

Introduction

- 1.1 This inquiry on the effects of the globalisation of international financial markets on Australian Government policy, was referred to the Committee on 30 March 1999, by the Treasurer, the Hon Peter Costello MP.
- 1.2 The Committee had raised with the Treasurer its concerns about the implications for Australia's economic policy in the rapid growth in the extent, speed and sophistication of international financial markets, powered by recent rapid improvements in communications and information technology.

Background

- 1.3 The inquiry was intended to build on the groundwork carried out in 1998 by the Prime Minister's Task Force on International Financial Reform.
- 1.4 The Treasurer asked that the inquiry particularly consider the effects of globalisation on the conduct of macro-economic policies. The success of those policies in providing stable growth, is an important factor considered by the international financial markets when assessing Australia's attractiveness as a destination for investment funds.
- 1.5 This means that policy makers must consider the likely reaction of the international markets when formulating policy. Some observers see that as a healthy discipline but others see it as impinging on Australia's sovereignty in establishing its own independent policy goals.
- 1.6 The inquiry was asked to examine all of these issues and to consider the effects that volatility in international markets might have on economic policy.

- 1.7 Another issue for consideration was the need to improve the information available to the markets to ensure that their judgements about the Australian economy are soundly based.
- 1.8 A significant reason for undertaking the work was to enhance the understanding of these issues in the Parliament and the community.

Scope of the inquiry

- 1.9 On 30 March 1999 the Treasurer, the Hon Peter Costello MP, referred the terms of reference for the inquiry, as set out at page xiii.
- 1.10 In considering the effects of the globalisation of international financial markets on Australian economic policy, the Committee examined closely the Asian Financial Crisis and why Australia was able to avoid the worst effects of that crisis. It examined also the attempt by global hedge funds to force down the value of the Australian dollar in 1998.
- 1.11 The Committee considered how the changes in international markets had affected Australia's economic policy making process and what impact they had produced in the Australian market.
- 1.12 One of the main reasons cited for the severity of the Asian Crisis, was a lack of information available to investors and regulatory authorities. An area where this was particularly noticeable, was in the global trade in derivative products. The Committee looked at that sector of the market in some detail.
- 1.13 The international financial community is looking very closely at the structure of international financial arrangements – the so-called International Financial Architecture. The Committee examined Australia's contribution to this process and whether the transparency and prudential regulation applying to the Australian system, were up to world standards.

Conduct of the inquiry

- 1.14 The inquiry was advertised in the press on 14 April 1999 and the closing date for submissions was set at 21 May 1999. In addition, letters were sent to 142 financial institutions, companies and individuals, inviting them to make a submission to the inquiry. In response a total of 18 submissions were received. Although few in number, these were from the major players in the inquiry area (see Appendix A).

- 1.15 To flesh out issues discussed in these submissions, the Committee conducted four public hearings, two in Sydney and two in Canberra. A total of 28 witnesses appeared before the Committee at the public hearings (see Appendix C). Copies of the transcripts of these hearings are available on the Committee's internet site¹ or from the Secretariat.
- 1.16 A special feature of the inquiry was that a round-table conference, involving Committee members and members of the financial community, was held in Sydney on 9 November 1999. The Committee gratefully acknowledges the assistance of the Australian Financial Markets Association in making this conference possible. (see Appendix D for details of participants.)
- 1.17 The Committee also received private briefings from the Minister for Financial Services and Regulation, the Hon Joe Hockey MP, on 31 August 2000 and from Dr Nicholas Gruen, of Gruen Associates, on 29 June 2000 and from Dr Ross McLeod of ANU on 21 October 1999.

Structure of the report

- 1.18 Following this introductory chapter, Chapter 2 examines the onset of the Asian Financial Crisis and the speed with which it spread throughout Asia. The chapter also analyses why Australia was not as badly affected as other countries in very similar economic circumstances. Chapter 3 examines the implications of the international changes for Australia's economic policy-making process. It looks particularly at the effects on monetary and fiscal policy. Chapter 4 considers the need for transparency in financial operations and the information requirements for a sound and stable system. It assesses the Australian arrangements in this light. Chapter 5 looks at international efforts to review the International Financial Architecture and evaluates Australia's contribution to the process. Chapter 6, analyses the activities of hedge funds and looks particularly at their impact on the Australian financial scene. In a related area, the final chapter, Chapter 7 considers the rapid increase in the trade in derivative products and why they have posed problems for international financial markets.

1 <http://www.aph.gov.au/house/committee/efpa/>

