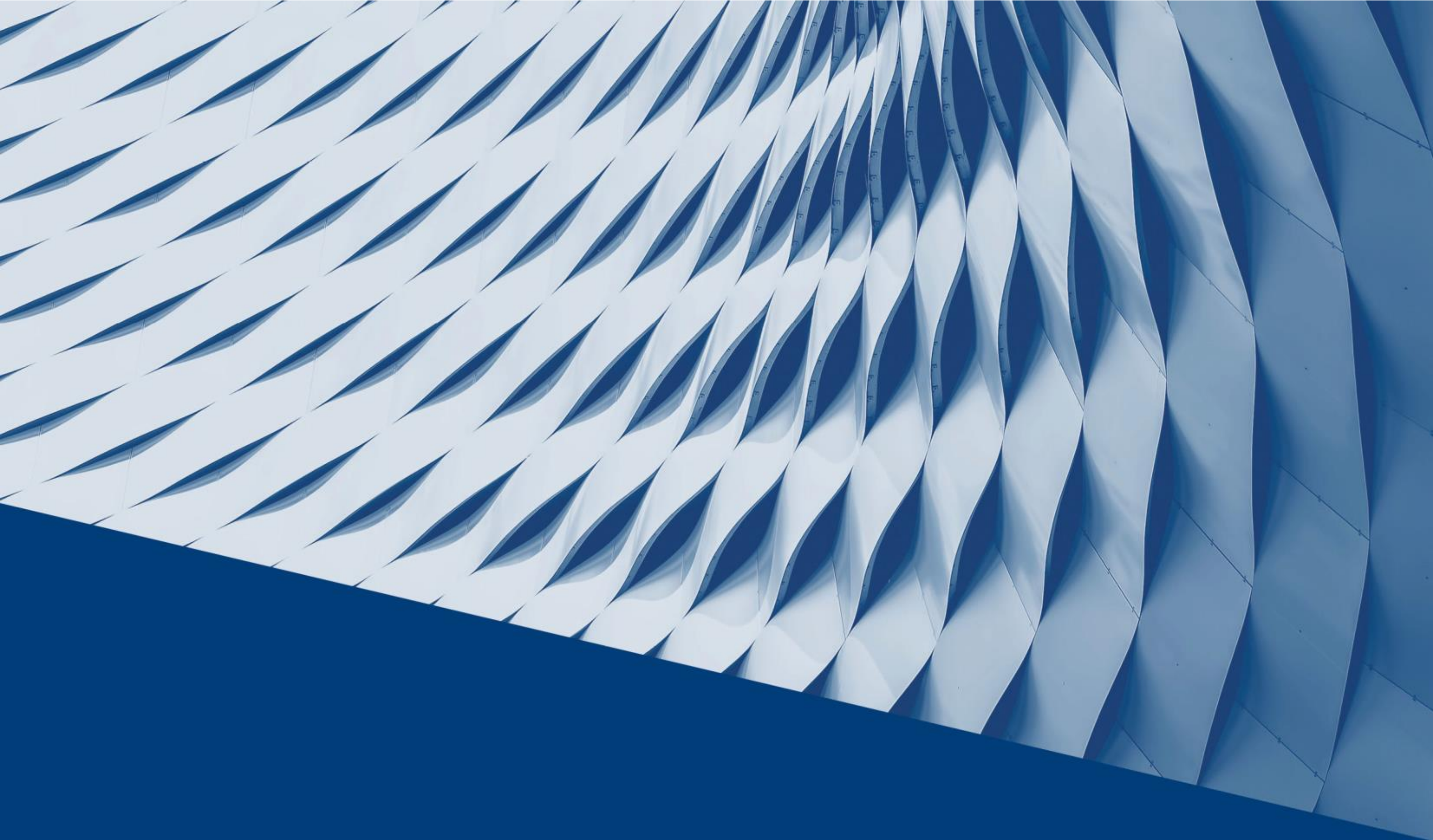

Independent Review of the Reserve Bank of Australia

Submission by the Australian Council of Trade Unions to the Panel

D39/2022

ACTU Submission, 10 November 2022

australian council of trade unions

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The ACTU is the peak trade union body in Australia, with 43 ACTU affiliated unions representing nearly 1.8 million members engaged across all industries and occupations in the public and private sector. Since its establishment in 1927, the ACTU has led all major campaigns to win improved workplace rights for Australian workers.

We welcome the review into the RBA and the opportunity to make a submission to the panel.

Overview

Monetary policy and the work of the Reserve Bank of Australia (RBA) has a profound impact on the lives of Australian workers.

While the RBA has the statutory goals of "the stability of the currency, the maintenance of full employment, and the economic prosperity and welfare of the Australian people", in practice, it has long preferenced price stability, and in particular inflation control, ahead of its other goals, including full employment.

Its inflation target of 2-3% on average over the cycle set since 1993 in successive Statements on the Conduct of Monetary Policy, has contributed to periods of elevated unemployment and wage stagnation. For example, recent research by Leigh and Gross (2022) using the RBA's own MARTIN model indicates that had the RBA cut interest rates more aggressively in the years prior to the pandemic, approximately 270,000 additional jobs would have been created. Indeed, Australia has not seen true full employment since 1975. This has caused needless suffering for working people and is an imbalance that must be corrected.

Achieving the macro-economic goals of full employment, which the ACTU urges the Government to adopt, however should not and cannot be the sole responsibility of the RBA. It requires better coordination between fiscal, monetary and macroprudential policy, and the key institutions of government that steer them. There are many examples where this makes sense. During the 2016 – 2019 the RBA employed "excessively tight" monetary policy (Leigh and Gross 2022, Garnaut 2021), because of its concerns regarding further asset price growth and the possible emergence of an asset bubble.[1] That arguably cost jobs and held back wage growth. But if other actions were taken by Treasury or even APRA to address these issues, perhaps the RBA would have adopted a more balanced approach. Similarly, any possible action by the Federal Government to better regulate soaring gas prices, should be taken into account by the RBA in setting interest rates.

The ACTU therefore calls for the establishment of a Macroeconomic Coordination Committee to deliver stronger coordination across government on macroeconomic policy and ensure fiscal and macroprudential policy decisions do not undermine monetary policy and or vice-versa. This is not to question the independence of the RBA, but to recognise it has a shared responsibility to achieve macro-economic goals that coordination can underpin.

The RBA's understanding of, and projections of wage growth and employment levels in the past decade has been poor, as has its understanding and recent response to the drivers of inflation. Australia is currently experiencing elevated rates of inflation, like many economies around the world, that is being driven by non-labour costs, such as automotive fuel and construction materials, rather than nominal wage growth. This poses a problem for monetary policy making, as the RBA's models of inflation—the expectations-augmented Phillips Curve and the NAIRU—are essentially models of wage-driven inflation. The RBA Governor has called for wage restraint, while commentators have alleged July's 5.2% minimum wage increase handed down by the Fair Work Commission risks a wage-price spiral of the kind observed in the 1970s. Both fail to appreciate how wages are negotiated in Australia, through enterprise bargaining, the annual wage review and individual pay setting processes. There has also been almost no thought given by the RBA to the role of firms in contributing to inflation through price setting practices. The RBA needs to overhaul its models and public commentary.

Relatedly, the composition of the RBA Board is also of concern. The lay members of the board are drawn entirely from the business community. So it lacks members with a detailed understanding of wage-setting processes and other key labour market dynamics. To that end, it is important that there is a diversity of skills and experience on the board, particularly with an understanding of the real world mechanics of the labour market and wage setting systems. This is critically important at a time when the RBA is effectively asking workers in the labour market to do most of the work

[1] Leaving aside the question of whether the MARTIN model on which Leigh and Gross base their estimates is sound or not, and whether further monetary policy easing would have been effective in practice.

in addressing inflation – through their reduced spending power, and the rise in unemployment that RBA interest rate rises are implicitly seeking to achieve.

The culture of the RBA also needs reshaping. Good policymaking rests on both empirical evidence and a rigorous contest of ideas. Diversity of economic thought needs to be encouraged as well as demographic diversity. The RBA should take proactive steps to diversify the theoretical perspectives represented within its research and policy program.

Finally, RBA employees have also been impacted by the previous Federal Government's cap on public sector wages. This has led to heavy restrictions on RBA members' ability to negotiate genuinely agreed pay outcomes with management, and for pay rates within the RBA to be well below market expectations. However, many employees choose to remain at the Bank due to a loyalty to the organisation and the important role it plays in the Australian economy. While this is an admirable quality, in the past it has placed RBA employees at a disadvantage when it comes to achieving market competitive pay and conditions as well as reasonable workloads. The ACTU calls for genuine collective bargaining within the RBA to achieve fair pay and conditions for its staff.

