

Let's not go backwards for the sake of ideology



PETER COSTELLO

In terms of policy, this year started much better than last. Back then, Kevin Rudd published a treatise on the failure of the financial system and what had to be done about it. He said human history was at a turning point: "The international challenge for social democrats is to save capitalism from itself."

The crisis was "the culmination of a 30-year domination of economic policy by a free market ideology that has been variously called neo-liberalism, economic liberalism... or the Washington consensus". You can't be much clearer than that. And it looked like grand plans were afoot for financial regulation.

This year began with the Government releasing a report on proposals to build Australia as a financial centre. The report defined its vision as: "A financial sector which is open, competitive and underpinned by strong stable and sound institutions. It exhibits the lowest possible barriers to entry... so as to foster price competition and innovation." As a statement of neo-liberalism, economic liberalism, the Washington consensus or whatever, it could not have been more pure.

It is obvious the writers of this report have not read what the Prime Minister wrote last year on "the global financial crisis". As punishment, they should be made to read the entire thing between now and next Christmas.

This year's report thinks that if we have a problem with financial regulation, it is in a very different direction. It recommends periodic reviews to

ensure we do not build up "excessive and unnecessary regulatory rules". It wants consultation with industry to ensure regulatory proposals "impose as small a compliance burden on industry as possible".

The Government welcomed the report. Last year, there wasn't enough regulation. Apparently, this year there might be too much. Whatever the problem, it was obviously caused by the failure of the Coalition government over the previous decade. Either it under-regulated or it is over-regulated. Take your pick and hold me responsible.

You can guess that I prefer this year's report. It was written by people who understand the financial system. It rightly notes that Australia has a great opportunity to market itself and attract more investment in financial services.

It says: "Our financial sector ranks highly in international surveys on many of the key requirements for a successful financial centre. These include a highly skilled workforce and a first-class regulatory framework that has served us well through the global financial crisis."

The big Australian banks are all A-rated. They needed no nationalisation and no taxpayer support like banks in the US and Britain. None of the Australian banks even made a loss in the past two years. No regulatory system performed better than Australia's during the past two years. And the world has noticed.

Which makes it so surprising that Rudd chose the moment of Australia's great triumph to deliver his stinging

critique of the system. In commenting about this then I said: "We can live with his polemic as long as we all understand that no one seriously believes it, and further, that no one seriously intends to act on it. It can be used to assuage a section of opinion that Rudd feels the need to cultivate. If he starts to take his writing seriously, we are in for a bad time."

Fortunately, no one took the prognostications too seriously. Sometimes our politicians are criticised for being all talk and no action. This is a case where the Government should be congratulated for taking no action. Twelve months later we have some sensible analysis. The best way to bury last year's analysis is to endorse this year's report.

Some recommendations will require careful consideration. For example, recommendations to alter tax rules to promote Australia as a competitor to Luxembourg and the Cayman Islands for offshore banking and investment. I expect the Labor backbench will need convincing on that one. If the Government were serious on this it would hardly be pursuing a tax assessment against the investors who floated Myer and used the structures the report wants to promote.

This is a discussion worth having, to look at ways to open the system more to promote investment and innovation. Australia has proved the value of the regulatory structures put in place after the financial inquiry of 1997. Going backwards to the beat of the ideological drum is not worth a crumpe.