



Australian Adam Smith Club (Melbourne)

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

The art of taxation consists in so plucking the goose as to obtain the maximum amount of feathers with the least possible amount of hissing.
J. B. Colbert (c. 1665)

Michael Warby

on

Did John Howard Buy the Election?

The Adam Smith Club will host a dinner meeting on Tuesday the 30th of November, 2004, at Laikon Greek Restaurant, 270-272 Swan Street, Richmond.

In the lead-up to the recent Federal election, and in the early stages of the campaign, many commentators noted how much money the Howard Government was promising to spend if re-elected. After its re-election, explanations of the Howard Government's win tended to ignore its spending promises almost entirely. So, did Howard's spending promises win him the election? What is the long-term evidence from federal elections? Can government buy support with the voters' own money? In this talk, Michael Warby examines the evidence for and against the proposition that federal politicians can buy support with the voters' own money.

Michael Warby spent 11 years as a public servant, including five in the Parliamentary Research Service in Canberra, providing advice to Parliamentarians on statistical, trade and education issues. He later spent five years in private sector think tanks. He has subsequently worked with disabled students and as a teacher. He currently tutors indigenous students and teaches across Melbourne putting on medieval and ancients days for schools. He has published a wide range of newspaper and journal articles as well as book chapters. He is the author of *Past Wrongs, Future Rights: Anti-Discrimination, Native Title and Aboriginal and Torres Strait Islander Policy, 1975-1997* and *Ellis Unpulped*. Most recently, he contributed to the essay collection *Blaming Ourselves: September 11 and the Agony of the Left*.

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 29th of November 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 andplace(s) at \$40.00 per non-member for the November 30th 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.'

OCTOBER ADDRESS ON-LINE

The text version of the Rev Dr Williams October address to the club "The Achilles Heel of Democracy," is available on the clubs page at the Institute for Economic Justice site. The Rev Dr Williams has kindly given permission for the club to make the text available for educational purposes. *TW*

ANOTHER ELECTION COMMENT

Here is my tuppence worth. The attempts in both countries to nationalise or restrict election campaign expenditure have been very expensive failures. In the United States the darling of the McCain Feingold reforms were the Section 527 groups, which were to remove the soft money from the parties and candidates. But what has occurred is that they are now beyond the control and the moral limitations of public discourse. The candidates and the parties gently nudge contributors to donate to these groups, the groups then publish lies, slander and half truths (well OK - worse lies, slanders and half truths) with which the candidates and parties would never have risked being associated, and then say "look Mum- no hands", they have no responsibility for what these groups say. They are leading to a race to the bottom as no one is responsible for their content. In Australia you had the obscenity of running political campaigns for profit based on the public purse. The Greens and Pauline Hanson both banked public funding significantly greater than their actual expenses. Here is a wild idea. Let everyone say what they are prepared to defend, spend what they wish and simply ensure that there are no limits on new media entry. *TW*

WORK SMARTER, NOT HARDER

Doonesbury by Garry Trudeau is not normally a voice for the progressive nature of market power, but if you check the Sunday 7th November cartoon at www.doonesbury.com will find one of his very insightful comments on the nature of outsourcing. The strip highlights that the move to outsource work to lower wage countries is not a zero sum game. The wealthier country can alter the way it does business and more wealth and more jobs can result if money and effort are placed where they do the most good. The constant tag line of Dilbert is "Work smarter, not harder", which is meant with tongue firmly in cheek. But the last twenty years have shown that the United States (and to a lesser extent the other Anglo speaking countries), have been re-ordering the notion of how developed nations create prosperity. The use of electronic stock control, financial management systems, email and teleconferencing has totally transformed large institutions. Middle management has largely disappeared. The business of business is focussing once more on making money rather than administering same. *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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MAKING A MIRACLE

By the end of the war in Europe in May 1945 Germany was in ruins; its cities were destroyed, industry was at a standstill, the people were demoralised and the currency nearly valueless. Shanty-towns housed millions of refugees and hundreds of thousands of people went cold and hungry.

At the conference held at Potsdam near Berlin in July-August 1945 the Big Three set up an Allied Control Council to govern Germany. Apart from the territory east of the Oder and Neisse rivers which was shared out between the USSR and Poland, the country was divided into four zones with the USA, USSR, UK and France each controlling one. Thereafter, to handle economic administration they established a German Bizonal Economic Council and appointed an economist, Ludwig Erhardt, as its head. Erhardt was a disciple of Wilhelm Roepke, the famous German free-market economist.

After three years of peace Germany's economic condition had if anything become worse. The Reichsmark was virtually worthless, the de facto media of exchange were cigarettes and nylons, shortages abounded and the black market reigned supreme. Incredibly the allies had retained the Nazi era wage and price controls and had added considerable more

regulations and controls of their own.

Erhardt concluded that the country needed two things as a matter of urgency; a new and credible currency and an easing of the controls and regulations which were strangling the economy. For each of these things he needed the approval of the governing council. Permission for a new currency was granted but it was considered inopportune to ease the controls. But Erhardt was determined. Lacking the power to change the existing or to create new controls or regulations, he decided instead to do what arguably he did have the power to do; abolish them.

