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**Reserve Bank independence,  
political responsibility, and the  
goals of anti-democratic policy:  
A political 'cri de coeur' in response  
to an economist's perspective**

**Robert Gregory**

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**Reserve Bank Independence, Political Responsibility, and the Goals of Anti-Democratic Policy: A Political 'Cri de Coeur' in Response to an Economist's Perspective**

Abstract

The paper challenges the argument of VUW Professorial Fellow in Monetary Economics, Dr Ralph Bryant, that 'democratic accountability' is emphasised under the Reserve Bank Act 1989 by a distinction between 'goal independence' and 'instrument independence'. It proposes that the Governorship of the Reserve Bank is an inherently political position, and should be understood as such, but that the terms of the Reserve Bank Act can be seen as part of a more general anti-democratic process of technocratisation based on expectations that aspects of public policymaking can and should be 'insulated' from politics.

Reserve Bank Independence, Political Responsibility, and  
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de Coeur' in Response to an Economist's Perspective

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## Introduction

Victoria University's Public Policy Group within the Faculty of Commerce and Administration comprises mostly economists and political scientists. They contribute to the teaching programme their own disciplinary insights and frames of reference, with members of each discipline generally tolerant of what they see as the limitations, if not downright 'absurdities', of the other's received wisdom. The following observations are intended to reflect that same spirit, but in the belief that economic domination of public policy discourse carries with it real and evident dangers for political democracy.

The impetus for writing this critique was provided by one economist's analysis of the role of New Zealand's central bank since the inception of the Reserve Bank Act 1989. In a public lecture, American Dr Ralph Bryant, Professorial Fellow in Monetary Economics at Victoria University of Wellington, presented his case for 'a little more middle-of the road balance' in framing the goals of New Zealand's economic policies.<sup>1</sup> As a citizen I happen to agree with the general thrust of his argument on that point. But as a

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1. Ralph Bryant, 'Central Bank Independence, Fiscal Responsibility, and the Goals of Macroeconomic Policy: An American Perspective on the New Zealand Experience', Victoria University of Wellington Foundation, 13 May 1996, 27 pp.

student of politics I disagree with, or have strong misgivings about, much of what he says, and seems to assume, while arguing his case.

Dr Bryant's well articulated lecture offers a handy target for my critique. But, while focussing on his arguments in particular, I am really directing my observations at a whole raft of New Zealand public commentators -- far too numerous to identify individually -- who over the past few years have enthusiastically proclaimed the virtues of the Reserve Bank Act 1989, often invoking arguments similar to those used by Dr Bryant.

My concerns will be set out under three heads. First, I wish to take issue with Dr Bryant's claim that the Reserve Bank Act 1989 'emphasises democratic accountability' by granting the Bank 'instrument independence' as distinct from 'goal independence'. What I have to say will generally conflict with arguments made by proponents and political supporters of the Act regarding the political independence of the Reserve Bank, but I will confine myself to addressing Dr Bryant's particular points of view. Secondly, I want to argue that the position of Governor of the Reserve Bank is an inherently political position, as much as it is one of economic or technical instrumentality; and that its encumbency involves moral choice. And thirdly, I would like to extend the discussion to what I see as the increasing

technocratisation of central government policymaking during the past 12 years. My general thesis is that the Reserve Bank Act 1989 is a particularly significant example of the sort of technocratic, anti-democratic, sentiments that have become increasingly apparent in New Zealand during this period.

### **Democratic Accountability**

Few would disagree with Dr Bryant's observation that in recent times the New Zealand Cabinet has deemphasised shorter-run macroeconomic stabilization in favour of its primary economic aim of maintaining longer-run price stability to ensure sustainable growth. While I do not personally agree with the Government's policies on these issues, I am old-fashioned enough to believe that the Government of the day has a perfect right to take its own stance, provided that it tries honestly to explain its preferences to the electorate and submits them to the people's judgement at election time.

Further, as a non-economist I do not feel competent to enter into the debate as to whether monetary policy can effectively be used to pursue economic goals apart from that of inflation avoidance. As Dr Bryant points out, the proponents of the Reserve Bank Act 1989 firmly believe that

it cannot; indeed, that the central bank should not even attempt to pursue other goals, or even think of doing so.

However, in my view there remains something of a contradiction between the above ideas, one which Dr Bryant's paper fails to examine adequately. While the Government may well be punished or rewarded by the electorate for its single-minded pursuit of inflation-avoidance, it is not clear that the Reserve Bank Act 1989 -- the means of pursuing this aim -- 'emphasizes democratic accountability' to the extent that Dr Bryant (and others) would have us believe. Or, if it does emphasise it in a legalistic sense, it does not guarantee that it will be achieved in practice. Much depends, of course, on what is meant by 'democratic accountability'. Dr Bryant does not elaborate on his own interpretation, beyond arguing that it rests on what he sees as a valid distinction between 'instrument independence' and 'goal independence'. He points out that the former gives the Reserve Bank the independence to choose the means of keeping inflation down to certain levels; but the power to determine what those levels are -- goal independence -- is specifically not granted to the Reserve Bank, and is retained by the Government of the day. In this way the Government remains accountable to the electorate for the shape of monetary policy.

This argument is certainly plausible, and for many,



no doubt conclusive. The more so when it is acknowledged, rightly, that the Act seems to place a high value on visibility: in particular, inflation targets are set by public agreement between the Government and the Bank, and the Governor is openly accountable for the Bank's performance in trying to maintain them.