Summary of Recommendations

Recommendation 1: the RBA's goals should be updated to strike a better balance between its goals of price stability and full employment, including through an update of the Statement on the Conduct of Monetary Policy, with full employment understood as zero involuntary unemployment. The concept of the NAIRU should be discarded as a relevant benchmark in monetary policy.

Recommendation 2: The RBA should work with the ACTU and labour market experts to revise and improve its modelling particularly with regard to wages and unemployment and refocus its public commentary to better address the actual drivers of inflation. The RBA should consider other emerging and arguably superior models.

Recommendation 3: To ensure that fiscal, monetary and macroprudential policy are all working towards the shared goals of full employment, decent living standards and financial and price stability, the Government should consider establishing a Macroeconomic Coordination Committee, comprised of the Treasurer, the Minister for Finance, the RBA Governor and Deputy Governor, the Chair of APRA, and the Secretaries of the Department of Treasury and the Department of Finance. The Committee could meet every month one week prior to the RBA Board monthly meetings to discuss and coordinate fiscal, monetary and macroprudential policy towards these goals. Following each monthly RBA Board meeting, the Committee could publish a statement outlining the actions its member agencies were undertaking to meet shared employment and inflation targets.

Recommendation 4: To ensure better alignment with monetary and macroprudential policy, the Government should consider reviewing its macroprudential goals, including whether or not APRA's policy functions and toolkit can be better aligned or incorporated back into the RBA (as is the case with most Central Banks), while ensuring that APRA's regulatory role and oversight over the finance sector is effective.

Recommendation 5: The RBA should appoint at least one member to the Board with a deep understanding, skills and experience of the labour market and wage-setting systems.

Recommendation 6: Academic economists and academically trained economists should be appointed to the RBA Board with a diversity of perspectives and the capacity to interrogate orthodox views at a technical level.

Recommendation 7: The RBA should support genuine collectively bargaining with its staff and their representatives to ensure fair pay and conditions. It should also strive to have more diversity among its staff, both in terms of demographics, and economic perspectives.

1. Objectives and Mandate

1.1. The inflation target, unemployment, and full employment: the need for a rebalance

While the Reserve Bank Act 1959 gives no preference to any one of the RBA Board's three monetary policy duties (stability of the currency, full employment, and the economic prosperity and welfare of the Australian people) over the other, in practice its only effective target is for inflation, with inflation taking priority in the Statement on the Conduct of Monetary Policy yet not even mentioned in its statutory duties.

The Reserve Bank should strike a better balance between price stability and full employment to ensure it is meeting its mandate to achieve the latter. Australia's interest rates were higher than competitors in the Eurozone and the United States over most of the past two decades due to an overly cautious approach to fighting inflation. This resulted in a relatively stronger exchange rate position compared to our international competitors, and contributed to lower growth, jobs and wages. While low growth and weak macroeconomic performance has been common across the globe over this period, Australia has fared particularly poorly (Garnaut 2021).

It is crucial to note the reasons why the Reserve Bank did not undertake deeper and faster interest rate cuts in the pre-pandemic period. In a speech on 25 July 2019, Governor Philip Lowe stated the Board was concerned more aggressive monetary easing in the late 2016 – late 2018 period would have stoked higher and unsustainable levels of household and private debt. The RBA should have been able to have the confidence that macroprudential policy (credit and lending standards, currently the purview of the Australian Prudential Regulatory Authority [APRA]) would have stepped in to prevent unsustainable borrowing and lending, had the Bank undertook further monetary easing to promote target inflation and higher employment. Clearly, it did not have that confidence, suggesting that macroprudential policy failure strongly contributed to a monetary policy failure.

Those criticising the Board's monetary policy settings as "too tight" in the pre-pandemic period must acknowledge the financial stability concerns which drove those "overly tight" decisions. As this submission will later discuss in section 2.2, consideration should be given to giving the Reserve Bank greater powers and responsibilities over macroprudential policy and shift its focus from predominantly using interest rate policy to (attempt to) stabilise the business cycle, to using macroprudential policy to effectively stabilise the credit cycle and asset cycle.

1.1.1. Pursuing full employment: the need for definitional clarity

The ACTU rejects the RBA's use of the so-called non-accelerating inflation rate of unemployment (NAIRU) as the benchmark for defining and targeting full employment (RBA 2022 and Fahrer and Heath 1992). Prior to Friedman (1968)'s exposition of his "natural rate of unemployment hypothesis", subsequently renamed the "noninflationary rate of employment" (NIRU) by Modigliani and Papademos (1975) and eventually the NAIRU, governments and central banks in the post-war era defined and successfully targeted full employment as zero involuntary unemployment, adopting Keynes' original definition outlined in *The General Theory*.

There exists a vast academic literature critiquing the NAIRU in depth, too large for this submission to do it justice.[2] This submission will limit its critique to two brief arguments on efficiency and normative grounds: the gross inefficiency of underutilising scarce resources, and the moral indefensibility of leaving hundreds of thousands of workers involuntarily unemployed as a deliberate design feature of macroeconomic policy.

On efficiency grounds, maintaining a non-inflationary buffer of unemployment (targeting policy outcomes to the NAIRU) results in the wastage of the economic output (goods and services) that the unemployed otherwise could have produced. It also erodes the physical and mental health, skills, productivity, and job-readiness of the unemployed, as a considerable body of research has documented. These additional economic, fiscal and social costs show up on the balance sheets of Commonwealth, state and territory governments, households, and firms. The NAIRU is not a

[2] A shortlist of academic critiques of the NAIRU includes Richardson (2019), Mitchell and Muysken (2008), Shulman (1989), and Mitchell, Wray and Watts (2019).

free lunch. As Mitchell and Muysken (2008) have extensively documented, there are substantial hysteresis effects of unemployment. And as Woods (2022, and citing Coates and Ballantyne 2022) stated in her opening address to the September Jobs and Skills Summit, "even just three months out of a job is enough to hit people's earning potential even many years later. The cumulative effective of a three-month spell of unemployment is equivalent to nearly a year of lost pay." The ACTU is committed to advancing workers' wages and rejects the use of unemployment as a price stability tool which costs workers' wage-earning potential across their working lives.

On normative grounds, Australian unions hold to a common principle: solidarity means that no-one is left behind. The ACTU does not believe some workers must be disemployed and forced to remain unemployed so that others may secure low inflation, an affordable cost-of-living, and rising real wages. Policy must instead strive to deliver secure jobs and rising real wages. It is not one or the other.

These criticisms are compounded by the sheer ambiguity of the NAIRU itself. The NAIRU is extremely difficult to measure (if in fact it even exists). As Stanford (2022a) notes, "one reason the estimates [of the NAIRU] shift is because the concept is impossible to measure. Many countries have abandoned this widely criticised concept. Yet it still underpins Australia's fiscal and monetary policies." This has led to overly conservative policymaking by central banks from the RBA to the US Federal Reserve, with what Kelton (2020) has characterised as a "shoot now, ask questions later" approach of erring too much on the side of price stability caution rather than erring on the side of caution regarding unemployment.

The Reserve Bank has been shadowboxing a ghost for 30 years, while workers wait for wages gains which never come and the unemployed suffer on the sidelines. It has a legislated responsibility for full employment, which it cannot continue to neglect, and achieving true full employment with price stability will require complementary action from other agencies and policy instruments. The RBA's legislated responsibility is to deliver genuine full employment alongside price stability; while it will be up to other policymakers and instruments to build labour market and other structures which harmonise these goals, this is no excuse for the RBA to avoid doing what it can with the tools available to it to push unemployment down to a level where everyone who wants work can find it (below the NAIRU); that is, genuine full employment.

Recommendation 1: the RBA's goals should be updated to strike a better balance between its goals of price stability and full employment, including through an update of the Statement on the Conduct of Monetary Policy, with full employment understood as zero involuntary unemployment. The concept of the NAIRU should be discarded as a relevant benchmark in monetary policy.

