

Australian Adam Smith Club (Melbourne)

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

Lean liberty is better than fat slavery.
John Ray. English Proverbs (1670)

Charles Richardson

on

The Future of European Liberalism

The Adam Smith Club will host a dinner meeting on Wednesday the 11th of October 2006, at the Curry Club, 396 Bridge Road, Richmond.

Charles Richardson will speak on recent developments in European politics. Australians often take our two-party system for granted, but in fact the merging of liberals and conservatives into a single right-wing party is by no means universal. By looking at four European democracies - Britain, France, Italy and Hungary - Charles will show how parties that support both free markets and liberal social policies can find a place in the spectrum, and the different ways they can influence political trends and the makeup of governments.

Charles Richardson is a well-known political analyst and social commentator whose work appears regularly in the electronic journal Crikey.com.au. He has been studying politics and elections for thirty years, and earlier in 2006 spent two months in Europe covering current political events. He is a former editor of *Policy*, the journal of the Centre for Independent Studies, and has also worked as a ministerial adviser, returning officer and freelance philosopher. He has a PhD from Rutgers University in Ethics and Political Philosophy.

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 9th of October 2006. 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 and for electronic booking details).

**Enquiries to Ms Regina Bron, tel. 9859 8277 (AH) or mob. 0412 006 786 (BH)
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 October 11th 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.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.'

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 asmith@economic-justice.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 Monday 9th of October will not be accepted online. FEES - a \$2 card fee will apply for the transaction.

MEETING REPORT JUNE 2006

The June Dinner saw the launch of the Access Card No Way Campaign by our speaker (and Club Secretary) Tim Warner. The speech was very well received, with support and donations pledged on the night. Tim spoke of the folly of waiting to see what would happen to the Federal Governments proposal; it must be opposed from the start - root and branch. The night also saw the unveiling of the site accesscardnoway.net to support the campaign. A lovely bio "Mr. Jefferson" by Albert Jay Nock was the gift to the speaker - Tim already has a Club tie!

The new venue was much appreciated, both for their hospitality and their flexibility with some late-comers. A good night was had by all and we should be returning there for larger dinner meetings. *TW*

WHO IS PICKING WINNERS, AGAIN?!

According to *The Age* ("Secret to cheap petrol is coal," 10/9/06) the Victorian State Labor Government has announced that it plans to grant a mining licence to Monash Energy before the next state election on November 25. Monash Energy (a subsidiary of Anglo Coal, which in turn is a subsidiary of the giant Anglo American plc) is planning to invest 5 billion Australian dollars in a plant to generate approximately 60,000 barrels of high quality diesel fuel per day from Latrobe Valley brown coal, "at a much lower cost than present world prices". It is estimated to take 10 years to complete the project. According to the report 1.5 billion dollars (30%) of the total expenditure will be used to develop a carbon sequestration system where carbon dioxide will be pumped into worked-out Gippsland shelf oil wells to supposedly permanently bury this "dangerous" greenhouse gas.

However the desirability of carbon sequestration is moot. It is estimated that the increase in the levels of atmospheric carbon dioxide over the Twentieth Century provided a ten percent increase in the productivity of agriculture. In other words without the increased atmospheric carbon dioxide we would have required an additional ten percent more land to produce the same amount of food. (How many more trees would have been

felled to provide this land?) It is a long established scientific fact that increased atmospheric carbon dioxide improves plant productivity while at the same time increasing the plant's drought resistance (see www.co2science.org).

It is also doubtful that the increased levels of atmospheric carbon dioxide are making a significant contribution to the increased average global temperature (see <http://www.junkscience.com/Greenhouse/>). It is far more likely that the increase in temperature observed over the last century is due to increased solar activity. In any case the projected temperature increase over the next century is based on flawed computer models that have as inputs doubtful economic growth projections.

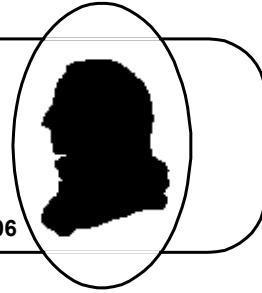
All this begs the question: why would a company expend 30% of its budget on something of such doubtful benefit? Indeed the more carbon dioxide sequestered underground the worse it will be for our agriculture. How much will this wasted 1.5 billion dollars add to the price of the diesel fuel that the project will produce? Does Monash Energy expect to recoup the additional costs by selling or using the technology somewhere else or does it expect to obtain some hidden or overt transfers from the Victorian taxpayer in the name of saving the environment? *MG*

VENUE ARRANGEMENTS

For the Curry Club, drink is not included in the price. You may bring your own drinks (no corkage will be charged) or purchase from the restaurant which is fully licensed. A room has been reserved for the dinner meeting. We hope these arrangements do not cause inconvenience and we welcome your feedback.

