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Articles for the Month:

The Yen and Policy Coordination

Two juxtaposed headlines in the *Nikkei*: 'Fukui Urged To Maintain Credibility of Yen' and 'Japan Rumored to Have Conducted Yen-Selling Intervention.' This is a nice illustration of the BoJ and MoF working somewhat at cross-purposes. But even the extent of intra-bureau coordination is questionable. The MoF has long been engaged in a project to internationalise the yen, principally by making it a reserve currency, but also with view a view to increasing its use in foreign exchange transactions and trade. Yet at the same time, the MoF has argued for inflationary debt monetisation, conducted *ad hoc* exchange rate intervention and other measures designed to weaken the yen, thereby undermining its status as a stable store of value.

posted on 2/28/2003

CEA Chair Glenn Hubbard has resigned

and will be replaced by Greg Mankiw. The *NYT*'s profile of Mankiw notes that he was offered $1.4m by Harcourt Brace as an advance on his textbook, *Principles of Economics*. Apparently, 'some of his academic colleagues complain that he has spent most of his energy in recent years on making money from his textbook rather than in breaking new theoretical ground.' Sounds like a smart economic thinker to me!

posted on 2/27/2003

Liberty & Society Seminars and Ross Parish Essay Prize

The CIS is seeking applications for its Liberty & Society seminars in Sydney and Auckland. This year, to honour the late Professor Ross Parish, CIS is instituting The Ross Parish Essay Prize for the best essays received for the Advanced seminar. First prize will be $700 and second $300.

posted on 2/27/2003

Eisuke Sakakibara (aka 'Mr Yen'),
former Japanese Vice-Minister for International Affairs, has come out against inflation targeting in Japan in this interview with the *Nikkei*: *Talking honestly about the limits of monetary policy is one of Mr. Fukui's roles. Even if the BOJ supplies no matter how much money into the market, funds tend to stay idle at banks because, in part, structural problems hinder the creation of active fund demand from borrowers. Liquidity provisions by the BOJ are effective in stemming concerns in the market, but they do not serve as a quick remedy to eliminate deflation. So, inflation targeting will not work*. He also rejects suggestions of a MoF takeover of the BoJ, arguing that the appointment of Mutoh as Deputy Governor will 'help the BoJ maintain its independence from politics.'

posted on 2/27/2003

John Quiggin presents this bizarre re-interpretation of history:
Anyone who followed the economic policy debate in the late 1980s, will remember the phrase "elaborately transformed manufactures". One of the claims about microeconomic reform was that it would lead to the development of a strong manufacturing export sector to replace the import-competing sector that was contracting rapidly as a result of reductions in tariff protection. Promoting exports of ETMs was in fact almost exclusively the preoccupation of the advocates of strategic industry and trade policy, not those promoting microeconomic reform. Quiggin goes on to suggest that growth in exports of ETMs has been disappointing. As Quiggin notes, ETMs include some sectors that are major beneficiaries of industry assistance. If growth in exports of ETMs has been disappointing, this strikes me as an argument for the failure of these programs. But Australia's overall export performance since the beginning of micro reform efforts in the early 1980s has been impressive. The exports share of GDP has risen from a low point of around 14% of GDP in the early 1980s to a cyclical peak at nearly 23% of GDP in 2001. Similar numbers apply to exports of services, which were more important beneficiaries of the deregulatory agenda than ETMs, where government assistance has continued at high levels.

posted on 2/27/2003

Jane Galt has a problem with her dog:
he's a racist. Sounds like a job for Dr Harry.

