

# Australian Adam Smith Club (Melbourne)

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

In such condition, there is no place for industry; ... and the life of man, solitary, poor, nasty, brutish, and short.  
*Thomas Hobbes (Leviathan, 1651)*

## David Archibald

on

# Twilight of Abundance

### Why Life in the 21st Century will be Nasty, Brutish, and Short

**The Adam Smith Club will host a meeting on Wednesday the 28<sup>th</sup> of May 2014,  
at Bohème Restaurant Bar, 368 Bridge Road, Richmond.**

David Archibald is a Perth-based scientist working in the fields of oil exploration, medical research, climate science and energy. After graduating from Queensland University in geology in 1979, he worked in coal and oil shale exploration in Queensland and then in oil exploration with Esso in Sydney. A long period in stockbroking as an analyst was followed by work for a private investor. He subsequently floated the oil exploration company Oilex in 2003 and then joined a Canadian-listed oil exploration company in 2006. Also at that time, he was CEO of the mineral explorer Westgold Resources.

David began researching in climate science in 2006 and has published a number of papers in this field, and two books: *Solar Cycle 24* and *The Past and Future of Climate*. He also founded the field of "solareclimatology" which uses solar cycle length to predict climate up to 25 years in advance. David's work in this field was corroborated by three Norwegian scientists in a paper published in February 2012: Solheim, J.E., Stordahl, K. and Humlum, O. *The long sunspot cycle 23 predicts a significant temperature decrease in cycle 24* Journal of Atmospheric and Solar-Terrestrial Physics, February 2012.

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 Monday the 26<sup>th</sup> of May, 2014. Tickets will not be sent. Those attending should arrive at 6:30pm for dinner at 7:00pm. The cost is \$45.00 per head for members and \$50.00 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](mailto:asmith@adamsmithclub.org)**



— detach and return —

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

Please reserve ..... place(s) at \$45.00 dollars per member and .....place(s) at \$50.00 per non-member for the May 28<sup>th</sup> 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](mailto: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 Friday 23<sup>rd</sup> of May will not be accepted online. FEES - a \$2 card fee will apply for the transaction.

## PUBLIC TRANSPORT REBUTTAL

At the last meeting of the ASC Jackie Fristacky gave an interesting, entertaining, and well-researched talk on Public Transport. The following is a comment on what was a fine address, but also somewhat of a rebuttal.

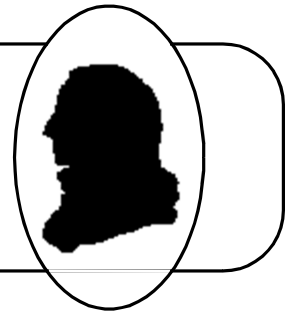
1. The aim of public transport is to provide safe, effective and efficient transport for the masses. However the word "public" is capable of two meanings. It can mean for the people generally or it can mean provision by government. It should be clear. If the latter meaning is intended it is socialism. If history and economic reasoning teaches us anything it is that socialism supplies an inferior service which is doomed to failure. The role of government should be confined to real (not sham) privatizing, the removing of any government barriers to competition, and maintaining order. It is competition by private suppliers that will solve the transport problems and provide a superior service. In this regard I note Ms Fristacky's admiration for Hong Kong, which, whilst far from perfect, is the epitome of existing free market enterprise.
2. Focusing mainly on existing modes of transport such as trams, trains, etc, is the wrong way to go. There are many exciting and new alternative possibilities such as minibuses and Jitneys, multi-hire taxis, and taxis with direct connection between driver and customer by mobile phone or internet computer. Competition will bring forth more.
3. Bike riding is a Luddite pipedream, particularly for a city as widespread and hilly as Melbourne. Okay for recreation but useless for mass transit. Bike riders on roads are a danger to themselves and a menace to other traffic. You don't see mass bike-riding in Hong Kong.
4. Taxis offer much possibility. However, presently in Melbourne the taxi industry is a classic example of the evils of corporatism, providing an inferior service, lucrative returns for the owners of the licences, and exploitation of the actual drivers. (See later article "Capture Theory".) If there were someone with the will and courage to overcome such evil, modern technology combined with freedom to compete could initiate a transit revolution in Melbourne.
5. With its numerous long, wide roads, Melbourne is a classic city for minibuses or jitneys travelling back and forth from one end to the other and back again, allowing passengers to board and leave where desired, and for a minimal fare. Again the same problems exist for potential operators as confront would be taxi operators.
6. Melbourne has an effective waterfront stretching from Queenscliff to Portsea and along the Yarra and Marybyrnong rivers. The potential exists for economically feasible, modern, high-speed ferry and watertaxi services.
7. Finally there is the potential for the privatization of roads, tunnels and bridges, or at least the implementation of a user pays system such as or similar to Singapore. *DBS*

