

GOLD 'n DOLLARS the CHILE - KALGOORLIE connection

Lessons in Free-Enterprise for Australia a two part address to a Resources Sector Luncheon at the Mayfair Crest Hotel Brisbane
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Ron Kitching
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Ron Manners and Ron Kitching are old friends and both are members of the prestigious Mont Pelerin Society - the vehicle for the Austrian School of Economics - and have authored numerous papers on mining and economics. The last time they appeared in concert was in Moscow when these two irrepressible miners played their part in undermining that Wall. Who knows what they will inspire here!

From all accounts, resource rich South America is coming out of the economic doldrums at an astounding rate, and will leave Australia wondering what happened - this exposition is a must for anyone with the slightest interest in Australia's economic future. There are vital lessons to be learned from what is happening in South America today.

"Gold 'n Dollars, the Chile - Kalgoorlie connection" is guaranteed to inform and entertain.

Ron Manners, a colorful character from Kalgoorlie, is a gold miner through and through. A true son of the pioneers of the west, his knowledge of and faith in gold is exceeded only by his enthusiasm for free markets. As the national business magazine, BRW, said recently:

"In an era of colorless managing directors, industry characters such as Ron Manners are like a breath of fresh air. To them, the mining industry is more than dollars and cents. It is an industry with a colorful past, full of personalities who played a key role in opening up this country's enormous mineral wealth.

Manners has put pen to paper to bring some of this mining industry to life. However, his main interest is in directing the fortunes of Croesus Mining, in which he has about 20% of the equity."

He has travelled the world extensively, but he travels to the eastern States as little as possible, feeling strongly that the west has been ill served by the bureaucrats of the golden boomerang - Sydney/Canberra/Melbourne. Fortunately our friends from the west consider Queensland to be an ally, and he can always be assured of a great reception in Brisbane. Ron is Chairman of Croesus Mining NL.

Read the story of Ron Manners' grandfather:

["So I Headed West"](#)

Ballarat to Broken Hill to Kalgoorlie

1863 - 1924

by W.G. Manners

"Very few mining men of that era wrote down their own life history. W. G. Manners story is interesting partly because he was a typical engineer, with as many ups as downs. His chapters catch something of the hardship and the excitement of early Broken Hill and the roaring days of Kanowna and Kalgoorlie. It's good that his story, after two thirds of a century, is at last in print."

Professor Geoffrey Blainey

Also co-edited by Ron Manners:

[Kanowna's Barrowman](#)

by James Balzano

Available from: PO Box 33 Kalgoorlie WA 6430

Each book \$32 posted within Australia

Part the first

view from Kalgoorlie

Address by Ron Manners

Executive Chairman

Croesus Mining NL

Kalgoorlie

Western Australia

IN SUMMARY

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- What was so special about King Croesus?
- How come we forgot to write a job specification

for the Government?

- Who forgot to educate us for survival?
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View from Kalgoorlie

During the early 1970s, the Australian Tax Department developed a dispute with me by assessing tax on some mining vendor shares when their current market price was \$8 each. Vendor shares as you may know can not be sold until the period of escrow expires. By that time they were not \$8, they were 15¢ each. However the Tax Department felt that this drop in value was irrelevant so they continued their efforts to extract this fictitious sum of money, on which they were charging 10% interest. The annual interest was more than my salary.

Despite my many requests that they take me off their mailing list, they did not oblige and about the only polite letter I got from them during the next 15 years was one announcing that the interest rate had been raised from 10% to 20%. This of course was of no interest to me.

It was during that time that I adopted the motto "If Socialism works, I won't" and I dropped out of the productive work-force and enjoyed what I will probably come to regard as the most interesting period in my life.

My time was busily spent in writing letters to various editors, forming new political parties and travelling overseas where I ran hotels, explored for nickel and wrote a story entitled "The Alienated Australians" where I interviewed 27 other Australians who had been blown out of the Australian work-force by the heavy hand of the bureaucracy. They were all enjoying successful careers in other countries where they were able to move so much faster, without the bureaucratic burdens of Australia.

