

Australian Adam Smith Club (Melbourne)

President: Timothy Warner, Editor: Mannie Gross, P.O. Box 950, Hawthorn, 3122

Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole, or almost the whole public revenue, is in most countries employed in maintaining unproductive hands. **Adam Smith (The Wealth of Nations, 1776)**

Peter Smith on Bad Economics

**The Adam Smith Club will host a meeting on Wednesday the 19th of September 2012,
at the Pancake Parlour, 682-690 Warrigal Road, Malvern East.**

Peter Smith was CEO and executive director of Australian Payments Clearing Association Limited (APCA) for 14 years from 1992 until end 2005 and consulted to a number of payment companies after his tenure at APCA. Before that he was Chief Economist of the State Bank Victoria; economic adviser to the Australian Bankers' Association; a public servant in Papua New Guinea; and tutored in economics at the Universities of Western Australia and Adelaide. He has a first class honours degree in economics from the University of WA and a PhD from the University of Adelaide.

His book *Bad Economics* is for everyone who wants to understand why things have gone wrong rather than slavishly accepting the mainstream version of events. It takes on the illusions and delusions which regularly shape economic policy. It explains how bad economics is ruining Western societies, while good economics has been pushed aside. Its aim, by exposing the bad, is to contribute to a revival of the good. Absolutely no knowledge of economics is needed; only common sense and an open mind..

Attendance is open to both members and non-members. Those desiring to attend should complete the attached slip and return it to the Club no later than Sunday the 16th of September 2012. Tickets will not be sent. Those attending should arrive at 6:30pm for dinner at 7:00pm. The cost is \$40.00 per head for members and \$45.00 per head for non-members (see next page for explanation of arrangements and for electronic booking details).

**Enquiries to Hon. Secretary, mob. 0403 933 786
or email: asmith@adamsmithclub.org**



detach and return

The Secretary,
Australian Adam Smith Club (Melbourne),
PO Box 950, Hawthorn, Victoria 3122.

Please reserve place(s) at \$40.00 dollars per member andplace(s) at \$45.00 per non-member for the September 19th meeting of the Australian Adam Smith Club. I enclose the amount of \$..... in payment for the same.

NAME (please print):

ADDRESS:

SIGNATURE: TEL:

LAISSEZ FAIRE ON THE WEB

This newsletter has an address on the web: <http://www.adamsmithclub.org/laissez.htm>. The Club's web site can be found at <http://www.adamsmithclub.org/>.

ELECTRONIC PAYMENTS

By popular demand, the AASC now offers electronic booking and payment to dinner meetings. Bookings can be made by emailing the number of members and non-members attending to twarner@adamsmithclub.org; a reply email from the club will then be sent with a link to PayPal where the payment can be made by Mastercard, Visa, AMEX, Diners or PayPal Account. Bookings made after Sunday 16th of September will not be accepted online. FEES - a \$2 card fee will apply for the transaction.

OUR TAXES; GONE WITH THE WIND

The *Australian* (1/9/12) is to be commended for publishing an article outlining a 2 year study by Hamish Cumming (a mechanical engineer) on the costs of wind power in Victoria.

His analysis shows that "Victoria's wind farm developments have saved virtually zero carbon dioxide emissions in the state."

The reasons for this are well known. Wind energy generation is erratic because it is dependent on when the wind blows and at what speed. Victoria's base load electricity is generated by brown coal power stations. These stations cannot adjust to the relatively fast fluctuations in wind power and thus even when wind power is available the coal fired power stations continue to provide their base load power without any reduction in carbon dioxide

emissions.

Of course this is of no consequence to the wind farm owners as they are not paid by the amount of carbon dioxide abated but rather they get paid out of electricity consumers' bills at a rate several times higher than the cost of coal generated electricity.

This article has been reported on a number of blogs both local and international.

Hamish Cumming has submitted his report to the Victorian Government & written to the Attorney-General Robert Clark effectively challenging him to withdraw their public subsidies.

