

Submission – Bernie Fraser

OVERVIEW

It is appropriate for the performance and makeup of prominent institutions like the RBA to be reviewed from time to time. The Panel which reviewed the RBA recently has recommended, inter alia , the removal of section 11 of RBA Act 1959 . I do not support this change (nor a few other changes recommended by the Panel).

2. The Government of the day is entitled to challenge- in a reasonable way - the RBA's decisions when it believes those decisions are seriously out of keeping with the Bank's charter. Section 11 provides a legislative path for Governments to pursue such challenges in the Parliament. At the same time the Section provides for a right of reply by the Bank to any challenges.

3. Recourse to the Section 11 procedures has been foreshadowed a couple of times over the past 60 years but none appears to have been followed through. Whatever this might imply about the efficacy of the Section, it remains a potentially valuable channel for Treasurers to challenge Bank decisions if moved to do so , while at the same time recognising the Bank's independence and its right to defend that independence. The Section does not stop politicians (and others) from calling for government interventions in the Bank's decision making and in the tenure of its Governors, as we have heard in Australia and elsewhere in recent months : but it does provide a fair and reasonable process - indeed , a safety valve- for deliberation if required.

4. Simply dumping Section 11 would do nothing to enhance the Bank's independence. Rather, the likelihood is that , sooner or later, the vacuum would be filled with alternative processes aimed at clipping the Bank's independence ; plenty of lip service continues to be paid to the Bank's hard won independence but certain tensions have been emerging in recent years.

SOME CONTEXT

5. Genuine independence (from actual and perceived political interference) is arguably the Reserve Bank's most valuable asset . It is critical to sustained strong performance of its charter, and being focused on economic and social issues- not politics - it helps to build community trust and confidence in the Bank.

6. The RBA Act 1959 is quite explicit in declaring the Bank's independence in the determination of interest rates and monetary policy. It requires the Bank to pursue these duties in ways which best contribute to price stability, full employment and the prosperity and wellbeing of

Australians . The framers of Act - very wisely in my view- also deliberately chose to leave issues such as the priority of the different goals and possible trade offs among them to the collective judgment of the Board Directors confronting those challenges, rather than attempting to prescribe solutions in the Act.

7. In addition to its legislative framework the Reserve Bank , like other central banks, conducts its monetary policy in an environment or framework of other relevant factors with a view to getting a better handle on inflation . There have been several such frameworks since the days of the Gold Standard and its demise, including periods with a particular focus on managed exchange rates , money supply aggregates, and check lists of selected indicators. Some of these frameworks involved inputs from bureaucratic and other sources outside the Bank. This meant that while the RBA Act clearly designated the Bank as the decision maker on interest rates it was not always totally independent in this role through to the 1980s .

8. Over the past three decades or so the Bank has acted with greater actual and perceived independence. Two factors have contributed to this change. First, by the end of the 1980s interest and exchange rates in Australia and elsewhere were largely market determined, with less scope for political intervention. Secondly, in the early 1990s the Reserve Bank and some other central banks embraced inflation targeting as its new inflation framework, the Reserve Bank opting deliberately for a flexible target of 2 to 3 percent on average over a run of years . The Bank's performance throughout this period arguably has been at least the equal of any other central bank; it has contributed to sustained economic growth with inflation within its target range .

CONCLUSION

9. The Review Panel has expressed support for much of the Reserve Bank's current monetary policy framework but a few of its recommendations seem unhelpful to me. These warrant careful scrutiny to avoid chipping away at the effective infrastructure built up over recent decades , and risk damaging the Bank's hard earned independence and credibility.

Bernie Fraser

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