However, all good things come to an end and I started to feel that I really had to have a "proper job" particularly as it was embarrassing for my children when they were asked "But what does your father really do? "

I also realised that my motto "If Socialism Works, I won't", just didn't make sense as Socialism has never ever worked. Socialism is parasitic and needs a fresh supply of victims to exist. In the long term, it just runs out of victims.

This led me to write politely to the Commissioner for Taxation in the mid eighties and suggest that if they tore up all their previous files I would be prepared to re-enter the productive work-force and allow them to pursue their speciality of plundering yet another pay-packet.

They found this offer too good to refuse and this gave me the opportunity to re-activate some almost forgotten skills in floating a publicly listed mining company which I called Croesus Mining NL.

Now why pick a name like Croesus, a word that very few could pronounce let alone spell? Croesus was the King of Lydia, now Western Turkey, between 560 - 546 BC. He was noted for his great wealth, hence the term "rich as Croesus".

Anywhere in the world where there is mining there is always a Croesus Hill or a Croesus Nob or a Croesus Shaft and in Kalgoorlie there is a Croesus Street where I live and the Company had its registered office and operating staff based in my kitchen for the first couple of years of its life.

There are two other aspects about King Croesus that I would like to mention as they have relevance to today's audience :

- * He had some good survival strategies, but overlooked a few small details
- * He had a keen sense of the correct role for Government, in money matters

As a means of survival through good and bad times he formed many joint ventures with neighbouring countries in much the same way as we currently joint venture our mining properties. It gives us tremendous leverage.

By doing deals with many of these partners he raised Lydia to the peak of its power, conquering Greek coastal cities and extending his empire to the Halys River in Central Asia Minor.

Here is one of the stories of how he ultimately met his end. He and some joint venture partners were waging war against a neighbouring King, right near one of the corner pegs between nations. The record has it that there was a huge fire right near the corner peg and at the last minute, one of his joint venture partners pulled out of the deal and joined forces with another.

They quickly ran a spear through Croesus, who then fell on the fire; and that's how they invented shish kebabs!

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Another more scholarly version is that around 546 BC. a young Persian corporate marauder, who later became known as Cyrus the Great was having a great deal of success with his corporate take-overs because he had developed the technique of allowing conquered people to keep their jobs and their own corporate identity.

This technique was noted by King Croesus in Lydia who took it as a sign that the time had come to add a few more tenements to his own Kingdom.

He sent to the Oracle at Delphi for advice on how to proceed and was informed that if he attacked he would destroy a great empire. The Oracle had given a typically enigmatic message, as it later turned out.

Croesus' first battle on open ground with Cyrus the Great did not go well for him and Croesus retired to his homeland for the winter, as was customary.

On his way home Croesus alerted the Egyptians, the Babylonians and the Spartans that come spring they would all march together and destroy this "up-start" named Cyrus.

Cyrus wasn't in the mood to wait for spring. As Croesus' army was beginning to disband for the season, the Persians marched up to the gates of Sardis, the capital of Lydia.

Although Croesus' defenders were always ready for attack, Cyrus tricked them as he had a secret weapon.

Instead of riding to the attack on horseback his soldiers were mounted on camels, the sight and smell of which spooked the more traditional mounts of the Lydian cavalry and the defending army was driven back into the city.

Sardis was widely regarded as the most impregnable city in the world at that time because of its location at the top of the steep hill and Cyrus thought he had been beaten. Then, after more than two weeks of the siege an odd accident gave Cyrus the key to the city. Watching a point near where the hill was steepest and least protected (because it was considered unclimbable) one of the Persian soldiers was surprised to notice a sentry on the wall lose his helmet over the side and, rather than go to the quarter-master for a new one, he scrambled down the hill to retrieve it. This revealed the presence of a secret pathway. Following this route the next morning, before light, the Persians entered the city in single file, killed Croesus, and claimed his legendary treasures. The "Great Empire" the Oracle had referred to had been Croesus' own.

As so often a whole corporate empire crumbled because they had not practised Total Quality Control and insufficient investment had been made in training every single member of the staff.

Even the best survival strategies can come unstuck because of lack of attention to one tiny detail.

The second point worth mentioning about King Croesus is that he was the first ruler in the world ever to mint gold coins.

