Britain's choice

The Devil You Know

The Devil You Don't

Who the Devil?
Britain's choice

Voters deserve a more radical vision than the timid and uninspiring policies all parties have put forward so far.

Politics this week

Business this week

KAL's cartoon

Leaders

Election in the UK

Britain's choice

China, America and the yuan

Over to you, China

Japan's debt problem

Sleepwalking towards disaster

Sudan's election

Let those people go

Protecting creativity

Copyright and wrong

Briefing

On climate change, Kosovo, masculinity, peak olive oil

United States

John Paul Stevens's imminent retirement

Goodbye to that tie

America's nuclear posture

Logic v politics

The West Virginia mine disaster

Peril in the labyrinth

State finances

A ray of sunshine

The Rhode Island floods

Lifebelt needed

Mending Los Angeles

Calling on the angels

Comcast v the FCC

Raze the mystery house

April 15th

The joy of tax

Lexington

Sex and the single black woman

The Americas

Colombia's presidential campaign

Safer, but still not safe

Oil policy in Brazil

Raining on Rio's parade

Chile's wine industry

If one green bottle

The Caribbean brain drain

Nursing a grievance

Asia

Kyrgyzstan

Tear gas, not tulips

Japan's factored politics

Splitting headaches

Thailand

Abhisit's dilemma

India's Naxalite insurgents

Politics with bloodshed

Afghanistan and America

He said what?

Pakistan

No man's land
Middle East & Africa

Libya
Why it is still stuck

Sushi in Syria
Can exotic food lead to liberty?

Islam on the web
Bitter religious rivalry in the air

Kenya and the international court
Will justice be done at last?

Congo’s oil
We’ve got it too

South Africa’s right-wing whites
The laager is almost derelict

Banyan
New Silk Roads

Europe

Election season in central Europe
Crossed words

Hungary’s election
Victory for Viktor?

Spain’s unemployment
In search of a job

Privacy in France
Tweets and sauvs

Data protection in Germany
David and Goliath

Charlemagne
Europe’s worrying gerontocracy

Britain

The election race
They’re off!

Electoral politics
Who’s who

The fight for Finchley
Heir apparent

Campaign diary
On the trail

The small-business vote
Together, a multitude

The female vote
What women really want

The grey vote
Meet the grandparents

Bagshot

Farewell, free stuff

Articles flagged with this icon are printed only in the British edition of The Economist

International

Defining what makes a country
In quite a state

The Vatican’s travels
When walls are too high

Wars and laws
To the loser—a lawyer

Economics focus

The mean streets of Guildford

Marjorie Deane internship

Science & Technology

Nutrition and health
Protection racket

Camera-phones
Dotty but dashing

Novel sources of uranium
Rising from the ashes

A new giant lizard
Early man
Stand up straight!

Books & Arts

François-Xavier and Claude Lalanne
Animal, vegetable, mineral

A Barack Obama biography
His big moment begins

A life of Pearl Buck
The good woman of China

New English fiction
French connections

Seeking extraterrestrial intelligence
A deathly hush

Max Hastings’s family memoir
The Mac factor

Culture on television
The cruellest cut

Obituary

Eugene Terre’Blanche

Economic and Financial Indicators

Overview
Output, prices and jobs
The Economist commodity-price index
The Economist poll of forecasters, April averages
Trade, exchange rates, budget balances and interest rates
Markets
Broad money supply

Sponsor’s feature

Financial Services Authority (TSA) Solvency II Implementation Various roles Canary Wharf, London

Economist Conferences

Intelligent Life
CFO
Roll Call
European Voice
Eurofinance

Copyrighe © The Economist Newspaper Limited 2010. All rights reserved.
To nobody’s surprise, a **British general election** was called for May 6th. The opening days of the campaign were dominated by rows over the Labour government’s plan to raise national insurance (a tax on earnings) to fund public services. The opposition Conservatives, backed by a number of senior business figures, argued that the policy was wrongheaded, given fears of higher unemployment. See article

An investigating magistrate in **Spain** ordered Baltasar Garzón, a campaigning judge, to face trial for overstepping his powers. The case springs from complaints made by right-wing Spanish groups that Mr Garzón’s attempt to investigate the disappearance of more than 100,000 people during and after the Spanish civil war violated a 1977 amnesty on war crimes. See article

**Mikhail Khodorkovsky**, a former oil boss and once Russia’s richest man, took to the stand to defend himself against embezzlement and money-laundering charges. The trial of Mr Khodorkovsky, who is already serving a prison sentence for fraud, is seen by many as a test of Russia’s commitment to the rule of law.

