December 15, 2011

We have more on the Kansas speech. This time from **Richard Epstein**.

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Factories where people thought they would retire suddenly picked up and went overseas, where workers were cheaper. Steel mills that needed 100—or 1,000 employees are now able to do the same work with 100 employees, so layoffs too often became permanent, not just a temporary part of the business cycle. And these changes didn't just affect blue-collar workers. If you were a bank teller or a phone operator or a travel agent, you saw many in your profession replaced by ATMs and the Internet.

To anyone schooled in economics, these statements reveal a breathtaking ignorance about the sources of national prosperity. It is a good thing when plants can achieve the same output with less labor. Do we really want an America in which thousands of people work in dangerous occupations to turn molten lava into steel bars? Far better it is that fewer workers are doing those jobs. The jobs lost in that industry will be in part replaced by newer jobs created in the firms that build the equipment that make it possible to run steel mills at a lower cost and far lower risk of personal injury. The former workers can seek jobs in newer industries that will only expand by competing for labor.

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The painful ignorance that is revealed in these remarks augurs ill for the long-term recovery of America. With the president firmly determined to set himself against the tides of progress, innovation will be harder to come by. The levels of unemployment will continue to be high as the president works overtime to impose additional restrictions on the labor markets and more taxes at the top of the income distribution—both backhanded ways to reward innovation and growth.

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As is his want, Newt really stepped in it a few days ago when he trashed Mitt Romney's career at Bain Capital. **David Harsanyi** has it.

This week, Republican presidential hopeful Mitt Romney called on newly minted front-runner and noted historian Newt Gingrich to return the estimated $1.6 million he made providing "strategic advice" to Freddie Mac, the quasi-governmental agency that has done the hard work of making "toxic home mortgages" a forever feature of our national portfolio.

To this, Newt, the great American theorist, unsheathed his trademark intellect and offered a completely irrelevant yet vaguely smart-sounding retort: "If Gov. Romney would give back all the money he's earned from bankrupting companies and laying off employees over the years at Bain, then I would be glad to listen to him. But I bet you $10, not $10,000, that he won't take the offer."

Nice, Newt. When the former House speaker wins the nomination, he and the president can discuss how the rich are "bankrupting companies," engaging in profit-mongering and risky behavior, and generally messing up the world for kicks. And throwing in Romney's recent debate gaffe (or what I'm told is a gaffe) was a nice touch, as well. You may not have heard: Romney laid down a bet with fellow candidate Rick Perry for a cool $10,000 (or what Newt probably spends on lunch every week) during a recent debate. Doesn't Mitt know that candidates, no matter how successful they may be, must always act as if they mow their lawns and eat curly fries at diners on Friday nights. If not, the electorate will be deeply insulted.

This kind of rhetoric is nothing new for Republicans. During the 2008 primaries, Mike Huckabee noted that "Mitt Romney looks like the guy that fires you." This assessment was backed up by then-candidate John McCain, who, we soon found out, understood as much about the economy as Meghan McCain. ...

Nice piece by Reason's **Matt Welch** illustrates a DC BS generator.

The Aspen Institute, an international public policy nonprofit founded in 1950, describes itself as a "convener." Rather than push for a specific ideological agenda, the organization brings together elite politicians and journalists in a "neutral and balanced venue for discussing and acting on critical issues." What happens in Aspen (and Washington, D.C., and other cities where the institute facilitates debates) does not stay in Aspen; the whole point is to influence policy wherever it is discussed and manufactured.

So it was with keen interest that I received an invitation to attend an October 27 Aspen Institute confab in D.C. on "The Role of Government in the Economy." Libertarians, after all, tend to hold the view that the greater the role of government, the worse the economy. Of even keener interest was the lineup: on the left, recently departed chief economist for Vice President Joe Biden Jared Bernstein; on the right, former Bush administration Pension Benefit Guaranty Corporation executive director Bradley Belt, and moderating between them the New York Times' Pulitzer Prize-winning Washington bureau chief and former economics columnist David Leonhardt. Surely there would be some wide-ranging disagreement on the federal government's role in precipitating and exacerbating the economic malaise of the past four years.

No such luck. In his introductory remarks, moderator Leonhardt laid out as a factual starting point the government's "extraordinary and largely successful moves to spare us from another Great Depression." Bernstein went on to decry the "irrational fear of budget deficits at a time when the budget deficit really should be very large." And Belt repeatedly declined to enumerate a specific appropriate size and scope of government. So much for the debate.

Even more interesting than the soft consensus in favor of government intervention was a strong undercurrent that those who disagreed with it were guilty of denying basic truths. ...

Speaking of BS, **Charles Gasparino** shows how crony capitalism might have greased the skids for Corzine's MF Global fraud.
... Corzine is to appear before the House Financial Services Committee's Subcommittee on Oversight and Investigations tomorrow, and informed sources tell me the panel is keenly interested in how Corzine (who'd been out of the brokerage business for over a decade) managed to take this firm from nothing to something almost overnight — that is, before its spectacular demise last month.

