

## "ACCOUNTANTS: AUSTRALIA NEEDS YOU!"

### ADDRESS TO THE AUSTRALIAN SOCIETY OF CPA'S RESOURCE CONFERENCE, GOLDFIELDS ART CENTRE, FRIDAY OCTOBER 14, 1994

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It could be said that Australians today fall into two broad categories :-

1. Those who earn their living by *economic activity*, such as yourselves.
2. Those who earn their living by *political activity*, from the politicians to the bureaucrats, right down to all those members of the grant seeking special interest groups.

As members of the *economic activity group*, you are all part of the high-productivity success story of the Kalgoorlie region.

I am also proud to be working alongside an energetic group of people at Croesus Mining, where someone calculated the other day that our export earnings for the nation, averages \$½ million per person employed by the company.

This success story is repeated again and again throughout the region and despite my earlier reference to politicians and bureaucrats, there are even some of these who assist the *economic activity category* to the extent that we will group them with the *good guys*.

I considered talking today about contrasting the mid-seventies with the current mid-nineties. The mid seventies was the era when *paying tax was optional*, and now in the mid nineties, we are well into an era; where *work, is optional*.

That topic would be far too simple for a bunch like you, so let's choose instead, the title of "Accountants : Australia Needs You, Right Now!"

Our verbal journey, has four brief stop-overs:

1. We have a few problems in Australia today, so let's mention these without depressing ourselves too much.
2. We can then examine the role that the accounting profession has played in reducing Australia's standard of living and our international competitiveness.
3. Today's invitation reached me at an economic conference in France two weeks ago, so let us explore several concepts emerging from that conference that are relevant to Australia.
4. Finally, I would like to ask if your profession can summon up enough *courage* to be part of the solution, rather than be part of the problem.

#### 1. SOME CURRENT PROBLEMS CONFRONTING AUSTRALIA

You have probably heard the old saying that if you are under 21, full of envy,

and are not a socialist, then you have no heart.

If you are over 21 and are still a socialist, you have no brains.

Right now, if you are a socialist of any age, not only have you no brains, but you haven't been watching the world for the last few years.

That may sound glib or cute, but it does make you wonder what sort of education has been provided to our citizens that leaves so many of Australians open to the *something for nothing* spell of socialism.

I saw education described the other day as "imparting the skills to meet the global challenges of the future".

If you analyse the words "meeting the global challenges of the future", you will see that they are *weasel words* and we hear a constant stream of such nonsense from our elected leaders.

A less fashionable, but more specific definition of education comes from Economist, Thomas Sowell who states that "the purpose of education is to give the student the intellectual tools to analyse, whether verbally or numerically, and to reach conclusions based on logic and evidence".

This definition imparts a responsibility to the recipient of the education, that can actually be measured.

Perhaps education is also to train people to recognise and avoid *weasel words* such as "Social Justice".

It is not any form of *justice*, to forcibly take from one person and give it to another. Call it welfare if you like, but don't call it justice.

Similarly, "Social Security."

What sort of *security* is it if you are raising the living standards of some at the expense of others.

Call it forced charity if you like, but don't call it security.

Another example of damage to our language is the government-sponsored definition of *inflation*, to mean *a general rise in prices*. i.e. Consumer Price Index. This definition contains two serious mistakes. Firstly, if the price increases were indeed general and uniform, inflation would not be a problem. Wages are prices too, and if they were to increase evenly with other prices, the problem would simply be one of adding more digits to calculators. If all prices rose or fell evenly, the distortions attributed to inflation would not occur.

Instead, inflation is actually a deliberate government policy with the aim of illegitimately appropriating wealth through a coercive income transfer.

As the government deliberately prints new money and spreads it through the market, it affects various sectors at different times, altering market signals at different dates and to a different extent. Secondly, the price increase itself is

*not* inflation. Inflation is the expansion of the money supply caused by the government. What happens to prices is the *effect* of inflation. Just as a fever is the effect of an infection, but is not the infection itself.

It is always fuzzy thinking that enables our politicians to get away with intellectual error without being challenged.

A classic example was on the front page of Wednesday's (Oct. 12) *Kalgoorlie Miner* where our local Member of Parliament, Mr Ian Taylor, talking about a new multi-million dollar sports facility said "a third option was to lobby mining companies and have them contribute a significant amount to the centre".

"There is no reason why these companies should not put in 50 cents for every ounce of gold they produce. That would pay for the centre in four or five years," Mr Taylor said.

Whilst Mr Taylor says "There is no reason why these companies should not put in 50 cents for every ounce of gold they produce", let me state *one* very good reason why they should not.

*The money is not theirs to give.* The money belongs to the company's shareholders and they entrusted the money to the mining companies to explore for gold.