Researchers in Russia created a **new element**. Temporarily known as ununseptium, because it has 117 protons in its nucleus, it was made at the Joint Institute for Nuclear Research in Dubna by smashing calcium ions into berkelium atoms. It is the 26th artificial element heavier than uranium to have been added to the periodic table.

**Arms and the man**

**Russia’s** prime minister, Vladimir Putin, made a brief visit to **Venezuela** to discuss arms sales and oil with Hugo Chávez, the president. A Russian consortium agreed to invest in a joint venture in the Orinoco heavy-oil belt. And Mr Putin said Russian arms sales to Venezuela could total $5 billion, but he did not sign any new contracts. Nor did he confirm Mr Chávez’s claims that Russia would help Venezuela develop nuclear power.

In **Brazil** more than 100 people were killed after hours of torrential rains triggered mudslides in Rio de Janeiro state.

One **trade dispute** was settled and another intensified. Brazil agreed to hold off from imposing $591m in retaliatory tariffs authorised by the WTO after American officials agreed to changes in cotton subsidies. Meanwhile, China said it would ban imports of soya oil from Argentina, seemingly in reprisal for anti-
dumping measures against textile and other exports to Argentina.

In Bolivia’s local elections, exit polls suggested that the Movement to Socialism of Evo Morales, the president, had won at least five of the nine regions, but failed to dislodge the opposition in three eastern regions. A party led by a former ally, and now rival, appeared to have won the mayoral election in La Paz.

Trouble in Central Asia

Opposition leaders formed an interim government in Kyrgyzstan after the president fled Bishkek, the capital, following the worst political chaos there since the Tulip revolution of 2005. More than 60 people were killed and 500 injured. The new government promised elections but the president fled to the volatile south of the country, raising the possibility of further strife. See article

A state of emergency was declared in Bangkok during the third week of protests by red-shirted opposition demonstrators, who penetrated the parliament building. The protesters had earlier stormed Thailand’s electoral commission and won a promise from officials to hear a case in which the ruling Democrat party is accused of electoral irregularities. The party faces dissolution if the case goes against it. See article

In the bloodiest-ever attack on security forces in India, Maoist rebels killed 76 policemen in a camp in dense jungle in Chhattisgarh state.

The Taliban was blamed for more violence in Pakistan. Dozens were killed by a suicide-bomb at a rally for a secular Pushtun party in the north-west’s Lower Dir district, and militants carried out a gun and bomb attack near the American consulate in Peshawar, killing five.

The Liberal Democratic Party, which ruled Japan for five decades after the second world war, split. Two senior figures, a former finance minister and a former party secretary-general, said they would form their own party. See article

Days after Barack Obama’s visit to Afghanistan, Hamid Karzai accused the West and the UN of massive fraud and corruption designed, he said, to undermine his government. Peter Galbraith, a former top UN diplomat in Kabul, called into question the mental stability of the Afghan president. See article

Sowing seeds of discord

At least 100 Iraqis were killed in a spate of attacks in or near Baghdad. Al-Qaeda was blamed for trying to push Iraq back into sectarian strife just when politicians are jockeying for power and seeking cross-sectarian deals after last month’s election, which no alliance came close to winning on its own.

The credibility of elections in Sudan due on April 11th for the presidency and parliament was damaged
when the main southern party withdrew its presidential candidate and most of its other candidates in the north. One of the main northern-based parties, the Umma, said it would boycott the election altogether. See article

Eugene Terre’Blanche, the leader of an all-white South African group that still argues for apartheid, was murdered, allegedly by two black workers over a labour dispute. See article See article

A new START?

Barack Obama and Dmitry Medvedev signed a treaty that reduces America’s and Russia’s stockpile of nuclear weapons. The ceremony took place in Prague, where last year Mr Obama made an impassioned plea for “a world without nuclear weapons”. See article

An explosion at a coalmine in West Virginia killed at least 25 men, the worst mining accident in America for 25 years. Meanwhile, more than 100 miners were rescued in the northern Chinese province of Shanxi after being trapped for a week when their mine flooded; around 40 men died or were missing. Thousands are killed in mining accidents each year in China. See article

Americans began returning their completed decennial census forms. With a list of several categories to select for race, including mixed-race, the White House said that Mr Obama had opted to tick “black” on his form.
The crisis surrounding Greece’s debt situation gathered pace, despite the prime minister’s assurance that “the worst is over”. The yield on ten-year Greek government bonds jumped sharply, pushing Greece’s premium over German bonds to the highest level since Greece joined the euro in 2001. Markets are rattled by, and some investors are taking advantage of, the uncertainty about what the terms would be of an actual Greek bail-out, which has been agreed in principle by the European Union. See article

Timothy Geithner, America’s treasury secretary, postponed the publication of a report on international exchange-rate policies that was expected officially to declare that China manipulates its currency. Mr Geithner wants first to use a series of high-level meetings to press China further to move “to a more market-oriented exchange rate”. Some economists estimate that the yuan is undervalued by as much as 40%, benefiting Chinese exporters but hurting others. See article

Left to its own devices

Figures from the first day of Apple’s iPad going on sale in America showed strong demand, but the tablet computer with Wi-Fi connectivity was not a sell-out. A 3G iPad comes out in America and other countries in late April.

