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Articles for the Month:

The Doha Trade Round

is going [nowhere fast](#). Unfortunate, but not exactly surprising. Yet some still insist we should give up on bilateral FTAs in favour of this process.

posted on 3/31/2003

Ross Gittins

has [this](#) to say about appointments to the RBA Board: *One thing I do know - as does anyone who takes a more than passing interest in the Reserve Bank - is that the businessperson who's appointed to its board gains far more in personal status and (quite possibly bankable) kudos within the business world than that person gives in valued advice about the state of the economy and its management.* This goes to the heart of the argument for a professional MPC-style monetary policy decision-making body, distinct from the Board of the Bank. This would not entirely preclude political appointments, but would at least ensure that the appointees brought with them considerable expertise in economic policy. Gittins exhorts business people to be more mindful of the donations they make and the company they keep. But simple exhortation is no substitute for institutional design that takes into account the fact that people will often behave in a short-sighted and self-interested manner, especially when there are few constraints on others acting similarly. Gittins is rightly cynical about the conduct of politicians and business people. But his cynicism often seems to stem from disappointment, as though he still implicitly adheres to a benevolent social planner model of public policy.

posted on 3/31/2003

The Bank of Japan

has been living up to its undertaking to provide ample liquidity in the current international environment, raising its current account deposits to a record level just over JPY 30 trillion. Current account deposits have become the BoJ's operating target following the shift to quantitative easing measures in March 2001. But what is the MoF doing in foreign exchange markets? In recent months, the MoF has been engaged in unannounced market intervention, in sharp contrast to its usually very noisy open mouth operations. Today's preliminary [report](#) from the BoJ on its market operations for March suggests that it has again been in the market on behalf of the MoF, in the amount of JPY 1,131 bln, most likely in support of the USD. Foreign exchange market intervention is ineffective at the best of times. Intervention is usually only effective via the announcement effect that accompanies the intervention. Even then, a demonstrated willingness to adjust macro policy settings is usually required to give intervention credibility. The MoF often undermines its own intervention efforts through the public comments of its officials. Perhaps this

European Market Watch

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accounts for the apparent change in tactics, but unannounced intervention is likely to be even more than usually ineffective.

posted on 3/31/2003

The Blogs of War

The [FT](#) profiles some of the war bloggers.

posted on 3/29/2003

Jacob Levy

[speculates](#) about why some countries, in particular Australia, are supporting the war effort, while other countries in the Anglosphere are not. Levy is well placed to comment on Australia, having been a Fulbright scholar here (I recall signing him into Parliament House many years ago, so he could observe the Australian House of Representatives in action). Levy suggests that the Australian government's stance is politically risky, but I'm inclined to the view that the opposite is the case. The current international environment and Australia's role in it suits the government very well. This is readily apparent in the opposition's failure to gain any political traction from its opposition to Australia's involvement. It is also clear that many commentators have given a very literal reading to local opinion polling on the subject, failing to think about the way in which the questions have been framed. Simple re-framing yields very different results and interpretations. For example, [61% of Australians](#) think that the UN should have supported military action in Iraq. There is no doubt a strong element of conviction in current government's stance, but it is far from being politically inconvenient for the government. I would suggest that the domestic politics in the rest of the Anglosphere stack up somewhat differently. Former Israeli PM [Ehud Barak](#) has predicted that those opposed to the war will be decidedly on the backfoot once the the full horrors of the regime have been exposed. The war is already embarrassing those suggesting no link between terrorism and Iraq, with al Qaeda elements apparently [behind](#) the resistance in Basra. **UPDATE:** [Jim Bennett](#) also suggests domestic politics helps explain intra-Anglosphere differences on the war.

posted on 3/28/2003

Daniel Patrick Moynihan

is [dead](#). If you scratch many a classical liberal, you will uncover a neo-con intellectual heritage. This is certainly true in my case. Moynihan was one of the greats.

posted on 3/27/2003

The US with a Japan-size debt to GDP ratio?

