

average for the Great Depression crises.

Government budgets suffer, mainly because of depressed tax revenues and fiscal stimulus measures rather than direct bailout costs. On average, real central government debt increases by 86% during the first three years following a banking crisis. The authors stress that this is a conservative estimate as it ignores the debts taken on by states and municipalities and also does not take into account government guarantees, both implicit and explicit.

At the time of writing, the cost of insuring Portuguese, Italian, Greek, and Spanish (derisively known as PIGS) sovereign debt was surging and Greece was looking increasingly likely to default or, at least, receive a bailout from the International Monetary Fund (IMF) or other EU nations. The book reveals that this is exactly what we should expect. They find that about two to three years after banking crises, there is usually a wave of sovereign defaults arising from the massive increase in debt. As of 5 February 2010, it was more expensive to insure Greek sovereign debt than Kazakhstan's! Interestingly, the authors' database reveals that since 1829 (the year of Greek independence), Greece has spent 50.6% of its life in a state of default. In fact, countries with a history of repeated sovereign default on external debt are common in every region in the world, including Asia and Europe.

With the IMF standing ready to bail out Greece, the authors reveal that the creation of the IMF since World War II has 'coincided with shorter but more frequent episodes of sovereign default' as

both lenders and borrowers believe that if they get into trouble, they can always rely on subsidies from the IMF and the governments of creditor countries. The authors also find that inflation is linked with the level of domestic debt as governments have often tried to inflate away their domestic debt by printing money.

Given the empirical focus of the book, it has few policy recommendations. The authors call for better reporting of macroeconomic data, including the creation of long-dated time series as they have done in their book. They also recommend setting up an international financial regulator—mainly to stop countries competing with each other on regulation. However, it is not clear that regulatory competition between nations is necessarily a bad thing, given the ability of governments to mismanage financial markets and to monopolise banking systems to the detriment of depositors and private borrowers—both things that the authors point out in other sections of the book.

Although the authors touch on financial liberalisation as a broad concept, there is frustratingly little discussion on whether any specific government policies, particularly debt guarantees, affect the frequency and magnitude of financial crises. For example, the authors cite theoretical modeling (as opposed to empirical evidence) that deposit insurance can induce banks to take excessive risk, but no empirical analysis is done to determine its effect, if any, on the stability of the financial system. Nor is there any mention of the empirical work done by John Taylor, a professor of economics

at Stanford University, on the role of loose monetary policy in increasing housing price inflation and risk taking during the 2002–06 period.

Despite these drawbacks, *This Time Is Different* is the best, and the only, systematic and empirical analysis on the history of financial crises. To say that the Reinhart and Rogoff's work is a significant contribution to economic history would almost be an understatement, given how often that compliment is made out of politeness. However, this time it really is different.

Reviewed by Brendan Duong

Confusion: The Making of the Australian Two-Party System

by Paul Strangio and Nick Dyrenfurth (eds)

Melbourne University Press, 2009

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The year 2009 was the centenary of the formation of the first national and united Liberal Party in the Commonwealth Parliament, and its creation led to the first two-party (Liberal/Labor) national election in 1910.

The Fusion (as it was called) of the major groupings of Australian Liberalism is one of the pivotal events in our political history, and this book is the most thorough attempt so far to understand its significance. The title I find odd. 'Confusion,' while an obvious play on words, is hardly a dominant idea in the book, and undervalues the editors' achievement in

contributing to the understanding of these events.

Strangio and Dyrenfurth have produced an excellent collection of studies that throw light on many aspects of the politics of the first decade of the new nation (and later decades as well). Most of the chapters are of high quality, with a freshness to much of the material and the interpretations offered.

Overall, the studies make plain the historical depth of the Liberal tradition in Australia. Colonial politics was dominated by leaders who thought of themselves as Liberals (the colonial expression of the great reforming tradition represented in the Liberal Party of Britain), and they mostly called their parties (and their electoral organisations) Liberal. They set the course for Australia as a liberal democracy. Their greatest achievement was the creation of the new nation of Australia, with a liberal constitution establishing, *inter alia*, a continental free trade area that would be the basis of national strength.

The Liberals nevertheless emerged from Federation in 1901 divided—divided by their different colonial political traditions, their understanding of Liberalism, and by the personalities of their leaders. Their main internal debate, as James Walter explicates well, was an argument about the nature and future of liberalism and, particularly, the role of government in bettering people's lives.

While both the main factions of Liberalism stood for equal rights and individual liberty (for white Australians), they were divided over the centrality of British Liberalism's commitment to free trade. The NSW Liberals, after

Henry Parkes' transformational discussion with Richard Cobden, were, under George Reid, resolutely and triumphantly both reformist and pro free trade. The Victorian Liberals, especially after the talented young journalist Alfred Deakin's equally transformational tutelage by the parochial multi-millionaire editor of *The Age*, David Syme, was just as resolutely protectionist. And Deakin hated Reid.

It is worth making the point that the political organisations of both these leaders carried the name Liberal. The name 'Liberal' was not, as Judith Brett incorrectly claims (p. 25), significant for later generations because it was the name of 'Deakin's party' alone. It had been the name of parties around Australia, and Sean Scalmer, in his excellent chapter, makes the point that Reid welcomed the Fusion as 'the consolidation of Liberal forces' (p. 62).