This single action in recognising gold as honest money, untouchable by politicians and government officials, could rank equally in importance with Adam Smith's contribution when he was credited with having invented free enterprise over 200 years ago.

Adam Smith gave us some guidelines, later refined by Bastiat, Von Mises and Hayek as the basis of a Government's job specifications.

Identifying the correct role of Government and controlling Governments to stay within these bounds, is the key to your personal and corporate survival and what I will outline to you today is :

1. The background to the problem.
2. What can we do about it?

There appears to be total confusion in this country as to the correct role of Government, but the problem is worse than that. There appears to be total confusion in what our personal roles should be and what our corporate responsibilities are.

The problem goes right back to our early training. We are not conditioned for the real world.

For example, how many of you in this room have developed an automatic response that you will use when you are confronted with a physical "mugging" from one individual?

Of course the success of a perfect automatic response depends on surprising your assailant, so naturally I can't divulge the secret to you here today but you really should know it already.

The root of this conditioning problem goes right back to childhood and I will just mention a recent incident.

It was at a family gathering last Christmas. A family with small children and one three-year-old was playing with a new toy he had received. The truck came with a number of smaller pieces including a plastic water tank that fitted on the back of the truck. Smiling, he carried his treasure into the living-room where other family members sat. Immediately his two-year-old cousin came over and seized the tank from the back of the truck.

Naturally, the boy tried to take back the purloined tank. Just as naturally, his cousin twisted away and clutched his prize more tightly to his chest. Plaintively, the boy looked up with a pained expression on his face and pointed to the small plastic tank. Sternly two or three of the adults in the room - including his mother - told him in no uncertain terms that "You have to share".

I cringe at this brief drama as it exemplifies one of the basic problems with our society. This incident and countless others like it has helped establish the underpinnings for a moral assault on our free society, the sanctity of private property, and individual responsibility.

There is, of course, nothing wrong with sharing, But there is something wrong with stealing and what happened in that living-room was stealing, not sharing.

These messages learnt in childhood are often the most enduring and they are unthinkingly adopted before we have the intellectual ability to analyse them. Buried among forgotten childhood experiences, these principles frequently guide our adult actions without ever having been exposed to the light of rational questioning. Eventually, we will face the negative consequences of faulty ethics and ask bewildered, "Why did this happen?"

"Sharing", because someone makes you do it is just as much a self-contradiction as the notion of "forced charity". The redistribution of income applauded by most politicians, the cries of our citizens for "entitlements" and social welfare programs to fulfil personal needs or desires, the idea that Governmental interference in our private lives is proper, and the contention of taxation are all destructive beliefs and actions that can trace their roots to the kind of mind-set which says to innumerable and defenceless small children, "You have to share", when their toys are taken.

The good intentions of parents and adults do not alter the damage they are doing, any more than the possibly good intentions of our politicians when they wildly throw our money at their favourite vote-buying schemes.

If each of us can break away from any such early programming problems it will help us understand the problems that are coming at us from every direction, and help us understand the legitimate role for Government, for individuals and for companies.

Let's start with the easy bit first.

What is corporate responsibility?

This is a question that involves the nature of business itself. Very simply, a business produces a product or provides goods or services to people who want them. By law, a business corporation is authorised to act in place of a person, even though it may be owned by many. The profits belong to all who invest in expectation of earning a return, so shouldn't the profits of a corporation be reserved for the benefits of the owners?

Of course, the owners have a duty and obligation to consider how they will dispose of their profits. The matter is simple in a proprietorship or partnership with a small number of owners. The parties may meet and choose to give to worthy causes. It gets more complicated in the case of a so-called public company, which may have thousands of shareholders. How can all be consulted in disposition of the profits. I think the solution is very simple, pay out the profits as dividends and let the owners decide what to do with the money.

But in recent years corporations have learned from politicians to become very skilled at giving away other people's money while making themselves feel good about it. Many arguments are raised to justify corporate giving. People are moved

by pure motives to contribute, and that is commendable. A second argument is that the needs are so great they require corporate rather than individual resources. A third justification is that giving creates goodwill in the community. This view is based on the idea that it is important for corporations to be good citizens and to contribute to the community (that could be appealing until one realises that it is possible to give back to the community simply by lowering prices or expanding operations and increasing employment opportunities).