1.1.2. Nominal GDP: to target, or not to target?

Debate over whether the RBA's inflation target should be replaced with a nominal GDP (NGDP) target has attracted domestic attention (Holden, McKibbin and Quiggin, 2020), mirroring similar debates abroad. In a regime of NGDP targeting, the RBA would target a certain rate of growth in national output, valued at current prices, rather than a certain rate or range of inflation. According to proponents of NGDP targeting (Price and Sood, 2016), the problem with inflation targeting is it does not allow for the central bank to distinguish between supply-driven episodes of excessively high or low inflation (such as a sudden fall in oil supplies pushing up inflation, or a boost to productivity pushing down inflation), and demand-driven episodes of excessively high or low inflation (excessive or insufficient aggregate spending). Interest rate adjustments can only at best influence aggregate demand, not aggregate supply. It is a demand-management tool only, and a poor one at that. In theory, NGDP targeting would allow the Reserve Bank to directly consider both changes in price levels and changes in real output in setting interest rates. This is especially important in the case of supply-side inflationary shocks which tend to be associated with reductions in output, for which conventional monetary tightening is less likely to be appropriate than in the case of demand-led inflation. According to proponents, NGDP targeting would:

> …allow the economy to better adapt to productivity shocks. Consider a fall in productivity (equivalent to a rise in input costs). An inflation-targeting central bank would tighten policy in response to rising inflation. A central bank following a nominal GDP target would combine the rise inflation with the fall in real GDP and not tighten policy. It might even cut rates if the expected fall in real GDP is larger than the expected rise in inflation. The resulting outcome for the real economy would be better" (Holden, McKibbin and Quiggin, 2020).

As Price and Sood (2016) argue:

> If macroeconomic stability is the ultimate objective of monetary policy, the appropriate policy response to inflation differs according to what is causing prices to rise. In the event of a positive demand shock, the appropriate response is for the central bank to tighten monetary policy in order to prevent the economy from overheating. Monetary policy works by steering consumers' and businesses' nominal or money demand for goods and services. Therefore, if demand is rising too rapidly, tighter monetary policy is the right tool for bringing both demand and price rises back under control.
>
> Conversely, in the event of a negative supply shock, tighter monetary policy will only compound the problem. This is because a negative supply shock—such as a rise in global oil prices…—will cause economic output, employment and investment to weaken. Tighter monetary policy will cause demand to fall, after the negative supply shock has already pushed output and employment down. The reduction in demand will therefore cause the economy to be hit by a 'double-whammy', which could result in a sustained contraction in real GDP growth—known as a recession.

> The most fundamental problem with inflation targeting is therefore that the level of inflation on its own does not provide a reliable guide as to whether the economy is overheating (due to strong demand) or slumping (due to higher-cost supply).

While the RBA is aware of this it has failed to disentangle cost-push (supply-side) and demand-pull drivers of inflation in many other episodes, particularly when supply-side shifts have been slower-moving, such as electricity price rises from 2007 to 2014 largely driven by higher regulated network charges rather than a demand surge.

The question, then, is whether NDGP targeting would make a material difference to workers' economic outcomes, and those of the country as a whole. While the ACTU remains open-minded regarding the theoretical case for NGDP targeting, there are two factors which give us reservations. Firstly, our fundamental position is that monetary policy is too blunt, clumsy and inequitable to achieve its stated goals. Improving monetary policy targets is worthwhile, but it is monetary policy's tools, not its targets, that also need to be addressed. The monetary policy toolkit is weaker than it could be, but even with the strengthened toolkit advocated in this submission (such as macroprudential policy tools), monetary policy alone cannot deliver if fiscal policy vacates the space. Macroeconomic stabilisation and the goals of full employment and price stability are doomed to fail without active fiscal policy. Monetary dominance itself has failed, not just its latest iteration. The problem with the NGDP targeting debate is it distracts and deflects from the comprehensive, whole-of-Government macroeconomic debate which needs to take place: whether the policy architecture as a whole is delivering macroeconomic stability.

The ACTU's second reservation concerns whether NGDP targeting would lead to better outcomes for workers in our current cost-of-living and real wages crisis. Nominal GDP targeting would certainly help in theory during episodes where nominal GDP was stable yet prices were soaring. However, nominal GDP has rebounded aggressively since September 2021, growing at 3.6% in the December quarter, 4.1% in the March quarter, and 4.3% in the June quarter, and growing 12.1% in the 12 months to June 2022 as commodity prices have soared, COVID lockdowns have eased and households have gone on a spending spree of pent-up demand (see Table 1 below).

Table 1: Quarterly and annual growth in nominal GDP, seasonally adjusted.

	MAR-2020	JUN-2020	SEP-2020	DEC-2020	MAR-2021	JUN-2021	SEP-2021	DEC-2021	MAR-2022	JUN-2022
QUARTERLY	0.3	-7.9	4.6	4.5	4.0	2.7	-0.3	3.6	4.1	4.3
ANNUAL	3.1	-5.9	-3.9	0.6	4	16.4	11.2	10.2	10.2	12.1

Source: ABS National Accounts, Table 1.

It is unclear whether the RBA would have behaved any differently, or been less aggressive in its monetary policy tightening, if it had been targeting soaring nominal GDP instead of soaring inflation. This is not to say the ACTU accepts the argument that current inflation is primarily demand-pull driven; even the RBA itself has stated repeatedly in the Minutes of recent monthly Board meetings that cost-push factors such as the war in Ukraine and domestic construction material shortages are the most concerning drivers. The root of our current problem lies in supply-side factors. But, as Mitchell, Wray and Watts (2019) noted above, "cost-push inflation requires certain overall aggregate demand conditions for it to be sustained." Nonetheless, despite supply-side factors driving the bulk of current inflation, there has clearly been a spike in demand and nominal GDP as Australians emerged from lockdown. If the RBA has been plainly unable to see through transitory inflation with an inflation target, why would we expect it to be any more patient or restrained in the face of a transitory nominal GDP boom with an NGDP target?

Worse, while NGDP targeting in theory focuses on demand-pull inflation and ignores cost-push inflation, it still fails to recognise the dichotomy between high non-labour cost-push inflation (rising oil prices etc) and low labour cost-push inflation (weak nominal wage growth). An increased focus on supply-side issues is all well and good. But working Australians are not barrels of crude oil, and the cost of the latter is rising a lot faster than the cost of the former. It also fails to address the current paradox of high inflation and low nominal wage growth, in contradiction with orthodox macroeconomic theory. Orthodox theory from the Phillips Curve to the NAIRU are fundamentally models of inflation as a wage-growth driven phenomenon. Both the RBA and the Treasury have indicated this year that they estimate the NAIRU to be above 4% - well above the current 3.5%, presumably on the basis that this year unemployment has dropped precipitously and inflation has risen dramatically. Yet the relationship between unemployment and inflation in both the Phillips Curve and NAIRU models is a nominal wage growth or nominal labour cost one, grounded in cost-push nominal labour pressures. So long as nominal GDP targeting doesn't factor in low nominal wages growth, its shift towards a demand-management focus makes little difference to workers in the current environment.

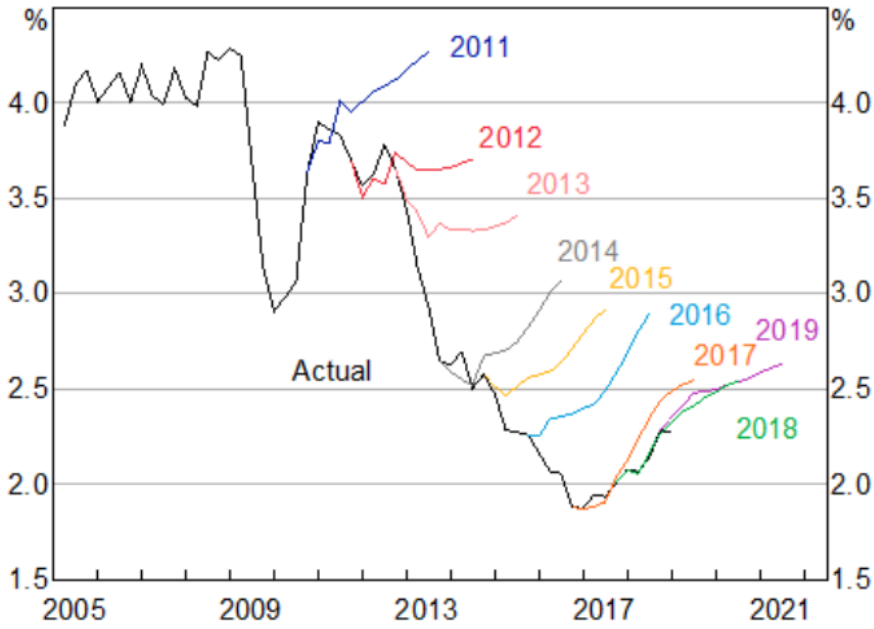
1.2. Theory, modelling and messaging on inflation

The Reserve Bank's thinking, messaging and modelling has been driven by a view that inflation is best controlled by influencing the level of wages and unemployment, through updated iterations of the Philips Curve and the NAIRU. The central bank's modelling and messaging should be revised, in consultation with the ACTU and labour market experts. Although there are several problems with the Reserve Bank's current practice and models of inflation, we will address two in particular in the following sections: firstly, the link between unemployment and wage growth, which has broken down, and secondly, the absence of a significant—if any—role for firms' price-setting behaviour in the RBA's approach.

