Australian Adam Smith Club
(Melbourne)

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The endowments of schools and colleges have necessarily diminished more or less the necessity of application in the teachers. Their subsistence, so far as it arises from their salaries, is evidently derived from a fund altogether independent from their success and reputation in their particular professions.
***Adam Smith** (1776)*

Bob Morgan

on

Education:
Private Choice or Public Policy

The Adam Smith Club will host a dinner meeting on Monday the 19th of April, 2004, at H Q Cafe 436 Elgar Rd, Box Hill.

Bob Morgan will speak on the experience of teaching in the private and government school systems, and why he felt the need to found his own college. Bob is an educator with 35 years experience in both government and independent schools. For a number of years he has given presentations at conferences of Mathematics and Science teachers on teaching methods, discipline and school atmosphere.

As a result of the problems in the existing education systems he started Alia College in 1999. The school is founded on providing a sound academic education without the restrictions and punishments that characterise secondary schooling. Currently he teaches Mathematics, Latin, a little Rhetoric and somehow finds time to be Headmaster.

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 Friday the 16th of April 2004. Tickets will not be sent. Those attending should arrive at 6:30pm for dinner at 7:00pm. The cost is $35.00 per head for members and $40.00 per head for non-members (see next page for explanation of arrangements).

Enquiries to Ms Regina Bron, tel 9859 8277 (AH)
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detach and return

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

Please reserve .... place(s) at $35.00 dollars per member and ....place(s) at $40.00 per non-member for the April 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 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.'

REPORT ON THE MARCH MEETING.

Steven Kates gave a very interesting talk on the development of what is now referred to as Say's Law. One of the more fascinating points raised by the speech was that Say's Law was not called as such until the twentieth century, and has not been strictly formulated, certainly not by Say himself. However, what we call Say's Law is the natural outcome of his work.

The work of Say has also been misrepresented by those who seek to promote systems such as Keynes´, where claims have been made that the government can create work and alleviate want by "creating" demand. A common misrepresentation is to state that classical theory such as Say does not deal with market failure occasioned by a collapse in demand.

Classical theory in fact states that demand has not collapsed, but that misallocation has wasted value and until the market can re-establish prices and production to suit a dynamic equilibrium where value is equal, then manufacturing capacity and goods may be unused. The common sense statement of Say's Law is breathtakingly obvious (as so much good economic theory is) - the value of goods to be sold and the value of goods demanded are equal. Wants per se are always infinite, after settling the requirements of life itself there are always other wants in decreasing order of necessity. What regulates the market is what value can be exchanged for those items brought to market.

Steven made the interesting point that this theory takes no position as to government intervention such as welfare, only that it is not really making any change to demand, it is taking value (by tax or inflation) and utilising that value as a political decision.

The Curry Club put on a fine spread as we have come to expect, and the courtyard setting made for a very easy discussion and question time. It was also good to see the newlyweds Prodos and Sydney at the dinner.

Tim Warner

Hon Secretary/Treasurer

A CANDLE IN THE DARKNESS

It is rare these days to find any government action that one could truly commend from the point of view of freedom. Last week the Federal Government served notice that it intends to legislate to strike down the expansion by the Arbitration Commission of the redundancy payouts for small business.

The Federal Minister Kevin Andrews has noted that business start ups will just slow down, and existing small businesses will have to create an immediate provision for all their employees. How is this going to encourage employment or innovation?

Who asked for this intrusion, the worker? Not surprisingly the unions acting on behalf of workers in small business. However, most of these workers are not Union members, with private workers' Union membership at only 19% and even less for small business.

Full marks for this one particular action to let workers and employers set there own rules. *TW*

VENUE ARRANGEMENTS

The restaurant is fully licensed. BYO is not available. House wine will be available for $4.50 per glass or $15 per bottle. (Other drinks are also available to be purchased.) The whole restaurant has been reserved for the Australian Adam Smith Club Dinner.

We hope these arrangements do not cause inconvenience and we welcome your feedback.

Laissez Faire

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POPULATE OR WHAT?

As a nation, we are at risk of depopulation. Our reproduction rate is less than replacement, let alone allowing population growth. Without growth our local economy stagnates. Without growth through children, support for our aging population becomes a much heavier burden falling on a narrower base.