The current buzzword in corporate giving is "enlightened self-interest". If you make the world a better place, people will buy more of what you have to sell. Enlightened self-interest also creates good public relations. Whole textbooks have been written on this kind of "cause-related marketing".

Huge P.R. departments create photo opportunities for corporate heads to shake hands with the leaders of local charities and to hand them cheques. The results of this kind of philanthropy are measured by the good it does for the company, not the good it does for the recipient. Now all this sort of giving may be acceptable for a company who sells something to the public and such expenditure can form part of their advertising budget.

Unfortunately, there is also a great deal of peer pressure for non-selling companies to conform in this way. If a worthy cause is in need and most of the community is giving to that organisation, a company becomes conspicuous by its absence. So corporate philanthropy can help avoid "trouble". Dozens of special interest groups routinely target corporations and issue the threat of a boycott in order to secure contributions. Often these contributions are in reality just like "protection money" that businesses are forced to pay to the underworld, or to Governments in the form of occupational licence fees, in return for the government protecting them against competition.

Social responsibility has become a catchword of the left, an excuse for ever-expanding Government control of business. It's time that business fought back and explained that it has no more special responsibilities than anyone else.

Corporate philanthropy has also funded hundreds of legitimate causes meant to solve our nation's problems. But the poor seem to get poorer, and many citizens have become more and more dependent upon the Federal Government. Corporate philanthropy has often helped foster that dependence.

It is also clear that corporate philanthropy has been a poor substitute for personal philanthropy. It has not only been widely perverted by businesses and special interest groups, but it has not been very effective in addressing the problems it seeks to solve. In this context, it is more important than ever that we develop guidelines for personal philanthropy.

Here are the guidelines I would suggest :

- * Support people and causes with which you are personally involved. Give more than just money to those you are helping; stand with them and help them personally. It is often the dynamic energy of the corporate world that is needed to help these people achieve their worthy aims.

- * Do not wait until you are established in the world; you will never be established in the world. You will never reach a point at which you have "arrived" and can begin giving.

* Give privately, not seeking recognition for your work, it is for others' benefit, not your own, that you are giving.

* Be a cheerful giver. The joy of helping others far exceeds the joy of helping yourself.

Giving can be fun and I've made a little game of it. Let me tell you about the game.

Have you often wondered why you let the bureaucrats get away with intimidating you when they fine you for being 15 seconds late with paying your land-tax or when you get a "hurrying ticket" (You could hardly call it a speeding ticket when you are "caught" doing 67 km on the open road).

Well, when this happens to me and they have finished lecturing me from their imaginary moral high-ground I present them with the little Certificate shown opposite.

Now having said that, what does a company, based within a community do when they receive these various letters of requests from worthy causes?

Here are two paragraphs from recent letters received by our company

* "A permanent honour board will be suitably placed to recognise those firms who give their support. Our approach for funds is to those firms who enjoy the fruits of Kalgoorlie, be it through stockmarket activities, mining or the service and supply industries".

* "Croesus Mining and the Mystery Mint Mine are an integral part of Coolgardie and I invite you to consider helping us with our advertising budget".

Is there a way of combining acceptable corporate philanthropy with private philanthropy to avoid any of the problems that I have mentioned?

I believe there is, and having canvassed many companies for ideas, we are proposing a scheme based on a concept developed by Delta Gold NL.

When they started making a profit in 1991 they were inundated with requests for help and they faced the dilemma of how to respond. They developed what they call their "Matching Plan" where Delta matches every dollar given by its staff members to their chosen charities. Naturally such a plan would only apply when a company is making profits as it would be quite immoral for an exploration company to dip into its exploration budget to assist causes, no matter worthy.

This is a good system for screening out requests such as any that have little merit such as any anti-business cause. In this way the company supports its staff by giving them the choice and responsibility of choosing where such funds are allocated, and it effectively doubles their contribution and increases their personal involvement.

Now wouldn't it be good if we could impose a strict set of controls on the way our various Governments give our money away.

