

Australian Adam Smith Club (Melbourne)

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

The power to tax involves the power to destroy. *Chief Justice John Marshall (1819)*

Kris Sayce

on

How Government Subsidies & Taxation are Damaging the Environment, & Why the Free Market is the Only Solution to Save It

The Adam Smith Club will host a meeting on Monday the 17th of May 2010, at the Curry Club Cafe, 396 Bridge Road, Richmond.

Kris Sayce is a fully accredited adviser in shares, options, warrants and foreign exchange. He began his financial career as a broker in the City of London fifteen years ago before moving to Australia. Following that Kris worked in the telecommunications and IT industry during the dot-com boom, before leaving to join a leading wealth management firm in Melbourne. Then in 2005 Kris began writing and editing the Australian version of The Daily Reckoning. As the Investment Director at Port Phillip Publishing, he now writes to 44,000 people every day for the Money Morning email newsletter and to over 14,000 subscribers who read about the entrepreneurialism and innovation of Australia's small cap companies.

As someone who admits to not knowing whether climate change is a real threat or not, the speaker will explain that if it is a real threat it is government subsidies and taxation which are causing all the damage, and how some of Australia's best new technological ideas are forced to head overseas to gain support. The paradox is, if green groups really do want something done about climate change and pollution their only hope of achieving an effective action is to embrace a free market approach.

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 14th of May 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 Mr Timothy Warner, mob. 0408 321 948
or email: twarner@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 andplace(s) at \$45.00 per non-member for the May 17th 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; 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 Thursday 13th of May will not be accepted online. FEES - a \$2 card fee will apply for the transaction.

COMMITTEE REPORT

The Committee met in early April to discuss the year ahead, and it was agreed that a rearrangement of responsibilities would refresh the clubs activities.

The new arrangement is:

President: Timothy Warner

Vice President: Regina Bron

Immediate Past President: Michael Warby

Editor: Mannie Gross

Hon. Secretary /Treasurer: Dr Anna Blainey Warner

Gen. Committee: David Sharp

Gen. Committee: Dr Michael James

Gen. Committee: Tom Bostock

Gen. Committee: Dr Tom Jellinek

Gen. Committee: Jeffrey Babb

Gen. Committee: Samuel Hearne

Many thanks in particular to Michael Warby who has put in 11 years as Club President

President Comment

I look forward to building on the great work of Michael Warby, Michael James and David Sharp. The Club has been an important avenue of economic and political discussion for more than twenty five years. I aim to have a broader range of activities and advantages open to members - details of which will be released at our May meeting. The good fellowship that has characterized the Club will be the cornerstone of our improvements, associating with and learning with open and inquiring minds is a pleasure and a great selling point of attending the meetings. My hope is that at the end of my tenure we will have an even better Club and have had an enjoyable inquiry into the world around us.

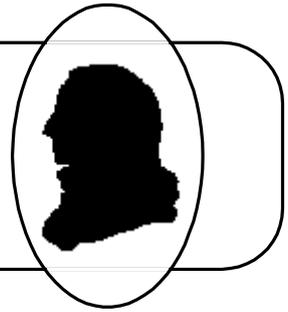
Timothy Warner

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

Newsletter of the Australian Adam Smith Club (Melbourne), No 95, April 2010



WHY PEAK OIL DOESN'T MATTER

Peak oil is an alarming concept, one which has got completely out of hand. According to the peak oil theory, the world is running out of oil and civilization as we know it will collapse. This viewpoint ignores the two things that cause economic change – technology and the market.

Let's first look at the history of the motor car. In the first instance, motor cars were the playthings of the rich. Remember Toad of Toad Hall in the children's classic 'The Wind in the Willows?' He was a typical early motorist, what marketers call an 'innovator,' the three percent who latch onto a product early in its life and lead the way for other consumers. According to pundits then, only one million motor vehicles would ever be built, as only that extraordinary number of chauffeurs could be trained to convey the rich and famous in comfort – no-one thought the average man, let alone women, could be taught to drive. Now, in a relatively small country like Australia, a million new cars are sold each year. In China, now the world's biggest car market, ten million cars are made each year and the number is rising fast.

Not until Henry Ford perfected mass production using technology and unskilled and semiskilled labor to mass produce motor vehicles in the early twentieth century did this assumption change. This form of mechanized production, now called Fordism, changed the world. The average person could not only drive a car, they could own one.

Why did the Model T Ford catch on? Had the world run out of horses? No, the horse was replaced by a superior technology. Horses still exist today. In modern countries like Australia, they are mainly employed for running around race tracks and giving pleasure to those who like to ride them for sport and relaxation. Early city planners liked the motor car. Horses had to be fed and watered, and then they deposited the outcome on the roadways. When horses died, they were left usually where they fell on the roadside. Remember the term 'dying in harness?' That's what happened to most horses.

Clearly, the car was much better. Even the City of Melbourne, now in a decades-long battle against the motor vehicle, welcomed cars as an alternative to horses in the beginning of the motor age. Thus, it was only rational city planning to promote the mechanical motor car above animal power.

