

Memo to the PM: Give Lowe a new job!

The ivory tower of Phillip Lowe was shaken last week as, one after another, representatives of the Australian people impressed on him the impact of the RBA's interest rate rises. The media weighed in, broadcasting video clips of Senators grilling the Reserve Bank Governor in Senate Estimates on 15 February, training the eye of the mortgage-stressed public keenly in his direction.



RBA Governor Phillip Lowe tells Senator McKim he deserves to keep his job because he has a seven-year term “and I intend to serve out that term”. Photo: Screenshot

But the career central banker from Wagga Wagga, who joined the RBA straight out of high school, working as a clerk while attending university, isn't letting his “heavy heart” get in the way of carrying out the task of his agency. That job is the same one carried out by all “independent” central banks across the world. It is determined—and enforced—by the central banks' central bank, the Switzerland-based Bank for International Settlements, in conjunction with the Washington-headquartered International Monetary Fund. As Greens Senator Nick McKim put it during the hearing, that job currently amounts to “smashing Australia into a recession”.

In deference to that mandate, Lowe referred repeatedly to the “narrow path” of monetary policy, a strategy promoted by the IMF, as in its 2022 review of Australia released in February, which said “Australia is on a narrow path to a soft landing.” As Lowe elaborated, this means navigating the fine line between the impact of rising rates, including unemployment and recession, and not raising them enough, namely inflation and its impacts, which he went out of his way to emphasise.

McKim reminded the central bank head that, among other errors, he has previously admitted overdoing RBA stimulus, feeding today's inflation, and had to apologise for misdirecting people who bought homes based on his incorrect insistence on interest rates remaining low until 2024. The RBA has now put rates up nine times in a row, and has flagged more to come. McKim asked: “What do you say to the renters and the mortgage holders of Australia who are getting smashed by interest rate increases while the major banks are pulling in megaprofits?” Lowe responded that he receives disturbing letters from the public, which he reads with “a very heavy heart”. He knows that “people are really hurting”, but is committed to doing his job (per the central bankers' mandate) in order to prevent an even worse situation!

He admitted: “The banks are profitable; it's true. It's a positive for the country. We want strong, resilient banks. I know it's hard for people to accept when they are suffering problems with their personal finances, but the country is better off from having strong, resilient, effective banks that can provide the financial services we need. It's tough, I know.”

He would keep returning to this theme. “Look...”, he said later, “I know it's really hard for people to pay more on their mortgages, but it will be harder still if inflation gets too high and stays too high. It will mean higher interest rates and more unemployment.” (Which outcomes he is deliberately fostering now, supposedly to forestall that same outcome?) “[I]f we don't get on top of this”, he reiterated, “the pain will be worse. It is not a nice message, but that's the reality we face. We have to face up to that reality.” This has been the argument of central bankers, to get people to accept austerity, for all time. Actual solutions, including government spending and issuance of credit for productive development, are blocked on the pretext of an alleged fate worse than death—inflation. (See “The genesis of austerity” series, [AAS 8](#) and [15 Feb.](#) and this week's [Almanac](#).)

Not impossible: Growing the economy sans inflation

Lowe acknowledged, however, that there is a way to grow the economy by overcoming supply constrictions, without setting off inflation. Early on in the hearing he commented that an important addition to RBA efforts to restrict demand is addressing the supply side of the equation—to “make the [economic] pie bigger so that the demands on the public purse can be more effectively met”. Both Nationals Senator Matt Canavan and One Nation Senator Malcolm Roberts took him up on this point, raising how the RBA might participate in such a mission. In response to Canavan, Lowe affirmed that policies to expand productivity have a disinflationary impact, adding that trade with China had helped us to grow the economy and expand the pie.

But Lowe was sticking firmly to his lane, and the neoliberal tenets of monetarism. Despite his rate rises impacting businesses and potentially increasing bankruptcies, he insisted that his “demand” side interventions will work: “higher interest rates work to contain inflation by reducing demand. If people have less money in their pocket, they are going to spend less.” While claiming that interest rates are a “blunt” but “nimble” tool, Lowe’s words indicate that his actual tool is *changing the behaviour of the masses*. Influencing supply and demand in this way is a crude tool indeed, which makes the masses—households—do the heavy lifting of monetary policy.

(Interestingly, Paul Krugman, the Nobel Prize winning economist who supervised Lowe’s Massachusetts Institute of Technology doctorate, recently noted that the measures of inflation that central banks rely upon are causing them to overshoot the runway and over-tighten. According to Ambrose Evans-Pritchard, writing in the London *Telegraph* on 8 February, he has likened monetary tightening to “trying to operate complex machinery in a dark room wearing thick mittens”.)

