

He criticises the US government's stimulus spending as far too small (about a quarter of what he thinks is needed). As in Sweden in the early 1990s, the US government must also recapitalise the banks. Banks will need to be relieved of their toxic assets on the condition that they resume lending. Finally, the shriveled but still vital shadow banking system must be subject to the same regulatory oversight as traditional banks.

The Return of Depression Economics is a spirited book, enjoyable and instructive. In fewer than 200 pages, Krugman races through the sorry history of the major economic crises of the last 20 years. He offers very general advice on the next steps to recovery but, I suppose, there is always his column in the *New York Times*.

Reviewed by Malcolm Roberts

Outliers: The Story of Success

by Malcolm Gladwell

Little, Brown and Company,
New York, 2008
US\$27.99, 320 pp
ISBN 9780316017923

High intelligence and extraordinary achievement are endlessly fascinating subjects. We'd all like to know the secret behind stratospherically successful individuals so we can emulate their accomplishments. *Outliers* sets out to explain the secret of success—but it is far from successful in doing so.

To solve the puzzle of high achievement, Gladwell takes a number of examples of exceptional people and seeks to explain why these people reached great heights in their chosen professions. But rather

than examining the personality types of these exceptional individuals, he looks at the environment in which they grew up. Gladwell's thesis is that demographic, social, and even ancestral factors have greater explaining power than individual personality traits when trying to account for success.

Gladwell's book is written in his typical free-wheeling style, heavy on anecdote and packed with fascinating personal stories. It touches on some important themes such as determinism *versus* free will and the debt we owe to those who came before us. In the current climate of economic uncertainty, many readers will relate to the idea that we are often at the mercy of forces beyond our control. The book also provides a healthy antidote to the self-help mantra of the supremacy of individual desire and effort. Gladwell also appears dedicated to exploding the myth that contemporary American society is a meritocracy in which any talented individual can rise to the top. He argues against the cult of the individual genius who makes it on his own through his or her own exceptional powers of intelligence and insight.

In his characteristically breezy style, Gladwell rattles through a number of examples in which external factors largely determine whether or not an individual succeeds. He cites the example of Canadian junior hockey players born early in the year and who are consequently taller and stronger than most other children in their age cohort. They are more likely to be chosen for rep teams, receive extra coaching and practice, and become pro hockey players. He tells the story of the Beatles who succeeded because they cut their teeth playing eight-hour sets for days on end at dingy strip clubs in Hamburg, and of Bill Gates who succeeded because he had

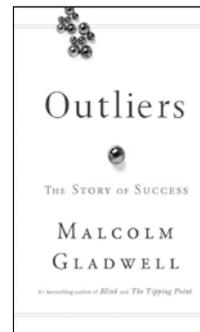
unheard-of access to a time-sharing computer terminal in 1968 and spent every spare moment honing his programming skills.

One of the flaws in Gladwell's approach is that he cherry picks anecdotes that suit his thesis and then generalises them into pseudo-universal laws. Thus from the Beatles/Gates examples he posits the '10,000 hour rule.' There is no discussion of bands that practised 10,000 hours and failed to make it big or the mega-bands that changed the musical landscape without ever putting in the requisite 10,000 hours.

The anecdotes continue with the story of Robert Oppenheimer who was a child prodigy, studied at Harvard and Cambridge, and headed the Manhattan Project. His life story is contrasted with that of Chris Langan who had an IQ of 195, worked a series of low paid labouring jobs, and ended up retiring to the Missouri countryside to tend horses. Gladwell explains the differing fortunes of these two geniuses in terms of family background and emotional intelligence.

This exposes another shortcoming in *Outliers*. Once we look behind the rollicking narrative, Gladwell's conclusions often don't go far beyond commonsense. It's not groundbreaking to assert that being good with people and having supportive and educated parents is going to help you make the most of your intellectual gifts.