If the mining companies pay a dividend to the shareholders, then the money is the shareholders to deal with as they choose, however it is ethically questionable if the mining companies use these funds for any purpose other than has been directed by the shareholders.

Perhaps Mr Taylor has been *captured* by these grant-seeking special interest groups.

I see the emergence of these special interest groups, including the *welfare industry* as doing far more damage than good to our struggling nation.

These special interest groups *do deals* with politicians, promising large blocks of votes in return for government handouts of taxpayer's money. These people, like the politicians, earn their living from political activity, with little thought for logic and ethics.

The politicians fall for it every time. They love being fussed over, quite oblivious to their moral dilemma. They are like small children: they'd rather be despised than ignored.

I had a few words to say about these special interest groups and the welfare industry in my Chairman's Address in Croesus Mining's 1994 Annual Report, and it brought the usual flood of fan mail, approx. 5:1 in favour of what I was saying. Those against, may never have been confronted with the ugly face of the bureaucracy. One letter from Karrinyup in W.A. reads;

*"My wife and I take strong exception to the tenor and substance of your Chairman's Address for 1994, insofar as it relates to Canberra-bashing and the (welfare) "industries" to which you object.....such intemperate and inflammatory scape-goating is quite unacceptable to thinking Australians today.....We do not need to have such outmoded and anachronistic*

*attitudes advanced on our behalf".*

Here is another one, this time from Brisbane,

*"I am writing to congratulate you on your Chairman's Address published in the 1994 Annual Report. I found it a statement unprecedented in my experience for its clarity and brevity in the enunciation of the truth.*

*What a tragedy for this country that it is in the control of our Canberra socialists rather than leaders such as yourself.*

*I trust Croesus will grow and prosper under such erudite leadership"*

I respect and value the opinions of each writer of these two letters and I gain satisfaction in knowing that what I said, has caused them to state their position so clearly.

I admit to being guilty of speaking up against the widespread nonsense confronting us in Australia today.

My justification for being involved in the intellectual debate is largely driven by concern for our mining industry and by a strong survival instinct.

There is a very strong anti-mining lobby at work in our country and everyone with any true concern for the industry carries some survival responsibility on their shoulders, no-one is relieved of their share of responsibility by others. One can not stand aside with unconcern, as the interests of the industry, its people and the nation depends on the successful outcome of this debate.

With good grace I admit that both shareholders' letters, may be correct, but more importantly, I had them thinking and acting on behalf of their beliefs. Similarly I bring these thoughts to you today, to the threshold of your consciousness, and leave it to you to accept or reject them, but at least I do invite you to think about them.

There is a lot at stake; it is whether Australia is to have a prosperous, export earning mining industry or not.

There is little concern from Canberra or from the anti-industry lobby that over \$1 billion of Australian exploration expenditure is going overseas this year. They say that this is *only* 25% of our total exploration expenditure.

However, if you analyse the figures and separate the exploration around existing ore-bodies, and exploration around new areas, you will find that over 50% of Australia's *new area* exploration budget is going overseas. Discoveries that will result from this exploration, will continue the outward flow.

Good for the world, good for the companies, but bad news for Australia and our unemployed.

## **2. THE ROLE THAT THE ACCOUNTING PROFESSION HAS PLAYED IN REDUCING AUSTRALIA'S STANDARD OF LIVING AND OUR INTERNATIONAL COMPETITIVENESS**

To illustrate this point, let me tell you two true stories: -

- This goes back to the late seventies when I was doing a lot of work in Indonesia. Over a beer with a New Zealand born, but Hong Kong based Accountant, I was asked "How is business?".

I told him that I didn't know and that I lived in despair of ever finding out.

He asked me what I meant and I explained that my business consisted of several unrelated businesses, each from which I received full reports, however I really had no way of consolidating the overall result (remember I am not an accountant).

He quickly showed me how to manage this and I have been better informed ever since.

When I got back to Kalgoorlie I asked our firm of accountants why they didn't ever do this for me, and was told "You don't have to do that, as the Tax Department does not require a consolidated result".

I realised that even though I was paying the accountants, they thought they were working for the Tax Department.

It had never occurred to them that they should actually complete their task by drawing the various fragments together into one overall result.

That's when we changed our firm of accountants.

- At the recent economic conference in France one of the members, an accountant, said to me "We don't send delegates to accounting conferences in Australia anymore".

Naturally I asked why not, to be told that "Australia's fixation with compliance for the myriad and ever changing rules and regulations, has taken its mind off the overall game of business for profit".

Unfortunately, having glanced at your own program for today, I can't help agreeing with that judgement.

I personally think that the accounting profession in this country needs a spiritual revival with a strong focus on "what can we do to get our clients into the 21st Century?".

This is happening in the USA, out of sheer necessity. US companies have had to increase competitiveness quickly or vanish from sight, and they are accepting the challenge.

