

The Mistakes of the RBA

Peter Tulip

Centre for Independent Studies

<https://www.cis.org.au/publication/structural-reform-of-the-reserve-bank-of-australia/>

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The Review:

- 1) No clear change to policy
- 2) Tweaks to framework
 - Clarification of the status quo
- 3) But big changes in process
 - a) Interest rate decisions to be made by monetary policy experts
 - b) More detailed explanations of reasons for decision
 - Both can be seen as providing greater scrutiny.

Why? Not the obvious reasons

- Not because of poor macroeconomic performance
 - “Very good”
 - In my view, due to luck
 - International crises fortuitously put us back on target in 2008 and 2020
- IMV, the RBA has made big ex-ante mistakes:
 - Targeting house prices and indebtedness 2015-2020
 - Targeting the current account in late 1980s
 - Poor exit from yield curve control
- But the Review (sensibly) does not re-litigate those disputes
- Rather, it asks how to avoid mistakes in future

Central Problem: Poor Process

- Little internal scrutiny of Governor's decisions
- Current Board lacks expertise to challenge Governor
 - doesn't provide much more than a "pub test"
- Little consideration of alternatives, risks, exit strategies
- Criticisms of Governor's decisions not presented to the Board
- Nor raised in the "very comprehensive" minutes
- Nor, staff say, considered by Governor

Similar lack of external scrutiny

- Public, parliament not told:
 - Reasons for decision
 - Counterarguments
 - Modelling of alternatives
 - Etc
- Makes it difficult to criticize.
 - Comfortable for RBA, but bad for decision-making
- Other central banks are much more transparent
- Compounding lack of internal scrutiny
- Makes mistakes likely and persistent

Culture

- An overlapping theme of the Review is the RBA's culture.
- Insular, hostile to criticism, incurious, hierarchical
 - Lots of examples, staff surveys, etc
- Goal: more internal deliberation, consideration of alternatives
- Recommends:
 - Engagement with a Board of experts
 - More resources to consideration of policy issues
 - Ultimately, needs to be driven by (new?) leadership