On an accrual basis, yes, argues US Treasury Under-Secretary [Peter Fisher](#). He calls for a more forward-looking approach to the budget: *Imagine a reform proposal that promises to improve overall fiscal balance, reducing the negative net present value of all future outlays and revenues. If the proposal accomplishes this by increasing today's deficits while cutting tomorrow's outlays by a larger amount, under current budget rules, we would mistakenly reject it as "too expensive". The numbers we now focus on (deficits) distract us from the numbers that matter (total liabilities).* Australia and NZ are among the few countries in the world to have put their governments' budgets on an accrual basis. Whether or not this assists in thinking more intelligently about the budget depends on how seriously the authorities take their own fiscal responsibility legislation and the use of accrual concepts in the budget. NZ has

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developed a sophisticated approach to fiscal transparency under its Fiscal Responsibility Act and has even begun to pre-fund some of its future pension liabilities, although the mechanism chosen to do this is less than ideal. Australia, by contrast, has taken a more half-hearted approach under its Charter of Budget Honesty, with the Federal government returning the focus to the cash balance when the fiscal balance produced numbers that were less politically-appealing. The Australian government has, however, produced a report on inter-generational fiscal policy issues that has been useful in highlighting prospective budget shortfalls and the policies required to address them. Getting governments to move away from a cash accounting mentality depends on their willingness to deal with the many issues that this approach to the budget inevitably raises.

posted on 3/27/2003

Ross Gittins

[notes](#) that the costs of the war are small in relation to the overall Federal Budget and its consequences are not all negative for the budget balance. But he then goes on to argue that the money would be better spent on health and public housing. This almost goes without saying. No one wants to spend any more on defence than is absolutely necessary. What is surprising is the implicit assumption that throwing more public money at health and housing is a good use of resources. The focus in areas such as health and housing should be on ensuring that incentives are aligned in such a way as to improve the efficiency of resource allocation, both public and private. Simply throwing more public money at these areas does not necessarily translate into better outcomes. So far, the government has said that it will not impose a dedicated tax to pay for war, like the abandoned Timor levy, but it has previously shown a fondness for such levies and it is not hard to imagine a war tax being imposed with a view to keeping the Federal Budget in surplus. All else being equal, a return to deficit spending would be preferable to imposing an additional levy on top of what are already very high and distortionary marginal rates of personal income tax.

posted on 3/26/2003

The Reserve Bank of Australia

has a [new](#) Board member. The RBA has done an outstanding job of monetary policy under Governor Macfarlane, but the policymaking process would surely benefit from the creation of a professional MPC-style monetary policy decision-making body, distinct from the Board of the Bank.

posted on 3/25/2003

Peter Ruehl

puts the media's compulsive negative spin into [perspective](#): *Here at the Shock and Awe Desk, we've just watched the briefing by a US Army spokesman on CNN in which he said the war was going on schedule, which would make it just about the first in history that ever did. A war going on schedule is like being able to predict what Michael Jackson will look like this time next year. Plus the army has allowed so many reporters to go along for the ride that there's nobody left back home to cover a two-alarm fire at a Victoria's Secret warehouse. (From experience, I know that having that many journalists around almost guarantees nothing goes on schedule.)... There's so much micro-reporting of this war that each incident seems to be magnified to the point you aren't sure whether there's been a setback or the guys in the tanks are just breaking for lunch.*