In a judgment that has wide implications for internet regulation in America, an appeals court ruled that the Federal Communications Commission overstepped its authority when it censured Comcast for slowing traffic associated with a popular file-sharing service that took up bandwidth. The decision is a setback for “network neutrality”, the notion that internet service providers are meant to treat all network traffic equally. See article

AOL disclosed that it is considering either selling or shutting down Bebo, a social-networking website it bought for $850m in 2008. Bebo has struggled to compete in a market dominated by Facebook and MySpace.

American employers added 162,000 jobs to their payrolls in March, the biggest increase in three years. A big chunk of the new work came from a rise in temporary services, such as the government taking on people to help with the census. America’s unemployment rate remained unchanged at 9.7%.

Raving loonie

The Canadian dollar continued to climb, touching parity with the American greenback for the first time in nearly two years. Investors have been turning to the loonie in part because of the rosier outlook for Canada’s economy compared with that of its neighbour south of the border. This week the OECD forecast that Canada’s GDP would grow faster than any other G7 country during the first half of 2010.

Renault and Nissan, which have a working alliance and share the same chief executive, formed a partnership with Daimler to cooperate on the development of small cars, vans and engine technology. As part of the venture Renault and Nissan will each acquire a 1.55% stake in Daimler, and the German carmaker will take a 3.1% holding in each of them. See article

Separately, Daimler agreed to pay $185m in combined civil and criminal penalties to settle bribery charges brought by American authorities. The allegations centred on improper payments made by Daimler and three subsidiaries to officials in 22 countries.
An expensive glitch

America’s Transportation Department said it would seek the maximum civil fine of $16.4m against Toyota for not reporting promptly the problem of sticking accelerator pedals affecting its cars.

In its first official accounts since leaving bankruptcy protection, General Motors reported a net loss of $4.3 billion for the period between July 10th and December 31st. The company said it remains on course to repay by June the government loans it received as part of its bail-out last year.

British Airways and Spain’s Iberia sealed their merger that was announced last year. The new company will be called International Airlines, but both carriers will retain separate brands. More consolidation was in the air when it emerged that United Airlines and US Airways have restarted their merger talks. See article

In an unusual approach to public relations, Noble, a commodities group based in Hong Kong, described a rival offer from America’s Peabody Energy for an Australian coalmining company as an “opportunistic grab” that “ruined our Easter weekend”. Noble said “the Americans charged into town on a Gulfstream jet” and it would like them “to go back home”. Peabody retorted that it had built the first big export mine in Australia, and found it odd that a Hong Kong-based company would mention corporate nationality. The Americans also raised their offer.
KAL's cartoon
Apr 8th 2010
From The Economist print edition
Voters deserve a more radical vision than the timid and uninspiring policies all parties have put forward so far

WHATEVER they tell you in school, not all elections matter equally. Sometimes the government isn’t in any danger of losing its grip; sometimes no one would notice if it did. The British general election on May 6th is not one of those. It does matter, and not just because the party in power for the past 13 years is more likely than not to lose.

It matters domestically because Britain, after a decade and a half of strong, steady growth, has been knocked off track by savage recession and turmoil in the financial world it once dominated. Its public finances are in an almighty mess, its budget deficit at a post-war high of 11.8% of GDP. Britain has lost its political bearings too. The New Labour model, which aimed at social justice paid for by the fruits of more or less free-market capitalism, ran out of puff roughly when the money did. The state has grown, personal freedom has shrunk, and it is not clear that people are much the better for it.

The election matters outside Britain as well. Britain’s is the single most reliable voice for open markets, inside and outside the European Union. It has been ready to act on behalf of others, not just at gunpoint in Sierra Leone or Iraq or Afghanistan, but also in spearheading aid for the world’s poorest. When banks around the globe were going belly-up, Britain came up with answers fastest, and it must be an important part of worldwide re-regulation. Some things will be the same whoever wins. Free trade and open markets, for example, are in the DNA of this island nation. But others will not. It is hard to have influence in Europe if you do not have allies there; and, with money tight at home, some will be more inclined to spray it around the world than others.

