

The end of Voodoo Economics

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Wall Street ideologues have been gambling our money and screwing us all. Now is a chance to correct their excesses.

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?

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