Our government has finally recognized that young women are following different paths than their mothers and grandmothers, deferring childbirth until their thirties or later, if at all, and are desperately trying to develop policy to reverse this trend. Their primary attack has been to develop a form of universal maternity leave.

But just as a pet is for life, not just for Christmas, so too are children.

What they fail to realize is that a payment or promise of payment in the first year of a baby's life is not the deciding factor. Maybe politicians, trained to think three or at the most four years in advance at a time may be forgiven for mistakenly believing that young women and their partners do so too. There are many complex reasons for couples deciding to or not to have children. It is usually not solely the woman's choice.

We live in a society that downgrades motherhood, while at the same time lauds women's progress up the corporate ladder. We live in a society where those on low to middle incomes find it hard to live on one income alone.

We live in a society where we expect to be able to provide well for ourselves and our children in terms of education, technology and lifestyles.

Parents need recognition of the financial burden of raising children as well as its social impact. While social attitudes are more difficult to change, and monetary gifts more instantaneous, it is not enough to throw money at them for a few months of the child's life, what about the next 15 or 20 years? Tax breaks or bonuses cannot be targeted at babies alone, thus alienating all those struggling families with older children and those without. Tax breaks or bonuses must be universal. Reducing taxes, increasing thresholds, allowing additional deductibilities, educational allowances or vouchers are all possibilities that need to be sensibly explored.

Children are our future. Our children are the doctors, nurses, teachers, shop assistants, chefs, pilots, tradesmen, hairdressers, policemen and politicians of tomorrow, on whose services we will depend as we age.

Good policy, like pets too, is for life, not just for the next election. *RB*

THE BANKS & REAL CREDIT

One of the questions often asked by young (and not so young) people when they first become aware that the government has a monopoly on the creating of money - and that one way it does so is by printing pieces of plastic - is 'Why doesn't the government create enough money and spread it around so as to eliminate poverty altogether?'

Part of the answer of course was supplied by our last guest speaker, Stephen Kates, when he expounded on Say's Law, one of the most fundamental of economic propositions. For there to be consumption, which is the basic goal of all economic activity, there must first be production. In that regard money is merely a medium of exchange. What is necessary to eliminate poverty is for the goods and services needed and desired to be produced and for which the money can then be exchanged. Moreover, unlike commodity money (such as gold and silver coins) which ultimately is always worth at least its value as a commodity, government plastic (or fiat) money is ultimately worth only the plastic it is printed on. In any event, simply creating money and spreading it around can not eliminate poverty, it merely creates inflation.

A further part of the answer can be found in a significant recent article by leading Sydney based Austrian School economist Frank Shostack entitled 'How Healthy are the Banks' (www.mises.org 30/3/2004). One of the ways of effectively increasing the supply of money is to expand the amount of credit available through the banking system. US Federal Reserve Chairman Alan Greenspan recently characterised the U.S. banking system as strong with ample credit available for the economy. In challenging Greenspan's view, Shostack noted a deterioration in the quality of bank credit.

Shostack divides bank credit into two kinds which he calls good credit and false credit. The former arises from the amount of saved production which is then lent out. The latter, to the contrary, arises from the central bank, artificially low interest rates, fractional reserves, deposit insurance and bailout guarantees. Good credit is beneficial and promotes the creation of real wealth but it depends on the existence of production and savings. But false credit is a recipe for disaster. Its use effectively draws resources from more beneficial to less beneficial uses and leads to stagflation and a deteriorating economy. Shostack notes what he sees as a low and deteriorating savings rates, rock bottom interest rates, household balance sheets in a precarious position and a vulnerable banking system. Overall what Shostack seems to be describing is the stage in the Austrian School of the Trade Cycle when the boom evident in the Stock and Housing markets moves into depression. If this is so, then rather than eliminating poverty, the creation of money (or in this case credit) will have been the cause of its increase. *DBS*

THOUGHTS ON MONEY

Money is the second most common topic of conversation. Expressions such as “money makes the world go round” and “money is the root of all evil” support the view that money is important. Even those who assert the contrary view, viz that money is not important, are generally assuming that they will at least always have enough for their own purposes.

