

The Free Market Innovation Machine: Analysing the Growth Miracle of Capitalism

By William J. Baumol

Princeton University Press, 2002, 316 pages, US\$35 ISBN 0 691 09615 5

When a veteran economist like William Baumol, who has long pushed the boundaries of neo-classical economics, writes a book entitled *The Free-Market Innovation Machine*, anyone with an interest in economic progress will grasp it with eager anticipation.

We owe numerous noteworthy concepts to Baumol, such as the thesis that it is not actual competition, however measured, that produces desirable market outcomes,

but the fact that markets must be 'contestable'. Contestability will often suffice to induce monopolies to embark on process and product innovations.

Another of his very useful contributions was the thesis that entrepreneurship exists in all societies, but the

incentives that channel enterprise into productive ways which benefit mankind are not always given. Consequently, enterprising people often engage in unproductive pursuits, such as the accumulation of land holdings or slaves, or even in destructive activities, such as war or terrorism.¹

The book under review follows this line of thought, as did a previous book on entrepreneurship.²

This time, however, the focus is on possible explanations of modern economic growth. It is a phenomenon that fascinated Karl Marx and Friedrich Engels, who expressed their awe and bewilderment in the *Communist Manifesto* in 1947, when they wrote: 'The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together.'

Generations of economists have since puzzled over the forces that drive economic development and growth—and the forces that stifle progress. In the 1940s, the focus was on the accumulation of capital. By the late 1950s and early 1960s, the fashion had changed; and so had the policy advice. Economists increasingly emphasised the importance of technical knowledge and education and skills in the growth process. It was found that many advanced economies grew not so much because of people working harder or creating more capital, but because of 'third factors'. This was, above all, the contribution of E.F. Denison, whose work Baumol does not cite, oddly enough. The policy fashion was to subsidise Research & Development and the formation of human capital. Yet, this work only provided proximate explications; it failed to tell us *why* people saved, invested, learned and innovated. Gradually, during the 1960s and 1970s, economists focussed on microeconomic rigidities, rather than the big macroeconomic factors. Structural change became the focus of growth theory, and policies that conserved yesteryear's industry structures became the target of policy advice. Australia's, by international

comparison, paltry economic growth in the 1950s to 1970s could certainly not be explained by deficient saving, working hours or access to knowledge. It was, rather, related to tariff protection, centralised industrial relations and other, rigidifying forms of political opportunism.

Growth theorists moved in the direction of microeconomics and political rent-seeking, the direction in which Joseph Schumpeter's seminal writings had pointed and in which Baumol was following. They drew attention to entrepreneurs, risk-taking individuals or teams, who broke old moulds and tried innovations that they tested in the market place. This explication was summarised well by an article in *The Economist* (7 October 2000), which Baumol quotes approvingly at the beginning of his book: 'If the past century of economic policymaking has taught us anything, it is that achieving long-term growth often has less to do with macroeconomic policies than with good microeconomics, including fostering competitive markets that reward innovation and restricting government to only a limited role'. This is the point at which Baumol drills deeply in his new book. He investigates the unprecedented growth performance of capitalism and rightly stresses the competitive pressures on producers who feel compelled to innovate, time and again. Baumol elaborates on the need for competition among the few, for the 'routinization' of innovation and the need to create enforceable rules that protect property rights and free market contracts, so that entrepreneurs are steered into productive innovation and sharing



useful, innovative ideas. Yet, he never quite defines competition, or addresses the important consideration of transaction costs.

This reviewer was gratified by Baumol's development of the Schumpeterian approach, and his insightful historic references and time series. However, ultimately he was left dissatisfied because the growth debate has moved on. First, sharper analyses of rent-seeking can be found in the public choice literature to explicate why entrepreneurs are productive or unproductive. Second, there is a rich and relevant Austrian-economics literature which discusses entrepreneurship, inventions and innovations that could have enhanced Baumol's story: for example, Kirzner's work (which gets only a passing mention in a footnote), or the new Austrian-economics analysis of the role of institutions, which goes beyond asserting that institutions are important.³ Kirzner's fundamental distinction between path-breaking innovations, such as the discovery of America, and marginal routine improvements, such as the plotting of the coastline, is missing here. The former depends on an appropriate institutional system; the latter can be planned and more easily influenced by social engineering policies.