posted on 2/27/2003

The fall in the Conference Board's
measure of consumer confidence to its lowest level since October 1993 confirms it status as a fine coincident indicator. The index is telling us that there is a war looming. But do surveys of this type contain any useful leading information? The RBA's Research Discussion Paper series has been addressing this question in relation to surveys of both consumers and business in Australia. The RBA's research suggests that the surveys do serve as useful coincident indicators. They also have some advantages in terms of timeliness compared to real economic data, which take longer to collect. But the overall conclusion is that the surveys do not tell us much we do not already know, or soon will know. So why do these surveys attract so much attention? One reason is that they measure things that people think they can comprehend. This is true of the monthly labour force releases as well. Most people have some grasp of what it means for confidence to rise and fall. Discussion of

genuine leading indicators is necessarily much more complicated. The other reason is that the surveys often serve as marketing tools for the organisations that support them. Indeed, most business organisations in Australia conduct member surveys of this type. Unfortunately, some of these surveys are the subject of self-interested spin. When the surveys indicate tough times, this is used to support pleas for special consideration. When they point to things going well, this also argues for special consideration on the basis of the success and importance of the industries concerned.

posted on 2/26/2003

Toshihiko Fukui has been nominated to replace Masaru Hayami as BoJ Governor,
as widely expected. This is a welcome move, in that it helps ensure that Japan is not distracted from the task of structural reform by a mistaken belief in a monetary quick-fix. The decision is widely viewed as a compromise, but is entirely consistent with Koizumi's view that promoting inflation is not the answer to Japan's problems. Most attention has focused on the choice of the two Deputy Governors, Iwata and Mutoh. These appointments are seen as offering a pro-easing counter-weight to Fukui's monetary conservatism. This is not entirely accurate. Mutoh, for example, has distanced himself somewhat from inflation targeting proposals. Only Iwata could be viewed as an inflation targeter. As usual, the *FT*'s coverage of the issue has been confused and contradictory. The *FT*'s correspondent claims that the MoF is opposed to inflation targeting and quotes an unnamed source saying that 'the Ministry of Finance has reasserted its control over the central bank.' Ask almost any MoF official whether they are opposed to inflation targeting and they will quickly answer to the contrary. Many analysts appear to have confused the intra-bureaucratic tussle over Hayami's replacement as being primarily a struggle over the future shape of monetary policy. In fact, these policy differences are probably secondary to more conventional bureaucratic concerns. **UPDATE:** Robert Feldman debates Motoshige Itoh on the monetary versus the structural view of inflation, while Takehiro Sato argues that the new appointments are less important than the role of the BoJ secretariat, which has already influenced the policy board in the direction of an expansionary policy stance.

posted on 2/25/2003

The front-runner for the job of BoJ Governor, Toshihiko Fukui,
has an op-ed in *The Nikkei Weekly* suggesting that he subscribes to the established BoJ view that deflation is more of a structural than a monetary phenomenon. Fukui notes that 'price movements are generally somewhat neutral to macroeconomic trends' and that 'deflation is not merely a monetary phenomenon.' His op-ed reiterates many of the themes that have featured prominently in the BoJ's published research, especially from the Institute of Monetary and Economic Studies, the BoJ's think-tank. This view is shared by Prime Minister Koizumi, who has never believed that promoting inflation would provide a quick-fix for Japan's problems and so Fukui's views are a neat fit with those of the current administration. Fukui's op-ed is perhaps a deliberate signal of policy continuity ahead of this week's expected announcement of the appointment of a new Governor.