Incidentally, it is surely time the ahistorical nonsense of describing these parties as the 'anti-Labor' parties was abandoned. It would be only slightly less absurd to describe Labor as the 'anti-Liberal' party.

The chapters by Scalmer, Hogan and Strangio provide the reader with illuminating accounts of the national and state (NSW and Victorian) politics surrounding the process of the Fusion, while James Walter offers a persuasive assessment of the political ideas and the personalities of the leaders (including the results of a new reading of some of the Deakin archives).

Scalmer's main thesis, which is clearly correct, is that it was the free traders who, in the end, were the initiators and strongest proponents of the consolidation, and it was the

Deakinites who had to be dragged to the altar.

There is at first glance a puzzle about the enthusiasm of the free traders for unity, given that the policy of protection had won the day. Scalmer proffers several explanations. One is that the scope of protection was to some extent still open. The committed free traders had not entirely given up the cause. History was, after all, to prove them correct—but at too distant a point in the future to give them comfort, and only after a depression and a world war fueled by out-of-control protectionism had converted the world to free trade.

More importantly, however, the free traders were also liberals of a more classical variety, and they were strongly opposed to the unrealistic expectations of what government can achieve held by the Deakinites, and in a more extreme version, by Labor. Reid (who resigned his leadership, making it possible for Deakin to come into the Fusion) had for years seen that the long-term debate would not be over the tariff but over the role of government in society—between the liberal economy and socialism—and only a party system that reflected this cleavage, in his view, made sense.

Labor's class warriors were determined that Australia's parties should not transcend class lines and that there should be no alliances with, or electoral immunity for, Liberals. In the first decade after Federation, they managed to transform the Victorian Labor Party, which in the mid-1890s had called itself the United Labor and Liberal Party, and had been, as Strangio says, 'a

cork on the great Liberal tide.’ Protectionist and interventionist Liberalism of the Victorian variety occupied the policy space that Labor might otherwise have filled, and worked closely and comfortably with Labor. But as the Victorian Socialist Party and Tom Mann gained influence, all that changed.

Nick Dyrenfurth shows Labor as a party increasingly consumed by the ideologies of class and race, detailing its determination to intensify the class division between the parties (and oppose Watson’s moderation) and its ‘populist scare campaign’ based on race to discredit the Liberals in 1910 as soft on White Australia. Ultimately, those in Labor who were determined to divide Australia by class came to dominate the party, expelled Hughes, and crippled Labor nationally for a generation.

With his Victorian background, Deakin was at ease governing with Labor support (so long as they behaved like Victorian Labor), and even to let Federal Labor govern (albeit briefly) as a minority government under J.C. Watson. But Strangio reminds us that the Liberal Protectionists’ dominance in Victoria was under assault as early as 1902, not from Labor but from a popular and highly organised rural and urban middle-class revolt against the Protectionists’ big government alliance with Labor. The Kyabram movement, transmuted into the small government National Citizens Reform League, took over the state and, with the support of the Australian Women’s National League in 1904, continued to drive back the Protectionists. Fusion

began to look more attractive to many of the Deakinites as their base crumbled.

The Protectionist push was also weakening in New South Wales. Michael Hogan shows that the Protectionists in New South Wales had largely collapsed as an organised force by 1909, and that the political battle there had already slipped into the pattern of Liberal (free trade) versus Labor. Reid’s experience of his own state informed his claim that the future cleavage of Australian politics would be between Liberal and Labor—between liberalism and socialism.

The Liberal Party resulting from the Fusion governed twice—with Deakin as Prime Minister (1909–10) and with Cook (1913–14). World War I however gravely damaged both the liberal consensus and national unity, and the 1920s and ’30s saw the liberal economy under sustained attack domestically and internationally. Menzies, recalling the dream of Liberal unity, in 1944 established a new Liberal Party, as he said, to ‘revive liberal thought’ in Australia. How far he succeeded is a story for another day.

Reviewed by David Kemp

So Many Firsts: Liberal Women from Enid Lyons to the Turnbull Era

by Margaret Fitzherbert

The Federation Press, 2009

\$39.95, 227 pages

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Margaret Fitzherbert’s new book *So Many Firsts* tracks the political achievements of Australian Liberal women, their political

representation, their significant impact on government policies, and their many hard won legislated freedoms in the second half of the twentieth century.

The Australian Liberal Party has held federal government for most of Australia’s post-War history. Fitzherbert’s book reveals the story of a few determined women and their dynamic personalities who engaged in the cut-and-thrust of political pre-selection fights, jostled for ministerial portfolios, engaged conservative Prime Ministers as both allies and policy opponents, and literally shaped the party itself. There is so little academic research, let alone popular books, about women and the Australian Liberal Party that another contribution by Fitzherbert—who has also written *Liberal Women: Federation to 1949*—is a welcome addition to the history of politics in Australia.

It is difficult for current generations of women to imagine the day-to-day lives of ordinary Australian women before the radical changes of second wave feminism. Fitzherbert takes us back to the 1940s to 1960s when the domestic sphere of women was laborious in ways that are unrecognisable today. In doing so, she highlights which domestic concerns were the policy domains of government. For example, butter and sugar were still rationed following the war years. The end of rationing was a significant policy milestone for all Australian households and, in particular, Australian women.

Although the 1940s and 1950s did see a surge in women in paid employment, in this world of our mothers, grandmothers and aunts, there was no equal pay and no ‘careers’ for women outside