terrorists or financial mismanagement). It offers hope of learning from the past to control the hazards of the future. This technical project is both optimistic and seductive. It has led to an explosion of didactic literature that bristles with opportunity. Human agency will prevail; we can be fruitful, multiply and subdue (the threats of) the earth.

Regulation as a modernist project, then, involves the development of processes and styles of enforcement that are argued to ensure greater and greater levels of compliance that will minimise a risk, or avoid a specified harm. Indeed, there are regulatory successes that can be identified and promoted. Yet, regulation often appears as not only the solution, but also the problem. Chapter 2 explores the literature on regulation, teasing apart the technical, social and political elements that comprise this literature. It is a literature that encompasses not only the reform impetus and the techniques considered appropriate to deal with risk but also the nature of the compliance challenge on the ground. The first part of the chapter explores the literature around reform and technique (exploring the ideas of responsive regulation and meta-regulation for example) and then goes on to explore literature on compliance and the problems of the ‘law/practice’ gap. Through the analysis of regulation the instrumental character of regulation and its political core is revealed.

Chapter 3 explores the ways in which the study of risk as a ‘knowable harm’ has developed. As many regulatory reform manuals attest, the first challenge of reform is to define the problem, the risk or the harm. It is this instrumental orientation that forms an essential element to regulation (Black 2002). But, while regulation provides the means to achieve a given end, it remains
silent on what ends are most important or able to be reached through a regulatory strategy. A natural complement to the regulatory literature is that on risk and in particular literature that endeavours to identify the specific nature of the harm, its impact and likelihood of occurrence, and specific methods that will reduce that risk. Analyses of risk often are accompanied by an assessment of which threats need greatest attention. Technical understandings of risk provide a logical complement to regulatory control. This form of risk is defined in the book as ‘actuarial risk’. By actuarial risk, I mean the physical, environmental and financial impact that is highlighted by the event and calculated as likely to occur in the future. This form of risk is often developed and defined by scientists, engineers, economists and actuaries who develop models of the likelihood and impact of a given hazard being realised.

Clearly, many contest the assumptions that underlie both the regulatory and the risk management project centred on an actuarial understanding of risk. The subsequent sections of Chapter 3 work through the critiques of an actuarial understanding of risk. In working through this literature, I argue that it is unhelpful to understand risk as an essentially singular construct. Rather, three distinct ideal-types of risk affect the regulatory challenge: one actuarial, the second socio-cultural and the third political. The concept of socio-cultural risk is developed through the insights of Durkheim (1964) and Mary Douglas (1992) and their ideas of how risk is centred on concerns with social order. The idea of political risk is developed from the work of Habermas (Borradori 2003; Habermas 1979; 1989a; 1989b; 1989c; 1996) and is comprised of the dual threat to political legitimacy that arises either from a government’s inability either to manage the economy in a manner that provides the necessary resources for government, or from an incapacity to reassure the population about their own security and doubts about the capacity of government to provide such security. The lesson from this chapter is that regulation may well be asked to reduce three distinct risk challenges.

Chapter 4 describes the three events that set in train regulatory reforms within Australia. The purpose here is to draw on both primary and secondary sources to provide an insight into the significance of each event. The aim of this chapter is to analyse how the physical and financial crises laid bare through each disaster were interpreted. These interpretations encompassed the underlying physical and technical causes of each disaster, as well as the significance placed on each event by the public and media of the time and by the political elite. Each of the disasters had a distinct actuarial, socio-cultural and political profile that framed what regulatory response was desirable and against what particular form of risk it should be primarily directed. The lessons here were clear, actuarial assessments of cause needed to be set alongside economic and political constraints and opportunities that resulted from each disaster.
Chapter 5 assesses the regulatory reforms that emanated from the three events. This chapter reveals how regulatory reform was propelled by the crisis event, but then modified and attenuated by the location of the event, whether it was embedded within what were seen as essential industries and what reforms were considered necessary to reassure the citizenry that their security needs were paramount. In contrast to much of the regulatory literature that assumes considerable agency on behalf of the regulator to choose a response that could address the actuarial risk raised by the disaster, this analysis demonstrates the limits to the regulator’s authority. Each of the three ideal types of risk: actuarial, socio-cultural and political moulded and shaped the regulatory response to disaster. Understanding the interplay between them provides insights into what productive role regulation can play in the contemporary era, and what it cannot.