posted on 2/24/2003

The Centre for Economic Policy Research
at ANU is running a one-day symposium on *Debt, Risk and the Role of Government: The Bond Market in a Wider Context*. The symposium will address issues arising from the prospective retrenchment of the Commonwealth government bond market. The program features an impressive array of participants in this debate, although it is interesting that of the many high-powered speakers from the public sector, only one is actually speaking: the RBA's Phil Lowe. The rest seem to have volunteered as session chairs only. This may reflect the political sensitivities involved. The RBA is quite relaxed about these issues, having previously indicated that it can conduct monetary policy with or without a bond market. The abolition of the Commonwealth government bond market is only a viable proposition in the presence of large, structural budget surpluses. With the Federal government deliberately running the budget close to balance in order to constrain the tax and spending proposals of the Opposition, it is difficult to see how the Commonwealth could avoid having to make a renewed call on capital markets in the context of even a modest cyclical downturn. Either the Commonwealth has to build recession-proof surpluses, or it is making the claim that there will never again be another recession. Ross Gittins summarised some of the politics of this issue in a speech he gave to ABE late last year: *Peter Costello's ambitions are purely political: he wants to be able to boast that he's paid off 'every last cent' of 'Labor's debt'...The more spotty his record becomes on the maintenance of budget surpluses, the more he emphasises debt reduction. It's become clear, however, that the goal...is unattainable. Telstra isn't worth that much and the foreseeable underlying cash surpluses won't be big enough. With the indefinite deferral of the government's plans to sell the rest of Telstra, the threat of the bond market being wiped out has passed, but a subtler threat remains: that further small scale debt redemptions will fatally wound the bond market (in terms of critical mass) without actually killing if off...To me, the strongest argument in favour of preserving an active market is that, sooner or late, the budget will return to deficit and the government will need to issue bonds to cover it.*

posted on 2/24/2003

The next RBA Governor
Alan Kohler speculates on the identity of the next RBA Governor: *the two prime candidates apart Ian Macfarlane himself would have to be the managing director of Westpac, David Morgan, and Warwick McKibbin, former RBA economist, professor of economics at ANU and current RBA board member. All else being equal in that contest, you would think Morgan would win because he combines a solid Treasury economics background with strong management experience at Westpac and intimate knowledge of the banking system. But all else may not be equal. Morgan's friends are on the wrong side of politics, and Peter Costello would probably choke on the idea. So Warwick McKibbin must be looking good. David Murray, meanwhile, is the former teller who ended up running the bank, but in the past few years he has displayed a pretty sound passion for macro-economics and frequently interjects in the national economic debate. After having his contract at CBA extended and then finding that this wasn't greeted with universal acclaim inside the bank, Murray might have been thinking that the governorship of the Reserve Bank would provide a more than respectable exit from the CBA and a fitting end to his career.* The appointment of a new Governor would provide a useful opportunity to enhance

the governance of monetary policy, but this is an opportunity that will probably not be taken. Instead, we will most likely see another exchange of letters containing a poorly defined inflation target and leaving the Bank's accountability regime deficient relative to the likes of the BoE and RBNZ.

posted on 2/22/2003

Treasurer Costello

raised the prospect of a common Australian and NZ currency in a speech yesterday: *Given the fact that 12 countries of Europe with different languages and culture, comprising in total around 300 million people now have a single currency is it so hard to imagine a single currency across the Tasman? The answer is no. But I hasten to add that neither of our governments is working on it. What is working on it is the fact that our countries are becoming more engaged in trade with each other, our business cycles are closer, our monetary policy is directed at similar targets and official interest rates are therefore moving in the same broad manner.* This issue last got a substantial airing during 2001, when both currencies were seriously weak. The implication at the time was that there was some sort of safety in numbers to be had from a common currency. NZ officials seemed to be particularly keen on the idea back then. Costello has previously suggested that it would be incumbent upon NZ to peg to the Australian dollar. This would not be a genuine monetary union. Rather, it would amount to NZ importing Australian monetary policy. The NZD is now approaching parity with AUD, which might be viewed as smoothing the transition to such an arrangement. The key trade-off here is between the lower transactions costs associated with a common currency and the loss of macroeconomic policy flexibility associated with a common monetary policy. Australia and NZ now have similar inflation targets, but the NZ economy is more cyclical and more inflation-prone. The RBNZ also has a much stronger transparency and accountability regime. The danger in any monetary union is that the RBA would necessarily be the dominant partner. This could see the RBA’s less transparent and less innovative culture dominate any common currency arrangement. It would be a shame if one of the world’s most innovative central bank and monetary policy regimes were to be completely subsumed by the RBA. Instead, any common currency arrangement should be viewed as an opportunity to reform the RBA through the creation of a genuine trans-Tasman monetary authority.

posted on 2/21/2003

Ken Pollack's

NYT op-ed on containing Iraq is a must read.

posted on 2/21/2003

Susie Maroney

the only person to swim *to* rather than *from* Cuba, has some useful conversational tips for when meeting Fidel Castro: *I wouldn't argue. I agreed with everything.* Sound advice indeed.

posted on 2/21/2003

What do you do when Peter Singer wants you dead?