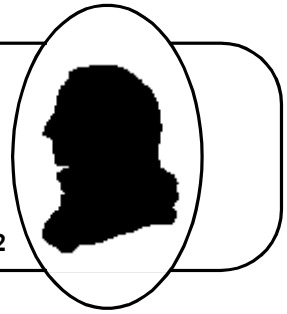
It will be interesting to watch how the Victorian government responds. *MG*

VENUE ARRANGEMENTS

For the Pancake Parlour, there will a choice of a main course & a dessert & a choice of a glass of wine or soft drink or coffee or tea. Additional drinks can be purchased. The restaurant is fully licensed. A separate room has been reserved for the dinner meeting. We hope these arrangements do not cause inconvenience and we welcome your feedback. Please note that because the Club must provide final numbers of attendees to the restaurant on the weekend before dinner, **we are unable to admit anyone to the dinner who has not notified the Club of their attendance by Sunday September 16th.**

Laissez Faire

Newsletter of the Australian Adam Smith Club (Melbourne), No 103, September 2012



THE EVIL OF COMPULSORY VOTING

The writer recently attended a lecture by the historian and commentator Professor John Hirst, presenting the case against compulsory voting. The speaker was committed, and spoke clearly and convincingly, setting out the history and reasons for the existence of compulsory voting in Australia, and the argument for its abolition. As in fact is the case, he had seemingly been putting such an argument for some time. What was particularly interesting was the speaker's insight into how compulsory voting reflected the national character.

The audience listened politely and attentively. It seemed to be a largely educated and intelligent one, split roughly in half between opponents and supporters of the speaker's argument. As Hirst himself stated, since 70% of Australians support compulsory voting, this was no great surprise. The speaker expounded on the history, and on his view that the major parties, in introducing such measure, had been and were at one, in being happy to put government to the trouble and expense of getting the voters to the polls. It was not the case, as sometimes suggested, that Australians had shown any particular degree of apathy towards voting.

Whilst a variety of reasons for, and against, compulsory voting are put forward, almost all such reasons are contentious and unverifiable. After all, who can verify a claim, for example, that if people are compelled to vote (or at least to attend at a polling booth), they are likely to give more, or less, due and proper consideration to the issues upon which they are being compelled to vote. There is one aspect however that is, in effect, indisputable; to compel an individual to vote or to attend at a polling booth to be marked off as such from a voting roll is to deprive him or her, to that extent, of their freedom.

Whilst proponents of compulsory voting might not dispute that compulsory voting is a deprivation of freedom, they are likely to argue that it is merely one of many such deprivations that are necessary and justifiable in a modern, functioning democracy, such as paying taxes, attending school, giving evidence, serving in the military, or performing jury service. Hirst rightly rejects such argument. Even accepting, for the sake of the argument, that such exceptions are appropriate and proper, they are simply not comparable in the significance of their benefit to the general welfare as is that of compulsory voting.

Freedom is the primary virtue of a free country. It is its defining characteristic. Deprivation of freedom is an ultimate bad. Australia is not alone in countries claiming to be free but that have compulsory voting, or even alone amongst the 10 or so that do, and actually enforce it. It is the one, however, that is most often referred to and used as an example of such countries. It is the only one of the Anglo-Saxon countries, the UK, USA, Canada, Australia and NZ, to do so. The great majority of countries typically accepted as free have elections and form governments without it. Undoubtedly the main beneficiary of compulsory voting is the government, which whatever it does is able to claim that its actions represent the will of the people, it having been chosen as such by a vote of 100% of the electorate.