### VENUE ARRANGEMENTS

For the May 28<sup>th</sup> dinner at Bohème Restaurant Bar, there will be a two course dinner (main & dessert, followed by tea or coffee). The restaurant is fully licensed (no BYO). 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 26<sup>th</sup> of May, **we are unable to admit anyone to the dinner who has not notified the Club of their attendance by Monday 26<sup>th</sup> of May.**

# Laissez Faire

Newsletter of the Australian Adam Smith Club (Melbourne), No 108, May 2014



## NEWSPAPERS WILL SURVIVE

Unless you are a keen follower of the share market, you may be stunned to learn that the best performing stock over the last three months is Fairfax. Fairfax, publisher of “The Age,” “The Sydney Morning Herald” and the “Australian Financial Review,” among other titles Fairfax bottomed at around 30 cents when the gloom over hard copy news sources reached its nadir. It settled at around 60 cents for a while and now is sitting at 90 cents. Not a bad return for anyone who was prepared to challenge the popular wisdom that hard copy newspapers had no future. Instead of being on death row, the Sydney-based publisher is leading the pack.

It hasn't been easy to get back into the black. The Age recently announced that it would sack a substantial number of its editorial staff. Newspapers have made tough choices before to accommodate new technology. About 40 years ago newspapers abandoned “hot metal.” The linotype presses that had been the basis of newspaper production for decades were junked and the highly skilled linotype operators and mechanics were out of a job. This so-called “new technology” kept newspapers in business by lowering costs and boosting production standards. The “new technology” held back the tide of technological change, in particular television, for a good while, but like King Canute, it couldn't stop it.

“The Age” is not the only paper cutting staff to cope with falling circulations, and more importantly, display advertising. News Ltd has cut editorial staff on the “Herald Sun” by half over the last several years. Just how long “The Australian” will last is a matter that has long fascinated observers of the Murdoch empire, because its well-known lack of profitability is compensated for only by its utility as an organ of the party press. Once it loses that utility, or the bean counters gain the upper hand, it's good bye “Australian.”

One thing you can say about Rupert Murdoch is that he cut his teeth in the newsroom of “The News” in Adelaide. He doesn't like folding titles, except under extreme duress, as with the News of the World” in London. He is a newspaperman through and through. He doesn't like “Fairfax wankers” who

are parachuted into management positions. Murdoch is an old-style proprietor who was born with printers' ink in his veins.

Fairfax is squeezing the lemon hard. The “Australian Financial Review” has a cover price of an eye-watering \$3.50, putting a regular subscription out of reach of many private investors, for whom a bill in excess of \$1,000 a year can't be justified by the returns generated. The AFR no longer has the in depth features for which it was famous, and has little hard company news that can't be obtained from press releases. A heavy diet of commentary and opinion won't generate the insights that stock market investors seek from their subscription to a “financial” newspaper. Of course, if you are an investment banker the firm will pay for it, so it doesn't matter what it costs.

Various online financial services, such as Alan Kohler's “Eureka Report” are a challenge to hard copy papers. They are a step up from the tip sheets that have been around for years, which may – or may not – offer useful advice. But for those who want such investment advice, just remember that the dartboard is always a very strong contender in any stock tipping competition. In other words, picking winners on the stock exchange can be a very random affair.

Newspapers can occasionally still snare big exclusives, such as the fisticuffs between James Packer and David Gyngell, whose bout was splashed all over the Murdoch publications. They can also be useful for magazine-style supplements and reviews, as in the Fairfax weekend publications. Readers find it more pleasurable to linger over a Sunday coffee with the magazine section or to lie snugly in bed reading the latest film reviews, instead of peering at a computer screen.