1.2.1. The relationship between unemployment and wage growth

The historic decline in the relative bargaining power of labour in recent decades has substantially undermined the link between unemployment and wage growth. This has manifested in the rise of underemployment and the shift to part-time and insecure and casual work arrangements, as well as the decline in collective bargaining coverage. This has resulted in consistent inaccuracies in the Reserve Bank's wage forecasts (see Figure 1 below).

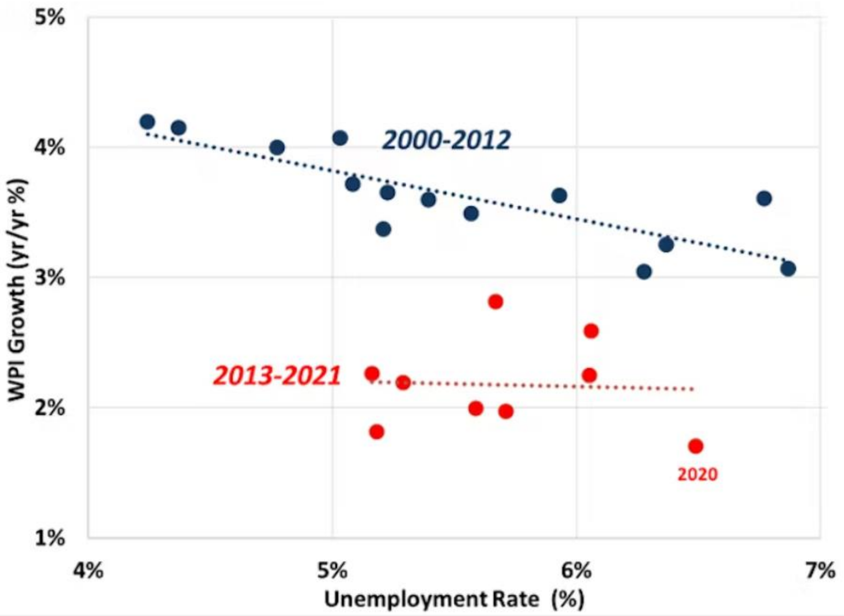
Figure 1: RBA nominal wage growth forecasts and actual nominal wage growth in the previous decade



Source: Cassidy (2019), citing RBA February 2019 Statement on Monetary Policy forecasts.

The key culprit in the RBA's poor wage growth projections is the Phillips Curve. As Stanford (2022) has further noted "the expected automatic relationship between unemployment and wages isn't visible in the real world… The Phillips Curve is also morphing, changing both its vertical position and its shape… Before 2013 only a weak relationship was visible between wages and unemployment. Since 2013 the curve has shifted down and flattened, with hardly any discernible connection between unemployment and wages."

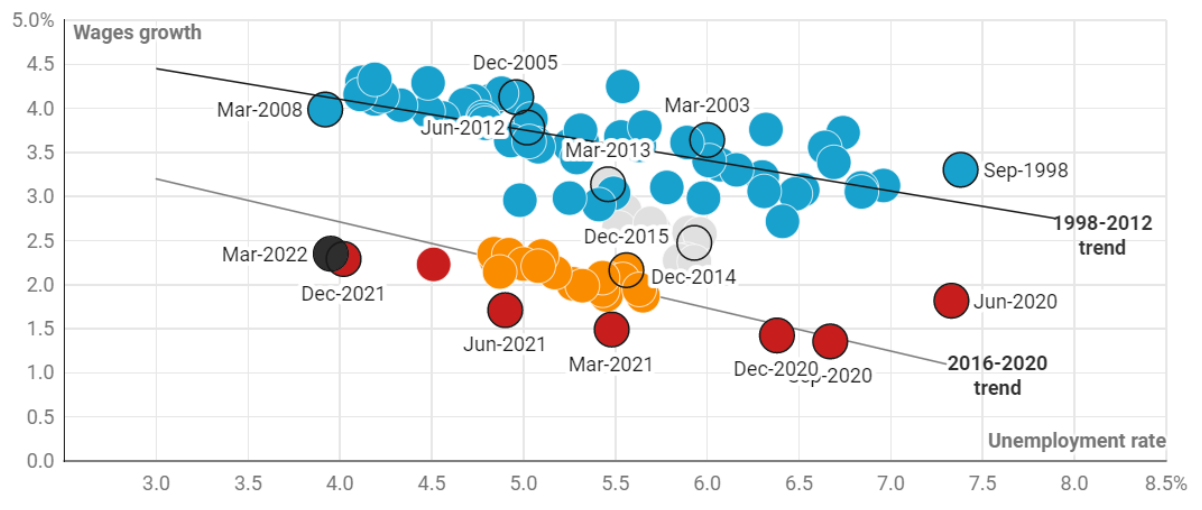
Figure 2: Wages growth and unemployment, 2000-2021



Source: Stanford (2022), citing ABS Wage Price Index and ABS Labour Force Survey.

As Jericho (2022) argues, "the problem is the belief that low unemployment will deliver wages growth. That old system does not work when the [industrial relations] system is geared towards [delivering] lower wages [growth]. We are currently [May 2022] seeing wages growth nearly 2 percentage points lower than we would have expected it to be in the past with similar low unemployment."

Figure 3: Shifts in the Phillips Curve over time



Source: Jericho (2022), citing ABS 6202.0, 6345.0, 6150.0.55.003 derived.
Blue = 1998-2012; Grey 2013-2015; Orange 2016-2020; Red since pandemic.

The effect of the erosion of workers' collective and institutional bargaining power on the Phillips Curve has been observed overseas as well. In a US Federal Reserve paper, Ratner and Sim

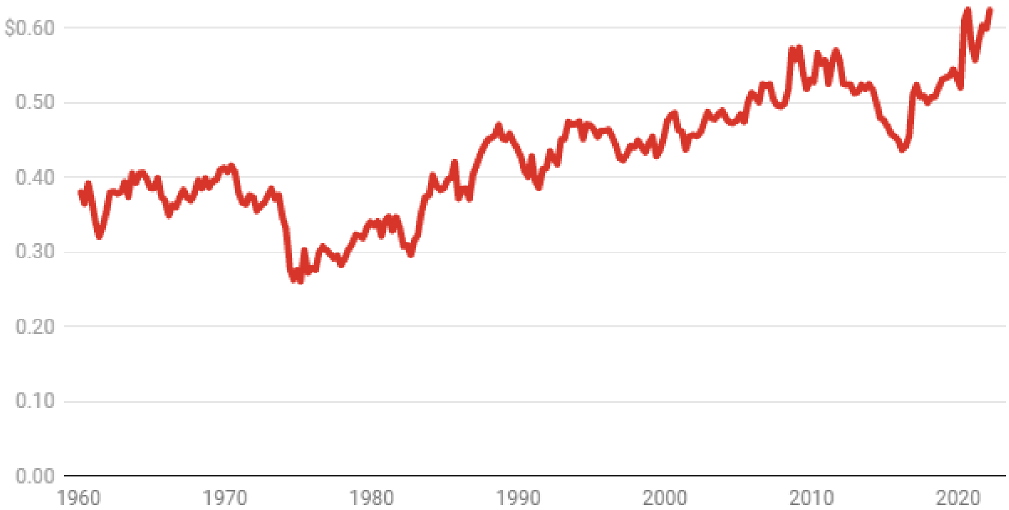
(2022) presented time series and cross-sectional evidence to argue "labor [sic] market policies that have eroded worker bargaining power might have been the source of the demise of the Phillips curve," providing "an alternative explanation… [to] conventional wisdom which has it that the sound monetary policy since the 1980s not only conquered the Great Inflation, but also buried the Phillips Curve itself." In developing what they termed the "Kaleckian Phillips Curve, the slope of which is determined by the bargaining power of trade unions", Ratner and Sim (2022) argued "a nearly 90 per cent reduction in [US] inflation volatility is possible even without any changes in monetary policy when the economy transitions from equal shares of power between workers and firms to a new balance in which firms dominate."

1.2.2. The price-setting behaviour of firms

The RBA does not conceive of much, if any role for firm and firm-level behaviour in setting prices. The Governor's comments in September effectively called for wage restraint, yet ignored the role of firms in passing on rising input costs. This is against a backdrop of real wages going backwards over the past decade, and record levels of profits.

As Stanford (2022b) notes, "labour is not the only component in production costs: a considerable profit margin is also built into final prices… indeed, by March 2022, corporations made 62 cents in gross profit for every dollar they paid in labour compensation… the highest [level] in history, and more than twice the rate in the 1970s. Yet while the RBA warns darkly about rising costs, the growing importance of profits in driving higher prices is not mentioned. This reflects an ideological bias that wages are a cost item that must be tightly controlled, while profit is assumed to be a legitimate reward to businesses that efficiently supply the market with something valuable."

