

Chapter 3

Provisions of the bill

3.1 The bill amends sections 24 and 25 of the *Reserve Bank Act 1959* as shown in the following table.

Table 3.1: Changes proposed in the bill

section	Current act	Proposed by bill
24(1)	<p>The Governor and the Deputy Governor:</p> <p>(a) are to be appointed by the Treasurer; and</p> <p>(b) Shall be appointed for such period, not exceeding 7 years, as the Treasurer determines but are eligible for re-appointment; and</p> <p>(c) Hold office subject to good behaviour.</p>	<p>The Governor and the Deputy Governor:</p> <p>(a) are to be appointed by the Governor-General; and</p> <p>(b) Shall be appointed for such period, not exceeding 7 years, as the Governor-General determines but are eligible for re-appointment; and</p> <p>(c) Hold office subject to good behaviour.</p>
24B	<p>The Governor or the Deputy Governor may resign his or her appointment by giving a written resignation to the Treasurer.</p>	<p>The Governor or the Deputy Governor may resign his or her appointment by giving a written resignation to the Governor-General.</p>
25		<p>(1) The Governor-General may terminate the appointment of the Governor or Deputy Governor if each House of the Parliament, in the same session of the Parliament, presents an address to the Governor-General praying for the termination of the appointment on a ground for termination specified in subsection (8).</p> <p>(2) The Governor-General may suspend the Governor or the Deputy Governor from office on a ground for termination specified in subsection (8).</p> <p>(3) The Minister must cause to be laid before each House of the Parliament, within 7 sitting days of that House after the suspension, a statement identifying the office holder suspended and the ground of the suspension.</p> <p>(4) A House of the Parliament may, within 15 sitting days of that House after the day on which the statement is laid before it, declare</p>

	<p>If the Governor or the Deputy Governor: (a) becomes permanently incapable of performing his or her duties; or</p> <p>(b) engages in any paid employment outside the duties of his or her office; or</p> <p>(c) becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with his or her creditors or makes an assignment of his or her salary for their benefit;</p> <p>the Treasurer shall terminate his appointment.</p>	<p>by resolution that the appointment of the office holder identified in the statement shall be terminated.</p> <p>(5) If a resolution is passed by each House of the Parliament in accordance with subsection (4) in the same session of the Parliament, the Governor-General must terminate the appointment to which the resolution relates.</p> <p>(6) If a resolution is not passed by each House of the Parliament in accordance with subsection (4) in the same session of the Parliament, the suspension of the office holder identified in the statement terminates on the day after the last day that such a resolution could have been passed.</p> <p>(7) The suspension of the Governor or the Deputy Governor from office under this section does not affect any entitlement of the Governor or the Deputy Governor to be paid remuneration and allowances.</p> <p>(8) For the purposes of this section, it is a ground for termination if the Governor or the Deputy Governor: (a) becomes permanently incapable of performing his or her duties; or</p> <p>(b) engages in any paid employment outside the duties of his or her office; or</p> <p>(c) becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with his or her creditors or makes an assignment of his or her salary for their benefit</p> <p>(9) The appointment of the Governor or the Deputy Governor must not be terminated on a ground for termination specified in subsection (8) except as provided by this section.</p>
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3.2 In some aspects this is moving back towards the original formulation. When the Reserve Bank was established in 1959, the Governor-General appointed and terminated the Governor and Deputy Governor. In the *Financial Sector Legislation Amendment Act (No.1) 2002* these powers were given to the Treasurer. The then Government argued that the amendments would streamline the appointment and termination process.¹

1 Diane Spooner, 'Reserve Bank Amendment (Enhanced Independence) Bill 2008', *Bills Digest*, No 97, Parliamentary Library Canberra, 2007-08, 29 April 2008, pp 3-4.

Appointment procedures

3.3 The bill moves the power of appointment from the Treasurer to the Governor-General. This would rarely make any practical difference as in the ordinary course either the Governor-General and the Treasurer would be acting on a cabinet decision. The bill does **not** accord a role to the Parliament in appointing the Governor, which would be a move towards the American model.

