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Against Increased Central Bank Independence in Australia: Better Balancing the Unelected Authority to Decide Big Distributional Trade-Offs with Principles of Constitutional Democracy

Abstract: Prompted by the failed attempt to increase Australia's central bank independence through removal of the government's override, this article examines the central bank's unelected authority to determine monetary policy and assesses whether this is justifiable in a democracy. It shows how political—and thus the people's—power over economic management has diminished, positioning central bank independence within an antipopulist and antidemocratic movement in constitutionalism that has quasi-constitutionalized neoliberal approaches. In setting interest rates, central banks make decisions that involve big distributional trade-offs: sacrificing employment to achieve price stability, redistributing wealth from labor to capital. Such trade-offs necessitate retention of ultimate democratic control. The article thus supports retaining and refining Australia's qualified central bank independence, and suggests novel policy options—compulsory savings and a job guarantee—to reduce the trade-offs employed to control inflation, making delegation to an unelected entity more justifiable and compatible with constitutional democracy.

Keywords: central bank independence, monetary policy, responsible government, constitutionalism, fourth branch, inflation, democracy

I. Introduction

Citizens in democracies elect governments to make laws and policies affecting many material aspects of our lives. Economic policy often headlines party election platforms, with policies reflecting distributional choices informed by contrasting political ideologies. Voters care about the economy: If a government's economic management is poor, there can be political costs through opposition criticism, media commentary, and electoral outcomes. Economic policy is therefore political.

However, over the last four decades it has become ordinary practice for elected governments to delegate central aspects of economic decision-making to unelected technocrats at a largely independent and ostensibly apolitical central bank. This is done to remove key economic policy choices from political pressure, on the assumption that independent experts are more likely to stick to agreed long-term economic objectives than electorally motivated policymakers who might put the public's short-term welfare ahead of longer-term economic goals (Tucker 2020a, 435; Buchanan and Wagner 1977; Buchanan and Dorf 2016, 63–79). Central bank independence is

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based on mistrust of government: As British political economist David Ricardo argued in his *Plan for the Establishment of a National Bank* (1824, 506), the government cannot “be safely entrusted with the power of issuing paper money” because “it would most certainly abuse it.”

This article grapples with central bank independence, taking Australia’s situation as a starting point and focusing on the central bank’s role in setting interest rates.¹ It then zooms out to analyze the tension between ideals of constitutional democracy, which I suggest should give citizens close control of the economic policy decisions that impact our lives, and the role of a politically insulated central bank. Drawing on Walter Bagehot, Will Bateman’s work on public finance and parliamentary constitutionalism (Bateman 2020), literature on the separation of powers and on “fourth-branch” and “guarantor” institutions, Paul Tucker’s articulation of the necessary conditions for the legitimacy of politically insulated delegated power (2018, 569), plus other literature, the article distills justifications for and problems with the central bank’s unelected economic authority to make monetary policy decisions.

The article contributes to the constitutional and policy discussion, first, by demonstrating how the Reserve Bank of Australia (RBA) germinated through a political struggle for control over monetary policy between elected representatives and the private financial sector, with RBA independence evolving in tandem with moves toward neoliberalism. Examining the legislation and the evolution of practice, it shows how the RBA’s moderated independence encourages power sharing that coheres with principles of responsible government. The article opposes the Labor government’s recent unsuccessful push to remove the treasurer’s override power (Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023), as this would have diminished democratic accountability and eliminated checks and balances, contrary to responsible government and most expert advice.

Second, zooming out from Australia, the article contributes to the theoretical discussion by situating central bank independence as a further evolution of what Bateman (2020) calls the “distribution of authority” in public finance and Bagehot (1873) called the “checks” of democratic discussion to ensure balanced financial decision-making. As Bateman describes, financial management authority has gradually transferred away from Parliament to the executive, creating a “democratic deficit” (2020)—which I argue has been deepened by the incremental transference of monetary decision-making away from the elected executive to the unelected central bank. This has situated authority over monetary decisions even further away from the people, shielding monetary policy from democratic debate.

Third, the article positions central bank independence as part of an antipopulist but also an antidemocratic movement in constitutionalism that has had the effect of quasi-constitutionalizing neoliberal approaches to economic policy. Drawing on analogous debates about bills of rights, it contends that who this institutional and policy “lock in” protects is integral for justifiability. If the “lock in” defends vulnerable constituencies whose powerlessness requires increased institutional protection, perhaps it can be justified despite tempering majoritarian power over policymaking. If the “lock in” protects the already powerful at the expense of popular will, however, then it demands more careful scrutiny. Whereas constitutionalized bills of rights are critiqued for removing power from the majority to protect the rights of vulnerable minorities, the “locking in” of neoliberal policy approaches via independent central banks is critiqued as removing power from the people, as represented by elected decision-makers, to preserve the interests of an already influential and powerful minority—capital and finance—sometimes at the expense of the most vulnerable. While the latter critiques may suggest that central bank independence cannot be justified in a democracy, I take a more nuanced position, acknowledging the importance of checks

¹ For focus and brevity, it does not deeply consider other central bank functions like financial regulation and payments system management, which also have distributional consequences.

and balances in public finance, including to control inflation. While some central bank autonomy is desirable to foster power sharing, scrutiny, and dialogue, central bank independence and the institutional and policy “lock in” it enables should be balanced and qualified. Elected governments should maintain ultimate control.

Fourth, the article applies Paul Tucker’s criteria for legitimate delegation to unelected decision-makers in a democracy, to show how independent central banks fail the necessary condition that they must not make decisions involving big distributional trade-offs. In setting interest rates, central banks sacrifice employment and restrain wages to achieve price stability, which redistributes wealth from labor to capital, contributing to inequality. The far-reaching magnitude of this distributional trade-off makes total delegation inappropriate, highlighting the need for elected government oversight, increased reciprocity, coordination and balance in the relationship between the government and the central bank, as well as policy measures to mitigate the trade-off.

I propose incorporation of novel policy options—a compulsory savings mechanism (Keynes 1940, 10–12) and a federal job guarantee (Mitchell et al. 2019, 301–02; Wray 1998, 124–30; Kelton 2020a, 249–54)—as additional tools to help achieve price stability. Integration of these mechanisms would mitigate and reduce the distributional trade-offs employed to control inflation, tempering the breach of the “no trade-offs” requirement to make delegation of monetary policy to unelected decision-makers more justifiable and compatible with principles of constitutional democracy. The article in this way originally integrates economic policy ideas to address the problems of constitutional democracy it explores.

II. The Australian Situation

A. *The Evolving Independence of the Reserve Bank of Australia*

The RBA is a statutory corporation established under Commonwealth legislation. Section 51(xiii) of the Constitution gives the Commonwealth power with respect to “[b]anking, other than State banking; also State banking extending beyond the limits of the State concerned, the incorporation of banks and the issue of paper money,” while Section 51(xii) authorizes federal legislation relating to “[c]urrency, coinage and legal tender.”

The pre-1990s evolution of the RBA was replete with “political conflict and compromise,” which is reflected in the Bank’s functions and its “unique relationship with government” (Lewis 1987, 362). The institution was preceded by the Commonwealth Bank, established under the 1911 Commonwealth Bank Act, which undertook ordinary commercial activities. The issuing of notes was at that point administered by the Australian Department of the Treasury (which had taken over the power from private trading banks and the Queensland government). In 1920, that responsibility transferred to a Notes Board on which the governor of the Commonwealth Bank sat ex officio. The Bank undertook administration of the note issue, with the Bank and the Notes Board formally independent of each other. In 1924, the Commonwealth Bank Act was reformed to give the Commonwealth Bank control over the note issue, under the management of a board that included the governor and the secretary to the Treasury as ex officio members. A hybrid private-public model thus evolved. The Bank developed its central banking activities in response to challenges of the Depression, and around 1930 “became an important player in economic policy debates” (McFarlane 2002). There was a temporary enlargement of its powers under wartime rules, which included controlling the exchange and determining interest rates. Legislative reforms in 1945 formalized these functions and the board was replaced by an advisory council again consisting of Bank and Treasury representatives. In 1951, a new board included the governor, deputy governor,

and the secretary to the Treasury—a structure that has remained largely the same since.² The Reserve Bank Act 1959 (RBA Act) maintained this original corporate body (*Reserve Bank Act 1959* (Cth), s 7(a)) (while changing its title to the “Reserve Bank of Australia”) to continue its evolved central banking functions.³ The Commonwealth Bank was detached from the RBA, separating the private and public functions.

Australia’s central bank occupies a nuanced position at the intersection of government influence and private financial influence. Analysis of debate around the RBA Bill helps illustrate that story. As Lewis explains, Australia’s Labor Movement had long been suspicious of private capital and financial power. Early in the Federation, the idea of a national government bank was Australian Labor Party (ALP) policy, with some seeing it as a vehicle for government economic intervention and others as a means of curtailing excessive bank profits (Lewis 1987, 360). While the central bank had already substantially evolved by the time the 1959 Act came about, the political debate about the RBA Bill helps illuminate the ideological underpinnings of central bank independence in Australia. Parliamentary deliberation was informed by the Liberal government’s backlash against the ALP’s failed attempt to nationalize banking in 1947. The Chifley Labor government had tried unsuccessfully to nationalize the private banks, arguing that this would enable the government to actively combat depression and inflation through “a monetary and banking system . . . wholly devoted to the service of Australia” (Australian Government, Department of Prime Minister and Cabinet 1947). The private banks mounted a political resistance and challenged the legislation, which the High Court found contravened the freedom of interstate trade and commerce under Section 92 of the Constitution and failed to provide “just terms” for shares compulsorily acquired in breach of Section 51(xxxi).⁴ The controversy contributed to Labor’s subsequent election loss (Abjorensen 2017).

The Menzies Liberal government argued its 1959 RBA Bill would counteract Labor’s attempted “socialization of banking” by backing “free enterprise.” The law’s stated policy intent was not only “terminating the link between the central bank and the government trading bank” but also inducing “co-operation between the central bank and the private banks.”⁵ Labor countered that the central bank “belongs to the people,” highlighting “a direct contradiction” between the aims of a banking structure that “ought to be applied for the welfare of the people of Australia” and the aims of private banks.⁶ Labor representatives further warned that the government’s legislation would “shackle the power of the Parliament” over monetary policy.⁷ Perhaps they meant to say the “power of government,” as the Parliament would still retain power to amend the legislation, yet there was no true “shackling” of government evident in the legislation either, given the treasurer’s override power under Section 11. Labor’s rhetoric here could be interpreted as a warning that the institution might become politically entrenched, and that its relationship with government might in practice become subordinated to its relationship with private financial interests, particularly given the Liberals’ antisocialist justifications. In the end, however, the private bank directors—seventeen of whom (it was argued in the parliamentary debate) were not ordinarily resident in Australia—apparently persuaded a majority of parliamentarians to begin relinquishing

² Recent 2024 reforms to the RBA board structure are discussed below.

³ On this history see further Butlin (1968), Cornish (2010), Giblin (1951), and Schedvin (1992).

⁴ *Bank of NSW v Commonwealth (Bank Nationalisation Case)* (1948) 76 CLR 1. This broad interpretation of Section 92 was abandoned in *Cole v Whitfield* (1988) 165 CLR 360.

⁵ Commonwealth, *Parliamentary Debates*, House of Representatives, 11 March 1959 (Member of House of Representatives Percy Ernest Joske) (Joske’s second reading on Reserve Bank Bill 1959, 1st Session, 23rd Parliament).

⁶ Commonwealth, *Parliamentary Debates*, House of Representatives, 11 March 1959 (Member of House of Representatives Daniel James Curtin).

⁷ Commonwealth, *Parliamentary Debates*, House of Representatives, 11 March 1959 (Member of House of Representatives Gordon Munro Bryant).

political control of monetary policy.⁸ As the ideological debate shows, an explicit policy aim of the RBA was not just increased independence from government—although the word “independence” was not mentioned in the original Act—but enhanced cooperation with financial interests.