Gladwell also looks at the role of ancestry in the way we act. The outlier here is the large number of violent family feuds that persisted in southeast Kentucky. Some lasted more than 100 years and ended only in the 1930s. Gladwell concludes that residents in that area are more inclined to feud because their Scottish-Irish descendents



came from marginally fertile lands where there was a strong culture of honour. He cites studies that indicate when insulted, modern day Southerners are more likely to react aggressively than their Northern contemporaries. Exactly how this chapter relates to the 'Story of Success' is unclear. Again we get the feeling that Gladwell is cherry picking studies and experts whose views support his thesis. He also has a liking for the 'one factor' explanation.

Gladwell's inclination for oversimplifying a complex problem is also evident in the section on airline crashes. His retelling of the crash of a Korean airliner at Guam and a Colombian airliner at New York make for some very compelling reading. Gladwell is at his best as he retells the tragic story of these disasters, revealing the black box transcript line by line. However, his one factor explanation—that these planes crashed because the aircrews grew up in cultures with a highly developed deference to authority—is very thin. Almost as thin as his explanation that South Asians are good at maths because their ancestors had to work long and hard to extract a living from their meagre rice paddies.

If Gladwell wants to propose a thesis that will be taken seriously, he needs to be more thorough. If he simply wishes to relate good stories and point out possible themes, we are left with the impression that he isn't really saying much more than what common sense would suggest: that hard work contributes to success; that our ancestry influences our behaviour; and that being born at the right time in history can help us succeed.

Gladwell's books, including *Outliers*, could be categorised in the self-help genre. We were invited to read *The Tipping Point* to better understand change and to start our own 'positive epidemics.' *Blink*

taught us to improve our decision making by knowing when to trust our instincts. *Outliers* invites us to better understand the origins of success, and to be more successful ourselves. However, the message of the book is that you need to have the right ancestry, the right parents, and be born in the right demographic to succeed—factors that are beyond our control. If you're looking for an in-depth understanding of the origins of genius or a self-help manual to make yourself more successful, *Outliers* is not the book for you. Nevertheless it's a ripping yarn full of fascinating anecdotes and interesting insights.

Reviewed by Ross Farrelly

In Defense of Monopoly: How Market Power Fosters Creative Production

By Richard B McKenzie and Dwight R Lee

University of Michigan Press
2008

US\$40, 320pp

ISBN 0472116150

This book is very ambitious. At first glance, one might expect, given its provocative title, that this book would be another assault on free markets, and that the authors deserve a place next to the nationalisers and protectionists who are suddenly back in fashion. It would be a mistake to do so. Richard McKenzie and Dwight Lee are much more concerned with the best way to maximise a society's welfare—they argue that in some cases, the long-term benefits of monopoly and monopsony can exceed the short-term deadweight losses that they create. In other words they argue that we should, with certain caveats, let monopolies be free to be monopolies.

The book is inspired by a passage

in Joseph Schumpeter's *Capitalism, Socialism and Democracy*: 'A system—any system economic or other—that at every given point of time fully utilizes its possibilities to the best advantage may yet in the long run be inferior to a system that does so at no given point of time, because the latter's failure to do so may be a condition for the level or speed of long run performance.' Patents or copyright are examples. They are legal instruments that create inefficiencies by preventing use of intellectual property by those not owning the patent or copyright. However, they provide innovators and entrepreneurs with incentives to create intellectual property with greater long run benefits for society. The authors argue that monopolies can have similar benefits.

The monopolies that the authors are trying to defend (from overzealous enforcers of anti-trust policy) are firms that are more or less victims of their own success. They are not talking about government engineered and maintained monopolies. Rather they are referring to 'privately engineered monopolies' that do what they do so well that they achieve market shares of monopoly proportions. Microsoft is the classic example, Google another.

In making this argument, the authors take on the economic establishment and the traditional model of monopoly that is often compared to the idealised state of perfect competition taught to virtually all undergraduate economics students. They argue that this comparison exaggerates the damage that real world monopolies do. Moreover, perfectly competitive markets do not provide, for example, sufficient incentive for innovators; why bother innovating if markets are perfectly efficient? McKenzie and Lee argue that the perfect competition model is unachievable

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