I will return to the issue of visibility later. For the present I wish to take issue with Dr Bryant's argument that the distinction between instrument and goal independence 'emphasizes democratic accountability'.<sup>2</sup> I would argue instead that it is necessary to recognise a crucial trade-off at the heart of the Act: between the democratic accountability that can actually be afforded by obliging the central bank to pursue simultaneously price stability and other objectives, and the abnegation of democratic accountability which inevitably flows from an Act which requires the bank to pursue price stability only, albeit with certain residual provisions for exceptional circumstances.<sup>3</sup> To argue my case I would point to three main

2. Dr Bryant, pp.5-7. The Bank's primary function of maintaining price stability is mandated in Section 8 of the Reserve Bank Act 1989. Section 9 of the Act requires a written Policy Target Agreement (PTA) between the Minister of Finance and the Governor (currently the 0-2% inflation range), but this can be overridden under Section 12, which empowers the Minister of Finance to direct the Bank, through Order in Council, to pursue other economic objectives for up to 12 months, renewable.
3. As Dr Bryant explains (pp.23-4), these are the 'caveats' in the Policy Target Agreements for monetary policy, entered into between the Government and the Reserve Bank.

problems with Dr Bryant's position. Each one is based on an interpretation of 'democratic accountability' that emphasises the actual **political** power wielded in particular by the Governor of the Reserve Bank.

*Choice in ends and means*

First, there is the matter of choice. Dr Bryant's argument is based on the assumption that democratic accountability is necessary only for the ends of policy, its purposes, and not for the means by which these ends are pursued. But the means by which policy purposes are implemented or pursued are never value-free and virtually always result from a *choice* among different possible means (and therefore different values). Could any democratic government ever be justified in saying to its executive arms, 'Look, this is what we want you to achieve, and we don't care how you do it as long as you do it'? That the answer to this question is a resounding 'no' is reflected historically in the growth of restraints on executive power in the name of due process, fairness, impartiality, justice, and humaneness. And it is reflected in the philosophical denial of the end justifying the means.

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They refer to 'particular circumstances under which the Reserve Bank would **not** have to adhere singlemindedly to its targeting of the inflation rate.'

It is for these reasons that the Reserve Bank Act 1989 actually impedes full democratic accountability rather than guaranteeing it. I say above 'virtually always' because a rejoinder to this argument may well be that the Reserve Bank has no choice available to it as to **how** it goes about keeping inflation down to the mandated level. Indeed, as Dr Bryant shows, it is considered that 'double insurance', comprising political independence **and** the removal of the bank's discretionary powers, is necessary in order to maintain a 'time consistent' policy of inflation avoidance.<sup>4</sup>

I have to defer to the economists on these points; but as a layperson -- and taxpaying citizen -- I remain troubled, intuitively. For if there is no choice available as to how to act, no discretionary judgement that can be exercised by the Governor of the Reserve Bank and (currently) his advisers, then why have a Governor instead of, say, a computer?

Perhaps it is all done with computers? Surely not, because then there would be no need for a performance agreement between the Governor and the Government, whereby the former can be held to account for the skill that is exercised (or is not exercised) in fulfilling the allotted task. And if there is no skill involved, no 'sound'

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4. Dr Bryant, p.10.

judgement to exercise, then why pay the Governor what one can assume to be a very fulsome salary package?

The answer to this, of course, may be that while the Governor has one main instrument available, he must exercise his judgement in how and when to apply it, discretion that is embodied, for example, in the timing and tone of his public utterances. Choice applies either to the availability of instruments, or if only one, to how that instrument is used. That the Reserve Bank Act seeks to 'insulate' the Governor and his staff from governmental pressures on the exercise of that discretion is, of course, a confirmation of both the pressures and the discretion. In Dr Bryant's words (to which I shall return later), 'The Cabinet and Treasury may not interfere with day-to-day and month-to-month decisions at the Reserve Bank (as they had been interfered with in the Muldoon era).'<sup>5</sup>

These decisions obviously involve choice, otherwise they would not be decisions. Indeed, that the instrument independence enjoyed by the Governor necessarily involves value-laden choice is implicit in Section 8 of the Act, which empowers (literally) the Bank to 'formulate and implement monetary policy.' I can think of no policy

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5. Dr Bryant, p.6.

formulation or implementation which is devoid of political choice as to what to do or how to proceed.

*Having it both ways?*

Secondly, we cannot have it both ways. On the one hand Dr Bryant argues that, 'If a central bank were to have goal independence, it would be free to chart a separate course from the path that the rest of society really wishes to follow.'<sup>6</sup> On the other hand he writes approvingly of the fact that Cabinet may not 'interfere' with day-to-day and month-to-month decisions at the Reserve Bank. But some economists, including Dr Bryant, also tell us that it is precisely because society may want something different -- for example, a higher rate of inflation in the expectation of more jobs -- that the Reserve Bank has to be insulated from any such political pressure. Either we value democratic accountability, in which case the Reserve Bank as a state executive agency should not be insulated from the electorate's preferences in a conscious effort to deny the economic (read political or moral) validity of those preferences, or we can ensure that the organisation is insulated from the popular will because at the end of the day people simply do not know what is good for them.

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6. Dr Bryant, p.6.