The car won for two reasons – one, they were a superior technology, and two, they were more efficient.

Let's look at some other examples. Did sailing ships as a means to transport goods die out because the world ran out of wind? No, they were replaced by coal burning ships, which were more reliable, more efficient and required smaller crews. Were coal burning ships replaced by oil fired ships because the world ran out of coal? No, they were replaced because oil fired ships were more convenient, cheaper to run and a recognizably superior technology.

Let's now look at peak oil. Even without any further oil discoveries, today's oil reserves will last for 40 years and natural gas for 60 years. Major fields, like the one in Brazil, are still being found, it's just the oil is more difficult to extract. The big oil companies are latching onto non-conventional sources, like oil sands, oil shale and other sources, like oil from coal. But it's almost certain that petrol fueled cars will be replaced by superior technologies, such as electric cars. Batteries are improving all the time. Now the province of those innovators and early adopters so beloved of marketers, electric and hybrid cars will soon become mainstream. Of course, there are still racehorses and sailing boats, and they are even still major modes of transport in less developed countries, but in advanced countries, superior technology will see the petrol driven car disappear within our lifetime, or certainly our children's. Petrol driven cars will be oddities, but will still be around. Who could imagine a Grand Prix with silent electric cars? But in the end, the market and technology will triumph. The world will be mobile for many years to come yet. *JRB*

MEETING REPORT

The December Meeting was held at the Curry Club with outgoing Vice-President Mannie Gross talking on 'How to Smell a Scientific Rat'. The meeting was treated to a closely reasoned paper on the nature of the 'scientific project' and what can and cannot be achieved by science and experiment. The importance of Popper's explanation of the scientific method - and the limitations of knowledge were highlighted. Not that the quote was used, but some of the talk centred on Donald Rumsfeld's famous discourse on 'what is known'. A lively Q & A was had afterwards. The Curry Club achieved their usual high standard of meal. *TW*

VICTORIANS FIRST, AUSTRALIANS SECOND

Former recent Prime Ministers, John Howard and Bob Hawke, have publicly expressed their seeming agreement on the irrelevance of the States and the desirability of their abolition, John Howard even indicating that this was the one governance thing on which he agreed with Gough Whitlam. We should not be surprised by such agreement; they were, after all, all leaders of national governments.

John Howard is on record as publicly denying he is, or was, a Centralist, preferring instead the description of Nationalist. It is a distinction without substance. With the possible exception of his stance on constitutional monarchy, it is difficult to think of any significant issue on which he was not in favour of centralizing political power in Canberra.

Centralization of political power in Canberra has long been a dominant theme of national governments, at least since WW2. However, in recent years, the speed and extent of such grasps for power have intensified and expanded, including such measures as a national educational curriculum, a national takeover of the Murray-Darling river system, and currently a nationalization of the country's health systems, all former, long established areas of State political control

Success by the national government in these endeavors over, on occasion, strident opposition from various State governments, has led many commentators to conclude that centralized national government, perhaps operating through regional centers, is both desirable and inevitable; a part of the march of history. The reported remark of South Australian Premier Mike Rann to John Brumby, Victoria's Premier, in opposing the national takeover of Victoria's health system, not to be "the patron saint of lost causes," is perhaps reflective of this view.

The idea that the history of political power is one of a continuing march of many into one is clearly false. In Australia itself we have the example, in the 1850s, of, in effect, a single country, then called NSW, being divided into 3, with the hiving off, at the request of their inhabitants, of what ultimately became the States of Victoria and Queensland. Modern examples of the division of political power abound.

Implicit in the national government's accession to total power is the idea that the Australian Constitution, with its specific distribution of political powers between the Commonwealth and the States, and to which the then colonies agreed in entering the compact, is no longer relevant. All political powers, it is said, are national, and hence Federalism is a dead letter, the construct of a horse and buggy Constitution.

The reality is that the exercise of political power affects people in different circumstances, with different outlooks, differently. People are entitled to have the political decisions that have significant effects on their daily lives made by their own state legislatures, over which they have more and better input and control. The fact that some powers are perhaps difficult to characterize does not change the essential nature of most powers as being either State or National.

Federalism, the political concept adopted by the founders, was also intended by them to provide some protection to the less populated States from the depredations of the more populated ones i.e. NSW and Victoria. The newly proposed national Resources Rent Tax will almost certainly have a disproportionately detrimental effect on the mining States of WA and Queensland, whilst being disproportionately beneficial to the people of NSW and Victoria. More power to Canberra and less power to the States can only increase the likelihood of such instances of discriminatory redistribution.

Underlying the idea of a single central government is the view that one size should fit all, and that federalism is passé. This is wrong. Three out of the 4 reputed emerging world powers, namely India, Russia and Brazil are federations. It behooves us all to think of ourselves as citizens of our respective States. Paradoxically we are then likely to be better Australians. As evidence of this we need look no further than the federation of Switzerland, a country with an enviable reputation, extremely high standard of living, excellent defence force, and a minimal central government. *DBS*