Former governors call BS on RBA board changes

By Elisa Barwick

"We must do away with government by suspicion and return to a true form of democratic government. At the present time we have uneconomic boards operating all over Australia. If one good man is in charge of a branch of government activity, that is called bureaucracy. If he works with two dummies, that is considered to be democratic. If there happens to be three dummies, then the organisation is first-class."

– Frank Gaha, Labor MP for Denison, 5 June 1945

Quizzed by Sarah Ferguson in the penultimate moments of a 10 September interview on ABC's *7.30*, about "old powers" that allow the government to override the Reserve Bank of Australia on interest rates and give the RBA control over bank advances, Treasurer Jim Chalmers avoided the subject like the plague. It is the same with most major-party politicians, and the media, when it comes to the stalled Reserve Bank Reforms bill. The major parties are loathe to publicly breathe a word about the fact that the Treasurer could actually remove the crushing pain of interest rates sucking the lifeblood from Australian families in the name of "fighting inflation". Chalmers could loosen the vice-grip right now; moreover, he—and the previous government—could have used these powers to rein in the speculation which has made housing "impossibly unaffordable". They are silent on this issue for the same reason the RBA Review panel advised the government that if it could not win bipartisan support it should withdraw the legislation and try to achieve its goals in another fashion. They fear that drawing attention to the existing powers will foment a political revolt.

The sanitised debate over proposed changes to RBA governance, denounced by the Opposition as "sacking and stacking" the board, is a proxy for the bigger fight over who controls monetary policy—the independently operated bank or the elected government. That fight hinges on the Section 11 dispute-resolution mechanism of the *Reserve Bank Act 1959,* which establishes the government as the ultimate authority. Along with the removal of those "old powers" contained in Section 11, and in Section 36 of the *Banking Act 1959* (which allows the RBA oversight of private banks' lending policies), the RBA Review recommended the establishment of a Monetary Policy Board of economic and financial experts, including six external members *representing the majority of the board*; and a new Governance Board, which would replace the bank's governor as the *accountable authority* of the RBA. Subsumed in the governance issue, therefore, is another aspect of the fight over who controls monetary policy and in whose interest: technocrats enforcing the dictates of private and overseas interests, or bank directors working with the elected government for the common good?

A 12 September *Australian Financial Review* article reported that "Three former governors of the Reserve Bank of Australia oppose a move by Treasurer Jim Chalmers to abandon the current central bank board structure or change the members who set interest rates, as the Albanese government's signature reform hits an impasse." Those former governors were Ian Macfarlane, Bernie Fraser and Philip Lowe.

Macfarlane noted that "The significant change would be the centre of gravity going from the governor and staff of the Reserve Bank operating with an advisory board, to a decision-making board where the majority of the votes rest with the six part-timers"—that is, external figures who are not involved with the day-to-day running of the bank. Macfarlane had previously told the *AFR* that the shift would merely result in "more economists, … more boards, more board papers, more levels of management, more staff and more public pronouncements."

Fraser repeated his warning that monetary policy would be controlled by "super monetary policy nerds". The idea of an expert board as best practice, he said, is "bullshit". The proposal came "from a so-called independent group, including people from outside Australia who haven't been exposed to Australian circumstances". The current RBA board is already too focused on inflation, he added; making it even more so could be devastating for the economy.

Discussing the proposal during a 22 February parliamentary hearing on the matter, former Treasurer Peter Costello had denounced the idea as a "very bureaucratic solution" that would result in more disputes, including between the boards themselves. "You'll always find economists who'll say parliament should give up its power, *because they're economists*. They believe they should have the power." ("Parliament, senior experts rally to defend public power over RBA", *AAS*, 28 Feb.)

Historical tug of war over bank board

The provisions of Section 11 of the *Reserve Bank Act 1959* and Section 36 of the *Banking Act 1959* were hotly debated when the original 1945 form of the legislation was proposed, but after 14 years of slamming the government's powers, when the Menzies government had the chance to get rid of it, in 1951 and 1959, it did not. Likewise today, the Liberal Opposition is refusing to support Chalmers—the Treasurer whom Curtin and Chifley, were they alive today, would not recognise as Labor.