The surveys that quantify economic freedom, such as the measures of the Fraser Institute, which Milton Friedman inspired, offer convincing evidence of the relationship between secure property rights, free markets and the rule of law on the one hand, and rising per-capita incomes on the other. These analyses explain why entrepreneurs compete by innovation—or why not! Baumol does not seem aware of this literature, or is impeded by his adherence to neo-classical economic analysis and mathematical modelling from dealing with the Austrian mind set of open-ended economic evolution. Growth is after all about discovering what was

previously unknown. Evolution in non-predetermined ways is the model of the economy that underlies Austrian worldview, as well as most of the liberal reforms of the past 20 years. The closed model, over which the neo-classical modeller claims complete knowledge, cannot help us all that well to understand economic growth, even in the hands of such an astute analyst as William Baumol.

Reviewed by Wolfgang Kasper

Endnotes

- ¹ W. J. Baumol, 'Entrepreneurship: Productive, Unproductive and Destructive', *Journal of Political Economy* Vol. 98 (1990), 893-921.
- ² W. J. Baumol, *Entrepreneurship, Management and the Structure of Payoffs* (Cambridge, MA: MIT Press, 1993).
- ³ I. Kirzner, 'Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach', *Journal of Economic Literature* 35:1 (1997), 60-85. See also: I. Kirzner, *The Role of the Entrepreneur in the Economic System* (Sydney: The Centre for Independent Studies, 1984); and W. Kasper and M.E. Streit, *Institutional Economics: Social Order and Public Policy* (Cheltenham, UK: E. Elgar, 1998).

*Where To From Here?
Australian Egalitarianism
Under Threat*

By Fred Argy

Sydney, Allen & Unwin,
2003, 209pp, \$24.95
ISBN 1865088528

By the standards of some of the material that has appeared in the last year or so, this is a relatively sensible and measured critique of the direction that Australian social policy has been taking. That is not

to say that it is a good book. It isn't very original, and when it strays from economics into political science and sociology, it gets rather weak and sloppy. But at least Argy recognises that advances have been made as a result of two decades of economic reform, and he shows some (limited) respect for empirical evidence. These two things alone mark this book out from some others of its genre.

As is the fashion nowadays, Argy declares his bias ('pro-egalitarian') at the outset. There is an assumption among many intellectuals that if they come clean about their personal views at the beginning of a book, they can let them run riot through the rest of it, but Argy resists this temptation. He promises an 'objective treatment' of the public policy questions he tackles (p.ix), although he doesn't really achieve it. He cannot contain his distaste for the 'ideologically driven' Howard government with its 'manipulation' of the media (p.145) and its 'psychological war' against welfare recipients (p.16). He also makes clear what he thinks of the 'think tanks used as fronts' by big business (p.113). But at least he tries to keep his bile bottled up for most of the book.

Argy begins by setting out his claim that Australia is becoming a more unequal society. His basic argument is that there is nothing inevitable about this. We could if we wanted have our strong economy *and* retain our egalitarian tradition: 'An egalitarian society can sit comfortably with a liberal economy' (p.56). He accepts that a Scandinavian-style high-tax regime could stall economic growth, but he insists this is not what he has in mind (p.53). Australia, he says, has been hijacked by 'hard liberals' who believe in unnecessary policies like privatisation, a shift to consumer taxes and a balanced budget. Argy wants to replace their approach with a 'progressive liberal' policy which would increase taxes a little bit, re-regulate the economy 'in

limited doses' (p.156), go a bit easier on welfare claimants, scale back somewhat on middle class health and education perks, and be a bit less anal on budget deficits. What I think he's saying is, he would prefer a Labor government.