posted on 3/25/2003

Robert Feldman

continues to [argue](#) that the principal lessons from Japan's recent experience concern structural rather than monetary policy: *The message for other countries is that identification of the right model for the circumstances of the country is essential for establishing policy traction. Monetary policy makers naturally focus on monetary rules, and fiscal policy makers on taxes and spending. However, if the key problems are in the structure of the economy, such focus will generate inadequate policies, in my opinion. For example, the Federal Reserve has recently stressed the need for aggressive monetary easing when deflation threatens. However, the Fed approach fails even to mention some of the structural impediments to growth in the US... In the US, there remains a blind spot in structural reform areas such as legal reform, while focus on the Fed is excessive, I believe. In the Congress, the level of gridlock is lower than in some earlier periods, but logrolling seems to remain the norm. In Europe, there is recognition of aspects of the right model, but this recognition seems incomplete. Even where recognition is good, such as in the need for labor market reforms, the political system (especially in Germany) remains occluded by special interests, I believe. In both regions, neither the first nor the second conditions for traction have been fulfilled, and so the third is moot, in my opinion. Japan, after much struggle, has provided good lessons for the rest of the world on the question of policy traction. Unfortunately, in my view, the lessons have yet to be learned elsewhere.* Meanwhile, the Bank of Japan has called an [extraordinary meeting](#) of its policy board, the first such meeting under the 1998 BoJ law, amid speculation of further quantitative easing measures. According to the [Nikkei](#): *Senior Vice Finance Minister Takayoshi Taniguchi, who is set to attend the policy board meeting as a government representative, intends to urge an increase in outright purchases to 2 trillion yen a month. He also plans to call for the ceiling on the BOJ's balance of long-term bonds to be eliminated.* The new BoJ team is keen to show its willingness to cooperate with the government, but this may only serve to encourage institutional shirking by other policymaking authorities. The MoF has long sought to shift the burden of macro policy responsibility on to the BoJ. **UPDATE:** the BoJ policy board has [undertaken](#) to provide ample liquidity and will step up its [stock purchases](#) from banks, but has referred for further study the issue of enhancing the transmission mechanism for monetary policy.

posted on 3/25/2003

Federal Opposition Leader Simon Crean

maintains that Australia's participation in the war against Saddam makes Australia more of a terrorist target, but at the same time insists that there are no demonstrated links between Iraq and terrorism. Meanwhile, coalition forces have been busy bombing some of these non-existent links in northern Iraq, in particular, Ansar al-Islam, a group with close links to al-Qaeda. So much for Iraq being a distraction from the war of terrorism. Crean's hair-splitting is not even serving him well politically, as [Glenn Milne](#) suggests: *His repeatedly vicious caricature of Howard hanging off every phone call from the White House as the sole determinant of Australian foreign policy has been taken up with gusto, by a Labor Party that, like Crean, thought it was on the right side of public opinion, but which woke up to Saturday's Newspoll to find that public opinion had suddenly shifted.* The ALP are on a hiding to nothing with their attempts to make partisan capital out of Australia's military involvement.

UPDATE: [Gerard Henderson](#) agrees. [Greg Sheridan](#) is also highlighting the Iraq-terrorism connection.

posted on 3/24/2003

Robert Skidelsky

[reviews](#) recent contributions to growth theory from Liah Greenfeld and Robert Lucas, drawing this comparison: *To turn from Greenfeld to Lucas is like emerging from an old curiosity shop into a modern office. There is no clutter. Lucas is an economist's economist. Much of his work is mathematical - inaccessible to the nonspecialist reader. His method is to construct "a mechanical, artificial world, populated by ... interacting robots ... , that is capable of exhibiting behaviour the gross features of which resemble those of the actual world ..."* This is not a sales pitch for a wide readership. However, with great effort, even a nonspecialist reader can get some benefit from his spare volume of lectures, since Lucas provides a lucid introduction and nontechnical summaries of his main ideas. And such a reader may even come to feel the excitement of Lucas's passionate quest for the solution to the mystery of growth. "If we know what an economic miracle is," Lucas writes, "we ought to be able to make one." If that last Lucas quote sounds like constructivist rationalism, consider Skidelsky's conclusion: *For those not prepared to wait as long as Lucas, endogenous growth theory prepares the intellectual ground for a new form of interventionism, in which Western countries take over some part of the development of "human capital" in the poorest nations. Today's language of "failed" states is the embryonic language of the new imperialism.* I'm not sure if that is meant to be an endorsement or criticism from Skidelsky, but it helps confirm me in my suspicions of endogenous growth theory, despite my admiration for Lucas.