Keep in mind that being a primary dealer — with the rare privilege to underwrite US government debt sold at auction and then resell those bonds to investors — is no small-fry position. The coveted assignment is usually reserved for the biggest firms that are also considered the market's safest bets.

The New York Fed selects the best and most financially solid firms for this task for obvious reasons: When markets become volatile, it wants to make sure the firm buying government bonds can withstand the volatility. In other words, the government wants to make sure its primary dealers can take a punch and won't implode at the slightest turn of the markets.

Yet MF Global was anything but one of the market's soundest outfits. Not only did a simple disclosure of its of its European debt exposure cause a severe cash-crunch, but the very fact that it lost more than $1 billion in customer funds during its final hours shows that (at minimum) MF Global lacked basic and routine controls.

So how did all of this manage to evade regulators, despite all the new rules promulgated in the aftermath of the 2008 financial crisis?

Well, William Dudley, who runs the New York Fed (which, again, selected MF Global as a primary dealer), is just one of Corzine's old Goldman cronies to be found in the MF Global mess. ...

Washington Examiner has an example of DC BS. The Navy is paying $15 for a gallon of fuel and patting itself on the back.
With President Obama delaying the Keystone XL oil pipeline that would facilitate access to the estimated 1.7 trillion barrels of oil in North America, the United States Navy is reportedly slated to spend $12 million at a rate of $15 per gallon on a biofuel-gasoline blend -- a purchase justified by the proposition that dependence on oil is a national security threat.

"We are doing this for one simple reason: It makes us better fighters," Navy Secretary Ray Mabus said, according to a National Journal report last week. "Our use of fossil fuels is a very real threat to our national security and to the U.S. Navy ability to protect America and project power overseas." ...

Hot Air explains the expensive fuel. Turns out, there is an intersection of BS and Obama's transition team. Can you say crony capitalism?

This is going to help the Defense Department weather looming budget cuts, for sure. Teaming up with the Department of Agriculture (which has a cheery Rotary Club ring to it), the Navy has purchased 450,000 gallons of biofuel for about $16 a gallon, or about 4 times the price of its standard marine fuel, JP-5, which has been going for under $4 a gallon.

You won't be surprised to learn that a member of Obama's presidential transition team, T. J. Glauthier, is a "strategic advisor" at Solazyme, the California company that is selling a portion of the biofuel to the Navy. Glauthier worked – shock, shock – on the energy-sector portion of the 2009 stimulus bill.

The Navy sale isn't Solazyme's first trip to the public trough, of course. The company got a $21.8 million grant from the 2009 stimulus package. ...

Hoover

Populist-in-Chief

by Richard A. Epstein

Can Obama's progressive policies save the middle class from economic hardship?

One clear sign of America's social unease is found in the constant refrain that our current economic condition has poisoned the well for the middle class in the United States. That theme has long been a favorite of American labor leaders, who have wrongly claimed that the great improvement in the quality of life of the middle class during the twentieth century was due to the ability of union leaders to secure high wages and stable jobs for their employees. In his recent speech in Osawatomie, Kansas, President Barack Obama made the same argument. There he announced in no uncertain terms that the "defining issue" of our time is how to rescue the fragile economic position of the American middle class, which he defined in the broadest possible terms.

At one level, the speech is smart politics. Little is gained politically by engaging in long and inconclusive debates over the makeup of the middle class. For reelection purposes, the president is right to cast the net broadly. So forget whether professionals, managers, and high government officials earn too much money to count as bona fide members of the middle class. The key point is that many individuals who once were classified as "working class" by sociologists now think of themselves as middle-class Americans threatened by the current economic malaise. If the president can rally this broad group to his cause, he stands a good chance of winning the next election against a Republican nominee who will likely be painted as a pawn of the privileged few, who are increasingly viewed as the enemies of the middle class.

President Obama played into these fears in masterful fashion in Osawatomie. But politics is not my beat. The substantive question is whether Obama has proposed a reform agenda that has any chance of achieving his stated goal of restoring to the middle class the prospect of decent wages that will allow them to educate their children and provide for their own retirement. That kind of analysis is always difficult to do on Obama's speeches because he flits from topic to topic with such rapidity that it is next to impossible to get a fix on his substantive positions.

It is, therefore, all too easy for one distinguished commentator to think of him, à la Peter Wehner, as a "hack," while another distinguished commentator, Steve Chapman, takes Obama's critics to task for branding him a "class warrior" for what are, at most, banal remarks with no more than the usual political errors and oversimplifications. After all, the president did say, "This isn't about class warfare. This is about the nation's welfare."

