

Australian Adam Smith Club (Melbourne)

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

The whole point of prioritization is to use our resources as well as possible, on the basis of all information available. For this reason, the precautionary principle should not be used to tip the scales a bit more in favour of the environment, ... In this way, the precautionary principle is actually all about making worse decisions than we need to.
Bjorn Lomborg (2001)

Dr Sonja Boehmer-Christiansen on The Precautionary Principle & Global Warming

**The Adam Smith Club will host a dinner meeting on Monday the 7th of June, 2004,
at Laikon Greek Restaurant, 270-272 Swan Street , Richmond.**

Born in Dresden, Sonja Boehmer-Christiansen left East Germany in 1956 and eventually trained as a geographer in Adelaide, completing her first research degree in geomorphology. Her subsequent return to Europe saw her interests change to politics, policy analysis and environmentalism. Having studied such issues as acid rain, global warming and the growth of the “green” movement, her views of that movement turned sceptical, “Many of the motives of supporters of “green” solutions and ideas are suspect and the political ignorance or naivety of environmentalists are now a growing concern to me.” She has travelled widely in her research, mainly in connection with her interest in the politics of climate change and published a number of books, book chapters and many refereed journal articles.

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 4th of June 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 over for explanation of arrangements).

**Enquiries to Ms Regina Bron, tel 9859 8277 (AH)
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or email asmith@economic-justice.org**



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 andplace(s) at \$40.00 per non-member for the June 7th 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 APRIL MEETING.

The April Dinner had Bob Morgan, Principal of Alia College as guest speaker, on the topic of "Education: Private Choice or Public Policy". Bob gave the history of his career in education and how he came by the desire to try his hand at running a school on an untried model. He told of the difficulties in getting started and the success of his school and its pupils. His system involves strict academic standards and reporting of progress with an absence of formal rules of behaviour, behavioural standards being managed by the students themselves except in rare circumstances.

It was a great meal at the H Q Cafe in Box Hill, with a fine serve of passion from Bob to complete a memorable dinner. Thanks to the staff at the Cafe for their assistance and service.

Tim Warner
Hon Secretary/Treasurer

THE INNOCENT GO FREE?

The underworld slayings and the latest trials of the Victorian Police Force have produced yet another call for more police powers, and the cross linking of Federal Police powers and authority with the various state police.

The notion that the Police are an arm of government and that not all governments are benign seems to have totally slipped from the mind set of public debate.

Government is a tolerated evil, we agree to an organisation with certain powers of enforcement and coercion in return for what used to be termed the King's Peace. But this collection of power must be watched carefully; just because we wish murderers to get their just deserts like on "Law &

Order", does not mean we want the Police to enter our homes or detain us without good cause.

The Federal separation of powers, with no government - State or Federal - having a monopoly of force is a key check on abuse of power. To create a single police force for the sake of efficiency would be a grave error.

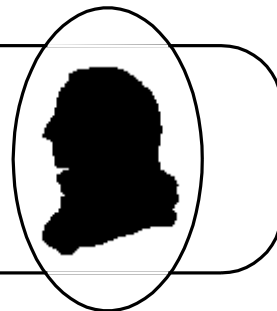
The old saying was "better that a hundred criminals go free than an innocent man be punished", and in a society that values freedom that concept is axiomatic - in Victoria in 2004 it is a concept that we have to remind the cabinet, the parliament and the voters is central to our liberal democratic tradition. TW

VENUE ARRANGEMENTS

Drink is not included in the price. BYO wine or purchase drinks from the restaurant which is fully licensed. 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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IT CAN'T HAPPEN HERE

A good read is available with the publication of *Radical Brisbane*, a corrective for all those who believe that Australia is a conservative nation, with an even more conservative northern state in Queensland. The series of articles on the Communist movement and its influence on Brisbane in the first half of the twentieth century make gripping reading.

