



# Australian Adam Smith Club (Melbourne)

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

Freedom is the right to tell people what they do not want to hear. *George Orwell*

## Chris Brown on Economic Fallacies Repackaged as Political Newspeak

**The Adam Smith Club will host a meeting on Thursday the 2<sup>nd</sup> of September 2010,  
at the Curry Club Cafe, 396 Bridge Road, Richmond.**

Chris Brown is an entrepreneur and management consultant, specializing in competitive intelligence. He lectures in entrepreneurship at the Australian Graduate School of Entrepreneurship, Swinburne University, and previously taught classes in economics at the University of Northampton in England. He is finishing a PhD in entrepreneurship and currently holds a Master's in Research Methods from Cranfield University, an MBA in International Management from Thunderbird, and a Bachelor of Science in International Business from Utah Valley University.

Chris has presented at various academic conferences on entrepreneurship and Austrian economics, and has written articles for mises.org and lewrockwell.com. You can visit his website at [www.chrisbrown.me](http://www.chrisbrown.me) or contact him at [chrisbrown77@gmail.com](mailto:chrisbrown77@gmail.com).

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 Tuesday the 31<sup>th</sup> of August 2010. Tickets will not be sent. Those attending should arrive at 6:30pm for dinner at 7:00pm. The cost is \$40.00 per head for members and \$45.00 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 \$40.00 dollars per member and .....place(s) at \$45.00 per non-member for the September 2<sup>nd</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 Tuesday 31<sup>st</sup> of August will not be accepted online. FEES - a \$2 card fee will apply for the transaction.

## SPRING INCENTIVE

All attendees at the September Dinner will receive a free copy of a book recently acquired by the Club's bookshop, presently retailing at Amazon for US\$12.95.

## AUSTRALIA'S CLIMATE MADNESS

Despite soaring energy costs, if anyone still thinks Australia has so far managed to avoid serious economic effects of dealing with 'climate change' they should think again after a recent VCAT decision. As reported in the Herald Sun August 8 & 9, (*Fear of coastal swamping leads to unprecedented ruling on property & Premier warns that building developments must take climate change into account*), a family in Lakes Entrance has been prevented from building a series of town houses because of possible future sea level rise. According to the August 9 article, "Architects and planning experts are increasingly concerned the recent VCAT decision ... means all future building or subdivision on land less than 80cm above sea level can be blocked. Mr Brumby admits that developers will have to factor flooding and sea-level rises into future developments." The Victorian Premier John Brumby is quoted as saying, "Climate change is real and is going to affect where we can develop."

The 80 cm noted in the news article was set as a result of a Commonwealth Government report *Climate Change Risks to Australia's Coasts* (14/11/2009) (See <http://www.climatechange.gov.au/publications/coastline/climate-change-risks-to-australias-coasts.aspx>). The report

is based on no original research but rather on the reports of the IPPC (international Panel on Climate Change) which in turn are based on no original research. The 80 cm figure is based on worst case climate model projections for the year 2100, to which the report itself places no credibility with the following disclaimer "...the Commonwealth provides no warranties and makes no representations that the information contained in this report is correct, complete or reliable." Figure 2.8 of the report shows IPCC model projections for sea level rise range from about 15 cm to about 65 cm. To this the report adds 'Additional contributions from potential ice sheet dynamic processes', without providing any likelihood estimate for these 'potential' processes to occur. This gives a worst case projection of 79 cm that VCAT & the Victorian State Government has rounded up to 80 cm.

What if the sea level rise turns out to be only 15 cm by 2100? After all we have no reason to favour one climate projection over another. Will people be able to sue the government for losses incurred as a result of spurious projections? Seaside property owners' lives are being shattered due to government regulation based on reports lacking any credibility. MG

### VENUE ARRANGEMENTS

For the Curry Club Cafe, 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

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## TRADE PACT REDUCING TENSIONS BETWEEN CHINA AND TAIWAN

Trade is one of the surest ways of building peaceful links between contending powers. Such is the case between Taiwan and China, who split in 1949 following a civil war. Taiwan is said to be the greatest single winner from globalization. Taiwan has built a knowledge-based economy, far in advance of Australia, from nothing, relying only the skill and energy of its people to pull itself up from poverty to prosperity.

