The Reserve Bank and Monetary Policy

Statement by PJ Keating, 3 February 2021

Governor Philip Lowe's defence today of the Reserve Bank's decision to double its bond- buying program from $100 billion to $200 billion is simply another case of being late to act, costing many thousands of Australians jobs and locking in weak wage growth.

By persisting with its mantra of 'fight inflation first' over the last eight years, when inflation was already dead, the Reserve Bank has run a tighter monetary policy than major overseas central banks, inflicting on Australia an uncompetitive exchange rate and with it, a weakened labour market.

Today, Governor Lowe acknowledged that terminating the bond-buying program while other central banks are continuing theirs would put upward pressure on the exchange rate, costing Australian jobs. This, too, is belated recognition that Australia operates in a globalised monetary system and that there is no value blowing against the wind.

The Reserve Bank operates in monastery-like mode, the anointed ones chanting the 1980s mantra of 'fight inflation first', ignoring its charter of keeping inflation in the 2-3 per cent range with a premium on employment.

Only recently did the Bank acknowledge that its charter is to target actual inflation not its own, erroneous forecasts of inflation.

The people who haven't been able to find any work or enough hours of work over the last few years and those who haven't been able to secure a wage rise owing to the Bank's
monetary squeeze, are not data points on a spreadsheet, they are people the Bank has looked past.

Bank staff should spend more time in the poorer suburbs and towns of Australia and less time cloistered in Martin Place.

Craig Emerson, Percy Allan and I have repeatedly called for monetary easing, which the Bank has resisted at every turn, acting only when it had to, and always late in the piece.

Within the Bank there is little contest of ideas. But the chant of old orthodoxies, irrelevant in the global economy, can still be heard by passers-by.