The riots in support of the October Revolution of 1917 and the rise and violent end of Communist representation in the Queensland State Parliament are covered, the Labor Premier, "Ned" Hanlon, does not seem to have relied heavily on the will of the people to dispose of the Communist MP Fred Paterson in 1948, with physical assaults and a redistribution used to get the desired result. *TW*

Radical Brisbane edited by Raymond Evans & Carole Ferrier, Vulgar Press, 366p \$50.

THOUGHTS ON TRADE

Trade is the voluntary exchange by people of goods and services. In this regard, goods include money. By voluntary is generally meant that the decision to exchange was made by the people concerned, freely, unaffected by force or fraud. Although one can be forced by financial or other necessity to enter into an exchange one would otherwise not wish to transact, this is not usually regarded as rendering the exchange involuntary.

People trade with each other in order to obtain goods or services which they desire and which they cannot produce or otherwise obtain for themselves, either at all or as cheaply, whether in terms of time, effort or money.

Apart from satisfying their immediate wants by the acquisition of services, trade is one of the 4 ways, generally accepted as valid, that people can acquire property; the other 3 being producing it personally, (whether by making or discovering it), by gift and by inheritance. Alternatively people can acquire goods and services by taking them, in a myriad of ways, from other people. This tends to be regarded as invalid.

Trade stems from inequality and difference. If humans were identical with equal attributes, living in the same circumstances, then trade would not exist. By definition each would have the same desires and conditions and see no need to trade. It is because humans are unequal with different needs, training, outlooks, skills, desires and so forth and live in different circumstances that there is trade. Trade tends to reduce inequality and to alleviate the negative consequences of the different circumstances in which humans live. The law of comparative advantage operates to encourage people as producers to concentrate, in order to maximise their returns, on the production of whatever goods or services that they have the most comparative advantage or the least comparative disadvantage with respect to other people, and to engage in trade with such other people to satisfy their other wants.

Concentrating on products in which one has a

comparative advantage leads to an increase in trade. This in turn leads to innovation and enables greater Division of Labour (or specialization) to occur. The most famous example of this is the description of the pin factory by Adam Smith, where the individual production processes of pin making are performed by different workers, thereby expanding production of pins manyfold. Smith saw the increasing Division of Labour as the secret to worldwide prosperity. Marx on the other hand saw it as the cause of the brutalization and degradation of the worker, leading to his or her alienation.

Trade is not an exchange of equal values or a zero sum game. An exchange only occurs if each party feels he is better off by proceeding. By definition therefore, any trade is subjectively of mutual benefit to the parties. The outcome of any trade is that everyone involved is better off. It is thus a positive-sum game. It follows that the more that members of a community engage in trade the better off economically that community will be. Trade is the hallmark of prosperity.

When countries go to war they try to blockade the enemy to prevent it from engaging in trade, intending thereby to weaken it. Paradoxically when peace returns they are likely to blockade themselves by imposing protection. If, as economic theory would suggest, trade is an absolute benefit then it would seem to follow that any measure tending to prevent or inhibit it would be detrimental to the general welfare. There is no shortage of such measures. *Prima facie*, this appears to be irrational. In certain circumstances can trade be detrimental overall? It can be argued, at least with respect to children and people with diminished capacity, that the test of whether any trade is beneficial should be objective and judged by others, rather than by the subjective view of the parties involved. *DBS*

THE KEYNESIAN REVOLUTION: A REVOLT AGAINST SAY'S LAW

The so-called Keynesian Revolution refers to the fundamental worldwide change that occurred in the discipline of economics, following the publication in 1936 by English economist John Maynard Keynes (1883-1946) of his book *The General Theory of Employment, Interest & Money* (usually abbreviated to *The General Theory* or TGT), which comprised ideas and theories he had propounded over the previous 4 years.

In a world reeling from the effects of the Great Depression, Keynes' contrarian book created great excitement; to those fearful of a communist or fascist style revolution it raised the prospect of a much less fearful alternative, to economists the prospect of moving to the political centre-stage and becoming doctors to the world, to those suffering from the effects of the ongoing depression it offered hope. Not least, to the governments of the world, particularly that of the USA, it offered the chance to continue doing what they had been doing for some time beforehand viz creating and spending money, but for which previously they had been much criticised by the economists, including by some for thereby causing the Great Depression itself.