The Not Yet Dead are fighting back! (via A&LD)

posted on 2/19/2003

The political risks to John Howard

from his support for the US on Iraq are not nearly as great as the punditocracy would have us believe. Not least because it keeps the political agenda firmly on the ground that suits Howard best at the present time – defence and foreign affairs. It is hard for an incumbent government to lose support on these issues and almost impossible for an opposition to gain traction. There is an obvious irony in the fact that Howard should find these issues such an important foundation for his recent political success. For most of his career, he has shown only a minimal interest in external affairs. But there is no reason to expect these issues to suddenly start working against him. This is readily apparent in today's Newspoll. The fact that a majority of Australians are supportive of UN-mandated military action shows a massive disconnect with the 'no war under any circumstances' crowd that dominated the weekend anti-war demonstrations. Simon Crean discovered this too in his Nicolae Ceausescu-moment before an anti-war crowd in Brisbane. If a UN-mandate is obtained, the anti-war crowd will find themselves even more explicitly at odds with majority opinion. I have to disagree with Jason Soon in his suggestion that recent developments demonstrate that Howard is a conviction politician. There is still a lot of political calculation in his stance and Howard understands public opinion better than most.

posted on 2/18/2003

Classical Liberal Scholars Packing Heat

The Washington Times gives a few reasons why you shouldn't mess with Tom Palmer: *Mr. Palmer, 46, a political-science researcher, said that several years ago he and a friend were chased by a group of some 20 young men at night. The men threatened to kill Mr. Palmer and his friend, telling them that their bodies would not be found. Mr. Palmer said he stymied his assailants by pulling out a 9 mm handgun.* Tom is now a plaintiff in a Second Amendment case in DC.

posted on 2/17/2003

In a note to clients, John Edwards, chief economist for Australia and NZ with HSBC,

observes that 'with growth of around 4% the New Zealand economy is one of the world's best performers.' On the numbers, this is undeniably true. But it was never something that Edwards was overly keen to acknowledge while Don Brash was RBNZ Governor. A widely perpetuated myth has been that the former Governor held back the NZ economy, keeping growth sub-par in support of an overly dogmatic interpretation of the RBNZ's then inflation target. In fact, Australia and NZ's growth rates have been almost identical on average in recent years, although as a smaller and more open economy, NZ's growth rate is more cyclical than Australia's. On the OECD's estimates of the output gap, the NZ economy has been operating at or above potential since its 1998 recession. As we noted last week, the December quarter unemployment rate for NZ fell below 5% to 4.9%, marking a new cycle low. NZ now has the ninth lowest unemployment rate among the 27 OECD countries for which a standardised rate is calculated. Australia ranks sixteenth. As Edwards notes, one reason for the difference is that 'New Zealand abolished the structure of legal minimum wages for each occupation, whereas Australia kept it.' John Edwards acknowledges what John Quiggin won't (see below for an exchange with Quiggin on this subject). This difference in labour market institutions has encouraged more capital-intensive growth in Australia, so that productivity growth has been higher, but economic growth has been less job-rich. However, the view that there is a sharp difference between Australian and NZ productivity has also been challenged. Edwards suggests that if the NZ labour market continues to tighten, this will 'sooner or later provoke RBNZ Governor Alan Bollard to slow the economy down.' This is an interesting acknowledgment from Edwards, because it illustrates that that the adoption of a more flexible inflation-targeting framework has not alleviated the supply-side constraints that necessitate a generally tighter monetary policy stance in NZ. Edwards has previously claimed that there is no reason why Australia and NZ should have such markedly different official interest rates, but now seems to be acknowledging this is not the case. As I suggested at the time, one of the main benefits of the shift to a new inflation targeting regime has been to finally silence those critics who sought to blame all of the NZ's economic problems on Don Brash and the former inflation target. Now that the critics have largely got what they wanted in the new inflation target, they are having to face up to some of the real-side issues confronting the NZ economy, rather than looking for illusory solutions on the price-side.

