RBA review must jettison neoliberal mandates

By Elisa Barwick

The promised review of the Reserve Bank of Australia's monetary policy framework must overthrow the neoliberal blueprint for banking which has destroyed Australia, introduced by the 1981 Campbell (financial) Inquiry.

The Campbell Report targeted for destruction every financial regulation that served to direct investment into long-term productive processes; eliminated any government control over bank lending; opened the floodgates on privatisation, including the sell-off of the Commonwealth Bank; removed government control of capital flows, interest rates and the currency; and admitted foreign banks into Australia.

In a year-end interview with the *Australian Financial Review* published 7 January, Treasurer Josh Frydenberg committed to an independent review of the RBA and its monetary policy settings *after the upcoming election*. The Labor Party and numerous economists have backed the proposal, which would be the first review of the RBA in 40 years. The IMF and OECD last year both suggested a review of Australian monetary policy, particularly with a view to curbing the property boom.

New Zealand launched a similar review in 2017 (p. 7), which although not yet concluded, mandated that the Reserve Bank of NZ include the objective of employment along with price stability in its monetary policy decisions. While this has always been a stated objective, in both Australia and NZ, in recent decades price stability—particularly restraining inflation—has trumped all other goals.

Restraining inflation, in the central bankers' "toolkit", only applies to the job-producing real economy, however. When it comes to asset bubbles, such as housing bubbles, it is open slather: Encourage them to grow!

But a March 2021 direction from the NZ Finance Minister Grant Robertson, aimed at ensuring "house price sustainability", which is NZ government policy, ordered the RBNZ to consider the impact of their rate decisions on the housing market.

As the Citizens Party reported on 14 July 2021 (Media Release, "NZ law will 'bail in' deposits … in Australian banks!"), the RBNZ monetary policy review also included a commitment to usher in statutory bail-in powers, enshrining the power to steal deposits to save banks into law rather than remaining as an RBNZ-government directive. While statutory powers have since been dropped by the NZ cabinet, the RBNZ will be given new powers under a new Deposit Taker Bill, including to trigger contractual bail-in, confiscating bank obligations that have bail-in clauses in their terms and conditions (article, p. 7).

Challenging the RBA inflation mandate

On a number of occasions during 2021, Australian Senators Gerard Rennick (Liberal National Party), Nick McKim (Greens), Malcolm Roberts (One Nation) and Matt Canavan (National Party) grilled RBA Deputy Governor Dr Guy Debelle in Senate Estimates, demanding to know why RBA monetary easing initiatives could not be directed into the real economy instead of boosting housing speculation. The question of whether the government should be in control of monetary policy was raised by the Senators, but summarily dismissed by Debelle, in favour of central bank independence.

In response to the RBA's repeated stonewalling on this issue, the Senators need to change tack and challenge the policy bedrock that defines the RBA's mandate. The *Reserve Bank Act 1959* defines three objectives for the RBA, namely currency stability, maintenance of full employment, and the economic prosperity and welfare of the people of Australia; but since 1996, regular statements on the conduct of monetary policy from the government and Reserve Bank have declared that "these objectives allow the board to focus on price (currency) stability" while merely "taking account" of employment and economic activity. "Both the Bank and the Government agree", say the statements, "on the importance of low inflation and low inflation expectations" as underpinning the other policy goals such as employment.

The statements stress the independence of the RBA, but also reference the procedure provided for by the Act in the case of a disagreement between the RBA and the government. Section 11 of the Act "allow[s] the Government to determine policy in the event of a material difference", state the monetary policy conduct statements from 1996 to 2010 (the language disappears thereafter). However, "the procedures are politically demanding and their nature reinforces the Bank's independence in the conduct of monetary policy", they conclude. No matter how demanding, Senators, especially those in the government coalition, should fight to reassert the government's policy prerogative via this avenue.

What the Senators would be taking on—and what needs to be reviewed by the independent inquiry—are policies designed by the secretive Mont Pelerin Society, co-founded by University of Chicago professor Milton Friedman and Austrian School economist Friedrich von Hayek. This British Crown-Bank of England front directed the global spread of neoliberalism through hundreds of think tanks beginning in the late 1940s.

As documented by *AAS* ("Sterling victims in David and Goliath battle", *AAS*, 10 November 2021), Milton Friedman himself advised the Campbell Inquiry, recruiting politicians on both sides of the political divide to strip the regulatory structures of the Australian economy and prevent state-issued credit—the key bugbear of the Mont Pelerinites.

As documented by Professor Peter Swan of the University of NSW School of Banking and Finance, in a 2007 tribute to Friedman following his death the previous November, one of the regulatory changes following the Campbell Inquiry was a gradual shift from "targeting both full employment and inflation with the one instrument of monetary policy", with very little emphasis on inflation, to "*only concentrat[ing] on inflation* while downplaying the requirement to maintain full employment". (Emphasis added.)

