



REVIEW OF THE RESERVE BANK OF AUSTRALIA ANNUAL REPORT Committee Reports 4 December 2006

[Ms GRIERSON](#) (Newcastle) (4.44 p.m.)—I wish to support the report tabled today, *Review of the Reserve Bank of Australia annual report 2005*. As part of its role, the House of Representatives Standing Committee on Economics, Finance and Public Administration scrutinises the performance of the Reserve Bank in its functions of implementing monetary policy and managing the bank payments system. This report deals mainly with the presentation of the RBA governor and his executive at the committee hearing held in Sydney in August of this year.

It was quite a historic event: Governor Ian Macfarlane—the Governor of the Reserve Bank for a decade—was soon to retire, and Deputy Governor Glenn Stevens had just been confirmed as the next Governor of the Reserve Bank. It is true to say that neither disappointed in their performance. In exploring the current state of the economy, 15 years of expansion, high employment and a growth rate revealing the impact of significant capacity constraints, the governor's attention and that of the committee was focused on inflation and the impact of past and further interest rate rises—and they keep coming.

In regard to capacity constraints, the governor was an optimist—efficient use of labour and capital, he claimed. That may all be correct. However, in my city, the Port of Newcastle faces the difficulties posed by this economic state where capacity constraints hold back growth. The Port of Newcastle remains at high export efficiency. The rail infrastructure bottlenecks have been partly attended to and coal loader expansion is underway, but demand from our developing nations—China and India particularly—just keeps growing. The 50 ships off our coastline will be there for quite a while.

The other impact of the failure of this government to tackle these capacity constraints is, in real terms, inflation. In real terms, to the Australian people it means interest rate rises. In fact, those interest rate rises have kept coming. In August we had an interest rate rise. In November we had an interest rate rise, which was the fourth interest rate rise since this term of parliament began.

The governor took the opportunity at that hearing to deal with and try to explain comments he made to a previous committee hearing regarding tax cuts. He actually said that his comments were completely misinterpreted. Further, he told the committee that he was trying to pour a bit of cold water on the idea of having really big tax cuts and big fiscal expansion. I hope that John Howard and Peter Costello are listening, because we do not want to see a wasted opportunity next year when the budget is announced.

Governor Macfarlane commented on the possible fiscal stimulus of federal and state budgets by saying:

We are now entering a period where there are capacity constraints where we really do not want the economy growing much faster than the twos to threes. The economy is in a situation where it is more sensitive to what happens with fiscal policy than it has been in the past.

In his statement he said that his best guess was that, if the federal budget outcome is as it is budgeted, that would be equivalent to a fiscal stimulus of half a per cent of GDP. He then said: 'If you add the state budgets' stimulus as well, then you end up with one per cent stimulus and you end up with an economy that is prone to inflation'—

[Mr Ciobo](#)—State budget deficits.

[Ms GRIERSON](#)—Do not blame the states, please. Who leads fiscal policy in this country? I think his name is Peter Costello. I think the governor has given a strong message, saying: 'Let's be very sensible with fiscal policy. Let's not waste opportunities in terms of capacity constraints and helping this economy grow. Let's not use tax cuts without thought to the impact on the economy as a whole and, therefore, the ordinary voter of Australia, who has to wear any negative impacts in their budget each week.'

At that hearing we also canvassed the concept of a dual economy, and the governor was quite optimistic because he stated that we have had a dual economy before, where states have had varying conditions. That may be true. Currently we do have Western Australia booming and we do have negative growth in New South Wales, but we have never had the situation before where the most populous states have that negative growth. You have to be very mindful that, if there are recession tendencies in the most populous state in Australia, it is going to have an impact on the whole of Australia. So I do differ from the governor in that regard. The dual economy deserves closer examination.

We also discussed housing affordability. Obviously, interest rates do impact on peoples' mortgages. There were some interesting explanations by the governor as to why he thought housing affordability was an issue. He said that it was not interest rate rises; it was perhaps land release policies by the states and the cost of infrastructure, roads and electricity et cetera, being

passed on to the customer. He also said that demand had been high in the past, prices had been reasonable in the past, interest rates had been reasonable and people were therefore encouraged to borrow—and borrow they had. Banks had made credit readily available and people had easily been able to access large mortgages—much larger than perhaps they could afford when things change.

What the governor did not mention is that the government has also contributed to that housing unaffordability by halving capital gains tax in its terms and having a first homeowner grant with no cap on it—for anyone, no matter whether they are buying a million-dollar mansion or a \$300,000 average priced home in Newcastle further pushing house prices up. So, really, the stories are much more complex. I give credit to the governor: he does not have to handle some of those policy measures. Again, that is fiscal policy in the hands of this government.

We also looked at the problem where capacity remains tight and productivity growth is not as high. When we looked at the skills issue we very much looked at the downturn for manufacturers and the workforce issues they face. They cannot find skilled labour at a time when they need many more workers. Also, the service sector cannot get entrepreneurs and people trained in management at a rate they need right now in this boom period, because they just have not been trained. That is more a failure of education policy, not monetary policy. The committee has taken up that challenge by looking at the state of the manufacturing and service sector in this country and trying to develop policy solutions that might overcome some of these problems in the future—for example, what sort of public policy will assist our manufacturers to be in the highest growth sectors, as is the case in some developed countries, rather than facing the constraints they are suffering at the moment.

The new governor certainly set his stamp in terms of the sort of governor he would be. Since that hearing, he has strongly said that inflation measures would always be the deciding factor in shifting interest rates. He has lived up to the promise, I suppose, that he made clear through authorising the last interest rate rise. Also, when asked by the committee about the relationship with Treasury and the Treasurer, he made it very clear—and I applaud him for this—that there would always be, under his leadership, an independent Reserve Bank. It would always act independently under its charter, with its responsibility to the national economy and the Australian people. It is always a pleasure to meet with the RBA in that committee and look at the economic challenges from every different perspective.

I send my best wishes to Governor Macfarlane. When you have the great pleasure of reading his series of Boyer Lectures you will know that he has had all sorts of views on our economy. He has a historical perspective that has acknowledged the great reforms of Labor. In some ways he has been perhaps bolder now when he could not be as bold before. I wish him every success. I

know that he will continue to contribute to this country in many ways. His experience over 10 years is something we should all perhaps study. I would recommend his Boyer Lectures to every member of parliament. They are an education in themselves. I look forward to the next hearing with the economics committee and the new governor, Glenn Stevens, which will be held in February next year, in Perth—we might as well go where the boom is happening—and we will be again looking at monetary policy. I can only hope, though, that the Australian people face Christmas and the New Year without any other threats to their family budgets.