Senators slam hypocritical ‘high priests’ at the RBA

29 Nov.—Most Australians would have heard the news headlines about Reserve Bank Governor Philip Lowe apologising for inducing many Australians to take out mortgages with his 2020 statement that interest rates were unlikely to rise until 2024. Lowe told a Senate Estimates hearing on 28 November, in his first appearance before the Senate Economics Committee, that he was certainly sorry if people had “acted on what we’d said and now regret what they had done”; adding however that “people did not hear the caveats” which were included in his statement.

RBA Chair Philip Lowe responds to Senator Gerard Rennick’s proposal that the RBA create credit to develop Australia. Photo: Screenshot

Lowe admitted that the caveats were not clear enough and that he should have “chosen different language”. But none of this was the news of the day.

The big news, unreported by the mainstream press, is that during the hearing the RBA was exposed by senators as an unrepentant shill for private lenders rather than a vehicle for the public good. Not exactly headline news in and of itself, but what is dramatic news is the growing group of senators who have raised this publicly and is doggedly pursuing it, in a huge affront to the “supreme and unquestioned”[1] Money Power that dictates Australian economic policy.

Senators Nick McKim (Greens), Matt Canavan (Nationals) and Gerard Rennick (LNP) followed up on their 10 November stoush with RBA Deputy Governor Michele Bullock by confronting Lowe on the inconsistencies in RBA actions made in the name of tackling inflation, actions which are causing suffering for lower income Australians. In both Estimates hearings, held 10 and 28 November, actions identified included:

- Subsidising too-big-to-fail banks rather than the economy;
- Refusing to use available tools, other than interest rates, to tackle inflation;
- Contributing to financial hardship of citizens by advocating against wage rises but ignoring rising corporate profits; driving up food prices by increasing debt payments of producers; and indiscriminately forcing down demand, including for necessities.

Confronted with these realities, Lowe repeatedly stated the narrow focus of the RBA—to deliver inflation of 2.5 per cent—and emphasised the limited tools available to the RBA to do that job.

Yet when he was confronted by Senator McKim with a powerful alternative instrument, Lowe’s only defence was an ideological argument prioritising free market dogma over intervention for the common good.

As he had in February Senate Estimates with then-RBA Deputy Governor Guy Debelle, McKim raised Section 36 of the *Banking Act 1959*, the legislation which governs the RBA’s activity. That section, McKim said, “gives the RBA power to direct [banks’] loans where it is necessary or expedient to do so in the public interest”. Given that billions of dollars were printed during the COVID recession, effectively turbocharging housing prices and inflation, McKim asked why the RBA hadn’t used this provision to direct credit into the productive side of the economy.

Protesting the power was “a leftover provision” superseded by the current monetary policy framework, Lowe declared it would be a “backward step” if the central bank were to start directing credit policy. “That’s what happens in centrally planned economies, it typically doesn’t work out that well”, claimed Lowe. McKim vehemently disagreed.

One set of rules for you, another for private banks

Senator Gerard Rennick picked up where McKim left off, noting the RBA chairman’s earlier comment that the RBA is “not in the business of supplying credit”, leaving that to “the private market”. Yet, continued Rennick, the RBA funnels credit to the private banks, as have central banks internationally to the tune of trillions of dollars. So, he asked, what's wrong with using Section 36? Federal and state governments should be borrowing from our own central bank rather than from overseas.

Lowe responded that the RBA shouldn't be "the arbiter of credit"; governments should raise money in the capital market.

But Parliament could decide, Rennick countered, that the RBA should direct credit for development of vital infrastructure where supply is lacking.

Lowe contended that *if* the RBA were to lend to the government it would have to charge the market interest rate, so the government's costs would not be lower. "If we decided to lend to the government at below the market interest rate then we're providing a subsidy", he added. "It's not the job of the central bank to subsidise government finance. If you do that, you end up with inflation."

Rennick pounced, pointed to the gaping double standard: "Well, that's a bit hypocritical coming from you because you're subsidising private banks. You've just lent $188 billion dollars to our private banks in Australia, at 0.15 per cent, and said to them, you don't have to repay it until 2024. So, they are creaming it, they're creaming billions of dollars." (Assistant RBA Governor Dr Christopher Kent had also admitted in the 10 November hearing that the Term Funding Facility's $188 billion emission was a "subsidy" to the banks, p. 8.)

The RBA is happy to lavish cheap money on the private banks but not for the development of the nation. So arrogant in its independence is the Reserve Bank, that it forgets it is a government-owned bank whose mandate includes protecting the "economic prosperity and welfare of the people of Australia". It is time the government reminded it, and put it back to work for the people with a revised mandate.

Australia, the lax neoliberal

The "backward step" attacked by Lowe would be for the nation's betterment. As previous RBA questioning had revealed, the "leftover" power in Section 36 which Lowe said "was left in [and] never addressed", was overturned in practice with the "deregulation of the financial system in the early 1980s". Despite its excision being recommended by the 1982 report of the Campbell Committee Financial System Inquiry, said the RBA, it remains in the legislation, in addition to Section 50 which allows the RBA to direct the interest rate policy of banks.

As stated in the Citizens Party's submission to the RBA Review: "It seems Australia has had an approach of doing things by convention, rather than engraining changes in law … This was insignificant while the neoliberal economic consensus was strong, but that consensus is now weakening. It is critical such powers are not neutered by the outcome of the current RBA review; instead they should be revived to allow the government to direct an economic recovery."

Footnote

1. Following an 1844 effort to modify the Bank of England's charter in favour of the people, William Gladstone, then British chancellor of the exchequer and later prime minister, declared, "The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned." (1852)

By Elisa Barwick, Australian Alert Service, 30 November 2022