Following on campaign promises , the coalition government in New Zealand is moving quickly to mandate the Reserve Bank of New Zealand focus on “maximising employment”.

But as we’ve seen in Australia and elsewhere, changing a central bank’s mandate to include employment is unlikely to change policies in the face of economic booms and busts.

The bank’s current mandate is to maintain “price stability”. In practice, this means it adjusts its benchmark interest rate up or down with the goal of keeping inflation between 1% and 3%.

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An explicit numerical target range (1-3%) for inflation is the key element of the Reserve Bank of New Zealand’s current mandate. New Zealand was the first country in the world to adopt such an approach to monetary policy back in 1989 .

Dozens of other countries have followed suit. Australia and Canada were early adopters of inflation targeting, and the United States and Japan adopted it more recently.

A surprising resilience, but now what?

The most striking feature of inflation targeting is that no country that adopted it has subsequently abandoned it, although some countries, like Japan , have struggled to hit their target.

This resilience stands in contrast to the apparent fragility of all other rule-based approaches to monetary policy, the most prominent being a gold standard or fixed foreign exchange rates.

John Maynard Keynes famously called the gold standard a " barbarous relic " because it led central banks to slavishly target the price of gold at the cost of high unemployment. Likewise, following the global financial crisis, some economists have criticised inflation targeting and suggested central banks should focus more on financial stability .

The New Zealand government's push for a greater focus on maximising employment seems to echo these critiques.

So is the imminent reform of the Reserve Bank Act in New Zealand a watershed moment for inflation targeting? Will New Zealand, the first country to adopt inflation targeting, also become the first domino to fall as inflation targeting eventually joins the gold standard in the dustbin of history?

The short answer is no.

Keep moving, nothing to see here…

Inflation targeting is likely to persist and the practice of monetary policy in New Zealand is unlikely to change much at all following the reform of the Reserve Bank Act .

Crucially, the New Zealand government is seeking a dual mandate for monetary policy - it will include both a numerical target for inflation as well as maximising employment.

This would put the New Zealand central bank in the same club as the Reserve Bank of Australia and the United States Federal Reserve. These banks already have dual mandates, and, essentially, they behave pretty much the same as the Reserve Bank of New Zealand behaves now.

Read more: *Central banks can deliver on a ‘divine coincidence’ – but Glenn Stevens is not a miracle worke*

The reason inflation targeting central banks behave similarly regardless of their mandates is the so-called " divine coincidence " of monetary policy.

Because inflation is typically high when unemployment is low and vice versa (a phenomenon known as the Phillips Curve - another Kiwi contribution to macroeconomics), a central bank will usually want to move interest rates in the same direction in response to changes in inflation and the unemployment rate.

Specifically, higher unemployment and lower inflation means interest rates are cut, while lower unemployment and higher inflation means interest rates are raised.

Consistent with this divine coincidence, current acting Governor of the Reserve Bank of New Zealand Grant Spencer has said that the central bank already considers employment when setting monetary policy and the reforms wouldn't make much of a difference.

Aims, hopes, dreams… reality

New Zealand Prime Minister Jacinda Ardern has said she would like to see the unemployment rate, currently at a nine-year low of 4.6%, fall below 4%.

Her finance minister, Grant Robertson, quickly clarified that, although low unemployment was a government aim, the central bank would not be given a “numerical target”.

The lack of a numerical target is key. Without any formal target the Reserve Bank of New Zealand can determine what level of unemployment is consistent with stable inflation (which could change over time due to demographic and other structural changes in the economy).

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Responsibility for issues such as youth unemployment should be taken by the government and not deferred to or placed on the central bank. The New Zealand Labour Party’s plan to provide free tertiary education is one example of how this might be done, although the details and its effects remain to be seen.

The central bank really only has one blunt instrument - a short term interest rate - that it needs to use to achieve its inflation target goal.

So the main practical implication of the planned reforms is that the government is clearly signalling it will appoint a new governor who places more weight on employment in making decisions. But this would always be expected given a Labour Prime Minister and could have been done under the current mandate.

Despite inflation targeting’s resilience, history suggests it is likely to be discarded or altered beyond recognition at some point in the future. Perhaps it will be replaced by price level targeting or nominal GDP targeting. But it is unlikely this will happen in New Zealand first and certainly isn’t happening now.

James Morley receives funding from Australian Research Council. He is an Academic Fellow of the Reserve Bank of New Zealand. His views do not necessarily represent those of the Reserve Bank of New Zealand.

Read more http://theconversation.com/why-new-zealand-cant-outsource-employment-policy-to-its-central-bank-87522