The current Governor, Dr Don Brash, would appear to subscribe to the latter view. In a political speech (The Fifth Annual Hayek Memorial Lecture, no less) to the Institute of Economic Affairs in London he attributed 'current public attitudes' to a failure on the part of successive New Zealand governments to explain adequately the benefits of the economic and social reforms.<sup>7</sup> The clear implication is that if only people understood what was good for them they would not be impelled to complain. Dr Brash might agree with the late H.L. Mencken's iconoclastic swipe that, 'Democracy is the form of government which ensures that the people get what they want. And get it good and hard.' In other words, people need protection from themselves, and this can best be provided by experts like

7. Dr Brash's speech, on 4 June 1996, was entitled 'New Zealand's Remarkable Reforms'. (If anyone is reading this paper they are unlikely not to know that the Austrian-born economist Friedrich Hayek, who died in 1992 at the age of 92, was a leading luminary of neo-classical economic theory, a founding father of the libertarian Mont Pelerin Society, and was influential in the establishment of the Institute of Economic Affairs.) Dr Brash's was a wide-ranging address on the market-led social and economic policy changes that have been implemented in New Zealand. In it he spoke of 'a failure to explain' the benefits of several things, including: foreign investment, a less regulated labour market, a flatter income tax scale without tax avoidance opportunities, a more decentralised education system, and the restructured hospital system. He also argued there had been a failure to explain sufficiently convincingly those economic objectives which are beyond the capacity of monetary policy to deliver; and failure to 'debunk the myth' that the reform programme of the past decade had given New Zealand a more unequal income distribution than Australia or Britain. The Governor went on to suggest further avenues of reform, most of which were outside his own area of direct responsibility.

the Governor. Similarly, Dr Bryant alludes to 'thoughtful' New Zealanders being opposed to the Reserve Bank having multiple goals<sup>8</sup>, with the obvious implication that those who have a contrary view are simply not thinking straight. In short, it is a contradiction to argue that the Reserve Bank Act 'emphasizes democratic accountability' while at the same time lauding its capacity to deny it. The irony, if not the catch-22, is that if the insulatory intentions behind the Act were actually desired by most of the population they would not be needed. Instead, it is because the Act's intentions are not shared by many (most?) people that they are deemed to be necessary.<sup>9</sup> (Notwithstanding the fact that the 'will of the people' can be a very uncertain inspiration for governmental action.)

We can have an Act which really does emphasise democratic accountability for the Reserve Bank, or we can have one

8. Dr Bryant, p.9.

9. In his London speech, referred to above, Dr Brash recorded approvingly that the Reserve Bank Act 1989 was passed by Parliament 'without a single vote being registered against it'. But this simply means that both the Labour Government of the day and the main National Party opposition were in favour of the legislation. Paradoxical as it may seem, it is very doubtful that the two Parliamentary parties together reflected any overwhelming consensus in the electorate at large on the issue. Dr Brash also wryly observes in the same speech that he suspects that, if asked, 'a majority of New Zealanders would favour the bank's using monetary policy also to encourage growth, reduce unemployment, and maintain the exchange rate at a level which helps exporters.'

which is set up to ensure inflation-avoidance; but we cannot have both. It is no wonder that in his Hayek memorial lecture, Dr Brash proudly proclaimed, in reference to the Reserve Bank Act that, 'This remarkable piece of legislation has no exact parallels anywhere else in the world.'<sup>10</sup>

*The politics of rational expectations*

The third problem with Dr Bryant's argument relates to even more deep-seated political dimensions of the Reserve Bank Act 1989. As he shows, at least to my satisfaction as a non-economist, it is not just a question of insulating the Reserve Bank from any political 'interference'. To do so the Bank must follow a so-called 'time consistent' policy in order to maintain its credibility and so sustain its effectiveness in keeping the lid on inflation.<sup>11</sup>

However, the 'rational expectations hypothesis' which underpins this injunction is by no means an apolitical theory. Actually, it is all about the use of political power, in this case the power to modify people's expectations and therefore their behaviour. Is political power ever about anything else? Interested parties (the

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10. It is not the purpose of this paper to compare the role and functions of New Zealand's Reserve Bank with those of the central banks in other countries. That could be a topic for some future research and commentary.

11. Dr Bryant, pp.7-13.



fashionable term is now `stakeholders') take cues from the Governor's utterances. His speech is his instrument; his talk is an exercise of political, economic, and social power. His talk, almost literally, is his meal ticket, just as their talk (especially perhaps in election year) is their meal ticket for many other politicians. As news media commentators so often maintain, `the financial markets' hang on virtually every word that Dr Brash utters. If so, then he is indeed an influential political player, for the investment decisions of the rich and powerful have very real consequences for those who are less rich and less powerful.

I should say, perhaps, that they hang on every **public** word that Dr Brash utters, for his private deliberations (and those of his colleagues) on how his discretion will be exercised must be kept just that, private. This clearly has some real implications for the democratic principles that underpin the Official Information Act 1982, at least in so far as they impinge -- or do not impinge -- on the Reserve Bank. This issue has drawn some pertinent comment from the Chief Ombudsman.<sup>12</sup>

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12. *The Dominion*, 14 June 1996, reports that the Ombudsman's office rejected an appeal against Dr Brash's decision not to comply with a request under the Official Information Act for disclosure of the details of deliberations of the Bank's non-executive board late last year. The Chief Ombudsman commented that there was a possibility that other records might be issued if the private statements on monetary policy differed markedly from public statements. `While I am not suggesting the Reserve Bank should not be subject to the Official

Why, therefore, should we be expected to believe that 'instrument independence', that is, the discretionary use of public authority in order to change people's behaviour, 'emphasizes democratic accountability'?

### **The Governor as Moral Agent**

Even if Dr Brash were serious in claiming that his speech to the Institute of Economic Affairs in London (only four months out from a New Zealand general election) was 'non-partisan',<sup>13</sup> being 'non-partisan' does not make the Governor non-political. On the contrary, the Governor is required to be totally committed, politically, and this commitment is essentially a moral one.

The point is well made by Dr Bryant. As he puts it, '...if New Zealand insists on the **maximum possible** commitment to long-run inflation avoidance, Don Brash must be enjoined never even to dream about macroeconomic stabilization, much less contemplate it in actual practice' (emphasis in original).<sup>14</sup> This commitment -- in both

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Information Act, I do have to have regard to the special statutory regime it operates under'.

