

Making Sense

Issue 10
4th October 2008

“News to use & amuse”



Editor: Mike Bolan

www.abetteraustralia.com

Be afraid – be very afraid

In the context of the 'financial' crisis, the Bush administration is running another fear campaign to get its own way.

PRESIDENT GEORGE W. BUSH: The government's top economic experts warn that without immediate action by Congress, America could slip into a financial panic, and a distressing scenario would unfold. More banks could fail, including some in your community. The stock market would drop even more, which would reduce the value of your retirement account. The value of your home could plummet. Foreclosures would rise dramatically. And if you own a business or a farm, you would find it harder and more expensive to get credit. More businesses would close their doors, and millions of Americans could lose their jobs. Even if you have good credit history, it would be more difficult for you to get the loans you need to buy a car or send your children to college. And ultimately, our country could experience a long and painful recession. Fellow citizens, we must not let this happen.

The same old fear driven pattern – scare everyone with terrible possibilities, propose only one method of dealing with the problem and say that a decision is needed immediately – *trust us we'll save you*. Relevant Jon Stewart video [here](#).

In a [story on the bailout](#) someone said 'the issue is stopping the panic'. Who is causing the panic? The Bush administration!

As [Ralph Nader states...](#)

...it's not clear at all why a bailout is needed. That's part of the stampede in the pack and the panic that Bush and Paulson and Bernanke are pushing Congress toward. You know, it's eerily reminiscent, when you listen to Bush yesterday, of how he stampeded the Congress and the country into the criminal war invasion of Iraq in 2003.

BushCo gave us WMDs, mushroom clouds over the US, anthrax in envelopes and 'you're either for us or you're for the terrorists', simultaneously stampeding the credulous into a war on a concept while giving themselves almost unlimited power.

Last week sounded eerily similar – give Paulson & Bernanke unlimited power over the US treasury or else depression, bank closures, job losses, panic. Hurry up...no time...sign here now...save our world...

They didn't get their unlimited power first time round and we didn't get a depression or panic, despite the purple prose in the mainstream media.

We got a fall of several percent followed by a bounce that cushioned the impact. We went from 'Market on it's knees' to 'market rebounds' in 24 hours.

There's been a constant push in the media to associate salvation from our economic problems with giving a literal fortune to the people who created the problem – bailout or collapse.

We're getting the same treatment in Australia about climate – new tax and targets or regret until the end of time. End of time??

This is all a bit rich from a government system that costs Australians half of their income to support, trashes water catchments with overallocation and under investment, operates a health service that doesn't meet the needs of the population, fails to invest in vital infrastructures or inspect faulty gas pipelines....the waste and failure list runs into many pages.

Now the answer to climate change is more taxes, bigger government, huge payments to polluters and power price increases or regret until the end of time. Oh yes, and hurry up...there's no time left! Oh, and we can't reduce emissions without international agreement. [false assertion]

No word about real emission reductions, no plan for government to change its policies, just financial penalties and targets for the rest of us.

Sustainable societies are the least expensive ways for us to live. No cross subsidies, no oil shocks, no wars, no waste.

The only reason humans are still on the planet is because we lived in self-sufficient communities. We can grow our own food, create local supply and distribution systems, use local renewable power systems that don't need a national grid, apply herbal medicine techniques, use human and animal powered transport for local work – all of these solutions and more are available.

What we cannot do is keep going on as we have been doing.

Learning to live more harmoniously inside the limits provided by our planetary home is possible now. We don't need a new tax to force us into it, we need wise leadership that stimulates us to reconceive our whole approach to life so that we have sustainable societies.

I think that we ought to get started right away.