As much socio-legal literature has emphasised, however, the gap between the reforms and what actually happens on the ground, in terms of actual compliance, can be considerable. Three chapters (6, 7 and 8) are devoted to assessing the impact of the regulatory reforms, described in Chapter 5, through research on the way hazardous industrial sites, air and seaports responded to their new regulatory responsibilities. These chapters reveal two critical elements to these responses: firstly, that the kind of actuarial risk to be reduced does make a difference in terms of the capacity of regulation to reduce the risk of future disaster and secondly, that support for the regime was important not only for developing an effective regulatory regime, but also how seriously it was adhered to by regulated sites. Where the actuarial risk severely challenged the capacity of regulation to reduce such risk (because of the agency of the perpetrator of the harm), there was a need to develop a narrative around how the next incident may occur, and what the causal influences could be, to ‘tame’ the response and the compliance challenge. In these chapters it became clear that the task of reducing the risk of a future industrial disaster was more amenable to a regulatory approach than the tasks of reducing the risk of a terrorist attack or financial collapse. This potential was best realised when there was effective and knowledgeable leadership that took seriously a collaborative approach to risk reduction. In contrast, the security regime that followed 11 September 2001 faced major challenges since security and surveillance could always be seen as insufficient when faced by a determined protagonist. Finally, the response to financial reforms post-HIH pointed to the essential ambiguity in an actuarial assessment of financial risk. Such ambiguity was on the one hand seen as a desirable condition that encouraged the necessary flexibility needed within a financial system and that nurtured the entrepreneurial spirit. Yet, on the other hand ambiguity was the problem, a condition to be dispelled through greater transparency and accountability. In the face of this ambiguity, the financial reforms were vulnerable to creative
compliance and regulatory arbitrage and also viewed by some as clumsy demands that generated poor financial outcomes.

Chapter 9 concludes by bringing together the analysis of the literature together with the insights of the empirical research. This chapter argues that regulation has considerable strengths in reducing the risk of future harm. At best, it can tame actuarial risk and generate confidence in the regulator while also creating a positive dynamic where a ‘race to the top’ in risk reduction occurs. But the environment where it is most successful is perhaps rarer than we had imagined. To be successful, regulation must embrace actuarial, socio-cultural and political risk reduction through a common regulatory project. Critically, improving risk reduction outcomes involves more than just sweeping to one side the socio-cultural and political risk concerns that were so clearly important in shaping the effectiveness of the regulatory reforms that followed each of these events. Socio-cultural concerns about community and individual vulnerability are, as sociologists would argue, intrinsic to assessments of risk and demands for security. They are substantive and significant. Socio-culturally based fears often lie behind the perennial demand for a strong command and control regulatory response from government. Governments in contemporary society need to take these security concerns seriously.

Hence, scholars promoting governance approaches to risk reduction will need to continue to take government seriously. Regulatory reform is perennially attractive to contemporary governments as they demonstrate their sincerity in providing a sufficient response to tragedy and future threat, but it is a response heavily shaped by an equally pressing demand for them to release the chains around the creativity of the market. Yet, regulation may fail in its promoted aim of increasing safety, security or financial integrity, particularly where the actuarial risk is difficult to encompass within a regulatory framework. The lessons within this book suggest that the regulatory response to disaster is unlikely to carry the full weight of prevention of future tragedy, a load it is often asked to bear. Rather, it must sit alongside commensurate efforts to ensure skilled and knowledgeable actors are available to work in areas of high risk and to ensure that entrepreneurial zest leads to public benefit. Strategies to engender political legitimacy should not be allowed to result in divisive social policies that rest on unrealistic regulatory goals. Neither should we accept that a ‘free’ market tethered only by specific (but numerous) constraints will, almost magically, generate the future we need.