

# THE BIGGEST SWINDLES OF ALL ARE LEGAL

FINANCIAL SWINDLES are now being perpetrated on such a massive scale that they threaten the global financial system.

The prospects of effective official action are slim, however, for bribery and corruption are too deeply integrated into the political system for governments to be able to unite behind a plan to defeat the crooks. This pessimistic view stems from an analysis of the underlying logic of the rackets.

The link between political and business corruption has been transparently exposed in Japan, where politicians have received massive sums from construction firms that need access to land to conduct their business. The politicians with influence over planning decisions and the allocation of government funds find that they can exact a price for their favours.

The latest case to grab the headlines is the arrest of former Construction Minister Kishiro Nakamura, a member of the Diet's lower house. He is accused of taking bribes to pressure the Fair Trade Commission not to indict 66 construction companies. The *Nikkei Weekly* (March 14) traced the chain of corruption (see below).

But there is no debate in Japan about the systemic flaws. Financial scandals are being used to victimise a few politicians, as if throwing out a few rotten apples would leave the barrel healthy. It won't: because the barrel itself is the source of the problem.

It is the logic of the land tenure system that provides a few people with monopoly power and encourages them to milk the community. That power provides the scope for creatively developing a rich array of mechanisms for enrichment. These two random examples serve as illustrations:

- The European Union claims to provide money to encourage the production of sufficient food at stable prices for consumers. For the privilege of this service, the average family in Europe pays £28 a week more, for its food, than it would if there were no Common Agricultural Policy.

Milking the taxpayer/consumer

takes several forms. The direct fraud can be illustrated by farmers in Italy, many of whom claim large sums for olive groves that do not exist. The Brussels bureaucrats claim they are now devising remote sensing systems to try and track the phantom olive groves.

It is not possible to calculate how much money the frauds have cost Europe's taxpayers/consumers, because Brussels relies on cases being reported by member states. The European Commission has just noted a 50% increase (to £297m) in reported fraud, which it blames on organised crime.

But the control over land provides seemingly legitimate access to taxpayers' money that some would say was actually fraudulent. For example, the rearing of bulls in Spain is subsidised by "extensification" grants. What does that mean? Someone decided that bulls reared in confined spaces were not healthy. Solution: pay landowners to provide more land on which the bulls can roam, while awaiting ritual slaughter in the rings. Effect: a rise in the price of land.

- Pakistani landowners have worked out a neat way to rip off the system with the connivance of banks.

The government, allegedly anxious to raise agricultural productivity, makes loans available through a bank. Access to the loans, however, is limited to people who own at least five hectares: as ever, poor farmers and landless labourers are excluded.

The rip-off works like this, according to Farhan Bokhari writing in *The Financial Times* (March 25). The farmer borrows money with which to buy a

tractor. Many of them have no intention of taking delivery of the tractors, however. Instead, they sell them at a discount, with no intention of repaying the original loan from the Agricultural Development Bank of Pakistan. The landowners do not fear the consequences: the legal system is rigged to obstruct attempts to recover the loans. The farmers expect to pocket the money and walk away!

The bank's officials know that the racket is operating, but they are intimidated by the political consequences of taking action. Moving against landowners is "politically sensitive" and therefore avoided.

The sinister implication behind such stories emerges when we contrast the inaction with the way in which governments are trying to curb the laundering of mafia money.

The peddlers of drugs and vice are outlaws. As a rule, they do not try to work within the legal system. Where their activities have overlapped the politics, this has usually been in order to ensure that their nefarious activities are safely quarantined from the law. Because they pose no direct challenge to the political system, governments feel free to try and fight them.

Not so with the crooks who milk the taxpayer. For it is the direct control over land, either by individuals or the state, that is the starting point for most of the big swindles. That means any attempt to develop a socially fair and efficient system of income distribution is a direct challenge to the power of landowners. And so far, governments have not shown themselves willing to move against the power-brokers.

