
To: Senate Economics Committee

**Subject: Submission Regarding Reserve Bank Amendment (Enhanced Independence)
Bill 2008
Date 19 May, 2008.**

The proposed amendment does not have my support. The amendment is advanced in the name of enhancing the Reserve Bank's independence. This amendment, however, has little to do with the RBA's independence.

The current government suggested a new approach to appointments soon after taking office. This involved allowing the Treasury Secretary and the RBA Governor to draw up a list of replacement candidates for appointment to the role of Governor or Deputy Governor, with the Treasurer making a choice from that list. This is a reasonable proposal, if the aim is to further place such decisions at one remove from government. In any case the government has not pursued this option in the current Amendment.

On the other hand, there is too much ado about RBA independence in my view. The RBA is already quite independent. Indeed, in my view, the institutional environment of the RBA, the scrutiny the RBA is under, and the role of the Board allow for little or no room for politically driven policy at the RBA.

In any case, the current proposed Amendment makes little sense to me. It suggests revising the current dismissal provisions for the RBA's Governor or Deputy Governor. It proposes to make dismissals turn on three eventualities: personal incapacity, bankruptcy, or being externally employed. The decision to dismiss is also proposed to be debated in both houses of parliament with a recommendation going to the Governor General.

There are three problems here. First, the eventualities listed are too restricted. The Amendment drops, without any apparent reason, the earlier (current) provision to make tenure contingent on 'good behavior'. In other words, the Amendment removes from the Treasurer or the parliament (as the case may be) the capacity to remove a Governor or Deputy Governor for poor performance or 'bad behavior'. Second, 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, and which could more directly be handled by the Treasurer and reported and explained to parliament. Third, if the proposed process was put in place, what would happen if matters arose that might require a decision to terminate at a time when parliament was not sitting? The potential gravity of such matters would need to be handled urgently, but how would this be achieved if the parliament was in recess?

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