

Bridging the gap between academia and industry

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When setting financial policy, the government and industry regulators are well equipped to deal with clear and present dangers to Australia's stability. However, for less obvious or longer-term threats, policy makers necessarily benefit from the input of external people with specialist skills. Specifically, their expertise is invaluable in thoroughly examining issues, from an evidence basis, with a view to articulating the implications of broader trends and developments. In this role, financial and legal academics are well placed to contribute to an informed public debate on issues with a longer-term perspective.

The Centre for International Finance and Regulation (CIFR) is a special-purpose body that was established in 2011 in response to the report of the Australian Financial Centre Forum (the 'Johnson Report'). More specifically, the role of CIFR is to facilitate the translation of leading-edge financial academic research into a practical resource for policymakers and industry.

CIFR's aim is to create a better financial system with more effective, not simply more, regulation. It does this by ensuring that policy-makers and regulators are well-informed in relation to the key issues impacting the system.

It is an unfortunate reality that, of the substantial amount of scholarly financial research currently undertaken in Australia, not all is productive or practical. Calls have been made for change. Most notably, the Prime Minister has on numerous occasions stressed the need for academic research to be focused on areas that are relevant to society and that readily lend themselves to commercialisation.

In seeking to facilitate a more effective contribution to society, and to better utilise the substantial pool of academic talent available, it is clearly incumbent on all those involved in the research process to focus on the broader relevance and impact of their work. Perhaps even a rethink is needed in valuing academic contributions (for promotion and other incentives) that fall outside the narrow focus of only rewarding Tier 1 publishing?

Because they must 'publish or perish', academics have a strong incentive to chase competitively awarded research funding and scholarly publications. This has created a certain mismatch in expectations, which has led to instances of misalignment of research expectations and outputs. These situations were common in the early years of CIFR, particularly in the case of longer-term projects. CIFR subsequently found that shorter-term, well targeted, less capital intensive projects were more practically valuable. CIFR also turned to inviting expressions of interest from researchers, as opposed to academics initiating research proposals, to better align the research questions with the direct needs of policymakers and industry.

Senior scholars, i.e. professors, in the financial academic community tend to be behaviourally introverted by nature. This may be reflective of the incentive structure that

characterises the competitive research funding model. Moreover, the performance criteria on which they are measured do not typically encourage their public involvement in issues where their expertise would be invaluable. While it is common place to encounter peak experts in the field of medicine dealing directly with patients in hospitals, financial academics are rarely seen among the senior ranks of finance and industry in Australia.

This social obligation aspect of research relevance also ties in with the fact that most Australian financial research is publicly funded. However, in order to achieve Tier 1 publication, many of these papers implicitly are required to use North American data sets. It follows that, all else being equal, any research paper that uses a non-North American data set is immediately at a comparative disadvantage in terms of the probability of publication in Tier 1 finance journals. Hence, although publication in these journals is the ultimate aim of academics, it unfortunately means that publicly sourced Australian research funding is being largely directed towards informing debate on issues that have very little direct local relevance.

Moreover, a substantial portion of research output remains largely restricted inside the paywalls of journal publishers (e.g.: Elsevier, Wiley etc.), which negates its potential public use. This is due to the inherent business dynamics of the organisations operating leading scholarly journals. These typically stipulate that control of copyright associated with the research work remains with them, despite the work being publicly funded. Perhaps the government needs to rethink whether the assigning of copyright should be restricted, such that policymakers have sufficient access to publicly funded scholarship?

The structure and operation of CIFR has made a direct and significant contribution to maximising the practical value of the work of our financial academics. Encouraging a greater research alignment with the practical needs of policymakers and regulators has been a key point of focus in all our funded research projects. This operating philosophy was clearly illustrated in the practical nature of CIFR's submissions to several government inquiries, including two to the 2014 Financial System Inquiry.

One area that may further enhance such work is greater independence from university institutions through a legal entity that is run through the financial regulatory architecture, similar to the Office of Financial Research (the OFR) located in Washington DC. The OFR is tasked with "Delivering high-quality financial data, standards, and analysis to promote financial stability" and was initiated by the U.S. Treasury as a result of Dodd-Frank Wall Street Reform and Consumer Protection Act. Given the current debate entrenched in Australia around whether a Royal Commission into the banking industry is needed, recurring annual funding at a fraction of the cost of a Royal Commission could easily be earmarked towards a program that advanced the industry and supported the financial regulators through innovation and empirical evidence, rather than public shaming.

The closer engagement that CIFR has fostered between financial and legal academics, industry and policymakers, has established a precedent for the potential ongoing efficiency benefits for the government when it comes to industry-focused research and quality input into policy formation. For this reason, the government should continue to foster the development of scholarly centres of excellence that operate along these lines.

Professor David R Gallagher
Chief Executive Officer – Centre for International Finance and Regulation