In this issue

Be afraid – be very afraid.....	1
Fossil fuels and debt.....	2
Back to nature.....	2
The point.....	2
Peak oil and key events.....	2
Recently - in case you missed it.....	3
Health.....	3
Shelter.....	3
Corruption & governance.....	3
Transport, fuel & energy.....	3
Food & water.....	3
Tasmania & Australia.....	3
The end of voodoo economics.....	4
A Shattering Moment America's Fall From Power.....	5
In financial food chains, little guys can't win.....	7
State welfare for the rich.....	9

Fossil fuels and debt

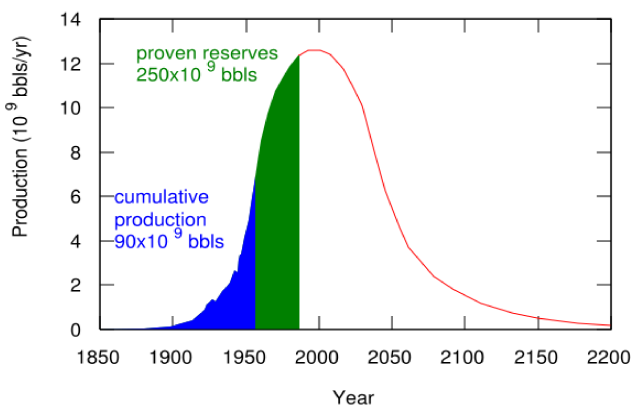
Back to nature

Economists like to argue that growth is always possible because new technologies will overcome any problems that growth creates. Sadly, new technologies don't create resources like water and gold...or at least not yet!

Ecologists have noted that our ecologies and economies grow and shrink according to the amount of energy used. They also know that all life and movement requires energy, energy is a fundamental requirement for life and growth.

Our population growth has been made possible by our use of the vast fossil fuel resources found on our home planet. But as many scientists have pointed out, the oil cannot last forever, in fact it's availability will peak and then decline...a point the *cognoscenti* call 'Peak oil'.

Below is a simplified diagram of the availability of oil.



The bell shape of the curve shows that after about 2000, the total amount of oil available diminishes - following the archetypal 'normal curve'.

As we pass Peak Oil (said to be around 2004), so our future ability to use fuel to improve our economy decreases. We lose more and more of our ability to discover, mine, distribute resources and to create new products and services...and lose our ability to pay our debts. *Bugger!*

The point

Systems ecologists like Howard Odum and Charles Hall showed that energy is the prerequisite for all ecologies. When ecologies grow, modify or produce they consume energy proportional to their activity. They also noted that these same rules applied to our products, services and efforts – even our very lives.

Readers might argue that Blind Freddie must know that without energy our current economies are just a load of annoying concrete, regulations and stalled vehicles, but our economic theories don't recognise these facts...indeed they deny that there are any limits to growth.

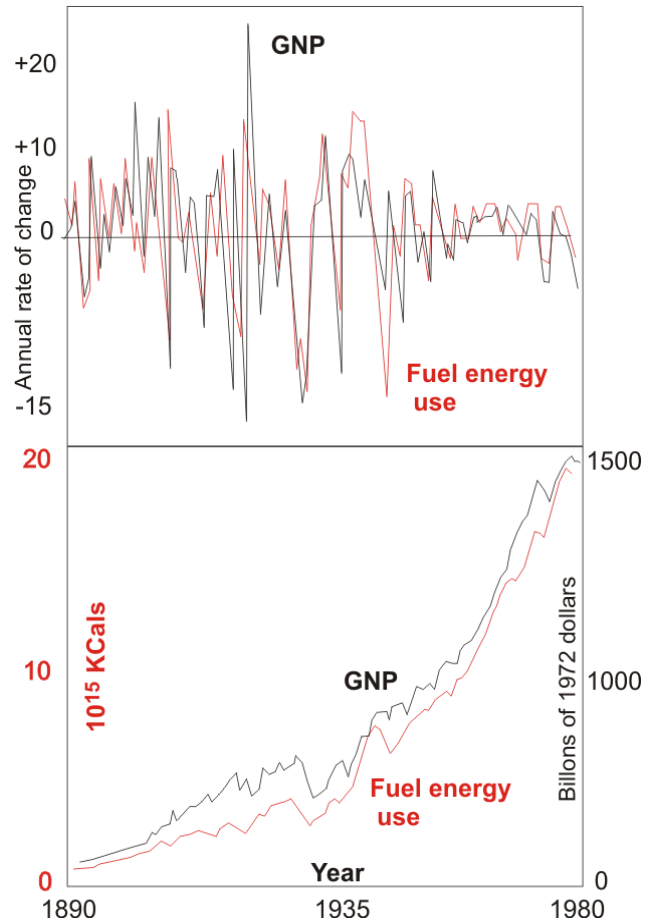
Hall & others showed that there was a high correlation over time between energy use and GNP. Our economy is entirely dependent on energy yet we do not act accordingly. Why not?