Given his desire to increase social spending, he devotes a chapter to considering the arguments that have been put forward by critics of increased welfare provision. To his credit, he admits that 'some of the concerns of welfare critics are justified' (p.93). Indeed, as he goes through the arguments one by one, so it seems that most of them stand up pretty well to his scrutiny: he accepts that increasing amounts of welfare spending go to people who do not need it; he thinks it is 'plausible' to say that social provision crowds out private initiatives; he thinks

the emergence of a dependency culture gives 'cause for concern'; he has 'no doubt' that welfare erodes work incentives for many inactive people of working age; and he accepts that welfare spending is already at 'record levels'. Nevertheless, despite all this, he still wants to pour

more money down the welfare plug-hole. It would, he explains, be 'highly effective as a redistribution device'.

After this somersault of logic, the book rather loses its way. There is a strange chapter rebutting Michael Pusey's fantasy that what Argy calls the 'policy elite' are all right-wing ideologues (does anybody but Pusey seriously believe this?); a weak chapter on globalisation (which also contains his attack on CIS as a capitalist front organisation); an under-analysed chapter on public attitudes about

inequality and welfare; and a concluding chapter with a very under-defined wish-list of policies for a 'progressive liberal' government to pursue in the future. None of this is worth reading. The guts of the book are in the early chapters, and the rest is padding. So how convincing are the early chapters?

Not very. Sometimes, Argy gets his facts wrong. For example, he says that welfare recipients 'must participate in a Work for the Dole program' (p.15), but this only applies to a minority of unemployed claimants.

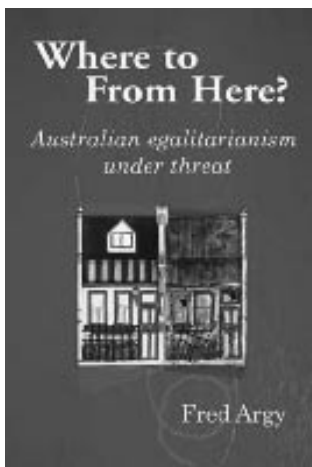
His presentation of evidence is also very partial. He complains that increased class sizes have disadvantaged children in public schools yet ignores research showing that class sizes are a relatively unimportant influence on educational outcomes (p.24). He repeatedly makes the case for more spending on 'active labour market programmes' to reduce unemployment, but ignores a mass of OECD and other evidence showing these programmes achieve little except in the case of mature-age women returning to employment. He claims it is 'difficult to find' any 'hard factual evidence of work shirking by unemployed Australians' (p.83), yet relegates to a footnote a reference to a major recent Department of Family and Community Services survey that found fewer than half of all jobseekers are really seeking jobs. He claims that 'redistribution policies promote greater social stability and law and order' (p.64), while completely neglecting to mention that crime went through the roof in the 1960s and 1970s in Australia when welfare spending was escalating and income inequality was narrowing.

Sometimes he rests huge assertions on the flimsiest of evidence and the frailest of authorities. He claims (citing a *Sydney Morning Herald* editorial as his sole authority) that federal funding for private schools is encouraging sectarianism. He

suggests, with no evidence at all, that increased worker entitlements could raise productivity. He simply asserts (p.74) that trust is 'more likely to be found in an egalitarian society' (like the old Soviet Union perhaps?), and that income redistribution helps 'instil confidence in the legitimacy of the system' (so having the government take your money away makes you trust politicians more?). He tells us that poverty causes child abuse but cites as his only source an interview in *The Age* with the Governor-General. He even tries to get us to believe (again, with absolutely no evidence to back it up) that social policy academics 'steer clear of ideological debates', and that their views 'range across the full ideological spectrum' (p.100).

Many of his arguments are unconvincing, or just downright contradictory. To support his claim that egalitarian policies can strengthen economic growth, for example, he says that high welfare benefits 'ensure that people do not hastily take unsuitable employment', and he suggests this then improves labour market efficiency (p.62). But isn't it more efficient to have a square peg in a round hole than in no hole at all? He reminisces for the good old days of trade union strength ('the collective exercise of power') on the grounds that unions build social capital: 'The unions sometimes abused their power but they were a unifying influence among workers' (pp.39-40). But this fails to recognise that cohesive organisations rich in social capital can do a lot of damage to non-members (think of the Mafia, Al-Qaeda or the Klu Klux Klan). The fact that old-style trade unionism unifies people does not make it socially desirable.

