THE FINANCIAL SYSTEM INQUIRY *Introduction by the Guest Editor*

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In this Special Section of JASSA on the Financial System Inquiry, five members of the Australia–New Zealand Shadow Financial Regulatory Committee (ANZSFRC) offer their independent critiques of the assessment and recommendations in the recently completed Financial System Inquiry (FSI) in Australia. The ANZSFRC has not, as yet, produced a joint statement on the inquiry. Since Kevin Davis SF Fin, the Managing Editor of this journal, was both one of the five panel members of the FSI Committee and still is co-chairman of the ANZSFRC, these papers have been produced independently.

Australia is unusual in that it has conducted three such inquiries in the past 35 years. This reflects a rare willingness to conduct fundamental public reviews of a country's financial system. It is not that Australia has obviously had more problems than everybody else. Indeed, as a result of these fundamental reviews it is likely that Australia's problems are somewhat less pronounced than in other countries, as changes usually follow perceived problems where the outcomes have been unwelcome. Remarks about stable doors and bolted horses spring to mind. It is rare indeed to consider possible problems and make changes in advance of difficulties. Regulatory change tends to be an exercise in avoiding the problems of the past. In this case, the objective as set out in the Terms of Reference was clearly forward-looking:

> The inquiry is charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth. (Final Report, p. vii)

The Terms of Reference are comprehensive, covering more than two pages of the report with eight headings and fourteen subheadings.

The five contributions in this special section clearly indicate that the authors all welcome the findings of the inquiry and are generally supportive of its conclusions. However, in part, this is a reflection of the perception that following the global financial crisis (GFC) Australia does not have striking problems in financial regulation that are not already being addressed.

The five contributions follow the order of the main five chapters in the Final Report of the inquiry: resilience (David Mayes F Fin); superannuation and retirement incomes (Rafal Chomik and John Piggott); innovation (Deborah Ralston SF Fin); consumer outcomes (Andrew Worthington F Fin); and regulatory system (Rodney Maddock). There is neither room nor need to repeat the summary of each of them here as it is to be found both on the contents page and at the start of each contribution. The first 31 pages of the Final Report present an overview, following an executive summary. These suggest that the five chapters respond to the main problems that the inquiry has identified as a result of weaknesses in the Australian financial system (p. xiii) stemming from:

> taxation and regulatory settings distorting the flow of funding to the real economy

> susceptibility to financial shocks

> superannuation not delivering retirement incomes efficiently

> prevalent unfair consumer outcomes

> policy settings that do not focus on the benefits of competition and innovation.

To an outsider from across the Tasman, the inquiry is not very outward-looking. Are there features to the Australian financial system which make it different from the rest of the developed world? Are there aspects of good regulation and efforts to foster an environment for change and growth that exist elsewhere that are not (yet) adopted in Australia? To pick two examples from my own chapter: it is not clear to me that the balance between funding from the four major banks and other sources is necessarily optimal for growth, innovation and the absorbance of shocks. In addition, the GFC has emphasised the importance of contagion across borders and the importance of close cooperation and even joint institutions in the case of Europe. Yet the Report does not consider New Zealand, which although small could still cause significant problems for Australia — and indeed vice versa.

One might also quibble that the extent to which continuing revelations of problems with the culture and ethics of financial institutions and markets have been underrated. However, the complaints about what the inquiry has not done and what the recommendations should say are second-order concerns compared to the support for what the inquiry has done. That is a very considerable vote of confidence.