As Charles Hall says...

We...believe that the critical problem was the disconnect between economics and the biophysical world

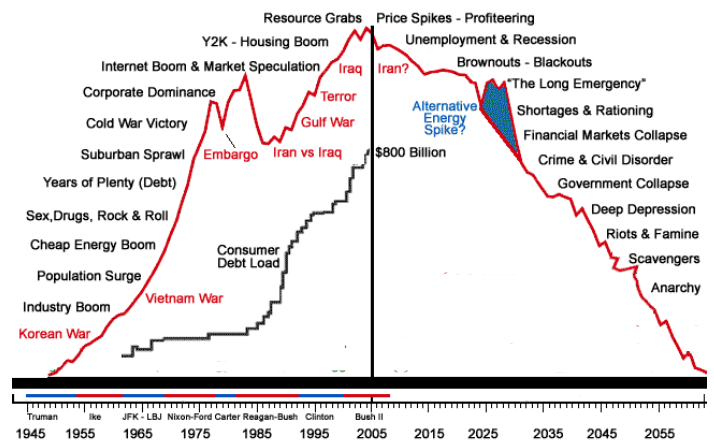
Hall's graph from his Scientific Cover up presentation...

Correlation of fuel energy use and GNP



It can be seen that our ability to collect, store and release energy constrains our ability to produce economic activity, indeed any activity at all!

The oil peak scenario in more detail looks like this graph, which also has key events and forecasts dotted over it..



Peak oil and key events

If fossil fuel availability and debt are both directly linked to economic growth, while ability to repay is a product of economic health then without fossil fuels we won't be able to repay our debts, or incur any more debts so economic growth and health will either diminish or disappear.

Our ability to repay, and therefore incur, debts is entirely dependent on our having enough energy.

Recently - in case you missed it

Click on source links for full story

Health

1500 patients per yr dying from hospital overcrowding - [Hld Sun](#)

Hepatitis C sufferers miss out on treatment [The Age](#)

Deadly danger of hospital overflow [The Mercury](#)

NSW elective patients put off as surgeons down tools [SMH](#)

Shelter

Housing affordability 'out of control' [The Age](#)

Rental crisis linked to migration boom [SMH](#)

Homeless crisis in middle Melbourne [Hld Sun](#)

Corruption & governance

Drugs worth millions go missing from Vic police [The Age](#)

Anti mafia police slam Vanstone [The Age](#)

Regulators turn a blind eye [SMH](#)

EPA warning of methane hazard ignored [The Age](#)

The force is with you, if you pay [SMH](#)

Transport, fuel & energy

Training crisis for air traffic controllers [SMH](#)

Interstate rail mess costing millions [The West](#)

Power shock as winter bills blow budgets [The Age](#)

Billing bungles hit Vic gas & power users [The Age](#)

Food & water

Starving the world for profit [The Age](#)

Record heat destroys Vic wheat crops [Herald Sun](#)

Vic water pipeline a dud says Flannery [The Age](#)

Tasmania & Australia

Faith in leaders hits rock bottom [Mercury](#)

PS chiefs millions in payouts [Mercury](#)

Motorists hit by \$20 m licence & rego blunder [Mercury](#)

We can't afford to keep Sydney running: Rees [SMH](#)

Ruddock gave detainees 'Buckleys' [The Australian](#)

Kids, carers victims of broken system [The Australian](#)

Banks make \$1 profit for every \$2 charged in interest [Hld.Sun](#)

New US bought Air Force fighters 'inferior' [ABC](#)

Heavy hitting envirolegal campaigner Gordon Craven's latest site about the Tarkine can be visited [here](#)

From Empire to democracy

Let's not waste \$700bn on a bail-out, but use 'big government' for what it's best at – shaping a society that is fair and peaceable

Howard Zinn 03/10/08 "[The Guardian](#)" -

This current [financial crisis](#) is a major way-station on the way to the collapse of the American empire. The first important sign was 9/11, with the most heavily-armed nation in the world shown to be vulnerable to a handful of hijackers.