At the very heart of his essay lies the biggest contradiction of all. This is a book that claims that economic inequalities are widening, yet Argy is forced to admit that the income data simply do not support this. He



accepts the argument that CIS has been making that the poor have been getting better off ('even the poorest Australians have for the most part enjoyed a substantial improvement in real income over the last two decades', p.42). He accepts our criticism of the ABS income data (although he doesn't actually mention our work). He echoes our argument that, on a median-income-based measure, 'the percentage distribution of incomes after taxes and transfers (and after non-cash benefits) has not changed greatly', and that on an expenditure measure, 'inequality has remained stable' (p.43). He also accepts that the distribution of wealth has 'levelled off' as a result of compulsory superannuation (p.44). So what we have here is a book bemoaning growing inequality which actually recognises that income and wealth inequality has not been getting significantly worse. 'The increase in inequality', says Argy, 'has been relatively moderate'. Yet still he writes a book complaining that 'the old pillars of egalitarianism' are eroding (p.49). This truly is Hamlet without the Prince.

Despite the reception that it received from the pundits, it should be clear that this is not a particularly original, convincing or important book. It is a sad reflection on the intelligence of our media, and the critical acuity of our academics, that it should have received such uncritical adulation.

Oh, and by the way, Fred, congratulations on recognising that there are two of us named Peter Saunders who write in this field. But having gone to the trouble of distinguishing us in your bibliography, you might have checked who wrote what. *Reforming Australia's Welfare State* wasn't him—it was me.

Reviewed by Peter Saunders

Monetary Regimes and Inflation: History, Economic and Political Relationships

Peter Bernholz

Cheltenham, UK and Northampton, MA, USA, Edward Elgar, 2003, 210pp, £55.00, ISBN 1 84376 155 6

Many books and innumerable articles have been written on inflation. A new book on this important subject is justified only if it takes a fresh perspective and draws attention to aspects that have so far been neglected in the literature. On this score Peter Bernholz's book is certainly justified.

Based on a comparative analysis of moderate and high inflations from the 4th century onward, the book distils the general economic traits of inflation and tests their stability over centuries. It also examines the institutional backgrounds, in particular the political settings of inflations. From these empirical studies Bernholz deduces the economic measures necessary to end moderate and high inflations and explores the political conditions required to make such reforms practicable. Finally, the work compares and discusses all 29 episodes of hyperinflation from the French Revolution to the present—'hyperinflation' being defined as an inflation with a monthly rate of more than 50% at least in one month.

Bernholz begins by studying the relationship between long-term inflationary developments and various monetary regimes, like the gold or silver standards and the discretionary paper money standards of today (sometimes called the 'Finance-Minister Standard'), and dependent or independent central banks. (If governments intervene to suspend the convertibility guarantee, the currency becomes a genuine fiat currency, a currency of a type made possible only by the fiat power of the state. Today all major

currencies are fiat currencies, which have been created by the political will of legislators.) He demonstrates that because of the inflationary bias of political systems, the average rate of inflation has been lower the less the monetary regime has been influenced by politicians.

In the following chapters inflations under metallic monetary regimes and moderate paper money inflations are analysed. The two reasons for inflation under metallic monetary regimes are either an additional supply of the monetary metal or debasements of the currency by rulers in search of additional revenue. It is shown that the additional supply of gold or silver has only led to a very limited average inflation, for instance of about 2% in the 16th century, whereas higher inflation rates resulted from manipulations of metallic currencies by rulers, the worst example being the Roman inflation of the 4th century. It is not surprising to learn that the bad new money tended to drive out the good money with fixed exchange rates (Gresham's law), that rulers' attempts to fight the consequences of inflation which they had initiated by price and exchange controls not only did not have any lasting success, but also the consequences of such policies for the real economy usually proved disastrous.