B. *Nuanced Independence Under the RBA Act*

In contrast to the somewhat black-and-white rhetorical debate, the legislation is more nuanced. Substantial but qualified independence was established by the 1959 RBA Act, positioning the Bank as “both linked to, and distanced from, government” (Lewis 1987, 364). The Act requires the RBA to act as a central bank (RBA Act, s 26) and the “banker and financial agent of the Commonwealth” (*ibid.* at s 27). It enables the Bank to receive, borrow and lend money, buy and sell bills of exchange, deal in foreign currency, issue bills, underwrite loans and “do anything incidental to any of its powers” (s 8).

Rather than strong independence, the original legislation conveyed an expectation of alignment and partnership between the government and the central bank. The Banking Act 1959 empowers the RBA to set interest rates with the approval of the treasurer, *Banking Act 1959* (Cth), s 50—a specification that tempers independence—and to direct the lending activity of banks (*ibid.* at s 36).⁹ The RBA Act requires the governor and the secretary to the Department of the Treasury to “establish a close liaison with each other” and “keep each other fully informed” of matters of joint concern (RBA Act, s 13), creating an expectation of dialogue and collaboration rather than strict separation. Section 11 establishes the treasurer’s power to override the RBA’s monetary policy, crucially qualifying RBA independence. The provision encourages the treasurer and the RBA Board to “reach agreement,” while conferring upon the government the authority to veto RBA decisions if the parties cannot agree (*ibid.* at s 11(3)).

The veto procedure incorporates multiple consensus-building and transparency requirements. If agreement proves impossible, the RBA must give the treasurer a statement on the contentious matter (RBA Act s 11(3)). The treasurer may submit a recommendation to the governor-general who, acting with the advice of the Federal Executive Council, may determine the policy the RBA must adopt (s 11(4)). This means that the governor-general and the cabinet can overrule the policy preference being pushed by the treasurer, providing an additional fail-safe. The treasurer must inform the RBA of the government’s imposed policy and explicitly confirm that “the Government accepts responsibility” for the RBA’s adoption of that policy (s 11(5)). The RBA must then implement the policy (s 11(6)). Finally, the treasurer must table in each House of Parliament a copy of the order determining the policy, a statement by the government explaining the disagreement, and a copy of the RBA’s statement (s 11(7)).

The procedure is politically onerous but the government’s override means that ultimate responsibility for monetary policy lies with elected representatives. Liberal Senator William Spooner, explaining retention of the treasurer’s veto in the 1959 RBA Bill, emphasized the importance of the incorporation of parliamentary scrutiny in the government’s override procedure:

While a great measure of independence is to be given to this reserve bank, and whilst no government would lightly interfere with what it will do, in the final analysis the government must reserve to itself the right to disagree with what the bank does. The government should

⁸ For the delegation of monetary policy to the Federal Reserve Bank in the US, see Grey (2020, 242–43).

⁹ The 2023 RBA Review called for repeal of this section, arguing that the law was redundant since the central bank handed over its banking supervision responsibilities to the Australian Prudential Regulation Authority in 1998. Its recommended removal ultimately was not implemented, as the Greens forced the Labor government to retain the section.

do that only in circumstances in which the disagreement is brought out before the parliament so that all may see the effect of it.¹⁰

The Howard government's 1996 joint statement with the RBA similarly noted that the "safeguard" created by Section 11 ensures that monetary policy is "subject to the checks and balances inherent and necessary in a democratic system."¹¹ Central bank independence in Australia is therefore moderated. Its limited nature aligns with principles of responsible government, which require that every "public servant is accountable to the minister, the minister to Parliament and Parliament to the people" (Lewis 1987, 349). The veto procedure integrates the convention that the governor-general, in rubber-stamping political decisions, should follow the advice of politically accountable ministers, providing a further consensus-building requirement. The multiple-step override—like other conventions of responsible government—compels caution, consideration, and deliberation to prevent hasty decision-making. Existence of the veto has meant that threats of its use tend to encourage resolution of policy differences via private discussion, rather than resort to dramatic public override. Because the procedure is designed to spotlight contention, pulling the veto trigger would create political theater reminiscent of the sensational exercise of the governor-general's reserve powers, which by convention are also not used except in exceptional circumstances. The veto is therefore considered "the nuclear button of monetary policy destined never to be pushed" (P. Kelly 2009, 114). It remains unused, though former Labor Prime Minister Paul Keating once threatened to use it to force the RBA to raise interest rates to control inflation, which he says was politically effective (Hutchens 2023a). Former Liberal Prime Minister John Howard also threatened to use the veto to make banks lend in a particular way.¹²

C. *RBA Charter and Other Markers of Qualified Independence*

Other elements of RBA legislative design also demonstrate qualified independence. In a 2024 Working Paper for the IMF, Adrian et al. (2024) posit ten structural characteristics of central bank design from the perspective of monetary policy autonomy. According to their criteria, Australia's RBA lacks key markers of full independence. For example, the RBA governor is appointed only by the treasurer without the involvement of other apolitical actors and, although the governor can be appointed for a term of up to seven years (which is longer than the electoral cycle), he or she holds office "subject to good behaviour" (RBA Act, s 24), which seems open to politicized interpretations. While the RBA enjoys budgetary independence, which demonstrates autonomy, a government official sits on the RBA Board,¹³ which by their standards diminishes the Bank's independence from the executive.

A recent reform to the RBA Act, following a recommendation of the 2023 RBA Review (Australian Government 2023, rec. 8), splits the RBA board into two, with one board focused on operational matters and the other on setting interest rates.¹⁴ The new Monetary Policy Board comprises the governor, deputy governor, treasury secretary, and six external members. Treasury Laws Amendment (Reserve Bank Reforms) Bill 2024, s 25AA. The 2023 RBA Review recommended reform to clarify that the treasury secretary acts on the Monetary Policy Board "in their individual capacity not at the direction of the Treasurer" (Australian Government 2023, rec.

¹⁰ Commonwealth, *Parliamentary Debates*, Senate, 8 April 1959 (William Spooner, Senator).

¹¹ The Treasurer and the Governor (designate) of the Reserve Bank, "Statement on the Conduct of Monetary Policy," August 14, 1996.

¹² Discussed further below.

¹³ RBA Act Section 14 provided that the secretary to the Department of the Treasury sits on the RBA Board. This Section has been replaced by Section 25AA in the amended legislation which came into effect in March 2025.

¹⁴ The nongovernment individuals appointed to the RBA Boards are monetary, business, and finance experts, and leaders in the corporate world.

8.3), to demarcate independence from government. The 2024 Bill implemented this recommendation, (Treasury Laws Amendment (Reserve Bank Reforms) Bill 2024, s 25AK(2)), and further specified, subject to the rest of the Act and other laws, that members of the Monetary Policy Board must have “complete discretion,” “must act in an independent and impartial manner,” and must not be “subject to direction from anyone” including the government (*ibid.*, s 25AK). These new specifications at first glance appear to bolster RBA independence, including by adding the word “independent” which previously did not appear in the Act. However, the inserted provisions are importantly “subject to” the Act and other laws, so the government’s overriding authority remains.

The change nonetheless creates new tensions and uncertainties in the legislation. The requirement that board members must make their decisions free from government influence is subject to superseding and somewhat contradictory provisions requiring the treasurer and the governor to maintain a “close liaison” with each other about matters of joint concern, the requirement in Section 11 that the parties should strive to “reach agreement” before the treasurer resorts to using the veto power, and the requirement in the Banking Act that RBA interest rate decisions are made with the approval of the treasurer. The latter prevailing provisions establish the government’s supreme authority but also expectations of dialogue and partnership. Hence, the new legislative emphasis on independence and freedom from government direction may in practice be more symbolic than operative. Interdependence, rather than true independence, seems the more accurate description of what the Act achieves in its totality, notwithstanding the new insertions. The future operation and interpretation of these changes thus warrant close observation.

Adrian et al. suggest that where price stability is the “primary objective” of a central bank, its independence will be greater. However, if the “statute specifies other objectives” that are “not clearly subordinated to price stability” (like full employment) then independence is reduced (Adrian et al. 2024, 12). Here too the RBA falls short, as one of few central banks with a three-pronged mandate. The RBA’s Charter, originally set out under Section 10(2) of the Act, stated its policy decisions must pursue:

- (a) the stability of the currency of Australia;
- (b) the maintenance of full employment in Australia; and
- (c) the economic prosperity and welfare of the people of Australia.

No ranking or hierarchy was given, which means the Bank has had to independently balance the competing objectives (Australian Government 2023, 18). Similarly, no definitions of the key terms are provided, so the RBA must determine what the phrases mean in practice. The 2023 RBA Review recommended this mandate be slightly adjusted such that the third prong becomes an overarching objective (*ibid.*, rec. 1.2), a suggestion implemented in the 2024 reforms passed by Parliament. Treasury Laws Amendment (Reserve Bank Reforms) Bill 2024, s 8AA and s 9B(1)(a). This is a minor change.

Views on the significance of multiple mandates are mixed. Adrian et al. suggest that multiple goals, without a clear price stability priority, indicate reduced independence (Adrian et al. 2024, 12). Conversely, former RBA Governor Phillip Lowe argued in 2017 that the third objective to contribute to “economic prosperity and welfare” (now an overarching objective) gives the RBA a broader mandate than many other central banks (Australian Government 2023, 36, 78). Multiple goals might mean the Bank can defend any decision as “striking the appropriate balance among the various goals” (Tushnet 2021, 63–64). Goodhart, however, proposes different reasons to favor

one goal: A single objective significantly reduces the inevitability of trade-offs, such that delegation of decision-making responsibility to an unelected entity is justifiable without any “democratic deficit” (Goodhart 2002, 193). By contrast, multiple objectives make trade-offs—balancing between those objectives—unavoidable, so delegation to unelected decision-makers is less democratically justifiable. The RBA Review acknowledged that the central bank’s work entails “balancing” price stability and full employment (Australian Government 2023, 18),¹⁵ which suggests broad discretion and autonomy. Following Goodhart’s logic, the RBA’s multiple goals may mean that it is unacceptable for unelected technocrats to unilaterally determine the correct balance between them, underscoring the necessity of democratic participation and oversight.

The real impact of the RBA’s multiple legislated objectives may in practice be limited, however. First, multiple statutory objectives are common in administrative law statutes establishing independent agencies. Independent bodies are often required to reconcile “essentially incommensurable principles or objectives” that “usually turn out to be conflicting and contradictory.”¹⁶ For example, Australia’s Human Rights Commission also operates under a three-pronged mandate. The Human Rights Commission Act 1986 provides that it must perform its functions with regard for the “indivisibility and universality of human rights” and the principle that “every person is free and equal in dignity and rights”; and in a way that achieves “the greatest possible benefit to the people of Australia.” *Human Rights Commission Act 1986* (Cth), s 10A. These vague objectives seem as indeterminate as the RBA’s Charter (while human rights are at least discoverable in international instruments, what they mean in practice is debatable, and rights generally conflict with other rights making value-laden trade-offs inevitable). The key difference, however, is that the Commission issues nonbinding recommendations and facilitates conciliation on a case-by-case basis to resolve human rights complaints (*ibid.*, s 11), whereas the RBA can implement policy affecting the entirety of society.¹⁷

Second, however, as former RBA Governor Bernie Fraser has argued, “legal independence” can be “starkly different from practical independence,” which limits the utility of an exclusive focus on legislation. The RBA Charter has in practice been interpreted as allowing a “high priority” to be placed on price stability while enabling decision-makers to have regard for other objectives, such as growth and employment. According to Fraser, this facilitates a “very clear commitment to keeping inflation under control,” but that commitment is “not formulated in a way which restricts flexibility” (Fraser 1994).

