



# Australian Adam Smith Club (Melbourne)

President: Michael James, Editor: Regina Bron, P.O. Box 449, Heidelberg, 3084

*The best test of truth is the power of the thought to get itself accepted in the competition of the market. Justice O. W. Holmes (1919)*

## John Daly

on

## “Still Waiting for Greenhouse”

**The Adam Smith Club will host a dinner meeting on Wednesday 8<sup>th</sup> of September 1999,  
at the CENTRA Hotel, corner St Kilda Road and Park Street, South Melbourne.**

Perhaps the Green movement’s greatest success has been in generating widespread alarm about a ‘greenhouse effect’ and its alleged serious consequences. But not all environmentalists agree with its claims. Whereas the Intergovernmental Panel on Climate Change insists that by 2040 the Earth will warm by between 1.5 and 4 degrees Centigrade, several greenhouse dissidents claim that the evidence supports much smaller estimates of likely warming. Partly because of their influence, Australia’s obligations under the 1997 Kyoto Protocol on greenhouse emissions do not seriously retard economic development.

John Daly, a Launceston-based science writer, was among the first to challenge the greenhouse orthodoxy when his book *The Greenhouse Trap: Why the Greenhouse Effect Will Not End Life On Earth* (Bantam Books, Sydney) was published in 1989. His web site ([www.vision.net.au/~daly](http://www.vision.net.au/~daly)), which has received over 150,000 visits in two years, has been described by the *New Scientist* (26 June 1999) as the world’s best Greenhouse sceptic site. In his talk to the Australian Adam Smith Club, John will set out the elementary facts of greenhouse warming and expose the alliance of scientists and Green activists that propagates exaggerated estimates of global catastrophe.

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 6th of September 1999. 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, inclusive of wine and pre-dinner drinks.

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

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The Secretary,  
Australian Adam Smith Club (Melbourne),  
PO Box 449, Heidelberg Vic 3084.

Please reserve ..... place(s) at \$40.00 dollars per member and .....place(s) at \$45.00 per non-member for the September 8<sup>th</sup> dinner 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 can be found on the World Wide Web at <http://www.newaus.com.au/asmith.html>. We are grateful to Gerard Jackson who produces the *New Australian* - Australia's only free market online magazine - for hosting our newsletter. The *New Australian* is recommended to anyone interested in obtaining a 'free market' view of the economic events and in exposing mainstream journalist hypocrisy and mendacity. A new issue appears approximately every week and there is a truly amazing amount of free market material collected there. There are also links to other interesting Web sites both in Australia and overseas.

## THE FUTURE & ITS ENEMIES BY VIRGINIA POSTREL

REVIEWED BY BILL STACEY

The great works of liberty have a timeless quality that gives insight and inspiration to people across generations. Yet in each generation that case is also made again in language that is contemporary and applies basic principles with a contemporary flavour.

The case for liberty needs to be constantly revived and re-explained to enthuse old warriors for the cause and inspire new legions.

In the mid 1970's in Rip Van Australia, Singleton & Bob Howard gave a convincing and witty account of the libertarian view that gave new momentum to their cause, but read today it seems like a rerun of the Paul Hogan Show.

In the late 90's, with new visions of an international future with bounded governments overshadowed by secure, private and international internet commerce and communities, Virginia Postrel has crafted an account of politics that does away with conventional boundaries and broadens the libertarian cause.

The Future & Its Enemies is a timely work that captures the spirit of an age where left 'right or conservative' liberal boundaries are very poor predictors of how well you will get on with someone.

Postrel sees the central conflict guiding political debate as being between dynamists and stasisists.

The dynamist sees the world as a rich, diverse and interesting place, changed for the better by the continuing application of human reason and creativity, but with change so dynamic that no design or control can predict all outcomes.

By contrast, the Stasisist yearns for the simplicity and elegance of design and control that constrains and tames human passions and

unpredictable markets. Stasisist views will be concerned about change being in a known direction and the ability to anticipate outcomes.

Dynamists often include entrepreneurs, artists, film makers, software designers, scientists and people inspired by creativity and the search through the unknown. Environmentalists that can see how people and markets have actually improved many aspects of the environment can also be dynamist.

The stasisist umbrella includes conservatives, technocrats, union power brokers, environmentalists, town planners and people opposed to free trade and immigration.

