General Discussion of 'Rowing Together: Lessons on Policy Coordination from American History'

Participants began by discussing the distinction between implicit and explicit coordination between fiscal and monetary authorities. One participant noted that motivations are important and caution is warranted, as explicit coordination could undermine central bank independence. It was also noted that central bank independence is contingent on a shared understanding of its importance between monetary and fiscal authorities. One participant suggested this provided motivation for stronger laws to enshrine central bank independence.

There was general agreement that central bank independence did not preclude communication between central bank and fiscal department staff. In fact, there are benefits from sharing information and ideas to ensure both institutions have a common understanding.

Participants then discussed the extent to which policy coordination was sufficient to guarantee desired macroeconomic outcomes. It was noted that 'rowing together' can be conducive to policy success, particularly following large negative shocks to the economy, but that it was not enough. There was also acknowledgement of the difficulty in fine-tuning coordination outside of crisis periods due to information asymmetries. Further, it was suggested that poorly reasoned coordination can have negative consequences.

The discussion turned to current government debt levels both domestically and internationally. It was noted that Australian government debt as a share of GDP remains low relative to other advanced economies. Participants warned against complacency, noting that several overseas governments have seen debt levels climb from low starting points to around 100 per cent of GDP. More generally, there was strong agreement that fiscal authorities should seek to undertake fiscal consolidations when the economy is strong. One participant pointed to international evidence suggesting that government bond yields are rising in response to higher government debt levels, and proposed that there may be a debt threshold beyond which yields would rise sharply.