



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)

David Henderson

on

“Has Adam Smith Won the Day? Economic Freedom at the Close of the Century”

**The Adam Smith Club will host a dinner meeting on Tuesday 23rd of November 1999,
at the CENTRA Hotel, corner St Kilda Road and Park Street, South Melbourne.**

David Henderson has been documenting the fortunes of economic freedom for many years. Currently a visiting professor at the Melbourne Business School, he was formerly (1984-92) Head of the Economics and Statistics Department of the OECD in Paris. In 1995 he gave the Downing Oration at the University of Melbourne, on the theme of ‘Economic Liberalism: Australia in an International Setting’. His publications include *Innocence and Design: The Influence of Economic Ideas on Policy* (London, 1986) and *The Changing Fortunes of Economic Liberalism: Yesterday, Today and Tomorrow* (London, 1998; Melbourne and Wellington, 1999). He has recently brought out an essay on the ill-fated Multilateral Agreement on Investment -- an episode which has disturbing implications for those who favour liberalisation. This essay has been published in Australia in the Pelham Papers series of the Centre for the Practice of International Trade at the Melbourne Business School.

In his talk, Professor Henderson will assess the significance of the trend towards greater economic freedom which has shown itself, over the last 20 years or more, in a large and growing number of countries across the world.

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 19th of November 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 andplace(s) at \$45.00 per non-member for the November 23rd 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 USES OF DOUBLETHINK

For a few decades after World War II, intelligent undergraduates read George Orwell's novels *Animal Farm* and *Nineteen Eighty Four* and thus became immunised against the totalitarian thought control exercised by the Nazis and the Communists. But since such material has been purged from the curriculum, the phenomenon that Orwell called 'newspeak' (the official impoverishment of language so as to make heretical thoughts literally unthinkable) has returned in the notorious form of politically correct speech codes. But the re-emergence of another feature of totalitarian thought control that Orwell identified has received less attention. This is 'doublethink': the ability to subscribe simultaneously to contradictory beliefs. In *Nineteen Eighty Four*, some of the ruling party's slogans ('War is Peace', 'Freedom is Slavery') were pure doublethink. Much fashionable thinking on public affairs is equally, if less obviously, characterised by contradiction.

The influential ethnic lobby likes to tell the world that Australia is a successful, tolerant, multicultural society. Yet the same lobby pushed for an anti-racist education campaign after the successes of One Nation in 1998, and many of its members favour new legislation to combat the allegedly serious problem of 'racial vilification'.

In the way we speak, we are supposed to observe rules that render the English language free of references to gender or ethnicity. Yet employers making hiring decisions are supposed to be obsessed with gender and ethnicity so as to ensure 'balance' and 'diversity'.

Cultural diversity is a good thing, except when it comes to foreign films and television programmes, whose access to Australian television should be limited in order to protect 'Australia's culture'.

We bemoan poverty, and also its opposite, which we denounce as 'materialism' or 'consumerism'.

Foreign investment is widely frowned on as reducing Australia's sovereignty: yet many of those who frown advocate reducing that sovereignty by adhering to international treaties on the environment, human rights and the labour market. As well, opposition to foreign investment contradicts opposition to racism and support for multiculturalism.

The biggest modern contradiction is that between cultural relativism and political correctness. Modern

moral thinking is strongly influenced by the doctrine that different moral beliefs are equally valid by reference to the different cultures to which they belong. But it is equally dominated by references to absolute evils like sexism, racism and elitism, and absolute goods like compassion and tolerance. And where does cultural relativism stand in relation to the emerging fashion of Western ethical imperialism to enforce Western notions of human rights in non-Western countries?

Modern doublethink can, I believe, be explained. First, opinions are grounded in sentiment and prejudice, which are irrational and fickle. We live in exceptionally sentimental times: the way to win the approval of one's peers these days is to display virtuous feelings rather than to conduct oneself with propriety (which is convenient when you recall that conduct can be costly, but feelings come free). And feelings don't have to be mutually consistent to count as virtuous.

More important, the points of view that come to be approved of usually serve the interests, or display the power, of particular groups. What counts here is the logic of influence, not the logic of ideas. An Australian television producer who espouses cultural diversity one day and calls for restrictions on New Zealand television programmes the next is consistently promoting his interests. That's why, in public debate, little time is expended on arguing about the merits of policy proposals, and much on establishing one's own virtuousness and one's opponents' lack of it.

Finally, the demand for logical consistency is under attack from modern doctrines that dismiss traditional Western philosophy as a reflection of dominant power structures or, like post-modernism, seek to dissolve it in a relativistic and nihilistic chaos. Anyone pointing out logical contradictions these days risks being accused of defending a patriarchal social order.