The first time Australia's government bank suffered at the hands of an expert governance board was in 1924, imposed by the government of PM Stanley Melbourne Bruce. The board of eight directors, which included six financiers


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Former RBA bosses oppose Chalmers' board shake-up

John Kehoe and Michael Read

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The biggest shake-up to the central bank in more than three decades is in jeopardy after shadow treasurer Angus Taylor pulled support for Dr Chalmers' overhaul this week.

This *AFR* article of 11 September reports that opposition to Chalmers' bill continues to grow. Photo: Screenshot

or businessmen, launched the effort to transform the Commonwealth Bank into an independent central bank, and by 1930 the bank was refusing government requests to fund its economic response to the Depression, forcing austerity on the people instead. In those days the orders were fairly direct—visiting delegations from London pored over "the books" and simply told us what to do—but apart from an increased level of sophistication and intermediation, nothing has changed. It's the same "Money Power", acting via the City of London, the Bank for International Settlements and the IMF, giving the marching orders.

As World War II drew to a close, the Curtin-Chifley Labor government abolished the bank board with its 1945 banking legislation and returned authority to the bank's Governor, assisted by a Deputy Governor and an Advisory Council of six directors including Treasury officials and bank officers. It was empowered for post-war reconstruction, including a nationwide public housing scheme.

But once the Menzies government had a majority in both houses of Parliament, in 1951, it reinstated the bank board.

The debate erupted again during 1959 banking policy debates, when the Commonwealth Bank's governing legislation was revisited and the RBA was established. Leader of the Opposition in the Senate, Senator Nick McKenna (ALP, Tasmania) decried the notion of making "an outsider" chairman of the Commonwealth Bank and of the proposed Reserve Bank, rather than the people who were actually running the bank. Compared to the "very simple structure of the Commonwealth Bank in 1949", said McKenna, the "complexity" of the new system would be disruptive. "It will be a most top-heavy superstructure that must make life very complicated for everybody in the bank. It certainly will not make for better government; on the contrary, it will make for far more complex government."

He continued: "Instead of a simple arrangement of having a governor who is able to control the whole thing and to announce policy decisions, with an executive that has no duty other than to the bank and which has complete freedom to implement its decisions, it is now proposed to import private interests, to divide control amongst sub-committees with a managing director and a deputy director who, in turn with some executive committees, are to be on top of a large mass. What is the virtue in it? Where is the need for it? If there was something wrong with the present management of the banks, I might see some virtue in the plan. But it is not for me to make firm propositions; it is for the Government to justify its legislation and to say what was wrong with the management of the Commonwealth Bank which made necessary the importation of private interests."

In a distinct parallel with today's RBA Review and Reforms bill, where there was not a skerrick of demand for the proposed changes, McKenna continued: "Where was the demand for the proposed changes to the Commonwealth Bank? There is certainly no demand from the people of Australia for them. The Commonwealth Bank itself has made no request for easier machinery. The demand comes—this is not denied—from the private banks themselves."

It’s a bust! Bipartisan deal on RBA reforms falls apart

Opening the debate on Treasurer Jim Chalmers’ Reserve Bank Reforms bill, which took place over 10-11 September, Shadow Treasurer Angus Taylor declared bluntly: “The coalition will not be supporting this Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023.”

Throughout the day, Chalmers protested, effectively, “But we had a deal!” He called the Liberal Opposition’s decision “irresponsible. It creates uncertainty”, he said; “it’s disappointing”.

The Liberal Party had indeed supported the proposed RBA Reforms vociferously in the early days of the announced policy. But that was before the public became aware that the bill would transfer control and oversight of the RBA out of the hands of the elected government, at the instruction of international financial agencies including the Bank for International Settlements (BIS) and the IMF.

Bipartisan support for the changes was so critical, the RBA Review panel had spelled out in the recommendations of their Final Report, that if it were not secured they advised against legislating the changes at all: “The principles of an independent central bank conducting monetary policy, broad bipartisan support for the framework and a high degree of stability in the framework, are of absolute importance. The Review strongly supports legislative change, but only if the process can be expected to proceed without putting these principles at risk.” They supplied an alternative pathway whereby most recommendations could be met without legislative change—an indication that they foresaw a blow-up over the issue.