Change, but to what precisely?

All this argues for deep thinking and radicalism. But 2010 does not feel like 1979, when the Conservatives
under Margaret Thatcher swept to power, bashed the unions and privatised state industries. Nor does it evoke 1997, when Tony Blair’s New Labour jettisoned socialism and espoused the Third Way.

This time Labour, under Gordon Brown, the Conservatives, led by David Cameron, and the Liberal Democrats, under Nick Clegg, have been so busy blaming each other for what went wrong that there is little talk of what needs to happen if things are to go right. Missing in electoral action is any compelling view of what Britain should aim to be when it emerges from what will inevitably be a long, wrenching fiscal workout: that it is, or could be, a country which lives within its means, pays the state to do what it can do effectively and no more, stops subsidising failure through sloppy, bloated benefits rolls and educates its young to hold down serious jobs in an economy in which the government stops hogging the capital markets, complicating the tax code and heaping up regulation.

The biggest issue in this campaign is getting the public finances under control without snuffing out economic recovery. Mr Brown argues that he brought Britain through recession, and that the risk of relapse is great enough that no change of management, or early wielding of the fiscal axe, can safely be contemplated. Mr Cameron blames Mr Brown for much of the present fiscal mess, which he says he will deal with more effectively. The Lib Dems would wait until recovery is entrenched, like Labour, and then slice at spending.

But a pre-electoral discretion has overwhelmed all three. The Tories lost ground in the polls after vowing fiscal austerity last autumn, and are now talking more about tax cuts than spending cuts. Nobody is saying much about how they would fix things. That needs to change, and politicians need to explain how cuts could improve government, not cripple it.

The second issue is public services. Both main parties have pledged to maintain spending on the National Health Service (NHS), at least for the next few years. That is the wrong answer to the wrong question. How much is spent matters less than how it is spent. Mr Blair made efforts to introduce competition and choice into public-service delivery, but Mr Brown was never a fan. The dearth of money now must put reform front and centre. The Tories have some plausible ideas about health care and even better ones about freeing schools from local authorities. It would be good to hear more from both parties.

The third issue is, broadly, Britain’s place in the world. There are hard choices to make. Even before the crisis there was not enough money for all the kit the armed forces thought necessary to respond to a range of unknowable future threats. So far politicians have dodged questions about priorities by pointing to the strategic defence review scheduled for after the election. No party deserves power unless it has detailed the principles with which it would approach that review.

Too close to call

Until a few weeks ago, the outcome of this election seemed obvious. The worst recession since the war, an unpopular prime minister, fatigue with a party too long in power and a fresh-faced Tory leader who hugged hoodies rather than deporting migrants all conspired to give the Conservatives a lead reliably in the double digits. But Labour’s prospects have recovered a bit along with the economy and Mr Cameron has failed to eradicate a deep historical hostility to his party. The electoral system is biased against the Tories anyway (see article), support for smaller parties is growing and voters—who are, after all, choosing constituency MPs rather than a prime minister directly—have all sorts of reasons, from pot-holes to fiddled expenses, to defy nationwide predictions. It may be that the polls, for the first time since 1974, produce no outright winner.

Whatever the outcome, some sort of history will be made next month. Mr Cameron would be the youngest prime minister since the 19th century. Mr Brown’s fightback from the political graveyard would be epic. The first hung parliament in almost four decades would mean a new sort of politics for Britain. It is far from clear which the country will end up with. But one thing is sure: bigger and bolder thoughts are needed.

To help voters make up their minds, this issue contains a 20-page briefing on personality, policy and psephology. We will say who we think should win a week before the election.
Over to you, China
Apr 8th 2010
From The Economist print edition

America has dampened a currency row with China. Now Beijing must let the yuan rise

IT DID not win him friends in Congress, but Tim Geithner, America’s treasury secretary, was right to postpone a decision, due by April 15th, on whether or not to declare China a currency manipulator. By putting off the release of a semi-annual report on China’s exchange rate he defused, at least temporarily, Sino-American tension over the value of the yuan, which has been pegged tightly to the dollar since July 2008. Even better, he did so in a way that maximises the odds of a resolution of the currency problem.

Chinese policymakers now have several months to allow the yuan to strengthen without appearing to be caving in to bilateral American pressure—no small consideration, given China’s fierce nationalist sensitivity. Mr Geithner also tried to shift the terms of the debate away from bilateral threats, by making clear that forthcoming multilateral meetings, especially those of the G20, are the right places to discuss China’s currency. And his willingness to stand up to domestic political pressure (130 congressmen had sent him a letter demanding immediate action), set a good example to policymakers in Beijing. To be sure, the decision was not driven only by economics. America’s administration wants China to support tough sanctions on Iran, for instance. But the economic diplomacy was deft. America has shown it can behave responsibly. China must now do the same—by allowing the yuan to rise.

