

Australian Adam Smith Club (Melbourne)

President: Michael Warby, Editor: Regina Bron, P.O. Box 950, Hawthorn, 3122

Politics is a choice of enemas. You're gonna get it up the ass, no matter what you do..
attrib. George V. Higgins (b. 1939)

Jim Carlton on *The Real Issues For November 10*

The Adam Smith Club will host a dinner meeting on Wednesday the 31st of October 2001, at the Retreat Hotel, 226 Nicholson St, Abbotsford.

Jim Carlton began his political career on campus as President of the Liberal Club and President of the Students Representative Council at Sydney University in the mid-fifties. After fifteen years in the business world (nine in the UK manufacturing industry, then with McKinsey in Melbourne and Sydney) he succeeded Sir John Carrick as General Secretary of the NSW Liberal Party during the McMahon - Snedden - Fraser periods. From 1977 to 1994 he represented Mackellar in the Federal Parliament, was Minister for Health under Fraser, then Shadow Minister for almost everything else over ten years in opposition. Together with John Hyde and Peter Shack he formed the (eventually) influential group of 'dries'.

Leaving parliament in 1994, he has served as Secretary General of Australian Red Cross for seven years, and is now back in consulting. He also chairs the National Archives Advisory Council, is on the Board of the newly created Australian Strategic Policy Institute, and is an Adjunct Professor at the National Institute for Governance at the University of Canberra. Jim Carlton will discuss what he believes are the really important areas of policy to examine from the viewpoint of one of the original economic 'dries'.

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 29th of October 2001. Tickets will not be sent. Those attending should arrive at 6.30pm for dinner at 7.00pm. The cost is \$32.00 per head for members and \$37.00 per head for non-members (PTO for explanation of arrangements).

**Enquiries to Ms Regina Bron, tel 9859 8277 (AH)
or Dr Tom Jellinek, tel 9706 7400 (BH)**

✂----- detach and return -----

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

Please reserve place(s) at \$32.00 dollars per member andplace(s) at \$36.00 per non-member for the October 31st 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 a new address on the web: <http://www.economic-justice.org/asmith.htm>. The Institute for Economic Justice has been created by David Sharp a former president (and current committee member) and Timothy Warner the current Treasurer of the Club. As stated on the web site, 'The Institute has been founded to assist those who have been subject to economic injustice, and to increase both public and professional awareness of remedies available under the Law.'

ANSETT MARK 1 & CREATIVE DESTRUCTION

The coining of the term "creative destruction" is ascribed to the famous Austrian economist Joseph Schumpeter. It is reflective of the view that change is the only constant and that destruction is inherent in creation. Innovation is necessarily destructive of the status quo. The crucial reason for the success of capitalism is its ability and willingness to embrace change; new ideas, new products, new methods, and new organizations. Equally as important is the willingness and ability to see off the passe, the less productive and the less profitable and allow them to be replaced by the modern, the more productive and the more profitable. Many world leaders and influential people are supportive of the concept including for instance Lee Kuan Yew, the senior Minister of Singapore, the island state home of one of the world's most successful airlines.

A month has now passed since the collapse of what is being called Ansett Mark 1. Copious media coverage of its demise and the start-up of Ansett Mark 2 has enabled a number of tentative conclusions to be drawn about possible reasons for its failure. They include:

Ansett was massively unprofitable losing at the end more than a million dollars a day. Knowing as we do now the parlous state of many of the world's airlines this should not surprise us. When Virgin Blue and Impulse commenced flying aviation commentators predicted that by this time only two airlines would still be flying and that it should not be assumed that they would be Qantas and Ansett

Ansett had a public service mentality. In a very real sense Ansett was and remained till the end a government airline. Founder Reg Ansett's real forte was not so much in organizing and running a national airline but in lobbying and manipulating governments both state and federal. His success in enlisting the Victorian government on one occasion to prevent a takeover is just an example. Public pronouncements at the end suggest that Ansett regarded itself not as a commercial airline but rather as part of the national infrastructure, to be kept afloat if necessary by periodic government subsidies.

