

1/1998 *The Role of Monetary Policy Thirty Years On*

Sean Turnell

Friedman's classic article on what monetary policy can and cannot do is examined in the light of experiences in the last three decades. The natural rate of unemployment hypothesis is shown to be no more than an underemployment equilibrium when price expectations are fulfilled. This rate can be compatible with a range of unemployment rates. As monetary targeting adopted by many central banks in the 1970s and 1980s had not worked, the emphasis on the quantity and growth rate of money supply by Friedman should be replaced by the current practice of using open market operations to achieve a desired nominal or real rate of interest and financial stability.