Others can read or watch the speech and decide for themselves whether the president presents himself as a healer or an incendiary. His speech is larded with quotations that support both positions. More important than that, however, are the policy disagreements between progressives and classical liberals, which the president addresses in his speech. It is useful to look at how the president's speech matches up with the classical liberal agenda that he has attacked in the past, and the progressive agenda, whose lineage he traced back to Teddy Roosevelt. Doing so reminds me of the great line from Job, "The Lord giveth, the Lord taketh away, blessed be the name of the Lord." For Obama, each endorsement of free markets is hooked to a condemnation of market forces.

Taking his cues from Teddy Roosevelt, Obama says first: "The free market is the greatest force for economic progress in human history." Would any small government champion disagree with that? Good government is necessary to check aggression, a constraint that allows people to live their separate lives. Good government is also necessary to create institutions and norms that facilitate cooperation between individuals, whether through voluntary organizations or one-time exchanges. But while the government lends stability to markets, it cannot supply the vision and information necessary to make those markets hum. For that task, the nation needs men and women with imagination and entrepreneurial abilities in the private sector. But of course, we hear in this speech no systematic account of how to foster growth in the United States. Instead, there is only a lament that growth is sorely missing in the new economy.

Nonetheless, Roosevelt has an answer to that as well. Quoting Obama: "Roosevelt also knew that the free market has never been a free license to take whatever you can from whomever you can. He understood the free market only works when there are rules of the road that ensure competition is fair and open and honest." But again, no classical liberal would disagree with that statement, when taken in isolation. The distinction between "liberty" under a system of laws and "license," which allows people to do whatever they want, has been critical to classical liberal political thought from before the founding of this nation to the present day. To take from someone else is the archetypical wrong that is to be avoided. Voluntary exchange in accordance with the rules of the road is the essence of the game.

Friedrich Hayek in *The Road to Serfdom* constantly stressed that the function of the state was to set the rules of the road, which would allow all to inhabit a common space. It was only the strong

New Deal Supreme Court justices, like Felix Frankfurter, who thought that the function of the government was not just "policing" the airwaves for interference, but also determining the "composition" of the traffic, by using, for example, a set of administrative procedures to decide which supplicant should receive what license to broadcast on what portion of the spectrum.

The same can be said about the imperative to keep competition fair, open, and honest. I am not aware of any group that travels under the banner of "libertarians for fraud." So far, what we have from the president is a transparent effort to claim the high ground by acting as if he is the sole custodian of a set of beliefs that he, in fact, generally shares with his political rivals.

This is also true of Roosevelt's desire to "bust monopolies, forcing those companies to compete for consumers with better services and better prices." Now the president's rhetoric becomes a bit more heated. There is no question that at the onset of the twentieth century, the regulation of large business trusts was at the top of the social agenda. Indeed, the historical origin of the term "anti-trust" lay in the simple observation that the purpose of the law was to combat explicit trusts, like the sugar trust (at its peak, it controlled 98 percent of the sugar market). In cases of this sort, no one could dispute the ability of trusts to exert monopoly power over key segments of the economy. I know of no classical liberal who thinks that the state protection of monopolies counts as good social policy. But the difficulty in this area lies in deciding exactly what form of state intervention should take place to curb monopolies.

Unfortunately, on this issue, Obama shows no awareness that today's legal and economic landscape is a far cry from what it was over 100 years ago. The big trusts are gone. There is no Standard Oil waiting for dissolution, which is why the government's 1998 anti-trust suit against Microsoft turned into such a disaster. Easier entry in a global economy makes it harder for firms to obtain monopoly positions privately. The key danger in many cases is the government's misguided economic policies that can thwart competition, not promote it.

The common desire to protect the middle class, with its mom-and-pop stores, against the competition of larger firms that offer better goods and lower prices is not something that can easily be defended in the name of "fighting monopolies." One of the great dangers in modern anti-trust policy is the temptation to think that small businesses should be protected from larger firms that *do* play by the rules of the game. At no point in his speech does the president show the slightest recognition that even the anti-trust laws can go seriously awry if they are put to the wrong purposes.

Instead of trying to articulate a coherent policy, Obama goes for the jugular. His opponents, like me, have "collective amnesia." These nameless folks "want to go back to the same policies that stacked the deck against middle-class Americans for way too many years. And their philosophy is simple: We are better off when everybody is left to fend for themselves and play by their own rules." The problem is, classical liberals who oppose Obama's policies do not believe that it is appropriate to "stack the deck." Nor do they believe that everyone should be free to "play by their own rules." The battle is over what those rules should be. Alas, when the discussion gets down to the grubby particulars, Obama endorses misguided progressive and protectionist policies that rob free markets of their power to innovate on such key issues as jobs and income inequality.

The late nineteenth and early twentieth centuries witnessed some of the greatest material improvements in world history. Child labor, for instance, was on the decline during those years, not because of the laws passed to prevent it, but because the increase in material wealth made it possible for families to survive without having to send more children to work in the factories. At the same time, the rapid introduction of labor-saving devices liberated more women from the drudgery of washing, cooking, and cleaning, so they could enter the workplace alongside their husbands, fathers, and sons.