Ansett was a dinosaur. Two of the most recent oft-used words to describe the airline were institution and icon. The words were said kindly but hardly evoke an image of what most people are likely to be looking for in an airline. Its disastrous safety problems which manifested themselves at Easter were symptomatic of this. Not so much that they occurred – such things can happen in the best run organization - but that they occurred on such a scale and were managed so poorly.

Ansett's management has been largely and perhaps rightly much criticized. One consequence of poor management is that Ansett was apparently subject to staff takeover and primarily run for the benefit of the staff. Many seem to have had the view that as Ansett employees they were entitled to a comfortable and secure job for life. Critics have suggested that with 16-17,000 employees they were hopelessly overstaffed. At a time of a world-wide pilot shortage Ansett employed 800 pilots though only about 300 of these were thought likely to be needed by Australian airlines in the future. Staff entitlements, which seem to have been an immediate cause of the decision to close, had reached an amount of somewhere between \$500 million and a billion. Some staff were said to have severance pay entitlement of 104 weeks pay. Negotiations by Qantas and Virgin Blue to charter Ansett aircraft and crew apparently foundered because of unrealistic demands to maintain Ansett pay and conditions.

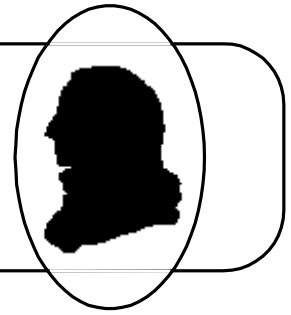
The demise of Ansett Mark 1 has create a real opportunity for aviation in Australia the benefits of which hopefully the consumers will be permitted to share. Much of the Ansett facilities will become available to potential new entrants as well as skilled and experienced personnel. A large part of the dead hand of the former duopoly policy has been lifted in one fell stroke. Cabotage, the policy of not allowing foreign carriers access to the domestic market, has been from necessity to some extent lifted; Garuda has been permitted to take passengers between Darwin and Adelaide and Air Mauritius between Perth and the East Coast. The long overdue permanent end to cabotage can only benefit consumers. As long as Ansett Mark.2 does not aspire to be a re-run of Mark.1 then it may be the herald of a new golden age in Australian aviation. We should wish it well. *DBS*

VENUE ARRANGEMENTS

In order to control costs the Club is attempting a number of new formats for our meetings. Drink is not included in the price but can be purchased at the venue. An upstairs room has been reserved for the dinner meeting. We hope these arrangements do not cause inconvenience and we welcome your feedback.

Laissez Faire

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WHY DO WE DESPISE AMERICA?

Much has been written about 11 September 2001. I was in New York at the time, directly impacted more than most, but mercifully, less than many. My admiration for the people of New York, some of their leaders and many “emergency workers” is as high as for any people in crisis at any time.

New York is a dormitory town for people from every land, most seeking fame or fortune. In tragedy they showed a common bond of humanity, respect for life, calm rationality and a deep desire not to let evil overcome freedom.

Inevitably I watched a lot of media coverage, crisis disrupts lives and leaves emptiness interrupted by boredom. That coverage showed 75% focus on the loss and efforts at recovery. The balance was serious analysis of the issues – there was very little demand for revenge, some discussion of what justice might demand and a great deal of caution about blaming innocents.

I saw and spoke to no-one in NYC who mentioned revenge, but many who cautioned that justice demanded truth and analysis. The US official reaction has been consistent with this. Evidence

is being prepared, no gun has been fired, priority has been with the victims. Serious consideration of difficult diplomatic, military and legal challenges has been to the fore.

And so on return to Australia, I have been astounded to see media coverage that is a caricature of the American response. The focus is on warplanes and war (good footage), the fear is of indiscriminate retaliation, the expectation that the US will over react. I have heard comment innumerable that “Well the event is horrible, but the US” or “we are profoundly disturbed by the evil of 11 September, but the underlying causes of unequal wealth distribution must be addressed” or “we need a return to the generous America of the post-war era”. There is also disproportionate comment on US involvement in Israel as a driver.