A stronger yuan would not just avoid a trade war between America and China. It would also help China by rebalancing its economy towards domestic consumption and making it easier to control inflation by giving China’s central bank a freer hand to raise interest rates. With consumer prices accelerating, that is becoming more urgent. Not surprisingly, China’s central bank is the main internal proponent of reform. But this week a senior government economist also hinted at a coming shift.

Opponents of a stronger yuan argue that the country can ill-afford to harm job-creating exporters, especially since much of the recent credit binge from government stimulus benefited capital-intensive heavy industries which create relatively few jobs (see page 81). But China’s economy is disproportionately skewed to heavy industry in part because of its undervalued exchange rate. A stronger currency would, by reducing the price of imports, increase Chinese households’ purchasing power and favour non-traded businesses such as services, which tend to be labour-intensive. That alone will not be enough to rebalance China’s economy. All manner of structural reforms, from corporate governance to taxes, are also needed.
But a stronger currency would be a good start.

**Now’s the time**

Although domestic matters are higher on the Chinese government’s agenda, the external benefits of currency appreciation are not to be sniffed at. America is the loudest complainant, but it is other emerging economies, such as India and Brazil, that suffer most from the cheapness of China’s currency. So far, their governments have stayed remarkably quiet, but that is unlikely to last, especially if the yuan becomes a focal point of the G20 discussions.

Judged by its official trade rules, China is more open than most big emerging economies, but its hidden subsidies and barriers are legion, and recent actions, such as new government-procurement rules that favour domestic producers, point in the wrong direction. Trade disputes with China are spreading across the globe. Given the country’s growth and economic heft, that is probably inevitable. But allowing the yuan to appreciate would allow China to appease its trading partners at the same time as helping itself.
Japan’s debt problem

Sleepwalking towards disaster
Apr 8th 2010
From The Economist print edition

To prevent a looming economic disaster, Japan urgently needs radical change

FOR years foreign observers gave warning that Japan’s combination of economic stagnation and rising public debt was unsustainable. Over the past two decades the country has stumbled in and out of deflation, slipped down the global league tables on many social indicators and amassed the largest gross public debt-to-GDP ratio in the world (a whopping 190%). Yet government-bond yields have remained stubbornly low and living standards, by and large, are high. Visit the country and you will see no outward sign of crisis. Politicians and policymakers have bickered and schemed, but have mostly chosen to leave things as they are.

That cannot go on much longer. The figures are getting worse. Japan urgently needs radical policies to tackle the problems, and new leaders to implement them.

Triple troubles

There are three big reasons why the crisis in Japan’s public finances will eventually come to a head. The first concerns government bonds. The state has for years relied on domestic savers to buy them. But as Japan’s people age and run down their savings, they will have less money to invest in government bonds. An IMF paper calculates that even if the savings rate remains close to where it is now, gross debt may exceed gross household assets by 2015. Japan might then have to rely on foreigners to finance its debt, and they will want much higher returns. That will, at the very least, provide an acute reality check. Goldman Sachs says some foreign investors are already positioning themselves for a “meltdown”.

The second, more immediate problem is deflation. Falling prices may have helped the government by providing its bondholders with invisible gains, but in other ways deflation is a menace. It pushes the debt-to-GDP ratio inexorably higher. As expectations of deflation become entrenched—35% of Japanese expect prices to be the same or lower in five years’ time—they will continue to depress consumption.

Third, despite the recent pick-up in global economic activity, Japan cannot count on foreign demand being strong enough for it to sustain export-led growth, as it did in the past decade. Without a stronger domestic economy, growth will not generate enough tax revenue to reduce the debt. One ominous sign is that in the 2010 budget implemented on April 1st, borrowing, at ¥44 trillion ($468 billion), is for the first time forecast to exceed tax revenues, at ¥37 trillion.

Japan’s efforts to tackle these problems have resembled a big whimper (see article). What is needed is a big bang. That means structural reforms to raise productivity, fiscal reforms to boost growth and a strong monetary stimulus, all at once, to shock the economy back to life. These could range from an overhaul of the tax code to deregulation of farming and the opening up of protected areas of the economy, such as transport and energy, to foreign competition. A sensible short-term aim for the government would be robust nominal GDP growth. That would help stop the debt-to-GDP ratio rising, and would also ensure that the authorities did not prematurely choke off a recovery because of concerns about inflation.

