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


FINANCIAL REVIEW

Former RBA bosses oppose Chalmers' board shake-up

John Kehoe and Michael Read

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.

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."