D. *Evolution of Policy and Practice*

The RBA’s independence has grown incrementally (P. Kelly 2009, 319). Informed by shifts toward “new public management,” a movement that facilitated extensive “corporatisation, privatisation and outsourcing in the public sector,”¹⁸ the Bank’s increasing autonomy from government has been promulgated mostly via policy and evolving practice, rather than legislative change.¹⁹

¹⁵ “Balancing” is also mentioned in the revised December 2023 Agreement between the treasurer and the RBA governor.

¹⁶ J. Gleeson (2004, 32). Gleeson also usefully discusses the multiple statutory objectives that guide the Australian Competition and Consumer Commission (ACCC).

¹⁷ Making the same point regarding the US Fed, see Conti-Brown et al. (2021, 4).

¹⁸ See further Ng (2021).

¹⁹ This accords with Conti-Brown’s description of the Fed being shaped by “economic contexts[,] . . . politics and individual personalities more than the language of the Statute.” According to Conti-Brown, “Law, conventions, politics, and personalities all shape the Fed’s unique policy-making space in ways that scholars, central bankers, and policy-makers have ignored” (Conti-Brown 2015, 257).

After the inception of the RBA Act, monetary policy was still run by the treasury, in line with the more interventionist pursuit of full employment by postwar governments. Practice changed by the 1980s in line with global trends, as full employment was gradually abandoned as a policy in Australia²⁰ and the financial landscape was deregulated. In 1983, the Hawke-Keating Labor government floated the dollar, which “severed the link” between “the balance of payments” (money flowing in and out of the country) and monetary policy, enabling the RBA to manage the latter more independently (Minifie 2013). However, Keating enjoyed a close relationship with then Governor Fraser, fueling suspicions about politicization. In a 1996 speech, Fraser reflected that this perception flowed from Keating’s 1989 comment that the central bankers “do what I say,” and from rumors that Keating had privately described the RBA as being “in his pocket.” Yet Keating also “complained” that the Bank sometimes acted contrary to his preferences which, according to Fraser, demonstrated autonomy (Fraser 1996).

Monetary policy under Labor was secondary to the incomes policy established by the Accord—the historic deal struck with the trade unions that agreed to wage restraint in exchange for public benefits, tax cuts, and eventually superannuation (dubbed a “social wage”). In 1988, the Labor government had hoped the Accord’s “wage-tax trade off” would significantly reduce inflation, which did not eventuate (Sutchbury 2024). Persistent inflation was instead curtailed in the early 1990s primarily through tight monetary policy and a recession. Capitalizing on the political moment, Fraser first pushed the 2–3 percent inflation target in 1992, arguing that “with continued policy vigilance” the underlying rate of 2 to 3 percent could be sustained. In 1993, he urged that inflation remaining at an average of 2–3 percent over several years would be a “good outcome” (*ibid.*). The final Accord between the government and the unions adopted an inflation target of 2–3 percent in 1995 (Cornish 2018).

The 1996 Agreement between Liberal Treasurer Peter Costello and the RBA governor²¹ affirmed RBA independence²² and formally adopted that inflation target (P. Kelly 2009, 111, 318), confirming alignment on prioritization of inflation, rather than full employment, as the RBA’s “guiding star” (*ibid.* at 108). Inflation targeting had by then already been introduced in Canada, New Zealand, Sweden, and the United Kingdom as the accepted function of monetary policy became keeping inflation low and stable. In 2016, however, responding to a low inflation environment, a slightly revised statement was signed by incoming RBA Governor Phillip Lowe and then Coalition Treasurer Scott Morrison, emphasizing a “medium-term focus” and “flexibility” in pursuing the inflation target. The reference to “low inflation” was altered to become “effective management of inflation,” giving the RBA space to combat low inflation (Williams 2019). The recent 2023 Agreement between Labor Treasurer Jim Chalmers and new RBA Governor Michelle Bullock reaffirmed the government’s commitment to central bank independence, modestly adjusted the agreed articulation of the objectives of monetary policy following the RBA Review (Australian Government 2023, rec. 1.2), and recommitted to a flexible inflation target as the appropriate framework for achieving price stability.

Despite these slight variations, the longstanding focus on inflation targeting has deemphasized the RBA’s other two legislated goals—full employment and the welfare and prosperity of Australians—on the hazy basis that “[t]he first two objectives lead to the third” (Lowe 2012). In

²⁰ In 1977, Opposition Leader Gough Whitlam argued that the Fraser government had abandoned the bipartisan commitment to full employment and was “deliberately maintaining high unemployment” as “conscious policy” to control inflation (Whitlam 1977). However, others argue that this shift occurred under Whitlam.

²¹ RBA, “Joint Statement on Monetary Policy,” September 1996. This agreement was updated in 2023, discussed below.

²² The 1996 Agreement asserted that, although Section 11 of the Act gave the government the supreme power of override, the terms of that provision established procedures that were “politically demanding” such that “their nature reinforces the Bank’s independence.”

its 2021 Annual Report, for example, the RBA argued that its legislated mandate finds “practical expression in a flexible, medium-term inflation target,” the achievement of which “can help promote sustainable economic growth and employment” (Reserve Bank of Australia 2021).²³ Yet in assessing its performance against the objectives of “stable prices and full employment,” its only measure was the target to achieve “inflation of between 2 and 3 per cent, on average, over time” (*ibid.*). Hence, there has been no real target in relation to full employment, in contradiction to the RBA’s Charter. The 2023 RBA Review urged the Board to “set out its assessment of its full employment objective” in the future (Australian Government 2023, rec. 2.1), which could be read as an implicit acknowledgment of the misalignment with the legislation.

That the RBA’s longstanding prioritization of price stability (and deprioritization of the prosperity and welfare of Australians and the pursuit of full employment) has no statutory basis and has occurred absent parliamentary debate—albeit with executive agreement—underscores concerns about a democratic deficit. It has arguably been “careless of the implications and impact on Australia’s poorest citizens” (Pearson 2021, 53), yet central bank independence from government seems to leave those citizens without clear institutional or political avenues to have their voices heard in monetary decisions. Counterbalancing this concern, RBA’s policy decisions are checked by legislated mechanisms for accountability and transparency. In addition to the treasurer’s veto power, RBA representatives appear biannually before the House of Representatives Standing Committee on Economics (Reserve Bank of Australia 2024). The Bank also communicates with the public about its decision-making through media releases, the *Statement on Monetary Policy* and associated debriefs with business and community groups, Reserve Bank Board meeting minutes, speeches, liaison programs, and research papers, and efforts at public communication have increased over several years (Sutchbury 2024). The RBA tends to be more explicit in justifying its decisions empirically and laying out underlying theoretical assumptions than some other central banks, although the 2023 RBA Review recommended it should do more to explicate its reasoning by providing “more clarity around why alternative policy options are not pursued” and “how current policy settings fit into a broader strategy to achieve its objectives” (Australian Government 2023, 61–62). The allegation of democratic deficit is also offset by the political (and perhaps popular) consensus underpinning the RBA’s operation. RBA policy independence and inflation targeting have enjoyed four decades of bipartisan support. Whether the status quo *should* enjoy that consensus is another question, however. It could also be symptomatic of impoverished debate.

As RBA independence has hardened through practice, governments have become increasingly lethargic on economic reform. Mitchell et al. argue that governments now view fiscal policy as a “passive policy tool” and implement “restrictive fiscal policy stances so as not to contradict the monetary policy stance” set by the central bank (2019, 315). This approach has been influenced by the understanding that monetary policy can only control inflation in combination with complementary fiscal policy (Sargent and Wallace 1981). Yet the more central banks do and the more discretion and independent authority they possess, “the less elected fiscal authorities will be incentivised to do” (Tucker 2018, 428), and the more deferential and passive they will become. The Australian experience echoes that of the US where, as Downey notes, theories of “monetary policy neutrality” have “facilitated congressional inaction” and “atrophy” of government’s power over monetary policy (Downey 2021, 320–21). In Australia, the net effect of this transfer of policymaking power is that the unelected RBA—not the elected government—now oversees the balance between stable prices and full employment. It means that much of the media and public blame for current inflation, interest rate rises, and cost-of-living pain has been directed at the RBA, rather than elected representatives. Politicians encourage this, overemphasizing the

²³ Note the term “sustainable” rather than “full” employment.

“independence” of the central bank in public discourse (Deniss 2023),²⁴ notwithstanding that the government has long possessed a veto over RBA decisions.

E. Failed Proposal to Remove the Override Power

The recent push to remove the government’s override power (Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023) followed a recommendation of the 2023 RBA Review. The Review proposed that “[t]he RBA should continue to have operational independence for monetary policy” and that the “Government should remove the power of the Treasurer to overrule the RBA’s decisions” to enhance the Bank’s independence and increase the “credibility of the monetary framework” (Australian Government 2023, 4). While it was acknowledged that the override had never been used and that the RBA was already operationally independent, the Review nonetheless warned that “established conventions” could cease to be observed, creating “the risk that the Government wields, or threatens to wield, power in a way that undermines the independent operation of monetary policy” (ibid. at 82).

The proposal for override removal failed to accord due weight to countervailing concerns. The convention that the treasurer does not utilize his or her veto power over RBA decisions does not render the veto redundant or problematic: The opposite is more likely true. That convention itself has its roots in much older conventions of responsible government that are connected to and embedded in Australia’s parliamentary constitutionalism. Unlike in the US, Australia’s Constitution does not create a hard separation of powers. Bureaucrats (or technocrats at the RBA) are accountable to their minister (the treasurer), and the treasurer is also an elected member of Parliament who is accountable ultimately to the people. If the Parliament were to authorize the relinquishment of the treasurer’s override power, which under Section 11 is itself checked and balanced by a web of procedural requirements for political agreement within the executive government, this removal of government oversight would disrupt the chain of accountability that underpins responsible government. Increased central bank independence would delineate a harder division between the RBA and the government, contrary to Australia’s softer separation of powers, not to mention the spirit of Australian constitutional democracy, which in my view should ensure that economic decision-making is supervised and informed by citizens through their elected representatives. The proposed override removal was thus constitutionally incongruous.

That the RBA Review saw as negative the possibility of the treasurer “threatening” to use his or her veto power demonstrates a failure to appreciate the value of such threats in fostering productive dialogue, deliberation, and caution in decision-making. There is a useful analogy here with the governor-general’s reserve powers. While most of the governor-general’s powers can only be exercised on the advice of ministers who are accountable to Parliament (Twomey 2018, chap. 1), the governor-general also possesses reserve powers for use in highly exceptional circumstances. The threat constituted by exceptional use of the reserve powers adds rigor and accountability to decision-making, while encouraging deliberation and consensus precisely because the parties want to avoid dramatic resort to the reserve powers (ibid. at 94). Just as political actors seek to reach agreement with the politically neutral governor-general to preclude use of the reserve powers, so too the threat of veto means that the apolitical RBA will be more likely to proactively consult and seek advice from the treasurer (and vice versa) to minimize the risk of drama and conflict and preemptively defuse any need for remedial use of the veto. Increased deliberation encouraged by the threat of override enhances political stability by compelling consultation and consensus building.

²⁴ As Richard Deniss (2023) has pointed out, “the RBA is unique in how frequently it is referred to as ‘the independent RBA.’”

Adding weight to this analysis, it was not only the former Labor prime minister, Paul Keating, who found the threat of veto useful in encouraging the RBA to raise interest rates to fight inflation. The former conservative prime minister, John Howard, also threatened to override RBA policy. In 1982, Howard requested that the RBA release bank funds held on mandatory deposit to funnel that money into home loans. Banks at that time were required to hold some of their assets in government securities, with a portion held at the RBA (statutory reserve deposits (SRDs)). Howard wanted to formally request that the RBA release one percentage point of SRDs to the banks while specifying that the money could only be lent for home purchases. The prime minister discussed this with the departing RBA governor, Harold Knight, who warned Howard that a formal request would instigate a “civil war” between the RBA and the government—demonstrating how threats can run both ways. Howard made the request anyway and announced it. The new RBA governor, Robert Johnston, pushed back and urged alternative measures to encourage home buying, but Howard insisted and asked whether the RBA was refusing his request, raising the possibility of resort to the veto. The RBA finally agreed (J. Kelly 2024).

