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More worried by charts than policy: Critics circle RBA ahead of review

By Shane Wright

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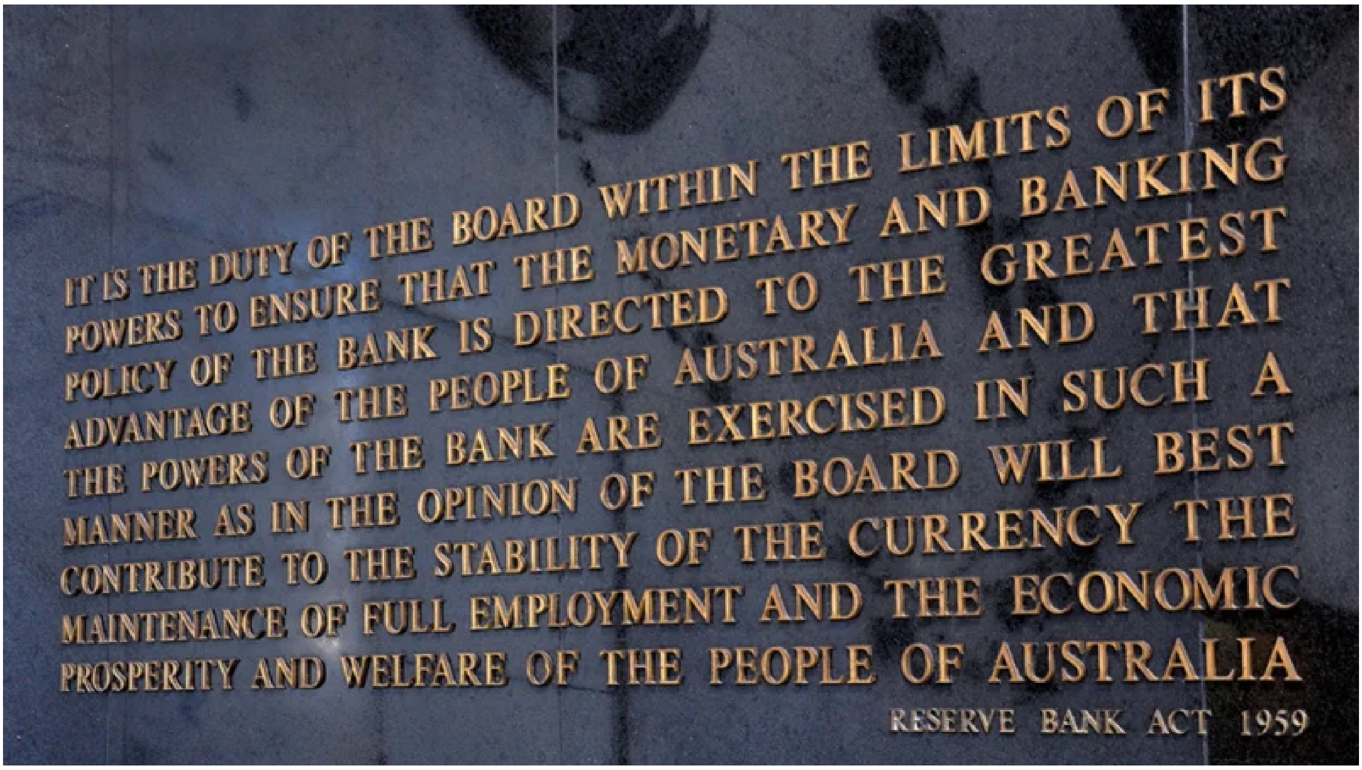
The Reserve Bank's quantitative easing policy may be hurting the long-term interests of the economy, one of the nation's leading economists has warned, while a former RBA official has argued the institution has failed the country and become more focused on formatting charts than its policy framework.

In separate academic papers, Macroeconomics chief economist Stephen Anthony and Centre for Independent Studies chief economist Peter Tulip have taken aim at the RBA's policy settings and operation over growing concerns about the post-pandemic economy.



A plaque in the RBA's headquarters in Sydney sets out its key functions. Two new academic papers on the bank suggest its policy settings need to change.

Both the Labor Party and Coalition have pledged independent reviews of the Reserve Bank following next year's election. The RBA is the only major central bank not to have undergone an independent review over the past 40 years and follows complaints it held interest rates too high for too long ahead of the coronavirus recession.

The bank has held official interest rates at 0.1 per cent since November 2020. As part of its quantitative easing policy, it has been buying $4 billion worth of government bonds a week. It currently holds a record $326.3 billion of government debt including $265 billion federal debt.

Markets are expecting the bank to wind-up the bond buying program following its February 1 meeting.

Mr Anthony, a former federal treasury official, used a paper in the Australian National University's *Agenda* journal to argue quantitative easing (QE) policies were useful short-term measures to deal with a crisis, but their ongoing and expanded use had distorted global markets to the point they were having substantial economic costs over the next decade.

He said the use of quantitative easing on top of ultra-low interest rates and huge spending by governments was distorting the investment decisions of businesses and investors.

Cheap money was flowing into the financial sector, where it was churned into asset purchases or speculation, and away from investments which would deliver long-term economic benefits.

"Central banks are inadvertently guiding resources to lower-value activities distorting prices and risk," he said.

"When capital flows towards bad bets and away from safer bets, we all suffer the consequences. Monetary easing effectively subsidises business activities that are not socially desirable (but are privately profitable) at the expense of preferable investments. All this sounds very bad for dynamic efficiency and capital formation through time."

The RBA last month agreed ultra-low interest rates were one factor in the surge of money into cryptocurrencies, offering higher returns to investors than other, more traditional forms of investment.

Mr Tulip, who left the RBA last year, used a separate paper in *Agenda* to argue the Reserve had focused on stabilising household debt rather than reducing unemployment and keeping inflation in its 2-3 per cent target band.

The bank had halved the official cash rate in the second half of 2019 after unemployment and under-employment had remained stubbornly high. It has failed to hit its inflation target for more than five years.

Mr Tulip said the bank's policy failures were driven by its structure, a fear of transparency and a board structure that without monetary policy expertise was unable to challenge the views of senior staff.

"The RBA has a record of poor decisions. This partly reflects poor process and a lack of expertise. More fundamentally, the RBA has a culture that places a low priority on getting the answers right," he said.

"It has a culture in which the formatting of charts is given more attention than the policy framework."

Mr Tulip said the bank needed to offer more detailed explanations for its decisions, including the release of projections for interest rate movements and regular press conferences by the governor.

He said given the importance of the RBA's policy settings to the economic welfare of the entire country, there had to be a higher level of accountability for the institution.

"We already require that administrative and judicial decisions to be explained in a way that facilitates review and appeal," he said.

"We should have higher standards for monetary policy, given that it affects millions of households and that the RBA has a large staff to do the drafting. Checks on bureaucratic discretion should be tighter for central banks than for other institutions."

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