3.4 It does remove the very small probability of a 'rogue Treasurer' making an appointment without Cabinet authority, perhaps the day before the Treasurer expected to be dismissed.

3.5 An advantage of the amendment is that it helps avoid the perception of the post of Governor as being the personal gift of the Treasurer and thereby may raise perceptions of the independence of the Governor.

Dismissal provisions

3.6 The three grounds for dismissal in section 25 are retained, namely incapacity, outside employment and bankruptcy. (The three grounds are also required for suspending the Governor.) There are three key aspects. Firstly, the three reasons are no longer *mandatory* grounds for dismissal. Secondly, they are the *only* grounds for dismissal without involving the courts. Thirdly, *Parliament* can initiate the dismissal process and must ratify it if the Treasurer initiates it by suspending the Governor.

Should the grounds be mandatory?

3.7 The bill allows, but does not oblige, the Parliament to request the Governor-General to dismiss a Governor or Deputy Governor and having received their request the Governor-General *may* act on it. This is seen by some witnesses as allowing too much discretion on what they view as objective criteria:

...a bankrupt may remain as RBA governor if the Parliament so chooses. The government has not articulated any argument why this may be good policy. It is inconceivable that anyone who was incapacitated, or bankrupt, or engaged in paid outside work should continue as RBA Governor, or Deputy Governor. The government has not explained what additional considerations the Parliament would bring to bear that the Treasurer would be unaware of – as already indicated these are objective phenomena.²

...the amendment proposes to politicise (via parliamentary debates) matters about termination, which, under the listed eventualities (personal incapacity, bankruptcy, or being externally employed) are largely matters of a factual nature...³

2 Institute of Public Affairs, *Submission 4*, p. 8.

3 Professor Stephen Bell, *Submission 2*, p. 1.

3.8 The case partly depends on the extent to which there truly is any subjectivity about the three criteria, and whether there is any case for leniency.

3.9 The question of whether any incapacity is serious enough to prevent the Governor undertaking their responsibilities, and whether such incapacity is temporary or permanent, is a matter of judgement. Often the judgement is a medical one. Particularly in the case of mental incapacity, it can be a judgement about which views can differ. The terms in section 25 appear quite strict. It is apparently not enough that the Governor is no longer capable of performing their duties *fully*. It seems that they must be completely *incapable* of performing them. There remains doubt about the interpretation as it has not been tested in the courts.

3.10 The question of paid employment should be capable of objective determination. However, there may be a case for leniency. For example, should a well-performing Governor given ten dollars for refereeing an under-tens soccer game on the weekend have to be dismissed?

3.11 The question of bankruptcy is objective and there seems little doubt that having a declared bankrupt serving as Governor would not be in the interests of public confidence.

Should the grounds be exclusive?

3.12 Another argument was that the Governor should be able to be dismissed on other grounds.

3.13 At one end of the spectrum is the view is that the Governor should be able to be dismissed for not following the Government's wishes. This would be a quite reasonable view of someone who rejected the arguments in Chapter 2 about the benefits of central bank independence. But it is not the committee's view and it is not consistent with the cross-party support expressed for central bank independence.

3.14 Another view is that the Governor should be able to be rejected for poor performance. On this view if inflation was not maintained within the agreed target range over the medium-term, then the Governor should be removed.

3.15 New Zealand is often cited as a case where the Governor can be dismissed by the Board for poor performance.⁴ However, an important difference is that in New Zealand monetary policy decisions are the sole responsibility of the Governor, whereas in Australia the decisions are taken by the Board. While the Governor chairs the Board, and has the most influential voice, he has in the end only one vote and so it may be unfair to punish him or her severely for the Board's decisions.

3.16 A much milder sanction is applied to the Governor of the Bank of England, who is required to write a public letter to the Chancellor of the Exchequer (the UK

4 Dr Stephen Kirchner, 'A new era for the reserve bank', *Policy*, Vol.24 No.1, Autumn 2008, p. 2.

equivalent of the Treasurer) when inflation goes outside the target band, explaining the reasons and the response.