As the anecdote demonstrates, both Keating and Howard—leaders of the left and right—have utilized private and public threats of override to encourage the RBA to shift policy. Those threats generated energized debate and ultimately policy flexibility on the part of the RBA. The absence of a veto power would likely reduce such deliberation and dissent, increasing RBA insulation and the possibility of groupthink. Debate would become more funneled into the parliamentary committee processes: formalized and politicized environments that usually scrutinize decisions and mistakes after they have been made. By contrast, the veto mechanism encourages proactive private conversations in pursuit of consensus.

Constitutional incongruities may have contributed to the abandonment of the proposed veto removal, although the reality is perhaps more basely political. When the RBA Review made its recommendation in 2023, the idea initially enjoyed bipartisan support. Only the Greens opposed it, preferring political intervention into monetary policy. As cost-of-living pressure continued and the 2025 election drew nearer, however, the opposition withdrew support (Wang and Olbrycht-Palmer 2024). The fact that the elimination of the government’s veto was proposed by a Labor government—the progressive side of Australian politics that in 1959 argued against the relinquishment of the people’s control over monetary policy—speaks to the extent to which the idea of central bank independence from government has gained widespread acceptance across politics. Yet it was the right-wing coalition that, along with the left-wing Greens, prevented the Labor government from removing the veto power. The coalition’s dissenting Senate report affirmed that the RBA’s independence must not be “absolute,”²⁵ endorsing the view of the 1981 Campbell Committee, which also examined the veto question: “the Bank cannot rise above the source of its powers,” the committee stated. It “must be responsive to the direction which governments may deem fit to give” (Treasury 1981). Faced with this significant opposition, the government’s power to override the RBA was ultimately retained.

²⁵ Coalition Senators’ Dissenting Report in the Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023 [Provisions] Report, March 2024, para. 1.71.

III. Central Banks in Constitutional Theory

A. *Power Sharing in Public Finance: Incremental Moves Away from Democratic Control*

The evolution of independent central banks can be understood as part of the incremental expansion of power sharing in the constitutional management of economic and financial decision-making. Control of public finance has long been checked and balanced by power sharing between Parliament and the executive government. This can be traced back to historic power struggles between the monarch and the landholding barons who objected to the monarch's taxes. That conflict led to the Magna Carta in 1215, the underpinning agreement of which was the acceptance that all taxation must be authorized by the consent of the realm, which eventually evolved into the principle that the English sovereign could only rule with the authorization of Parliament (see also Hetzel 1997, 47). The power of the people over the public purse has been a central animating force in the development parliamentary constitutionalism,²⁶ informing the influential maxim: "No taxation without representation."

Will Bateman's 2020 book, *Public Finance and Parliamentary Democracy*, confirms the longevity of power sharing in public finance through "distributing authority" between Parliament and the executive—both of which are accountable in different ways to the people (Bateman 2020, chap. 1). Bateman shows how Parliament's authority over public finance has incrementally become more limited, so that the executive now sits at the "apex" of financial power. In England, there was a gradual conferral by Parliament of financial initiatives and authority to the executive, such that the Treasury "assumed absolute superintendence over the broader executive's use of money" (ibid., chap. 2). Bateman therefore critiques Dicey's original conception of Parliament's total constitutional primacy over financial policy as unreflective of the constitutional reality (chap. 1), arguing that the reduction in Parliament's control has led to a "democratic deficit" in public finance (chap. 9). Australia inherited the constitutional model of parliamentary public finance that developed in England, adapting it to the domestic system that operates under the Australian Constitution, and has experienced a similar incremental transfer of control from Parliament to the executive.

Walter Bagehot was alive to the benefits of power sharing in financial management. Writing in 1873, Bagehot did not see the Parliament as deserving of special financial oversight. The House of Commons, having become the "true sovereign," was by then appointing the "real executive" and had "long ceased to be the checking, sparing, economical body it once was." Risks of irresponsible decision-making meant that the popular will harnessed by the legislature needed to be checked, to ensure that the "people's house" would not "outrun the people's money." For Bagehot, that conscientious check on Parliament's financial power became the responsibility of the cabinet (Bagehot 1873, 121–22), the executive being the responsible "breadwinner" of the metaphorical family, in contrast to the more frivolous wife and daughters in the Commons who were prone to overexpenditure (ibid. at 138). Transfer of financial management to the executive was thus intended to bolster responsible decision-making, notwithstanding that individuals comprising the cabinet are also politicians in Parliament, meaning ministers will also be motivated by political and electoral factors.

Bagehot nonetheless noted the importance of retaining parliamentary checks over public finance to ensure political and public discussion and scrutiny at each stage of any government transaction (1873, 34). Diminished popular oversight risked unbalanced decision-making: A more presidential

²⁶ For a more detailed history, see Bateman (2020, chap. 2).

and unrestrained government might too stridently pursue socially painful economic measures that the people would oppose (*ibid.* at 36–37). Without democratic involvement, there would be insufficient examination of the virtue of each measure. Removal of the people from the financial discussion might mean decision-making “works blindly,” for example, by “maintaining surpluses when they do extreme harm just as much as when they are very beneficial.” Bagehot thus pinpointed the importance of democratic debate in facilitating balanced financial decisions (37). Parliament provided “the greatest inquiring machine” and “the greatest discussing machine,” a key utility of which was to iron out defects in financial and economic policy (39).

The evolution of the independent central bank represents a further distribution of financial power within the executive branch, and further removal of financial decision-making away from elected government control, usually through the transfer or delegation of executive power to unelected technocrats who are given carriage over monetary policy. If the first step in the historical trajectory was Parliament’s incremental relinquishment to the executive of its authority over crucial elements of economic management, an extra step in this democratic abdication has been the Parliament authorizing a delegation of policymaking power from the elected executive (ministers being elected politicians accountable to Parliament) to an unelected and politically insulated central bank.

B. *The Global Rise of Central Bank Independence*

Milton Friedman’s seminal 1962 essay, “Should There Be an Independent Monetary Authority?” investigated whether and how central banks should achieve a stable monetary structure “free from irresponsible government tinkering.” Friedman defined central bank independence to mean a central bank operating under a “monetary constitution” specifying applicable goals and instruments, and establishing a bureaucracy to achieve the defined objectives. For Friedman, true independence required an absence of “direct control by the legislature.” Ironically, however, Friedman rejected the desirability of an independent central bank with wide discretion to determine monetary policy (Friedman 1962, 239), finding it unthinkable that a democracy would vest so much power in unelected experts, “free from any kind of direct, effective political control” (*ibid.* at 227). Instead, Friedman wanted legislation to delineate specific rules for the conduct of monetary policy to restrict the central bank’s discretion and ensure democratic accountability (Blejer and Wachtel 2020, 4; Tucker 2018, 179–80). John Rawls, in his 1971 book *A Theory of Justice*, similarly argued that ultimate authority over monetary policy should lie with elected governments, preferring that policymakers prioritize low unemployment over low inflation (Rawls 1971, 271, 276).²⁷

The pros and cons of central bank independence have long been debated. David Ricardo published his “Plan for the Establishment of a National Bank” in 1824 (Ricardo 1824), and the topic was also investigated in 1928 by Kisch and Elkin in a study of the constitutions of banks of issue, (Kisch and Elkin 1928). Arguments for central bank independence gained global ascendancy, however, following the convergence of multiple trajectories. Widespread postwar stagflation experienced in the 1970s fostered dissatisfaction with the economic status quo (Blejer and Wachtel 2020, 5), which had been characterized by governments using fiscal policy to achieve social and political outcomes (including full employment) and monetary policy playing a relatively minor role (Goodhart 2002, 191, 193). Central banks were scapegoated for the inflationary pain being experienced across the world, creating impetus for their reform (Blejer and Wachtel 2020, 5). Theoretical arguments about monetarism, and the need for governments to make “credible commitments” to low inflation, gained prominence from the 1960s to the 1990s, acquiring salience from inflationary conditions (Sargent 1982). Facilitated by theories on the “natural rate of

²⁷ See also Klooster (2019).

unemployment” needed to control inflation, the emergent consensus held that monetary policy should be the primary tool to achieve desirable economic outcomes, the single objective of which should be maintaining price stability by conserving a cohort of unemployed citizens to restrain wages (Goodhart 2002, 193). Critically, the emergence of the NAIRU framework (the Non-Accelerating Inflation Rate of Unemployment—a theoretical concept which is said to represent the lowest unemployment rate that can be sustained in an economy to maintain stable inflation) in response to the perceived empirical proof of the Phillips Curve trade-off between unemployment and inflation, enabled economists to assert that there was no trade-off, making lack of democratic oversight over monetary policy seem more acceptable. As Goodhart explains:

choosing the appropriate balance (tradeoff in our jargon) between competing priorities is an essential part of the democratic political process, and should *not* be delegated. What destroyed this approach was the analytical argument that the policy choice of *any* unemployment rate below that which would, on its own “natural” account, lead to a stable rate of inflation, would lead to an *ever-accelerating* rate of inflation. This was powerfully supported by the acceleration of inflation, from cycle to cycle, from the 1960s through to the end of the 1970s

In the economists’ jargon, the medium- and longer-term Phillips curve was, therefore, believed to be vertical, i.e. that there was no trade-off, except in the short run . . . between inflation on the one hand and unemployment (and growth) on the other That meant that the consensus recognized, by the end of the 1970s, that the only reasonable single objective for monetary policy was the achievement of price stability in the medium and longer run. (Goodhart 2002, 192–93)

Informed by an “ideological backlash” against Keynesian policy interventions by government (Mitchell and Muysken 2008), political commitments to full employment were accordingly mostly abandoned by the end of the 1970s, replaced by the primary objective of stabilizing inflation. It is in this theoretical context that independent central banks emerged as the best practice institutional device for securing this approach to economic management (Palley 2019, 89; Watson 2002, 184–85). Central bank independence arose in Germany, in Switzerland (but see Monnet 2019, chap. 4),²⁸ and in the US after a dramatic public confrontation between the Treasury and the Fed was resolved via the 1951 Accord.²⁹ In the 1970s, there were passionate debates over whether full employment should be included alongside price stability in the US Fed’s legislated mandate. The Full Employment and Balanced Growth Act 1978 (Humphrey-Hawkins Act) established detailed criteria for when the Fed had to prioritize full employment over price stability, whereas in Europe full employment was generally not included as an objective.

New Zealand began explicitly inflation targeting in 1989. The New Zealand Reserve Bank Act gave the central bank independence over monetary policy decisions, with the objective of keeping inflation within a target range determined via agreement between the minister of finance and the NZRB governor. It became the governor’s responsibility to meet the inflation objectives—a delegation of economic policymaking power from the elected government to an unelected entity (Goodhart 2002, 190). Many countries followed New Zealand’s “green flag” (Palley 2019, 71), giving their central banks operational independence to pursue price stability as the primary goal. These moves were bolstered by empirical research supporting the argument that nations with

²⁸ However, there is extensive diversity among central banks outside the Western world that persisted through this period and persists today.

²⁹ On the messy politics leading up to the Accord, see Hetzel and Leach (2001).

independent central banks experienced less inflation.³⁰ By the 1990s, these trajectories converged to make central bank independence from government a global norm (Bowles and White 1994, 235–40).