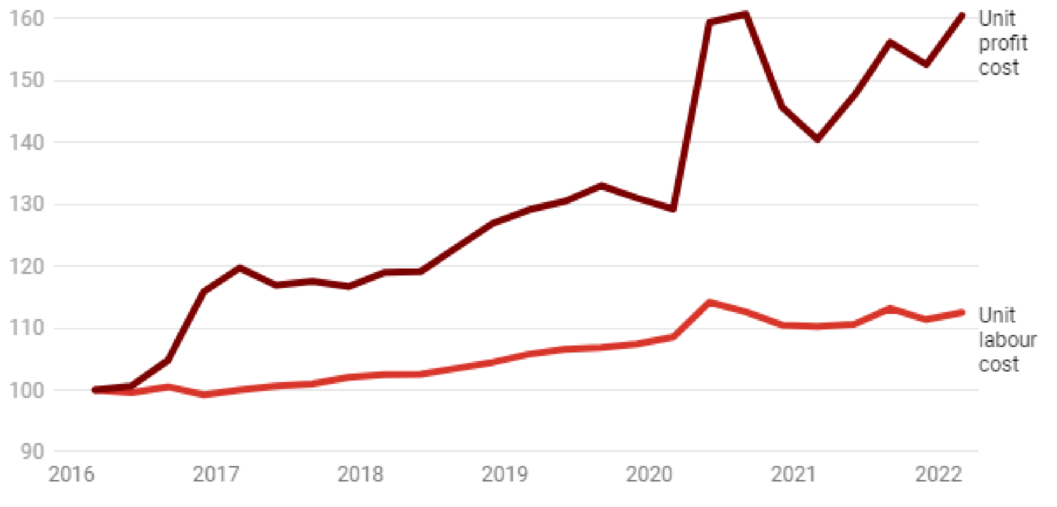
Figure 4: Gross profit per dollar paid in wages in Australia, 1960 - 2022



Source: Stanford (2022b), Centre for Future Work calculations from ABS National Accounts

Furthermore, while the ABS publishes data on the cost of employing labour per unit of production (unit labour costs), it does not publish a measure of what gets paid in profit per unit of production, or "unit profit cost" (Stanford 2022b). Employing a similar methodology to that used to measure unit labour costs, Stanford (2022b) compares growth in nominal corporate profits with the growth in real output to calculate unit profit cost, finding unit profit costs have risen by 24% since the beginning of the pandemic (compared with a 4% increase in nominal unit labour costs).

Figure 5: Index of unit labour costs and unit profit costs, 2016 - 2022



Source: Stanford (2022b), Centre for Future Work calculations from ABS National Accounts

While in theory, competitive market forces should exert downward pressure on prices and profits as individual firms compete to maintain or increase their market share, in practice, industry concentration in sectors from energy to retail, transport, and banking in Australia is among the highest in the world. While the foremost remedy to this lies in competition reform (which the Government has already begun to undertake), which is beyond the Reserve Bank's policy remit, the Bank's messaging on inflation could—and should—at least acknowledge the role of firm price-setting behaviour, as other major central banks have done.

US Federal Reserve Vice Chair Lael Brainard made several mentions of the role of profit margins in driving recent US inflation in a 7 September 2022 speech titled 'Bringing Inflation Down', in which she stated:

> How long it takes to move inflation back down to 2 per cent will depend on a combination of continued easing in supply constraints, slower demand growth, and **lower markups**, against the backdrop of anchored expectations...
>
> **Reductions in markups could also make an important contribution to reduced pricing pressures**. Last year's rapid demand growth in the face of supply constraints led to product shortages in some areas of the economy and high margins for many firms. Although we are hearing some reports of large retailers planning markdowns due to

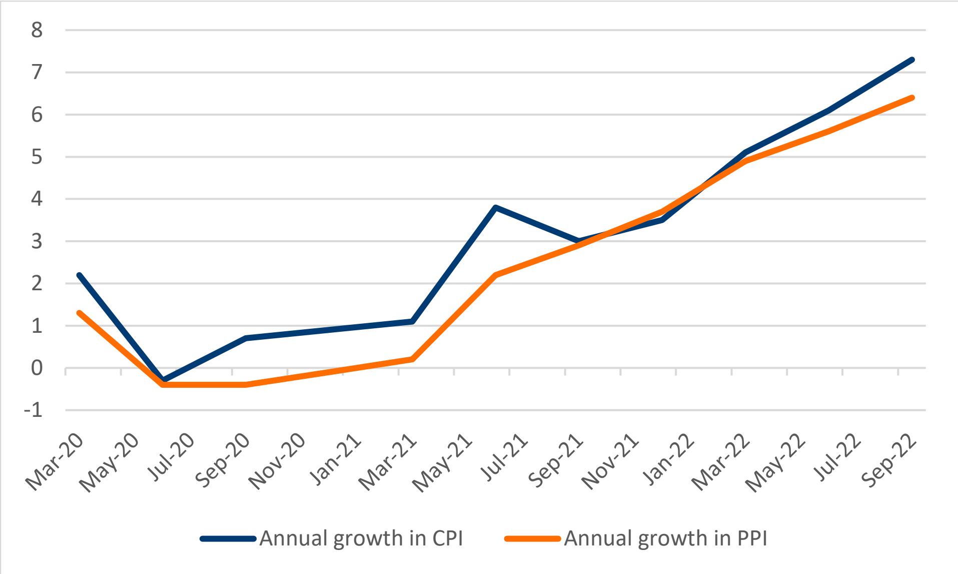
> excess inventories, **we do not have hard data at an aggregate level suggesting that businesses are reducing margins in response to more price sensitivity among customers. At an aggregate level, in the second quarter, measures of profits in the nonfinancial sector relative to GDP remained near the postwar peak reached last year**.
>
> Using the available macroeconomic data, it is challenging to measure directly how much firms mark up their prices relative to their costs. That said, there is evidence at the sectoral level that **margins remain high in areas such as motor vehicles and retail**. After moving together closely for several years, starting early last year, **the new motor vehicle consumer price index** (CPI), which measures the price dealers charge to customers, **diverged from the equivalent producer price index (PPI)**, which measures the price dealers paid to manufacturers. Since then, **the CPI has increased three times faster than the PPI. This divergence between retail and wholesale prices suggests an unusually large retail auto margin**. With production now increasing, and interest-sensitive demand cooling, there may soon be pressures to reduce vehicle margins and prices in order to move the higher volume of cars being produced off dealer lots.
>
> Similarly, **overall retail margins—the difference between the price retailers charge for a good and the price retailers paid for that good—have risen significantly more than the average hourly wage that retailers pay workers** to stock shelves and serve customers over the past year, **suggesting that there may also be scope for reductions in retail margins**. With gross retail margins amounting to about 30 percent of sales, **a reduction in currently elevated margins could make an important contribution to reduced inflation pressures in consumer goods** [*all emphases added*].

By contrast, the RBA rarely even mentions profits in its monetary policy statements, announcements on interest rates, or major speeches by senior personnel, let alone acknowledge the role of firm-level pricing power in our current inflation challenge. Neither the August 2022 Statement on Monetary Policy, nor Governor Lowe's media statement on the Board's September 2022 monetary policy decision, nor the Governor's recent 8 September 2022 speech to the Anika Foundation, mention profits (other than two modest references in the Statement on Monetary Policy, such as to refinery margins being relatively high in reference to petrol prices). The Statement on Monetary Policy does at least concede on page 65 "retailers have indicated in liaison that they are now more willing to pass on input cost pressures to consumers, rather than accepting lower margins" (2022: 65). This unwillingness to even mention the role of firms in driving inflation finally seemed to give way in the Governor's media statement following the Board's November interest rate decision, which, notwithstanding its strange and misguided reiteration of the risk of a wage-price spiral, stated:

> Wages growth is continuing to pick up from the low rates of recent years, although it remains lower than in many other advanced economies. A further pick-up is expected due to the tight labour market and higher inflation. Given the importance of avoiding a prices-wages spiral, the board will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms in the period ahead (Lowe 2022).

ABS data shows US Federal Reserve Vice Chair Brainard's observation about divergence between the Producer Price Index (PPI) and the Consumer Price Index (CPI) in the US motor vehicle industry is in fact applicable to the Australian economy overall (albeit the divergence is on a much smaller scale). Australian PPI rose 6.4% over the 12 months to September 2022, while CPI rose 7.3% over the same period. If other major central banks are recognising the role of firm price-setting behaviour and profit margins in the current inflation environment, why shouldn't the Reserve Bank?

