

Reviving the Invisible Hand: The case for classical liberalism in the twenty first century
by Deepak Lal
 Princeton University Press
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This book is subtitled 'The case for classical liberalism in the twenty first century'. Professor Lal begins it with a history of the nineteenth century liberal international economic order which he characterises as having been built on the pillars of free trade, the gold standard and international recognition of property rights.

In this first chapter on the liberal international economic order, he goes off on an interesting tangent that is quite pertinent to current debates on international relations (p 38):

Contrary to the presumption of classical liberals that, in a free trading world linked by a myriad mutually beneficial ties arising from global commerce and mutually beneficial capital flows, a spontaneous international order would arise to maintain the peace, or else a concert of powers would succeed in doing so, in practice through much of human history, it is empires that have provided this essential public good through their Pax.

Professor Lal goes on to argue how Britain played this role in the past, by among other things, dispatching its Royal Navy

against pirates. Those familiar with Professor Lal's work would recognise the argument here as a summary of an earlier book *In Praise of Empires*, but I think the parallel that Lal impliedly wishes to draw here with the alleged Pax Americana of today and its role in the 'war on terror' is also obvious.

The argument begs a number of questions, such as what incentives a country would have to unilaterally provide an international public good in the first place, and whether realistically this is going to be the best way of looking at any of its unilateral actions. This book review is not the appropriate place to develop a critical analysis of the ideas in the paragraph reproduced above but it is worth mentioning because, by Lal's own admission, it is one important area where he differs from the classical liberal tradition.

In any case, this and the next chapter sketch out in greater detail the currents that led to the transformation from a climate of laissez-faire (or close to laissez-faire) to one of dirigisme or Statism. Students of the history of economic thought might be interested in Lal's thesis that the turning point in economics from what he calls the 'classical conception of economics' to the notion of perfect competition and general equilibrium theory is one of the culprits for the move towards dirigisme. This is not far removed from similar allegations that have been hurled at contemporary neo-classical economics by the libertarian Austrian School. Unfortunately this contention requires more justification than can be provided by Lal in his brief discussion.

It is arguable that it is not

so much the methodology of contemporary economics that had led in the past to the favouring of certain political conclusions over others but rather the lack of attention paid to incentives in the political sphere (a problem that has since been remedied by public choice theory and widening the scope of economic analysis to incorporate non-commercial institutions). Thus there is no necessary correlation between the rise of formalism in economics and the turn towards more interventionist policies.

After these two crucial introductory chapters, which provide a historical background, there follows chapters on free trade, money and finance, poverty and inequality, morality and capitalism, 'Capitalism with a human face' (where he criticises stakeholder capitalism and excessive 'rights talk'), and a chapter on 'The Greens and global disorder', followed by a conclusion where he summarises his recommendations for reform.

Many of these chapters could be good stand-alone essays. His chapter on the changing fortunes of free trade is the strongest in the book and has a very good critique of preferential trading arrangements and a strong critique of the World Trade Organisation (from a robustly pro-free trade perspective, of course).

The chapter on poverty and inequality is also important as it highlights some important research from former World Bank economist Surjit Bhalla which has found flaws in current methods of measuring world poverty by international agencies. Equally important is Lal's distinction, developed in his chapter on morality and capitalism,



between modernisation and Westernisation and how it is possible for countries to adopt more market-oriented policies which promote modernisation without endangering their cultural traditions. This distinction is a particularly important one to make in light of the fact that many anti-globalisation activists link capitalism with 'cultural imperialism' (a packaging which is probably not without rhetorical force among the ruling elites of many developing countries).

However, the main problem with the book is that while each chapter is packed with interesting ideas and can work as a good stand-alone essay, the book does not hold together well. The development of ideas is uneven, with some chapters (particularly the ones on free trade and the evolution of the political climate from *laissez-faire* to *dirigisme*) being extremely well done, while others were under-developed and almost in the vein of preaching to the converted (for instance his chapter on the Greens).

This unfortunate tendency is exacerbated by parts of the book where Professor Lal proposes novel but plausible theses, sometimes from areas outside his professional expertise, but does not sufficiently explicate his arguments. There is nothing wrong with taking a multi-disciplinary perspective (and indeed this has been one of the strengths of Lal's past works which meld a study of history, culture, institutions, political economy and technical economics). However it reduces the persuasiveness of the book in parts when a claim is made that is outside the professional consensus but is used to bolster a normative argument and is then treated as if it were uncontroversial.

This is the case for instance in Lal's discussion of global warming

(pp 216–17) in his chapter on the Greens. His short discussion of the various heterodox positions on the science of global warming could not possibly do justice to the debate, nor would it sound convincing to the curious observer who might prefer to take the word of a specialist on environmental science over that of an economist quoting a source that in one case was more than ten years old.

In this respect, Lal spreads himself too thin, something that cannot be avoided for a book of such vast ambition that touches perhaps a little too quickly on arguments drawing on a wide variety of disciplines. These include environmental science (he also enters the swamps of the DDT debate), moral philosophy, sociology (where, for instance, on pp 163–4 he seems to glibly accept the standard conservative critique of the alleged deleterious effects of the 1960s) and the history of theology (on pp 155–6 he reiterates his reductionist argument, made in previous works, that the basic institutions behind the rise of capitalism and individualism in the West were laid by a series of papal pronouncements, first by Pope Gregory I in the sixth century and second by Pope Gregory VII in the eleventh century). While this provides for a highly thought provoking experience for the reader, the extent to which he elides on some of the questions raised by his more controversial theses somewhat dampens the persuasive power of his work as a 'case for classical liberalism'.

Reviewed by Jason Soon

Aboriginal Affairs 1967–2005: Seeking a Solution

by Max Griffiths

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238pp, \$29.95

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Attempts to solve the problems of native title and racial discrimination thus fell in a heap despite or because of the efforts of parliament', writes Max Griffiths in his new history of the last forty years of indigenous policy making. 'The more laws passed by parliament the more complex and ineffectual became problem solving in the area of Aboriginal affairs.'

Forty years on from the 1967 referendum that gave the Commonwealth Government power to legislate for Aboriginal affairs, it is timely to reflect on what federal policy makers have, and have not, been able to achieve. Certainly, the Aboriginal Affairs portfolio has seen a slew of policies, commissions, reports and ministers seeking solutions to indigenous disadvantage. But the disadvantage persists. 'Its persistence', as Secretary to the Treasury Ken Henry said last November and many would agree, 'has not been for want of policy action. Yet it has to be admitted that decades of policy action have failed.'

Enter *Aboriginal Affairs 1967–2005: Seeking a Solution*, a well researched and thoroughly readable account of the last four decades of policy action at the federal level, 'how we sought a solution, and how and why all solutions so far have failed'.

Griffiths, who appears to have