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‘One very big mistake’: Economist Ross Garnaut gives his verdict on Reserve Bank



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Economist Ross Garnaut says rising unemployment is a bigger concern than a recession and he has called for the Reserve Bank to pause its run of 11 interest rate rises in the past year.

He also accused the RBA of making “one very big mistake” that hurt Australians when it held interest rates higher than other developed countries between 2013 and 2019.



Garnaut says the RBA should now wait to assess how lifting rates to an 11-year high has affected the economy. WAYNE TAYLOR

Garnaut said Australia’s historically high rates of immigration made it hard to have recessions, but the RBA should wait to assess how lifting rates to an 11-year high had affected the

economy.

“The responsible thing is to pause until we see those effects,” he said. “The ... high rates of immigration mean that a slump will be reflected more in high unemployment than in a recession.”

The country’s biggest superannuation fund, AustralianSuper, last week said a recession was “most likely” as central banks lifted rates to drag down inflation.

The Reserve Bank is under fire for promising in 2020 not to lift rates for three years, and then raising them at the fastest pace in recent history. A recent review recommended 51 changes to the Reserve Bank, including post-meeting press conferences by its governor, fewer meetings and an increased focus on economic research.



Stephen Anthony of Macroeconomics Advisory, economist Ross Garnaut and Peter Tulip of the Centre for Independent Studies at the University of Melbourne panel event. MADELEINE HEFFERNAN

Iain Ross, the newly appointed member of the Reserve Bank board and former Fair Work Commission president, told a University of Melbourne panel he supported greater transparency about board decisions and thinking.

“I’m coming from a background in minimum wage fixing where you’re entirely transparent. You write your decisions and give your reasons, then everyone picks over them for the next 12 months. If you’ve made a mistake, they’ll come back and tell you,” he said. “I think any public institution, that’s a healthy process.”

Peter Tulip, who worked at the Reserve Bank for nine years, said there was a lack of internal and external scrutiny of the bank and called for new leadership. Governor Philip Lowe’s seven-year term ends this year.

“A big theme of the review is problems with the RBA’s culture; that it’s insular, hostile to criticism, incurious, hierarchical,” said Tulip, now chief economist for the Centre for Independent Studies. “Ultimately, this [change] is going to have to be driven by leadership and, in my view, I don’t think the leadership that ran the bank that was responsible for all the problems documented in the review has the commitment to the cultural change needed, so we need new leadership at the bank.”

Stephen Anthony, chief executive of Macroeconomics Advisory, said an explosion in government bond buying by the Reserve Bank had supercharged inflation. “If governments had been asked to fund their budgets through the market during the pandemic, we wouldn’t be in as bad an inflationary environment as we currently are in,” he said.

Garnaut said the central bank created unnecessarily high unemployment and weak wages growth last decade by keeping the official cash rate higher than in similar countries, and he urged it to work more closely with the federal government, including conducting joint research. “In terms of the welfare of the Australian citizen, they made one very big mistake, and that is between 2013 and 2019 holding interest rates significantly higher than other developed countries. As a result, we had considerable unnecessary unemployment,” he said. “There needs to be explicit recognition that it is the combination of fiscal and monetary spending together that determines whether we have full employment and low inflation and the right amount of debt.”

The University of Melbourne panel was attended by former competition watchdog boss Allan Fels, former Grattan Institute chief executive John Daley and former federal minister Craig Emerson.

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