There is no need to dwell on abstractions. Life expectancy tells the tale: In the United States in 1850, life expectancy was just under 40 years at birth. When it increased to 47 years in 1900, some doomsayers thought that it was a statistical blip. But as it reached close to 54 years in 1920, it became clear that the United States was doing something right. The question was, what? Much of this improvement took place before the major regulatory initiatives of Woodrow Wilson and Franklin Delano Roosevelt, both progressives who introduced long-term reforms of the labor and agricultural markets that involved the creation of cartels in both sectors. Though Obama cites FDR in his speech, Roosevelt's policies were usually flatly inconsistent with the free market principles to which our current president gives lip service.

No amount of data can slow down this president. His deep protectionist instincts are revealed when he stokes the jingoist fires by saying: "If you're somebody whose job can be done cheaper by a computer or someone in another country, you don't have a lot of leverage with your employer when it comes to asking for better wages or better benefits, especially since fewer Americans today are part of a union." At no point does he bother to note the tension between protectionism and his general proposition that Americans are entitled to have better quality goods at better, i.e. lower, prices. Instead, he thinks he can square the circle by forcing wages up while keeping prices down. He takes a regressive stand against automation, outsourcing, and the rationalization of business facilities when he writes:

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To anyone schooled in economics, these statements reveal a breathtaking ignorance about the sources of national prosperity. It is a good thing when plants can achieve the same output with less labor. Do we really want an America in which thousands of people work in dangerous occupations to turn molten lava into steel bars? Far better it is that fewer workers are doing those jobs. The jobs lost in that industry will be in part replaced by newer jobs created in the firms that build the equipment that make it possible to run steel mills at a lower cost and far lower risk of personal injury. The former workers can seek jobs in newer industries that will only expand by competing for labor.

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The painful ignorance that is revealed in these remarks augurs ill for the long-term recovery of America. With the president firmly determined to set himself against the tides of progress, innovation will be harder to come by. The levels of unemployment will continue to be high as the president works overtime to impose additional restrictions on the labor markets and more taxes at the top of the income distribution—both backhanded ways to reward innovation and growth.

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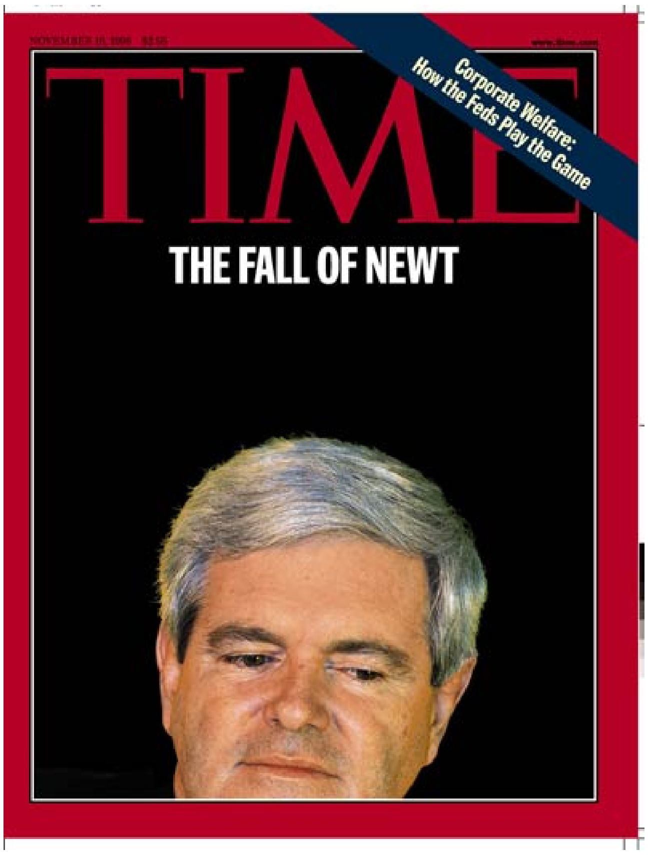
The Blaze

Bain Over Newt Any Day

by David Harsanyi



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Bain, then I would be glad to listen to him. But I bet you $10, not $10,000, that he won't take the offer."

Nice, Newt. When the former House speaker wins the nomination, he and the president can discuss how the rich are "bankrupting companies," engaging in profit-mongering and risky behavior, and generally messing up the world for kicks. And throwing in Romney's recent debate gaffe (or what I'm told is a gaffe) was a nice touch, as well. You may not have heard: Romney laid down a bet with fellow candidate Rick Perry for a cool $10,000 (or what Newt probably spends on lunch every week) during a recent debate. Doesn't Mitt know that candidates, no matter how successful they may be, must always act as if they mow their lawns and eat curly fries at diners on Friday nights. If not, the electorate will be deeply insulted.

This kind of rhetoric is nothing new for Republicans. During the 2008 primaries, Mike Huckabee noted that "Mitt Romney looks like the guy that fires you." This assessment was backed up by then-candidate John McCain, who, we soon found out, understood as much about the economy as Meghan McCain.