But all this assumes that policymakers want to be bold. The current crop is anything but. Last September, when almost 55 years of one-party rule came to an end, there were faint hopes that the Democratic Party of Japan (DPJ) might take a fresh approach. It has not done so. Yukio Hatoyama, the prime minister, and his most influential backer, Ichiro Ozawa, have since been caught up in election-funding scandals that have shredded the government’s credibility. They are clinging to their jobs, more concerned with their own futures than that of the DPJ, or indeed Japan.
Enlightened economic policymaking suffers most. Mr Hatoyama prevaricates over fiscal reform, arguing that Japan should wait until the next general election in 2013 before shaking up the tax system. He is wrong. Japan urgently needs cuts in business taxes, perhaps, as well as a gradually higher spending tax. The ousted Liberal Democrats are just as out of touch (see article). When a group of supposed reformers left the splintering party this week to set up a new outfit, it could have grabbed the fiscally conservative, business friendly centre. Instead it moved to the right, as if anti-immigrant nationalism were the tonic Japan needs.

It is time for more fiscally astute members of Mr Hatoyama’s government to set the agenda. The main opposition, too, needs regime change. Japan’s old guard worries that radical steps will precipitate an economic crisis, and so prefers the status quo. It does not realise how inherently dangerous the status quo is.
A flawed election would be better than none, for it would mean progress towards a peaceful north-south split

AFRICA’S biggest country has long been one of its most ungovernable. For a start, it is a grossly artificial, colonial creation. The Muslim Arabs in the north, who have run Sudan since it broke free from Britain in 1956, have little in common with their blacker-skinned Christian and animist compatriots in the south, whom they have periodically enslaved over the centuries. During more than four decades of strife since the British left, at least 2m southerners have been killed. More recently the government in Khartoum, under President Omar al-Bashir, has bludgeoned the disaffected inhabitants of the western region of Darfur since the start of a rebellion in 2003, killing some 300,000 of them and displacing another 3m. Just in the west and the south together, more than 9m people depend on food handouts from abroad. Mr Bashir is wanted by the International Criminal Court at The Hague for alleged crimes against humanity.

It is hardly surprising, then, that the election for parliament and president and a slew of other bodies due to take place on April 11th is likely to be horribly flawed (see article). In the past year or so, Mr Bashir’s ruling party has been stacking the odds in its own favour. The main southern party has withdrawn its candidate for the presidency and is refusing to compete for most of parliament’s northern seats. The main opposition in the north says it will pull out altogether. The brutal Mr Bashir, who came to power in a coup in 1989, is almost sure to retain the presidency. The conundrum of whether Western governments must continue to treat with an ICC indictee in the hope of sustaining a wider peace will be awkwardly unresolved. Foreign governments that have given money to finance the polls no longer hope for “free and fair” elections but ask that they be minimally “credible”.

The election may still be postponed. Yet, despite all these flaws, it is to be hoped that it will go ahead. If it does, the outside world should hold its nose and accept the result. For the election could lead to progress on one front in a country that is pitifully short of the stuff: it could result in a peaceful division of Sudan between north and south.

An amicable divorce
Since Africa shed its colonial shackles nearly half a century ago, its governments have been loth to tolerate secessionist movements, seeing that most African countries are multi-tribal confections, many with fissiparous tendencies. The key to a peaceful secession anywhere is that both parts of the original whole should agree to go their separate ways.

In 2005, under American auspices, Mr Bashir signed a peace agreement with the main southern movement. Part of that deal is a referendum that is meant to take place early next year, offering the southerners a chance to say yes or no to complete independence. They will most probably say yes. If they do, and the split happens, it could be a rare example of an African country breaking up in peace.

It is hard to find many good things to say about Mr Bashir; but he has to be commended, so far, for seeming to accept his country’s likely break-up, albeit that he will keep the best oil-bearing bits on his side of the proposed border between north and south. The UN and other outsiders have managed against the odds to get both sides to agree, more or less, to a new line. Policing it after independence will be a huge task.

Independence is, sadly, unlikely to bring the south prosperity. Despite hundreds of millions of dollars in aid, it still has barely 50km (about 30 miles) of tarmac road in a country twice the size of Italy. Autonomy within a better-run Greater Sudan might have been more sensible. But the southerners have lost faith in that idea and must be allowed to secede.