posted on 2/17/2003

Alex Kinmont

is cited in this article in the *FT* as follows: *For those of us who began our investing careers in the early and mid-1980s, the realisation that Japan is increasingly irrelevant is unwelcome. After all, we grew up in a period during which the Japan weighting was the critical factor in the performance of global portfolios, and when, in addition, not having an informed view on Japan meant having no worldwide opinion on the overall outlook for G7 economies. Whereas 10 years ago a perspective on Japan was an integral part of a properly developed world view, we argue that today Japan is of no general importance except as a laboratory experiment in deflation.* I think this is a little exaggerated. Afterall, the Japanese economy is perhaps the most cyclical economy in the G7. The last decade of low growth has been punctuated by some impressive cyclical upswings, which on balance have offset the subsequent downturns to yield a modestly positive average growth rate. Investment professionals are meant to profit from such cycles. The fact that Kinmont is an equity strategist probably accounts for his excessive pessimism. Japan's economic weakness means that Japanese government bonds have seen a growing weight in global bond portfolios. Richard Jerram is perhaps closer to the mark when he says, in the same article: *Japan does not have an economic problem so much as a political problem. The situation is unsustainable, as the progressive destruction of public finances or the tolerance of a passive electorate will reach a breaking point in the end, and there will have to be a response.*

posted on 2/14/2003

RBA Deputy Governor Glenn Stevens'
speech to CEDA yesterday contained the following observation: *No doubt we will hear much about the wider current account deficit in the year ahead. In thinking about this, it is worth remembering that the alternative to a temporary widening of the current account under the circumstances we faced would have been to slow down the Australian economy and our absorption of resources, in line with our lower income. After all, we cannot make the world's growth go faster, so if the current account were seen as a binding constraint, we would have had to slow down our own demand. That would have affected domestic production as well. No one is seriously proposing that, and no other country would willingly do it (though some are on occasion forced to).* In fact, Australia did willingly do it in the late 1980s-early 1990s, with disastrous consequences, which explains why the RBA has long since been converted, along with Treasury, to the 'consenting adults' view of current account deficits. Australia's experience strikes me as being instructive for the US at the moment. There has been much angst about the record US current account deficit and its implications for the USD. What for the US amounts to a record deficit as a share of GDP counts as only a routine cyclical deterioration by Australian standards. For many years, Australia's current account deficit was seen as a worrying sign of external imbalance. When the Australian dollar fell to correct this imbalance, simultaneously taking the current account deficit to 21 year lows in 2001, the focus of concern switched to the exchange rate. Both concerns were exaggerated. Australia provides a very good example of the benefits of a flexible exchange rate regime that carries the burden of adjustment to external shocks, which partly explains the outperformance of the Australian economy in recent years. By contrast, the Eurozone's fixed exchange rate regime has forced much of Europe into a policy straight-jacket that is weighing heavily on growth outcomes.

posted on 2/14/2003

Karl Popper Fans
turn up in the strangest places (**WARNING**: do not follow the link if you are subject to strict internet use policies; you may have to answer some difficult questions later!) (via Glenn Reynolds)

posted on 2/13/2003

John Galt's Engine?
The guys at the libertarian financial markets consultancy Trendmacro have sent this to their clients with the claim that it is a patent for John Galt's engine from Ayn Rand's *Atlas Shrugged*. Leonard Peikoff, call your office!

