

RESERVE BANK AMENDMENT (ENHANCED INDEPENDENCE)

BILL 2008

Second Reading

[Mr ROBERT](#) (Fadden) (11.05 a.m.)—I rise to strongly oppose the [Reserve Bank Amendment \(Enhanced Independence\) Bill 2008](#) and, in absolute deference to the member for Corio, I will actually spend the time speaking about this shoddily crafted bill and why it is a disgraceful bill to move through the parliament. The introduction of this bill was announced with enormous fanfare on 6 December last year, when the PM announced, with almost Barack Obama type exclamation, a 'new era of independence' for the RBA. His press release came out with a very large 'new era of independence' on it. Yet the reality is far different, as is the case with most things that this government is putting forward.

This bill seeks to amend the Reserve Bank Act 1959 so that the Governor-General rather than the Treasurer will be responsible for the appointment of the governor and deputy governor of the bank and for their dismissal. Far from being a 'new era of independence', as the Prime Minister and Treasurer so boldly stated, this is simply a return to the status quo that existed before the commencement of the Financial Sector Legislation Amendment Bill (No. 1) in 2002. This 2002 bill was supported by the opposition, the now government, and it amended the act so that the Treasurer appointed officers and board members to streamline the appointment and termination process. Indeed, the current Minister for Finance and Deregulation said on 19 June 2002:

The Financial Sector Legislation Amendment Bill (No. 1) 2002 deals with a range of regulatory changes to the arrangements primarily governing the regulation of corporations, particularly in the financial sector. I will address them very briefly in turn, because they are broadly uncontroversial and are supported by the opposition ...

The present finance minister of this government, when speaking about the bill in 2002 that took the authority for the appointment and dismissal from the Governor-General to the Treasurer, said these are 'broadly uncontroversial and are supported by the opposition'. I can only suggest that the finance minister has had an epiphany in the last five years and has completely reversed his position. Furthermore, that bright shining light of a Labor leader, that almighty luminary, the former member for Werriwa, that name we shall not speak, Mark Latham, said on the same date:

The Financial Sector Legislation Amendment Bill (No. 1) 2002 contains amendments to 10 pieces of legislation that govern the operation of financial institutions, the insurance and superannuation sectors and the Reserve Bank. We are generally supportive of the amendments ...

Labor's great luminary, the previous Leader of the Opposition before the current Prime Minister, said 'We are generally supportive of the amendments'. He did not stop there. He went further to say:

Proposed amendments to the Reserve Bank Act 1959 seek to simplify the procedures for the appointing RBA board members and other senior officials. The Treasurer proposes to make these appointments directly rather than via the Governor-General. So this is indeed a minor alteration.

The former Leader of the Opposition, the great Labor luminary, Mark Latham, said that these are 'indeed a minor alteration'. The current finance minister said these are 'broadly uncontroversial and are supported by the opposition'. Now, apparently, it is central to a 'new era of independence'. This must be a joke. This must be an absolute charade. If this is a new era of independence, then clearly we are all in the wrong place. This is simply back to the future. At present, under section 25 of the act, the Treasurer is obliged to terminate the appointment of the governor or deputy governor if either of them becomes permanently incapable of performing his or her duties, engages in outside paid employment or becomes bankrupt. Clearly, in any of these circumstances, the governor and deputy governor of the bank cannot adequately perform their duties in the service of this nation and they should be dismissed straightaway. Despite Labor's rhetoric in their press release, this 'new era of independence' that they so solidly backed back in 2002, according to the Treasurer's second reading speech on 20 March

2008 the bill does not provide a list of eminent candidates to be maintained by the Treasury and the Reserve Bank governor for appointment to the Reserve Bank board. It is not clear that Labor have made any changes to the status quo in this respect. In the press release, in their 'new era of independence' statement on 6 December 2007, they made it very clear:

The Rudd Government is committed to improving the transparency of future Reserve Bank Board appointments and to remove political considerations.

Accordingly, the Secretary to the Treasury and the Governor of the Reserve Bank will maintain a register of eminent candidates of the highest integrity from which the Treasurer will make appointments to the Reserve Bank Board.

None of this is in the bill. If the integrity of the Reserve Bank board, if the process of transparency was so fundamentally important to this 'new era of independence', surely it would be in the bill; yet it is conspicuous by its absence. Likewise, Labor has not promised to appoint only people on a list and has not promised to release or publish the list. While this list was explicitly referred to when these changes were announced, it is now explicitly missing in action. I can only suggest it might be a casualty on the drop zone. I am not convinced at all that there is any transparency in this 'new era of independence'.

Labor's bill goes on to say that the Governor and Deputy Governor of the Reserve Bank will be appointed by the Governor-General, not by the Treasurer. Furthermore, before the governor or deputy governor can be sacked on the three grounds discussed previously, there would need to be a vote of both houses of parliament calling for the Governor-General to do so. There would therefore have to be a full parliamentary debate if the governor was in a car accident, declared bankrupt or started trading futures with the bank—a full parliamentary debate through both houses of parliament before the governor could be dismissed.