If you get rich working in finance, there's a good chance you did something wrong, right? And Mitt, well, Mitt is heartless. Mitt worked for Bain Capital. Mitt was part of the private equity firm that salvaged poorly run, bloated businesses — sometimes through "painful" cuts and firings. There are honorable ways of getting rich (peddling political influence and/or writing books), and then there's the Wall Street way. Newt, no less of a flip-flopping careerist than Romney, sold his political connections for wealth rather than create any.

If Romney could — or wanted to — do to federal government what Bain did to failing companies, we would all be better off. If a Romney administration gutted bureaucracy, he would help create more efficient institutions of government. If Romney believed taxpayer dollars should never be used to artificially prop up rotting or unprofitable ventures, great. If he believed that some companies needed to fail so other, more innovative ones could take their place, awesome. If he believed that risk — a concept so reviled by this administration — is the driving force of capitalism, he might be onto something.

Certainly, it's a philosophy that beats more Newt-style technocratic "conservative" capitalism and capitalism infused with subjective concepts of progressive "fairness" any day.

And Lord knows there are many reasons to worry about a Mitt Romney presidency. However, knowing what we know now about his time at Bain Capital is not one. Neither is the fact that Mitt is a stiff rich dude.

Republicans would be better off letting the president and his friends vilify success and profit rather than feeding the perception that investment risk and creative destruction are things we should avoid. Yet I suppose that watching Gingrich go down this road tells us more about his candidacy and ideological flexibility than it does about any of those quixotic "solutions" he has in store for us.

Reason

Manufacturing Consensus

Building a bipartisan truth one questionable 'fact' at a time

by Matt Welch

The Aspen Institute, an international public policy nonprofit founded in 1950, describes itself as a "convener." Rather than push for a specific ideological agenda, the organization brings together elite politicians and journalists in a "neutral and balanced venue for discussing and acting on critical issues." What happens in Aspen (and Washington, D.C., and other cities where the institute facilitates debates) does not stay in Aspen; the whole point is to influence policy wherever it is discussed and manufactured.

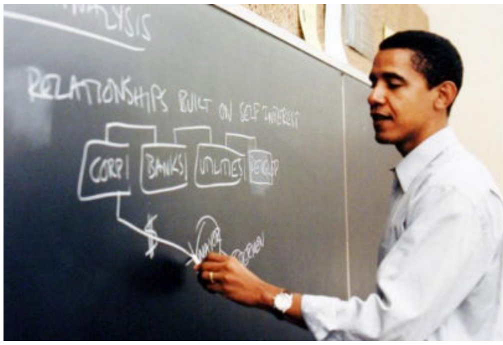
So it was with keen interest that I received an invitation to attend an October 27 Aspen Institute confab in D.C. on "The Role of Government in the Economy." Libertarians, after all, tend to hold the view that the greater the role of government, the worse the economy. Of even keener interest was the lineup: on the left, recently departed chief economist for Vice President Joe Biden Jared Bernstein; on the right, former Bush administration Pension Benefit Guaranty Corporation executive director Bradley Belt, and moderating between them the *New York Times*' Pulitzer Prize-winning Washington bureau chief and former economics columnist David Leonhardt. Surely there would be some wide-ranging disagreement on the federal government's role in precipitating and exacerbating the economic malaise of the past four years.

No such luck. In his introductory remarks, moderator Leonhardt laid out as a factual starting point the government's "extraordinary and largely successful moves to spare us from another Great Depression." Bernstein went on to decry the "irrational fear of budget deficits at a time when the budget deficit really should be very large." And Belt repeatedly declined to enumerate a specific appropriate size and scope of government. So much for the debate.

Even more interesting than the soft consensus in favor of government intervention was a strong undercurrent that those who disagreed with it were guilty of denying basic truths. One of the questions from an audience full of Senate staffers, policy wonks, and journalists was how can we even *have* a rational policy discussion with all these denialist Republicans who disregarded Daniel Patrick Moynihan's famous maxim that "Everyone is entitled to his own opinion, but not his own facts"? Jared Bernstein couldn't have been more pleased.

"I feel like we're in a climate in which facts just aren't welcome," he said. "I think the facts of the case are that we know what we can do to nudge the unemployment rate down.…I think the consensus among economists is that this is a good time to implement fiscal stimulus that would help create jobs and make the unemployment rate go down. I consider that a fact."

In science, you insist most loudly on a fact based on how much it has withstood independent peer review. In politics, it's closer to the opposite—the more debatable a point is, the more it becomes necessary to insist (often in the face of contrary evidence) that the conclusion is backed by scientific consensus.