The origins and meaning of money are a matter of dispute. That it is “a medium of exchange” is an acceptable definition but incomplete since money performs a number of other functions. Nor does it address the arguments as to whether money is the creation of the market or the state or whether it must be a commodity. A widely accepted approach is to define money as “anything that fulfils the functions of money”.

There are four generally accepted functions of money. They are that it acts as: a Medium of Exchange, a Store of Value, a Measure of Account and Standard of Deferred Payment. Of the four functions of money the primary one is that of acting as a medium of exchange. The existence of a satisfactory medium of exchange is an essential requirement for trade to exist, other than at the most basic level. This is the basic function; the others are derivative.

Trade is one of the distinguishing features of humankind. No dog, as Adam Smith said, exchanges bones with another. The realization that both parties to an exchange of goods or services benefit was an eventful step in the development of humanity. But barter (or truck) i.e. the direct exchange of goods or services, is inflexible and inconvenient. You have to find somebody with something you want who in turn wants what you have to offer. People soon realized that some highly and regularly desired commodities could be used to facilitate the process by acting as an intermediate good or medium of exchange. Such things could be taken in a trade, even if one had no immediate use for them, secure in the knowledge that one could readily on-trade them in the future. By such indirect means, people were spared the need to find direct matches for what they wanted with what they had to offer. At that stage, those who subscribe to the market theory of money say money was born. With the exception of writing there is probably no more important discovery or invention in the history of economic development.

At various times and places many commodities were used as a medium of exchange including grains, cattle, shells, tobacco (particularly cigarettes), alcohol, jewels and so forth. Eventually, over hundreds of years, the precious metals, particularly gold and silver, came to be the most widely accepted medium of exchange. Ultimately one or other or both became almost universally accepted within a particular area and in fact throughout the world. Those who subscribe to the state theory of money, i.e. that money is the creation of the state, would say that money did not arise until a government selected a metal, minted or authorized its minting into a coin of a certain weight and fineness, gave it a name and directed that it be accepted in exchange.

From the above it is possible to deduce the necessary characteristics of money. They include;

- Durable; money must be capable of standing up to a good deal of wear and tear. It can not be perishable.
- Portable; it should be readily capable of being moved around and carried on the person.
- Divisible; it should be capable of division into small units.
- Distinctive; it should be easily distinguishable from non-money.
- Consistent; one unit should be the same as another
- Convenient; it should be readily useable and transferable
- Limited; supply should be limited and stable

A final characteristic is a matter of dispute. One view (the commodity money school) holds that money must have a commodity value. That is to say, that it must have a separate worth as a commodity quite apart from its value as a medium of exchange. According to this view, all money must be commodity money. Without such separate value it cannot, for instance, fulfil the function of acting as a store of value. Other forms of what might be referred to as money are not money at all but rather money substitutes, which cannot continue indefinitely, in, as is presently the case, the absence of commodity money. Others, however, insist that this is not so, that commodity money is merely a step in the evolution of money and that modern forms of fiat or government money are perfectly capable of acting as a store of value. Rather, commodity money is a relic of the past.

The view that money originated in the market appears to be correct. It is plausible and more likely that it would have appeared at an earlier stage than the development of government. And it is difficult to conceive how government could arbitrarily choose something and successfully direct that henceforward it should act as a medium of exchange at a certain accepted value without it being a commodity that already had an established history of acting as such.

Commodity money is the money of free people. It does not require the consent or continuing approval of any government to retain its value. History is replete with examples of the value of non-commodity money being diminished or even totally abolished by the arbitrary whim of government. Commodity money is also universal money; an ounce of gold is an ounce of gold anywhere. *DBS*

COPENHAGEN CONSENSUS

In the last month a high powered academic team has been created to look at the real issues facing the twenty first century; not what is gaining the headlines, but what can be proven as threats and what are the costs of the respective solutions.

This team has been assembled by Bjorn Lomborg, *The Economist* magazine and the Chicago University School of Economics. A conference has been called in Copenhagen for 24-28th May, at which papers by noted economists, agrarian scientists, climatologists and others will be delivered. The costs versus benefits will be ascribed real values.

Then we can then start discussions on some of those items with some serious numbers and hard facts, rather than press releases´ from interest groups.

The group’s website can be found at http://www.copenhagenconsensus.com *TW*