Trade is Taiwan's lifeblood and the administration of President Ma Ying-jeou is banking on a new trade agreement with mainland China to give the economy a shot in the arm. The self-governing island sees a trade agreement with Beijing as the best way to allow its exports greater access to the giant China market.

Taiwan, with some 23 million people crammed into an area half the size of Tasmania, is a world center of the information technology industry. Taiwan's investors have poured in excess of \$100 billion into investments on the Chinese mainland, helping to kick start China's export-led growth story. The global financial crisis hit Taiwan hard but the economy has been rebounding, with exports in June soaring 34 percent. Exports to emerging markets were particularly strong in June, with exports to Russia, Indonesia and China booming. GDP growth is forecast to exceed 7 percent in 2010, boosted by exports and strong growth in private investment.

The key market for Taiwan is China. Relations with the Asian giant have warmed significantly since the election of President Ma. The June 29 signing of the Economic Cooperation Framework Agreement (ECFA) with Beijing has given confidence a boost. Beijing did not like the previous administration of Chen Shui-bian, which promoted an independence-leaning line. Beijing was suspicious of Chen's push for Taiwan independence, something China's Communist leadership has said they will not tolerate.

Taiwan is officially known as the Republic of China and is still recognized as the legitimate government of China by some 20 countries, even though the Chinese Communist Party, ruling the People's Republic of China, holds power in Beijing.

The ECFA pact is not a free trade agreement. Both Taiwan and mainland China have agreed to open their markets to some of each other's products. Under the 'early harvest' provisions, some Taiwan industries will get an immediate boost. In an outcome reminiscent of Australia's own market opening, some clothing and textile industries will be hard hit, especially toweling. It is somewhat ironic that toweling was one Australian industry hard hit by imports – from Taiwan.

Although some small factory owners are apprehensive about the increased competition, the public reaction to the ECFA pact is positive. Recent public opinion surveys show that almost 70 percent of Taiwan's people believe that institutionalized cross Taiwan Strait negotiations are conducive to peace and stability in relations with China; while almost 60 percent believe that cross-strait economic and trade negotiations will be conducive to Taiwan's economic development.

As things stood previously, Taiwan was in danger of being shut out of the developing Asian free trade zone, with China and the Association of South East Asian Nations (ASEAN) now locked into a free trade pact. Taiwan is a small country surrounded by giants and it must trade with them to prosper. Taiwan simply lacks the land and resources to be self-sufficient.

For the average citizen of Taiwan, the opening to the mainland is seen in pragmatic terms. Tourism from mainland China has been booming and now daily flights go direct from Taiwan to destinations in mainland China. The public knows that Taiwan must trade to survive. Taipei will now find it easier to negotiate free trade pacts with other nations, although Beijing will veto free trade agreements (FTAs) with nations that China does not also have free trade pacts with, so Australia and Taiwan are not likely to sign an FTA any time soon. Negotiations between Australia and China for an FTA are deadlocked over issues such as giving China free access to buy Australian companies and from Australia's point of view, allowing more access for Australian banks to the China market.

President Ma has repeatedly said that the ECFA pact is predicated on 'no independence, no unification and no use of force.' Ma said that the signing of the ECFA pact 'starts a whole new era for Taiwan'. Taiwan will use the ECFA to build itself into a global innovation centre, a trade hub in the Asia Pacific region, and a headquarters for both Taiwanese and foreign businesses, Ma said.

The signing of the ECFA pact has met with near universal international approval. The United States has welcomed the ECFA agreement, seeing it as a means of reducing tensions in the Taiwan Strait. The World Trade Organization sees the pact as a means of boosting trade in the Asian region and as part of the structural upgrading of the island's economy.

In all, the ECFA pact will significantly reduce Taiwan's isolation in the world trading system. The tit-for-tat diplomatic battle for the loyalties of the 23 remaining nations with formal diplomatic ties to Taipei has gone quiet. Beijing has signaled that it will allow Taiwan some international breathing space, such as Taiwan's observer status in the World Health Assembly. Taiwan would like membership in other United Nations functional agencies, such as the civil aviation body, but progress has been slow.