3.17 It could also be argued that the Governor may damage the Reserve Bank's reputation by other acts than the three grounds listed in the Act. Even if, for example, making inflammatory or irresponsible remarks or being convicted of a criminal offence could lead to the governor being dismissed under the 'behaviour' provisions of section 24, getting a court decision may be a lengthy process (as discussed below).

Should Parliament be given the power to dismiss?

3.18 The committee heard views that involving Parliament may ensnare the governor more in political matters than does the current arrangement.

It is being portrayed as a way of increasing their [the Reserve Bank's] political independence but it would actually make them more politically exposed.⁵

3.19 An alternative approach would be for the Reserve Bank Board to be given the responsibility for dismissal of the Governor, either unfettered or limited to certain grounds. They already have the right to set the Governor's remuneration, under section 24A of the Act. An analogy could be drawn with the dismissal of the CEO of a company by its board.⁶ A difference is that the Reserve Bank Board does not have the power to appoint the Governor.

3.20 Mr McDonald from Treasury argued that it is preferable for Parliament rather than the executive to have the power to dismiss the Governor to build confidence in the central bank's independence:

When you have some degree of judgement or discretion on a question on something as sensitive as the dismissal of a Governor or a Deputy Governor of the Reserve Bank, then there is a risk that by allowing that to be entirely in the discretion of the executive government, people could well infer that the dismissal was not in fact made for those grounds but was made for other grounds.⁷

Practicality concerns

3.21 Some submissions raised concerns that the new procedures proposed in the bill are too slow in cases where a Governor clearly needs to be removed quickly. The suspension by the Governor-General, the Treasurer making a statement to Parliament, and then a motion supporting termination being passed by both houses would take a lot longer than a simple determination by the Treasurer (especially if Parliament were

5 Associate Professor Steve Keen, *Proof Committee Hansard*, p.12.

6 Senator Andrew Murray, *Proof Committee Hansard*, pp 6–8.

7 Mr Tony McDonald, *Proof Committee Hansard*, p. 26.

in recess⁸). Associate Professor Steve Keen uses the example of the Governor falling into an irreversible coma.⁹

3.22 The 'coma' case could be dealt with by the Deputy Governor acting as Governor under sections 12(3) and 21(2) of the Act. Even without either the Governor or Deputy, the Reserve Bank Board could still have a quorum and, depending on the interpretation of section 21, may still be able to meet and set monetary policy.

3.23 Furthermore, the suspension provisions allow for a Governor to be removed from office until Parliament resumes sitting. In most cases of medical incapacity it would not be necessary to wait for Parliament to meet as the Governor would voluntarily resign. If a bankrupt Governor were clinging to office during a parliamentary recess just to collect the salary, then the Reserve Bank Board could cut this to zero under section 24A of the Act.

Comparison with dismissal provisions for other officeholders

3.24 An analogy was drawn with the dismissal provisions for the Taxation Commissioner, the Australian Statistician and the Auditor-General, three other positions for which it is important that the occupants are seen as independent of the government of the day. In the second reading speech on the bill, the Treasurer declared:

The Rudd government committed to enhance the independence of the Reserve Bank by raising the positions of Governor and Deputy Governor to the same level of statutory independence as the Commissioner of Taxation and the Australian Statistician.¹⁰

3.25 The occupants of these posts are subject to similar provisions as those in the bill. They can be dismissed by the Governor-General following a request by both Houses of Parliament. A difference is that in the event of bankruptcy they are required to be dismissed by the Governor-General, rather than allowing parliament some discretion.