Australian politics can be better understood through this lens. People have struggled to see how a 'Liberal' government can be only opportunistically in favour of free trade, anti immigration, wedded to 'revenue neutral' Tax change, in favour of technology, but anti freedom to see what people want using that technology. At the same time the opposition tries to paint themselves as a party for the future, but prey on fear of change.

Both parties are unified by a technocratic desire to manage the future and change and respond adversely when they see dynamic responses that they do not control. Their picture of a good society is ordered and manageable ? ever ready with criticism of the new, for lacking an unattainable perfection.

For Postrel life is exciting and ever changing. Her 'party of life' abroad dynamist alliance, may not have or want political power, but will have the future.

This book deserves a wide audience in Australia.

# Laissez Faire

Newsletter of the Australian Adam Smith Club (Melbourne), No 48, July 1999



## MARKETS IN THE FIRM

The great economic and political debate of the 20th century has been that between central planners and free marketeers. The apparent victors have been the free marketeers. But their victory constitutes only the first item on the free market agenda. The next and perhaps more substantial item is the application of market principles to the internal operations of firms.

In the prevailing model of market economies, competition operates between firms but not inside them. Firms are seen as islands of command-and-control socialism operating in oceans of free-market activity. Business-style socialism within firms has pretended to offer employees protection from competition with talk of 'permanency' and 'loyalty'.

What is now being observed is the penetration of the internal operations of firms by markets. This paradigm shift is most apparent in the US. It is a prime creative driver within the IT area, but the trend is not confined to the emerging glamour industries. Market-based management has a solid history in some more traditional industries as well.

Koch Industries, little heard of in Australia, is ranked as the 18<sup>th</sup> largest business in the US. It is valued at more than US\$35 billion, is debt free and has a top-quality credit rating. Privately owned, Koch Industries operates in oil, gas, animal feed, cattle and petrochemicals. Charles Koch, the media-shy, 63-year-old owner, has long been a devotee of F. A. Hayek and other free market proponents. Koch has applied market principles to the internal management of his businesses.

The management structure of Koch Industries relies on internal markets to allocate internal resources. So-called 'support groups' or 'profit centres' are expected to survive in the internal Koch market by offering services competitively to other such centres.

With internal markets for example, a machinery maintenance depot will seek to service manufacturing sectors in the firm. The manufacturing sectors are not obliged to use the internal maintenance group, which has to win its business in competition with other service providers from outside Industries. Applying the market principles even further, the pay of individual workers in the maintenance group will be linked to their commercial success.

Similar internal competitive markets can be applied to other activities within the firm, such as accounts, debt control, marketing, training, recruitment, OH&S, design, and planning. For internal markets to work, no profit centre must be allowed any exclusive right to deal with any other profit centre.

Internal markets can have a profound effect on productivity. According to Koch Industries, introducing the price mechanism to the internal workings of the organisation encourages staff to think and act like smart purchasers. The market-based management of personnel in firms produces two results. By exposing everyone to competitive pressures, it prevents the destructive and negative game-playing that can poison a company. More importantly, it allows human economic creativity to flourish.

It is becoming apparent that Koch-style market-based management practices have penetrated deep into US businesses because labour market regulation in the US is minimal. What was once thought to be a technology-led growth surge in the US is proving to be based on the productive behaviour of people in firms. The much-watched Alan Greenspan has for some time been pondering over why the US is experiencing sustained long-term growth and low unemployment without the expected emergence of wage-induced inflation. An answer is to be found in the application of markets in firms. When internal markets operate inside firms, the monopolistic and destructive behaviour of internal collectives cannot force the price of wages up beyond the capacity of the firm to pay. The price constraints of the external market are directly and rapidly transmitted throughout each firm by internal markets that constantly send thousands of small price signals that impose reality tests on attempted income increases.

As this highly price-sensitive management process becomes commonplace throughout business, it challenges and changes conventional ideas about a 'natural' rate of unemployment. When the market is allowed to operate inside firms, national unemployment rates can fall way below the levels previously thought of as the natural minimum as market honesty relating to incomes impacts directly on every person in the firm. Individuals can benefit themselves only when the firm or firms for which they work benefit.