13. Dr Brash's address, 4 June 1996.

14. Dr Bryant, p.13.

wakefulness and sleep -- is necessary to guarantee that the Reserve Bank would not be 'tempted', in its own interests, to loosen its controls on inflation. Only political saints are required to display such moral rectitude, and by definition political saintliness is a very rare commodity. (Proponents of the Reserve Bank Act would be delighted that Dr Brash is no Oscar Wilde, who confessed that he could resist anything except temptation.)

Setting aside the point that it is by no means clear that 'New Zealand' does insist so strongly on inflation avoidance, this commitment on the Governor's part embodies a choice among differing configurations of values that are contained in a selection of differing public policy options. The Governor commits himself to the instrumental pursuit of inflation avoidance in the long run as against shorter-term concern for other values like more jobs and lower interest rates. Presumably, under the current regime a Governor would be appointed only if he were so committed.

Further, the commitment ultimately rests as much on ideological as on 'scientific' grounds. As a non-economist I am not able to evaluate the relative status of the competing theories and ideas relating to relationships among economic variables. But one does not need to be an economist to know that economists themselves differ in their opinions on these

matters, as Dr Bryant makes clear.<sup>15</sup> Nor, significantly in the context of this discussion, is there conclusive evidence about the relationship between the control of long-run inflation and the management of medium-run cyclical fluctuations.<sup>16</sup> All this is only to be expected; in the social sciences conclusive knowledge of causal relationships is extremely hard to come by.

This is not a criticism of economics or the social sciences generally. It is to say, however, that the application of economic theory (and other theory for that matter) through the exercise of public authority in the attempts to solve, ameliorate, or merely to address policy issues and problems, has to be seen as a form of experimentation, albeit on a grand scale.<sup>17</sup> Policymakers,

15. Dr Bryant points out, inter alia, that 'most economists do accept the hypothesis that monetary policy has little if any effect on output and employment **in the long run**' (his emphasis) (p.8); that the evidence on the relationship between long-run inflation minimization and robust long-run growth is 'less decisive than we economists would wish' (p.9); that time-consistency and credibility arguments 'have some validity' (p.13); that empirical evidence, 'though not definitive, tends to support the majority consensus' that there is little if any long-run trade-off between inflation and unemployment (p.15); and that 'The stabilization aspects of different approaches to the conduct of monetary policy and fiscal policy is a subject still under active study by researchers' (p.19).

16. Dr Bryant, p.12.

17. A similar point seems to be suggested by the title of Jane Kelsey's *The New Zealand Experiment: A World Model for Structural Adjustment?*, Auckland, Auckland

even though they may not acknowledge the process as such, must choose a theory or hypothesis that is authoritative for them -- not necessarily for others -- apply it, and see what happens. This means that at the heart of virtually all public policymaking (I can think off-hand of no exceptions) there lie real moral and ethical questions. These are usually quite well understood in the laboratory setting, have attracted considerable academic and even popular debate in recent years, have given rise to important new constraints on scientific research, and need not be detailed here.

The important point is that these same sorts of concerns are as relevant to public policymaking understood as an 'experimental' process as they are to scientific research per se. Although some may prefer to take unkind liberties with his name as a means of dismissing his argument the more general point has been well made by Nutter that, '...economics can escape moralising but it cannot escape morals.'<sup>18</sup>

In public policymaking these ethical and moral questions are not always, even often, addressed explicitly. While they

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University Press with Bridget Williams Books, 1995. However, I do not claim that she intends the same meaning as myself.

18. G. Warren Nutter, *Political Economy and Freedom*, Indianapolis, Liberty Press, 1983, p.42.

focus on the uses, misuses, and limitations of public authority they are more often than not set aside by those who exercise that authority (some, probably hard-bitten instrumentalists, say necessarily so, lest nothing gets done). But because they are all about choices among conflicting values, principles, and options they are real in both their moral character, human impact, and political consequences.

Encouragingly, there is evidence that the current Governor of the Reserve Bank is aware of the moral dimensions of the political authority that he wields (so, like Dr Bryant, we can sleep more easily). Although Dr Brash is reported to have said that he would not refuse to work under policies he disagreed with, we should not see him as being a time-serving bureaucrat, prepared to do whatever bidding his political superiors command of him. Rather, he would not be prepared to serve policy directions, from any future government, that he did not think would **work**, namely tinkering with inflation to deliver employment goals.<sup>19</sup>

19. Dr Brash is reported to have told a Parliamentary select committee that if a future government suspended the Reserve Bank's inflation target and required it to target higher growth and employment he would feel obliged to resign. 'Dr Brash said he was not refusing to work under policies he personally disagreed with, he just did not believe tinkering with inflation could deliver employment goals' (*The Dominion*, 14 February 1996). More recently, however, he is reported to have indicated that, while he had 'yet to be persuaded' that a wider inflation target would be wiser, he could work with future governments that wanted to widen it (*The*

His monetarist soul would not be sold to any neo-Keynesian devil.

If state servants through the years had refused to implement policies that they did not think would work -- or ought not be made to work -- the state sector would have been much smaller than it was at the time of the reforms of the late 1980s. So Dr Brash may be applauded for offering to take such a noble moral stand to enhance taxpayers' value for money.<sup>20</sup>

### **Technocratisation**

#### *The reified economy*

Central to what I would see as the increasing technocratisation of central government policymaking in New Zealand has been the growing propensity to reify as 'the economy' what might otherwise be seen as a complex web of economic **and** social and political relationships.<sup>21</sup> The Dominion, 14 September 1996).