8 A point made by Professor Stephen Bell, *Submission 2*, p. 1.

9 Associate Professor Steve Keen, *Submission 3*, p. 10.

10 Hon. Wayne Swan MHR, *House Hansard*, 20 March 2008, p. 2381.

Table 3.2: Dismissal procedures for selected officeholders

Taxation Commissioner (*Taxation Administration Act 1953, section 6C*) (1) The Governor-General may remove the Commissioner or a Second Commissioner from office on an address praying for the removal of the Commissioner or the Second Commissioner, as the case may be, on the ground of proved misbehaviour or physical or mental incapacity being presented to the Governor-General by each House of the Parliament in the same session of the Parliament. (2) The Governor-General may suspend the Commissioner or a Second Commissioner from office on the ground of misbehaviour or physical or mental incapacity. (3) Where the Governor-General suspends the Commissioner or a Second Commissioner, the Minister shall cause a statement of the grounds of the suspension to be laid before each House of the Parliament within 7 sitting days of that House after the suspension. (4) If, at the expiration of 15 sitting days of a House of the Parliament after the day on which the statement was laid before that House, an address under subsection (1) has not been presented to the Governor-General by each House of the Parliament, the suspension terminates. (5) The suspension of the Commissioner or a Second Commissioner from office under this section does not affect any entitlement of the Commissioner or Second Commissioner, as the case may be, to be paid remuneration and allowances. (6) If: (a) the Commissioner or a Second Commissioner becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with his or her creditors or makes an assignment of his or her remuneration for their benefit; (b) the Commissioner or a Second Commissioner engages, except with the approval of the Minister, in paid employment outside the duties of the office of Commissioner or Second Commissioner, as the case may be; or (c) the Commissioner or a Second Commissioner is absent from duty, except on leave of absence, for 14 consecutive days or 28 days in any 12 months; the Governor-General shall remove the Commissioner or Second Commissioner, as the case may be, from office. (7) The Governor-General may, with the consent of the Commissioner or a Second Commissioner, retire the Commissioner or Second Commissioner, as the case may be, from office on the ground of physical or mental incapacity. (8) The Commissioner or a Second Commissioner shall not be suspended, removed or retired from office except as provided by this section.

Australian Statistician (*Australian Bureau of Statistics Act 1975*) (1) The Governor-General may remove the Statistician from office on an address praying for his or her removal on the ground of misbehaviour or incapacity being presented to the Governor-General by each House of the Parliament in the same session of the Parliament. (2) The Governor-General may suspend the Statistician from office on the ground of misbehaviour or incapacity. (3) Where the Governor-General suspends the Statistician from office, the Minister shall cause a statement of the ground of the suspension to be laid before each House of the Parliament within 7 sitting days of that House after the suspension. (4) Where such a statement has been laid before a House of the Parliament, that House may, within 15 sitting days of that House after the day on which the statement has been laid before it, by resolution, declare that the Statistician should be removed from office and, if each House so passes such a resolution, the Governor-General shall remove the Statistician from office. (5) If, at the expiration of 15 sitting days of a House of the Parliament after the day on which the statement has been laid before that House, that House has not passed such a resolution, the suspension terminates. (6) The suspension of the Statistician from office under this section does not affect any entitlement of the Statistician to be paid remuneration and allowances. (7) If the Statistician becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with his or her creditors or makes an assignment of his or her remuneration for their benefit, the Governor-General shall remove the Statistician from office. (8) The Governor-General may, with the consent of the Statistician, retire the Statistician from office on the ground of incapacity. (9) The Statistician shall not be removed or suspended from office except as provided by this section.

Auditor-General (*Auditor-General Act 1997, schedule 1:6*) (1) The Governor-General may remove the Auditor-General from office if each House of the Parliament, in the same session of the Parliament, presents an address to the Governor-General praying for the removal of the Auditor-General on the ground of misbehaviour or physical or mental incapacity. (2) The Governor-General must remove the Auditor-General from office if the Auditor-General does any of the following: (a) becomes bankrupt; (b) applies to take the benefit of any law for the relief of bankrupt or insolvent debtors; (c) compounds with his or her creditors; (d) assigns his or her remuneration for the benefit of his or her creditors.