Within a few short years Keynesianism moved from radical to mainstream as governments eagerly embraced it. A new science came into being. For this to happen in the first place however it was necessary for Say's Law of Markets, previously regarded as a fundamental precept of economics, to be refuted.

Say's Law is named after French classical economist Jean-Baptiste Say (1767-1832) who is credited with first elucidating it. Say's basic principle was that in a barter situation supply constitutes demand. Thus A's production of apples enables him to exchange them with B for the strawberries that B has produced. The supply of each is the wherewithal of their respective demand. The introduction of money did not change the situation since its role was as a medium of exchange. Money was not consumed, but ultimately exchanged for goods or services, which were. The Law could therefore be expressed as production creates its own demand. If there were idle or underemployed resources (and Say's Law did not deny this possibility), it was not as a result of a general overproduction, which could not happen, but rather a failure to match correctly that which had been produced with what was wanted. The remedy was to allow adjustments to take place in price and use, not to increase the level of total spending or the volume of money, which would be likely to increase the mismatches and make matters worse.

Like Adam Smith, Say saw consumption as the goal of all production. But production was a sine-qua-non. To increase consumption, and hence the general well being, it was necessary to increase production. Thus Say stated, "It is the aim of good government to stimulate production, of bad government to encourage consumption".

Keynes' thesis, contrary to Say, was that a recession was caused by a failure in demand. As recent guest-speaker Steven Kates notes (in what has been described as his recent 'remarkable' book, *Say's Law & the Keynesian Revolution*), *The General Theory* was a book-length attempt to refute Say's Law. In order to do this he wilfully or ignorantly misrepresented it. The misrepresentations were such as to cause some critics to query whether Keynes had actually read Say. Regardless Keynes' thesis was swiftly taken up worldwide and Say's Law passed into near oblivion.

In a 1979 article American historian Clarence Carson described what he called Permanent Depression as having gripped much of the world including America for most of the 70's. He defined Permanent Depression as existing wherever there was an involuntary underemployment of land, labour or capital. Since there was less production than could have occurred, human wants were unsatisfied and well being was depressed. The level of depression could vary from minor to massive but it was nonetheless a depression. It was caused as he saw it by governments discouraging production.

Historically governments have discouraged production as a means of winning power; all producers have an interest in curtailing or eliminating competition and look to government to help them achieve this goal in return for their support. Previously this natural proclivity had been kept in check by the strictures of the economists. The completeness of the Keynesian victory had removed this restraint and established the proposition that the way to prosperity and increased well-being is to stimulate consumption and that thereby demand will create its own supply; keep demand up and production will follow. The likelihood of consumption occurring at the expense of investment and hence future production or resulting in the loss of existing capital and hence decreased production was glossed over.

The massive increase in the size and involvement of government in the latter half of the last century, largely as a result of the Keynesian Revolution, has led to an ever-increasing discouragement of production and encouragement of consumption. This occurs in numerous ways. Much of the increased regulation, controls and licensing have reduced production whilst redistribution and price fixing have increased consumption. Deficits and inflation seemingly encourage production but mask the price signals that enable it to be effective.

Keeping the above in mind enables us to resist the temptation unduly to celebrate the news that for the first time in 23 years the level of unemployment in Australia has sunk below 6% and that this is allegedly further evidence of a strong economy. Even accepting the carefully structured definition of employment and the accuracy of the latest figures the sobering fact is that for the last three decades Australia has endured, by one definition at least, continuous depression, with no real indication that this is likely to change for the better anytime soon. It is somewhat ironic to consider that the primary motive of Keynes in promoting his theory was to combat the misery of large-scale involuntary unemployment and that the promise of the Keynesian Revolution was that it would never happen again. *DBS*