posted on 2/12/2003

Ross Gittins' PC Inversion
According to Ross: *It seems to me that, in these days of unending chatter about current affairs, there's a growing list of things you're not allowed to say. For instance, you're not allowed to say that, for the leader of the free world, George Bush doesn't seem very bright. You're not allowed to say that John Howard won the last election by playing on the public's fear of foreigners.* Apparently, Ross doesn't read his own paper. The rest of the article is nonetheless a quite reasonable discussion of the issue of high marginal tax rates in Australia.

posted on 2/12/2003

Contrarian Indicator of the Week

The opposition of 10 Nobel laureates strikes me as being a nice contrary indicator that the latest Bush fiscal package might not be all bad. It is very reminiscent of the 364 economists that put their names to an open letter in *The Times* attacking Thatcher's 1981 Budget. When people rely on weight of numbers as one of their main arguments, you know there's a problem with it.

posted on 2/12/2003

Vernon Smith in Sydney

The 2002 Nobel laureate in economic science will be in Sydney in early March as a guest of our Faculty. Cowboy boots, pony tail and all!

posted on 2/12/2003

Those who think bin Laden is dead

can put their money where their mouth is at Tradesports.com, which offers bin Laden capture futures. The December contract implies an 18% chance of his capture before year end.

posted on 2/11/2003

Note to John Quiggin

The unemployment rate in New Zealand just fell below 5% for the December quarter to 4.9%. NZ now has the ninth lowest unemployment rate among the 27 OECD countries for which a standardised unemployment rate is calculated. Anyone want to take a bet on the January unemployment rate for Australia falling below 6%? (see below for my exchange with Quiggin on this topic).
UPDATE: Andrew Norton responds to Quiggin's recent posts on higher ed.

posted on 2/11/2003

John Gray

Previously, we noted Ian Hargreaves description of Gray's *Straw Dogs* as being somewhere between the writings of Nostradamus and the Unabomber. Now Noah Richler calls Gray a 'garbage-bin grouch.' And these are the sympathetic reviews.

posted on 2/10/2003

Takatoshi Ito

rehearses some familiar arguments for adopting inflation targeting in Japan. Ito says that 'deflation can be cured only by monetary expansion.' Yet the ratio of Japanese base money to nominal GDP has already reached record levels, with little impact on the inflation rate. Ito calls for an inflation target of 1-3% to be reached within two years. But with existing efforts at monetary expansion having failed to promote inflation, such a target will lack credibility in the absence of an explanation of how further monetary expansion will translate into a positive inflation rate. Ito also suggests that opponents of inflation targeting have 'mistaken relative for absolute prices.' In fact, the absolute decline in Japanese prices probably reflects a global relative price shift, partly as a result of a comparative advantage shock from East Asia. The adoption of inflation targeting would in that case only serve to confuse an important relative price signal for the Japanese economy.

posted on 2/10/2003

Economists Who Knit

Lynne Kiesling says 'knitting is also the perfect hobby for an economist.' *Knitting involves not only the sybaritic pleasures of the yarn against your skin and the feeling of accomplishment from having a practical hobby, but also the intellectual stimulation and challenge of learning new techniques, and lots of algebra and geometry.* I thought Adam Smith's division of labour was meant to save us from such horrors. Kiesling also claims that knitting has become trendy. Pray it isn't so!

posted on 2/10/2003

Peter Ruehl's

insights into Federal politics are far more penetrating than anything you will get from the Gallery. On Carmen Lawrence: *Having achieved her true career potential as a no-hope babbling backbencher, she is free to issue her opinions on how the world ought to operate to anyone who'll listen. Carmen, as the old song goes, If the phone don't ring, it's me.* and on Mark Latham: *Mark Latham is starting to sound like he's auditioning for The Sopranos. People keep saying Latham is actually a smart guy. He's not leaving a lot of clues. The other day he was snorking on about the "new nationalism" in Australia. No, Mark, that's old Europe. Old, old Europe. The last place we need to go.*