posted on 3/21/2003

Australia's pursuit of an FTA with the US

is often said to somehow compromise Australia's economic integration with the East Asian region. Rowan Callick [examined](#) some of these arguments in last weekend's *AFR*. Callick is evidently unpersuaded, putting some subtle counter-spin on these arguments. Callick even ridicules the arguments of the likes of Richard Woolcott and Craig Emerson in saying: *This startling scenario presumes that China's economic policies are driven by Australia's, that an East Asian bloc will be easily cobbled together - the present formal horizon, for a deal that leaves out Japan, South Korea, Hong Kong and Taiwan, is 10 years - and that all Asians would as a result stop buying all Australian goods, even those, like gas, under lengthy contracts. This logic would also have the Asians cut their trade ties with the US, to punish it too.* It is a peculiar logic which argues that the rise of FTA negotiations between the countries of East Asia should make us want to abandon exactly the same process with the US. If the argument is that trading blocs are bad, then an East Asia bloc is surely as undesirable as the North American one and we should have no part of either. It is interesting to compare the attitudes of Australia's trade policy establishment in-exile with some of the views expressed in regional media. For example, [here](#) is the *Nikkei*, addressing these issues late last year: *At any rate, experts agree that Japan has no choice but to embrace the global trend toward using FTAs as the framework for world trade. In doing so, the country must abandon the model it used to rise to prosperity after the end of World War II, which rested on the multilateral free trade system formerly represented by the General Agreement on Tariffs and Trade, and now by the World Trade Organization.* Rightly or wrongly, there is not much faith in multilateralism evident in these comments and it would appear to be the failures of multilateralism that are driving the global interest in FTAs, including in this region. I certainly do not agree with abandoning multilateral processes, but we should not place all our eggs in the multilateral basket either.

posted on 3/21/2003

The trade policy multilateralists

would have us give up on a prospective free trade agreement with the US in favour of this [process](#): *Mr Harbinson's latest draft made only minor changes to a proposal he released last month that was criticised by agricultural free traders, including Australia, for not going far enough. However, protectionist farming nations, including the European Union, labelled it too ambitious. Releasing the proposal in Geneva yesterday, Mr Harbinson said WTO member countries had not been willing to shift their positions enough for him to make any significant modifications to the original draft. This indicates that the WTO's members remain divided on the issue of dismantling trade barriers and subsidies in the farm sector. Australia's Trade Minister, Mark Vaile, said Mr Harbinson's revised draft did not go far enough towards the far-reaching mandate that WTO member countries had signed up to as part of the Doha round. "These revised proposals would still fail to deliver substantial market access improvements in key markets, which is unacceptable," Mr Vaile said. Meanwhile, the *Nikkei* reports [Japanese](#) attitudes to the draft: Agricultural Minister Tadamori Oshima on Wednesday expressed his opposition to a revised proposal for an agreement on multilateral farm trade liberalization presented by Stuart Harbinson, chairman of the WTO Special Sessions of the Committee on Agriculture. "It is generally unacceptable. The new proposal is basically the same as the first one, and thus can't be called a second*

proposal," said Oshima. Most Japanese government officials now expect it will be difficult to reach an accord in WTO-sponsored agricultural trade negotiations by the targeted deadline of March 31. Notice how the multilateral process is falling victim to exactly the same problems that the multilateralists predict will befall a bilateral negotiation with the US. Why these multilateral processes should be viewed as superior to a bilateral negotiation is beyond me.

posted on 3/20/2003

Institutional Economics Receives Its First Gong

After less than three months on-line, Institutional Economics has been nominated among the five best economics blogs by [Forbes](#) magazine. Forbes says, 'Light reading it's not, but the site is refreshing for its look at the US and global economy from a Down Under perspective.' Congratulations to fellow econbloggers who were also recognized: [Arnold Kling](#), [John Irons](#), [Lynne Kiesling](#) and [Zimran Ahmed](#).