20. Even though the Governor's remuneration is met from the Bank's gross income, rather than tax revenue as such.

21. The concept of reification is well summarised by R.J. Bernstein, *The Restructuring of Social and Political Theory*, Oxford, Blackwell, 1976, p.106: 'There has been an overwhelming tendency in mainstream social science toward reification, toward mistaking historically

political dimensions of 'the economy' are obscured when this 'thing-in-itself' is presented as if it had a concrete existence in its own right, was neutral in its impact on the exercise of political power, was shaped by general laws which only those trained in economic theory could properly understand, and above all needed to be 'insulated' from irrational, opportunistic, or wrong-headed political 'interference'.

In my view this tendency to reify 'the economy' has become hugely more prevalent in New Zealand during the past 12 years. The most insidious example is probably the powerful euphemism 'financial markets', which in real political terms actually means 'people/organisations with money to invest', or - arguably - 'rich people'. Translating, we would therefore say that rich people get nervous at the prospect of widening price stability targets. (Among the economic policy elites we seldom if ever hear talk of the undesirability of making poor people nervous.)

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conditioned social and political patterns for an unchangeable brute reality which is simply "out there" to be confronted. In the eagerness to build a new natural science of human beings, there has been a tendency to generalise from regularities of a regnant moral paradigm, and to claim that we are discovering universal laws that govern human beings. The most serious defect in this endeavour is not simply unwarranted generalisations, but the hidden ideological bases.'



The tendency to reify, and thereby obfuscate underlying political conflicts, is clearly apparent in the sort of language that Dr Bryant uses in his paper, including the metaphor that he employs to illustrate his arguments. And, of course, it is manifest in the rationale underpinning the Reserve Bank Act 1989.

Once again, my response is directed specifically at Dr Bryant, but in my view his assumptions are typical of those held by a wide range of economic commentators. When Dr Bryant speaks, for example, of the 'serious policy mistakes' made prior to 1984, and of government as the primary source of 'disturbances that **destablize** an economy'<sup>22</sup> (his emphasis), he seems to be suggesting that there were objectively **correct** policy choices that ought to have been made, and that economic **stability** can be defined without any debate on the alternative criteria that may be employed to gauge levels of 'stability'. And above all, he seems to imply that questions of this sort could -- ought to -- be answered without any political disputation. He might have said instead that there was a political consensus among a strongly influential group of economic policymakers and commentators that these governmental decisions were undesirable for certain reasons.

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22. Dr Bryant, p.3.

When Dr Bryant avers that before 1984 the New Zealand government 'badly abused macroeconomic stablization',<sup>23</sup> his judgement is as inherently political as it is economic. When he argues that the decisions of the Reserve Bank had been 'interfered with',<sup>24</sup> in the Muldoon era the language implies an illegitimate use of political power. That is a matter of political opinion. When he speaks of 'a distancing of the central bank from the vagaries of the political process',<sup>25</sup> he seems unaware of the possibility that one person's 'vagaries' may be another's democratic responsiveness.

One does not need to be a student of politics to know that politicians often behave opportunistically; but when Dr Bryant writes of 'preoccupation with the short run, either by opportunistic politicians or by the society at large',<sup>26</sup> it is hard to imagine how such opportunism by society at large can be anything but people exercising their rights as citizens or their sovereignty as consumers. Again, we are left with the implication that people cannot be trusted to act in their own best interests, which is not a generalisable proposition. And when Dr Bryant claims that 'the principal danger associated with macroeconomic

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23. Dr Bryant, p.3.

24. Dr Bryant, p.6.

25. Dr Bryant, p.7.

26. Dr Bryant, p.9.

stabilization efforts is that, if attempted, they...may be hijacked to achieve narrowly conceived electoral objectives'<sup>27</sup>, a politically naive listener (or reader) may be forgiven for thinking that managing a modern political economy is a bit like flying a commercial airliner: a job best left to highly-skilled technicians who need to be protected from political terrorists seeking to fly to destinations undesired by 'ordinary' passengers. And when Dr Bryant warns of 'the risks that short-run political considerations could contaminate [macroeconomic stabilization] decisions'<sup>28</sup>, we are left with the contrasting images of economic purity and political infection. This seems to belie the fact that both economic and political endeavour can be rational, but in different ways.

Fully consistent with the above language is the metaphor that Dr Bryant employs as an illustrative theme throughout his paper. In this the politician is depicted as the 'man with an alcoholic habit...weak-willed...losing sight of his true goal.'<sup>29</sup> In Dr Bryant's imagery the man needs his good wife to provide him with protection against his indulgences; she has the keys to the liquor cabinet and wine cellar. The

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27. Dr Bryant, p.12.

28. Dr Bryant, p.14.

29. Dr Bryant, p.5.

metaphoric allusion is as clear as it is over-stated: politicians become drunk with the irresponsible use of power, and the family (society) must be protected by the selfless guardianship of the Reserve Bank.

As George Orwell showed in *1984*, in politics language is virtually everything.

*Politics and science (rather than political science)*

While I am sure Dr Bryant is not suggesting that the forces of good and evil can be aligned with economics and politics, respectively, his language and metaphors certainly typify technocratic attitudes. These are usually based on the assumption that government would be no bad thing if it did not actually involve politics. What Mosher said of the professional applies equally to the technocrat:

Professionalism rests upon specialized knowledge, science, and rationality. There are **correct** ways of solving problems and doing things. Politics is seen as constituting negotiation, elections, votes, compromises -- all carried on by subject-matter amateurs. Politics is to the professions as ambiguity to truth, expediency to rightness, heresy to true belief.<sup>30</sup>

The inescapable fact is that it is virtually impossible when discussing issues such as the role of the Reserve Bank

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30. F.C. Mosher, *Democracy and the Public Service*, New York, Oxford University Press, 1968, p.109.

to separate the 'purely' political commentary from the 'purely' economic, and Dr Bryant's attempts to do so lead him to draw rather grotesque caricatures, at least of the political dimension.