It might prevent these continuing scandals, one of the latest where Minister Ros Kelly, with her "sports rort" gives away \$30M of your money and then rubs all the details off her white board.

\$30M may not seem a lot of money to Ros Kelly because she regards it as other people's money but it does to us as it is our money.

These are the very same people in Canberra who set up committees to control the behaviour of the corporate sector.

I laughed last week when I read of Labor MP Stephen Smith, formerly of the party's left wing and now Chairman of the Federal Parliament's ASC and Stock Exchange watch-dog committee commenting "the committee is in the business of spiv-watching".

We know who the spivs are but unfortunately most of us are too busy working on our economic survival, to find time to control these political spivs.

The writer P J O'Rourke recently said "A little Government and a little luck are necessary in life, but only a fool trusts either of them".

In a company when critical mass is reached, it is a good thing because it then becomes self-sustaining and its profits can be reinvested into exploration, research or development, and everyone wins.

Unfortunately when a government reaches critical mass and starts behaving as we now see in Australia, there is no stopping them because Government is out of control, it consumes the economy, crushes freedom and individual rights and then ultimately self-destructs as we have recently seen in the East European countries.

Now this brings us to the challenging bit. What is the correct role for Government?

Government's role is essentially a negative one and in many ways the less they do for us, the better it is for us.

Henry David Thoreau may have been cynical but he was correct when he said : "Government may best assist by the alacrity with which it gets out of the way".

Government should be regarded as a necessary evil and, therefore kept very small, and given the job specification of simply protecting the lives, liberty and property of those individual human beings who constitute society.

That ideal job specification came from the founding fathers of the USA who unfortunately did not build in sufficient controls to prevent the political process from taking over.

Good political systems are designed to protect us from our leaders.

The Swiss have the solution!

When the Swiss adopted their constitution in 1848, they were inspired by the American Constitution and its Republican system which, among other things, incorporated much of that great body of English Common Law. However, even in

1848 the Swiss saw that in the American system of representative democracy the representatives of the people had already become corrupted by power and that their Congress was being ruled by vested-interest lobbies (that was in 1848 - look at it now!).

The Swiss opted instead for a decentralised state with a very small central government in which most of the power was devolved to many small regions, or cantons.

Their system is characterised by their reliance on numerous referenda and initiatives - and includes the power to recall corrupt politicians and to veto legislation.

For the most part the Swiss have been successful in avoiding the problems that have plagued centralised federal states around the world. Even though the Swiss have a great potential for conflict, with many religious and ethnic divisions within their borders, their policy of regional autonomy has assured a high degree of social harmony - not to mention stellar economic performance. Switzerland is still listed at the very top of the list of the most desirable places in the world to live.

They have also provided a successful formula for limiting the size and powers of government.

Back in Australia there is no mystery why we have over one million people unemployed and why Canberra continues to pursue policies that will increase that figure.

We have a Federal Government whose policies and supporters are largely enemies of economic growth. These policies and people are on a collision course with anyone trying to create real jobs.

Things will not change until their policies change and the socialists cease their relentless war against mining and development.

The combined effort of the Mabo Maniacs and the environmental fringe dwellers, with their well orchestrated pressure on vote-seeking politicians has cost our nation dearly.

I heard a story about Moses the other day, and if it wasn't so serious, it could be funny. It goes:

Moses was leading the children of Israel across the Red Sea. "I have some good news and some bad news for you", said Moses." The good news is that I will lift up my arms, the Red Sea will part and we will be able to walk across on dry land. The bad news is that we have to wait for the Environmental Impact Statement".

Wouldn't it be interesting, if H.C. Coombs and his Mabo brigade and the environmentalists, before pursuing their self-interest projects, had to first fill out, not the Environmental Impact Statement we have to, but an "Economic impact Statement" to show the Australian people the exact cost to us of all these impediments they attach to any developmental projects. I call them Barnacles on the Backside of Progress.

The costs would be hard to quantify because exploration for example, is the seed capital of future mining development. If the seeds are not planted, there are no

future crops. The damage being done today will not affect existing mines but it is their replacements over the next five, ten, or twenty years that will be missing. These missing mines will be missing revenue, missing taxes for Australian Governments and missing jobs for the Australian workforce.