President Barack Obama is a serial peddler of phony consensi. To sell his 2009 stimulus package, the president claimed, falsely, that “there is no disagreement that we need action by our government, a recovery plan that will help to jump-start the economy.” (The libertarian Cato Institute quickly assembled a list of 200 prominent economists who signed a statement begging to differ.) And in December 2009, during the final political deliberations on his signature health care reform bill, Obama brazenly countered alleged disinformation by spreading some of his own.

“Now, I just want to repeat this because there’s so much misinformation about the cost issue here,” he said. “You talk to every health care economist out there and they will tell you that whatever ideas are—whatever ideas exist in terms of bending the cost curve and starting to reduce costs for families, businesses, and government—those elements are in this bill.”

Look no further than Peter Suderman’s excellent primer on page 40 (“Medicare Whac-A-Mole”) not only for health care economists who were never part of that “consensus,” but also for a depressingly detailed history of Washington’s structurally inevitable failures to deliver on presidential promises of reducing health care costs. This is the bipartisan lie that is driving the country toward bankruptcy.

It is an enduring curiosity and frustration that even as the president’s rosy health reform scenarios fall by the wayside one by one (see “CLASS Dismissed,” page 15), the journalism navel-gazing crowd continues to beat itself up over its coverage of Obama-Care assertions made by…Sarah Palin.

In late May, the Nieman Journalism Lab re-published a much-publicized academic study of more than 700 news articles and 20 network news segments from 2009 that addressed a single controversial claim of the health care reform debate. It was not President Obama’s oft-repeated whopper that he was nobly pushing the reform rock up the hill despite the concentrated efforts of health care “special interests,” nor his constant promises that “If you like your health care plan, you will be able to keep your health care plan.” No, it was Palin’s claim, on Facebook, that ObamaCare would lead to “death panels” composed of government bureaucrats. “In more than 60 percent of the cases,” the authors found, “it’s obvious that newspapers abstained from calling [Palin’s] death panels claim false.” How many times did they abstain from calling the president’s claims false? The study did not say.

Libertarians live in an often-infuriating world in which elites agree on facts we know or suspect to be untrue, and then bathe themselves in sanctimony for being above the fray of ideologues who let politics poison science. (For more on the subject, read Ronald Bailey’s “Who’s More Anti-Science: Republicans or Democrats?” page 50.) In a political universe where “green jobs” fantasia leads to predictable wastes of taxpayer money (see Tim Cavanaugh's "I, Panel," page 70), where the worst kind of hysteria and cowardice governs the scientific classifications of disfavored substances (see Christopher Snowdon's "Modern-Day Prohibition," page 60), and where the pernicious practice of baseline budgeting builds spending increases into government budgets while leading to phony-baloney claims of "cuts" (see Veronique de Rugy's "The Never-Ending Budget Battle," page 21), it's tempting to replace one set of prematurely asserted facts with another.

It's a temptation that should be resisted. David Leonhardt may be wrong about the Troubled Assets Relief Program preventing another Great Depression, but we don't *really* know what would have happened if we had let deserving financial institutions fail in the fall of 2008. I *believe* we would have experienced sharper pain up front but a quicker recovery at the end, but this is not the kind of thing you can easily prove.

What you *can* do is measure government intervention against the claims made while selling it, marshal as much historical data as you can find, and try to fact-check policy discussion as it happens. This is where the elite faux-consensus in favor of bailout economics begins to unravel.

Not a day goes by when George W. Bush's deregulation is not blamed for the financial crisis, and yet he hired 90,000 net new regulators, passed the largest Wall Street reform since the Depression, and increased fiscally significant regulations by more than any president since Richard Nixon. We are told by *New York Times* columnist Paul Krugman and his friends in *The Nation* that the country is being ruled by a ruthless "austerity class," yet federal spending has continued to increase even after the summer's debt-ceiling agreement. The Occupy Wall Street movement and the (mostly Democratic) politicians who support it have shifted the national conversation to the "fact" that the middle class is worse off than it was three decades ago, yet as University of Chicago economist Bruce Meyer and Notre Dame economist James Sullivan found in a recent paper, "median income and consumption both rose by more than 50 percent in real terms between 1980 and 2009."

We are entitled to facts, yes. Just not theirs.

NY Post

[The next Corzine Q's]

by Charles Gasparino

By playing the fool in two high-profile hearings, Jon Corzine so far has been able to deftly sidestep lawmakers' questions about the now-infamous implosion of MF Global, including the disappearance of a whopping $1.2 billion in customer money that should have been kept safe in brokerage accounts. But new questions are about to arise.

Specifically: How did Corzine manage to convince regulators that a relatively small brokerage like MF Global was ready for big-time status, both as a risk-taking hedge fund and (even more startling) as a primary dealer of US government debt — a status that only a very few firms are allowed?

The likely explanation involves Corzine's long experience at the nexus of politics and finance — as CEO of Goldman Sachs, then US senator and New Jersey governor, and of course as a leading Obama fund-raiser. In other words, crony capitalism.