Bernholz analyses the reasons for the introduction of stable currencies, something which in consideration of these political forces may be surprising. Apart from the return to 'normal' conditions after wars with a rather moderate inflation, Bernholz adduces the following reasons. First, if a country is small and (or) has important international commercial interests or if its capital markets enjoy a leading international position, it can be beneficial to the country or at least to influential parts of the population and thus of rulers to reintroduce or to maintain a stable currency. In the 13th century Florence and Venice

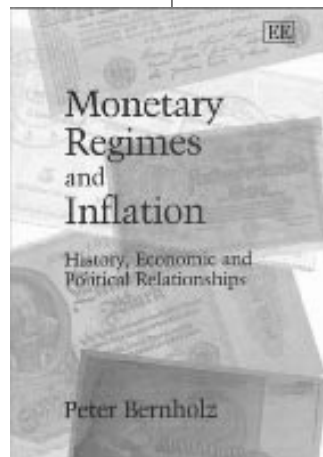
benefited from the introduction of the florin and ducat as stable currencies because of these reasons and since they also enjoyed the seigniorage, that is the fees from minting these internationally widely used coins.

Second, during a moderate inflation, politicians may benefit from trying to lower inflation, since this is popular with voters. As a consequence, however, the undervaluation typical for inflations is lowered and may even turn into an overvaluation. This, however, besides the cuts in expenditures and the increase of taxes felt by most, hits the export and import-competing industries and their workers, who begin to turn against such a policy. Under these conditions the government may decide, supported by the respective interest groups, to fix the currency at a still undervalued gold parity or exchange rate with the support of those interest groups, who are afraid of a further revaluation because of disinflation. In this way, a mild inflation will go on until purchasing power parity is reached, but then stability of the currency is attained.

Even early paper money inflations led to faster price-level rises than those engineered by the debasement of metallic standards—examples studied range from Ming China in the 14th-15th centuries to Massachusetts, Sweden, the American War of Independence in the 18th century, and the American 'Civil War' (a not very civil War of Secession) in the 19th century. They were also characterised by flexible exchange rates showing the now

well-known pattern that purchasing power parities can diverge widely with undervaluations of the inflating currencies of up to 30%.

The next chapter turns to the qualitative characteristics of the 29 hyperinflations observed in history. It begins with the French hyperinflation. Its patterns can be observed again in all hyperinflations of the 20th century, which occurred after the general abolition of the gold standard during World War I and the Great Depression. Here Bernholz studies the role of budget deficits and the consequent decline of the real stock of money as well as currency



'The book demonstrates that inflation is a man-made phenomenon and therefore can be undone by human action.'

substitution—the substitution of the inflating money by more stable metallic or foreign paper money—and undervaluation.

The consequences of high inflations for the diverging development of different prices, for capital, and for economic activity and unemployment are scrutinised.

Finally, the political economy of high inflation and its social and political consequences are analysed. It is shown that wages, especially higher and fixed wages, are usually lagging inflation, that relative prices are strongly distorted, that employment and economic activity suffer during hyperinflations and that capital markets that are not indexed shrink to near unimportance. No government has survived the advanced phases of hyperinflation, and the ruin of the middle classes has in several cases of high inflation encouraged the emergence of dictatorships or even totalitarian regimes.

In the following chapter, the threads of the foregoing analyses are collated to present a stylised pattern of a full inflationary cycle caused by budget deficits. In such cycles, new money is introduced besides the old to finance the deficit. In the course of further development, the good old money is first driven out by the bad new one at a fixed exchange rate (Gresham's law). When the good old money has fully disappeared from circulation, the fixed exchange rate cannot be maintained in spite of all the fines and punishments introduced by the government in order to promote their preferred money. Inflation begins in earnest. It accelerates, currency substitution and undervaluation set in, and the good money substitutes for the bad inflationary one. Finally, the government has to stabilise its money by a currency reform—otherwise it would lose its monetary authority. If the reform does not succeed, the inflating money is finally driven out by the good one. The government has to legalise the latter to be able to maintain any tax revenue necessary for its very existence. Five historical examples for such a full historical cycle are presented.