In the press release by the Prime Minister and Treasurer, they said they wanted to remove 'political considerations'; yet pulling the decision for dismissal back into the House politicises the dismissal process and does exactly what the 'new era of independence' press release was trying to stop. It also places unnecessary time constraints on the dismissal process and subsequent appointment of a successor. If, for example, tomorrow or, indeed, in four weeks time the governor or deputy governor was to be involved in one of those three incidences—let us say a car accident where he would be unable to operate in his duty and parliament does not sit for eight weeks over the winter recess—would we wait for eight weeks before we got a new governor of the Reserve Bank? If the governor was declared bankrupt, would we wait eight weeks or would we recall both houses of parliament, knowing full well that it costs over \$1 million a day for this place to operate? We would recall and spend \$1 million of public money just so the Prime Minister and Treasurer could stand there and say, 'We have a new era of independence.'

I look forward to the Prime Minister actually saying that to kids with type 1 diabetes, and there are 7,000 children waiting for insulin pumps. This farce of a budget—and the member for Corio spent 17 minutes talking about how wonderful it was rather than addressing the bill—only has funding for 170 insulin pumps. That is all. We are quite happy to spend \$1 million to come back here to debate whether a bankrupt governor can stay in their position or not, but the government will fund only 170 insulin pumps when 7,000 children are waiting for them, and there is a \$41 billion surplus over two years. Something has gone seriously wrong on the government benches.

With an institution as important to the Australian economy as the Reserve Bank of Australia, any time restrictions should be avoided as any delay has the potential to have a lasting impact on the economy. Labor claims this is consistent with the process for the Australian Statistician and the tax commissioner. Yet these officers can be terminated for misbehaviour—and proven misbehaviour accordingly—and they generally do not have a board of directors. It is very different to the Governor and Deputy Governor of the Reserve Bank. Yet the

Treasurer can still make appointments under Labor's farcical bill to the Reserve Bank board and the Payments System board. Does the left hand indeed know what the right hand is doing?

Labor's amendments are so confusing. Not the least is that in 1996 Labor opposed the independence of the Reserve Bank—seeking legal advice—then in 2002 they supported the changes, and now in 2008 they are rejecting the changes. I suggest that Labor has had a very convenient 'road to Damascus' experience, with their leader, Mr Rudd, consistently repeating that he is an economic conservative committed to an independent central bank. But now I fear they are entering into a public relations exercise because they promised as part of their election campaign to strengthen the independence of the Reserve Bank. Not knowing what to do, they have released a press statement calling for a new era of independence, and simply taking it back to 2002.

Their rushed and poorly-written bill does not achieve what anyone had hoped for. It is cumbersome, it will not work and it does nothing to enhance independence. Currently, section 24(1)(c) of the act provides that the governor and deputy governor hold office subject to good behaviour and can be dismissed for lack of good behaviour. Reading through Labor's amendment, it is arguable that the governor or deputy governor will be immune from dismissal by anyone on the grounds of misbehaviour, as the new sections in the bill do not include dismissal on such grounds.

In simple terms, Labor's bill appears to be proposing that a governor could act dishonestly or in a way that dramatically undermines public opinion and confidence in the bank and there is nothing the executive or the parliament can do about it. This is not just my interpretation of the bill. The library's bills digest, which is put together by eminent researchers in our own Parliamentary Library, states:

Under the changes proposed by the Bill, in the event the position holder is not of good behaviour there is no mechanism for termination as this requirement is not specified as a ground under new subsection 25(8).

Surely this is not an admission. Surely the drafting of this bill could not be that sloppy that one of the key articles of the bill—dismissal for misbehaviour—is missing. Surely this is not a public relations exercise that is sacrificing good governance so that the Prime Minister can stand there and say 'We have a new era of independence.'

I acknowledge that no governor has been dismissed to date. But the governor is in a unique position to cause damage to the economic and the reputation of this nation. I draw the House's attention to Antonio Fazio, who was the governor of the Bank of Italy when a scandal broke in July 2005 over the sale of Banca Antonveneta, which involved allegations of corruption, nepotism and very poor policy by the Bank of Italy. He was called upon to resign by the Prime Minister. The nation's leading newspapers demanded that he resign. The majority of the market economists demanded that he step down, yet no-one could sack him except for his hand picked board, and their silence was indeed deafening. He ignored these calls and hung onto his position for six months. He resigned in December 2005 in disgrace after six months of highly publicised damage to the reputation and standing of the Bank of Italy.

No-one is surmising that this may happen in Australia. No-one is surmising anything but the highest level of integrity from our current and future Reserve Bank governors and deputy governors. Yet forewarned is forearmed, and burying your head in the sand for political populist expediency—so you can stand there and say 'I believe in a new era of independence'—is an absolute recipe for disaster. How in good conscience these changes are enhancing the independence of the Reserve Bank is simply and utterly beyond me. I am left with one conclusion: that this bill is either a work of the grossest incompetence or is merely a Rudd and Swan publicity stunt. If this is a publicity stunt, then I would be appalled that an institution so pivotal to the financial security of our nation,

the Reserve Bank, would be used as a Labor pawn in a political game. The coalition is looking forward to moving an amendment to the bill to oppose all of these poorly constructed Labor stunts. The amendment looks to implement something useful—imagine that—which is for the governor to front the House of Representatives Standing Committee on Economics quarterly rather than biannually. I vehemently enhance and state my disdain for the bill and commend the outright rejection of this bill to the House.