posted on 3/20/2003

Alan Mitchell

makes use of the classical case for free trade [against](#) an Australia-US FTA: *Australia probably would be better off if we just gave the United States free trade negotiators whatever they want and politely sent them home...Most of the potential gains to Australia from a free trade agreement would come not from the US cutting its trade barriers, but from Australia removing its barriers to US goods and services. If you think that sounds crazy, all I can say is that you are the victim of a misconception happily perpetuated by generations of trade negotiators. To a trade negotiator, exports are good and imports are bad; a win at the trade negotiating table is where you get more access for your exports, but manage to keep their imports out...Why deny ourselves those benefits while a bunch of Australian and US diplomats spend two years in a trade negotiators' playpen?* Along with the multilateralists, Mitchell suggests that any trade deal will be undermined by protectionist interests in the US, and that we should focus instead on building anti-protectionist sentiment in both countries: *The Garnaut-Carmichael proposal is that countries should agree that all proposals for industry protection would be publicly examined for their potential economy-wide effects. When US farmers asked for more protection, US consumers, miners, manufacturers, and the service sector would be alerted that they were about to be ripped off. Over time, that could transform the protection debate in the US and do more for Australia than any bilateral free-trade agreement.* In fact, such proposals already get plenty of scrutiny in both countries from pro-free trade think-tanks like Cato and CIS. Mitchell is correct in suggesting that we should resist falling for the mercantilist presuppositions on which trade negotiations are predicated. But this is an argument that is equally relevant to both bilateral and multilateral trade negotiation processes. The classical case for free trade is applicable in both contexts. But bilateral agreements yield tangible results.

posted on 3/19/2003

Spectrum and property rights

The [FT](#) hosts a 'new economy policy forum' (yes, some people are still using the term 'new economy') on property rights regimes for spectrum allocation. As always, Richard Epstein has some compelling arguments: *My own sense is that the simplest property rights regimes will also prove the most adaptable. Clearly, there has to be some competition between property rights regimes. We should not foreclose that competition by pronouncing the commons the winner before it has been tried against the best form of its private opposition.*

posted on 3/19/2003

Peter Ruehl

is providing us with some of the more incisive [commentary](#) on Iraq. Edited highlights: *The other night they had one of those last-minute peace rallies in Washington...The main act was Peter, Paul and Mary, all of whom amazingly enough are still alive. Which is more than you can say for their act. Mary looks like a barn with a blond wig... France's idea of a pre-emptive strike is to wait until the enemy is snoring down Mumm's on the Champs Elysee and then ringing London and Washington for help. Their most important military contribution in the past 100 years was appropriately called the Resistance... Last weekend's papers, in large part, were one long anti-US barfstorm with little being mentioned about Saddam's refusal so far to cough up the crap. Hans seems to measure progress in arms inspections the same way you or I would measure progress in getting a date with Jennifer Lopez because her minders stopped beating us up. In 12 years, we've discovered the Iraqis have drones.*

posted on 3/18/2003

Stephen Cecchetti

[argues](#) that central banks can effectively overcome the zero bound on nominal official interest rates by targeting long-term rates through central bank bond purchases. He suggests that: *These policies are bound to be effective, driving up prices and eliminating any deflation. However, a problem arises from the fact that we have no experience with them.* Unfortunately, we do have experience with such policies in Japan and the results suggest that simply expanding a central bank's balance sheet will not necessarily end deflation, especially if it has a large structural component.

posted on 3/17/2003

Ross Gittins

[suggests](#) that policymakers should employ the insights of behavioural economics in the budget process. As if the budget process was not irrational enough. In fact, the budget process already exhibits evidence that policymakers recognise such things as the asymmetric value function. The massive overcompensation for losses that accompanied the tax reform process is just one example of this. Much policymaking proceeds on the basis that perception is more influential than rational calculation in the minds of voters. Indeed, policymakers are often banking on a rational calculation that this is true.