Corzine is to appear before the House Financial Services Committee's Subcommittee on Oversight and Investigations tomorrow, and informed sources tell me the panel is keenly interested in how Corzine (who'd been out of the brokerage business for over a decade) managed to take this firm from nothing to something almost overnight — that is, before its spectacular demise last month.

Keep in mind that being a primary dealer — with the rare privilege to underwrite US government debt sold at auction and then resell those bonds to investors — is no small-fry position. The coveted assignment is usually reserved for the biggest firms that are also considered the market's safest bets.

The New York Fed selects the best and most financially solid firms for this task for obvious reasons: When markets become volatile, it wants to make sure the firm buying government bonds can withstand the volatility. In other words, the government wants to make sure its primary dealers can take a punch and won't implode at the slightest turn of the markets.

Yet MF Global was anything but one of the market's soundest outfits. Not only did a simple disclosure of its of its European debt exposure cause a severe cash-crunch, but the very fact that it lost more than $1 billion in customer funds during its final hours shows that (at minimum) MF Global lacked basic and routine controls.

So how did all of this manage to evade regulators, despite all the new rules promulgated in the aftermath of the 2008 financial crisis?

Well, William Dudley, who runs the New York Fed (which, again, selected MF Global as a primary dealer), is just one of Corzine's old Goldman cronies to be found in the MF Global mess.

That the two worked together at Goldman doesn't necessarily mean Corzine got a break from an old colleague. In fact, Corzine has said that he "never spoke" with Dudley about the primary dealer matter, at least to the "best of my recollection."

But committee members are skeptical, not just about Corzine's "best recollection," but also because, according to a person close to the subcommittee, "MF Global tried to get primary-dealer status prior to Corzine . . . and once Corzine became CEO, MF Global got primary-dealer status."

That status gave MF Global greatly added legitimacy, bringing in clients and letting CEO Corzine transform it into a risk-taking trading shop — without, it seems, the most rudimentary controls to protect customer cash.

Whose job was it to make sure those controls were in place? Certainly at the top of the list is the Commodity Futures Trading Commission, run by yet another Goldman alum, Gary Gensler.

The implosion of MF Global and the disappearance of customer cash may well turn out to involve massive fraud and deception. But the firm's expansion to that point may involve something equally sinister but completely legal: The ability to work the system, which seems to be Corzine's greatest feat.

Washington Examiner

US Navy paying $15/gallon for green fuel

by Joel Gehrke

With President Obama delaying the Keystone XL oil pipeline that would facilitate access to the estimated 1.7 trillion barrels of oil in North America, the United States Navy is reportedly slated to spend $12 million at a rate of $15 per gallon on a biofuel-gasoline blend -- a purchase justified by the proposition that dependence on oil is a national security threat.

"We are doing this for one simple reason: It makes us better fighters," Navy Secretary Ray Mabus said, according to a National Journal report last week. "Our use of fossil fuels is a very real threat to our national security and to the U.S. Navy ability to protect America and project power overseas."

The Institute for Energy Research (IER), an organization that "maintains that freely-functioning energy markets provide the most efficient and effective solutions to today's global energy and environmental challenges," argues that Mabus' justification doesn't hold water.

"[Mabus'] statement is based on the myth that the United States and North America as a whole has very limited oil resources," IER says. "The reality is that North America, and the United States in particular, is awash in fossil fuels," claiming that the US has access to 1.4 trillion barrels of recoverable oil, a number that kicks up to 1.7 trillion when combined with recoverable oil in Mexico and Canada.

While Mabus spends millions to avert "a very real threat to national security," Sen. Harry Reid, D-Nev., tweeted Friday that the Republicans who continue to push for the Keystone XL oil pipeline between the US and Canada are "wasting valuable time b/c it will not pass the Senate."

"You won't be surprised to learn that a member of Obama's presidential transition team, T. J. Glauthier, is a "strategic advisor" at Solazyme, the California company that is selling a portion of the biofuel to the Navy," observes Hot Air's J.E. Dyer. "Glauthier worked – shock, shock – on the energy-sector portion of the 2009 stimulus bill."

Hot Air

Navy buys biofuel for $16 a gallon

by J.E. Dyer

This is going to help the Defense Department weather looming budget cuts, for sure. Teaming up with the Department of Agriculture (which has a cheery Rotary Club ring to it), the Navy has purchased 450,000 gallons of biofuel for about $16 a gallon, or about 4 times the price of its standard marine fuel, JP-5, which has been going for under $4 a gallon.

You won't be surprised to learn that a member of Obama's presidential transition team, T. J. Glauthier, is a "strategic advisor" at Solazyme, the California company that is selling a portion of the biofuel to the Navy. Glauthier worked – shock, shock – on the energy-sector portion of the 2009 stimulus bill.

The Navy sale isn't Solazyme's first trip to the public trough, of course. The company got a $21.8 million grant from the 2009 stimulus package.