LNP Senator Gerard Rennick intervened, pointing out, “You keep saying that there’s not a lot you can do about the supply side. I disagree with that. As Senator McKim has pointed out, the RBA can also be involved with managing the volume of credit. That was said in the 1937 banking royal commission, the original royal commission. [It indicated that the government could direct the RBA to do so.] If the RBA can lend \$188 billion at 0.1 per cent to private banks and they are profiteering out of that by \$5 billion a year, why can’t the RBA lend to state governments to build productive infrastructure such as power stations and dams at a similar low rate?”

Lowe insisted that “if the state governments or the federal government want to do that, they can obtain funding in the marketplace”. Yes, but *at a premium*, Rennick pointed out, from which the banks profiteer, and which is not necessary when we can “use the currency that is backed by the Australian people and the Australian government”.

“It’s not the Reserve Bank’s job to determine the allocation of credit in the economy”, said Lowe. Rennick reiterated, “that’s not what the 1937 banking royal commission said”, to which Lowe responded, “I don’t want to go back to where we were five decades ago. It didn’t work out that well.” Not for the central bank circles he moves in, at least.

Senator Roberts confronted Lowe with a concrete example of how the nation’s “pie” can be made bigger by outlining [Project Iron Boomerang](#), the plan to produce steel using metallurgical coal from the east coast and iron ore from the west, with a railway line in between. While declining to endorse the idea, Lowe’s response was that we should certainly be thinking about such projects if they indeed promise a good return. His focus quickly returned, however, to the comfortable realm of technical monetarist prescriptions.

A new mandate for Lowe?

After the RBA’s ninth consecutive interest rate rise on 7 February, Senator McKim had demanded that Treasurer Jim Chalmers do two things: “Firstly, he needs to ask Philip Lowe for his resignation. Secondly, he needs to use the powers he has to reverse today’s decision by the RBA.” McKim went on to insist that the Treasurer use his power “to bring into line an RBA board that is running cover for corporate interests”. He specified that Section 11 of the Reserve Bank Act 1959 gives the government the “ultimate power to determine the policy of the bank”.

Revealingly, in her final question to Lowe in the 15 February Estimates hearing, Liberal Senator Jane Hume, who earned a reputation as the “Senator for bankers” during inquiries examining the “[bail in](#)” law that her government surreptitiously passed through the parliament five years ago on 14 February 2018, asked the RBA chief about the Section 11 power to override RBA policy. Unsurprisingly she expressed her desire, as did Lowe, that it never be used.

The Senator admitted that she had just discovered the clause by “reading the Reserve Bank Act just for fun”. Lowe said that he was very familiar with the section of the RBA’s governing legislation.

“Did you realise”, she asked, “that if the Treasurer doesn’t agree with your policy position, after a certain amount of toing and froing with the board and swapping of papers, he can submit a recommendation to the Governor-General and that the Governor-General, acting with the advice of the Federal Executive Council, may by order determine the policy adopted by the banks. So the Treasurer can override the Reserve Bank’s policy.”

Lowe noted that the clause has been in place since 1959. “That provision has never been used. In my view it would be a retrograde step to ever use it.” Hume concurred, saying, “Let’s hope that we don’t see [Assistant Treasurer] Stephen Jones marching to Admiralty House any time soon.”

On the contrary! This news service has [recommended](#) that the RBA Review, which reports to the government in March, is the perfect opportunity to restore the functions of a true national bank that were housed in the Commonwealth Bank before it was privatised. Lowe had pushed back against an inquiry when it was first proposed to address RBA failures. Former RBA economist Peter Tulip, along with other economists, then called for the full employment objective to be given equal weight as the inflation target, but in its recent review of Australia the IMF noted that “The review presents an opportunity to reaffirm the inflation targeting regime within a clearly focused mandate”.

The RBA objectives, still officially defined by the Reserve Bank Act as currency stability, maintenance of full employment, and the economic prosperity and welfare of the people of Australia, have long since been watered down, in practice, to a sole “focus on price (currency) stability”, which hinges on suppressing inflation while merely “taking account” of employment and economic activity. This is recognised in joint government/RBA statements on the conduct of monetary policy. (For details see “[A breakthrough in the battle over bank policy](#)”, 13 April 2022.) It is time Lowe was given a new mandate.

By Elisa Barwick, *Australian Alert Service*, 22 February 2023

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