As for hapless Darfur, it is stuck within Sudan. Peacekeepers from a United Nations-African Union force are still there to protect people from the depredations of Mr Bashir and his proxies, who may be emboldened by the election’s result to make even fewer concessions than before. Some outsiders, particularly America and China, wield influence in Khartoum. They need to help squeeze Mr Bashir into giving the people of Darfur a fair deal—as well as sticking to his word to let the southerners go.
WHEN Parliament decided, in 1709, to create a law that would protect books from piracy, the London-based publishers and booksellers who had been pushing for such protection were overjoyed. When Queen Anne gave her assent on April 10th the following year—300 years ago this week—to “An act for the encouragement of learning” they were less enthused. Parliament had given them rights, but it had set a time limit on them: 21 years for books already in print and 14 years for new ones, with an additional 14 years if the author was still alive when the first term ran out. After that, the material would enter the public domain so that anyone could reproduce it. The lawmakers intended thus to balance the incentive to create with the interest that society has in free access to knowledge and art. The Statute of Anne thus helped nurture and channel the spate of inventiveness that Enlightenment society and its successors have since enjoyed.

Over the past 50 years, however, that balance has shifted. Largely thanks to the entertainment industry’s lawyers and lobbyists, copyright’s scope and duration have vastly increased. In America, copyright holders get 95 years’ protection as a result of an extension granted in 1998, derided by critics as the “Mickey Mouse Protection Act”. They are now calling for even greater protection, and there have been efforts to introduce similar terms in Europe. Such arguments should be resisted: it is time to tip the balance back.

Annie get your gun

Lengthy protection, it is argued, increases the incentive to create. Digital technology seems to strengthen the argument: by making copying easier, it seems to demand greater protection in return. The idea of extending copyright also has a moral appeal. Intellectual property can seem very like real property, especially when it is yours, and not some faceless corporation’s. As a result people feel that once they own it—especially if they have made it—they should go on owning it, much as they would a house that they could pass on to their descendants. On this reading, protection should be perpetual. Ratcheting up the time limit on a regular basis becomes a reasonable way of approximating that perpetuity.

The notion that lengthening copyright increases creativity is questionable, however. Authors and artists do
not generally consult the statute books before deciding whether or not to pick up pen or paintbrush. And overlong copyrights often limit, rather than encourage, a work’s dissemination, impact and influence. It can be difficult to locate copyright holders to obtain the rights to reuse old material. As a result, much content ends up in legal limbo (and in the case of old movies and sound recordings, is left to deteriorate—copying them in order to preserve them may constitute an act of infringement). The penalties even for inadvertent infringement are so punishing that creators routinely have to self-censor their work. Nor does the advent of digital technology strengthen the case for extending the period of protection. Copyright protection is needed partly to cover the costs of creating and distributing works in physical form. Digital technology slashes such costs, and thus reduces the argument for protection.

The moral case, although easy to sympathise with, is a way of trying to have one’s cake and eat it. Copyright was originally the grant of a temporary government-supported monopoly on copying a work, not a property right. From 1710 onwards, it has involved a deal in which the creator or publisher gives up any natural and perpetual claim in order to have the state protect an artificial and limited one. So it remains.

The question is how such a deal can be made equitably. At the moment, the terms of trade favour publishers too much. A return to the 28-year copyrights of the Statute of Anne would be in many ways arbitrary, but not unreasonable. If there is a case for longer terms, they should be on a renewal basis, so that content is not locked up automatically. The value society places on creativity means that fair use needs to be expanded and inadvertent infringement should be minimally penalised. None of this should get in the way of the enforcement of copyright, which remains a vital tool in the encouragement of learning. But tools are not ends in themselves.
Earth’s insurance claim

SIR – You stated that the world should take mitigating action against climate change “just as a householder pays a small premium to protect himself against disaster” (“Spin, science and climate change”, March 20th). That is not an appropriate comparison. It is indeed efficient for a risk-averse person to buy insurance against some possible future accident. Individual, idiosyncratic risks can be pooled and individuals pay actuarially fair premiums based on their propensity to fall victim to an “accident”, so that their utility does not depend on whether or not they actually experience the mishap. Put differently, since there is no risk at society’s level, it is possible to make individuals’ utility independent of their personal circumstances, which is welfare-improving.

Compare that with “insuring the world” against climate change. First, it is by definition impossible to pool a risk that affects the whole world. We cannot benefit from the law of large numbers from a phenomenon that is largely systematic. Second, because the science of climate change is so unclear, the probabilities of different scenarios are unknown, so that the world faces uncertainty, not risk.

Combating climate change is not a matter of insurance. It is a matter of spending resources today to possibly prevent a phenomenon which may or may not materialise in the future.