Now certainly interventionist foreign policy has consequences but the demands for US involvement are often stronger outside the country than inside. Fear of US “isolationism” internationally has been greater than criticism of often ham fisted

interventions. Yet generally well intentioned foreign policy failure seems irrelevant against the murder of innocents on the scale of 11 September.

The lack of wealth of people and governments who would deny the proven efficacy of markets and trade to deliver that wealth cannot be seen as a cause of terror. Rather, the lack of freedom in those countries and the ideas of authorities that deny liberty to their people are the underlying cause. The US, as Australia, may have imperfectly open markets and borders, but this is a minor influence on the wealth of poor countries in comparison with domestic oppression.

Reticence about genuine and full support for the US perhaps founded on the filter of a media with subtle biases, says more about the fears of Australians than the reality of the complex American response to tragedy. American wealth is founded on the liberties of its people. We should celebrate and strive for greater liberty in all lands. This will ultimately respond most tellingly to terrorists. *WJS*

REVERTING TO TYPE

The election campaign is forty eight hours old as I write this and the sentiments of the leading parties are certainly clear. The Liberal Party has stated that should the increase in revenue ever out run the increase in ongoing costs then the taxpayer should have some relief. The Labor Party has let it be known that any available revenue (and any non-existent revenue?) will go to increasing government ‘programmes’.

It’s a poor choice that is offered, but it is a choice. The only thing to be said for the ALP is that it may bring on a tax payer revolt sooner rather than later, and that is faint praise indeed. *TW*

ANDREW BOLT

Our last meeting at the Curry Club Cafe resulted in some of the most intense questioning and verbal sparring the club has seen in some time. Andrew Bolt spoke on the near religious nature of the left and the conservation movement, and the lack of rigour in examining the claims of these groups.

Andrew also spoke of the retreat of the traditional bastions of western civilisation such as the churches and how they have been undermined and are unwilling to fight for their own culture.

The decline of the Church of England into the shell of Anglicanism was highlighted as an example of this during the discussion time.

The way in which the left and the greens actually loath the west was detailed by Andrew reading from an article being prepared for the following Thursdays ‘Herald Sun’. By counter posing statements by Saddam Hussein with comments by a variety of Australian and left leaning commentators he showed the similarity of outlook between these supposedly differing groups. *TW*

IN DEFENCE OF VENDOR BIDDING

The last *Laissez Faire* carried an article entitled “Fictitious bidding and free markets”, which effectively condemned the practice of vendor bidding at auctions.

The fundamental point missed by those taking issue with vendor bidding is that (at least in the context of the real estate market) the auction is conducted by an agent acting for the vendor. It is, in all respects, a vendor’s auction, advertised, conducted and paid for by the vendor. The object of the exercise is to realise the best price that the market will yield for the vendor. The purpose is not to allow bargains to be snapped up by prospective purchasers, although this may well be the result of a poor market with a vendor keen to sell. The vendor does not invest in conducting the auction to provide a public service or free entertainment, its purpose is to maximise the vendor’s return. It is entirely legitimate for an auctioneer to try to achieve the best result for his or her client.

The situation may be different where both vendors and purchasers have bought into the market to ensure it is conducted without advantage to either party, such as markets requiring the purchase of a seat to participate (for example, the way stock markets were formerly conducted). However in the context of standard Saturday morning real property auction, it is the vendor who is offering the property for sale, and at whose invitation the prospective bidders attend.

The rules of the auction, which may be read out by the auctioneer or otherwise are available for inspection on site, almost invariably preserve the vendor’s right to bid. This is the basis on which the auction is conducted, and on which prospective purchasers choose to bid. As well as the specific notice being given, the practice is widely known – it is hard to imagine any bidder at an auction being unaware of the vendor’s right to bid. A bidder not content to participate in such a market has an easy solution – do not bid. No one is compelled to bid at an auction. Sale by private treaty remains an option taken by many people not wishing to take their chances in an auction. The solution is not for the freely participating bidder to cry foul, with allegations of fraud, when the vendor exercises the specifically preserved right to lodge a bid.

