

The Australian Reconstruction and Development Board within the Reserve Bank of Australia.

Abstract

Legislation to establish a new Board within the RBA to deal with inadequate financial products, industry reconstruction and development finance needs is under review by the Senate Economics Legislation Committee. It is specifically targeted at Agriculture, associated industries and infrastructures, but could be otherwise targeted where managed transition is more efficient than market reliance. Despite impressive productivity gains, Agricultural finances are unsustainable. Many mortgages made over the last decade have now been revealed to be subprime. A debt-deflation spiral is underway with farm asset values already down markedly in many Australian regions. Contagion and second wave problems are increasingly evident.

An ARDB could help correct both underlying market failures and destabilising flaws in systems and products. Positioning such a board within the RBA would allow root problems to be effectively addressed within the financial system. Pre-emptive, reconstruction and development capabilities would be made an explicit area of RBA focus and it is expected that the ARDB would “work with” parties active in banking and finance to improve performance. Demands on the Federal Budget and associated direct public risks would reduce with only welfare needs and natural disaster exposures remaining as budget items.

Industry problems and their genesis are the initial focus of this paper. Key design principles are then discussed along with legislative considerations. Comparisons with alternative arrangements, including those used overseas, demonstrate the considerable potential gains from a well-established Board. The ARDB can prudently provide an important capability that is missing within the financial system, one that is increasingly needed in these uncertain times.