

Chapter 1

Introduction

Background

1.1 Central banks will generate superior economic outcomes when they base monetary policy decisions on their view of the economic outlook rather than political considerations. The cross-party support for this view in Australia means that the Reserve Bank of Australia has operational independence.

1.2 However, it is important that central banks are not only independent of governments but that they are seen to be independent and that this independence is expected to endure. In forming views on this, financial markets and other commentators will often look at the relevant legislation. The current provisions of the *Reserve Bank Act 1959* could give analysts the impression that just because the power exists under the Act, a future Treasurer might be tempted to influence the decisions of the Reserve Bank Governor by threatening their dismissal and replacement by a partisan appointment.

1.3 For this reason, the Prime Minister and Treasurer announced on 6 December 2007 that the Government would seek to amend the *Reserve Bank Act 1959*.¹ The bill proposes to amend the *Reserve Bank Act 1959* (the Act) to introduce revised arrangements for the appointment, suspension and termination process for the Governor and Deputy Governor of the RBA.

1.4 The Reserve Bank Amendment (Enhanced Independence) Bill 2008 was introduced into the House of Representatives on 20 March 2008 and passed on 26 May 2008. The Senate referred the provisions of the bill to the Senate Standing Committee on Economics on 14 May 2008 for report by 31 May 2008.

Conduct of the inquiry

1.5 The committee placed information about the inquiry on its website, inviting written submissions by 23 May 2008. The committee also contacted some relevant organisations and individuals inviting written submissions.

1.6 The six submissions received, listed in Appendix 1, are available at http://www.aph.gov.au/Senate/committee/economics_ctte/rba_08/submissions/sublist.htm.

1.7 The committee held a public hearing in Canberra on Friday 30 May 2008. The witnesses are listed in Appendix 2. Later that day, the committee submitted an interim

1 Joint Media Release of the Prime Minister of Australia and the Treasurer, the Hon Wayne Swan MP, 'Rudd Government announces new era of independence for RBA', 6 December 2007.

report to the President of the Senate indicating it intended to present the final report by Wednesday, 11 June 2008.

1.8 The committee thanks those who participated in the inquiry.

Structure of the report

1.9 The economic arguments about central bank independence, and its implications for inflation, are discussed in Chapter 2. The views about whether the bill leads to a desirable change in the actual and perceived independence of the Reserve Bank are analysed in Chapter 3. The committee's conclusions are presented in Chapter 4.