And now, another sign: both major parties rushing to get an agreement to spend [\\$700bn of taxpayers' money](#) to pour down the drain of huge financial institutions which are notable for two characteristics: incompetence and greed.

There is a much better solution to the current financial crisis. But it requires discarding what has been conventional "wisdom" for too long: that government intervention in the economy ("big government") must be avoided like the plague, because the "free market" will guide the economy towards growth and justice.

Let's face a historical truth: we have never had a "free market", we have always had government intervention in the economy, and indeed that intervention has been welcomed by the captains of finance and industry. They had no quarrel with "big government" when it served their needs.

It started way back, when the founding fathers met in Philadelphia in 1787 to draft the constitution. The first big bail-out was the decision of the new government to redeem for full value the almost worthless bonds held by speculators. And this role of big government, supporting the interests of the business classes, continued all through the nation's history.

The rationale for taking \$700bn from the taxpayers to subsidise huge financial institutions is that somehow that wealth will trickle down to the people who need it. This has never worked.

The alternative is simple and powerful. Take that huge sum of money and give it directly to the people who need it. Let the government declare a moratorium on foreclosures and give aid to homeowners to help them pay off their mortgages. Create a federal jobs programme to guarantee work to people who want and need jobs and for whom "the free market" has not come through.

We have a historic and successful precedent. [Roosevelt's New Deal](#) put millions of people to work, rebuilding the nation's infrastructure, and, defying the cries of "socialism", established social security. That can be carried further, with "health security" – free health care – for all.

All that will take more than \$700bn. But the money is there. In the \$600bn for the military budget, once we decide we will no longer be a war-making nation. And in the swollen bank accounts of the super-rich, by taxing vigorously both their income and their wealth.

When the cry goes up, whether from Republicans or Democrats, that this must not be done because it is "big government", the citizenry should just laugh. And then agitate and organise on behalf of what the Declaration of Independence promised: that it is the responsibility of government to ensure the equal right of all to "life, liberty, and the pursuit of happiness".

Only such a bold approach can save the nation – not as an empire, but as a democracy.

A Shattering Moment

America's Fall From Power

The global financial crisis will see the US falter in the same way the Soviet Union did when the Berlin Wall came down. The era of American dominance is over

By John Gray 29/09/08 © "[The Observer](#)"

Our gaze might be on the markets melting down, but the upheaval we are experiencing is more than a financial crisis, however large. Here is a historic geopolitical shift, in which the balance of power in the world is being altered irrevocably. The era of American global leadership, reaching back to the Second World War, is over.

You can see it in the way America's dominion has slipped away in its own backyard, with Venezuelan President Hugo Chávez taunting and ridiculing the superpower with impunity. Yet the setback of America's standing at the global level is even more striking. With the nationalisation of crucial parts of the financial system, the American free-market creed has self-destructed while countries that retained overall control of markets have been vindicated. In a change as far-reaching in its implications as the fall of the Soviet Union, an entire model of government and the economy has collapsed.

Ever since the end of the Cold War, successive American administrations have lectured other countries on the necessity of sound finance. Indonesia, Thailand, Argentina and several African states endured severe cuts in spending and deep recessions as the price of aid from the International Monetary Fund, which enforced the American orthodoxy. China in particular was hectoring relentlessly on the weakness of its banking system. But China's success has been based on its consistent contempt for Western advice and it is not Chinese banks that are currently going bust. How symbolic yesterday that Chinese astronauts take a spacewalk while the US Treasury Secretary is on his knees.

Despite incessantly urging other countries to adopt its way of doing business, America has always had one economic policy for itself and another for the rest of the world. Throughout the years in which the US was punishing countries that departed from fiscal prudence, it was borrowing on a colossal scale to finance tax cuts and fund its over-stretched military commitments. Now, with federal finances critically dependent on continuing large inflows of foreign capital, it will be the countries that spurned the American model of capitalism that will shape America's economic future.