The 'good behaviour' provisions

3.26 As shown in Table 3.1, section 24(1)(c), which states that the Governor and Deputy 'hold office subject to good behaviour', is retained. It has been suggested that the bill in some way changes its application:

If in the future... if the governor is caught inside-trading or taking bribes, there is considerable doubt whether anybody – Treasurer or parliament – will be able to remove him.¹¹

The amendment drops, without any apparent reason, the earlier (current) provision to make tenure contingent on 'good behaviour'.¹²

3.27 However, a legal opinion from the Australian Government Solicitor, tabled by Treasury, indicates that nothing in the bill has the effect of nullifying the 'good behaviour' provision.

3.28 The Solicitor advises that in order for a Governor or Deputy Governor to be removed under section 24(1)(c) 'it would be necessary for legal proceedings to be brought in an appropriate court by a person having sufficient standing'. The Government would have the necessary 'legal standing' but not a private member. The interpretation of the expression 'good behaviour' has not been tested in the courts.

3.29 Concerns have been expressed that legal proceedings could take a very long time.

If you institute legal proceedings in the Federal Court—and...the governor is a person of sufficient financial substance to be in a position to defend those proceedings...it might take years, might it not?¹³

3.30 Quite how long it may take is open to question:

if the evidence of misbehaviour was so compelling and so overwhelming I find it hard to see that the courts would take a period of years to elaborate on it.¹⁴

3.31 It should be remembered that if this is a problem, it is a problem in the current legislation, not one that would be created by the bill.

3.32 Mr Saul Eslake would like to see the 'good behaviour' provisions removed:

11 The Hon. Malcolm Turnbull, MHR, 'The risk of creating an untouchable', *Sydney Morning Herald*, 28 May 2008, p. 11. Mr Turnbull draws an analogy with the Italian central bank governor who refused to resign after being improperly involved in a takeover of a commercial bank. The article summarises arguments in *House of Representatives Hansard*, 14 May 2008, pp 96-100.

12 Professor Steven Bell, *Submission 2*, p. 1.

13 Senator the Hon. George Brandis, *Proof Committee Hansard*, p. 20. He drew an analogy with the drawn-out proceedings involving a dismissal of the head of the Department of Defence.

14 Mr Tony McDonald, Treasury, *Proof Committee Hansard*, p. 21.

A government could, for example, conceivably interpret decisions by a Governor and Deputy Governor to raise interest rates which it found especially politically inexpedient to constitute such a departure from ‘good behaviour’ as would, in the terms of section 24 (1) of the Reserve Bank Act, provide grounds for termination of their appointments. That possibility may well be very remote. It might even be said that it exists only in theory. Nonetheless, removing that possibility, even if it is only theoretical, would serve to enhance perceptions of the Reserve Bank’s independence.¹⁵

3.33 He suggested:

It would seem prudent, therefore, that if the tenure of the Governor and Deputy Governor of the Reserve Bank is to be enhanced in the way envisaged by the Bill, that the Bill should also include provision for ‘proven misbehaviour’ to be a ground for removal upon a resolution to that effect by both Houses. Desirably, ‘proven misbehaviour’ might be specifically defined to exclude decisions with regard to the cash rate target per se as constituting ‘proven misbehaviour’ simply because the Government of the day disagreed with them, or even if they turned out (with the benefit of hindsight) to have been ill-advised.¹⁶

The 'override' provisions

3.34 Also unchanged by the bill are the provisions of section 11 of the Act, which allows the Government, through the Governor-General, to direct the Reserve Bank Board to adopt the Government's policy, subject to the Government having to table in Parliament the Bank's reasons why it rejected the Government's view.¹⁷ In the five decades this potential restraint on central bank independence has been in place, it has never been used.

3.35 Associate Professor Steve Keen wrote:

The substantive capacity of the Government to direct the RBA to conduct monetary policy as the Government sees fit is also unaffected by this Bill. Those powers reside in Section 11, and are not amended by this Bill—and nor should they be.¹⁸

3.36 Professor Davidson commented:

The government can overrule the central bank at any time under section 11. The fact that a government chooses not to do so actually points to the credibility of the government itself in its conduct of monetary policy. So

15 Mr Saul Eslake, *Submission 1*, p. 4.

16 Mr Saul Eslake, *Submission 1*, p. 4.

17 The UK, Canada and Japan have similar provisions in their central banking legislation but many countries do not. Such provisions are more common in central banks whose legislation dates from an era before central banks had clearly defined objectives.

