UNITED STATES - “Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (And Stick You with the Bill)”

David Cay Johnston, Amy Goodman & Juan Gonzalez, Democracy Now!

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January 18, 2008 - Democracy Now! News Program - Pulitzer Prize-winning journalist David Cay Johnston joins us to talk about his new book, Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (And Stick You with the Bill). *Johnston reveals how government subsidies and new regulations have quietly funneled money from the poor and the middle class to the rich and politically connected.*

– David Cay Johnston, Pulitzer Prize-winning investigative journalist for the *New York Times*. His latest book is titled *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (And Stick You with the Bill)*. He is also author of the bestselling book *Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich—and Cheat Everybody Else*.

JUAN GONZALEZ: As voters head to the polls in Nevada and South Carolina Saturday, the economy remains one of the top issues for voters across party lines. Today, we’re going to spend the rest of the hour examining the growing income gap in the United States.

Economic figures show that in 2005, the wealthiest 0.1 percent of the country’s population had nearly as much income as all 150 million Americans who make up the lower economic half of the country. Of each dollar people earned in 2005, the top ten percent got 48.5 cents, the highest percentage since 1929, just before the Great Depression.

AMY GOODMAN: Pulitzer Prize-winning journalist David Cay Johnston has been closely tracking the nation’s income gap in the pages of the *New York Times*. In 2004, he published the bestselling book *Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich—and Cheat Everybody Else*. David Cay has just published a new book. It’s called *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (And Stick You with the Bill)*. He joins us now from the PBS station WXXI in Rochester.

Welcome to Democracy Now!, David.

DAVID CAY JOHNSTON: Thank you for having me, Amy and Juan.

AMY GOODMAN: Explain the wealth transfer.

DAVID CAY JOHNSTON: Well, I was struck, listening to the program from Kenya, where they talked about the president and his power to give money to people, give land, and that’s why many people identify with it. We have created in the United States, largely in the last thirty years, a whole series of

programs—a few of them explicit, many of them deeply hidden—that take money from the pockets of the poor and the middle class and upper middle class and funnel it to the wealthiest people in America. And among the biggest recipients of these subsidies are the wealthiest family America, the Waltons; George Steinbrenner; Donald Trump; a whole host of healthcare billionaires. And these are policies that either have not been reported on or the news reporting on them generally has not informed people about what they really are.

JUAN GONZALEZ: Well, I was struck—you have numerous chapters in the book on the various aspects of this transfer, but I was especially struck by your material on the New York Yankees and Steinbrenner and Joyce Hogi, who you mention in the book, who I know well, and this whole issue of sports teams across America and how the public is subsidizing them. Could you elaborate on that part of it?

DAVID CAY JOHNSTON: Sure. George Steinbrenner is getting over $600 million for the new Yankee Stadium in New York. The New York Mets are getting over $600 million. In fact, the City of New York gave them money to lobby against the taxpayers to get more money. Rudy Giuliani gave $50 million to the two teams for that purpose.

The new owners of the Washington Nationals baseball team in Washington, D.C., paid $450 million for the team. But, in fact, they got the team for free, because the subsidy they're getting for the new stadium is worth $611 million. We actually paid these people to buy the team.

Now, in this country right now, we are spending $2 billion a year subsidizing the big four sports: baseball, basketball, football and hockey. It accounts for all of the profits of that industry and more. Now, there may be individual teams that make money, but the industry as a whole is not profitable. And that's astonishing because the big four leagues are exempt from the laws of competition. By the way, irony is not dead, because here are people who are in the business of competition on the field who are exempted by law from the rules of economic competition.

If you go to England and you want to start a soccer team, they have to let you join the soccer league. There are thirteen commercial soccer teams in the London area. New York City, the biggest city in the country, there are two baseball teams, because there's no free entry into the market. In Los Angeles, there's no football team. And the owners use this power to prevent others from owning teams, to prevent municipal governments from owning teams, to prevent nonprofits from owning teams, to extract money from the taxpayers to build them new stadiums.

At the same time that we're doing this, we are starving our public parks for money. And I show in *Free Lunch* how the rise of urban gangs and now suburban gangs is connected to this. We used to have all sorts of programs in this country after World War II for young men and young women on Saturdays and during the summer and school holidays, where even if you didn't have any money—didn't matter that your parents didn't have any money, because—and I know this because I did it as a child—you could go to any one of a half-dozen different places, and there were organized activities to keep you out of trouble. After all, idle hands are the devil's workshop is not exactly a radical new idea. Well, we've cut and cut and cut those programs to fund two different subsidies: one to sports teams' owners, one that goes to Tyco, General Electric, Honeywell and some other big companies. And, lo and behold, we've had a big rise in urban violence because of the vacuum being filled by young people who no longer have these organized activities.