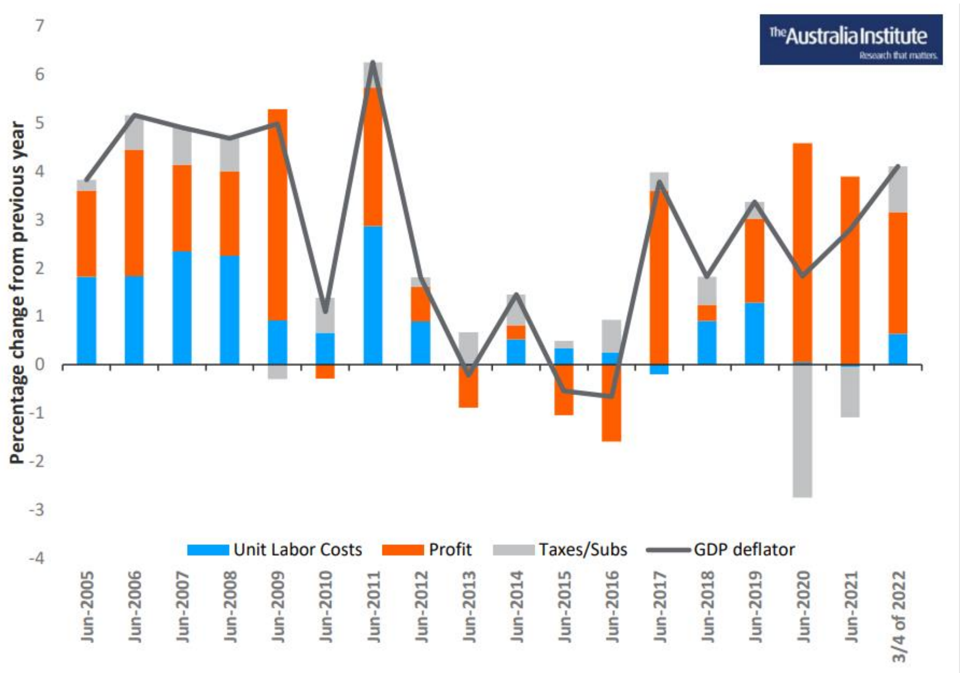
Figure 6: Annual growth (percentage) in prices for producers and prices for consumers since the start of the pandemic (original)



Source: ABS (2022), Producer Price Index for the September quarter, cat.6427.0 Table 1, and Consumer Price Index for the September quarter, cat.6401.0 Tables 1 and 2.

Furthermore, research by The Australia Institute in July 2022 found "wages made no contribution to Australian inflation in 2019-20 or 2020-21, measured using the ABS's broadest indicator of inflation, the GDP deflation. Wages accounted for only 0.6 percentage points of the 4.1 per cent annualised increase in prices at the time of publication" (Richardson et al. 2022). Drawing on recent research by the European Central Bank (ECB) which found that "profits have recently been a key contributor to total domestic [European] inflation" (Schnabel 2022), Richardson et al. (2022) applied the ECB's methodology for analysing the causes of inflation to ABS data, finding that profits accounted for approximately 60 per cent of Australia's inflation (as of July 2022) while labour costs accounted for just 15 per cent of inflation. Detail on the role of profits in Australia's GDP deflator can be found in figure 8 below.

Figure 8: Decomposition of Australian GDP deflator by wages, profits and net taxes



Source: Richardson et al. (2022) 'Are wages or profits driving Australia's inflation? An analysis of the National Accounts', Discussion Paper. Australia Institute analysis of ABS National Accounts. Note: final column represents only the first three quarters of 2021-22, as the final quarter data for the July quarter had not been released.

These two issues are particularly problematic when inflation is high but nominal wage pressures are weak. Both the RBA and Treasury have indicated they believe the NAIRU to be above 4%, even though the unemployment rate (currently 3.5%) has been below the estimated NAIRU since March 2022 and as low as 4.2% since December 2021, with barely any upward movement in either quarterly or year-on-year nominal wage growth (see Table 2 below).

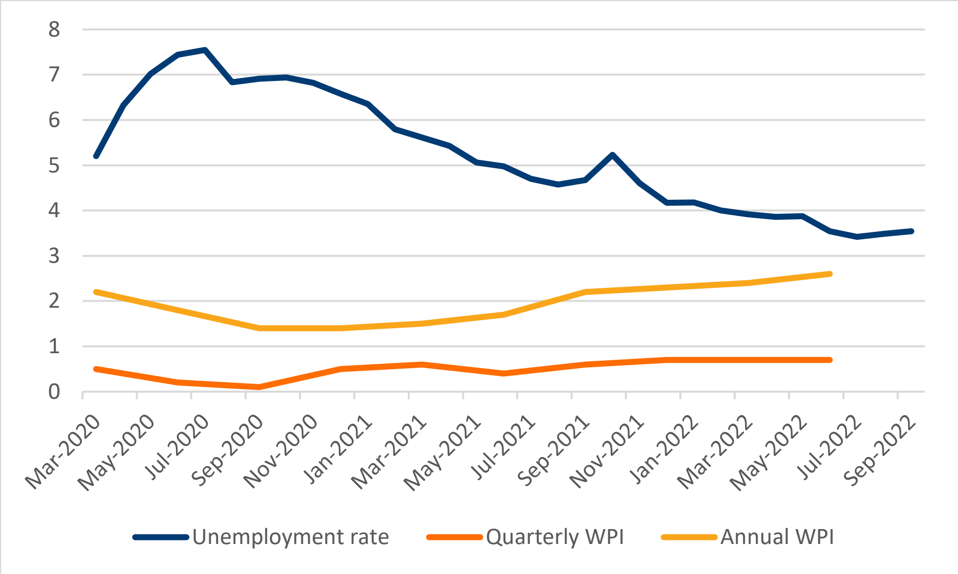
Table 2: Unemployment rate and nominal wage growth, per cent (seasonally adjusted), September 2021 – September 2022

	Sep-2021	Oct-2021	Nov-2021	Dec-2021	Jan-2022	Feb-2022	Mar-2022	Apr-2022	May-2022	Jun-2022	Jul-2022	Aug-2022	Sep-2022
Unemployment rate	4.7	5.2	4.6	4.2	4.2	4.0	3.9	3.9	3.9	3.5	3.4	3.5	3.5
Quarterly WPI growth	0.6	-	-	0.7	-	-	0.7	-	-	0.7	-	-	-
Annual WPI growth	2.2	-	-	2.3	-	-	2.4	-	-	2.6	-	-	-

Source: ABS Labour Survey and ABS Wage Price Index

Viewed over the course of the pandemic, dramatic movements in the unemployment rate have seen very little movement in nominal wage growth, even after unemployment fell below the NAIRU in March 2022.

Figure 9: Unemployment rate and nominal wage growth, per cent (seasonally adjusted) since the beginning of the pandemic in March 2020



Source: ABS Labour Survey and ABS Wage Price Index

In fact, prior to the outbreak of inflation in 2022 driven by non-labour input costs, the RBA Governor stated in March 2021 that the Board would not begin raising interest rates until nominal wages were growing fast enough to lift inflation, indicating annual nominal wage growth (then 1.5%) would have to rise above 3% for inflation to return to the target band (Wright 2021). While the Governor has been (perhaps unfairly) criticised for the Bank's messaging in late 2021 that rates would not rise in 2022, this was always contingent on the macroeconomic data available at the time—the Governor could not have foreseen Russia's invasion of Ukraine and the shock to global oil prices—the Bank's messaging on wages growth has been mixed and inconsistent as non-labour cost-push inflation has emerged in 2022, reflecting the fundamental flaw in the Bank's theoretical framework of inflation as a fundamentally labour-driven phenomenon.

Recommendation 2: The RBA should work with the ACTU and labour market experts to revise and improve its modelling particularly with regard to wages and unemployment and refocus its public commentary to better address the actual drivers of inflation. The RBA should consider other emerging and arguably superior models.

2. Interaction between fiscal, monetary and macroprudential policy

The ACTU accepts that the capability of monetary policy is limited—more so today—in reaching macroeconomic goals. Policymakers should recognise the effectiveness of monetary policy is therefore similarly limited. We therefore call for better coordination across government and relevant agencies to achieve those macroeconomic goals. The review should consider mechanisms for doing so.

2.1. Interest rates are a blunt and often ineffective tool for achieving price stability

As discussed in the earlier section on nominal GDP targeting, Australia is currently facing predominantly cost-push inflationary pressures, through supply-side challenges in areas from automotive fuel, energy, to food and groceries. Tightening interest rates will not address the underlying drivers of a supply-side, cost-push inflationary episode.

