

## RBA speakers' bureau shows how out of touch they are



Reserve Bank deputy governor Guy DeBelle at RBA HQ in Martin Place, Sydney.  
Picture: John Feder

[Judith Sloan](#), Contributing Economics Editor, March 19, 2019

[51 Comments](#)

Judged by the number of speeches senior executives of the Reserve Bank give, it's easy to conclude that they have a lot of time on their hands.

The governor, deputy governor and assistant governors are always out and about, holding forth on a range of topics. By contrast, the senior executives at the Treasury, including the secretary, are almost taciturn, giving speeches sparingly and covering topics on which they can legitimately claim some expertise and knowledge. I can see it from the point of view of conference organisers. Can we get someone from the RBA to speak? That could look good. They will probably accept and they won't charge for their presentation. The invitations go out.

There is some curious reasoning that the senior executives won't speak too close to the dates of their 11 monthly board meetings each year — nothing must happen in January since there is no meeting in that month — because of sensitivity and all that. But given that the cash rate hasn't been changed in more than two years, it's hard to know what that sensitivity precisely is.

If you are interested, you can check out the list of speeches made by RBA staff members on its website.

Last year, 59 speeches were catalogued — more than one a week. Topics ranged far and wide and included: lags, low inflation, trust and prosperity, infrastructure, what's happening to the study of economics, economic conditions in the Kimberley, remarks to the Walkley Business Journalism Award, and Australia's deepening relationship with China, to name some of them. Quite a few of the speeches were delivered overseas. On the face of it, it would seem the bank has become a sort of speakers' bureau. (By the way, five speeches were made by Treasury officials last year, excluding the opening statements to Senate estimates.)

This brings me to the speech delivered last week by RBA deputy governor Guy Debelle, on the topic "climate change and the economy". The occasion was a public forum organised by the left-leaning Centre for Policy Development. Clearly, his appearance was organised many months before the event and it was a real coup for the centre to host Debelle. One can only assume there was some considered internal discussion among senior executives and possibly the board about the wisdom of accepting this invitation. The fact his speech would be continually referenced by environmental groups was one obvious consequence.

His presentation starts with a sappy reference to Dorothea Mackellar's poem about a sunburnt country and droughts and flooding rains. He notes agriculture is affected by weather and agricultural output is part of the GDP. Nothing earth-shattering there.

But Debelle gets himself into deeper water by accepting holus-bolus all the material from the United Nations Intergovernmental Panel on Climate Change, the Bureau of Meteorology and the CSIRO.

We should expect more from one of our leading bureaucrats than merely regurgitating the propositions of these agencies while ignoring other findings. Actually, if you read the IPCC reports closely, you will learn about the lack of definite evidence on the rising incidence of extreme weather events, particularly hurricanes/typhoons.

The information is there in the bodies of these reports; it's just not in the executive summaries.

Debelle mentions the work of Nobel prize-winning economist William Nordhaus, who has undertaken much research on the impact of climate change.

Nordhaus's estimates of the effect on world GDP of climate change are relatively modest: 2 to 3 per cent of GDP over more than 50 years.

This is completely manageable and brings into close focus the cost of measures to combat climate change, which are many times higher than 2 to 3 per cent of GDP. According to Debelle, climate change will have a significant impact on the conduct of monetary policy. "Monetary policy is always having to analyse and assess (various) forces and the impact on the economy. But few of these forces have the scale, persistence and systemic risk of climate change."

I guess that means the GFC was a walk in the park and the central bank authorities did such a good job at predicting its onset and fallout, or not.

When it comes to investment in renewable energy in Australia, it is staggering Debelle doesn't mention the billions of dollars of subsidies that have stimulated the investment boom. No right-minded economist would support this level or type of intervention, but Debelle is silent on the matter.

In his world, "there has been a rapid decline in the cost of renewable energy sources, in part because of extensive spending on research and development in renewable energy technology ... As a result of the price decline, the investment cost-benefit analysis has changed and continues to change quite rapidly".

He includes a quite bizarre chart in his presentation, depicting what is called the levelised cost of electricity generated by wind and solar, as well as movements in wholesale electricity prices in the National Electricity Market. (The levelised cost is a proxy of the price necessary for an asset to achieve a market rate of return.)

His understanding of how electricity pricing works is close to zero. It's the marginal supplier that determines the price and note that the greater penetration of renewable energy has been clearly associated with rising wholesale prices, something Debelle should have acknowledged.

There is a brief section of the speech dealing with China's response to climate change. Debelle sees mainly upsides for Australia as China demands our high-quality coal, our LNG output and our lithium for storage batteries.

He moves on to mapping the link between climate change and financial stability. I'm not sure what happened to his reference to droughts and flooding rains, but evidently there is some fear that extreme weather events will now risk financial stability.

That's because insurers could be badly hit (because they have never been badly hit before?), and that companies might suffer reputational damage (because that's never happened before?), including to the banks.

In short, Debelle's discussion is superficial and speculative. If climate change is already influencing monetary policy, it's very hard to see it. It's also a real worry if his speech represents the bank's degree of understanding.

But, hey, we should all be pleased to know the RBA is joining the Network for Greening the Financial System, a group of central banks examining climate - issues.

That should serve up more learning opportunities for the globetrotting members of the RBA executive.