

been reported. It is not only an observation on accidental guerrillas. It is a challenge to our current strategies and way of fighting war. Kilcullen aims many direct blows at American thinking and routinely hits the target. The nature of war has changed from state-on-state war, and our existing concepts are inadequate. Our enemies are more flexible and adaptable than we are.

Iraq began as a conventional war. It quickly became a mix of an insurgency and terror. How do military forces adapt to this new type of war when the enemy dictates the pace and tempo and many of our weapons and concepts are no longer appropriate? Iraq has worked because of the parallel application of a top down and bottom up strategy. More troops were needed to provide security in an integrated civil military campaign plan where it was important to protect the people, forge genuine partnerships, and kill or capture the fringe few. Patience was also needed as the Iraqi government sought to achieve legitimacy in the eyes of its citizens and its army grew and took on the task of providing security. Neither of these tasks is complete.

This is a book in many parts. In part, it deals with counterinsurgency warfare. In part, it deals with the accidental guerrilla. In part, it is a 'Boys Own Annual' tour through the world's trouble spots. All this adds persuasively to the big and challenging conclusion of the book. Kilcullen concludes that our existing understanding of war is no longer appropriate. We are in a new era of conflict in which new threats have invalidated old methods of providing security at a global, regional and state level. We need to develop new ways of dealing with new threats.

This new type of hybrid warfare has only just begun, and we need people of his calibre to help us navigate our way to the future. He can see the big picture and he has positioned himself at the heart of the changes to war. Kilcullen is young, thinks and writes strategically, and has well-deserved influence. He considers options in the eternal strategic equation of the ways and means to achieve ends and invites us to think about the threat in new ways. While he knows the detail, he is not distracted by it. He has an easy flowing style but does tend to be indulgent with his sentences. I for one could do without the dot-point

presentations of much of his discussion.

In the acknowledgments to his book, he thanks his tolerant superiors for their understanding of his eccentricities. If having a quick, restless, challenging and inquiring mind and an ability to produce books of this quality, as a first effort, equate to

eccentricity then we need more people like him.

This is an important book written by an experienced observer with on the ground experience. He brings a different and important perspective to the study of contemporary conflict. He implicitly understands that large industrial, interstate wars are less likely and, as General Rupert Smith tells us, we are more likely to see war among the people. Kilcullen's training as an anthropologist underscores the importance of knowing and understanding the people in these new types of conflict.

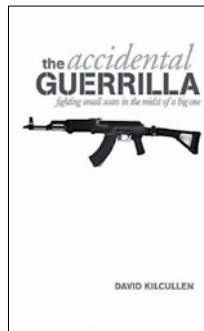
In *The Accidental Guerrilla*, Kilcullen tackles the big ideas and the big questions. He uses his knowledge of history and previous insurgency and counterinsurgency campaigns to the extent that where

there are lessons he uses them. But he is not overwhelmed by the past. As a relatively new contributor, he is making an important contribution in a policy, conceptual and literary sense. His ideas are accessible and digestible.

Despite works of this nature, are we listening? Our soldiers are fighting and dying in a new type of war. It is positive that soldiers in the field are listening and adapting, but what about our policymakers and the public? This book deserves to be read to understand why and what has to be done to keep us secure and our soldiers alive.

Reviewed by Peter Leahy

Peter Leahy retired as Chief of the Australian Army in July 2008. In October 2008 he was appointed as the foundation Director of the National Security Institute at the University of Canberra.



Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis

by John Taylor

Hoover Institution Press, 2009

US\$14.95, 92pp

ISBN 9780817949716

Earlier this year in the opinion pages of the *Wall Street Journal*, Alan Greenspan defended his legacy as Chairman of the US Federal Reserve, dismissing accusations that his monetary policies caused the housing boom and consequent bust.

The reason? Only a month earlier, John Taylor, his former colleague at the Fed, published a book, *Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis*,

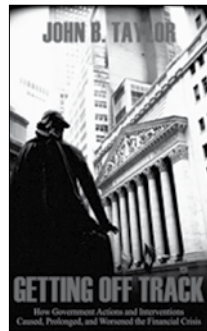
squarely pointing the finger at the Federal Reserve as the main cause of the financial crisis.