C. “Fourth-Branch” or “Guarantor” Institutions?

How can we understand independent central banks as a phenomenon of constitutionalism? In 1964, Friedman described the idea of an “independent monetary authority” as a “fourth branch of the constitutional structure coordinate with the legislature, the executive, and the judiciary.”³¹ More recently, constitutional scholars Mark Tushnet and Tarunabh Khaitan have described central banks as one of various “fourth-branch” or “guarantor” institutions (Tushnet 2021; Khaitan 2021) that fulfill power-sharing or accountability functions, like anticorruption commissions, human rights commissions, electoral commissions, or administrative tribunals.

For Drazen, independent central banks reflect a constitutional design choice to remove some decisions from political pressures, which is “the essence of constitutionalism” (Drazen 2002). Tucker similarly describes independent central banks as a manifestation of the separation of powers that underpins constitutional democracy: “not a new fourth branch, but an institution that exists at the assembly’s pleasure, shielded from day-to-day politics, precisely to uphold a constitutional system of government” (Tucker 2020a, 434). Notably, this description also applies to anticorruption commissions, human rights commissions, and administrative tribunals, which are regularly described as “fourth-branch” bodies, but that are usually delegated subbranches of the executive created by the legislature. The term “fourth branch” could thus be an exaggeration given that these bodies are generally subordinate to the Parliament and the executive. Bernholz nonetheless calls central banks “a fourth pillar of the separation of powers,” which creates “a constitutional or legal limitation” on the supply of money to “check the inflationary bias of politicians” (Bernholz 2013, 199). In rejecting the “fourth-branch” descriptor, however, Tucker argues that central banks are more akin to the military and judiciary, forming “a third core pillar of unelected power” in democracies (Tucker 2018, 3, 563).

To the extent that they operate as a kind of institutional shock absorber for national economies and political systems, the characterization of central banks as fourth-branch or guarantor institutions might seem understandable. Tushnet sees them as institutional innovations that supplement the traditional three branches to enhance stability and guard against upheaval (Tushnet 2021, 10). They develop in response to “modest shocks,” including economic shocks, which prompt constitutional systems to adjust their institutional checks and balances to curtail risk (*ibid.* at 10; Stasavage and Keefer 2003, 8). Anchored in the utility of power sharing or “competition among the branches” (Tushnet 2021, 10), such institutions are said to provide a superior safeguard against abuse of elected power to mere “parchment barriers” (Madison 1788), because commitments to normative principles must be given institutional teeth to become embedded. Khaitan similarly characterizes “guarantor” institutions as managing and minimizing risks of abuse of power by elected officials, by dispersing power away from politicians to unelected and apolitical institutions (Khaitan 2021, S43–S44). Like the innovation of the constitutional court as impartial guarantor of the Constitution, such institutions seek to overcome the fact that the legislative and executive branches may be inescapably political and driven by party-political interests, to the detriment of important constitutional norms. These institutions must therefore be insulated from party politics (Tushnet 2021, 60).

³⁰ For example, Parkin and Bade (1978); Cukierman et al. (1992); Alesina and Summers (1993). This evidence is disputed. See discussion in Blejer and Wachtel (2020).

³¹ Hearings on the Federal Reserve System After Fifty Years Before the H. S. Comm. on Domestic Finance, 88th Cong. 2 (1964) (statement, testimony, and comments of Milton Friedman) (cited in Tucker 2020).

Yet central banks are fundamentally different from other fourth-branch institutions. Tribunals and human rights commissions in many ways behave more like courts: They deal with issues on a case-by-case basis and do not usually have power to issue binding recommendations or implement policy in society. Law reform commissions that devise reform recommendations for consideration by government do not have the authority to implement their proposals directly: The control of policy implementation is usually reserved for elected officials. By contrast, central banks are empowered to make and implement monetary policy decisions that affect the whole of society and carry far-reaching distributional consequences. The policy power of central banks is therefore greater than that of other institutions usually characterized as part of the fourth branch.

D. Justifications for Monetary Policy Independence

Independent central banks have proliferated in constitutional systems to discipline the elected government, addressing the purported risk of entrusting monetary policy and money creation to elected representatives. To facilitate this objective, Tushnet notes that many constitutions give special protection to central banks that are empowered to supervise fiscal policy, to avoid excessive inflation by disciplining government expenditure (Tushnet 2021, 30). For Tucker, delegation of monetary policy to unelected experts is justified because the power to create money is a latent “power of taxation.” Inflation or deflation can redistribute wealth between groups and across generations (Tucker 2020a, 433), which is why transference of this power away from politically motivated actors is necessary (Hetzel 1997, 50). Because electorally driven politicians could use monetary policy to surreptitiously tax the electorate through money creation and inflation, rather than through properly legislated taxes, the money creation power should be removed from the hands of elected representatives and given to unelected and apolitical technocrats (Tucker 2020a, 433–34).

Several observations can be made about such justifications. First, viewed in longer historical perspective, these arguments present an inversion of the early money-related justifications for democracy: the idea that elected representatives should oversee financial decisions to ensure that the people have ultimate power over the public purse, rather than unelected aristocrats. Democracies are now being drawn full circle, incrementally returning power over public money from the people to unelected technocrats—central bankers being essentially unelected economic aristocrats or, as former Australian prime minister Paul Keating disparagingly described them, anointed “high priests” charged with enforcing particular central bank orthodoxies (Keating 2020) (sometimes at the expense of the people).

Second, Tucker’s central justification raises questions. If it is unacceptable for elected political representatives to use money creation to cause inflation, because this could surreptitiously confiscate money from citizens without their direct democratic approval, why is it any more acceptable for unelected central bankers to exercise this power also without direct democratic approval? If the power to create money is always a latent power of taxation, why are unelected experts better placed to possess this enormous power? While giving elected politicians power to create money might, if misused, raise surreptitious revenue for government (which the government can then presumably expend for the benefit of citizens, if it is not so corrupt as to misappropriate these funds), the latter approach whereby central bankers raise interest rates to control inflation equally enables unelected technocrats to raise revenue for banks (Quiggin 2023)—and bank profits are not generally expended for the benefit of, nor with directives from, the whole community. At least in the former case, the decision-makers are elected by the people to represent their interests, which accords albeit indirectly with the maxim that there should be “no taxation without representation.” If money creation is a power of taxation, then allowing unelected central bankers

to create money also problematically circumvents requirements of democratic accountability. The counterargument is that there is a key difference in motivations and incentives. There is a greater probability that the elected executive will be motivated by a desire to expend money on programs to win votes, while central bankers are not influenced by an equivalent incentive to increase bank profits—they are more concerned with protecting their professional reputations (Tucker 2018, 100). Delegation of monetary policy to an independent central bank thus shields monetary decisions from political pressure, making it easier to enforce “credible commitments” to prescribed long-term economic goals.

Third, however, if central bank independence is all about constraining the power of elected politicians over monetary policy, why do elected politicians appear to value central bank independence—so much so that Australian politicians recently sought to increase it by giving up even more of their power? How is it that politicians become like Odysseus, binding himself to resist the seductive Sirens’ song (Conti-Brown 2017, 879), or like the strangely responsible and forward-thinking gambling addict who makes use of a venue self-exclusion scheme to prevent herself from going broke at the slot machines? If politicians are so untrustworthy and electorally motivated toward short-termism, why do they curtail their power in a seemingly responsible way to fasten themselves to long-term goals? Some have identified politically selfish reasons for politicians to value independence. US economist Eric Leeper told an RBA conference in 2022 that central bank independence is a political convenience, created by politicians to enable “blame-shifting”: It is “a gift from elected officials to themselves,” providing a “whipping boy when the economy turns sour” (Leeper 2022). Politicians face “powerful incentives” to avoid blame for painful economic decisions by bestowing broad and ambiguous mandates on independent central banks (Tucker 2020a, 443). Conti-Brown calls this the “political cover” aspect to independence: It can be an institutional device that enables politicians to avoid democratic accountability for unpopular economic calls (Conti-Brown 2017, 882).

Questioned on the logic behind interest rate hikes causing pain to mortgage holders in 2003, former Prime Minister John Howard took credit for implementing RBA independence over monetary policy back in 1996, but also used it to avoid answering questions. “I’m not here to explain the Reserve Bank’s decision,” Howard told the journalist, because monetary decisions are “taken independently and if you want some more elucidation on that perhaps the Reserve Bank may go into the detail of it” (Howard 2003). It is a line politicians of the right and left still regularly use today.

E. An Institutional Mechanism for Policy “Lock In”

Many central banks are established via legislation rather than embedded within an entrenched Constitution (Tushnet 2021, 27). While legislative flexibility and parliamentary oversight render a central bank technically vulnerable to political meddling (*ibid.* at 44), including via legislative amendment, legislated independent institutions can nonetheless develop “quasi-constitutional” status, making their existence and design semi-entrenched. Political interference can attract political penalty if the public supports its independence (45). The ideological and policy stance the institution defends thus becomes embedded, because its underpinning ideas enjoy consensus and are removed from political debate. The risk then becomes policy ossification.

Why might institutional entrenchment of certain norms, principles, or ideas be desirable? According to Khaitan, independent guarantor institutions are needed to defend constitutional norms that are either constitutionally entrenched or articulated via legislation and/or policy (Khaitan 2021, S55), because elected entities will not “have the will to guarantee norms that curb or limit the powers of the ruling party/coalition” (*ibid.* at S45). Notably, however, the fact that

elected governments globally have legislated independent institutions (including central banks) to diffuse and curtail their own power seems to contradict this assertion (Palley 2019, 77–78).³² Without specifying the precise norm being protected, Khaitan further observes that central banks “guarantee that certain aspects of monetary policy shall be preserved irrespective of the ideology of the ruling dispensation” (Khaitan 2021, S51). This supports the proposition that independent central banks work to quasi-constitutionalize, or render “relatively entrenched” (*ibid.* at S52), otherwise more flexible monetary and economic policy prescriptions. As Palley describes, central bank independence creates a “form of policy lock-in” to perpetuate a policy approach beyond changes in government (Palley 2019, 89). Others call it an institutional “commitment device” via which the central bank is bound to pursue “the people’s purposes” as articulated by the elected legislature (Tucker 2020a, 439–40; Tucker 2018, 13).

According to Khaitan, norms or commitments only require institutional entrenchment if they are not “self-enforcing,” in that they lack political power. This suggests that such norms might sometimes contradict the “people’s purposes,” because norms lacking entrenchment risk being overridden by the people exercising political power via democratic processes. Hence, those norms need to be taken off the political table. For Khaitan:

power is the ultimate self-enforcing phenomenon. When norms track power, they are also self-enforcing and will likely be taken care of. When norms seek to constrain power, on the other hand, some combination of institutional guarantees and a culture of restraint is likely to be required. (Khaitan 2021, S53)

But whose power and what otherwise vulnerable norm do independent central banks lock in?

The growth of independent institutions intended to be above party politics demonstrates a desire to temper the vagaries of politics by transferring power to, or sharing power with, supposedly neutral and unelected bureaucratic expertise (Tucker 2018, 94). It reflects mistrust in democratic institutions and concerns about self-interested or corrupt politicians. Framing central bank independence as a guard against political misbehavior and authoritarianism, Tucker argues that independence stops political leaders from printing money for corrupt or party-political purposes (Tucker 2020b, 45). Independent central banks can therefore be understood as one of many proliferating institutions intended to guard against the threat of “populism” to constitutional democracies (Pinelli 2011, 13–14), including the populist’s potential abuse of power and erosion of constitutional norms (Mudde and Kaltwasser 2018). There is a sense in this proliferation that constitutional designers trust supposedly neutral unelected expertise in certain matters more than elected representatives.³³ We as academics may tend to reinforce this mistrust, preferring decision-makers who resemble our unelected expert selves. Perhaps we also mistrust the ability of citizens and political systems to choose representatives and policies wisely and hold poor policy choices or political misbehavior electorally accountable—with the rise of right-wing extremism globally bolstering our concerns.

