Australian Citizens Party
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MEDIA RELEASE

Monday, 14 November, 2022

Hold the RBA to the law, not inflation 'snake oil' prescriptions!

Australians smashed by interest rate rises are paying the price for decades of the Reserve Bank of Australia ignoring its lawful mandate in favour of a policy dictated by neoliberal think tanks. The RBA's inflation target entrenches austerity into economic policy, the pretext for sharply raising interest rates to smother *all* economic activity, while blocking the government from using national credit to build out of the economic crisis. The shift to a focus on inflation, from the central bank's original mandate—which included the drive for full employment to secure economic prosperity—*was never debated by parliament and was never assimilated into the legislation governing the RBA*: it came about by gradual evolution under international influences.

Former RBA Governor Glenn Stevens (then assistant governor) admitted this reality in a 1999 speech discussing the inflation "policy regime". The new regime was never formalised, said Stevens, and the "*Reserve Bank Act* was not rewritten. There was no formal agreement by which the Government instructed the Bank … and little formal review process. In fact", he added, "there was no involvement of, or endorsement by, the Government of the day until much later."

There was no formal endorsement of the RBA inflation mandate until 1996, when the first Statement on the Conduct of Monetary Policy was issued. This was not legislation, but an agreement between the government and RBA leadership of the day. It specified an interpretation of the RBA's objectives that would "allow the Reserve Bank to *focus* on price (currency) stability while *taking account* of the implications of monetary policy for [economic] activity and, therefore, employment in the short term". (Emphasis added.)

Who pulled the strings?

If government was not guiding the change in the RBA mandate, as Stevens admitted, who was? The Citizens Party documented in its submission to the ongoing RBA Review how the shift was dictated by the 1981 Campbell Inquiry Report, which set in motion the privatisation of the Commonwealth Bank (from which the central banking function had already been split off to form the RBA in 1959), ending public banking in Australia. The Campbell Inquiry had been convened in accordance with an emerging "bipartisan economic consensus", which saw both sides of Australian politics converging on support for deregulation.

The Campbell Inquiry was a conduit for neoliberal economic policies pushed by international

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umbrella think tank, the Mont Pelerin Society (MPS). The inquiry was advised by MPS co-founder, University of Chicago economics professor Milton Friedman, and its success hailed as a "triumph" of Friedman's ideology. The economic prescriptions of the MPS are centred in preventing the issuance of national credit for nation-building, which in turn precludes effective exercise of national sovereignty. Government credit is blamed for inflation, so restraining inflation requires restraining government spending, and inflation targeting becomes synonymous with austerity policy. This includes budget cuts, wage restraint, public spending cuts, public service layoffs, slashing social and welfare payments, and increasingly regressive taxation. Historically—including in the post-World War I period and following the 2008 global financial crisis—such policies have failed to suppress inflation, serving only to strangle the lower classes while allowing the elite class to continue as normal, leading to social uprising. Austerity policy rations the dwindling economic pie in favour of the top 1 per cent rather than growing it to provide equitably for all.

Money for banks

This double standard is obvious when it comes to central bank quantitative easing. In Senate Economics Committee Estimates hearings over the last two years, several Senators have challenged the RBA on the necessity to grow the economy by directing its monetary injections into the productive economy, rather than the largely speculative housing market. (Read a summary in our RBA Review submission.) This continued in hearings last week, with a number of crucial interventions on 10 November.

LNP Senator Gerard Rennick stressed the need to allocate increased expenditure for infrastructure development such as dams, railways and power stations, rather than handing cheap money to the banks that they often park in accounts accruing interest. Notably, RBA Deputy Governor Michele Bullock replied, "I can't disagree with that general premise…" (Rennick also demanded to know why his request for all correspondence between the RBA and the Switzerland-based Bank for International Settlements, the "central bank of central banks", had been refused on the grounds that it was "confidential".)

National Party Senator Matt Canavan raised the RBA being $12.5 billion deep into negative equity due to the last two years of monetary easing, asking simply, "Is the RBA bankrupt?" In her response, Bullock admitted to the benefits of being a government bank, namely that the RBA cannot go

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bankrupt because it can create money and is guaranteed by the government—a benefit that entirely flows to the private banks, not the people of Australia.

Like other foreign central banks the RBA claims independence, but as a government-owned bank it must be forced to act in the interests of "the economic prosperity and welfare of the people of Australia" as stated in the law by which it is bound, rather than in the interests of a select few.

Follow the law!

The ACP submission argued that even the RBA inflation targeting is ineffective. It has fed the incredible housing inflation currently locking a generation of Australians out of home ownership and simultaneously choked off the access of small business and regional communities to credit.

Greens Senator Nick McKim, in the 10 November hearings, quizzed Bullock on the interest rate silver bullet, pointing out that after seven consecutive months of RBA interest rate increases there is no sign of inflation levelling off. One Nation Senator Malcolm Roberts noted that inflation amounts to the theft of Australians' wealth so there is a need for mechanisms that actually work.

While it will do little to halt inflation, further interest rate rises will ruin countless Australians with debt or a mortgage; but we are not powerless. Existing law permits the RBA to selectively guide the lending of private banks to ensure credit is directed into the sectors of the economy where it is needed and prevent overheating in sectors where it is not. The RBA acknowledged it has this capacity in response to questioning from Senator McKim in February, but reiterated the unofficial policy, namely that government guidance of bank lending ended in June 1982 and "monetary policy now operates by influencing interest rates". The RBA admitted the removal of lending controls was a product of the Campbell Committee.

It is time the RBA was held to account by elected government and forced to follow the law which guides its existence, so that it can be used as a national bank to invest in the physical economic development that will boost the productivity and living standards of the people of Australia.

Click here to watch a Martin North interview with Senator Rennick, "Getting Better Economic Outcomes", where he explains how the RBA should be investing in Australia, through a wholesale

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national infrastructure bank, complemented by a retail public postal bank.

Click here to sign the Citizens Party's petition for a post office people's bank.