Chapters seven and eight consider the political conditions, the economic measures and institutional reforms—that is, the currency reforms—for ending moderate and hyperinflations. A comparative study is made of many historical cases of ending moderate inflations, and of all currency reforms ending hyperinflations, by introducing more or less stable monetary regimes. When in the latter case a distinction is made between less and least successful currency reforms, we get an insight into the necessity of institutional reforms that restore the credibility of the currency by binding the hands of governments and politicians.

An appendix presenting the many sources used for the empirical data and additional literature for

different historical cases is a valuable supplement to the book. There is also a subject index.

The book demonstrates that inflation is a man-made phenomenon and therefore can be undone by human action. Politicians and central bankers, who claim to be overwhelmed by some supernatural power and are helpless in the face of inflation, only reveal that they lack the will to create that most precious of social assets: sound money.

For the benefit of the general reader, formal models are kept to a minimum; they are, moreover, asterixed and can be skipped without losing the thread of the argument. To enliven reading, observations by men of letters are cited in boxes, from contemporary writers like Stefan Zweig and Ernest Hemingway to classics like Aristophanes. As these people are complete economic laymen, their evidence is sometimes more convincing than any econometric evidence.

Monetary Regimes and Inflation can be highly recommended to anybody interested in inflation and its manifold economic, social and political surroundings and consequences. This book by one of the world's leading scholars on monetary inflation and the institutional settings for money creation is a mine of information not only for students, but also for economists, historians, political scientists and sociologists; it is of relevance also for bankers, businessmen and politicians.

**Reviewed by
Gerard Radnitzky**

*The Fuss That Never Ended:
The Life and Work of Geoffrey
Blainey*

**Edited by Deborah
Gare, Geoffrey Bolton,
Stuart Macintyre and
Tom Stannage**

Melbourne University Press,
2003, 236 pp, \$39.95
ISBN 0522 85034 0

In 1994, a book of essays about one of Australia's two most famous and influential historians appeared. Edited by Carl Bridge, *Manning Clark: Essays On His Place in History* is an excellent collection of well-written and insightful perspectives on Clark.

Now, nine years later, a similar exercise has been undertaken for the other of our two highest profile historians, Geoffrey Blainey. Unfortunately the results are not as good.

The Fuss That Never Ended is an off-shoot of a symposium held in Melbourne in November 2000. The book's introduction neither explains why the book had such a long gestation period or, more importantly, why Blainey's own 'lengthy paper' from the symposium is not reproduced here.

Those who read Peter Ryan's acerbic *Weekend Australian* review would conclude that the whole purpose of this book was to tear down Blainey. Ryan overstates the case but, undoubtedly, the exercise does suffer from including far too many diatribes on topics which are the pre-occupations of the academic Left.

Six of the 14 essays are essentially ideological attacks on Blainey for his alleged failures on Aboriginal issues (Tim Rowse); the environment (Tom Griffiths); gender (Joanne Scott); British imperialism (Deborah Gare); labour history (Charlie Cox); and race (Andrew Markus).

Some of the criticism is tacitly acknowledged as philosophical difference. However, annoyingly, much of it becomes a critique of Blainey's value as a historian for the heinous crime of failing to appreciate the centrality of each writer's historical specialty to the telling of the Australian story. What seems to escape these historians is that, while the topics to which they have devoted such study may have merit, it is not compulsory that they be given a central place in everybody else's work.

The great irony is, of course, that Blainey's writings have covered a far broader canvas than the writers of these contributions put together.

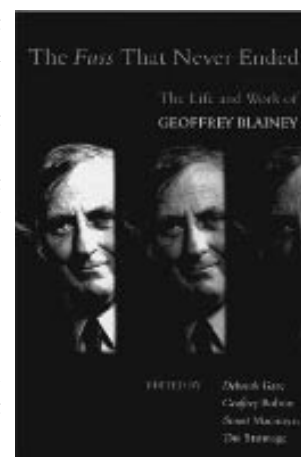
Rowse provides an insight into why the collectivist historians do not like Blainey:

He (Blainey) prefers to people his histories with men and women of entrepreneurial vigour, whether they be humble 'cockies' or great men and women of business.