18 Associate Professor Steve Keen, *Submission 3*, p. 10.

there is a nuanced argument in terms of the line we need to draw between how much independence the Governor of the Reserve Bank should have, and the accountability that the governor has to the government and that ultimately the government has to the electorate.¹⁹

Is the bill necessary given the current independence of the Reserve Bank?

3.37 In recent years, there has been cross-party support for central bank independence. While Treasurers and Prime Ministers have offered commentary on decisions by the Reserve Bank, there have been no serious accusations, let alone documented cases, of threats being made by Government ministers to dismiss a Governor.

3.38 As a witness argued, there has recently been a very good example of central bank independence:

The current Reserve Bank governor raised interest rates during an election period. That is not nothing; it is a remarkable act of frank and fearless advice.²⁰

3.39 This has led some writers to argue that the bill is unnecessary:

The RBA's senior officers have always enjoyed a high degree of independence owing to the fact that dismissal would be politically costly to the government.²¹

there is too much ado about RBA independence in my view. The RBA is already quite independent.²²

3.40 It is hard to judge the extent to which dismissing a Reserve Bank Governor would be politically costly. Perhaps the fact it has not happened is itself an indication that it would be politically costly. Senator Brandis put strongly his view that the political costs of dismissing a Governor would be almost prohibitive:

given the gravity of such a measure, no government would dare make it unless there were very, very powerful and almost self-explanatory reasons to do such a thing.²³

3.41 On the other hand, when interest rates are high and rising, making a scapegoat of a central bank Governor could be quite politically popular in the short term. When

19 Professor Sinclair Davidson, *Proof Committee Hansard*, p. 3.

20 Professor Sinclair Davidson, *Proof Committee Hansard*, p. 8.

21 Dr Stephen Kirchner, 'Independence:2 accountability:0', *The Age*, 27 March 2008, p. 12.

22 Professor Stephen Bell, *Submission 2*, p. 1.

23 Senator George Brandis, *Proof Committee Hansard*, p. 24.

tabloid papers excoriate the Reserve Bank governor on their front pages, they are unlikely to attack a Government for dismissing him.²⁴

3.42 The stronger sanction against dismissal would be likely in financial markets, especially if the dismissal was regarded as being motivated by a desire to run a looser monetary policy and allow higher inflation. In that case, it is likely that the exchange rate would depreciate sharply and bond yields soar.

3.43 Professor Davidson concluded there are already sufficient safeguards to protect the central bank Governor:

The Reserve Bank governor...is a highly visible person not only to the electorate, the media and the opposition but to the international financial markets. It is the media, the international financial markets, the opposition and the electorate at large who provide the Reserve Bank governor with all the protection that he actually really needs.²⁵

3.44 While these considerations may lead a government to pause before dismissing a Reserve Bank governor, they do not remove entirely the credibility of a threat to dismiss him, and so allowing the Treasurer free reign to dismiss the Governor could potentially allow the Treasurer to influence him. Even if astute judges of Australian politics may not believe the threat was credible, having legislation which seems to allow it may diminish the perceived independence of the Reserve Bank in international markets.

Does the bill go far enough?

3.45 Some critics of the bill contend that it does not go far enough:

While in some respects an improvement, the new arrangements leave the RBA operating under an outdated and internationally anomalous governance structure that is incompatible with modern demands for central bank transparency and accountability.²⁶

3.46 It has been suggested that changes should be made to the manner and nature of appointments of the other Reserve Bank Board members. The incoming Treasurer announced in December 2007 'the Secretary to the Treasury and the Governor will maintain a register of eminent candidates of the highest integrity from which the Treasurer will make new appointments to the Reserve Bank Board. This procedure removes the potential for political considerations in the appointment process and ensures only the best qualified candidates are appointed to the Reserve Bank Board.'²⁷

24 *The Daily Telegraph*, 5 April 2008, splashed across its front page an unflattering picture of Governor Stevens and a large headline 'Is this the most useless man in Australia'.