AMY GOODMAN: Speaking of sports teams, talk about President Bush and where you believe, really, ultimately, he got his wealth.

DAVID CAY JOHNSTON: Well, it isn't a function of belief, Amy. I've got the documents. President Bush, who will go down in history as the great tax cutter, owes almost all of his fortune to a tax increase that was funneled into his pocket. What happened is, an oil man named Eddie Chiles wanted to sell his money-losing Texas Rangers baseball team. They played in a little stadium, smaller than the one we have here in Rochester, New York, and of course couldn't make any money. So George Bush put together a group of very wealthy investors to buy the team. He put up himself $600,000 of borrowed money. The partners

then gave him a 10 percent stake as the managing partner. That's a very common arrangement in business. Then they held a special election in January of the year in question to increase the sales tax in the town of Arlington, Texas, by one half-cent. That money was used to build a new baseball stadium. It's an incredibly nice baseball stadium.

Then the power of government to seize land by eminent domain—and I go back to what was talked about in Kenya, the leader there can give you land, he can presumably therefore also take it away—the government used its power of eminent domain to seize land from people, not for a public purpose—not for a military base, for a school, for a highway, for a sewer plant—but because it was coveted by President Bush and his friends, and they were unwilling to go into the market and buy it through market economics. So the government seized this land. People were paid far less than they were owed, and we know that because one family fought back, and a jury, after being out just a matter of minutes, awarded them about six times what they had been offered by the government of Arlington.

The value of this subsidy, according to Ray Hutchison, who is the husband of Senator Kay Bailey Hutchison, is a prominent Republican insider in Texas and is the leading authority on municipal bond finance in Texas, was $202.5 million. The profit that President Bush and his partners made when they sold the team was $164 million. What does that tell you? Every single penny of additional money President Bush got from that investment, his gain, came from the taxpayers. He did not add one cent to the value of that team through his skill as an MBA manager. This gets repeated all over the country.

And then when President Bush filed his tax return, he should have reported that the 10 percent share he had, the one that was given to him as compensation for being general manager, was wage income. And, of course, we tax wages at a higher rate than we do capital income, like capital gains. President Bush therefore shorted the government $3.4 million. Under our system, you sign your tax return subject to audit. If you're not audited and you don't pay the government the right amount, if it's too much, the government keeps it, if it's too little, you short the government, but nothing happens to you.

AMY GOODMAN: We're talking to David Cay Johnston, Pulitzer Prize-winning investigative journalist. His new book is called *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You with the Bill)*. We'll come back to David Cay Johnston in a minute.

[break]

AMY GOODMAN: Our guest is David Cay Johnston, Pulitzer Prize-winning investigative journalist, has written the book *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You with the Bill)*. Juan?

JUAN GONZALEZ: Well, David Cay Johnston, the American home subprime crisis has been much in the news and the enormous impact it's having on the economy. You've got a few chapters here where you talk about the home and home robbery, and you even delve on an issue that very few people have ever talked about: title insurance companies and the enormous wealth transfer that have gone on there. Could you talk about that?

DAVID CAY JOHNSTON: Oh, sure. You know, when you buy a home—and I remember the first time I did it as a young man—you have this enormous sense of accomplishment, and you sit down in a room, and they throw all these papers at you—"Sign this, sign this, initial this page, OK, sign this." So when you're all done, you get a little sheet listing all the costs you have, and you get dinged for $15 here and $25 there. But there's one big item called land title insurance. If you buy a $200,000 house, it will probably cost you close to $1,000. Well, it turns out that ninety cents out of every dollar you are forced to pay for this goes to pay commercial bribes. And this goes on all throughout the industry all across the United States, and nobody is prosecuted for it.

And here's what happens. Well, you wrote the check for the $1,000, the land title insurance companies, who are insuring the risk that someone will come along and say, "That's really my piece of land," or "I have the right to put an oil well in your backyard. Here's this document from 1848," or your new

outbuilding encroaches one inch onto the neighbor's land, supposedly. That's what you are insuring against. These companies' real customers are the real-estate agent that you thought was representing you or the lawyer you paid to represent you or the mortgage broker who arranged to get you the mortgage, because they steer you to the title company. And in return, they get kickbacks.