Erhardt carefully selected a holiday weekend in June 1948 to make his move. He correctly reasoned that on such occasion the military governors would all be out of town or otherwise be unable to react quickly enough to countermand his actions and that once abolition was effected, they would be unable or unwilling to reimpose controls.

On the Sunday evening Erhardt went on national radio and made his pronouncements. Effective immediately, the Reichsmark was replaced by the Deutschmark. Conversion would occur at a rate of 10 of the old for one of the new. Since Germany had steeply

progressive tax rates, this effectively amounted to a massive tax cut. Price and wage controls were largely abolished, most of them immediately, with those on food to follow in 6 months.

The reaction to Erhardt's pronouncements was immediate. The stagnant German economy was revived. In what has since been dubbed the German Economic Miracle, industrial output increased threefold over the next 2 years. Within 15 years Germany was the third largest economy in the world.

Those who resist the free market explanation for the so-called miracle put forward various alternative explanations for why it occurred as it did, including Marshall Aid or it simply being the natural consequences of reconstruction after total devastation. Such alternative explanations lack credibility however, being equally applicable to a variety of other countries, but which countries did not experience similar results. Nor do they account for the fact that as taxes have risen steeply and controls and regulations have reappeared and proliferated, the German Economic Miracle has receded into history, along with the decline of the German economy. *DBS*

THE ABOLITION OF MONEY?

In a recent book, *The New Financial Order*, influential Yale University economics professor Robert Shiller proposes what has been criticised as “a draconian reduction in human liberty and free markets” and “a blueprint for new-fangled, high-tech socialism.”

Shiller's book is ostensibly about risk management. It purports to offer a democratization of finance and to provide a number of benefits for the common man. However fundamentally what it represents is an attack on the basic concept of money itself. Physical money and the private possessing thereof are proposed to be abolished, to be replaced by indexed units of account administered by the government. All monetary transactions would thereafter take place electronically in cyberspace. Needless to say all such transactions would be known to the government and potentially subject to its approval.

Abolition of money has long been the goal of socialists of all persuasions. History is replete with examples of attempts to achieve such a result. Such attempts have been uniformly unsuccessful. In modern times perhaps the two most thorough going attempts have been the Bolshevik's so-called War Communism of 1918-21 in Soviet Russia and the Khmer Rouge rule of Cambodia in 1975-9. In each instance the result was a disaster with many millions of people dying; in Cambodia's case possibly a third of the population

In 1918 Lenin sought to abolish the market economy in the USSR, including abolishing money. After three years however, in order to save the communist regime, he was forced to compromise and to partially restore it. This was the so-called New Economic Policy. Thereafter the regime was able to survive for a further 70 years. On the other hand Pol Pot and his entourage did not compromise. The end for the Khmer Rouge thus came more quickly. In 1979 the Vietnamese marched in and replaced them with a more accommodating regime.

One factor inhibiting a more widespread debate about money is the relatively low level of understanding of the nature of money and the role that it plays. In part at least, this arguably stems from the fact that the creation and administration of money is claimed as a monopoly by governments worldwide. This is somewhat laughably alleged to be for the benefit of the public. So enabled, governments have inflated wildly, thereby helping themselves to an ever-greater share of the wealth of their hapless citizenry. Such theft has largely occurred without people even being aware that it has happened, much less knowing how. (The ability of governments to do so was of course significantly increased by their abolition of the gold standard.) And since modern governments generally also lay claim to set the national educational agenda there is little incentive to include the study of money therein. This however is reflective more of old-fashioned venality rather than the pursuit of any socialist ideology.

Money is important; it is property, perhaps the most important property of all. People understand this. They have understood it for millennia. When money was a commodity such as gold, with a separate value apart from its value as money, the possession thereof made its owners independent and gave them freedom to a large extent to do as they wished. Even the present fiat money, effectively pieces of paper with a commodity value of zero, is still a commodity and capable as such of being physically possessed and dealt with by its owners. Though less effective than gold, its possession gives people a measure of independence and freedom. Governments still hesitate to attempt simply to confiscate it or repudiate its legal status.

It is the physical nature of cash that is important. Possession makes it more clearly the property of its owner and less subject to the control of a government. People are still largely free to use it as they themselves determine.

Electronic units of account may well be more efficient than cash but, if implemented, the benefits will largely accrue to government, the detriments to the citizen. The account holders will lack the ability to withdraw cash and will not be able to physically possess it. The accounts (and their contents) will appear more and more to be the property of the government. A similar fate could thus be expected to befall savings as has befallen income, which since the advent of potentially unlimited income tax, is treated increasingly as the property of the government, some of which the government allows the earner the privilege of retaining for personal use.

The future of cash is conceivably under threat. Governments, in the name of fighting wars on tax evasion, on crime, on drugs and on terror, already seek to monitor and control any significant use. Paradoxically, the market too has turned against it as more and more businesses insist on some form of electronic payment rather than cash. The two should not be equated however. Market preference for cards and the Internet arises from services provided by competing private businesses, not from a government monopoly.

Regardless however of the basis for any government attempt to abolish cash, whether for public benefit, venality or socialist ideology, such an attempt should be opposed. Despite any shortcomings, the continued existence of cash is likely to be more beneficial to society than any government administered alternative could ever hope to be. In any event, history suggests that even if abolition were implemented it would not succeed. What would be likely in such a case however is that the damage to society would be significant. *DBS*