Which version of the bail out of American financial institutions cobbled up by Treasury Secretary Hank Paulson and Federal Reserve chairman Ben Bernanke is finally adopted is less important than what the bail out means for America's position in the world. The populist rant about greedy banks that is being loudly ventilated in Congress is a distraction from the true causes of the crisis. The dire condition of America's financial markets is the result of American banks operating in a free-for-all environment that these same American legislators created. It is America's political class that, by embracing the dangerously simplistic ideology of deregulation, has responsibility for the present mess.

In present circumstances, an unprecedented expansion of government is the only means of averting a market catastrophe. The consequence, however, will be that America will be even more starkly dependent on the world's new rising powers. The

federal government is racking up even larger borrowings, which its creditors may rightly fear will never be repaid. It may well be tempted to inflate these debts away in a surge of inflation that would leave foreign investors with hefty losses. In these circumstances, will the governments of countries that buy large quantities of American bonds, China, the Gulf States and Russia, for example, be ready to continue supporting the dollar's role as the world's reserve currency? Or will these countries see this as an opportunity to tilt the balance of economic power further in their favour? Either way, the control of events is no longer in American hands.

The fate of empires is very often sealed by the interaction of war and debt. That was true of the British Empire, whose finances deteriorated from the First World War onwards, and of the Soviet Union. Defeat in Afghanistan and the economic burden of trying to respond to Reagan's technically flawed but politically extremely effective Star Wars programme were vital factors in triggering the Soviet collapse. Despite its insistent exceptionalism, America is no different. The Iraq War and the credit bubble have fatally undermined America's economic primacy. The US will continue to be the world's largest economy for a while longer, but it will be the new rising powers that, once the crisis is over, buy up what remains intact in the wreckage of America's financial system.

There has been a good deal of talk in recent weeks about imminent economic armageddon. In fact, this is far from being the end of capitalism. The frantic scrambling that is going on in Washington marks the passing of only one type of capitalism - the peculiar and highly unstable variety that has existed in America over the last 20 years. This experiment in financial laissez-faire has imploded. While the impact of the collapse will be felt everywhere, the market economies that resisted American-style deregulation will best weather the storm. Britain, which has turned itself into a gigantic hedge fund, but of a kind that lacks the ability to profit from a downturn, is likely to be especially badly hit.

The irony of the post-Cold War period is that the fall of communism was followed by the rise of another utopian ideology. In America and Britain, and to a lesser extent other Western countries, a type of market fundamentalism became the guiding philosophy. The collapse of American power that is underway is the predictable upshot. Like the Soviet collapse, it will have large geopolitical repercussions. An enfeebled economy cannot support America's over-extended military commitments for much longer. Retrenchment is inevitable and it is unlikely to be gradual or well planned.

Meltdowns on the scale we are seeing are not slow-motion events. They are swift and chaotic, with rapidly spreading side-effects. Consider Iraq. The success of the surge, which has been achieved by bribing the Sunnis, while acquiescing in ongoing ethnic cleansing, has produced a condition of relative peace in parts of the country. How long will this last, given that America's current level of expenditure on the war can no longer be sustained?

An American retreat from Iraq will leave Iran the regional victor. How will Saudi Arabia respond? Will military action to forestall Iran acquiring nuclear weapons be less or more likely? China's rulers have so far been silent during the unfolding crisis. Will America's weakness embolden them to assert China's power or will China continue its cautious policy of 'peaceful rise'? At present, none of these questions can be answered with any confidence. What is evident is that power is leaking from the US at an accelerating rate. Georgia showed Russia redrawing the

geopolitical map, with America an impotent spectator.

Outside the US, most people have long accepted that the development of new economies that goes with globalisation will undermine America's central position in the world. They imagined that this would be a change in America's comparative standing, taking place incrementally over several decades or generations. Today, that looks an increasingly unrealistic assumption.

Having created the conditions that produced history's biggest bubble, America's political leaders appear unable to grasp the magnitude of the dangers the country now faces. Mired in their rancorous culture wars and squabbling among themselves, they seem oblivious to the fact that American global leadership is fast ebbing away. A new world is coming into being almost unnoticed, where America is only one of several great powers, facing an uncertain future it can no longer shape.