However, it is worthwhile to apply a critical lens to the antipopulist push to remove economic policymaking power from the elected representatives of the people. This move can also be critiqued as antidemocratic. The term “populist” is now infused with negativity, but the US history of the term demonstrates a corollary point. Before “populism” became a synonym for “illiberal, nativist, xenophobic, far-right, and neofascist” (Daly and Jones 2020), it described the third-party “People’s Party” born out of Kansas in 1891, which aimed to break through the dominant two-

³² On this “paradox” see also Stasavage and Keefer (2003, 8–9).

³³ For more on tensions between technocracy and democracy see Bertson and Caramani (2021), Sánchez-Cuenca (2017), and Kurki (2011).

party stranglehold by advocating unconventional reform ideas. These self-titled “populists” were workers and farmers dissatisfied with the economic status quo (Frank 2020, 11) and committed to fighting against inequality. Populism in this original iteration was an early effort to counter the excesses of capitalism (*ibid.* at 8). The historic populist movements inspired modern labor parties—the Australian Labor Party even considered adopting the name “People’s Party” after the American movement (Frank 2020, 19; McKnight 2018, 16).

Informed by this historical context, and as my discussion of the RBA earlier helped demonstrate, the rise of independent central banks could be understood as an antipopulist³⁴ but also an antidemocratic agenda aimed at entrenching free market policy approaches favored by the owners of capital, to the detriment of the priorities favored by labor. Bolstering this argument, a main justification for central bank independence is that politicians are prone toward inflationary policies because they are connected to the electorate and alive to material issues of importance to voters. According to Bernholz, voters want high employment, low rents, and public support for health care and old age pensions (Bernholz 2013, 207), all of which could be inflationary, which is why independent central banks are needed to remove monetary policy from the people’s concerns. Like other “commitment device” institutions, independent central banks protect a norm that would otherwise be more vulnerable to populist (or popular) diminution via democratic processes—but Palley argues that norm is neoliberalism as an approach to economic policy (Palley 2019). Independent central banks help entrench neoliberal policy prescriptions, preventing them from being eroded by the people via their elected representatives. For Palley, therefore, “[t]he proliferation of central bank independence reflects the triumph of neoliberalism” (*ibid.* at 70).

In the literature about central bank independence, the constitutionalist’s concerns to insulate certain policy decisions from political pressures to curtail risks of bad behavior by self-interested and electorally motivated politicians (Panico and Rizza 2004, 452) have converged with the mistrust in government that animates neoliberal economics. An independent central bank facilitates a small-government approach to economic management, which makes independence the preferred approach of neoliberals (Palley 2019, 74). The rise of central bank independence is thus unavoidably informed by class conflict (*ibid.* at 79–80) and bargaining processes between interest groups in society (Tucker 2018, 64–65, 92–93). Such bargaining might involve imbalanced power relationships, enabling powerful corporations to use institutional reforms to “tilt the rules” in favor of their interests (*ibid.* at 65).

Pixley et al. thus suggest that central banks are not truly “independent,” because they germinate through political alliances with certain sectors of society (2013, 35). Central banks form part of a “coalition of interests implicitly favouring finance and low inflation” (*ibid.* at 45; Pinnow 2022), which means that their independence from government has over time been replaced by “implicit subordination” to financial institutions (Pixley et al. 2013, 33). This contention rings true because, when hard choices need to be made, the neoliberal norm in its implementation via independent central banks pursuing inflation targeting favors the owners of capital and disempowers labor. Canova similarly argues that central banks display an inherent bias toward austerity because they have been increasingly influenced or even “captured” by private banks and financial institutions, which means they make policy decisions that benefit those interests. The “myth” of independence obscures these biases (Canova 2015).

Central banks are therefore “problematic” examples of fourth-branch institutions that are supposed to be above politics, because the theories and policy judgments central bankers oversee involve inescapably political choices, inevitably influenced by vested interests. The control of

³⁴ Indeed, critics of central bank independence have been dismissed as “populists” by defenders of central bank independence. See Palley (2019, 70).

interest rates as implemented by central banks pursues price stability at the explicit expense of employment (Tushnet 2021, 61), an approach traditionally resisted by labor but preferred by the capital classes who want to keep wages low and workers compliant. As Levy explains, focusing on the US central bank, “monetary policy cannot restrain inflation without weakening the economy and curbing employment” because “the only way that Fed rate hikes can influence the size of pay increases is by hindering economic activity sufficiently to cause a marked increase in unemployment and a decrease in job security” (Levy 1995, 192–93). Such decisions involve highly political policy trade-offs, determining who in society suffers to achieve price stability, who bears the losses, and who reaps the profits. When central banks lift interest rates to slow growth to tame inflation, job losses usually result (Hutchens 2023b),³⁵ while bank profits may increase as financial institutions extract more interest from their loan customers (Yeates 2023).

While Tucker disputes the argument that independent central banks pursuing price stability are automatically aligned with liberalism or neoliberalism, suggesting that stable inflation is valued by all political creeds (Tucker 2018, 169–70), the choice to raise interest rates, to increase unemployment and restrain wages to control inflation, cannot be considered apolitical. Yet as the normative value of central bank independence has become politically and institutionally ingrained, even quasi-constitutionalized in some settings, the myth that these crucial economic management decisions are somehow neutral has also become inculcated, to the detriment of democratic debate. The danger is that nonneutral decisions informed by nonneutral theories and policies can come to be incorrectly viewed as impartial and scientific and therefore beyond critique, rendering productive discussion and policy change highly difficult. Reinforced by bipartisan support (which Palley says is a result of “cognitive capture” in favor of neoliberalism) (Palley 2019, 89), this can entrench orthodoxy that should be anathema to policy flexibility and innovation (Tushnet 2021, 63). Insulation from politics may insulate the institution, and the orthodoxy that informs its decision-making, from debate and scrutiny that could germinate new ideas—especially ideas to tackle trajectories of increasing inequality.

Independence on this view creates a facade of neutrality that shields monetary policy choices from criticism by framing interest rate policy as a banal “technical choice,” rather than a politically and ideologically informed policy choice (Palley 2019, 67). Policy approaches favored by the increasingly influential financial sector are disguised as neutral (Panico and Rizza 2004, 452), “making nobody appear responsible for them” (*ibid.* at 459). A hidden goal of institutional independence may therefore be entrenchment of particular ideologies or politics (Conti-Brown 2020, 880–81). Embedding an ideology via institutional independence helps defeat its opponents in the longer term by removing the contestability of underlying assumptions (*ibid.*). Independence in this way enables powerful interest groups to embed their preferred ideology while hiding their influence, thereby fortifying their power.

Conti-Brown argues that while institutional independence intends to embody technical expertise, personal detachment, and political nonalignment, the Platonic ideal is in reality unachievable because it is underpinned by “conflicting goals” (2020, 865–68). Independence may be better understood as a “legal fiction” that carries pragmatic utility (*ibid.* at 870)—a myth or exemplar toward which an institution ostensibly strives (871), but that cannot be realized because ideologies, vested interests, and politics are unavoidable. Resort to technocratic expertise provides no escape from politics, because experts inevitably disagree: The evidence and formulas upon which central bankers rely provide no clear-cut answers to recurring policy problems (Fraser 1994). Central bankers thus cannot help but utilize “values, judgments and ideology” (Conti-Brown 2020, 884), despite maintaining the neutrality façade.

³⁵ In Australia, the RBA has been explicit about wanting unemployment to increase to control inflation.

The foregoing analysis suggests that independent central banks have developed to constrain the political power of the people, as represented by the elected Parliament and government, so that monetary policy can instead be overseen by unelected technocrats with close ties to private financial power. These arguments complicate characterizations of independent central banks as neutral delegated agencies. A central bank's monetary policy can force hundreds of thousands of citizens into involuntary unemployment. In conditions of strong central bank independence, what is the citizen's recourse if he feels monetary policy is unfair or negligent or biased toward parts of the community? If he complains to the elected government, he may be told the central bank is independent—it is not the government's fault or responsibility. Viewed in this light, outsourcing monetary policy to an unelected central bank seems troublingly undemocratic.

The resulting tension elucidates a constitutional as well as an economic problem. The two are related, because economic prosperity is generally necessary for successful democracy (Dahl 2015, 135, chap. 13), whereas economic injustice, upheaval, or stagnation can be precursors to democratic disruption and decay (Przeworski 2008, 129). If a constitutional and economic system is engineered to favor capital and disempower labor, contributing to inequality, and that system is effectively entrenched and defended by broad political consensus, then ordinary people who lose out will in time feel both economically and democratically disenfranchised (Mounk 2018, 4, 15; Shappelle 2018, 546). The above arguments about central bank independence must therefore be viewed in the context of growing inequality globally and the related increase in democratic destabilization driven by political wreckers and extremists who promise to shake up systems leaving too many behind. The normative triumph of neoliberal orthodoxy, inculcated not only into economic management worldwide but also entrenched via constitutional, legislative, and policy practice and design, should be of concern to those who believe citizens should have a real say in the economic decisions affecting our lives. It should also be of concern to constitutionalists who value stable and healthy democracies.

F. *Is the Policy “Lock In” Justified? Comparisons with Debates About Bills of Rights*

If independent central banks quasi-constitutionalize (or at least render more politically inflexible) the neoliberal policy prescriptions favored by financial interests, to the detriment of policy innovation to address economic inequality, can this be justified? It is useful here to draw an analogy with longstanding debates about the democratic legitimacy of bills of rights, which some object relinquish political control and policy flexibility on complex questions of rights to unelected judges, at the expense of popular and democratic control. Both institutional mechanisms are animated by mistrust of electorally driven political power and majoritarian rule. Addressing the bill of rights debate, former Australian Chief Justice Murray Gleeson observed how democratic majorities “cannot always be relied upon to be sensitive to the interests and the legitimate concerns of minorities.” The bill of rights debate thus boils down to how a democracy powered by majoritarianism can “institutionalise protection of legitimate minority interests” (M. Gleeson 2000, 68–69).³⁶ To address this concern, a constitutional bill of rights empowers the judiciary to invalidate Parliament's laws and policies where they breach certain enshrined minority rights.³⁷ Conversely, Jeremy Waldron has pointed out that rights are matters about which citizens (and judges and politicians) can reasonably disagree.³⁸ Waldron therefore argues that it is better to allow the broadest possible cross-section of the community, as represented by legislatures, to stay in

³⁶ See also Mason (1989, 83); Carrick (2010, 98).

³⁷ For the purposes of this analogy, I omit more complex discussion of dialogue models that leave parliamentary supremacy intact.

³⁸ See the arguments put forward in Waldron (1993; 1999; 2006).

charge of making contentious decisions about how to balance competing rights. Legislatures are best placed to weigh up and accommodate competing interests in society, not unelected judges who do not represent and are not connected to the people.

One can apply similar arguments to economic decision-making. Though the orthodoxy that currently dominates is pervasive, resulting in diminished policy debate and disagreement, the correct economic policies in any given situation are still matters about which reasonable people disagree. As Rawls argued, economic policies depend on “speculative political and economic doctrines” about which there are always “reasonable differences of opinion.” Therefore, rather than taking economic decision-making off the political table by constitutionalizing economic rights, or institutionalizing and politically entrenching certain economic approaches, economic policy should be kept under the more flexible purview of elected governments, which give citizens an equal share of decision-making power. Further, Rawls argued, elected governments should enact policies that assist the disadvantaged and promote “fair equality of opportunity” (Rawls 1971, 174–75), which would include ensuring high employment (Klooster 2019, 684). On this logic, the elected government should retain ultimate control of economic policies, rather than unelected and politically insulated technocrats who do not represent the people and may not be sensitive to their realities and suffering. As Bagehot identified, overinsulation from political debate can detrimentally affect the quality and balance of public finance decisions. Enabling political scrutiny through political checks and balances helps ensure balanced public finance policy.

