

Innovation + Independence: The Reserve Bank of New Zealand, 1973–2002. By John Singleton with Arthur Grimes, Gary Hawke, and Frank Holmes. Auckland: University of Auckland Press, 2006. xii + 340 pp. Appendices, notes, bibliography, index, plates. Cloth, \$33.95. ISBN: 1-869-40364-9.

Reviewed by Gordon Boyce

This handsome volume extends Gary Hawke's 1973 history of the Reserve Bank of New Zealand. The current project, tracing subsequent developments up to 2002, was initiated by a former deputy governor of the Bank and carried out by a team of Wellington-based scholars led by John Singleton.

New Zealand's central bank was a pioneer in four different spheres. First, it established and maintained an independent, contractually determined relationship with the government. Second, the Bank was the first in the world to target inflation as part of its strategy for guiding monetary policy. Third, the Bank adopted an unusual approach to overseeing the country's financial institutions, relying on market discipline rather than on direct supervision. Finally, it developed new structures and incentives to improve its own internal efficiency. Singleton and his colleagues examine the origins of these innovations against the backdrop of developments within the New Zealand economy in the latter part of the twentieth century.

The book begins with a clear exposition of central bank functions as they have evolved since the nineteenth century and provides some background history of New Zealand's Reserve Bank, which was founded in 1934. The aim is to show how the institution operated within one of the most tightly controlled economies in the world, which had to institute reforms after the first oil shock hit in 1973. Under the eccentric regime of Robert Muldoon (prime minister and also minister of finance from 1973 to 1984), interest rates were allowed to fluctuate, open-market operations were initiated, and the reserve–assets ratio was implemented. However, when the country lurched into crisis as oil prices fanned inflation, the balance-of-payment deficit soared, and government debt spiraled upward to dangerous levels, Muldoon clamped down, creating a “siege economy.” In his capacity as minister of finance, he intruded directly into Bank policy,

intimidating its governors and preventing them from carrying out the alternative plans they proposed for steering the country out of its difficulties. The defeat of Muldoon's National government at the polls by the Labour Party in 1984 opened the way for a program of comprehensive—some would say radical—reform. Indeed, the policy shift that followed—a direct reaction to Muldoon's legacy—was most uncharacteristic of a Labour-led government.

Inspired by the ideas of Roger Douglas, the new minister of finance, the Bank refloated interest rates, freed the New Zealand dollar, and supported a policy of debt management. Further reforms followed under Labour's management. Market mechanisms were allowed to work more freely, tariffs were reduced, new workplace practices were initiated, and some of the burden was removed from monetary policy so that it was no longer the chief inflation-fighting instrument.

In 1989, new legislation established the independence of the Reserve Bank. In contrast to the manifold aims previously imposed upon it, the Bank now pursued a single goal: that of ensuring price stability. From this new focus other desirable outcomes would flow. The governor became contractually bound to achieve specified inflation targets (initially 0–2 percent, but rising later to 1–3 percent—a far cry from the peak of over 18 percent recorded in 1980) that were set through negotiations with the minister of finance. Though independent from political interference, the governor was now directly accountable for the Bank's monetary performance. While the economy was recuperating from the Muldoon era and the recession of the early 1990s, the Bank brought inflation under control, and New Zealand entered an era of sustained growth. The departure of Douglas during the second Labour government could have created an opportunity for backtracking, but the new minister of finance, David Caygill, subscribed to the same basic principles and ensured that Douglas's policy remained on course. Apart from a temporary setback caused by the Asian financial crisis (in fact, a serious drought that occurred simultaneously was responsible for the downturn in 1997) and minor, temporary incidents of inflation exceeding the target range, the economy performed strongly. New Zealand came to be seen as a policy laboratory that produced an enduring anti-inflation culture.

Separate chapters are devoted to the intellectual currents that shaped monetary policy and regulatory approaches to New Zealand's financial institutions. The authors stress the Bank's willingness to adopt eclectic strategies, to be open to new ideas, and to aggressively pursue connections with overseas central bankers and academics. The internal history of the Bank's organization, culture, and workforce is also considered, including the cross currents that enabled it to preserve its unique position as neither a state-owned enterprise nor a government department.

While readers of the *Review* may not be initially attracted to a book about central banking in New Zealand, they might find a closer look rewarding. This study reveals an innovative organization at work in difficult times, and it shows the evolution of learning within a unique institution and demonstrates how abstract ideas can shape policy. *Innovation and Independence* will be of interest to scholars interested in government-business relations, regulation, and the financial sector. Anyone who has heard about the bold experiments that were conducted in New Zealand and wants to find out what actually happened should pick up this volume. The authors have provided a useful glossary of terms to help readers decipher the technical language of some of the sections. Their writing is clear, and the text is leavened with numerous photographs and humorous political cartoons.

Singleton and his colleagues take an even-handed approach to issues that were controversial and divisive in their time. Moreover, they accurately record the range of opinions that were expressed and describe the context in which the restructuring of the Bank occurred. When assessing the performance of the Bank and its capable governors, they draw comparisons throughout with developments overseas. Although this is a commissioned history, its sponsors should be congratulated for hiring outside academics and for ensuring that the authors were as contractually free from interference as the Bank is from political influence.

Gordon Boyce is professor of international business at the University of Newcastle, Australia. He has written the seventy-five year history of the PSIS, New Zealand's largest financial cooperative, Over Half a Million Careful Owners (2005); a study of interfirm collaboration, Co-operative Structures in Global Business (2001); and, with Simon Ville,

an international business history textbook, The Development of Modern Business (2002). Boyce, Ville, and Stuart MacIntyre have just published How Organizations Connect, a collection of edited papers (Melbourne, 2006).