• John Gray is the author of *Black Mass: Apocalyptic Religion and the Death of Utopia* (Allen Lane)

The end of voodoo economics

Ian Williams 27/09/08 © "[The Guardian](#)" --

As the all-too-often selectively quoted [Adam Smith actually said](#): "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind."

No one can say that current events are a one-off. The get-government-out-of-business brigade, the masters of the universe, have in their three decades of unbridled power produced the [savings and loan bail-out](#), the [Mexican bond bail-out](#), the [Asian currency crisis](#), the [Enron](#) and other related scandals, the tech bubble, the [Long-Term Capital Management](#) collapse and rescue, a wage freeze for working Americans and now this.

And the irony is that these vile people who are now graciously agreeing to pocket a trillion dollars of taxpayers' cash have been arguing for three decades that government has no business in business, least of all in pension provision. In their famous phrase, it would pose a "[moral hazard](#)" for ordinary Americans to think that their government would look after them if in old age their income or their health failed them.

Those who have engineered these serial disasters, which have inflicted more damage on the US and world economy than Osama bin Laden and al-Qaida, have not been pursued into the hills of Bora Bora. Governments have reduced their taxes as they reward themselves with more and more salary, bonuses and stock options. If the shares of the company they manage take a dive, they backdate their options. If the company fails, they take a golden parachute. And when all else fails, they come to the taxpayers, top hat in hand.

There is one small consolation. What if these guys had achieved their desire, shared with John McCain and George Bush, to [privatise the social security system](#)? Just think of the social and economic disaster they could have wrought given all those trillions of dollars to play with.

With the sudden affection for government ownership and assistance now globalising its way consensually from Washington, will we see a new, social-democratic age of government involvement in industry? Probably not soon. But as Churchill said, this surely deserves to be beginning of the end of the Washington neoliberal consensus that George Bush's father

called [voodoo economics](#). Bill Clinton, Tony Blair and even Gordon Brown all succumbed to that old black magic – and looking at Barack Obama's economic advisers, there is a more than even chance that he, too, is under its spell.

Clinton introduced tough love for working people, with welfare reform and lifetime caps, since it was clear that if you had no job it was your fault, not that of the titans of industry who had offshored your job or preferred to play the tables with sliced-and-diced derivatives of derivatives rather than use the capital for industrial and infrastructural investment.

Clinton famously quibbled about what "is" meant. It is much more productive to consider what the "market" is, not least when it falls from McCain's lips. As the negative example of Soviet-style economy suggests, it is difficult to beat the market when you are talking about the free exercise of consumer choices for goods and services and the consequent allocation of capital for providing them. But in the US, no one blinks when governments ban or regulate sales of tobacco, alcohol or drugs, let alone gambling or sexual services.

The financial markets, with increasing deregulation, have become a heady combination of sex and gambling. The Wall Street ideologues have been gambling our money and screwing us all, as investors, pensioners, workers and taxpayers.

There has been some understandable chortling as the British and American governments override their free-trade platitudes to nationalise companies, whether Northern Rock or AIG, Fannie Mae or Freddy Mac. But the plan Goldman Sach's alumnus Hank Paulson is proposing now is not nationalisation. It is a strings-free handout to his former colleagues on Wall Street.

However, there are opportunities in this crisis. Don't just take over the lemons left squeezed to the pips. Take equity shares in the whole companies. Maybe the proceeds could go to a sovereign wealth fund, to invest in manufacturing and infrastructure.

Above all, if the high priests of finance invoke government assistance, then now is the time to finish the job that Roosevelt started, Truman propounded and even Nixon considered: a universal single-payer healthcare system in the US. If AIG, one of the world's biggest insurers, is effectively now nationalised by the US government without debate, then who can argue? Nationalise the health insurance companies.

At the very least, now is the time to set up a comprehensive and effective regulatory system, and to ensure that if the taxpayers pick up the tab for executive excesses, the executives pick up more of the tab for taxes. Over to you Obama – and for that matter, Gordon Brown. Are you with the vile or the victims?

Bail Out the Homeowners!

Why Paulson's Plan is a Fraud

By Paul Craig Roberts 03/10/08 © "[ICH](#)"

Is the Paulson bailout itself as big a fraud as the leveraged subprime mortgages?