posted on 3/17/2003

The multilateralist trade policy mafia

continue their opposition to an Australia-US FTA, with Ross Garnaut and Bill Carmichael penning an [open letter](#) to the Prime Minister opposing an agreement at the outset of the negotiating process. But many of their objections would appear to be just as applicable to any multilateral trade negotiation process. Both bilateral and multilateral approaches to trade agreements proceed from essentially mercantilist presuppositions. But the prospect of a real agreement freeing up bilateral trade and investment between Australia and the US is preferable to what has been a very low yielding multilateral process. The complications associated with a bilateral negotiation are multiplied many times in a multilateral process, yielding lowest common denominator agreements that fall well short of the hoped for gains. An Australia-US FTA at least holds out the prospect that foreign direct investment in Australia will finally be subject to the rule of law rather than ministerial discretion. **UPDATE:** [Alan Oxley](#) addresses some of the criticisms of a Australia-US free trade agreement: *Our trade barriers are now very low. It is not possible to make the cuts across the board in what is left deep enough to give US companies the level of preferment in access to Australia's markets that would make competitors in Asia take notice – even if they were looking, and they are not. They are busily trying to negotiate their own regional and bilateral agreements. The standards for competitiveness in the world economy will be set by businesses based in the US and only those who match them will be globally competitive. The pace of change being forced by information technology will continue. It will require freedom of movement of capital, people and consistent intellectual property and competition laws... Econometrics can't model that.*

posted on 3/17/2003

The Institute for Humane Studies

recently launched [A World Connected](#), a globalization website promoting freedom and free exchange as the best hope for the world's poor. To foster discussion among students about the challenges of an increasingly interconnected world, they are sponsoring an [essay contest](#) with a top prize of \$5,000.

posted on 3/14/2003

John Durie

makes some sound [suggestions](#) for the ACCC's forthcoming report on the structure of the broadcasting industry: *In an ideal world, the solution Fels should offer is simple: he should recommend all the restrictions be removed or at the very least new broadcast licences should be released.* But as Durie notes, things are far from ideal: *It must be emphasised that the ACCC report is simply one bit of advice Alston will receive in making any decision, and while the regulator's report is being given more weight by its practical knowledge, it could well end up in the same dustbin as the 1999 Productivity Commission report on the media industry...Alston has had more false steps on media policy than Plugger Locket kicked AFL goals, but it is hoped that once he gets Fels's report he doesn't simply compound the mess by introducing more regulation to distort the market for everyone.* In fact, both the Minister and the ACCC face much the same set of incentives. Their power and prestige ultimately rest on creating a regulatory environment dominated by bureaucratic and ministerial discretion. Dealing themselves out of the picture

by leaving things to the market would seem unlikely.

posted on 3/14/2003

Supply-Side Hippies

[Arnold King](#) has a critical examination of some of the strange demarcations among conservative economists in the US on issues of government spending, tax and the budget balance. King is right when he says 'the real debate in this country should be over the appropriate size of government.' Much of the debate over the budget balance and tax reform in both Australia and the US fails to address this issue. This is partly because economists get caught up in taking positions on existing government policies, rather than addressing more basic issues. Similarly, it has been amusing to watch many left-of-centre economists re-discover fiscal conservatism now that the government in the US is spending money on stuff they don't like. [John Quiggin](#) characteristically overstates his case in referring to the rise of 'banana republic populism' in the US. There are many objections one could raise to the growth in non-defence discretionary outlays under the Bush Administration. But one can't help but think that deficits of similar magnitude incurred by a Democratic Administration in the wake of a major recession would not occasion similarly alarmist predictions from the likes of Quiggin.

posted on 3/13/2003

Alan Wood

[discusses](#) the NZ economy in light of the 20th anniversary of the Closer Economic Relationship: *Although she and her Treasurer Michael Cullen have lifted income tax and favoured a larger public sector, their monetary and fiscal management has been responsible and cautious. Talking to Labour ministers and to the Prime Minister, it is clear their mind-set has been importantly influenced by the reformers – and there seems to be a general recognition that without good macroeconomic policies and growth there is no surplus to spend on the social programs that are Clark's concern. Even in the labour market the reforms have been moderate, although the Government's Employment Relations Act is currently under review to give it a more pro-union bias. The potential problem is not radical reform, but a shift towards microeconomic and welfare policies that over time threaten to undermine the economy's flexibility. As a small, remote economy, that flexibility, and the associated productivity it yields, is vital to NZ's future prosperity. The 1980s reform nostalgia continues. Which raises a big question. Are there any economic or social reforms taking place today that people will be celebrating in 20 years time?*