Taylor, a Professor of Economics at Stanford University and a Senior Fellow at the Hoover Institution, is well known for his work on macroeconomics and, in particular, monetary policy. So much so that a rule that prescribes how a central bank should set short-term interest rates, the Taylor Rule, is named after him (though not named *by* him, as Taylor modestly points out).

Unsurprisingly, the Taylor Rule plays a crucial role in the book, the main thesis of which is that monetary policy errors caused the crisis. According to Taylor, the seeds of the housing boom that led to the financial crisis were planted by the US Federal Reserve's loose monetary policy, particularly between 2002 and 2006. In judging the stance of monetary policy, Taylor looked at the deviation between the *actual* Fed funds rate (the rate at which banks lend to each other overnight) and the Fed funds rate that the

Taylor Rule prescribed. From 2002 to 2006, the actual Fed funds rate was significantly below the Taylor Rule rate.

To support his argument that this deviation actually caused the housing boom and consequent bust, he simulated a model of housing starts to see the counterfactual, that is, what would have happened if the Fed had followed the Taylor Rule instead.



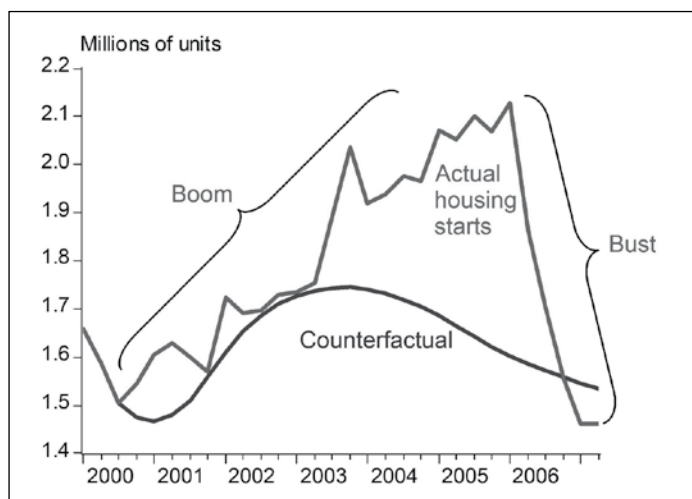
In short, setting monetary policy using the Taylor Rule would have produced much better outcomes. If there is one overarching lesson that a policy maker ought

to take away from this book, it is that predictable, rules-based policy gets better results than ad hoc discretionary policy that leaves people guessing as to what the government is going to do. This is even more important in a financial crisis. 'According to most economic theories of contagion ... surprise changes in policy are more likely to cause contagion than predicted or anticipated changes in policy,' Taylor says.

During the crisis, the Fed and the Bush administration treated the problem as one of lack of liquidity. Taylor disagrees. He argues that the fundamental problem was counterparty risk. That is, there were 'securities with bad mortgages in them' and 'people didn't know which banks were holding them eighteen months ago, and they still don't know where they were.' Because of this misdiagnosis, subsequent government interventions either failed to address the problem or instead gave rise to unintended consequences. In particular, Taylor points out that contrary to the federal government's hopes, the economic stimulus package passed in February 2008 caused no statistically significant increase in consumption.

Deviation from rule-based policy came back to haunt financial markets when the crisis abruptly worsened in September 2008. In Taylor's view, the US government's decision to not intervene to prevent the collapse of Lehman Brothers was not the decisive moment in the credit turmoil of 2008. What really sparked panic was the Troubled Asset Relief Program (TARP) announcement four days after Lehman filed for bankruptcy. No one knew what TARP meant: what form, how much, for how long, for whom, with what strings attached, etc. As evidence, Taylor quotes a survey showing 'that 94 percent of securities firms and banks found the TARP lacking in clarity about its operations' and noted the 'relentless' upward movement over the next three weeks of the Libor-OIS spread—a popular measure of credit market tension. This is not all that surprising given that the TARP's announcement might have exacerbated the credit problems as bankers refrained from realising their losses or selling their institutions to acquiring firms because they

The Boom-Bust in Housing Starts Compared with the Counterfactual



Source: *Getting Off Track*

expected the government to bail them out.