In commenting on the willingness of Australians to accept, even favour, the deprivation of liberty that compulsory voting entails, Hirst saw it as a possible part of the Australian character; passively to accept direction and to do as they were told by government and the bureaucracy. But can this really be so. After all, Mark Latham, a man once chosen to lead the Labor Party, has campaigned vigorously against it, and urged Australians to vote informal in the 2010 election. And can the character of a people, the national hero of whom is Ned Kelly, be so supine as meekly to accept the diktat that, as and when required, they will attend for the purpose, if not of casting a vote, at least of having their name ticked off a list. *DBS*

TIME TO TOPPLE THE FOUR PILLARS

Australia's financial system is based on the Four Pillars – Commonwealth Bank, Westpac, National Australia Bank and the ANZ Bank. The Four Pillars doctrine was established by Paul Keating in 1990 when he was Treasurer in the Hawke government. There were originally to be Six Pillars – the Four Pillars plus the two major life offices, National Mutual and the Australian Mutual Provident Society (AMP).

However, the Six Pillars were already beginning to collapse. National Mutual wanted to overtake AMP as number one life office and was doing so by offering capital guaranteed products at uneconomic rates. When it reverted to sustainable rates, the flood of funds dried up. AXA of France, eyeing National Mutual's burgeoning Asian business, made a move on the Melbourne-based life office, which prevented half of Australia's households losing their retirement savings.

The original aim of financial deregulation was to expand choice in the Australian banking market. The government offered a "who's who" of international banking domestic banking licenses, with the aim of shaking up the domestic industry. In fact, the reverse happened. No foreign bank has a substantial retail banking business in Australia. They have either all left or sold out to the major Australian banks. HSBC retains a small retail presence, as does Citibank.

Of course, there are (or were) regional banks. State Bank of Victoria was sent to the wall thanks to the wunderkinder at its investment bank offshoot Tricontinental Corp and was taken over by the Commonwealth Bank. The State Bank of NSW was taken over by the Combank. Combank also ended up with BankWest, the avatar of the Rural and Industries Bank of WA. The State Bank of South Australia collapsed and was acquired in a roundabout way by Westpac.

Three small banks, usually referred to as regional banks, have battled on. The Bendigo and Adelaide Bank use a quasi-community based ownership structure, which has proved to be great at launching branches and much less effective at closing them down when they prove unviable. Bank of Queensland operates on a franchise model, which has not prevented it from taking

some heavy hits in commercial property. Suncorp is also entrenched in the Queensland market.

What has been the net outcome of banking deregulation? The opposite of that intended. Just about every financial institution of any note has been taken over by the Big Four. Some may object that Macquarie Bank has been excluded. First, MacBank is an investment bank and a very narrow market and second, without the government guaranteeing its overseas loans during the global financial crisis (GFC) to the tune of \$7 billion it would have probably ended up in the financial knacker's yard.

The premise of the previous round of bank rationalization was that the banks would be stronger and more competitive. NAB took over the Commercial Banking Company of Sydney (CBC) and the Bank of New South Wales merged (in much the same manner as Germany and Poland merged in 1939) with the Commercial Bank of Australia (CBA) to form Westpac in 1982. In case you missed the subtext, the CBC was a Sydney bank and the CBA was a Melbourne bank.

To put anyone who is totally ignorant about Australian banking out of their misery, both Melbourne and Sydney host two of the Four Pillars – Melbourne has the ANZ and NAB, while Sydney has Commbank and Westpac. This suits the politicians very nicely

As with most things in Australia, banking is over controlled and over regulated. Apart from Westpac's pathetic attempt to reboot the Bank of Melbourne – after it took over the original Bank of Melbourne, an excellent business based on the highly popular RESI building society which it killed off by rebranding all the branches in Westpac red – "innovation" by Australian banks has been rare in recent years. The foreign minnow Bank of Cyprus was absorbed by the Bendigo. Why not let the market have a go? The fact is, whether the government admits it or not, the Four Pillars are "too big to fail". Why not encourage a small to medium business bank, or let the Post Office compete in the retail market? Like any organism that has been in a good paddock for too long, the Big Four have become fat and lazy. It's time they had a shake-up. *JRB*