posted on 2/8/2003

The High Court

has overturned a Federal Court decision, finding against the ACCC in its long-running action with Boral, which stood accused of the heinous crime of lowering prices. As John Durie notes in his analysis of the decision: *Unfortunately for the ACCC chief, Allan Fels...the facts of the case went somewhat against him. Included among these was the alleged victim. C&M Bricks has increased revenues five-fold to $60million a year since 1994. There were demonstrably no barriers to entry by the fact C&M was a new player that entered the market amid a severe recession in the mid-1990s. And Boral, the alleged abuser, had zero ability to recoup costs incurred by selling its products below cost.* I once challenged an ACCC official at an ESA conference to name one company in Australia that enjoyed market power. After much hesitation, he cited Telstra. When I argued that this was a case of government rather than market failure, he implied that this should not matter for the purposes of competition policy. This use of competition policy to patch over structural policy failures created by other arms of government is one of the reasons why competition policy has become so ad hoc in nature.

posted on 2/8/2003

'The Cheshire Cat of revolutionary socialism'

is how Martin Wolf describes Naomi Klein's movement: 'it is what is left when moralism and passion remain, but intellect and organisation have gone.' Wolf also observes that the empty phrase 'neo-liberalism' is nothing but a 'neo-Marxist phantom.'

posted on 2/7/2003

Former DFAT head and opposition adviser Michael Costello
highlights the political risks associated with the Federal Opposition's stance on Iraq: *Crean will simply be hoping that lag effects in the polls from his work over the past month will see a surge in coming weeks – and there may well be in the short term. He has the good fortune to be on the side of public sentiment, but this could change in coming months. After all, support for UN-supported military action to disarm Iraq is stronger than anywhere else in the world, including the US, according to a 39-country Gallup International poll this week. The Security Council may vote to attack Iraq. This could lead to a quick war with few casualties, the overthrow of Hussein and the disclosure and destruction of his weapons of mass destruction. In those circumstances voters may well see Howard as vindicated.* If anything, Costello understates the risks associated with Crean's position, which will disintegrate if, as would seem likely, the UN ends up effectively endorsing military action. The Gallery is slowly waking up to this. Laura Tingle observes 'But Labor is ultimately signed up, just as much as the government, to military action, provided the UN gives it the expected tick' and yet she thinks Howard is the cynical one. Peter Hartcher is prepared to concede the US 'is winning the political argument.' Even Marian Wilkinson concedes that 'Powell made a compelling case for what is already known by every member of the Security Council' and that 'the US will have its trigger on Valentine's Day.' One can't help but feel that Labor would have been better served taking a bipartisan stance on the issue, rather than splitting hairs about UN endorsement. This was an opportunity to appear statesmanlike in the manner of Tony Blair that the Labor leader missed because of his narrow partisan mindset.

posted on 2/7/2003

China's Growth Accounting
when the sum of the parts is greater than the whole.

posted on 2/6/2003

'The Anti-War Left Are Wankers!'
No, really! I accept this could well be parody. That's the problem with the left these days, you just can't tell.

posted on 2/6/2003

The Fiscal Conservative In Us All
There is nothing like having the government spending money on stuff you don't like to bring out the fiscal conservative in us all. The left are re-discovering fiscal rectitude with a vengeance in commenting on fiscal policy in the US. This is not to say that there is not considerable scope for additional restraint in non-defence discretionary outlays, as this Cato analysis suggests. But of all the reasons to be running a deficit, a recession and a war are pretty much text-book examples. So what's Australia's excuse? Meanwhile, Jane Galt has prepared a handy reply to unwanted begging letters that has some wider applicability.