Graham Perrett, ALP member for Moreton (QLD), dutifully echoed the orders for bipartisanship during the debate: “We don’t want to go off dancing with the crossbench in the House of Reps or in the Senate. This is a serious piece of economic legislation that should be debated by the parties of government. Instead, those opposite seem to be running for the hills, and betraying Menzies. He must be spinning in his grave at what has become of the mighty Liberal Party, or the LNP version in Queensland. We needed this to have bipartisan support, which is why the Treasurer, the member for Rankin, worked with the shadow Treasurer. The Labor government believes that the reforms to the RBA, one of Australia’s most important economic institutions, should enjoy opposition endorsement.”

He added that the Labor Party did not want to consult the crossbench due to the “extreme views” that would be found there. Though what he defined as extreme—the defence of government oversight of the RBA—was also on the minds of some of his Liberal opponents such as Bert Van Manen (below).

The Opposition mainly focused in the debate on Chalmers and the Labor Party, backed up by ALP President and former Treasurer Wayne Swan, attacking the RBA for “smashing the economy”. You can’t blame the RBA for the economic crisis, the Liberals repeated, claiming the government is not as serious about expanding RBA independence as they are. James Stevens (Liberal, Sturt) called the government’s attacks on the RBA a “re-politicisation of the Reserve Bank”.

What are they preparing for?

Perret said that enhanced RBA independence will allow for the government’s “sensible long-term economic reform”. Reforming the RBA will “make sure that our main economic institution is capable of combating the economic challenges of the modern world”. He reinforced the importance of “strong consensus” and a commitment to economic “stability”.

The Treasurer and Shadow Treasurer at loggerheads. Photos: Screenshot

Government Whip Anne Stanley (Werriwa, NSW) made similar comments: “More than ever before, Australia needs a strong monetary policy and framework, and, more than ever, Australia needs a strong, high-performance central bank. The government knows these are challenging times, and we know the struggles that Australians are facing. It is timely that this bill is before us today because the legislation is central to ensuring that we have the best and strongest monetary policy possible to meet both the challenges of today and those of tomorrow.” She reiterated “the RBA’s responsibility to contribute to the financial system stability. … The RBA has been in existence since 1960. Since that time, as a nation we’ve faced any number of challenging economic circumstances, not least the GFC. The current times present their own unique set of challenges and difficulties. The task for this parliament is to ensure that our institutions, not least our central bank, are up to speed and fit for purpose to meet these challenges. This bill does that.”

This language reflects the concern of international financial agencies such as the BIS and IMF that ahead of a new crisis, their central bank members must have sufficient power to put agreed financial prescriptions into effect—including regimes such as “bail-in” that save the banks at the expense of the people. (Such control is also a focus of the misinformation/disinformation bill, p. 4.)

The lever they refuse to pull

Greens MP Elizabeth Watson-Brown (Ryan, QLD) delivered a speech drawing attention to the millions of renters, mortgage holders, young people and families “struggling to make ends meet in the wake of relentless Reserve Bank rate hikes”. Referencing Reserve Bank Governor Michele Bullock’s recent comment that some will have to sell their homes to survive, she asked, “Who suffers most from this hiking of interest rates? Those least responsible for inflation. Yet Bullock has offered no relief or hope to the millions of Australians doing it tough, stating that she doesn’t expect the RBA to cut rates in the near term.

“According to the Treasurer, the Reserve Bank has smashed the economy. So why is he then seeking to remove the democratic oversight over the RBA? Another capitulation by Labor to the power of capital, the big banks and the corporations. Clearly, they are the ones who have the ear of this government—not you, everyday Australians.”

Instead it appears, she continued, that “the government wants to give Bullock and the RBA even more power. They want to remove section 11 of the *RBA Act*, which gives the Treasurer the ability to overturn the RBA's decisions, leaving Australians at the mercy of unelected bureaucrats with zero accountability. It's appalling and dangerous.

"Here's what section 11 of the *RBA Act* actually does: it gives the Treasurer the power to intervene to override the Reserve Bank when necessary. The Treasurer could use that power right now to reduce interest rates. It's truly baffling. The government tells Australians that it's working on cost-of-living relief, but it has a massive lever it could pull to offer relief to thousands of Australians right now, at this very minute, and it's not only not using it but also trying to remove that power from this Treasurer and future treasurers."