The true quest for nations is the release of human economic creativity. Each society and individual has two choices, as George Bernard Shaw explained: 'This is the true joy in life....being a force of nature, instead of a feverish, selfish little cod of ailments and grievances complaining that the world will not devote itself to making you happy.'

*Ken Phillips*

## LEGAL AID THE RIGHT WAY

In the legalistic and regulated societies of the late 20<sup>th</sup> Century Australia and most Western nations, the availability of legal representation, if desired, for all defendants in criminal proceedings, is a necessity. There is a general consensus that no one, regardless of ability to pay, should be subject to criminal sanctions without at least some prior assistance from a lawyer. There is also a widely held view that a similar position should exist in civil proceedings, or at least those civil proceedings which are of fundamental importance to the individual concerned and which are not really matters of choice. Examples include divorce, custody and maintenance disputes and cases where someone's home or livelihood is under threat.

Given such general acceptance it is clear that some means of providing legal assistance is required. It is far from clear however that such assistance should, as is now the case in Australia, be state funded.

Australia is a leader in state funded legal aid. Recent cuts in such aid have provoked much criticism, not only from lawyers but also from various community groups such as the Salvation Army. Prior to the introduction of state funding, legal aid was provided by legal associations and individual

lawyers as a professional duty or a community service. Much good work was done, reasonably effectively and efficiently. It is doubtful that the introduction of state funding has made the provision of legal aid more efficient, effective or just. Whereas previously all lawyers might have felt constrained or morally obliged to do a certain number of pro bono cases, the tendency now is to regard the area of legal aid work as just another jurisdiction in which a lawyer might or might not practice. There are other drawbacks. To have some litigants receive aid from the public purse leads to a clamour for more and more areas of litigation to be open to it, and that all citizens should receive such aid regardless of means. To allow this would be economically unsustainable. Moreover providing state funds to litigants is, in effect, a subsidy to the litigation industry, giving rise to the old lawyer joke of looking for a litigation-led recovery. It is not self-evident that increased litigation produces a more just or more equal society, much less a better one. What state funding does do is eliminate or make more difficult or less likely the provision of private alternatives. Insurance is one such possibility but there are others. It is time to think seriously of privatizing legal aid. DHS

## IT'S GOOD TO BE YOUNG

The latest Federal Budget saw the introduction of 'Life Time' health insurance - join when young and have low priced policy premiums for life. Delay joining and pay higher premiums as a consequence. This seems to have taken the concept of life assurance policies and applied them to insurance. While it should be seen as a creative attempt to pressure the population into taking out or at least maintaining health cover to take the pressure of the public sector, it is flawed.

This scheme does not reward those who already have private health insurance and who may have had this cover for many years, rather it doesn't penalize them. Premiums have not been reduced and there are no guarantees that they will not keep on rising as before, only statements of hope from the insurance providers.

There are many people who have the best intentions of taking out insurance, but even with the government rebate, the premiums are too high for many low earners, people starting out on a career,

a family, purchasing a house, superannuation etc. Many of these people make little use of the public health care system, let alone the hospital system until later in life. People's circumstances can rapidly and dramatically change. The struggling single parent eventually finishes a degree or goes back to full time work, the long term unemployed finds work, the struggling small business finally takes off. This scheme does nothing to encourage anyone to join a fund after the age of 30 and becomes more prohibitive as one ages.

The finer details of the scheme have yet to be elaborated, which leads one to wonder, have they even been thought through? Will it see the end of family cover? After all, if one of a couple has had health insurance since before 30 and the other has not, how will they calculate the family premium. I can see the personal ads in the papers - '40 something gent who likes adventure, good food, crime fiction and jazz, wishes to meet 30 something woman

with similar interest for long term relationship - please send copy of private health insurance policy to Box xxx...'

If one drops out for several years, whatever the circumstances, will there be any recognition of the length of one's prior commitment?

If the aim of these latest band aid attempts is to reduce the load on the public hospital system by encouraging the uninsured to move into the private sector, then the carrots need to be placed at regular intervals along the way. For instance, late starters may have initially higher premiums but these could reduce after a period of continued membership. If the big stick comes down so hard and so persistently, those who miss out will never attempt to change. Without such measures, the boost to private health insurance membership will be a once off, with very many Australians falling needlessly outside the net. RB