Even though I am aware of the Australian Society of CPA's good work in the area of Small Business, as an overall profession, over the past few years, the only time that I have seen much dynamic activity is when the government hits the taxpayers with a brand new tax and then there is an accounting feeding-frenzy as you trot out a new series of seminars to train us how to comply with

this ever deepening quagmire.

With over 40 years experience in business, let me tell you that a business must choose between complying with every tax and regulation *or* surviving. It is a simple decision, but you can't do both.

There is a war on between the taxing authorities and the business community and the fact that your livelihood as tax agents (where applicable) is dependent on a licence issued by the enemy, makes me doubt the effectiveness of advice offered under such duress.

Let me suggest that the Australian accounting profession's total preoccupation with *compliance*, rather than *resistance* has contributed greatly to those who earn their living by political activity.

There was an old saying "don't bite the hand that feeds you", well we must now "stop feeding the hand that bites us".

### **3. THE MONT PELERIN SOCIETY**

After World War II, in which many of the values of Western Civilisation were imperilled, 36 scholars, mostly economists, with some historians and philosophers, were invited by Professor Friedrich Hayek to meet at Mont Pelerin in Switzerland, to discuss the state and possible fate of classical liberalism in thinking and practice.

Since that meeting of 36 scholars in 1947, the membership has increased to almost 500. The society is highly selective in membership recruiting, which may explain why I am not a member!. So far I have attended five of their meetings, and I am told that my membership will be put to a vote in two years from now. I would be proud to be the first member from Western Australia. It is a collection of individuals, no-one of whom may speak for another and membership includes scholars, prime-ministers and businessmen, all devoted to the free-market.

Papers on subjects of common interest are read, discussed and criticised and their detailed statement of aims includes the "re-definition of the functions of the State so as to distinguish more clearly between the totalitarian and the (classical) liberal order".

In a sense, the Mont Pelerin Society was founded to deal with the problem of the western intellectual's general antipathy to capitalism, and the harmful consequences of that antipathy.

The 1994 Mont Pelerin General Meeting was held in France and the week-long conference focussed on "The Legacy of Friedrich Hayek". (The organisation's late founder, and 1974 Nobel Prize winner).

Hayek's mind was an instrument of discovery and his advice to young people was always "Study economics first". "Only an economist, i.e. someone who understands the process of the formation of co-operation, can explain the selective evolution of the morals of property and honesty".

He coined the phrase *the fatal conceit* to describe the error of the bureaucracy in thinking they have all the information *to know it all*. He felt that only the

unregulated market itself contained all those necessary *bits of information* and all those *signals* that were continually being received from buyers and sellers.

Hayek felt that economics is precisely the story of us *stumbling* on information without necessarily understanding it, all without fully appreciating the consequences.

"Adam Smith" Hayek tells us "was the first to perceive that we have *stumbled* upon methods of ordering human economic co-operation that exceeds the limits of our knowledge and perception". Adam Smith's famous metaphor of the *invisible hand* is the rightful symbol of the unintended order : It's author having used it to describe how man, "Is led to promote an end, which was no part of his intentions".

In this way, people of commerce who set out to prosper, end up as an often unintended consequence, benefiting their clients, their regions and their country.

### **Some highlights :**

- Sharing the urinal with and subsequently meeting Dr Vaclav Klaus (Prime Minister of the Czech Republic). He explained to the meeting how he had successfully managed to transform the Czech Republic with swift, bold moves to de-regulate. He realised that it was impossible to do it slowly, or later, because newly formed pressure groups or special interest groups would successfully block his de-regulation.
- Meeting Dr Lagubo Sric (Dr of Economics, University of Freiburg) whose CV reads "sentenced to death in 1947 in Yugoslavia, reprieved, political prisoner until 1954: escaped from Yugoslavia in 1955". He is now the President of Council, Economic Forum in Moscow.
- Edward Crane (President of the Cato Institute) commented "The level of taxation and of government regulation is a measure of our *failure* to civilise our society".
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- Arthur Seldon, from the Institute of Economic Affairs London, defended free-enterprise markets against the socialist alternative, by saying "Markets are the most potent form of human progress". "They prevent poverty, create opportunities and raise the general welfare of the population".

My immediate thought on hearing this was that when Australia's Federal Liberal Party achieves Arthur Seldon's depth of understanding and belief in the market economy, they will graduate from being the "Opposition".

- Dr Victoria Curzon-Price (University of Geneva) took us through Hayek's works in identifying the market order as commencing between 5,000-8,000 years ago. It was the discovery of the market order which permitted our nomadic ancestors to settle down, develop agriculture, build cities and religions, experiment with tyrannies, monarchies and democracies, invent courts, judges and secret-police forces, discover refrigerators and atom bombs, wage war on each other and, in a word, become "civilised".