The state insurance commissioners of California and Washington wrote very detailed reports about this, because one of the land title companies tried to spear the insurance commissioner of Colorado. And there's emails and tape-recorded conversations about a very Machiavellian plot to use the news media to a plant a question that would smear this woman. And what did the insurance commissioners say should be done after they found that 90 percent of this money is paid in kickbacks? And by the way, one of the big title companies, in its report to shareholders, says that its customers aren't you and me, when we buy a house; it says its customers are the bankers and the brokers and the lawyers. Well, the insurance commissioners said what we need is an education program. We need to make sure that the land title companies know that they can't pay these kickbacks and referral fees, as they're politely called. Well, if the education program worked, the cost of land title insurance would have dropped 90 percent. It hasn't. So it's another example of the kind of institutionalized corruption that I write about in *Free Lunch* that takes money from the many and concentrates it in the hands of the politically connected few.

AMY GOODMAN: I wanted to ask you about Barack Obama's comments, David Cay Johnston, who praised—

DAVID CAY JOHNSTON: Well, one thing, Amy, I don't do, Amy, I don't talk about the presidential campaign, because—

AMY GOODMAN: Oh, you don't have to—you don't have to talk about them—

DAVID CAY JOHNSTON: OK.

AMY GOODMAN: —but just the substance of what he had to say, which was very interesting, as he talked about former President Ronald Reagan. He was in an interview with the *Reno Gazette-Journal*, appearing to express admiration for what he called Reagan's "clarity" and "optimism" and overcoming "excesses" of the '60s and '70s. This is what he said.

> **SEN. BARACK OBAMA:** I think Ronald Reagan changed the trajectory of America in a way that, you know, Richard Nixon did not and in a way that Bill Clinton did not. He put us on a fundamentally different path, because the country was ready for it. I think they felt like, you know, with all the excesses of the '60s and '70s and, you know, government had grown and grown, but there wasn't much sense of accountability in terms of how it was operating. And I think people just tapped in—he tapped into what people were already feeling, which was we want clarity, we want optimism, we want, you know, a return to that sense of dynamism and, you know, entrepreneurship that had been missing.

AMY GOODMAN: In response, rival candidate John Edwards said Reagan "did extraordinary damage to the middle class and working people, created a tax structure that favored the very wealthiest Americans and caused the middle class and working people to struggle every single day." He said, "I can promise you [this: I will] never use Ronald Reagan as an example for change." So, David Cay Johnston, without getting into presidential politics, you write extensively about Ronald Reagan in this book.

DAVID CAY JOHNSTON: Yes. Well, Ronald Reagan, whether you love Ronald Reagan or you hate Ronald Reagan, was a great leader. He did, in fact, dramatically change the country.

Between 1945 and the election of Ronald Reagan, we had a government that was focused on creating and nurturing the middle class. When I was a young man, I was able to go to college only because it was free. It didn't matter that I didn't have any money—my dad was a 100 percent disabled veteran, and I went to

work when I was ten years old and full time since I was thirteen—because it was free.

Today, the cost of a college education, a state college education, is about $10,000 a year. The average income of the bottom half of taxpayers—that's not families, that's taxpayers—is about $15,000. Think you can go to college if two-thirds of your income would have to go to college? I don't think so.

Well, Mr.—what Mr. Reagan did in 1980 was he asked a question that had a very powerful effect. He said, "Are you better off than you were four years ago?" And Americans said no, they weren't. And they elected him to office, and they set in motion a major change in government policy, a change that I think has been perverted. I do not believe Reagan intended all of the things that have been done since he started this happening.

But I'm asking the question in *Free Lunch* : Are you better off than you were in 1980? And on the surface, America is much better off. The country is more than twice as wealthy in real terms as it was in 1980. Per person, adjusted for inflation, the economy now puts out $1.70 for every dollar that it put out in 1980. Those are absolutely tremendous economic numbers.

So how come we're not all really well-off? Why is it one-in-seven families has filed bankruptcy in the last twenty-five years? Why is it people are so mired in debt that television ads are just full of debt relief and take on more debt ads, sometimes at 99 percent interest? Why is it that so many people don't have health insurance and so many people no longer have a retirement plan?

And by the way, the average income of the bottom 90 percent of Americans, what I call the vast majority, is smaller today than it was in 1980. And since the year 2000, when we really got serious about this tax cut business, the average income of Americans every year—2001, '02, '03, '04, '05—has been smaller than it was in 2000. There have been some gains in 2004 and '05, but they haven't gotten up to equal 2000. And of those gains in the year 2000—it's either '05 over '04 or '04 over '03—half went to people who make over a million dollars a year. What's happened is—

AMY GOODMAN: Didn't that wealth transfer massively begin—I mean, accelerate with Reagan?