Yesterday, here on [CounterPunch](#), I discussed the bailout as proposed and noted that the proposal cannot succeed if it impairs the US Treasury's credit standing and/or the combination of mark-to-market and short-selling permits short-sellers to prosper by driving more financial institutions into bankruptcy.

A reader's comment and an article by Yale professors [Jonathan Kopell and William Goetzmann](#) raise precisely this question of the fraudulence of the Paulson package.

As one reader put it, "We have debt at three different levels: personal household debt, financial sector debt and public debt. The first has swamped the second and now the second is being made to swamp the third. The attitude of our leaders is to do nothing about the first level of debt and to pretend that the third level of debt doesn't matter at all."

The argument for the bailout is that the banks will be free of the troubled instruments and can resume lending and that the US Treasury will recover most of the bailout costs, because only a small percentage of the underlying mortgages are bad. Let's examine this argument.

In actual fact, the Paulson bailout does not address the core problem. It only addresses the problem for the financial institutions that hold the troubled assets. Under the bailout plan, the troubled assets move from the banks' books to the Treasury's. But the underlying problem--the continuing diminishment of mortgage and home values--remains and continues to worsen.

The origin of the crisis is at the homeowner level. Homeowners are defaulting on mortgages. Moving the financial instruments onto the Treasury's books does not stop the rising default rate.

The bailout is focused on the wrong end of the problem. The bailout should be focused on the origin of the problem, the defaulting homeowners. The bailout should indemnify defaulting homeowners and pay off the delinquent mortgages. As Koppell and Goetzmann point out, the financial instruments are troubled because of mortgage defaults. Stopping the problem at its origin would restore the value of the mortgage-based derivatives and put an end to the crisis.

This approach has the further advantage of stopping the slide in housing prices and ending the erosion of local tax bases that result from foreclosures and houses being dumped on the market. What about the moral hazard of bailing out homeowners who over-leveraged themselves? Ask yourself: How does it differ from the moral hazard of bailing out the financial institutions that securitized questionable loans, insured them, and sold them as investment grade securities? Congress should focus the bailout on refinancing the troubled mortgages as the Home Owners' Loan Corp. did in the 1930s, not on the troubled institutions holding the troubled instruments linked to the mortgages. Congress needs to back off, hold hearings, and talk with Koppell and Goetzmann. Congress must know the facts prior to taking action. The last thing Congress needs to do is to be panicked again into agreeing to a disastrous course.

State welfare for the rich

Bailing out banks seems unprecedented, but the US government's form in subsidising big business is well established

By George Monbiot 30/09/08 © "[The Guardian](#)" -

According to Senator Jim Bunning, the proposal to purchase \$700bn of dodgy debt by the US government was "financial socialism, it is un-American". The economics professor Nouriel Roubini called George Bush, Henry Paulson and Ben Bernanke "a troika of Bolsheviks who turned the USA into the United Socialist State Republic of America". Bill Perkins, the venture capitalist who took out an ad in the New York Times attacking the plan, called it "trickle-down communism".

They are wrong. Any subsidies eventually given to the monster banks of Wall Street will be as American as apple pie and obesity. The sums demanded may be unprecedented, but there is nothing new about the principle: corporate welfare is a consistent feature of advanced capitalism. Only one thing has changed: Congress has been forced to confront its contradictions.

One of the best studies of corporate welfare in the US is published by my old enemies at the Cato Institute. Its report, by Stephen Slivinski, estimates that in 2006 the federal government spent \$92bn subsidising business. Much of it went to major corporations such as Boeing, IBM and General Electric.

The biggest money crop - \$21bn - is harvested by Big Farmer. Slivinski shows that the richest 10% of subsidised farmers took 66% of the payouts. Every few years, Congress or the administration promises to stop this swindle, then hands even more state money to agribusiness. The farm bill passed by Congress in May guarantees farmers a minimum of 90% of the income they've received over the past two years, which happen to be among the most profitable they've ever had. The middlemen do even better, especially the companies spreading starvation by turning maize into ethanol, which are guzzling billions of dollars' worth of tax credits.