The so-called inflation concern actually relates to large government deficits, as betrayed by the case of the Whitlam government's 1974-75 budget, in which government expenditure was raised 33 per cent, described by Treasurer Jim Cairns as a budget "aimed directly at the economy to increase production, to get the economy going". The sacking of Cairns (over a political scandal) saw the budget reined in drastically, and with the "climate of opinion in favour of 'fighting inflation first' brought about by Friedman's [1975] visit", wrote Swan, inflation began to decrease.

Further proof of the spurious inflation concern is that it does not extend to the housing market or other inflationary asset bubbles. Investment in that quarter expands the speculative, privateer mentality of neoliberalism, whilst government-directed credit invested in the productive sector serves to dismantle the neoliberal power structures typified by the banks and large corporations.

The monetary policy review, which according to Frydenberg will be conducted in close consultation with the central bank, must be pressured to take on these fundamental issues and slaughter some sacred cows in the process.

New Zealand backflips on statutory bail-in

By Elisa Barwick

The New Zealand cabinet announced in April 2021 it would introduce a new statutory bail-in law to protect its banking system, as demanded by the International Monetary Fund. By October, fearing its legislative reform might fail to pass with the included bail-in feature, and perhaps trigger a broader popular backlash, the proposed change was rescinded. The bail-in mechanism, an invention of the Bank for International Settlements (BIS), which re-capitalises banks by stealing bonds and deposits, is part of the sweeping changes being introduced under an ongoing review of New Zealand's monetary policy framework. Launched in 2017, the review has already seen the *Reserve Bank of New Zealand Act 2021* become law, in August last year, replacing the *Reserve Bank of New Zealand Act 1989* as the foundational legislation for monetary policy.

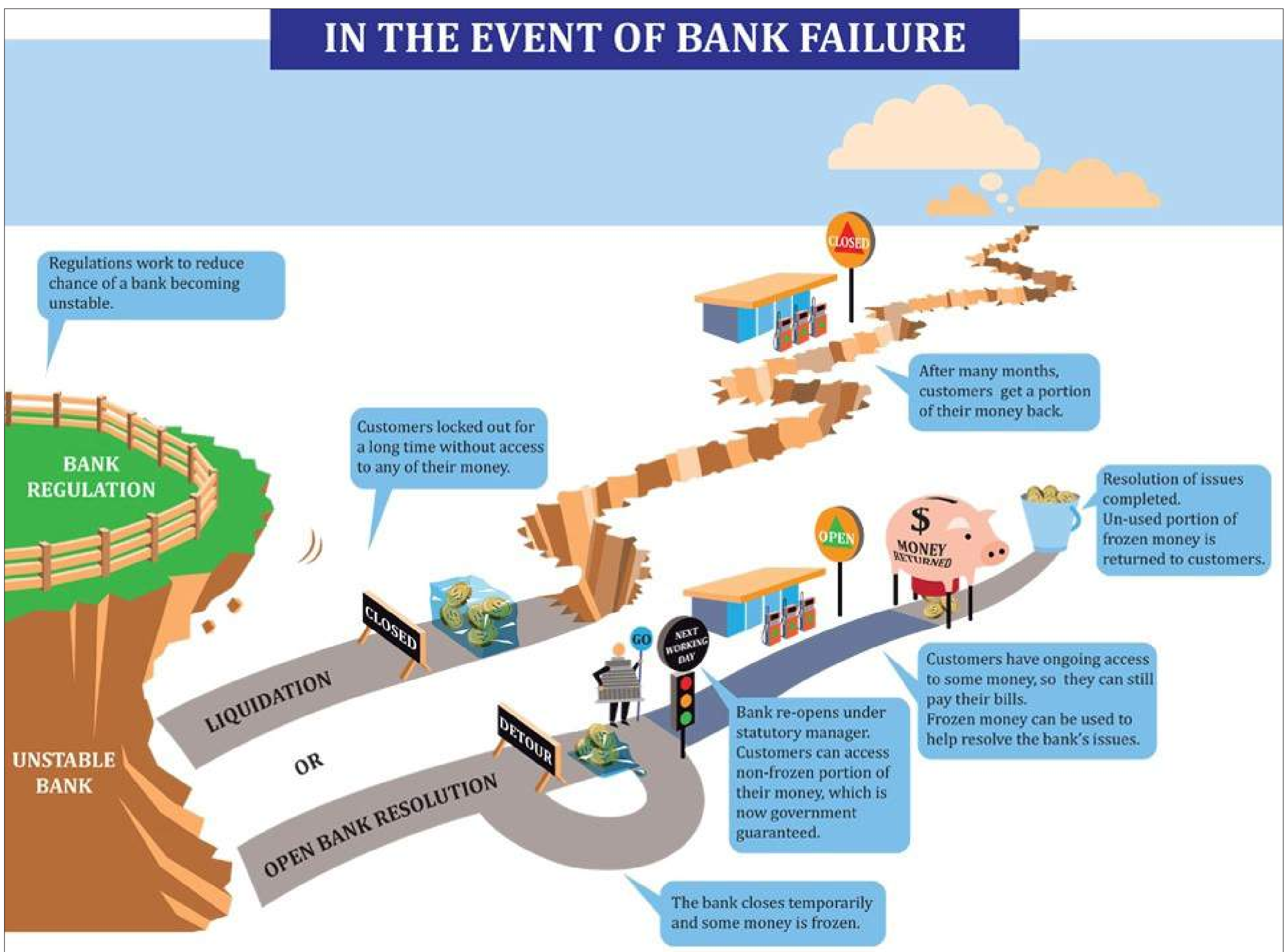
Phase one of the review included establishment of greater transparency and accountability of the monetary policy committee and its processes, and, significantly, "amending the objective of monetary policy to require us to consider maximum sustainable employment alongside price stability when making decisions on monetary policy", according to RBNZ. The 1989 Act, which delivered functional independence for RBNZ, had explicitly made *inflation* the top priority: "The primary function of the Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices." This paralleled the push to deregulate and to block national credit and development in Australia described on p. 6; in fact New Zealand led the way in this agenda, as a Mont Pelerin Society model for the world.[1]