Most of us might think this was a good thing, but for Rowse this is a self-evident flaw.

The other eight essays are better balanced. The three senior historians Stuart McIntyre, Graeme Davison and Geoffrey Bolton contribute the first three essays and all appear to be trying hard to find nice things to say about someone they have known for a long time.

Davison, importantly, draws attention to how matters like technology and religion have been handled in Blainey's work and also pays tribute to the quality of Blainey's



writing style. 'His histories are full of vivid, memorable portraits of interesting human beings, both humble and great'. Blainey's 'lucid prose and deft character sketches' are also acknowledged in Bridget Griffen-Foley's empathetic piece on Blainey's corporate histories.

While critical of aspects of Blainey's work in the field, Ian Hodges piece on Blainey's war studies is a well-rounded contribution. Tom Stannage praises Blainey for always remembering to include sport in the telling of the Australian story, something which was often omitted by other historians. Stannage also provides a nice little character study of Blainey by providing two anecdotes, one of which shows Blainey's lack of pretension and the other his generosity towards those with whom he has had professional disagreements.

Clearly a book on 'The Life and Work of Geoffrey' would not have had the word 'fuss' in the title if it were not for the controversy he sparked in 1984 with his comments on Asian immigration. Morag Fraser writes an intelligent piece on Blainey's career as a controversialist.

The book is rounded off by four venerable historians all putting their perspectives into a piece which looks at the Melbourne School of History. This was not delivered at the symposium and, while it has merit, it seems slightly out of place. Perhaps if the editors had solicited one longer piece on this issue it may have gelled better.

It is a positive development that the symposium was held and that now the book published. Blainey has an important place in our intellectual life and, whether one shares his world view or not, he deserves detailed critical analysis.

However, overall this is a poorly put together and disappointing book. Even comparatively minor points like the absence of chapter numbers add to the reader's sense of frustration.

Also the book is expensive: \$39.95 for a paperback of under 200 pages of text.

The book does, at least, provide an excellent bibliography of Blainey's work. Ironically, this only serves to underline the fact that a historian as prolific and as important to Australians' understanding of their place in the world as Geoffrey Blainey deserves something more substantial than these slim pickings.

Reviewed by Richard Allsop

Common Ground: Issues That Should Bind Us and Not Divide Us
Malcolm Fraser
 Viking, Penguin Australia, Melbourne, 2002,
 266pp, \$35
 ISBN 067 004 027

Malcolm Fraser insists that, really, his views haven't changed, it is just that other people have moved around him. It is a slightly odd argument from a former politician whose post-politics writings and statements have been marked by criticism of his successors for being 'too conservative'. After all, failing to change with the times is a criticism usually directed to people for being, well, too conservative.

It is, after all, possible that the general debate has moved on as a result of learning and experience. A point made all the more striking as the virtue of such learning and experience is one of the reasons Fraser cites for *not* being conservative.

I am prepared to believe that the attitudes of the Malcolm Fraser on display in *Common Ground* are the

same as those of Malcolm Fraser PM and earlier. Which is to say, I am prepared to believe that a deep inconsistency and incoherence has continually marked Malcolm Fraser's political thinking and rhetoric.

Thus, the Malcolm Fraser of *Common Ground* is happy to talk the classical liberal talk: citing Locke et al. and making it clear he thinks, and has always thought that socialism is a completely wrongheaded approach. This is fine, until one starts looking at what he specifically complains about, what he endorses, what he fails to mention, and what he states or implies is needed.

For example, he complains about the allegedly increased power of corporations and how dangerous this is. Now, anyone who has dealt seriously with modern corporations knows that they are remarkably timid beasts, by and large. Nothing surprising in this. They are in business to make a profit. They have to get consent for their income on a weekly, daily, even hourly basis.