Fairfax still has winners, like the “Domain” real estate supplement, inserted into their weekend titles. For all the gloom about newspapers, following its recent float, News Corp Australia has done well. Fairfax has tripled its stock price over the last year. It's hard to argue that newspapers are dead against evidence like that. *JRB*

# CAPTURE THEORY

Capture theory (aka Regulatory Capture) is a part of the economics of regulation. It purports to explain the reality and rationale of much present-day government economic regulation. In particular it seeks to examine and determine the identity and motives of those who are supportive of the introduction of new or increased regulation.

Government economic regulation, i.e. government intervention into the market, comprises taxes, subsidies and controls of all sorts, imposed by government, for the stated purpose of promoting and controlling the efficiency and/or equity and/or integrity of economic activity in general, and for achieving specific beneficial goals in such areas of the economy as desired by government.

There are a number of theories that purport to explain the basis for government economic regulation. They include the following.

The government acts in response to demands from the public for action to overcome perceived shortcomings in otherwise unregulated economic activity (sometimes referred to as market failure) or otherwise in order to improve the results that the public receives from unregulated economic activity. This is a benevolent view and is probably the most widely propounded and perceived basis for government economic regulation.

A second and less benevolent view of the basis for government economic regulation is that it is initiated, not in response to demands from the public, but by government itself, for the purpose of expanding the size and control of government, and hence of increasing the power and influence of government and the bureaucracy.

Capture theory provides a third and perhaps even less benevolent view of the basis for the initiating (and maintaining) of government economic regulation. The theory postulates that much if not most economic regulation is initiated by existing participants in an industry or activity who are seeking the protection of government, the more easily to exploit the public and/or to shield existing participants from competition. In effect, such existing participants are thereby seeking to create a legally sanctioned cartel. Provided they have some say in the making of the regulations and of their content (which is usually the case) existing participants in such industry are happy to insist on government regulation.

Typically government regulation once put in place leads to the creation, or assignment of an existing, government agency or bureau to administer the operation of the regulations. Capture theory postulates that the existing industry or activity participants then seek to influence and ultimately effectively take over the running of such agency or bureau so that its activities are directed towards benefiting the members of the regulated industry or activity rather than the public. Moreover such capturing is ongoing so that even in the unlikely event that the regulations are initially totally unfavourable to the interests of the participants in the regulated industry or activity, they will on capturing such agency or bureau be able to turn the situation around so that henceforward it works for the benefit of the members of industry or activity rather than for the public.

Those involved in a particular industry or activity have a significant stake in the controls and conditions that affect it. They are in a position and likely to expend time, money and effort to achieve a favourable result for their own vested interests. Conversely, consumers, albeit likely to be much larger in number, are individually unlikely to have other than a minor interest in such controls and conditions, and are rationally unlikely to expend much time, money or effort opposing measures that are against their interest.

Moreover, because vested interests in a particular industry or activity have a major focused concern with the actions and activities of any relevant agency or bureau set up to regulate them, a close relationship is likely to develop between them. In so far as expertise and understanding of the particular industry or activity is required for its effective regulation, the agency or bureau can be obliged to look to the participants in the industry or activity to provide it. In what is sometimes referred to as the revolving door, members of the agency or bureau are often recruited from the relevant industry or activity, spend a few years in government service, and then return to their original industry or activity. Similarly long serving members of the agency or bureau often retire into the industry or activity they were responsible for regulating. In any event the industry or activity is thus able to exert considerable ongoing influence over the agency or bureau. Critics of economic regulation suggest that most major regulatory agencies and bureaus throughout the world have, to a greater or lesser extent, been captured by the industry or activity they have been set up to regulate. A particularly recent egregious example is the U S Securities & Exchange Commission which has been described by a leading American journalist Matt Taibbi as an agency that was set up to protect the public from Wall Street, but which now protects Wall Street from the public.

Examples of regulatory capture abound in Australia. For example, by any standard the quality of taxi service in Melbourne is abysmal. Operators are possessed of government licences not long ago worth in excess of half a million dollars. Following recent suggestions of minor reforms, a Victorian MP was assaulted on the steps of Parliament.

In Crikey, the internet blog, on 4 October 2005 consumer banking advocate Peter Mair wrote; "It is the foundation of the "capture theory" of regulation that the regulated capture the regulators. One corollary of this is no regulation remains on the books that does not suit the regulated. My lifetime experience in the regulatory framework in Australia is that both these observations hold always..... it is salutary to reflect on the sheer regulatory power wielded by some industries - by the racing industry in the different states, by the retail banking industry (particularly the payments system cartels) and by the superannuation industry." *DBS*