Taylor condenses his analysis into a main text of just 76 pages, making *Getting Off Track* short and snappy but by no means a comprehensive review. At times the book seems concise to a fault. Though the actions of Fannie Mae and Freddie Mac are identified by Taylor as contributing ‘to the list of government interventions that were part of the problem,’ its discussion is limited to a single paragraph shorter than this one. The book’s focus on monetary excesses in explaining the lax mortgage underwriting procedures ignores the extensive role of the US government’s pro-housing policies. Furthermore, there is no mention of policies like the *Community Reinvestment Act* that generated significant incentives for banks to extend mortgages to borrowers with poor credit profiles.

Notwithstanding, Taylor’s book is highly readable and currently the most important book for those who want to understand the causes of the financial crisis.

Reviewed by Brendan Duong

Don't Leave Us with the Bill: The Case against an Australian Bill of Rights
edited by Julian Leaser and Ryan Haddrick
 Menzies Research Centre,
 Canberra, 2009
 \$30, 330pp
 ISBN 9780980638301

Australia’s founding fathers could have given us a Bill of Rights. Instead, they gave us the White Australia Policy. *Don't Leave Us with the Bill: The Case against an Australian Bill of Rights*

does not hide from this fact; rather, it is evidence for the case against a constitutional Bill of Rights. What if Parkes, Deakin and Barton had institutionalised the White Australia Policy’s bigotry in the Australian Constitution?

Similar things have happened in the past. The English Bill of Rights (1689), as contributor David Bennett says, was ‘a statutory manifestation of sectarian bigotry’ with particular reference to the treatment of Catholics. The thirteenth-century Magna Carta had provisions on repaying debts to Jews and the value of testimony of women. While we have good reason to believe things have improved over the last few centuries, it would take much arrogance to assume that today’s bills of rights do not contain current prejudices that would surprise or offend future generations.

Don't Leave Us with the Bill is a collection of 25 articles against a statutory bill of rights. It is an organised response to recent advances by pro-bill of rights advocates, including several books and a number of publicly funded inquiries by state and federal governments. Perhaps the most important of these inquiries is the Rudd government’s National Human Rights Consultation, chaired by Father Frank Brennan, which has been touring the nation hearing views on how best to protect human rights in Australia. If the Rudd government intends to pursue a statutory bill of rights in the near future, this inquiry will be its Trojan horse.

The editors, Julian Leaser and Ryan Haddrick, should be commended for the large number of quality contributors they bring together in this book. It contains contributions from members of the political,

religious, academic, and legal communities, and comprehensively covers the arguments against a statutory bill of rights for Australia. It includes the traditional philosophical objections to a bill or charter of rights, a brief overview of the history behind bills of rights in Australia and around the world, some of the legal and ethical issues involved, and specific case studies of rights protection in the United Kingdom, Victoria, and the Australian Capital Territory. The reader is left with an armoury of arguments against a statutory bill of rights by some of Australia’s leading minds.

Some chapters stand out in particular. Major General AJ Molan’s article outlining the British military’s experience with the *Human Rights Act 1998 (UK)* in relation to extra-territoriality is particularly interesting. Molan outlines how despite the British government’s belief that the *Human Rights Act* did not apply to British

military personnel serving in Iraq or elsewhere overseas, according to the House of Lords judiciary committee it did. The specific case studies of the bill of rights experience in the United Kingdom, Victoria, and the Australian Capital Territory are deconstructed by Felicity McMahon, Trent Glover, and Ben Jellis. Rabbi John Levi also provides an interesting insight into the biblical foundations of modern-day values.

As one would expect with a wide-ranging collection of articles by different authors on a specific issue, there is a degree of repetitiveness within the book. This may be the result of contributors roaming beyond their brief. While it does not detract significantly from the collection as a whole, it does get a bit tedious. For example, issues