Wrap-up Panel Discussion

The final part of the conference was a panel discussion focused on drawing the various themes of the conference together and considering their implications for institutional practice in light of the impending independent review of the Reserve Bank of Australia (RBA). It started with the panellists summarising their key takeaways from the conference. Given the impending review of the RBA, it then turned to questions around central bank mandates, the panellists' experience with reviews, and what part monetary–fiscal interactions should have in future arrangements. The session closed with a broader discussion among all the conference participants. The discussion was moderated by John Simon, Head of Economic Research at the Reserve Bank of Australia, and included the following panellists:

- John McDermott, Motu Economic and Public Policy Research
- Geoff Summerhayes, Zurich Financial Services Australia
- Luke Yeaman, Australian Treasury

As the conference and panel were conducted under the Chatham House Rule, no individuals' comments are attributed.

Introduction

The three panellists outlined their key takeaways from the conference, split into the causes and consequences of the low interest rate environment.

In terms of causes, the panellists focused on the breadth and depth of the relative drivers of falling neutral interest rates – they noted, in particular, that their appreciation of the relevance of some of the less common explanations, such as rising income inequality and rate hysteresis, had been increased as a result of the conference.

They noted that the consequences of a low neutral rate had been discussed, but appeared to be more unclear or contentious. The main consequences discussed by panellists related to rising debt levels, financial risks and the possibility of political economy concerns – with central banks losing sight of their mandate and instead commenting on unrelated issues.

Panellists felt there was a gap in the discussion around how central banks should respond to current low interest rates. Dr Tucker and Dr Leeper's discussions of political economy concerns and the necessity of stronger coordination between fiscal and monetary authorities provided some insights. However, it was unclear how an accountable, credible central bank would consider policy differently in a low interest rate environment. A panellist also indicated that they felt most papers focused too much on modelling and too little on what these models mean in the context of historically low interest rates.

Two panellists pointed to Dr Mian's discussion of inequality and the neutral interest rates as providing unexpected insights. Specifically, this description, when combined with corresponding fiscal policy recommendations that may help to address structural imbalances that translate into low neutral interest rates, offered a powerful way of understanding changes in the macroeconomy over the past 30 years.

Mandates and accountability

The discussion then turned to issues more closely related to the impending review. It started by reflecting on Dr Tucker's opening presentation about the appropriate mandate for central banks. Panellists noted that it is clear that the balancing act between accountability and independence can be a difficult one. This was especially the case when inflation was low and stable, and central banks and government could lose sight of the institution's core purpose.

It was noted that clear and transparent economic modelling helps to clarify this purpose, and helps to support accountability by making central banks responsible for the *ex ante* forecasts of their models. However, economic models can involve subjective input and imperfect data, which in turn reduces how much this accountability bites.

The panellists indicated that the start of the conference had a strong focus on accountability and a discussion of the monetary–fiscal framework. They noted that this was appropriate, given that now appears to be a good time to re-evaluate the structure of policy and policy responsibilities – 30 years after the introduction of inflation targeting and with a review in prospect.

Institutional reviews

The panellists were next asked about their experience with reviews.

All three panellists noted that reviews were important but involve upending elements within institutions that can make the process painful for some staff. In addition, reviews tend to take up a significant portion of senior managers' time reducing the time for dealing with core policy responsibilities and other challenges. Overall they are generally seen as an intense time for everyone involved. A further risk of reviews is if the scope of the review and the nature of what will be made public is not clearly communicated to staff – a public review that staff do not expect to be public can be alienating. Notwithstanding this, all the panellists saw persistent and significant benefits from the reviews that they believe improved the operation of their institutions.

Two of the panellists also recommended that overseas experience is considered by the review to help improve the ability of the review to challenge internal notions of what good looks like.

As part of such reviews, the panellists were then asked about what trade-offs they saw between internal or external reviews and how wide any review should canvas a range of ideas for change. For example, how would they manage the risk that lobbying from narrow interest groups could lead to untested ideas being added to the mandate?

All three panellists believed that there were significant benefits to openness, with an open review part of how a central bank illustrates its accountability to the democratic process and deals with the natural 'democratic deficit' involved with technocratic policy setting through transparency.

Each panellist felt that a non-transparent approach would not protect a central bank from poor ideas but would reduce trust in the bank. By exposing the ideas to the public honestly and clearly, the less broadly supported ideas will tend to be whittled away.

The key risk noted by one panellist is that structural reform that has been avoided by the government may be shifted onto central banks through an inappropriate expansion of their mandate. However, another panellist noted that many central banks are doing this voluntarily at present ¬– as a result, a transparent process that makes these boundaries clear may help to manage this risk.

One participant noted that such reviews risk being short-sighted and driven by the concerns of the day – when any review needs to be based on a long-term understanding of the nature of the institution and economic environment. This has been a challenge for reviews overseas. Another participant noted that there is a risk that reviews can make policy setting less transparent – especially given the open and clearly communicated starting point of monetary policy setting in a country like Australia.

Monetary–fiscal interaction

Following on from this discussion, the panellists were asked whether, as part of a review, they would be of the view that the central bank's mandate should be extended – as a way to increase monetary–fiscal interaction – or whether it needed to be tightened.

All panellists agreed that current settings are about right, and tended to lean towards a tightening and clarifying of the mandate rather than a broadening.

One panellist believed that the key area to focus on was not the mandate itself, but instead around processes for information sharing and coordination – opening up more active and timely lines of communication with industry and parts of government to ensure that this information was taken into account when determining how to meet the mandate.

The panellists believed that, in Australia, the current separation between fiscal and monetary authorities was appropriate – and it would do more harm than good to move any elements of fiscal policy into the central bank directly.

Low neutral rates and broader policy settings

The discussion was then opened up to questions from other conference participants. Participant questions were generally focused on broader concerns about fiscal policy settings in a low interest rate environment.

One participant was particularly concerned about current low levels of long-term investment, and an uneven investment response to climate change. The participant was clear that they do not see a role for a central bank to respond to such demands *per se* but, unless fiscal authorities were able to clearly and credibly deal with these issues, there would be rising pressure for these issues to be controlled by central banks.

Several participants noted that housing was a particularly fraught issue – given that much of monetary policy is communicated through interest rates, specifically mortgage rates. Structural decisions relating to taxation, zoning legislation and public infrastructure have determined the affordability and accessibility of housing. However, monetary authorities will always face some of the blame for house price changes. In this environment, strong lobby groups can try to pass off the costs of their desired legislation as costs of monetary policy. Given the political economy concerns, how clear can monetary authorities be about this?

Another participant noted that a period of low interest rates comes with consequential issues in financial regulation – which financial regulation and prudential bodies will be considering. Given the potential macroprudential risk of rising interest rates or sudden shocks, this is an area where interaction with these bodies and attempts to make the regulatory framework more transparent may be more beneficial than focusing on the monetary policy framework.