posted on 2/5/2003

Davos Man Meets Porto Alegre

Christopher Caldwell's observations on this year's Davos meet: *How did the 100,000 malcontents of Porto Alegre change from the New World Order's gadflies into its power brokers? By replacing the old-guard, guitar-strumming, unshaved-armpits radicalism of its early days with a reformism that is more innovative and more ambitious. (And, depending on how you view it, more dangerous.) The "anti-globalisation" movement is no longer opposed to globalisation. (That is why the term antimondialiste has been replaced by altermondialiste among certain French activists, and "no-global" by "new-global" among Italian ones.) Instead, the movement now wishes to seize globalisation's institutions and transform them - or, better, to found new ones....It is tough to think in this direction without getting very queasy.*

posted on 2/5/2003

Not to be missed

Thomas Friedman on his trip to Davos and Julie Burchill on the anti-war left. Both priceless.

posted on 2/4/2003

Arnold Kling

has a new blog over at Econlib called EconLog.

posted on 2/4/2003

The Rent-Seeking Society

the AEC's annual returns for political donations have been released and the *AFR* gives us some edited highlights: *Media companies, which more than tripled their donations, succeeded in getting ownership laws back on the agenda. Car manufacturers and their representatives more than doubled their donations and ended up with a $4.5 billion increase to the automotive industry subsidy package...* And in the 'keeping the bastards honest' category: *The big winners from the corporations' spending program, at least in percentage terms, were the holders of the political balance of power: the Democrats. At a time when the future of the Australian media appeared to rest on a Senate vote, the Democrats managed to pick up more than $54,000 from Kerry Packer's Publishing and Broadcasting, up from a mere $3900 the year before. And from John Fairfax Holdings they got $4,700, after receiving nothing the year before....the Democrats raked in four times as much money as the previous year. Its donations ballooned from $1.2 million to $5.3 million. Their main contender as the third force in Australian politics, the Greens, almost tripled their money from $1.4 million to $3.4 million.*

posted on 2/4/2003

Former TPC head Bob Baxt
makes some predictions about the contents of the forthcoming Dawson Review. As Baxt notes, the outcome of the review has almost been lost amid the discussion about a replacement for outgoing ACCC Chairman Allan Fels. This emphasis on the role of the Chairman at the expense of what the law actually says is perhaps indicative of the extent to which bureaucratic discretion has overthrown the rule of law in competition policy. The fact that Fels made the *AFR Magazine's* list of the ten most powerful people in the country not so long ago makes this point very effectively. Baxt also highlights why the M&A clearance rates frequently cited by the ACCC in defence of its record are not very meaningful: 'many large mergers are not even discussed with the ACCC because it is conceived as being unsympathetic to global markets and allowing Australian conglomerates to compete internationally.'

posted on 2/3/2003

The Federal Budget
may fall into persistent deficit on the back of slower growth, according to Ross Gittins. In fact, on the fiscal balance measure, the Budget is already in deficit for 2002-03. The prospect of a return to deficit financing is a useful reminder of why it is unlikely the Federal government will be successful in retiring the Commonwealth government bond market. This could have been done in the presence of large, structural surpluses, such that a cyclical deterioration in the budget balance would not require a call on capital markets. But with the budget balance having been deliberately run close to zero to politically constrain the tax and spending proposals of the Federal opposition, even a modest downturn would see a return to deficit spending and a renewed call on capital markets. To retire the market for Commonwealth government securities in this context is equivalent to saying that there will never be another recession. Meanwhile, Brian Toohey continues to highlight Australia's punishing rates of personal income tax and the Federal government's failure to meet its promise to limit the total tax burden to 1996-97 shares of GDP (actually reducing the overall tax burden was somehow overlooked in the tax reform process). Some might find it ironic that Toohey should take up the issue of lower tax, but it is entirely consistent with his equity concerns and his opposition to the middle-class welfare that demands such a high tax take. Toohey is clearly passionate about this issue, which surely points to the possibility of a broad-based constituency for change. Yet apart from a recent IMF staff report, Toohey is almost a lone voice in trying to get this on to the public policy agenda. More power to him. **UPDATE:** David Stevens of the Tax Strategy & Policy Group at KPMG has produced a valuable report on *Australian Taxation in an International Context*.

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