Liberty on the other hand, "can hardly be traced back further than the England of the 17th Century" according to Hayek. Furthermore, it is so fragile a plant, that Hayek devoted the rest of his life to the vital question of the preservation of a society of free-men in our times.

He showed that liberty flourishes from time to time, but is always crushed in the end: "over and over again, powerful governments so badly damaged spontaneous improvement that the process of cultural evolution was brought to an early demise".

This brings us to one of the flaws in our educational system that I referred to earlier, as Dr Curzon-Price explained how historians fail to teach us much about this evolutionary process, because they tend to concentrate on the period in which the civilisation under discussion is already in decline, that is when a highly organised state is already in existence. This is when the civilisation, in appearance, is at its most glorious, when great monuments are built and great wars waged. But it is in fact already dying from lack of liberty.

Hayek describes this process by saying "nothing is more mis-leading, than, the conventional formulae of historians who represent the achievement of a powerful state as the culmination of cultural evolution; it has often marked its end. In this respect students of early history were overly impressed and greatly mis-lead by monuments and documents left by the holders of political power, whereas the true builders of the extended order, who actually created the wealth that made the monuments possible, left less tangible and ostentatious testimonies to their achievement".

It seems therefore that there are brief periods where liberty flourishes and when the foundations of spontaneous, extended order are laid. But the very wealth that is thus made possible is then used to feed a government that will in the end devour freedom, and much of the wealth as well.

This may be the point of the cycle at which Australia now finds itself. In this respect there were many relevant points for Australia in this week-long conference, containing positive input from many parts of our fast changing world.

My one regret was that neither of Australia's major political parties will receive any input from this concentrated wisdom, unless they borrow the notes from the five or so Australians who attended the conference.

An interesting aside was that the two countries that show up well as successful models for economic reform are the Czech Republic and New Zealand.

#### **4. CAN ACCOUNTANTS summon up enough courage to be part of the solution, rather than be part of the problem?**

I have a two-part request :-

- Firstly we need you to focus clearly on your core function of making Australia competitive. Australia is located in a highly competitive region

and we are falling further behind.

*Asiaweek* Magazine Oct 5, 1994 ranks Australia in 21st position in GDP growth (that puts us right between Bangladesh and India).

This is likely to worsen due to the rural drought, our large fiscal deficit, the steep interest rate yield curve and heavy balance of payments deficit.

You are the people with specialised skills and knowledge that can get behind the companies and individuals and super-charge their efforts and performance.

Take your focus off *complying* and put it on *performing*.

Put every government rule and action to a test. Will it help or will it hurt our ability to compete?

That includes everything; regulatory reform, trading laws, FBT, CGT, and even the stifling payroll tax which is nothing more than a tax imposed on employers for creating employment.

If you find that any of these regulations or taxes hurt our ability to compete, unleash the full-force of your intellectual power to oppose, to reduce and bury that regulation or tax.

- Secondly, please fulfil your responsibility to introduce the full benefits of computer technology to your companies or clients.

Technology is now an agent of individualism. The micro-chip, which is now expanding the reach of the human brain the way machines expanded the reach of human muscle in the last century, is flattening hierarchies the way electricity physically flattened factories when it replaced steam power in the early part of this Century.

We simply don't need as many layers of management to process information as we did before. The corporate sector has been slowly undergoing this process for years and I hope it will reach the public sector soon.

The micro-chip is the enemy of the tyrant. Not so long ago, money had to be transported physically by, say, putting bars of gold in ship's bottoms or in wagons. Government could literally prohibit their citizens from moving their wealth outside of their jurisdictions. Today, the blip of a computer can transport millions of dollars in less than a second.

There is a growing disenchantment among productive freedom orientated people, concerning the intrusiveness and high cost of government which manifests itself as high levels of taxation.

Computer technology is changing all that. It is now possible for us to choose which country in which to live and which country in which to work or invest. It will not necessarily be the same country, as we will be judging them by different criteria.

For instance Australia may be a good place to live but not a great place in

which to invest. (Due to sovereign risk, taxation and over-regulation).

These choices will usher in a new era of shrinking governments down to size as each is forced to vigorously compete for investment capital as for example, "oppressed" Chinese invest in Australia and "oppressed" Australians invest in China.

Are we ready for this new Era?

Dictators can enslave the body, but they can no longer capture the true source of wealth, the human mind.

This is a huge responsibility for you; to ensure that Australians and our industries fully utilise these new electronic tools.

In conclusion let me remind you that you are intellectuals, and intellectuals generate ideas.

Professor Hayek often said that the role of the intellectual is precisely in transforming a good idea, that at the moment may be politically impossible into one that is politically feasible.

Ideas have consequences as history proves, but remember; it will take *courage* to back your ideas with actions.