posted on 3/11/2003

Robert Feldman

on the [lessons](#) from Japan: *I agree with my colleagues that it is necessary for the ECB and the Fed to move aggressively, in order to prevent deflation. Where my approach differs is on the question of whether monetary aggressiveness is sufficient. Easy money was NOT sufficient for Japan to avoid deflation. Structural policies were necessary too. In my view, the real lesson from Japan will be learned only when both Europe and the United States focus on the heavy, political issues of dealing with structural impediments to resource re-allocation in their own economies.* Feldman argues that in Japan's case, 'the contention that monetary policy was the key failure is, in my view, absurd.' In making his argument, he dispatches a number of important myths about Japan (see the Working Papers section of this site for a similar perspective on Japanese monetary policy).

posted on 3/11/2003

Robert Leeson

is arguing for monetary union between Australia, NZ and Singapore in today's *AFR* (no link that I can find). I can't see Singapore ever being convinced of the merits of that. A large part of Leeson's argument from an Australian perspective is the supposed benefits of such a union in promoting greater Australian economic integration with the region. Leeson singles out the declining share of total Australian exports going to the region. But these declining trade shares reflect growing diversity in the destinations for Australian exports. Economic intergration with the rest of the world is a good thing, but all else being equal, we do not want to be tied too closely to any one country or region. This is especially true of the East Asian economies, which are now highly cyclical as a result of the commodification of ICT production. The irony is that many of the economies of East Asia would kill for export shares as diverse as Australia's.

posted on 3/11/2003

The 1980s Nostalgia Fest

continues, with [John Hyde](#) noting that: *In the 1980s we got high-order policy leadership from both the Hawke government and, even more exceptionally, we got it also from the Howard, Peacock and Hewson oppositions.* There is a clear implication that we are not getting any now. At the same time, [Ross Gittins](#) discusses the favourite policy obsession of the 1980s, the current account deficit and how much attitudes have changed from the days when a large deficit was enough to rationalise a recession. Ross says the Australian deficit is good, but the US deficit is bad, without offering any argument. Yet Australia would seem to provide an object lesson in why large current account deficits need not be a problem. Just don't forget to fully hedge those offshore exposures against further AUD appreciation, driven by USD weakness.

posted on 3/8/2003

John Quiggin

has a nice [discussion](#) of the blogging phenomenon in the *AFR*'s Review section today. Some of his observations: *On the one hand, the dismissive attitude of some professional journalists has clearly been discredited. For certain sorts of stories involving complex, but publicly available evidence, bloggers have important advantages over traditional media...The influence of bloggers is enhanced by the fact that a large proportion of blog output consists of media criticism, much of it directed at high-profile commentators like Krugman and Robert Fisk. The term "fisking" has become standard for the reposting of an entire article interspersed with witty, or more commonly just abusive, critical comments.* As Quiggin himself demonstrates, blogging does not preclude having a substantial presence in the more traditional media. The two media can in fact complement each other.

posted on 3/7/2003

US Treasury Secretary John Snow

has run into the same problem as his predecessor, Paul O'Neill. It is impossible to talk sensibly about the USD and at the same time adhere to a notional USD policy that is bereft of any content. Current US macroeconomic policies cannot in any sense be said to support a strong dollar or a weak one. Easy fiscal policy is USD supportive, while easy monetary policy is not. So current policy settings are broadly a wash for the big dollar. The current Administration has shown no interest in foreign exchange market intervention or international macroeconomic policy coordination, which is as it should be. But successive US Administrations have boxed themselves into a rhetorical corner by adhering to the fiction that the US has a 'strong dollar policy.' There is no easy way out of this predicament, although it is an object lesson in why one shouldn't commit to an exchange rate policy, even one as vague as a 'strong dollar.' The *FT*'s non-solution is for the Administration to continue to reciting the dollar policy mantra: *If Mr Snow is to follow the example of one of his predecessors, then Robert Rubin or Larry Summers would be much better choices than Mr O'Neill. Both realised little could be gained by expressing an opinion on the dollar's moves. If Treasury secretaries express concern at a fall in the dollar and then do nothing they lose credibility. If they appear unconcerned, they risk fuelling the move. As a result, whenever asked about the dollar Mr Rubin and Mr O'Neill simply intoned the mantra that they supported a strong currency, and left the market to draw conclusions about what this meant. After a shaky start, Mr Snow should revive this tactic.* This is not necessarily bad advice coming from, say, a Treasury official. But it's always bemusing when the financial press argues in favour of less transparency from officials. The media pilloried O'Neill for his supposed lack of sophistication on exchange rate policy, when all he was trying to do was inject some reality into discussion of the dollar. As the old saying goes, politicians only get into trouble when they tell the truth. Unfortunately, the media are often complicit in this process.