Well, that must all sound very depressing.

So why haven't we shifted to Chile, Indonesia or Africa, where twenty four of Australia's largest explorers are spending twenty five percent of their exploration dollars?

I estimate that there is over \$1 billion of Australian investment money going into overseas exploration this year. Amazing when we consider our one million unemployed back home. Just two Australian companies CRA and MIM are considering another \$1 billion investment in Argentina alone.

Croesus Mining receives deputations from these countries and the offers of red-carpet treatment sound tempting. We have opened files on many of these opportunities and there may be a time in the future when we will be tempted.

Why are we still here? The reason we are still based in Kalgoorlie, West Australia, is that I wouldn't miss out on what is happening in Australia right now, despite how many tempting offers may be made.

I am an optimist

"Crisis means Opportunities", as the Chinese say, and so many of Australia's larger companies have diverted funds and attention overseas that it has created a whole new string of opportunities for the small to medium size companies right here in Australia.

Unlike South Africa, where the big companies have it all tied up, Australia is wide open and bursting with opportunities for companies like Croesus Mining.

This current mining boom in West Australia will go down in history as being of far more significance than both the "Nickel Boom" of the '60s/'70s combined together with the "Gold Boom" of 1986/87.

Compared to last year, Australia's current year gold exports are rising by 30% to more than \$5 billion, with 75% of that coming from West Australia, with 60% of Australia's \$4 billion total gold exploration expenditure being spent in the West.

If Australia can achieve a 30% expansion of an industry under socialist federal policies; just think what could be achieved with free-enterprise.

The \$5 billion export figure is being produced by a total of approximately ten thousand people directly employed by the mining companies, so that an increase in employment in this field results in a big multiplier in export earnings, and flow-on jobs, as it is estimated that each person directly involved in the mining industry, generates fifteen additional jobs in the related service industries.

Let me tell you another interesting statistic.

Parliament House in Canberra consumes many things and one of them is electricity. The maximum demand figure for Parliament House is nine megawatts,

which is more than all the houses and small businesses in the whole of the Kalgoorlie region.

I heard a definition of Canberra the other day :

"Two hundred square kilometres; surrounded by reality".

Back to the "Gold Boom" of the West and the reason for it.

At the moment there is an ideal set of circumstances that will not continue forever. It is during this window of opportunity that you will see a whole new group of mining giants emerge and take their place on the world stage.

The ideal conditions are :

1. A favourable gold price;
2. A reasonable exchange rate with the U.S. dollar
3. A pro-development State Government, who at least have some understanding of the benefits that flow from free-enterprise. Projects that have been stalled for some years are now on the move again; The West is again revitalised with investment and productive energy. We are working again in an environment of opportunity.
4. But most importantly of all, is that the industry itself has developed the tools and the geological understanding. These advanced exploration techniques are making mineral discoveries possible in soil covered and lake covered areas, many of which were previously inaccessible.

Our company is typical of this new breed of fast moving, emerging explorers and miners.

In our short seven years in existence, we have mined seven mines, made two successful company takeovers and paid two dividends to shareholders. We have our own energetic technical team, our own gold treatment plant, \$5.5 million in the bank, and most importantly, a good gold resource within easy trucking distance of our mill. We are currently proving up new ore at twice the rate we can mill it.

Things are looking good and we are very excited about 1994.

By June this year, we will be producing gold at the rate of 30,000 ounces per annum, an annual value of over \$16 million.

If there is not a good dividend in this for our shareholders, there would have to be something wrong with us.

We are on a roll and we are going to stay on it.

All I ask of Governments is that they keep out of our way, and leave us with the economic freedom to explore and produce. I know that we will only hold these freedoms, as long as we have the courage to fight for them.

Courage is like love; it must have hope for nourishment.

May I wish you courage also to expand your own freedoms and responsibilities within your chosen profession. This can be done if we take seriously our responsibilities as a free people, which means never conceding to politicians and bureaucrats the right to run our lives.

But always remember that no matter what may happen, changes bring forth opportunities; and no matter what politicians and Government officials may do to us, the secret of economic success is to be ready for opportunities when they come.