To the extent that the current episode of inflation is driven by demand-pull factors, raising interest rates is a profoundly blunt instrument. Higher interest rates cannot target the specific sectors, goods and services, industries, regions, cohorts and demographics contributing the most to inflation. Annual non-discretionary inflation is 8.4% for the year-to-September, while annual discretionary inflation is at 5.5%. Although the ABS has only begun publishing discretionary-versus-non-discretionary inflation data in recent years, and therefore there is limited empirical research on the interest rate sensitivity of non-discretionary inflation, the Fair Work Commission's February 2022 paper Experimental estimates of a Consumer Price Index for low-paid employee households found that low-paid employee households spend more on essentials and less on discretionary items. Households in the low income quintiles and deciles spend 63 per cent and 63.2 per cent of household expenditure respectively on non-discretionary items (Yuen and Rozendes 2022). Ongoing strong retail data and aggregate demand suggests tighter demand-management policy settings are not reducing non-discretionary consumption (likely due to its very non-discretionary nature) and are not reducing our largely supply-side problem with inflation.

A key example of the 'bluntness' of interest rate policy and its inability to target specific geospatial and sectoral dimensions of inflation is Australia's experience in the mining boom of the early 2010s. Soaring commodity exports drove exchange rates to record levels, undermining the international competitiveness of other export industries such as manufacturing and the local regional economies which rely on them, particularly in the eastern states. The RBA's tighter monetary policy response to rising inflation in the mining states had an outsized effect on the manufacturing eastern states, hit by a 'double-whammy' of both higher exchange rates and higher interest rates, with the latter contributing additional upward pressure on the former.

Macroeconomic stabilisation therefore cannot be left primarily to monetary policy, and fiscal policy must play a larger role in macroeconomic stabilisation on both the price stability and full employment side. We must avoid a repeat of the pre-pandemic period where overly tight fiscal policy and overly loose macroprudential policy undermined monetary policy objectives (as discussed in the following section on macroprudential policy). The various levers of macroeconomic policy must be better coordinated to deliver full employment, price stability and financial stability, and to avoid those policy levers undercutting one another. This does not imply the Government setting monthly interest rate policy. Rather, the ACTU proposes the creation of a Macroeconomic Coordination Committee to ensure elected and unelected policymakers alike are contributing to the core macroeconomic objectives, to ensure that each policy lever is pulling its weight, and to ensure collective responsibility for macroeconomic outcomes is taken among the "family" of policy actors. The current practice of blame-shifting and buck-passing between fiscal, monetary and macroprudential policymakers fails to deliver accountability and thus undermines performance.

Recommendation 3: To ensure that fiscal, monetary and macroprudential policy are all working towards the shared goals of full employment, decent living standards and financial and price stability, the Government should consider establishing a Macroeconomic Coordination Committee, comprised of the Treasurer, the Minister for Finance, the RBA Governor and Deputy Governor, the Chair of APRA, and the Secretaries of the Department of Treasury and the Department of Finance. The Committee could meet every month one week prior to the RBA Board monthly meetings to discuss and coordinate fiscal, monetary and macroprudential policy towards these goals. Following each monthly RBA Board meeting, the Committee could publish a statement outlining the actions its member agencies were undertaking to meet shared employment and inflation targets.

2.2. Macroprudential policy

Macroprudential policy must play a greater role in macroeconomic, financial, and price stabilisation. As Minsky (1986) argued, effective macroeconomic stabilisation requires policymakers to be able to adjust the quality of credit, not just its price.[3] Granting the central bank greater regulatory powers over credit, borrowing and lending standards would not only improve financial stability as Minsky argued, but improve price stability as well, as Tankus (2022) has argued.[4] Furthermore, in restoring to the RBA the sorts of macroprudential policy tools enjoyed by central banks in other advanced economies such as the US Federal Reserve, Australia would avoid the sort of policy failure, miscoordination, buck-passing and blame-shifting observed in the pre-pandemic era. This section will address each argument in turn.

There is a fundamental mismatch between the powers of the Reserve Bank and its responsibilities. Namely, it does not have the power to deliver on its responsibilities. As argued

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[3] We direct the Panel to the detailed arguments in Hyman P. Minsky's *Stabilizing an Unstable Economy* (1986) and L. Randall Wray's *Why Minsky Matters* (2017).

[4] We direct the Panel to the detailed arguments in Nathan Tankus' 'The New Monetary Policy: Reimagining Demand Management and Price Stability in the 21st Century' (2022).

earlier, monetary policy simply cannot do all the heavy-lifting in the absence of fiscal policy, as Australia's poor macroeconomic performance and high unemployment from 2013 to 2020 under the former Coalition Government's austerity strategy demonstrates. This does not mean the Australian central bank has no role to play in stabilisation, however. The RBA should be given responsibility for macroprudential policy in order to both strengthen its own macroeconomic stability toolkit, and to ensure macroprudential and monetary policy are harmonised so that the latter can be deployed effectively to its full extent.

As discussed in section 1.1 on the need for a rebalance between the Bank's price stability and full employment objectives, it is crucial to note the reasons the Reserve Bank itself has given for why it did not undertake more aggressive monetary easing in the years before the pandemic. In his speech to the Anika Foundation on 25 July 2019, Governor Lowe stated the Board was concerned faster and deeper interest rate cuts in the period from late 2016 to late 2018 would have triggered higher and unsustainable levels of household and private debt:

> Throughout this period, the Board discussed the case for seeking a faster and more assured return of inflation to around the midpoint of the target range…
>
> As you know, in the end the Board did not adjust interest rates through this period. **It judged that seeking to achieve a faster return of inflation to the midpoint of the target range would have been accompanied by more rapid growth in debt, at a time when household balance sheets were already very extended** [emphasis added]. Our judgement was that, given the progress that was being made towards our goals, it was appropriate to use the flexibility in our inflation target to pursue a course that was more likely to be in the country's long-term interest. **We could have generated a bit more inflation, but we would have had faster growth in household debt as well** [emphasis added].
>
> I acknowledge that others might see this trade-off differently. But given the unemployment rate was coming down and inflation had lifted from its trough, we did not see a strong case for monetary easing (Lowe, 2019).

Furthermore, in 2019 APRA removed the 7 per cent serviceability buffer, which had required banks to assess prospective borrowers' capacity to service home loans in the hypothetical scenario of interest rates on mortgages reaching 7 per cent, or 2 per cent above the rate paid by the borrower, whichever was higher (Frost 2019). APRA replaced this with an interest rate buffer of 2.5% over the loan's original interest rate (APRA 2019). This meant by December 2019, borrowers taking out loans on the owner-occupier variable housing interest rate for new loans (3.28 per cent) had to have the capacity to service rates of 5.78 per cent, falling to a low of 5.75 per cent when variable mortgage rates fell to a pre-pandemic low of 3.25 per cent in February 2020. As official interest rates fell in response to the COVID-19 pandemic, owner-occupier variable housing interest rates on new loans fell below 3 per cent after March 2020. APRA made no attempt to tighten requirements as official interest rates were slashed to the effective lower ground, and remained passive for the 18 months of pandemic-era ultra-loose monetary policy. By the time APRA tightened requirements in October 2021, raising the serviceability buffer to 3 per cent, variable interest rates on new home loans had fallen to 2.63 per cent (2.68 per cent in September 2021). The serviceability buffer of 2.5 per cent meant that in September 2021, borrowers taking out a new home loan at a 2.68 per cent variable interest rate only had to be able to service a mortgage rate of 5.18 per cent. The “effective” stress test had fallen from 5.75 per cent pre-pandemic to 5.18 per cent. Even with the mild tightening of the serviceability buffer from 2.5 to 3 per cent in October 2021 raising the “effective” stress test to 5.63 per cent, the stress test remained below its pre-pandemic low of 5.75 per cent. Furthermore, ongoing falls in the variable rate meant that by the time variable rates hit their nadir at 2.41 per cent in April 2022, the stress test had fallen to 5.41 per cent, compared to its 5.75 per cent pre-pandemic low. Since the RBA began tightening the target interest rate in May 2022, the cash rate target has risen from 0.1 per cent in April to 2.85 per cent in November, sending variable rates on outstanding loans from 2.86 per cent to 4.44 per cent (RBA data for August) and rates on new loans from 2.41 to 3.96 per cent.

This illustrates one of the fundamental flaws in Australia’s macroeconomic and macroprudential institutions: the RBA did not use monetary policy to its full extent because macroprudential policy—the purview of the Australian Prudential Regulatory Authority (APRA)—was too loose to assuage its concerns about excessive private debt and financial instability if monetary policy was deployed more aggressively.