Laissez Faire

Newsletter of the Australian Adam Smith Club (Melbourne), No 79, September, 2006



A LIBERAL PROPOSAL

Ted Baillieu the new Liberal Party leader in Victoria has announced as Party policy a proposal to make Victoria the lowest taxing state in the Commonwealth by 2014. Given Victoria's apparent recent abysmal economic performance this appears to make good sense. Arguably it is the most liberal

proposal made by any Liberal Party leader in recent years. For this he should be applauded. Victorian Liberals should however refrain from becoming ecstatic. For such a proposal to be implemented would require the Liberal Party to win government in Victoria, which in the current circumstances appears extremely

unlikely. Even if the unlikely were to occur however, Baillieu would need to overcome the likely opposition from various factions and interests within the Liberal Party in order to effect such a proposal, which again, on past performance, would appear to be extremely unlikely. *DBS*

AN INFORMED AUSTRALIA

If knowledge is power, then the ability to gain that knowledge is vital. Throughout history power has rested in the hands of those who controlled the spread of knowledge or information. In the Middle Ages the Church controlled the written word. The early printing presses led to a change in the power base - opening up the opportunities for the masses so far undreamt. It is no coincidence that many autocratic/dictatorial regimes have resorted to burning of books to weed out so called sedition, but more importantly, to impose their control on the dissemination of information. Radio, television, newspapers, video and the Internet have all changed the nature of communications and the dissemination of information. The Internet is not called the information super highway for nothing.

However, without an understanding of language, the available information is meaningless and valueless.

Ideals, attitudes, values are all communicated through language. How can we expect immigrants to adopt Australian 'values' if they do not understand the language?

Immigrants generally seek a new and better life in their chosen, adopted country. Many will have little, if any, grasp of the English language on arrival, but it is only through an understanding of both the oral and written language that Australian 'values', 'ideals' and 'way of life' can be fully appreciated: values intrinsic to our way of life, our political system, the education system, neighbourhoods and interactive community groups. Underlying all this is our access to and understanding of mass communications: we all have access to and understand radio, TV, films, newspapers magazines and the Internet.

The understanding of language is power. We are not held ransom to one point of view but can access any number of views both here and across the globe. One cannot dictate a person's point of view, but by ensuring that any potential Australian can read the Australian news or understand the Australian radio or TV news broadcasts and commentaries, we are a long way to ensuring that these people can appreciate the community they now wish to join and to appreciate the obligations of being a member of that community.

Australians pride themselves on their tolerant society, on their respect for freedom of the individual through freedom of speech, our legal system, our accountable political systems and our egalitarian democracy. Our society encourages participation and the engagement of ideas, the integration and adaptation of the culture and attitudes of the successive waves of immigrants, our native inhabitants and the intermixing of subsequent generations.

While the debate about who is fit to be an Australian and what means of testing fitness rages we should not lose sight of this fundamental principle of our democracy.

One does not need to understand English to apply for immigration but mastery of English is vital for citizenry, not because of our community's arrogance, but because without a basic understanding of the language a person is at the mercy of others for conveying their most basic needs, for expressing their desires and aspirations. One cannot force a person to integrate, but at least with a basic grasp of the English language, each individual can make their own informed choice. *RB*

MERGERS & ACQUISITIONS

Coles Myer, one of Australia's biggest companies, has been subjected to a takeover offer by an international consortium, led by leading New York investment bankers, Kohlberg Kravis Roberts & Company ("KKR"). KKR has been behind a number of major corporate takeovers in recent times, including, in 1989, the then biggest corporate takeover in history, that of the food and tobacco company R J R Nabisco, for US \$24.7 billion.

Subject to conditions, the offer is \$14.50 per share for what was recently valued by the market at \$10.60. In approximate gross terms this amounts to an offer of \$17.5 billion as opposed to a market valuation of \$13 billion. Based on the cost of raising the necessary funds and other expenses and the anticipated return it aspires to earn, it would appear that the consortium would expect a share price of \$22 in 3 years. The offer has raised yet again questions as to the desirability or otherwise of market corporate takeovers.