Moreover, in societies where corporations are thicker on the ground, people are richer and freer. Where corporations are thinner on the ground, people are poorer and more oppressed. A little more digging into the figures exposes the fact that large corporations tend to pay above average wages, and not only in developed economies. Socialist countries have and had much worse environmental records than liberal capitalist states. So, corporations are hardly plausible villains for the serious ills of the world.

Denouncing corporations is, on one level, a conservative move (since corporations are at the forefront of much of the 'creative destruction' of capitalism) and, at another, a collectivist one (since, if corporations are such a problem, clearly the state must be more active to restrain them). It is not a particularly liberal one—not in the classical liberal sense of the word.

The Malcolm Fraser of *Common Ground* is very concerned about globalisation representing not merely corporations, but markets as such running amuck. But the larger the market, the more choices open to the individual consumer, so the more empowered the consumer is. It is much easier to rip people off in a closed local market than an open global one. Again, a conservative or collectivist fear, not a classical liberal one.

Fraser seems to think it is incoherent of certain people to welcome globalisation of markets but resist globalisation of politics. On the contrary, globalisation of markets tends to increase consumer sovereignty, but globalisation of politics—what is better called *internationalisation* or even *supranationalisation*, the shifting of decision-making to international or even supranational bodies—acts to undermine political sovereignty and thus voter power. It is perfectly coherent to welcome the former and distrust the latter. It is also coherent to be suspicious of the former but celebrate the latter. It is merely not consistent with a strong belief in individual choices. It is the sort of move to be expected from someone of an authoritarian conservative outlook, or a collectivist one, but not a classical liberal one.

There is much criticism of the United States in *Common Ground*: criticism of the US of the period prior to 1941 of being too inactive in the world, of the US since 1991 of being too independently active in the world (the term of art ‘unilateralist’ is much in evidence, applying even when the US is actually being multilateral). Like so many he wants a US which uses its power but in accordance with the wishes of other players: like them he seems to not grasp that global hegemony just don’t come in this model—a US confident enough to act in the world

is a US which will not be subservient to the values of others.

Particularly not the values of a global governance agenda which is quite incompatible with the principles of the American Revolution. In *Common Ground*, Fraser does show some grasp of the accountability problems of internationalisation and supranationalisation. He just doesn’t let it bother him. I for, one, prefer a power structure which is at least accountable to someone—if only the American electorate—rather than one accountable to no-one. He outlines the sad history of United Nations’ interventions, and then blithely argues that the solution is a more powerful UN acting more often.

There are the expected condemnations of past indigenous policies, but not nearly as strong a sense about effective ways forward. There is much concern with words—apologies and reconciliation statements—but rather less with practical action. ‘Self-determination’ is only a slogan unless it is cashed out in terms of what it means on the ground, especially as many a policy failure has been perpetrated under that slogan in the last 30 years.

So much of what is in *Common Ground* is so, well, conventional. Thus, Fraser is outraged that the US should think Australia might have some defence obligations towards Taiwan. But what is the fundamental principle of Australian international security policy? That the US be prepared to expend blood and treasure in defence of a democracy of about 20 million people in a large island off the coast of Asia. Precisely how does this principle apply to us but not Taiwan? Because we must defer to the claims of a corrupt authoritarian regime whose state, the People’s Republic, has *never* ruled Taiwan?

Similarly, he takes it as read that the Israel-Palestinian dispute is the

cause of the pathological politics which breeds terrorism. But it is surely more correct that the dispute is a *product* of pathological politics. It has long been fairly clear that, barring miracles, Yassir Arafat will never sign a final peace agreement with Israel. Or that Arab regimes don’t want a ‘normalised’ Israel because then all sorts of awkward questions might be asked by their populaces—such as why Arab Israeli citizens have more rights, and more secure rights, than citizens of any Arab state, or why Israelis, with little oil, are richer than most Arabs.

As time passes, the Fraser Government looks more and more like an interregnum between excess and reform. And this effort by its Leader has little to add, being mostly a series of jeremiads by someone whose history has passed by and whose words show just how much he does not understand why.

**Reviewed by
Michael Warby**