Australia’s Money Mandarins

For most of its life the Reserve Bank of Australia (RBA) has led a fairly conservative existence. However, since the early 1980s the economy has experienced financial and market deregulation and general economic liberalisation. The RBA has been caught up with the turbulent policy debates that have ensued.

*Australia’s Money Mandarins* tells the story of the RBA over the past two decades. It discusses how the Bank operated in the new political environment created by deregulation and the fight against inflation. It describes the conflicts with the government and the Department of Treasury, and how the Bank dealt with the rough and tumble of politics and managed to assert a level of independence in the 1990s. Including frank interviews with key figures like Bob Johnston, Bernie Fraser, Ian Macfarlane and Paul Keating, this book will appeal to anyone with an interest in the politics of money.

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Australia’s Money Mandarins
The Reserve Bank and the Politics of Money

Stephen Bell
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Preface

This book has emerged from my earlier work on the politics of economic policy in Australia, in which I learnt that the Reserve Bank of Australia, especially since financial market deregulation in the 1980s, had become one of the most powerful and significant policy institutions in the country. Yet it had received surprisingly little attention from researchers, and there were few studies of the politics of central banking and monetary policy in Australia.

Central banks now have a great deal of clout in macroeconomic policy. They essentially control monetary policy, which, these days, means controlling the price of money in short-term markets. They also stand at a critical interface between states and financial markets, and between governments and voters. The ways in which central banks operate and manoeuvre in these settings offer rich pickings for political analysis.

There are two main stories in this book. One is about the politics of monetary policy since financial deregulation in the early 1980s – the period in which the Reserve Bank rose to prominence, crunched inflation in the early 1990s recession, and has since presided over an economy featuring low inflation and relatively strong growth. How and why did this pattern of policy emerge? The second story is about the increasing independence of Australia’s central bank. How and why did governments pass so much authority to the RBA, and how can such an outcome be justified in a democracy?

Books on the RBA (or its forerunner the Commonwealth Bank of Australia) describe the early history of central banking and the post-war rise of the RBA. The main contribution, especially for the post-war period, is Boris Schedvin’s official economic history of the Bank, which covers the period 1945–75. Joan Linklater’s Inside the Bank mainly deals with the RBA’s internal policy and administrative practices. From a political perspective, the main work is Chris Eichbaum’s PhD thesis, which provides a useful comparative analysis of
Australian and New Zealand central banking, although only three and a half chapters are devoted to the RBA.

Central banking has traditionally been a secretive world, and it is still the case that most practices, policy-making and power plays occur behind closed doors and are only scantily documented. It was only in the 1990s that the Bank became more forthcoming about its policies, but still most of the politics behind policy, the Bank’s relations with the government, and certainly, the deliberations of the Bank’s Board, are either secret or difficult to scrutinise directly. Indeed, the Board does not release minutes and the Bank’s archives have a 15-year limit on access. I established, by examining the material available in the Bank’s archives, that there was not much documentation of the policy machinations and relationships between the Bank and the government.

Hence, the best way to answer the questions posed in this book was to talk to the insiders. I have relied heavily on detailed interviews and correspondence with the major players – all of the Bank’s Governors during the relevant period and key respondents in government, including Treasurer (later Prime Minister) Paul Keating. I warmly thank those who agreed to be interviewed. Their names appear in the pages that follow.

One final reason for the writing of this book was my repeated encounters with the abstract formal models of central bank behaviour and relations with government found in economics and economics-inspired ‘political economy’ literature. This lifeless mode of deductive analysis starts with a priori assumptions about preferences, motivations and institutional settings and derives formal models of central banking politics.

Generally speaking, the assumptions about preferences and the institutional analysis in the models are simplistic. The models also say little about the changing historical context in which central banks operate, especially in relation to the discipline that financial markets now exert on policy.

Rather than making assumptions, a better way to understand the politics of central banking is to observe a central bank through time. Given the closed nature of most of the proceedings and interactions, the best way to do this is again to talk to the key players and analyse insider accounts of events.

I would also like to warmly thank those who took the time to read and comment on parts, or in some cases all, of the manuscript: Chris Eichbaum, Bernie Fraser, Simon Guttmann, Ian Macfarlane, Peter Jonson, Bob Johnston, Ross Gittins, John Quiggin, David Emanuel, Fred Argy, Warwick McKibbin, John Edwards, and Michael Keating. Any remaining errors or inaccuracies remain my responsibility.
Chapter 9 draws on a paper that I wrote jointly with John Quiggin, entitled ‘Asset Bubbles, Financial Instability and Policy Responses: The Legacy of Liberalisation’.

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Abbreviations

ACTU  Australian Council of Trade Unions
APRA  Australian Prudential Regulation Authority
BIS   Bank of International Settlements
CAD   current account deficit
CBA   Commonwealth Bank of Australia
CBI   central bank independence
CPI   consumer price index
GDP   gross domestic product
GST   goods and services tax
IMF   International Monetary Fund
NAIRU non-accelerating inflation rate of unemployment
OECD  Organization for Economic Cooperation and Development
OPEC  Organisation of Petroleum Exporting Countries
RBA   Reserve Bank of Australia
SRDs  Statutory Reserve Deposits