This represents a profound failure of macroeconomic management, coordination and institutional design. The RBA’s many critics often overlook this miscoordination and institutional design flaw, instead seeming to take the view that the institutional arrangements and powers of the Reserve Bank are adequate, and that the Bank would have achieved its targets in full if only it had exercised its tools differently.

Macroprudential policy could play a greater role in demand-stabilisation and reducing inflation. This includes the mortgage serviceability buffer and loan-to-value (LVR) ratios, and could be coupled with financial regulatory tools more broadly such as better securities regulation. For a detailed exposition of the financial and price-stabilisation benefits of active macroprudential policymaking by central banks, see Tankus (2022). The ACTU acknowledges that APRA holds an important statutory role in the execution of macroprudential policy, especially in regulation and oversight of the financial sector, but not the objective of macroeconomic and price stability. We also note that APRA’s functions, which were split from the RBA in 1998 following the recommendations of the Wallis Inquiry, still exist within most comparable central banks, including the US Federal Reserve. The most powerful tool for business cycle stabilisation is fiscal, not monetary policy. Yet we have transferred responsibility from those with the tools to do so (governments) to those without (the central bank). Likewise, we have perversely transferred the most powerful tool for credit cycle stabilisation (macroprudential policy) away from the institutions originally established to do so (central banks). If governments are to step up and once again take on their original responsibility for full employment and low inflation (alongside central banks), central banks must also be allowed to step up and take on their own original responsibility for credit cycles and financial stability.

Arguments that active credit regulatory tools such as tighter loan-to-value (LVR) ratios would hurt low-income households fail to recognise that lax credit regulations have allowed a decade-long asset price boom to take off, rendering housing unaffordable, sending wealth inequality soaring (Productivity Commission 2018), enabling speculative investing, and growing the rentier class through passive income while the working class has seen wage income squeezed by overly tight fiscal and monetary policy.[5] Active credit regulation by the Reserve Bank could have contained the explosion in house prices, making home ownership more affordable for low-income borrowers in the long-run. Active credit regulation would have prevented asset prices driving a widening wealth gap. Finally, active credit regulation would have assuaged the Board's concerns about rising debt and allowed it to deploy monetary policy to its full extent from 2016 to 2018, which, if modelling by Leigh and Gross (2022) is correct, would have lifted 200,000 workers out of poverty and into paid jobs.

Recommendation 4: To ensure better alignment with monetary and macroprudential policy, the Government should consider reviewing its macroprudential goals, including whether or not APRA's policy functions and toolkit can be better aligned or incorporated back into the RBA (as is the case with most Central Banks), while ensuring that APRA's regulatory role and oversight over the finance sector is effective.

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[5] Arguments against active macroprudential policy on the grounds of equity also seemingly neglect the role of other policy levers in delivering housing affordability, such as public housing. Loose regulatory policies enabling large and potentially unsustainable mortgages should not be considered the only means, nor even the optimal means, for delivering affordable housing.

2.3. Additional policies for fair price stabilisation beyond the central bank

In addition to stronger central bank powers over macroprudential policy and a greater role for responsible fiscal policy, the ACTU has proposed other counter-inflationary policies which sit outside the Bank's remit, and which we believe are better placed to address inflation than the blunt tool of interest rates. These include better regulation of Australia's gas market, which would bring down gas prices substantially, and windfall taxes on super profits, particularly in sectors driving inflation. The first paper in our series leading up to the September 2022 Jobs and Skills Summit, 'An Economy that Works for People', called for:

- Implementation of a fairer inflation-reduction policy that protects workers' incomes, prevents price gouging, and tackles the underlying sources of inflation, especially in energy and housing, and reduces the cost of key public services such as early childhood education and care
- Regulation of labour markets so that real wages rise in tandem with labour productivity and support the maintenance of full employment
- Use of targeted tax measures to cool off aggregate demand pressures in fairer ways, including considering:
    - An excess profits levy on companies enjoying windfall profits as a result of current inflation
    - Taxation reform to encourage business capital investment and deter distributions of dividends and share repurchases by Australian corporations
    - Cancelling the planned Stage Three tax cuts, which only benefit higher-income households and will exacerbate inflationary pressures.

Energy prices are of particular concern at present. Gas companies are making windfall profits off the back of external shocks, at the cost of other domestic industries, including those which employ workers in regional communities. Workers are not seeing the benefits of record high gas profits—even those who are themselves directly employed in the industry, as their wages are not directly linked to profits. Substantial market interventions are therefore warranted.

3. Governance

3.1 RBA Board composition

The composition of the present Board is heavily unbalanced, with all six of the lay appointees coming from a corporate background to varying degrees. There are no members from an industrial relations background (as was the case up until 1996 when the Board included ACTU President Bob Hawke from 1973 to 1980 and ACTU Secretary Bill Kelty from 1987 to 1996) and no members from civil society.

It is not lost on the ACTU that the RBA board is entirely represented by business interests yet has never considered the role of price setting by business in contributing towards inflation. Nor is it lost on us that it is workers bearing the brunt of the RBA's actions, yet there is no one on the board that with practical skills and experience of our wages setting systems. To correct this, the ACTU supports a diverse board of the highest possible skills, expertise and experience, including an understanding of our real work labour market and wages setting systems..

Practitioners within our industrial relations system possesses the strongest subject matter expertise on wages and wage-setting dynamics, with ACTU as the key party in the Annual Wage review, investing considerable research and policy capacity in this space. They hold the best and timeliest information regarding actual and likely Enterprise Bargaining Agreement wage outcomes, due to their exposure across sectors and occupations. This network of intelligence, research and expertise, has a direct role in wage setting for at least 60% of the labour force. The labour movement, for example, also maintains a strong focus on emerging labour market trends. For instance, the ACTU was the first to highlight the broken link between underutilisation rates and wage growth emerging around 2015 to 2016, while the RBA and Treasury were late to understand and acknowledge this dynamic. Finally, it is of interest that the General Secretary of the UK Trades Union Congress has a standing role on the Bank of England’s Court of Directors in this context.

Further, appointees have been rightly criticised for lacking technical macroeconomic expertise and being unable to thoroughly contest the policy positions of the Governor and Deputy Governor. Worse, however, is not the lack of technical expertise but the lack of the right mix of expertise and perspective. The Board must include members who possess the strongest knowledge and analysis of wages and labour market trends, and it must include members with advanced technical and academic understanding of macroeconomics and monetary policy with a mix of pluralist views. Critics are right to highlight the central importance of contestability in policymaking. Contestability, however does not simply mean appointing more Board members with very traditional and often outdated approaches to economics.

Recommendation 5: The RBA should appoint at least one member to the Board with a deep understanding, skills and experience of the labour market and wage-setting system.

Recommendation 6: Academic economists and academically trained economists should be appointed to the RBA Board with a diversity of perspectives and the capacity to interrogate orthodox views at a technical level.

4. Institution

Culture and staffing

RBA employees have also been impacted by the previous Federal Government's Public Sector Wage policies. While the RBA is a Government Business Enterprises rather than a Public Service Agency, the wage-based Government directives over the past 8 years have led to heavy restrictions on RBA members' ability to negotiated genuinely agreed to pay outcomes with management.

Many RBA employees look to the finance industry (as well as the APS) to gauge their pay and conditions. Due, in part, to the restrictions on wages outlined above, many RBA employees consider their wages and conditions to be below market expectations. However, many employees choose to remain at the Bank due to a loyalty to the organisation and the important role it plays in the Australian economy. While this is an admirable quality, in the past it has placed RBA employees at a disadvantage when it comes to achieving market competitive pay and conditions as well as reasonable workloads. Having said this, in the last 2 years there has been a significant increase in highly skilled RBA employees leaving the organisation to work in the big banks.

Finally, the culture of the RBA also needs reshaping. Good policymaking rests on both empirical evidence and a rigorous contest of ideas. Diversity of economic thought needs to be encouraged as well as demographic diversity. The RBA should take proactive steps to diversify the theoretical perspectives represented within its research and policy program. The RBA has published excellent research on the declining demographics of professional economists and high school economics students: increasingly male and private school educated. The RBA must not only diversify the demographic if its staff; it must also take proactive steps to diversify the theoretical make-up of its staff. The common language of economics is mathematics and statistics. Beyond this, intellectual and theoretical diversity must be encouraged. Lack of intellectual, philosophical, theoretical and demographic diversity in any organisation leads to groupthink, blind spots, and policy failure. Lack of competition in markets leads to lower quality and higher costs, and the marketplace of ideas is no different. Demographic diversity and intellectual competition must start at the recruitment level.

Recommendation 7: The RBA should support genuine collectively bargaining with its staff and their representatives to ensure fair pay and conditions. It should also strive to have more diversity among its staff, both in terms of demographics, and economic perspectives.

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