They are, however, self-caricatures. Dr Bryant's discussion makes it clear that even the debate among economists as to the validity of their respective theoretical positions is itself a form of political discourse. (Are ideological tensions completely absent from most university departments of economics?) He poses questions: 'How far should a nation go in sacrificing short-run policy flexibility to ensure the achievement of long-run credibility? ....Or....how much of a risk with long-run credibility is it sensible for a nation to run so as to leave room for flexible macroeconomic stabilization in the shorter run?' In formulating his own political position on these question Dr Bryant prefers 'the middle of the road to the ditch on either side', and acknowledges that his public lecture was to be understood as an exercise in persuasion.<sup>31</sup> Persuasion, therefore, is as much at the heart of economic conversation as political discourse, a point fully (and persuasively) argued by Donald McCloskey, an economist who

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31. Dr Bryant, p.3: 'I am going to try to persuade you that a little more middle-of-the-road balance may now be helpful in framing the goals of New Zealand's economic policies.'

believes that economics is as much as anything else a form of 'scientific rhetoric'.<sup>32</sup>

A pro-technocratic riposte to this awkward realisation might be that economists at least try to shape and constrain their arguments according to the rules of dispassionate scientific inquiry, whereas in political argument anything goes. Or that (contrary to popular belief about economists never agreeing on anything) they actually agree on a great deal, having subjected their theoretical frameworks to rigorous empirical testing. I tread this ground both warily and wearily: warily, because as a non-economist I do not presume to know who agrees with whom on what; and wearily, because I have long since rejected the tired argument that social science theory (in any form) can realistically be divested of the values, assumptions, expectations, or even prejudices, of its authors.

Further, experience tends to confirm that as in politics, so too in economics: today's conventional wisdom is tomorrow's heresy, or vice-versa. Nowhere has this been clearer, of course, than in New Zealand economic policymaking of the 1950s and 60s compared with the 'rogernomics' revolution. Just how today's (increasingly fragile?) political-economic orthodoxy will be transformed

32. D. N. McCloskey, *The Rhetoric of Economics*, Madison, The University of Wisconsin Press, 1985.

into tomorrow's lunacy remains to be seen. But to say that it will be driven as much if not more by political brokerage as by economic theorising is only to draw a largely artificial distinction between the two.

*Governance without politics?*

Technocrats covet power but dislike politics.<sup>33</sup> Their power flows from their claims to theoretical knowledge. But that power can only be justified if their theoretical knowledge remains open to vigorous scrutiny and debate. Otherwise it can easily become closed knowledge, or theory which in Donald Schon's terms is 'over-learned', and impervious to on-going reflection and revision in the light of practical experience.<sup>34</sup> In other words, theory becomes dogma.

Therefore, in a society that espouses democratic values it is essential that claims to expertise in any area of public policy remain open to challenge. Economics, as they

33. See, for example, J. R. Saul, *Voltaire's Bastards: The Dictatorship of Reason in the West*, New York, The Free Press, 1992. Saul argues that technocrats have 'a great difficulty in coming to terms with the democratic process. The talents of the technocrat do not suit public debate or an open relationship with the people' (p. 106). Further, they are, in a sense, 'slaves of dogma' (p. 107).

34. D. A. Schon, *The Reflective Practitioner: How Professionals Think in Action*, New York, Basic Books, 1983.

say, is too important to be left to economists; and certainly politics is too important to be left to political scientists. The challenge must be mounted both within the domain of expertise -- peer review -- **and** from outside, through the political process, where the voices of lay experience can find expression. (The former avenue of challenge is inherently political, as I have tried to argue above, but the latter is political by definition.)

What we are talking about here is a relationship between scientific inquiry on the one hand and political power on the other (what Wildavsky has called the art and craft of speaking truth to power<sup>35</sup>). The exploration of this relationship is a huge subject in its own right, and cannot be traversed here. But for simplicity's sake it can be said that there is always the potential for each dimension to be corrupted by the other. Thus, science can be corrupted by pressures to shape its findings to suit political purposes; and politics becomes corrupted when debate is closed off by specious appeals to the authority of expert knowledge.

In my view, both these tendencies have marked the increasing technocratisation of public policymaking that has occurred in New Zealand over the past dozen years. The latter one, however, has probably been dominant. The

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35. A. Wildavsky, *Speaking Truth to Power: The Art and Craft of Policy Analysis*, Boston, Little Brown and Co., 1979.



tendency to try to close off politics, in the name of ensuring that a reified 'thing' called 'the economy' works more competitively, efficiently, and productively, is clearly apparent in a whole host of developments. These include a raft of changes made to governmental institutions on the grounds that there is after all some utility to be gained from resurrecting the long-abandoned positivist distinction between 'policy' and 'administration' (the same distinction, of course, that underpins -- and undermines -- Dr Bryant's separation of instrument from goal independence); the attempt to insulate a diverse range of state-owned enterprises from 'unwarranted' political influences that might jeopardise their 'proper' commitment to commercial success; the reforms of the health sector, which saw the end of elected boards; the Fiscal Responsibility Act 1994; and certainly, in my view, the Reserve Bank Act 1989.

All such moves have generally been promoted under the political banner of neo-classical economic theory which extols (rather than demonstrates) the unquestioned virtues of the free market, and whose advocates seek to foreclose political scrutiny on the grounds that there is really one best way to manage a modern market economy and that this process needs to be protected from what a New Zealand

constitutional expert once referred to as 'the marauding activities of politicians'.<sup>36</sup>

Apparently, and not surprisingly, in the history of the Reserve Bank there has often been conflict over what should be considered policy (allegedly the government's preserve) and what constitutes the legitimate mechanisms to implement that policy in week-to-week operations (the Bank's domain). If, as has been claimed elsewhere, the 1989 Act clarifies that issue<sup>37</sup> (and this is what I take Dr Bryant also to be arguing), then this can only be because -- as tends typically to be the case when technocratic norms and values supplant democratic ones -- politics has been redefined, and redefined much more narrowly, so as to restrict the scope of democratic accountability.