She added: "It doesn't take a genius to realise that the Treasurer wants to rid himself of the power to overrule an RBA decision because he doesn't want to be blamed for massive increases in mortgage payments and rents. These are huge cost-of-living pressures right now for most Australians. Rather than backing everyday Australians, the Treasurer is once again choosing to wash his hands and let the banks and the corporations continue making massive profits off people's pain. …

"If you're facing the prospect of having to sell your home—thanks for the suggestion, Governor Bullock—or you don't think you'll be able to pay your rent at the end of the fortnight, I just want you to know that the Labor government has the power to bring down interest rates right now and it's choosing not to. The Labor government should retain and use its existing power to overrule the RBA and bring down interest rates. This bill, in its current form, again illustrates Labor's failure to stand up to the banks and the corporations—indeed, its comprehensive capture by them."

'Economic vandalism'

The vehemence of the next speaker, Liberal MP for Cook (NSW) Simon Kennedy, confirmed the steadfastness of certain Liberals to their initial deal with the government to pass the bill, which they were forced to drop.

Kennedy responded to Watson-Brown's speech: "That's one of the most dangerous economic ideas I've heard in my time in this place—having Labor overrule the RBA on interest rates. The RBA has been one of the most effective independent institutions that the Australian government has. To suggest that a political party should be overruling an independent body that is managing our economy and managing inflation is absolutely economic vandalism and risks plunging this country into a deeper economic crisis than it already finds itself in. That is absolutely ludicrous from the last member. We need to defend the Reserve Bank, which safeguards our prosperity; we need to defend it from politicisation. Suggesting that a party should be setting interest rates running into an election is absolute lunacy. Sadly, through inflationary periods, we're reminded of its importance. That is absolute populism to say that we should allow political parties to set interest rates. ...

"It's extremely dangerous."

Chief Opposition Whip Bert Van Manen (Forde, QLD), however, revealed the other side of sentiment in the Liberal Party. "I'm pleased that we've come to the position that we have in relation to not supporting this bill, because I didn't support it from the outset. What is proposed to be done in this bill—the government and all of us elected members of this parliament handing over absolute power to an unelected body—is, I think, a danger to our democracy."

Van Manen referred to the bad bank behaviour which led to the Banking Royal Commission. "What a lot of people probably don't realise", he continued, "is that there was actually a royal commission well before that. Back in 1935 there was a royal commission that was appointed to inquire into the monetary and banking systems that were then in operation in Australia. The reason it was appointed was that there was concern that the banks weren't doing their job and were actually making the Great Depression worse. …

"In paragraph 143 [of the royal commission report], it says:

> It is essential for a central bank that its relations with the Government responsible for monetary policy should be close and cordial in order that there should be consistency between Government financial operations and those of the Bank.

"Well, what have we heard in the past week or so? The complete opposite of that. … Why would we go down the track proposed in this bill, then, of removing the accountability of the Reserve Bank through the government, under Section 11? I fully believe that section should be retained and never done away with, because the drafters of the legislation, back in 1957 or 1958—it was enacted, finally, in 1959—understood the necessity of the elected representatives in this parliament maintaining watch and power over our non-elected bodies.

"To go back to that 1935 report, it goes on further to say:

> In our view, proper relations between the two authorities are these. The Federal Parliament is ultimately responsible for monetary policy, and the Government of the day is the executive of the Parliament. The Commonwealth Bank—

"it's the 'Reserve Bank' in modern parlance—

> has certain powers delegated to it by statute, and the Board's duty to the community is to exercise those powers to the best of its ability. Where there is a conflict between the Government's view of what is best in the national interest, and the Board's view … the Government should give the Bank an assurance that it will accept full responsibility for the proposed policy, and is in a position to take, and will take, any necessary action to implement it. It is then the duty of the Bank to accept this assurance and carry out the policy of the Government.

"… Hence I fully support the position that we as a coalition have now taken to oppose this bill, because I believe that the structure of the Reserve Bank should be retained, along with section 11. While I accept it has never been used, I believe fundamentally, for the protection of our democracy, that that provision should be retained because we never can say categorically in the future that we know that at some point that won't need to be used, heaven forbid. I hope it never has to be used. I hope that the cordial working relationship between the government of the day and the Reserve Bank is maintained and strengthened for the benefit of our country as a whole. I think the words from the 1935 royal commission report remain as valid and prescient today as they were then. I oppose the bill, and I am pleased that as a coalition we have taken the position that we have."

The bill is now on the floor of the Senate.