Solazyme's partner in the biofuel sale is Dynamic Fuels, a Louisiana company owned jointly by Tyson Foods and Tulsa-based Syntroleum. Tyson and Syntroleum are distinguished by having profitable lines of business that do not rely on government grants to unprofitable "green" projects. This does not make their biofuel product price-competitive with fossil fuels, however. (They were induced to develop biofuel manufacturing processes by a combination of subsidies and tax breaks.)

The Dynamic Fuels plant was opened for business in Geismar, LA in 2010, becoming by far the largest biofuels plant in North America – and reportedly, in combination with a plant in Finland, a producer of 94% of the world's biofuels. This is great boosterism stuff, but the biofuels produced by Dynamic Fuels are still considerably more expensive than the fossil-fuel alternative. Dynamic Fuels has begun supplying aviation biofuel to KLM, the Dutch flag carrier, but of course, the use of more-expensive biofuels by commercial carriers has to be subsidized by governments.

If governments stopped subsidizing biofuels, their artificial "profitability" would disappear overnight. Price-wise, they can't compete with fossil fuels. The day may come when they can, but subsidizing them while they don't is not a method with any record of success for encouraging price efficiency. What it does instead is create languishing public dependencies and tremendous opportunities for cronyism, as demonstrated in the Solyndra scandal.

As the Institute for Energy Research article (top link) indicates, the US has enormous reserves of both conventional and unconventional oil and natural gas resources. Opening them up for exploitation would, among other things, ensure that the US armed forces could buy cheaper fuel – cheaper than today's prices – produced in the USA. At a time when federal debt is spiraling and the Defense Department is facing budget cuts that are guaranteed to gut the fighting forces and render them ineffective, it seems to border on insane to eschew a ready, significantly cheaper alternative and require the armed services to quadruple what they pay for fuel as a proof of concept – apparently with the idea that the forces should buy *more* of the 4-times-as-expensive fuel. This is, after all, our national security we're talking about.

THE U.S. NAVY ANNOUNCES 50% ALTERNATIVE ENERGY BY 2020


OBAMA GETS into the SPIRIT!
IT'S BEGINNING TO LOOK A LOT LIKE A CAMPAIGN...!
The Washington Examiner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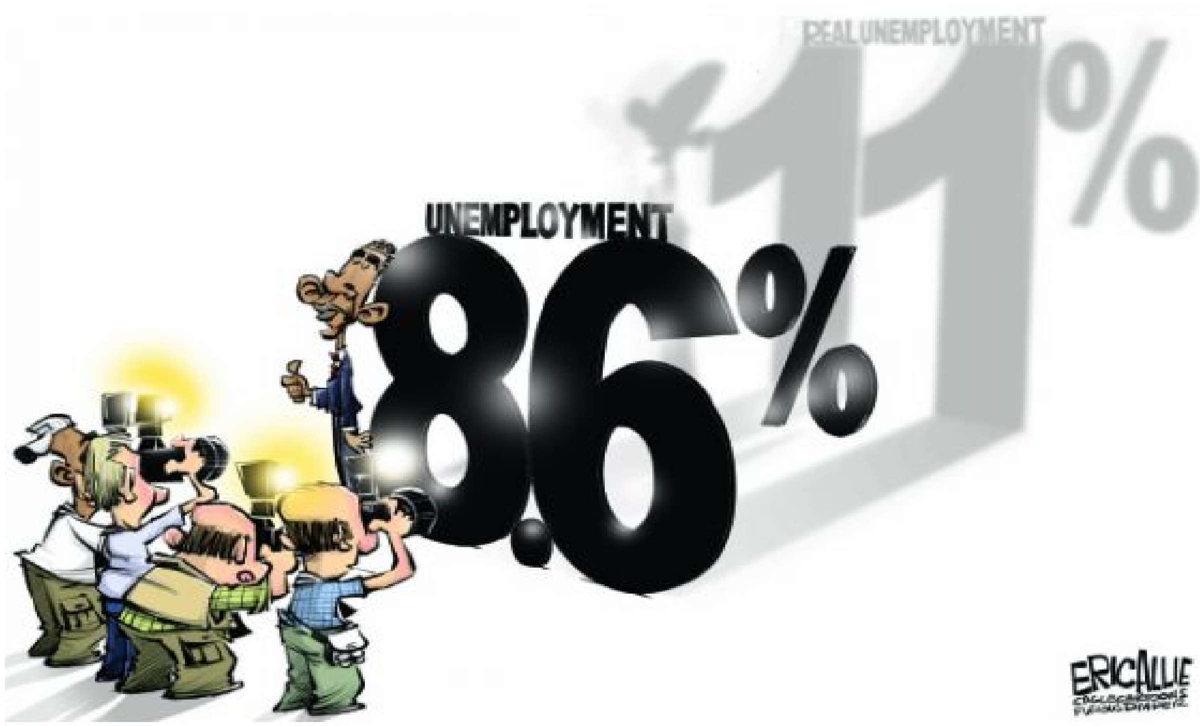

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