NOTE

RESCUING THE RICH

MWH and P S write :

More than 116 million people around the world demonstrated in October last year urging the governments of 22 wealthy nations to meet the promises they made at the Millennium Summit 2000 to wipe out extreme poverty and disease in the developing world by 2015. The rich nations had undertaken to dramatically increase their foreign aid, and this commitment is reaffirmed every year by the leaders of the G8 nations. But shamefully, not only has 'foreign aid' not increased, it has actually shrunk in real terms for the past two years.

Within the past few months, a financial crisis of unprecedented proportions has hit Wall Street and rapidly spread to Europe and the rest of the world. And in complete contrast to the slow, miserly way in which the wealthy nations have treated the poor, they sprang to action with the utmost generosity to rescue the rich.

By the end of October, 2008 £1.8 trillion have been wiped off the global economy, according to Bank of England's latest estimate. The US bailout alone has already cost the taxpayer more than US$1 trillion. That's a huge amount, but still small compared with the total value of the world's economy at $65 trillion, and a mere drop in the ocean against the $596 trillion in outstanding global derivatives (financial contracts). The taxpayer's money is being thrown into a "bottomless pit", says David Korten, a long-time critic of the financial system and author of the international bestseller, *When Corporations Rule the World* (1995, 2001). The danger is that if governments continue to misdirect massive public funds towards rescuing the financial system, its collapse will bring down the *real* economy.

It is important to distinguish between the real economy of people trading in goods and services based on real value, and the financial system, which trades in money as such, in sub-prime mortgages, derivatives, hedge-funds, and private equities that have become "reckless speculation that produces nothing of real value". It is the difference between "Main Street " and "Wall Street".

What's more, it is the financial system that has impoverished people and planet because mainstream economists and governments advised by them are committed to the dominant model of unlimited growth based on the ideology that competition in the "free market" will fix all, and because they cannot see the difference between money and real wealth.

Conventional wisdom in economics has it that markets freed from government interference will self-correct. That's an important assumption for the theory and much of the justification for opposing regulation, but it is simply not the case. As George Soros ("speculator, investor, philanthropist, political activist")–someone who understands the system well enough to have benefited enormously from it–describes in his book, *The New Paradigm for Financial Markets : the Credit Crisis of 2008 and What It Means*, whenever there is anything more than a minor fluctuation, the authorities have generally come to the rescue, though not to the extent of imposing the necessary regulation.

What is happening today is unusual only in the magnitude of the intervention; there are many earlier examples, including the bankruptcy of Continental Illinois in 1984 and the failure of Long Term Capital Management in 1998. □□□