posted on 3/6/2003

The government debt management debate

is alive and well in the US. [Here](#) the Chair of the CBOT argues for the revival of the US 30-year Treasury bond in terms that will be very familiar to participants in the local debate over the future of the CGS market. The Treasurer said yesterday that the issue is now 'academic' due to delay in the sale of the rest of Telstra. Market participants are now looking to the May Budget papers for guidance on Commonwealth debt strategy. Traditionally, the Budget papers contain very little detail on these issues. More transparency will be required on this occasion.

posted on 3/5/2003

Financial Market Economists

[animated](#). (via [Jane Galt](#)).

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The twentieth anniversary of the election of the Hawke Labor government

has seen a number of retrospectives highlighting that government's achievements in economic reform. Australia has been dining out on these reforms for a long time now. The OECD's [Economic Survey of Australia 2003](#), released overnight, notes that 'dogged pursuit of structural reforms across a very broad front...make the Australian economy one of the best performers in the OECD, and also one notably resilient to shocks, both internal and external.' 'Dogged' is an accurate characterisation of the reform process. The OECD notes that 'the success of past reforms is not grounds for complacency' and presents an inventory of further desirable reforms 'in the areas of welfare, private pensions, education, competition and labour markets.' But there is little sense of political urgency to these proposed reforms and the current government is struggling to progress what is a very modest third-term agenda. Part of the problem is that much of this agenda is only now being formulated, more than a year after the last Federal election and in too close proximity to the next one.

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The Economist

[editorialises](#) that Koizumi's choice for BoJ Governor 'ought to have been the final disillusionment' and that 'what Mr Koizumi lost by this appointment was the chance to show that he really does want novelty, that he truly wants to change Japan.' But *The Economist* fails to suggest who Koizumi should have appointed instead of Fukui and what another candidate might do to arrest Japanese deflation (assuming that is the correct policy prescription for Japan). *The Economist* is all care, no responsibility on this issue. *The Economist's* editorial exuberance is belied by its Tokyo correspondent's [analysis](#), which neatly captures the limits on monetary policy in the current environment. *The Economist's* naive monetarism continues to lead it astray.

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BoJ Dream Team?

[Robert Feldman](#) makes the case for the new BoJ line-up, arguing that it represents 'the convergence of monetarist and structuralist prescriptions about macroeconomic policy' in Japan. Feldman characterises new Deputy Governor Muto as an 'enforcer for policies set by Fukui and the BoJ board,' making for more effective policy implementation. At the same time, Feldman's colleague, [Takehiro Sato](#), argues that the BoJ is set to become the government's institutional bank, with a view to quarantining the bond market from fiscal risk premia. With monetary policy ineffective, fiscal policy becomes dominant by default, forcing the BoJ into an accommodative policy stance.

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The Centre for Economic Policy Research

at ANU held a one-day symposium on *Debt, Risk and the Role of Government: The Bond Market in a Wider Context* last week. The two media participants at the symposium, [Ross Gittins](#) and [Laura Tingle](#), have produced comment pieces today that reflect on the proceedings. Ross gets to the heart of the matter in suggesting that the real focus for debate should be on setting fiscal priorities in a low debt environment, particularly on the expenditure side. This has also been the missing half of the tax reform debate. Much of the tax reform debate has been conducted in the straightjacket of revenue-neutrality, because governments have been unwilling to take a serious look at expenditure reform. A serious look at the expenditure side of the budget is a precondition for a sensible approach to lowering the overall tax burden and Commonwealth debt management.

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