25 Professor Sinclair Davidson, *Proof Committee Hansard*, p. 3.

26 Dr Stephen Kirchner, 'A new era for the reserve bank', *Policy*, Vol.24 No.1, Autumn 2008, p. 1.

27 Statement on the conduct of monetary policy, by the Treasurer and the Governor of the Reserve Bank of Australia, 6 December 2007 on RBA website, www.rba.gov.au.

3.47 The committee welcomes this as an improvement but notes concerns that it may mean that challengers to the dominant economic paradigm may be unlikely to be appointed. A possible response was suggested by Associate Professor Keen. The Board could be enlarged to allow four academics so that different schools of economic thought can be represented in its deliberations. The academics could be chosen from a shortlist prepared by a committee of the Economics Society of Australia. Associate Professor Keen also called for efforts to ensure the Board encompassed people representing community groups as well as with practical business experience.²⁸

3.48 The United Kingdom Government appointed a Commissioner for Public Appointments, following the recommendations of the Nolan Committee, to ensure appointments are based, and are seen to be based, on merit. This model might be usefully considered in thinking about further reforms.

3.49 Other matters raised during the inquiry included the presence of the Secretary to the Treasury on the Board. Some witnesses wanted the Reserve Bank to look at a broader range of influences on the economy. These matters are important but outside the remit of this report.

Increasing accountability of the Reserve Bank

3.50 Related to central bank *independence* is the *accountability* of the central bank. Indeed accountability could be regarded as the price central banks must pay for being given independence. Central bankers were once almost hermit-like; a 'medieval mystery' as one central banker put it.²⁹ Now central banks publish detailed analyses of the economy, release statements after their meetings and their Governors make many speeches.

3.51 A specific aspect of accountability is discharged by many central banks by appearing before parliamentary committees. For about a decade the Reserve Bank of Australia has appeared twice a year before the House of Representatives Economics Committee.

3.52 When this bill was debated in the House an amendment was unsuccessfully moved to increase the frequency of the Bank's appearances from two to four, so that:

...the people and the parliament of Australia will see more of the Reserve Bank and understand more about their work. The Reserve Bank will know that it is accountable four times a year. That increase in frequency will underline and emphasise the independence of that institution³⁰

28 Associate Professor Steve Keen, *Submission 3a*.

29 H C 'Nugget' Coombs, long-term governor of the Reserve Bank, in his autobiography, *Trial Balance*, p. 141.

30 Hon Malcolm Turnbull, *House Hansard*, 14 May 2008, p. 2774.

3.53 The Reserve Bank Governor has indicated that he would be happy to appear more often. He said to the committee 'It is really in the hands of the committee how often you want me to come.'³¹

3.54 Saul Eslake's submission to the inquiry opposed this suggestion:

...although the Committee's hearings do, in principle, provide an opportunity for more detailed questioning and scrutiny of the Bank's thinking, all too commonly members of the Committee have instead seen them as providing opportunities to attempt to ensnare the Governor or other officials into supporting a particular line of political argument (attempts which successive Governors have thus far managed to avoid), or for individual Committee members to demonstrate how 'in touch' they are with, or sensitive they are to, the consequences of higher interest rates or rising bank fees for their constituents. It is not readily apparent how doubling the number of opportunities for grandstanding of this nature would enhance the accountability of the Reserve Bank.³²

3.55 Some committee members have suggested that the current arrangements be changed to the governor appearing four times a year to a joint hearing by the House and Senate Economics committees.

31 Mr Glenn Stevens, *House Economics Committee Hansard*, Friday 4 April, p. 36.

32 Mr Saul Eslake, *Submission 1*, p. 6.