Slivinski shows how the federal government's Advanced Technology Program, which was supposed to support the development of technologies that are "pre-competitive" or "high risk", has instead been captured by big businesses flogging proven products. Since 1991, companies such as IBM, General Electric, Dow Chemical, Caterpillar, Ford, DuPont, General Motors, Chevron and Monsanto have extracted hundreds of millions from this programme. Big business is also underwritten by the Export-Import Bank: in 2006, for example, Boeing alone received \$4.5bn in loan guarantees.

The government runs something called the Foreign Military Financing programme, which gives money to other countries to purchase weaponry from US corporations. It doles out grants to airports for building runways and to fishing companies to help them wipe out endangered stocks.

But the Cato Institute's report has exposed only part of the corporate welfare scandal. A new paper by the US Institute for Policy Studies shows that, through a series of cunning tax and accounting loopholes, the US spends \$20bn a year subsidising executive pay. By disguising their professional fees as capital gains rather than income, for example, the managers of hedge funds and private equity companies pay lower rates of tax than the people who clean their offices. A year ago, the House of

Representatives tried to close this loophole, but the bill was blocked in the Senate after a lobbying campaign by some of the richest men in America.

Another report, by a group called Good Jobs First, reveals that Wal-Mart has received at least \$1bn of public money. Over 90% of its distribution centres and many of its retail outlets have been subsidised by county and local governments. They give the chain free land, they pay for the roads, water and sewerage required to make that land usable, and they grant it property tax breaks and subsidies (called tax increment financing) originally intended to regenerate depressed communities. Sometimes state governments give the firm straight cash as well: in Virginia, for example, Wal-Mart's distribution centres receive handouts from the Governor's Opportunity Fund.

Corporate welfare is arguably the core business of some government departments. Many of the Pentagon's programmes deliver benefits only to its contractors. Ballistic missile defence, for example, which has no obvious strategic purpose and is unlikely ever to work, has already cost the US between \$120bn and \$150bn. The US is unique among major donors in insisting that the food it offers in aid is produced on its own soil, rather than in the regions it is meant to be helping. USAid used to boast on its website that "the principal beneficiary of America's foreign assistance programs has always been the United States. Close to 80% of the USAid's contracts and grants go directly to American firms." There is not and has never been a free market in the US.

Why not? Because the congressmen and women now railing against financial socialism depend for their re-election on the companies they subsidise. The legal bribes paid by these businesses deliver two short-term benefits for them. The first is that they prevent proper regulation, allowing them to make spectacular profits and to generate disasters of the kind Congress is now confronting. The second is that public money that should be used to help the poorest is instead diverted into the pockets of the rich.

A report published last week by the advocacy group Common Cause shows how bankers and brokers stopped legislators banning unsustainable lending. Over the past financial year, the big banks spent \$49m on lobbying and \$7m in direct campaign contributions. Fannie Mae and Freddie Mac spent \$180m in lobbying and campaign finance over the past eight years. Much of this was thrown at members of the House financial services committee and the Senate banking committee.

Whenever congressmen tried to rein in the banks and mortgage lenders they were blocked by the banks' money. Dick Durbin's 2005 amendment seeking to stop predatory mortgage lending, for example, was defeated in the Senate by 58 to 40. The former representative Jim Leach proposed re-regulating Fannie Mae and Freddie Mac. Their lobbyists, he recalls, managed in "less than 48 hours to orchestrate both parties' leadership" to crush his amendments.

The money these firms spend buys the socialisation of financial risk. The \$700bn the government was looking for was just one of the public costs of its repeated failure to regulate. Even now the lobbying power of the banks has been making itself felt: on Saturday the Democrats watered down their demand that the money earned by executives of companies rescued by the government be capped. Campaign finance is the best investment a corporation can make. You give a million dollars to the right man and reap a billion dollars' worth of state protection, tax breaks and subsidies. When the same thing happens in Africa we

call it corruption.

European governments are no better. The free market economics they proclaim are a con: they intervene repeatedly on behalf of the rich, while leaving everyone else to fend for themselves. Just as in the US, the bosses of farm companies, oil drillers, supermarkets and banks capture the funds extracted by government from the pockets of people much poorer than themselves. Taxpayers everywhere should be asking the same question: why the hell should we be supporting them?