In determining whether an institutional policy “lock in” can be justified, I argue that who the “lock in” benefits matters. On one hand, a constitutional bill of rights restrains the tyranny of the majority from trampling the rights of vulnerable or unpopular minorities, by empowering judges to defend the rights of vulnerable groups—the overarching goal being a rights-respecting society and political system, which is said to benefit all. On the other hand, independent central banks restrain the power of the majority by authorizing unelected technocrats to make unpopular economic decisions (like increasing unemployment to curb inflation) that may be resisted by working people and their electorally motivated representatives but that may benefit capital and finance—to achieve the overarching objective of stable inflation, which is said to benefit all. In both cases, unelected experts become the decision-makers, in defense of certain ideologies, principles, and objectives, but also in defense of particular constituencies or interest groups, as against the will of the majority. In the case of the constitutional bill of rights, vulnerable minorities are protected against the excesses of popular will. In the case of central banks, neoliberal ideology and the interests of capital are protected from majoritarian preferences. Though others contend that all in society are served by the central bank’s pursuit of stable prices, the fact that central banks control inflation at the expense of jobs demonstrates clear winners and losers.

Bills of rights have sometimes been critiqued as reflecting the arrogance of a particular generation that presumes their evolved values are so objectively right that they should be institutionally entrenched, precluded from further evolution, and enforced upon future generations whose freedom to deviate from those values should be curtailed (Keith 2003, 125). The same could be said for economic values imposed on future generations by independent central banks seeking to resolve the “time inconsistency” problem via an institutionally embedded primary commitment to stable inflation at the cost of employment. Why do we presume a generation of orthodox economists got the balance so right that the policy flexibility of their successors should be curtailed, as if economic innovation ended in the 1990s and no further improvements could be made? As Murray Gleeson has commented, “the capacity of the framework of government to evolve, and adapt to changing values and circumstances, depends upon its not being fettered unduly by the opinions or standards of the people of a particular time” (M. Gleeson 2001, 10).

I agree that norms require institutional protection only if they lack political power (Khaitan 2021, S53). If the institutional “lock in” defends vulnerable constituencies whose powerlessness necessitates increased entrenched protection, arguably the “lock in” can be justified even if it constrains democratic authority and policy flexibility. If the “lock in” protects the preferences and privilege of the already powerful at the expense of popular will and policy flexibility, however, then it requires careful justification. Notwithstanding the orthodoxy that now underpins it, the latter institutional and policy “lock in” as it relates to central banks should be scrutinized to ensure that it strikes the right balance between democratic accountability and policy flexibility on the one hand, and apolitical independence on the other. The adequacy of that balance should be continually checked and refined by fresh perspectives offered by subsequent generations.

G. *Necessary Conditions for Legitimate Delegation to Unelected Authorities*

Tucker’s delegation criteria hold that public policy should be delegated to independent and unelected authorities only after public debate, and only if certain conditions are met. Conditions include that the policy goal can be specified, that society’s preferences are reasonably stable and concern a major social cost, that there is a need for a “credible commitment” to a settled policy regime, and, crucially, that the institution will not have to make “big choices” on “distributional trade-offs” or “society’s values” in ways that materially shift the distribution of political power (Tucker 2018, 569).

The requirement that independent central banks must not make big choices on distributional trade-offs appears at odds with reality. The criterion is justified because striking the right balance between rival policy priorities is integral to political decision-making and should not be delegated (Goodhart 2002, 192). Levy agrees that an independent central bank can be consistent with democracy only if its decisions have “narrow consequences” that “do not involve social trade-offs.” Therefore, only elected decision-makers should determine the correct mix of unemployment, inflation, and growth in society; to delegate such choices would breach democratic principles (Levy 1995, 190). So how can we justify independent central banks? Although Tucker’s articulation of the “no trade-offs” requirement does not require that monetary policy has no distributional effects—it only requires that, where policymakers face distributional choices, their mandate dictates the correct course of action (Klooster 2020, 478b)—central banks nonetheless fail the requirement, because they pursue price stability by raising interest rates to slow growth, increase unemployment, and curb wages. This entails trade-offs with far-reaching distributional consequences and central bank mandates generally lack precise instructions for how such decisions must be made (*ibid.* at 480).

Tucker addresses the breach of the “no trade-offs” requirement by noting how, prior to central bank independence becoming a global norm, ideas about a “natural rate of unemployment” (the NAIRU) meant that “awkward” trade-offs between jobs and price stability had ostensibly been eliminated, therefore “it was not essential for politicians to maintain day-to-day control of monetary levers” (Tucker 2018, 414). Monetary policy became seen as a scientific equation that could be neutrally settled by technocrats, rather than distributional decision-making involving political choices. Conversely, however, Tucker admits that monetary policy choices have distributional *effects*, which causes “disquiet” in terms of democratic legitimacy (*ibid.* at 529). He therefore suggests that elected politicians should measure the distributional effects (530) of delegated policies and mitigate the consequences through a mix of monetary and fiscal policy (529–30), warning against policy regimes being overly reliant on central banks to solve economic problems (535).

If elected governments should mitigate the distributional consequences of monetary policy decisions, then they should also carry appropriate oversight of those decisions and play a part in making them. This suggests that qualified independence is appropriate, with elected governments retaining ultimate responsibility. Notwithstanding contested arguments about the natural rate of unemployment at which stable inflation can be maintained, central banks make decisions involving and entailing distributional trade-offs between price stability and unemployment, also described as a “trade-off between income and inflation” (Stasavage and Keefer 2003, 10). Total delegation of such decisions to unelected technocrats cannot be justified.

There are therefore persuasive reasons to ensure that central bank policymaking is subordinated to similar political oversights as many other executive agencies (Buchanan and Dorf 2016, 70; Galle and Listokin 2022, 56). Central banks can reshape whole economies, influencing who in society prospers and who becomes destitute, which are the kinds of trade-offs that should be determined by elected representatives (Canova 2011, 269–70, 309–10). Given the distributional consequences, it is appropriate for the ultimate decision-makers to have a connection with the electorate and sensitivity to the social impacts of these choices. By contrast, an independent central bank’s insulation from politics means it may not be alive to the human experience of the distributional impacts of their decisions (Tushnet 2021, 31). On the other hand, central bankers are also usually responsible for financial regulation, payments system management, and liquidity provisioning, which impact monetary policy and interest rate decisions, meaning it may be impossible for the central bank to function without some ability to control variables entailing distributional effects. Likewise, because of real risks of political abuse and misuse, it would seem inappropriate for monetary policy to be under total political control, without independent checks and balances.

A balance between agency independence and democratic oversight must therefore be struck. Pinnow in this vein proposes slightly different rules to justify the delegation of monetary policy to an unelected and independent central bank. Suggestions include elected institutions relinquishing “only as much discretion as is absolutely necessary to solve the commitment problem involved in monetary policy” and ensuring that central bank independence “should not be entrenched more firmly than is necessary to make the medium-term commitment to price stability sufficiently credible.” Likewise, the central bank’s mandate “should be as detailed as possible.” It should include “clear goals and manual-like rules on how to exercise its powers,” including a hierarchy where there are multiple goals. Elected institutions should also retain power to declare an economic emergency, during which monetary policy is temporarily put back under the government’s control (Pinnow 2022, 11).

Klooster argues that it should be permissible for governments to delegate political choices to unelected experts, but what matters is whether the delegation serves the elected government’s ultimate economic policy aims. Noting that central bank independence can help governments pursue their larger economic policies, he nonetheless agrees that today’s central banks are insufficiently democratic and require reform. For example, their mandates should extend the goals of monetary policy beyond just price stability and should explain how multiple goals are to be weighed against one another. He further suggests that governments should have more say in deciding on the use of instruments and weighing conflicting goals (Klooster 2020a, 597). Downey additionally suggests regular government review of central bank independence to reassess the terms, conditions, and recipients of delegated power. This can help “preserve the delegating agent’s position as the ultimate possessor of that power” and ensure that the elected government’s supreme authority over monetary policy does not “atrophy” (Downey 2021, 326).

All this supports refining and checking, not increasing, central bank independence from government in Australia. It supports careful maintenance and renewal, not abdication, of the elected government's ultimate oversight and responsibility for monetary policy.

IV. Suggested Reforms

A. *Against Increased Independence in Australia*

Several practitioners also viewed removal of the government's override power as a mistake on democratic grounds. Former prime minister Paul Keating, a key proponent and founder of the nation's economic liberalization, urged the government to retain its override in line with democratic norms. Keating argued that the veto power gives primacy to the elected government and Parliament in economic management. Its retention was crucial, because any subordinate bureaucratic structure must ultimately answer to political power, which itself is subordinated to the electorate. Keating further argued that interest rates were the most crucial price in the economy and "should never be set by a bureaucracy, however expert, remote from the vicissitudes of society and the real economy" (Hutchens 2023c). He cited an example of the value of the political override in creating a productive check and balance. When Keating was treasurer in the late 1980s, he threatened to use the veto to pressure the RBA, not to lower interest rates as antipopulist arguments assert is the major risk being addressed by central bank independence, but to lift interest rates quickly to curb inflation driven by the major banks (*ibid.*). The political threat was effective and the central bank raised rates.

Keating's ideological nemesis, Liberal Party former treasurer in the Howard government, Peter Costello, described the override issue as "a question of sovereignty—does the parliament think that it should still have powers in this area? . . . If it doesn't trust itself, it should get rid of them. But frankly, I think that it'd be better to have them there" to use if necessary, he contended (Remeikis 2024). Costello's comments confuse parliamentary control with executive government control, but his point about democracy is clear. Former RBA governor, Ian McFarlane, a strong supporter of independence, nonetheless cautioned that it should not be viewed as "God-given." Former RBA Governor Bernie Fraser similarly advised against an unchecked committee of economic "super-nerds" running monetary policy, absent political scrutiny.³⁹ Even the new RBA governor, Michelle Bullock, was agnostic on the override, noting that the RBA was already independent with the veto power in place (Remeikis 2024). This raised questions about the necessity of the change, which was barely justified in the RBA Review report.

It is my view that the people, via our elected representatives, should retain ultimate control over economic decisions that directly affect our lives—even if the veto power is largely theoretical and rarely used. Elected oversight is part of the checks and balances of a healthy democracy, as Bagehot explained. However, reciprocity and balance are critical. If it is true that the power of politicians over monetary policy must be checked by an independent central bank, then it is equally true that the power of an independent central bank over monetary policy should be reciprocally checked by a government elected by the people. Lastra is correct that the debate about independence and accountability resembles the philosophical debate about freedom and responsibility: Independence

³⁹ The former RBA governor has also been critical of the RBA's recent interest rate rises, arguing that they misdiagnose the causes of present inflation and therefore apply the wrong treatment. "Profit gouging, supply shortages, climate change, all these things" are causing inflation, Fraser stated. "Putting up interest rates won't deal with that, but it'll make life worse." These are significant comments from the policy leader who pushed the country toward the inflation-targeting regime Australia has maintained since the 1990s. Fraser now acknowledges that rate rises are the RBA's one "blunt instrument," perhaps suggesting that monetary policy should not be the only game in town in fighting inflation. See Long (2024).

without accountability would be like freedom without responsibility. But instead of being a zero-sum equation, independence and democratic accountability are two sides of the same coin. A careful balance must accordingly be struck that tempers independence (because too much becomes democratically unacceptable), while also balancing democratic oversight (because too much political interference undermines the effectiveness of independence) (Lastra 2018, 296).

