his leadership. It is simply accepted that he committed every other crime he was accused of.

What does this impulse, of condemning an accused before a theatre of public opinion prior to a judicial finding of guilt, mean for those advocating increased accountability for former heads of state? The phenomenon may be criticised for a number of reasons. It undermines the appearance of the impartiality of the legal order, and remains susceptible to accusations of 'victor's justice.' It also denies to the defendant fundamental rights of any accused, namely, the presumption of innocence and the need to establish facts before a court. Further, it risks tainting public opinion to such an extent that the defendant cannot obtain a fair trial.

Although the editors attempt to amalgamate and analyse the book's 10 case studies with one concluding chapter, more could have been done to address the myriad complexities that each chapter brings to the fore. Nevertheless, *Prosecuting Heads of State* is undoubtedly a good starting point for those desiring to learn more of the political and legal mechanisms, both international and domestic, available to hold heads of state accountable to the rule of law. It explains legal technicalities in a concise and intelligible manner and should appeal to those with an interest in law and international politics.

Reviewed by Chula na Ranong

Lessons from the Global Financial Crisis: The Relevance of Adam Smith on Morality and Free Markets

by Richard Morgan

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The recent global financial crisis—or, as it is regularly labelled, the GFC—and the accompanying recession in developed economies has generated a great deal of commentary, much of which looks somewhat over-stated as economies move out of recession. Melbourne businessman Richard Morgan's *Lessons from the Global Financial Crisis: The Relevance of Adam Smith on Morality and Free Markets* is a response to the financial crisis and the reactions that viewed it as a manifestation of greed encouraged and exacerbated by free markets.

Capitalist economies are famously prone to boom-and-bust cycles. The belief that somehow the business cycle had been tamed encouraged a certain amount of a rhetorical and analytical overshooting, but global events proved that it was not so.

Economists continue to argue about the cause of turmoil in the financial markets and the accompanying recession. Macroeconomics remains a discipline marred by a lack of agreement on basic concepts. When I studied first year economics, the first half of the year was microeconomics. I marvelled as this powerful engine of analysis was laid out before me. The second half of the year was macroeconomics. I marvelled as a collection of *ad hoc* notions, concepts and interactions were presented as if rough equivalents of what had been offered in the first half of the year. In all my reading since—including stints in economics analysis areas in the public service—the contrast has not markedly lessened.

Viewed through the lens of long-term historical comparison, the recent recession was widespread and deep but hardly remarkable as downturns go. It certainly looms larger than the downturns since 1945, but the post-War period has seen more benign downturns than in the century before.

The analytical diversity (a nicer word than 'confusion') of macroeconomics does, perhaps, help explain why the United States seems determined to replicate the policy responses that gave Japan its 'lost decade' after the collapse of its bubble economy. A discipline without a strong, agreed, analytical framework may well be less able to assist resistance to strong political and other pressures. Of course, the highly general and abstract nature of macroeconomics might well mean that political pressures from within and without discourage it from achieving a robust analytical framework.

Certainly, it seems that the discouraging empirical data on the value of fiscal stimuli was remarkably easily ignored by prominent economists in favour of the much more encouraging—and easily presented—policy narrative that governments could borrow and spend us all out of recession. Australia alone among the major developed economies seems to have 'achieved' this, though there are grounds to doubt that we were likely to have much of a recession in the first place.

The robustness of the Chinese economy did help, but the global downturn's accompanying collapse of commodity prices weakens this as an explanation for the resilience of the Australian economy.

A better explanation is our monetary policy (the RBA saved us) coupled with a superior set of prudential financial regulations. Certainly, our housing prices are as inflated by regulatory restriction of land supply for housing as any in the Western world. But giving monetary policy credit is not helped by it being both fiercely intellectually contested and difficult to understand. Fiscal stimulus is a much easier story to tell.

It is also worth pointing out that many more Australians are now employed in ways that allow their income to drop temporarily without their jobs disappearing, part of the highly flexible economy a generation of economic reform has produced.

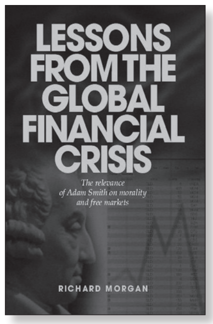
If the recession in the developed economies was not so remarkable—at least in the longer history of economic downturns—the global financial crisis was also hardly unprecedented: the nineteenth century had some truly spectacular financial crises. The GFC was, however, a bit more singular for the post-War period.

Again, there are competing narratives. One labels it a crisis of 'greed' and 'deregulation,' another as primarily one of government-induced moral hazard (aggravated by the bailouts of major financial institutions). Both these stories—as do others that have been offered—appeal to various sets of ideological preferences.

It is something of a relief to turn to Morgan's short, easily read book. It considers what happened—at least in the broad—through the perspective of the thought of Adam Smith.

The book is something of a primer—with a useful diagram setting out the key elements of Smith's views. Numbers identify each key idea with useful and revealing quotes from Adam Smith's *The Wealth of Nations* grouped by subject.

Morgan begins with a brief survey of Adam Smith's life, identifies him as a philosopher economist deeply influenced by the example (as so many figures of the Scottish Enlightenment were) of Sir Isaac Newton and the classics (particularly Cicero). Morgan regards Smith's *The Theory of the Moral Sentiments* (1759) and *The Wealth of Nations* (1776) as 'two parts of one work.' (p.15) Smith scholars generally agree that both are the same Smith.



Then follows a series of short (often just two pages) chapters setting out key concepts in Smith's thought: social cohesion; moral judgments; how living standards are improved (a graph points out that average income in England increased dramatically after Smith); self-interest; the importance of benevolence; that self-interest does not mean selfish; self-interest, saving, investment and prosperity; self-interest and the banking sector; Smith as critic of exploitation and proponent of well-governed society; and the threat of government intervention.

Morgan emphasises the difference between self-interest and selfishness. His point that the other half of the 'does not rely on the benevolence of the baker …' quote is that neither does the baker rely on the benevolence of his customers. In a society of people free to 'truck and barter,' mutual benefit, and so mutual attendance, is the key thing.

In his conclusion, Morgan stresses Smith as a proponent on moral grounds of a market economy with limited government as the one most suited to the moral nature of humanity, and as encouraging both moral behaviour and outcomes.

Adam Smith was a careful and nuanced thinker, convinced that a free society with limited government was best suited to humanity's moral nature. Nothing has happened since then—certainly no passing financial crisis—to undermine the depth of his insight and the general correctness of this perspective. Richard Morgan has performed a most useful service in making the key elements of Smith's thought so accessible.

Reviewed by Michael Warby

Warby is a principal of Multisensory Education and President of the Melbourne Adam Smith Club. He spoke at the launch of Richard Morgan's book.