This historical conflict existed precisely because the governments of the day were anxious to match responsibility with power in their management of political-economic affairs, and because it was understood that the balancing of multiple objectives by the Reserve Bank demanded a high degree of direct political accountability. Removing some of

36. K. J. Scott, *The New Zealand Constitution*, Oxford, The Clarendon Press, 1962, p.140. Scott, however, disagreed with the anti-political sentiment implied in the phrase.

37. P. Dalziel, 'The Reserve Bank Act: Reflecting Changing Relationships Between State and Economy in the Twentieth Century', in B. Roper and C. Rudd (eds), *State and Economy in New Zealand*, Auckland, Oxford University Press, 1993, p.89.

those objectives from the bank's brief, and requiring it to focus its efforts on only one, because it is believed that that is all it can effectively do, may make sense from a narrow economic interpretation of democratic accountability, but ultimately it cannot hide the fact that the management of monetary policy is a real political act requiring real political accountability. If the logic behind the Reserve Bank Act were to hold, then there would be no reason not to grant similar independence to the Treasury on the grounds that it is required to manage fiscal policy in order to avoid an excessive long-run expansion in government debt. (Unless the technocratic tide turns this may begin to seem like an attractive possibility in the minds of some.)

A major objection to my principal line of argument may be that just as there is a sound case to be made for having the administration of other state executive functions (and, of course, the judiciary) kept at arms length from direct political control -- broadcasting and policing are two examples -- it **is** reasonable to provide the Reserve Bank with a degree of such independence, irrespective of whether it is pursuing single or multiple objectives. But while the anti-democratic dangers of political broadcasting and political policing are virtually self-evident, those inherent in the high degree of autonomy currently enjoyed by the Reserve Bank are arguably much less so. To the extent that it is seen to be preoccupied with matters relating to

`the economy', as if this were somehow a compartmentalised `thing' disconnected from the living web of social relations surrounding it (let alone constituting it), its political and social powers are obscured. The point has been well put by Edelman:

The least seductive concerns for most of the public...are technical economic policies and problems. They are typically hard to understand, and they seem to deal with abstractions, often complicated numbers, rather than helping or hurting specific groups of people. Their direct and potent ties to a whole host of social problems that do get a great deal of public attention (such as poverty, crime, unemployment, inflation, recession, and the distribution of educational resources and prosperity) are therefore easy to miss or ignore, and news reports typically do miss or ignore them. To try to solve or ameliorate any of these prominent concerns without paying close attention to their sources in fiscal and monetary policy is to ensure that remedies will be superficial or entirely beside the point.<sup>38</sup>

Such obfuscation is reinforced by the Reserve Bank's continuing public insistence that monetary policy can be used `only' for inflation avoidance. While this `only' refers to other economic objectives rather than to the degree of importance placed on price stability (in fact, the `only' is used to emphasise not diminish the importance of the single objective), the `opportunity costs' (if I may be so bold) of this apparently narrow intent may register only weakly in the broader public consciousness.

38. M. Edelman, *From Art to Politics: How Artistic Creations Shape Political Conceptions*, Chicago, University of Chicago Press, 1995, pp.120-1.

Another variation of this counterargument would refer to the statutory powers granted to some public service positions (for example, the Commissioner of Inland Revenue, or the Director-General of Social Welfare), and to a state regulatory agency like the Commerce Commission. A major difference between these types of examples and the case of the Reserve Bank is that the former's 'independence' is required to ensure that the application of law and policy to **individual** cases is manifestly free of 'interference' understood as political favouritism, patronage, or sanction in the commonly accepted sense. The position in regard to the Reserve Bank is quite different: it largely administers **generalised** economic policies and is not in the business of dispensing such particular rewards and sanctions.

Further, and notwithstanding the relative sterility of the 'politics/administration' distinction, it remains generally true that in day-by-day governance practical judgements do have to be made about what is political or policy and what is management or administration. Policymaking and bureaucratic wheels could hardly turn were this not the case. Dictates of efficiency and responsibility may clash as politicians try to do too much themselves (a criticism commonly made of Sir Robert Muldoon's operating style), or as they give too much discretion to officials and seek to evade responsibility for the way it is exercised

('look, mum, no hands!'). However, attempts to base the distinction between politics and administration on anything more formal than loose political rules-of-thumb, distinguishing 'high' policy from 'low' policy, remain fraught with uncertainty: what may seem to be a 'mere' matter of management can quickly turn out to be a major issue of politics. Sadly, the name 'Cave Creek' symbolises a case in point.<sup>39</sup> I do not seek to draw too long a bow: there is no parallel between the events of Cave Creek and the independence of the Reserve Bank save the real human consequences that flow from decisions made in the name of seemingly apolitical management.