But challenging the "inflation" priority is where the useful aspects of the review end.

Phase 2 of the review replaces the 1989 Act with two new pieces of legislation: the *Reserve Bank of New Zealand Act 2021*, which sets the model for revised objectives, functions and governance, and puts a clearer, overarching focus on the bank's mandate to protect financial stability; and the *Deposit Takers Act*, which establishes a regulatory regime specifically for deposit-taking financial institutions and will include a deposit insurance scheme, guaranteeing NZ$100,000 per account. The *Deposit Takers Act* is still in the consultation phase until 21 February.[2] The new Act was to include statutory bail-in powers. Such a regime would allow liabilities to be written down or converted into worthless shares, without relying on contractual provisions laid out in the terms and conditions of particular bank liabilities (bonds or deposits).

New Zealand already has an explicit bail-in regime, called Open Bank Resolution (OBR), but it is a ministerial

1. "Nazi 'reforms' rip New Zealand—Australia next", *New Citizen*, Jan./Feb./Mar. 1997.
2. You can email a submission to dta@rbnz.govt.nz; more details are available at the RBNZ webpage on the Reserve Bank Act Review.



The RBNZ's illustration of Open Bank Resolution leaves no doubt that NZ bank deposits can be bailed in. However, the NZ government has dropped plans to enshrine bail-in in clear legislation, concerned about the backlash from the public. Photo: RBNZ

direction power made at the recommendation of the RBNZ, rather than being based on legislation. It is effectively the same as a statutory power: under OBR the RBNZ can recommend bail in, and after receiving government approval, the collapsing bank is placed under statutory management and funds placed under moratorium. Envisioned as part of the *Deposit Takers Bill*, the statutory power was supposed to streamline the process. The Regulatory Impact Statement for the bill states that "The resolution [bail-in] authority needs to be independent so that it can make decisions rapidly and without any perception of inappropriate political influence."

In October, however, cabinet decided to "rescind the decisions that would have provided the Reserve Bank with a statutory bail-in power". Cabinet papers revealed the government preferred to stick to the "simple" contractual model of bail in, at least for the moment: "Full statutory bail-in powers are complex (and proper analysis and consultation could delay the passage of the DTA)", wrote the Finance Minister. "I consider they would be best looked at again after resolution strategies are advanced under the new resolution framework, if further evidence suggests that contractual bail-in and other relevant resolution powers prove inadequate."

Insurance motive

New Zealand does not have a deposit insurance safeguard but was advised by the IMF in 2017 to adopt a scheme to mitigate against bank runs by depositors panicked about having their savings bailed in. A June 2019 report, "Safeguarding the future of our financial system", part of the Reserve Bank Act review, makes clear that the deposit insurance scheme was offered to smooth the way for a broader, statutory bail in power. The report explains that "*Without explicit exclusions, deposits would be 'bail-in-able' liabilities alongside other unsecured liabilities* like non-covered bonds. [Emphasis added.] A deposit insurance scheme would therefore become an important element to protect depositors from what might otherwise be seen as an unfair imposition of losses on those who are least able to monitor and manage the risk of bank failure." (Note the implications for Australia's bail-in legislation, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018*, which contains a loophole a mile wide, by listing the liabilities that may be bailed-in and adding, "any other instrument", which legal experts confirm could include deposits. The Citizens Party is fighting to close the loophole by adding language to explicitly exclude *all* deposits, as the RBNZ report suggests is necessary.)

In another disingenuous method observed by Australians, the same document states: "For New Zealand, one option for introducing statutory bail-in would be to provide for the general power in primary legislation, with eligible liabilities and exemptions set out in regulation, while options for the foreign enforcement of the power are developed further." Exemptions contained in a regulation can be changed without a parliamentary vote, leaving depositors at the mercy of individual ministers.

While no longer containing the statutory bail-in clause, the *Deposit Takers Bill* still takes up various aspects of the "mechanics of 'bail-in' powers" to write down or convert creditors' claims in a liquidity crisis; deposit insurance and its funding; use of deposit insurance to contribute to resolution costs; and compensation for creditors under the No Creditor Worse Off principle (compared to liquidation of the bank) as adopted across European jurisdictions.