Still, it's probably worth slogging away at exposing doublethink. In the long run, modish beliefs can sometimes (though by no means always) be undermined by ridicule of their silliness, hypocrisy and inconsistency. But let's not kid ourselves that day-to-day public debate has much to do with devotion to the public interest or a serious and impartial quest for truth. *Michael James*

Laissez Faire

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THE GREAT RENT ROBBERY

Some years ago, David Clark, writing in *The Australian Financial Review*, despairingly pointed out that after passing a university course, a high proportion of students believed that tariffs increased employment generally. Many others, from my own observations, think that unions increase the real incomes of workers generally. Both these propositions can be true in special circumstances, but it is sad to see graduates justify them on the crude basis that the tariff creates employment *in the protected industry* and a union pushes up wages for *one section of the workforce*.

Given the poor grasp of economic essentials by those who have had a serious exposure to economics itself, it is not surprising that those who teach history, politics, civics, current affairs, and even economics itself fail to communicate a genuine understanding to their pupils.

The quest for economic rent pervades public life, both past and present. It can be defined as a payment for a factor of production greater than is necessary to secure its services. Undeveloped land is the classic example. It is there whether anyone wants to use it or not, so the payment required to use it is pure rent and determined entirely by demand. Capital and labour, the other factors of production, are not gifts of nature. They have a free market value. Adam Smith called the market value of capital 'the average profits of stock'. Any premium over that value is an economic rent. Neither history nor current politics can be understood without recognising the pressures to gain or defend such rents.

Rent seeking in the capital market is, at least partly, understood by those who teach or study the Norman Conquest, the medieval guild system or the twentieth-century cartels. Rent seeking in the labour market, however, is widely misunderstood, mythologised and misrepresented by most of those who teach the young or involve themselves in journalism or politics.

I was raised in a predominantly working-class coal mining area in England. Everybody believed that unions had created their living standard. They had raised wages from grandfather's miserable level, they 'protected' present wages from reverting to that level and were the only means of making future gains. 'Bosses' were wicked, grasping capitalists. My history teacher was tremendously knowledgeable and enthusiastic; but he had a contempt for economics. In his social history class, unions struggled for decent wages and conditions, and one was left to suppose that their members' gains came entirely at the expense of the employers.

The mythology always assumed that workers needed unions to achieve the market value of their efforts, but it is hard to find instances, outside wartime, of any group underpaid in that way. Demand for such 'cheap' labour would be so high that it could be contained only by a monopoly employer or a watertight combination. When in a free society, outside wartime, did this ever happen? The only reasonable conclusion is that unions are, and always have been, claiming an economic rent. *John Calvert*

LONDON YES, CANBERRA NO

If you love Canberra or if you respect it, if you believe Canberra has been of great benefit to the nation and that its future growth can only increase its lustre then presumably you will vote 'Yes' at the forthcoming referendum. Conversely, if you do not love or respect Canberra, believe nothing good has ever come from there or that the likely future good of the country varies inversely with its growth then the likelihood is that you will be amongst the 'No' voters. Ultimately the referendum, like all referenda, is about power; in this case the so called 'Reserve Powers'. Right

now the source of such power resides in London. For most of the time it is largely moribund even comatose. It matters little that the fount of such power resides in an hereditary monarch, whether lop-eared loon or philosopher king, whether foreigner or native born. The important point is that such power is beyond the reach, legally rather than geographically, of Canberra. Those who believe that little or no power in London is better than increased or total power in Canberra will vote 'No'. *DBS*

TAX REFORM

In the welter of tax reform proposed in recent times two reforms will not be introduced.

The first unlikely reform is for fringe benefits to be included as taxpayers' income, thus ending the scandal of the selective FBT. At present commonwealth government employees and members of federal parliament can enjoy any amount of fringe benefits. The tax being inconsequential, as it is paid by the government's left hand to the government's right hand. To a lesser extent the directors and managers of large public companies are insensitive to the amount of shareholders' money they lavish on themselves by way of perks. These amounts should rightfully be reflected in salary

packages and subject to tax and voter/shareholder scrutiny. That would be the transparent way and impose discipline on those who are unduly lavish with other people's money. The second reform was advocated by Peter Costello some time back, but the howls of protest and self interest were so loud that he recanted. It was to abolish the ability of some organisations to purchase motor cars free of sales tax, or, in the future, free of GST. By this device cars are purchased at a price lower than that available to the public and kept until their second hand value is equal to the tax free price. Those so advantaged manage to keep themselves supplied with new

cars, often of ostentatious luxury, at no cost to themselves or their organisation, but at the expense of the everyone who does not have access to such perks. Some Melbourne municipal bodies run their own used car yards, so high is their turnover of vehicles.

These reforms would start to encourage a culture of frugality and saving with the example being set by government, bureaucrats and corporations. Of course car manufactures and suppliers of fringe benefits would claim that such measures would be bad for the economy, but that is the bankrupt currency of tax debate in this country.

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