Returning to Dr Brash, and an important issue alluded to earlier in this discussion, he argued in another London address, to the European Policy Forum, that it is the public visibility afforded by the Reserve Bank Act 1989 that is unique, rather than independence per se. In his view, under the old regime governments could manipulate the Bank's decisions 'under-the-table' to allow 'slippage' from price stability targets. As noted above (see footnote 2), the PTAs provided for in the current legislation ensure that any such 'slippage' must now be directed openly by the government of the day. 'And precisely because I am accountable, my task would be to ensure that the full implications of the trade-

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39. See R.J. Gregory, 'Careful Incompetence' at Cave Creek? Responsibility for a National Tragedy', forthcoming paper, 1996.

off choice being made by the Government were spelled out as accurately and as publicly as possible.<sup>40</sup>

On the face of it this line of argument is also quite seductive; and I am reminded of not dissimilar provisions in former legislation governing public broadcasting in New Zealand regarding ministerial directions on programming matters.<sup>41</sup> However, at least a couple of doubts remain. Setting aside the issue of whether such statutory provisions necessarily obviate 'under-the-table' influence, Dr Brash goes on to argue that the very presence of this public override provision 'means that it will rarely be invoked'.<sup>42</sup> Presumably he means that governments may find it too politically costly to invoke 'trade-off choices'. But if they consider that such trade-offs are politically desirable will they be deterred from directing them because an economic 'expert' believes them to be in some sense irrational and will explain the implications (as he sees them) 'as accurately and as publicly as possible'? If so, visibility will certainly enhance independence, thus reinforcing the view that the current Reserve Bank Act

40. 'Reconciling Central Bank Independence With Political Accountability - The New Zealand Experience', London, 17 June 1993.

41. See R.J. Gregory, *The Politics of Broadcasting: Before and Beyond the NZBC*, Palmerston North, The Dunmore Press, 1985.

42. 'Reconciling Central Bank Independence....' London, 17 June 1993.

is a 'remarkable piece of legislation'. It should be considered remarkable for handing over what are effectively huge powers to an 'appointed politician': one whose actions, unlike those of the cabinet, are not subject to electoral disciplines.

Given that modern democratic systems of government inevitably comprise two types of politicians -- those who are elected and those who are appointed, or those who sit in the legislature and those who legislate in the bureaucracy -- the technocratisation impulse is to enhance the numbers and scope of the latter, often at the expense of the former. (Some of the main architects of the gamut of economic and social reforms in New Zealand were to be found in the latter group, despite the 'rogernomics' appellation.<sup>43</sup>)

*Muldoonism or technocratism?*

There is a rather bitter irony in this overall technocratic trend. So much of it has been paraded as a 'cure' for the perceived economic irrationalities of Muldoonism, for the cynical and opportunistic abuses of power that are commonly associated with his name. It is certainly not fashionable these days to extol the political-economic virtues of the late (Sir) Robert Muldoon, but most

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43. See, for example, B. Easton (ed), *The Making of Rogernomics*, Auckland, Auckland University Press, 1989.



would acknowledge that he was overtly a politician, one who understood power and was prepared to be publicly accountable for its use (or misuse). I was personally no admirer of Muldoon's politics, and will even own up to being a member of the well-intentioned but politically naive 'Citizens for Rowling Campaign' that opposed his election as Prime Minister in 1975. I would, however, much sooner be governed by a politician like Muldoon who spoke a political language that everyone could understand, and who never hid the fact that running an economy was primarily a political (and moral) activity with real political consequences, even though he did things that I did not personally support. Better that than to have politicians whose views are mystified in the scientific language of their technocratic advisers, who seek to sustain the illusion that there is always one correct way to proceed, even when they may do things that I do agree with.

Instead of the New Zealand political stage being dominated by a bullying political in-fighter like Muldoon, these days we are much more likely to find seemingly sophisticated high priests of neo-classical economics parading above the political ruck, and delivering 'non-partisan' endorsements of all the remarkable developments that have been achieved in the name of their economic theology.

Muldoon might have been largely responsible for giving politics a bad name. But today politics needs to be rescued from a technocratic mentality that cherishes its disguised political power, and using 'the financial markets' as a form of political blackmail, threatens a 'political risk premium' that must be paid by society when competing politicians dare to suggest options that do not receive the blessing of those economic high priests who are committed to currently dominant policies.<sup>44</sup>

To conclude, it is worth pointing out that the arguments I have presented above are premised on the assumption that despite technocratisation democratic ideals remain valid and workable, and ought not to be undermined by the apparent necessities of managing a complex socio-economic system. But if the assumption is wrong, and those who adhere to the profoundly anti-democratic TINA (there is no alternative) claim are right in arguing that there is an inexorable logic within the 'globalization' process of modern capitalism that locks in policy options and severely limits the scope of political choice, then Max Weber's infamous 'iron cage'

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44. The term 'political risk premium' was used by the Minister of Finance, Bill Birch, on TVNZ's 'Meet the Press', 26 May 1996, in suggesting that adverse reaction on the part of 'financial markets' to policies proposed by political opponents of the government lead to higher interest rates for consumers. For a discussion by a celebrated political economist of the policy limitations imposed by a preoccupation with 'the market', see C.E. Lindblom, 'The Market as Prison', *Journal of Politics*, 44, 2, 1982, pp.324-336.

imprisons us more than it ever did.<sup>45</sup> If so, then talk of how 'democratic accountability' is safeguarded by existing institutions like the Reserve Bank would have to be seen as simply the ideological rhetoric of the rich and powerful.

However, I prefer to stick to my own, more optimistic, assumption, and to believe that New Zealand should be looking to develop governmental processes that avoid the excesses of both Muldoonism and technocratisation. In the meantime, economic commentators might wish to ponder whether, just as Muldoonism gave politics a bad press, technocracy may do the same to economics, as more people come to realise that the 'impregnable' Reserve Bank is actually a fragile castle built on shifting political sands.

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45. M. Weber, *The Protestant Ethic and the Spirit of Capitalism*, London, George Allen and Unwin, 1976. The 'iron cage' is the 'tremendous cosmos of the modern economic order. This order is now bound to the technical and economic conditions of machine production which today determine the lives of all the individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force' (p.181). 'Reverse adaptation' is a term that has been invoked to conceptualise the politics of technological necessity. It is about the technological tail wagging the political dog. See L. Winner, *Autonomous Technology: Technics-Out-of-Control as a Theme in Political Thought*, Cambridge Mass, MIT Press, 1977.

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