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Joe Isaac
University of Melbourne

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This is a history of monetary targeting policy in Australia from the mid-1970s, when it became the centrepiece of monetary policy, to its demise in the mid-80s. It is based on personal interviews with the main players and others in the period - leading politicians and their advisers, academics, financial writers - on archival personal papers of Shadow Treasurers and Opposition Leaders, government documents, learned articles and newspaper columns. It tells of confusion, indecision, miscalculations, dogmatism, ideology, political expediency and bureaucratic politics. And it shows the importance of 'fashionable' academic views, the strength of bureaucratic self-interest, and the power of financial journalists and the financial market in determining policy.

The author says in the Preface that this 'book is about one idea – that controlling the money supply means controlling inflation'. The book opens with the early 1970s. This was a time of rampant inflation and it was clear to many that the initiating source of this inflation was a substantial wage push, sustained by a highly protected economy, government policy to maintain full employment and an accommodating money supply. How to deal with the problem without jeopardising full employment? Two vocal schools of thought were in contention. One saw the need for an incomes policy to strike at the source of the problem; the other considered that the supply of money was the critical problem. The book discusses the relative influences of these schools, showing, after some confusion and ambivalence, how the monetary targeting policy was embraced by Opposition Leader Snedden and then Fraser and then finally implemented under him as Prime Minister. This approach centred on Milton Friedman's thesis, widely supported especially by the free market-oriented economists at the time. His visit to Australia in 1975, sponsored by the supporters of his thesis and an earlier visit by his British acolyte, Michael Parkin from the University of Manchester, had a profound influence on the Coalition, leading financial journalists and the financial market. Initially, the Treasury and the Reserve Bank were sceptical about monetary projection but based on interviews and archival records, it appears that there was considerable ambivalence especially in the former. To quote Guttmann: 'For Treasury, and to a lesser extent the Reserve Bank, targeting served a variety of bureaucratic, pragmatic and ideological interests, which changed over time', (p. 243). At any rate, they were not able to change the policy which became self-sustaining because of the expectations generated in the financial market, strengthened by the herd-tendency of financial journalists (perhaps with the exception of Ross Gittins of the *Sydney Morning Herald*). One financial journalist proclaimed in 1976 'We're all Friedmanites now'. Guttmann, again: for 'financial markets, targeting promised a simple decision rule when considering monetary policy that was also consistent with their ideology.' (p. 243).

The policy limped along exceeding its target substantially year by year. Yet, the 1981 Campbell Committee (the terms of reference of which were clarified by John Rose and John Hewson) was able to recommend the continuation of monetary targeting. The power of market beliefs was such that, in his Budget Speech in 1982, Treasurer Howard confessed that the government would have abandoned monetary projections but for the continuing attachments of the financial market to the policy. When the Labor Government, having been critical of monetarism, came back in 1983 on the
platform of the Accord and incomes policy, it felt the need to pander to the financial market and continue to espouse monetary targeting. With the substantial outflow of capital occurring at the time and a reputation of financial profligacy earned during the Whitlam years hanging around its neck, it had no other option. The deregulation of the financial market and the floating of the Australian dollar finally provided the opportunity to end the charade, but not without strong differences between the Treasury and the Reserve Bank.

This book gives a fascinating and worrying account of how economic policy is formulated. Would it be surprising if a similar account – highlighting the influence of (hidden) ideology among academics, bureaucratic politics, the power of employer associations and the complicity of the media - will in due course emerge about the formulation of industrial relations policy under the Coalition since 1996?

One of the lessons that emerges from this book is the need to be wary at all times about accepting at face value, pious proclamations of politicians on the imperative nature of their policies for the 'good of the country'; or the confident pronouncements of financial journalists in support of this or that policy. For economists, the book is a reminder on the need for humility on what can be drawn for economic policy from economic theory and economic testing, and the need for transparency on ideology.

This book should be compulsory reading in Australian monetary policy and economic history courses at university level. Financial journalists will also find it instructive. The book is written with admirable clarity and is easy to read, the technical discussion being put in appendices to chapters. One small quibble: there is far too much repetition.

Joe Isaac
University of Melbourne

Rating: ★★★★★