Trade has a way of overcoming barriers. Not many trading partners with a strong relationship go to war with each other. Prosperity is the best guarantee against war. No doubt this is at least part of the motivation that is bringing both governments on either side of the Taiwan Strait together. *JRB*

## FRIEDMAN'S FALLACY

As this article is being written the 2010 Federal election campaign is entering its final stage. There remains just one more week of a seemingly interminable parade of pontificating politicians before the hapless citizenry will be required to cast their vote. Each day brings a further round of competing promises as the representatives of the two main parties seek to outdo each other in the munificence of their promised largesse. It seems that H L Mencken's famous observation, that all elections are an advance auction sale of stolen property, has never been more apposite.

Whilst the mainstream media has been happily regaling us all with a great mass of information and analysis about the campaign, with the major newspapers in particular providing many pages of coverage, there exists an underlying feeling of unease; that all is not quite as well as it seems. Occasionally the blanket coverage of the election is interrupted by references to the underlying realities that presently beset us, such as the fact that the USA, the world's dominant superpower, is presently in crisis. But these references have otherwise been the exception to the rule that all is business as usual.

Of course the malaise that is evermore making its presence felt has been there for some time now, refusing to go away. Those of us who predicted at the time of the last federal election that whatever government was elected would not last the term, have had the grim satisfaction of being proven right, with the dethroning of Kevin Rudd, amidst the general perception that despite all his government's massive effort and expenditure, he had not really fixed the problem.

It was the eminent British economist John Maynard Keynes who famously said; "the ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood.

Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist."

Whilst the ideas of Keynes may have ruled the economic world post WW2 till the 1970s, the defunct economist whose ideas have seemingly ruled since then have been those of the American, Milton Friedman. Whilst in many ways a supporter of the free market, Friedman was a firm believer in the government's monetary monopoly. On the basis of his observation that the money supply had contracted during the Great Depression, Friedman propounded that sufficient government monetary expansion could always stave off another depression. If necessary, helicopters could be employed to drop money from the skies.

Ben Bernanke, Chairman of the Federal Reserve, the American central bank, is a Friedmanite. Last year he flooded America, and the world, with American dollars. It did not work. To stave off a depression will he now, as he once suggested, drop money from helicopters? Like Keynes before him, who did not see that giving government power to spend as much as it wanted could only result in the destruction of the economy, Friedman did not foresee that giving governments the power to create unlimited amounts of money could only result in the destruction of the currency. America seems destined for interesting times.

Whilst it would be tempting to believe that Australia is not America, and that its problems are not ours, the facts seem to suggest otherwise. This is particularly so if one considers the amount of money spent by the Rudd government and the amount of spending promised by the present contenders. In the circumstances, regardless of who wins the election, it seems unlikely that the winner will see out the term. *DBS*

## GOVERNMENT FUNNY MONEY

Our government appears to have a strange understanding of the Health medical rebate system. At this stage, as many of our doctors and medical specialists are still free to operate their own practices as income earning, and dare I say, profitable businesses: any health care rebate must be seen as assisting consumers to access services that, for whatever reason, may be too costly for them to do without such assistance.

The practitioner sets the cost of the service in consideration of many factors most importantly the cost associated with establishing and maintaining a practice, including: salaries of support staff; property rent or mortgage payments; equipment leasing or loan repayments; regulatory compliance; continuing professional development; purchasing new or replacement

equipment; insurances; educational and training debt; opportunity costs and the market for the practitioner's services.

The government rebate is unlikely to affect the basic cost of the service, but may be a factor if the number of clients or patients subsequently using the service rises, introducing economies of scale.

The government has significantly reduced the proportion of out-of-pocket obstetric fees which can contribute to Medicare safety net calculation. According to the spokeswoman for Health Minister Nicola Roxon (*The Age* 11/8/2010), private [obstetric] fees have risen 267% over the past five years, and called on obstetricians to reduce their fees to reflect increases to Medicare rebates for other obstetric services. This response seems to indicate that the action has been poorly thought through:

a band-aide attempt to reduce health budget spending rather than a serious rebalance of the system. If Ms Roxon's spokeswoman is suggesting that there has been, or will be, a significant increase in the number of patients seeking the services which now attract a higher rebate to the extent that practice incomes is unchanged she would appear to be simplifying the issue and ignoring the fact that there are limited hours in a practitioner's day in which to serve both on-going and new clients or patients. If the supply of certain services become artificially unprofitable, it is logical to reduce the supply of these services; however, as the demand remains unchanged, clients will naturally seek these services elsewhere - putting an additional strain on the obstetric departments and beds in public hospitals. *RB*