BACKGROUND: In 1932, two Americans, Adolph Berle and Gardiner Means published a very influential book "The Modern Corporation and Private Property". In it they propounded what became known as the Berle-Means thesis; large major corporations were no longer controlled by their owners, the shareholders, since typically shareholdings were too diffuse and small for any one shareholder or group of shareholders to do so. Rather large modern corporations were controlled, and largely run for the benefit of the executives and managers, who did not necessarily seek to maximise the returns to shareholders, but rather to themselves. It was seen as a situation of strong managers and weak owners. More importantly it threw into question the neo-classical economic theory of the superior efficiency of private property.

Partly in reliance on the Berle-Means thesis, socialist economists such as J K Galbraith suggested that the role of major corporations was not to serve for the benefit of the shareholders but rather for the benefit of the public generally. In effect it was a justification for a Clayton's nationalization, to be effected by regulation and taxation. If the technocratic managers were not running the business for the shareholders, but rather for themselves, then Galbraith thought it was better that they should be required to run it for the benefit of the public instead.

In 1965, Henry Manne, an American law professor, pointed out in a seminal article, "Mergers and the Market for Corporate Control", that the seeming unrestricted power of executives and managers was in fact controlled by the stock market; if management did not perform well, the price of the relevant share would fall, making it easier and more attractive for a merger or takeover to occur and for the management to be replaced.

If an existing corporation wishes to expand it can do so by creating and producing new productive assets. Alternatively it can determine that it can do so more cheaply or more profitably by purchasing already existing assets. This is particularly so if the existing assets are not being well managed or utilised to their best advantage. A functional and efficient stock exchange enables this to occur. The tendency is thus for assets constantly to be moved towards their highest valued uses. Ultimately this is of benefit to society generally.

Established management and corporate structures tend to

dislike smooth flowing takeover processes since it places them under constant pressure to perform. They criticise much takeover activity as mere paper shuffling or managerial empire building, often at the expense of workers and established environments, and they seek to restrict takeovers by government controls and judicial interference.

In the 1980's, takeover activity worldwide increased significantly. It coincided with a number of financing innovations. Previously takeovers had tended to involve proxy fights with the disputing parties seeking to garner the support of a sufficient number of existing shareholders. The 1980's saw the introduction of the leveraged buy-out. In America, takeover specialists like Michael Milken and Ivan Boesky caused huge sums to be raised to buy out existing shareholders. Typically this was done by issuing high yield bonds, dubbed junk bonds by critics of the process. It is said that at his peak in 1987 Milken was earning US \$550 million commission per year.

The increase in merger and takeover activity associated with the 1980's resulted in considerable criticism, much of it severe. It was dubbed the "Decade of Greed" and led to one of cinema's defining scenes in Oliver Stone's film "Wall Street", when Gordon Gecko, played by Michael Douglas, declares that 'greed is good'. It also tended to create a coalition of powerful opponents such as the existing executive elites, some of the more powerful unions, whose own practices were threatened by corporate changes, and the banks and established bond traders, whose dominant intermediary role in the provision of finance was challenged by the direct floating of high risk, high return, so-called 'junk' bonds on the market.

A number of best selling books appeared commenting on the era including "Barbarians at the Gates" by Burrough and Helyar [dealing particularly with the RJR Nabisco takeover], and Stewart's "Den of Thieves". Colourful phrases such as 'corporate raider' and 'hostile takeover' entered the language. It is interesting to note that a number of recent Australian newspaper reports referring to the takeover offer for Coles Myer have resurrected the use of the word 'barbarians'. In the upshot it ended rather badly with Milken and Boesky both going to jail.

Takeovers and mergers remain a controversial subject. Milken and Boesky continue to have their supporters, who see them as more sinned upon than sinners. The particular viewpoint tends to depend on the outlook of those concerned, with the market orientated and the Liberal on the one hand and the conservative and Socialist on the other. Perhaps more importantly, as the Coles Myer situation demonstrates, takeovers and mergers, although perhaps more restricted than previously, continue to play a major part in Western economies generally.

CONCLUSION: As usual, the Coles Myer takeover is likely to generate a considerable amount of nonsense, typically from vested interests. If it makes economic sense, and it seems to, it is likely to go ahead, if not for \$14.50 per share then perhaps at \$16-17. If rearranging the assets increase the returns, and some very experienced people are betting a lot of their money that it will, then overall it is likely to benefit the community generally; more profits, more employment, more opportunity, more taxes paid to government and more prosperity. *DBS*