Galle and Listokin—supporters of central bank independence—similarly emphasize the need for balance, transparency, and accountability as distinct from “outright control by political authorities.” They argue that monetary policy should be “regularly reported to the public” and “subject to questions from legislators” because these “are major policy choices, and if they cannot be safely left entirely to the political process, neither should they be hidden from it” (Galle and Listokin 2022, 61). Other work has highlighted the need not only for increased transparency, but also for diversity of input into monetary decision-making to help central banks guard against “groupthink.” Conti-Brown et al., for example, argue that greater transparency and openness would improve the Fed’s ability to signal credible commitments, and that allowing more varied input into the Fed’s process for choosing its long-run inflation target could enable more accurate and effective decisions (2021). Australian union advocates have also suggested that worker representatives should again be granted RBA Board positions to facilitate diversity of input, as occurred in the 1990s when trade unionist boss Bill Kelty sat on the RBA Board (Sakkal and Massola 2023). These contributions demonstrate the importance of mechanisms to balance democratic accountability and openness with institutional independence. What emerges in the literature is that—regardless of whether one is more in favor of or against central bank independence—achieving the right equilibrium of power sharing is crucial for high-quality public finance decisions.

All this supports retention of the government’s override power in Australia because it facilitates reciprocity and dialogue, aligns with responsible government, and ensures ultimate political responsibility for monetary policy while enabling substantial but qualified central bank independence. Further, research has shown that the presence of multiple “veto players” to check and balance independent central bank decisions may be desirable on economic grounds (for those who prefer lower inflation) (Stasavage and Keefer 2003, 2). Stasavage and Keefer have demonstrated that an independent central bank is more effective at lowering inflation where multiple veto players are present (*ibid.* at 22). They argue that this can increase the central bank’s credibility and help reduce inflation, making central bank independence more effective (2). This economic justification bolsters the constitutional theory justifications for keeping a government override in place. It is the checks and balances—the power sharing, the push and pull—that is the most important rationalization for retaining qualified central bank independence to ensure the responsible conduct of monetary policy. Given the big distributional trade-offs, it is inappropriate for a central bank be given total independence from the elected government.

The RBA’s qualified independence should therefore be maintained but refined to address the complexities explored in this article. While power sharing is needed to minimize risks of abuse and misbehavior in the management of monetary policy, checks and balances should flow both ways. They should not only address the risk that democratic representatives might be too electorally motivated to make good long-term decisions about monetary policy; they should also address the risk that unelected technocrats might be too politically insulated to make good decisions in the interests of ordinary citizens, given the big distributional trade-offs flowing from their policy choices. Checks and balances work through productive tension—dialogue and disagreement that is the lifeblood of constitutional democracy.

To facilitate better coordination of monetary and fiscal policy, a more robust partnership and power-sharing approach could be fostered. The central bank is after all part of the executive and works in concert with the elected government to pursue public policy ends ultimately determined by the democratically elected government, under a legislated mandate but also via policy agreement. The RBA Act establishes the government's ultimate control over monetary policy, but it also repeatedly emphasizes the need for RBA agreement and dialogue alongside (since the 2024 reforms) independence from government—competing principles that must be balanced and reconciled through practice. The RBA Review similarly noted that effective economic management requires monetary and fiscal policy to be better coordinated and reconciled to shared objectives. It recommended increased “joint work” between Treasury and the RBA, enabling a coordinated approach (Australian Government 2023, iv) to identify the best combination of policy responses to economic challenges (*ibid.* at 18). Contradicting its recommendation for greater RBA independence, this suggestion calls for increased cooperation, communication, and partnership between government and the central bank to ensure that fiscal and monetary policy do not work at cross-purposes, returning practice to the original spirit of the legislation.

To this end, the central bank could operate under the responsibility of a committee consisting of the prime minister, the treasurer, and the central bank governor. This new national Public Finance Committee could be charged with making joint decisions about government financing and economic management, reconciling monetary and fiscal policy to facilitate the dual goals of price stability and full employment in ways that are properly informed by technical economic expertise but are never far removed from the concerns of ordinary citizens through their elected representatives.

B. *Policy Ideas to Mitigate the Magnitude of the Central Bank's Distributional Trade-Offs*

Given the justificatory criteria for delegation of monetary policymaking power in a democracy, scholars and policymakers should grapple with the significant distributional trade-offs that occur when a central bank raises interest rates to fight inflation, to find ways to mitigate the distributional consequences (Tucker 2018, 529–30). This could help reduce the distributional trade-offs flowing from monetary policy, mitigating the breach of the “no trade-offs” criteria and making delegation to an unelected entity more democratically acceptable.

Two big distributional consequences arise from central bank decision-making. First, there is a transfer of wealth from loan holders to banks via interest rate increases (Windsor et al. 2023). Second, there is a transfer of wealth from labor to capital via increases in unemployment, job insecurity, and wage restraint, when the economy slows due to rate rises. This has social and political consequences. Capital prefers more slack in the labor market because it keeps wages low and workers compliant. When interest rates are raised such that the economy slows, the winners are the owners of capital and the financial sector, whereas the losers appear to be mortgage holders and those who must give up their income and/or become unemployed to tame inflation. While there is undoubtedly need for action to combat inflation—because cost-of-living pressure can be a genuine problem affecting all in society—these big distributional trade-offs underscore the centrality of democratic accountability and oversight. It also calls for additional and new policy ideas to mitigate and reduce the magnitude of the distributional consequences arising from central bank decisions. Here I argue for integration of two novel policy options to mitigate and reduce the distributional trade-offs employed.

First, when inflation is caused by too much demand in the economy, and if money needs to be pulled out of the economy to slow demand and cool inflation, this could instead be achieved via

compulsory savings, as was suggested by John Maynard Keynes in 1940 (Keynes 1940, 10–12). For even if citizens' spending power must be curtailed to fight inflation, is there any reason that money must be permanently transferred from loan holders to banks? What if the money could be retained by citizens in compulsory savings accounts, unable to be spent while inflation remains a problem, so that individuals and families can keep their own wealth for expenditure when inflation subsides and the economy needs stimulation? Such a scheme would minimize the distributional consequences of monetary policy decisions intended to take cash flow out of the economy, and could ameliorate growing chasms of inequality by allowing citizens to keep their money instead of giving it away to banks. Economist Lachlan McCall argues that a compulsory savings mechanism could be incorporated into Australia's superannuation system, with central banks controlling the compulsory savings rate as they currently control the cash rate (McCall 2021). However, such decisions could also be made jointly by the elected executive and the RBA via a new national Public Finance Committee, as proposed above.

A compulsory savings approach could have several advantages over raising interest rates. First, raising rates only directly impacts the spending power of loan holders, which is inefficient in terms of taking money out of circulation, and means that the burden of cooling inflation is not shared equitably across society (for example, older citizens who have paid off their mortgages may not financially contribute to stemming inflation, even though they may have accumulated substantial wealth). By contrast, a compulsory savings mechanism could be designed such that all citizens share the burden fairly. It could be flexible and tailored like a tax rate, so that those with higher incomes and surplus savings are required to save more (regardless of whether they have a mortgage), those with lower incomes and less savings can be required to withhold less, and those living below the poverty line might understandably be exempt. The mechanism could also be applied to businesses if desired, through compulsory withholding of dividend payments and CEO bonuses. This mechanism could complement interest rate rises, if considered necessary. But crucially, a compulsory savings lever would mean that rate rises are not the only instrument available in the inflation-fighting policy toolkit. This may also mean that any rate rises would not need to be as severe to control inflation, because multiple tools could be used as and when appropriate.

Second, however, even if a compulsory savings scheme were incorporated, job losses may still result when money is withdrawn from the economy such that growth slows. This would still increase job insecurity and unemployment, and dampen wage growth, effecting a serious distributional trade-off that transfers money from labor to capital, contributing to inequality. These consequences could be (at least partly) mitigated through a minimum-wage federal job guarantee, which would act as an automatic stabilizer of the economy.

A federal job guarantee is not a new idea. The original populists of Kansas argued that the government should pursue full employment, funded by budget deficits (Frank 2020, 7–8). Today, there could be public appetite for such a reform: In Australia, a 2019 YouGov survey found that 67 percent supported a "job guarantee" as an appropriate solution to job insecurity (Unions NSW and YouGov 2020). In a country with monetary sovereignty like Australia, the national government as the sovereign issuer of the currency has the means to employ all available labor, the important constraint being inflation (Kelton 2020b; Mitchell et al. 2019, chap. 19). A job guarantee would involve recapturing the lessons of postwar prosperity that saw political leaders of left and right pursue full employment as a headline priority (Hutchens 2020). It would require the government to act as an "employer of last resort" (Wray 1998, 124–30) by creating flexible, basic wage "buffer jobs" as a stopgap for the unemployed or underemployed (Mitchell et al. 2019, 301–02). The pool of buffer jobs would expand and retract according to demand for employment, operating as a permanent, flexible complement to private sector employment. Paid at the minimum

wage, a job guarantee would not be inflationary, but would provide a national jobs safety net, rather than just a welfare safety net (Kelton 2020a, 249–54), generating immeasurable social goods compared to the ills of unemployment (Holden and Dixon 2022, chap. 4).

Incorporation of a compulsory savings scheme to manage inflation more equitably, together with a federal job guarantee to mitigate the hardship arising from the involuntary unemployment that results when money is withdrawn from the economy to cool inflation, would significantly reduce the magnitude and severity of the distributional trade-offs deployed to control inflation. First, citizens would not have to permanently transfer money to banks to curb inflation. They could keep their money for future use through compulsory savings. Second, citizens need not be plunged into unemployment, underemployment, and poverty to control inflation. They could instead make use of a minimum-wage job guarantee that, while not as lucrative as better paid private employment, would still be preferable to welfare, which in Australia sits below the poverty line.

In addition to retaining the government override and instigating better cooperation between monetary and fiscal policy, these measures combined would significantly reduce the magnitude of the distributional trade-offs employed by monetary policy decision-makers to control inflation, reducing the breach of the “no trade-offs” criterion, and making delegation to an unelected central bank more democratically justifiable. The job guarantee in particular could mean that the trade-off between inflation and employment was mostly negated, or at least significantly mitigated. Stable prices and true full employment could be simultaneously and more equitably achieved, as per the legislated RBA mandate. Under the auspices of a national Public Finance Committee, the government and the central bank could make better coordinated decisions to control inflation while maintaining full employment. Qualified and balanced central bank independence that utilized these additional policy tools would help address inequality, while better respecting and protecting core principles of constitutional democracy. While there is not space here to examine these two ideas in a more detailed way, my hope is that this prompt will encourage further research, debate, and ultimately economic policy progress.

V. Conclusion

This article has combined constitutional insights with economic policy discussion to tease out the tensions between ideals of constitutional democracy, which I suggest call for electoral accountability in economic policymaking, and the role of an unelected and politically insulated central bank empowered to manage the balance between price stability and unemployment. Examining Australia, I contend that the government’s power to override RBA decisions was rightly not relinquished. Qualified independence should not only be retained; a refined qualified independence that embraces power sharing and partnership should be fostered. I further suggest ideas for mitigating and reducing the distributional trade-offs flowing from monetary policymaking. Through implementation of a compulsory saving mechanism together with a federal job guarantee, governments and central banks might more equitably and effectively manage inflation in ways that ameliorate rather than exacerbate inequality, while better respecting the core principles of constitutional democracy.

It is hoped that these ideas and arguments stimulate debate about the proper parameters of central bank independence in Australia’s constitutional democracy, but also in democracies globally. Central bank independence, and the neoliberal policy prescriptions it helps lock in, have become accepted as economic and constitutional orthodoxy. This approach to economic management has become a quasi-constitutionalized, institutionally entrenched norm. Orthodoxy notwithstanding, the appropriate parameters and nuances of central bank independence, along with the policy approaches pursued thereunder, should be challenged, interrogated, and continually refined.

Proposals for improvement and reform should be developed and debated by all those interested in addressing economic inequality and protecting and strengthening constitutional democracy.

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