DAVID CAY JOHNSTON: Oh, yes. No, that's—I'm sorry, that's exactly my point, Amy, is that what happened is that we put in place all sorts of new programs, many of which were never written about in the news media, that got no attention whatsoever. We created healthcare billionaires while making healthcare unavailable to one-in-seven Americans. And we did this with government money. We allowed people to buy public assets for, in some cases, a fraction of a penny on the dollar and then poured government money into them.

And, you know, our national myth that Ronald Reagan ran for office on was that there were all these welfare queen Cadillacs—welfare queens driving Cadillacs out there. I think there was, in fact, one scam artist who went to prison. But what's really going on is welfare at the top, and way beyond what's been reported in the news media as corporate welfare. We have built into the scaffolding of the new economy rules that funnel money to the top.

And that this has happened really shouldn't surprise us, because under our campaign finance system, which has gotten worse and worse and worse with campaign finance reform that hasn't worked, politicians running for high office spend a great deal of their time talking not to you and me and school teachers and police officers and firefighters and factory workers, but to rich people and their paid representatives. And they hear about their concerns and what they say they need to make things fair.

JUAN GONZALEZ: You also delve into this whole phenomena across America of the big box stores, the Targets and the Wal-Marts and the Kmarts. And obviously they've—to some, they at least offer cheaper goods, cheaper consumer goods. Your analysis of their impact?

DAVID CAY JOHNSTON: Well, first of all, they say they offer cheaper goods. I don't accept that that's necessarily true.

But here's what happens. And this is a good example of where the news media hasn't done a good job. I have tons of news clips that say, oh, this new shopping mall is coming or a new Wal-Mart or a new Cabela's store, and thanks to tax increment financing, this store is going to be built. Well, what is tax increment financing? I'll tell you what it is. You go to the store with your goods, you pay for it at Wal-Mart, and there's a very good chance that that store has made a deal with the government that the sales taxes you are required to pay, that government requires you to pay, never go to the government. Instead, those sales taxes are kept by Wal-Mart and used to pay the cost of the store. And typically in those deals, the store is tax exempt, just like a church.

Now, there are two ways that it's important to think about this. One is, that means your kid's schools, your police department, your library, your parks are not getting that money. And you'll notice we keep saying we're starved for money. We're twice as wealthy as we were in 1980, but we've got to close hospitals, and we've got to close schools, and we don't have money for all sorts of things like after-school programs, even though we're twice as wealthy. The second thing to think about is, imagine that you own Amy Goodman's or Juan's department store across the street. You suddenly have to compete with people whom the government is giving a huge leg up on. You think you would go broke after a while? Well, in fact, you will.

And I tell about a man named Jim Weaknecht who owned a little store in the Poconos of Pennsylvania. He sold fishing tackle, hunting gear, stuff like that. And the way he made his living in his little tiny store, enough that he was able to have his wife stay at home and raise their three kids full time, was by charging less than a company called Cabela's. Well, then Cabela's came to town. This little city of 4,000 people made a deal to give Cabela's $36 million to build a store. That's more than the city budget for that town for ten years. It's $8,000 for every man, woman, and child in that town to have this store. And even though he charged lower prices, he was pretty quickly run out of business.

That's not market capitalism, which is what Ronald Reagan said he was going to bring us. He said, you know, government's the problem, we need markets as a solution. Well, that's not the market. That's corporate socialism. And what we've gotten is corporate socialism for the politically connected rich—not all the rich, the politically connected rich—and market capitalism for everybody else.

JUAN GONZALEZ: And, of course, many of those folks need lobbyists to be able to get these kinds of breaks from the government, and you talk about the explosion of lobbyists and their influence on government.

DAVID CAY JOHNSTON: There are twice as many registered lobbyists in Washington today as there were in 1980. If the lobbying community had grown in revenues since the '70s at the same rate as the economy, there would be one-tenth as many lobbyists in Washington. And those people are not there doing the good of the public. You know, the Constitution's Preamble talks about the—

JUAN GONZALEZ: They're not just in Washington, right? They're not just in Washington. They're also at the state level.

DAVID CAY JOHNSTON: No, no, they're in all the state capitals, they're in city halls, they're all over the country. The lobbying business is one of the fastest-growing businesses in America, because—you know why? It's easier to mine gold from the government's treasury than from the side of a mountain. Why wouldn't you go do that if you could get the government to give you money? And Donald Trump—a tax that's supposed to serve the poor, his company got $89 million for a tax designated for the poor. Somehow, Mr. Trump's public image suggests to me that he does not think of himself as a poor person.

AMY GOODMAN: David Cay Johnston—we'll leave it there— *Free Lunch* is his book, *How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You with the Bill)*, speaking to us from the PBS station WXXI in Rochester, New York.

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