[*Bullock is the safe choice for RBA governor, but is that what we need?*](https://www.smh.com.au/business/the-economy/bullock-is-the-safe-choice-for-rba-governor-but-is-that-what-we-need-20230716-p5dokf.html)

In Treasurer Jim Chalmer’s decision to accept the internal candidate as successor to Philip Lowe as Reserve Bank governor, we see what may become the ultimate judgement about the Albanese government: it wanted change, but not radical change. Not change that rocked the boat too much. Certainly, not change that got big business offside.

The choice of deputy governor Michele Bullock to move up one chair will delight the Reserve’s higher ranks (though the put-upon lower ranks may have been hoping for a newer new broom to sweep out the old order).

As with most institutions, the Reserve’s insiders want the internally determined pecking order to be preserved. The governor persuades the Canberra politicians to appoint the next-most able person as deputy and, when the time comes, they move up, as do those in the queue behind them.

The Reserve insiders’ great fear is that the pollies will impose one of their trusties on them, or – next worse – that someone from their eternal bureaucratic rival, Treasury, will be appointed to sort them out. Either way, the pecking order is disrupted.

Over the years, the Reserve has had much success in persuading governments to let it choose its own governor. This has been the safe choice for pollies of both colours.

*The real world keeps changing under the feet of economists, and we need central bankers capable of changing their views.*

Only once has the internal order been disrupted in (my) living memory, which was when, in 1989, treasurer Paul Keating decided to move his Treasury secretary, Bernie Fraser, from Treasury to the Reserve.

Although I was disapproving at the time, it turned out to be a very healthy development. Fraser brought a breath of fresh air to a fusty institution. He was one of our better governors, a lot more reforming than his predecessors.

Fraser came to fear that one day he’d wake up to find himself reporting to a new Liberal treasurer, Dr John Hewson, a former economics professor, who’d immediately impose on him the latest international fashion, a central bank with operational independence from the elected government, whose decisions on monetary policy (interest rates) would be guided by an inflation target.

That never happened, of course. But Fraser decided that, if this was the way the world was turning, he’d get in first and design his own inflation target, ensuring it was a sensible one.

The Kiwis, who were the first to introduce such a target, set it at zero to 2 per cent, which became the international standard. But, with help from the Reserve’s best people, Fraser decided on something more flexible: to hold the inflation rate between 2 per cent and 3 per cent “on average” over the cycle.

So, it wasn’t just higher than the others. While they had a target with sharp corners, our “on average” would free the Reserve from having to jam on the monetary brakes every time the consumer price index popped its head above 2 per cent.

Foreign officials kept telling the Reserve it should get a proper target like the Kiwis. But in the end, it was they who had to accept their target was too inflexible.

Fraser announced the new target in 1994, by casually dropping it into a speech to business economists. It wasn’t until the next Liberal treasurer, Peter Costello, arrived in 1996, that the target, and the Reserve’s operational independence, were formalised in an agreement between Costello and the new governor, Ian Macfarlane.

Opposition leader Peter Dutton has said that neither present Treasury Secretary Dr Steven Kennedy, nor Finance Secretary Jenny Wilkinson should be appointed to succeed Lowe because they would be “tainted” by their work with the Labor government.

This was ignorant nonsense. He failed to note that both those people were equally “tainted” by their close work with that last Liberal treasurer, Josh Frydenberg, throughout the pandemic.

So it’s worth remembering that, because of Fraser’s close connection to (by then) prime minister Keating, the money market smarties were convinced Fraser wouldn’t be raising interest rates before the 1996 election.

Wrong. He did. Indeed, he raised them before a crucial by-election, which Keating lost in the run-up to losing the election. Since then, governor Glenn Stevens raised rates during the 2007 election campaign, and Lowe during the 2022 campaign.

Getting back to the point, I’d have been happy to see someone from Canberra put in to implement the (more sensible of the) reforms proposed by the recent review of the Reserve’s performance. Such an insular, self-perpetuating institution needs a regular injection of new blood.

With the benefit of hindsight, it’s almost as though Lowe’s speech last week outlining the Reserve’s plans to implement the review’s recommendations – with Bullock having done most of the work on those proposals – constituted her application for the top job.

Or maybe it was the Reserve’s written undertaking to the treasurer that, should he agree to preserve the order of succession, it would nonetheless faithfully implement the changes needed.

That so many of those changes – which would be of little interest to any but Reserve insiders and the small army of Reserve-watching outsiders – can be described as major reform says much about what a stick-in-the-mud outfit successive governments have allowed it to become.

The number of meetings of the Reserve Bank board will be cut from 11 a year to eight. Really. Wow.

In making that change, the Reserve will continue its practice of having four of its meetings timed to come soon after publication of the quarterly CPI. But it will use the opportunity to have the remaining four meetings come soon after publication of the quarterly national accounts.

The present practice of meeting on the first Tuesday of the month meant it was meeting the day *before* it found out how fast the economy had been growing.

Get it? The Reserve could have fixed this problem any time in the past several decades by moving its board meetings to fit. But no, it took a full-scale independent review to make it change its practice. We like doing things the way they’ve always been done. (The good news? No more meetings on Melbourne Cup Day.)

The only significant administrative change will be to have decisions about interest rates made by a board better able to argue the toss with the governor. In particular, what they need (and is already in the pipeline) is someone with expertise in real-world wage-fixing.

The real world keeps changing under the feet of economists, and we need central bankers capable of changing their views in an economy where the cause of inflation is changing from excessive wage growth to excessive profit growth.

That requires more debate within the Reserve, and more opportunity for the newly recruited bright young economics graduates to debate matters with the old blokes at the top.

The Reserve’s problem is too much deference to the views and wishes of the governor. It’s long been a one-man band. Bullock’s appointment as the first female governor ends that problem at a stroke. Let’s hope she does better than turn it into a one-woman band.

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The Governor of the RBA is the spokesperson for the 9 member RBA Board. The RBA’s 'Cash Rate Target' will never again fall below 0.50% pa into 'unchartered territory'. The most damaging RBA mistake since the outset of COVID-19 (Jan ‘20) was reducing the ‘Cash Rate Target’ to 0.10% on 4 Nov ’20 and holding it there for 18 months until 4 May ‘22. With virtually no cost to borrow money, lots of consumers borrowed, and in some cases borrowed lots. When consumer money supply increases, demand increases. *Ipso facto* so do prices.

Certainly the economy was experiencing inflation in late 2020, but in the early part of the influence of COVID it wasn’t wages driven inflation that we experienced in the late ‘70s, ‘80s and very early ‘90s.

Three external initial causes of inflation were:

1. Russian invasion of the Ukraine adversely impacted on global energy prices.
2. Floods on the East Coast reduced farm outputs
3. COVID-19 reduced supply

RBA Governor indicated as recent as Nov 2021 that 0.10% pa might remain *“ …..until 2024 at the earliest*” has received a lot of press publicity.

If the RBA had not lowered the 'Cash Rate Target' below 0.50%, and certainly had not held it there beyond a year, Australians on low incomes that have struggled to meet living costs over the last year or so due to material inflation in prices caused by ridiculously low interest rates for 18 months, would not have had to struggle anywhere near as much.

In summary, Philip Lowe suggesting that the ‘Cash Rate Target’ might remain at 0.10% until 2024 wasn’t the ‘mortal sin’. Lowering it to unknown territory at 0.10% and holding it there for 18 months was. Because with virtually no cost to borrow and the prospect of that luxury continuing some folk *spent like drunken sailors* when there was no notable cost to borrow.