Viewed in this way the bidders have little standing to complain about the rules under which the auction is conducted. But is there really any evil being done to justify such a complaint? Moreover, can it constitute a fraud in the manner suggested by the article?

Vendor bidding is used to ascertain whether the market will produce a price that will be of interest to a vendor. An agent should never use vendor bidding once the reserve price has been reached: to do so would run an unjustifiable risk that the property will be knocked down and “sold” on a vendor’s bid. As a matter of practice the REIV guidelines prevent vendor bidding above the reserve. The use of vendor bidding simply prevents the bidding stalling with the property being passed in well below reserve when bidders are prepared to offer more.

The effect of this is that no-one pays more than would otherwise be the case for a property because of the practice. It is not that a vendor bid prevents a purchaser buying a property at a lesser price: the property would not have been sold at the lesser price. If there is to be a “meeting of minds” on the price then the vendor bid helps to establish whether the prospective purchasers are prepared to offer a price approaching a level on which a sale could take place.

But quite apart from the practical point that vendor bidding is not used when the property is “on the market”, it is hard to see how the practice could be fraudulent. A suggestion that vendor bidding constitutes fraud overlooks the fact that the rules of the auction invariably allow vendor bids to be taken. Can a free participant in a market, which specifically reserves the right to vendor bidding, claim to be defrauded when that right is exercised?

Moreover, what the bidder claiming fraud is really saying, is that they hoped to purchase a property for less money, yet the vendor’s actions encouraged them to spend more. The point remains that just as no person is compelled to attend an auction, no person is compelled to pay more than they are willing to spend. Bidding is purely voluntary. If the price is more than the bidder wishes to pay, the remedy is simple – bid no further. If the bidding, even if influenced by vendor bidding, still sees the property sold to the bidder at a price they are prepared to pay, the auction has done its job.

Any representation as to what others think a property is worth (unless that other person is a valuer or other expert) is not fraudulent as it is of no relevance to the bidder’s own decision on how much they are prepared to pay. If a bidder believes other people are prepared to pay more for the property than they are, the answer is to go no higher with the bidding. Whether the bid is from the vendor or other prospective purchasers is of no relevance to that decision. On the basis that no person pays more than they are willing to pay because of vendor bidding, it is hard to see how it could constitute fraud. Instead of relying on the law of fraud, opponents of the practice would require action from either the legislature or the market.

The issue of state intervention to help ensure the free operation of a market is a vexed one. For free market purists, any interference by government introduces inefficiencies into the market which cannot be justified. It is worthy of note that in auctions for some types of goods legislative action has already been taken in the form of section 64(e) of the *Goods Act 1958* (Vic). This permits a vendor to bid where that right has been expressly reserved. Other than perhaps extending this provision to apply to real estate, it is difficult to see why any more strident legislative action should be taken.

In looking to the market for action, perhaps those people, and particularly estate agents, who protest about the use of vendor bidding, should consider conducting auctions at which no vendor bidding is permitted. They could be promoted as such, and if the market truly wishes to see vendor bidding eliminated, such auctions should prosper. No doubt such auctions would be attractive to purchasers hoping to buy properties at lower prices. One can however speculate that vendors would have a markedly lesser degree of enthusiasm to list their properties at auctions which have that objective. In the best tradition of the “invisible hand”, an auction which will not encourage the best price from the market will hold little attraction for a vendor.

Like shareholders who eschew “unethical investments” in companies conducting certain forms of business, the vendor listing with an agent not allowing vendor bidding would be putting a commitment to a set of principles ahead of maximising profits. It would be a rare vendor indeed who shows that level of commitment to eradicating the supposed evil of vendor bidding. *RM*

The views expressed in this newsletter are those of the contributors and do not necessarily reflect the views of the Australian Adam Smith Club.