Pierre Chaigneau
Assistant professor of finance
HEC Montreal

* SIR – From a fairly sceptical starting point, I have modified my view that there is evidence that man-made climate change is probably occurring. But your so-let’s-buy-an-insurance-policy argument does not stand up to analysis. Limiting emissions by global consensus has a number of flaws. First, people will cheat. Second, it will reduce economic growth in the short term for an uncertain and unquantifiable possible increase in living standards at some unknown point in the future. Finally, it won’t actually stop climate change.

In addition, the ludicrous idea of paying developing countries to reduce emissions will see large amounts of money being stolen, a continuation of the culture of dependency and a distortion of markets that would otherwise direct resources to their most efficient use. Just look at subsidies for solar power in Germany and biofuels in the United States.

Man has lived with climate change throughout history and has adapted to his environment. This extraordinary leap to re-engineer the planet from a position of such ignorance would be a huge gamble.

A.J. Allars
Cambridge, Cambridgeshire

* SIR – Revamping the world to run on non-fossil fuel would be staggeringly expensive.

There are other, far more pressing, claims on the money that would be used to pay that premium. Clean water, for example, might reasonably be seen as a much higher priority by a goodly portion of the world. Perhaps the science, although it has been described by many as “settled” is really not, and we should not spend any serious money until it is.

Tom Jones
SIR – Your briefing (“The clouds of unknowing”, March 20th) was long on defending the science of climate change espoused by the Intergovernmental Panel on Climate Change, but was short of any solid evidence that the present (and future) warming is dangerous to humanity. Yes, the earth’s climate is changing, just as it did in the early part of the 20th century and as it has many times before that. Why is the present change in the earth’s climate so dangerous, and for whom?

Most countries with a perpetual hot climate in Asia have done well economically and have substantially increased their grain and food output in the past 25 years. The economies of India and China have grown by more than 7% for the past five years.

Responsible scientists should refrain from making exaggerated claims about the dangers of climate change. The IPCC should push instead for a simple adaptation strategy to combat future change, which is what the “doubters” have been suggesting for the past ten years.

M.L. Khandekar
Expert reviewer on climate change for the IPCC in 2007
Markham, Canada

* SIR – Proponents of climate-change legislation will be taken more seriously when they stop referring to the e-mail scandal involving environmental scientists as “shameful mistakes”, and start calling them an unpardonable assault on intellectual honesty. Any “scientist” who withholds data and biases editorial review to suppress intellectual debate should be stripped of tenure and fired.

These were not mistakes. This was fraud committed against everything science stands for.

Phil Gramm
Former United States Senator
Helotes, Texas

SIR – The naive view that “action on climate is justified, not because the science is certain, but precisely because it is not” is not worthy of a newspaper that prides itself on taking part in a "severe contest” between intelligence and an unworthy, timid ignorance. The so-called precautionary principle is, in the words of risk-expert Bill Durodié, “an invitation to those without evidence, expertise or authority, to shape and influence political debates. It achieves that by introducing supposedly ethical or environmental elements into the process of scientific, corporate and governmental decision-making.”

Stephen Wilson
London

SIR – Your briefing was as compelling in its analysis of the issues raised by doubters as it was for its presentation of the range of sensitivity of the climate to increased CO₂ concentrations. That range of sensitivity has in fact a stronger scientific base precisely because of the work of those who probe its weaknesses. To date, no one has been able to show that increasing CO₂ leads to a cooling of the atmosphere, or even to no change. The existing range of climate sensitivity remains the best basis for political action.

James Baker
Former administrator of the United States National Oceanic and Atmospheric Administration
Philadelphia

SIR – You demonstrated that an accessible text can both recognise the complexity of science and extract its policy-relevant messages. My only concern is where you said that “the errors in the IPCC, such as they are, all make the problem look worse, not better.” This is not the case. For instance, the IPCC projections of a future rise in sea levels (between 18cm and 59cm in 2100 compared with 2000) are widely recognised as underestimates, since they do not take into account ice-sheet dynamics.

Stéphane Hallegatte
Contributing author to the IPCC
Paris
SIR – I enjoyed your article, but am unhappy that you misrepresented the “doubters”. Most of us do not favour inaction. It must be obvious that we need to have the technologies available, if and when action is necessary. But spend money on the methods of controlling CO$_2$. Don’t waste time and money on a global taxation system that will be rejected, just to tame a hypothesis and satisfy the economists and lawyers who are still riding the bandwagon.

David Gee  
Professor emeritus of geology  
Uppsala University

* SIR – Although you mentioned the sun, you didn’t attribute to it the important role it surely plays in the Earth’s climate. Alongside all the myriad things that determine our climate, is has to have a major influence on the Earth’s temperature. Also, it is debatable whether one can dismiss the medieval warming period as a local, European phenomenon. Greenland is a respectable distance from Europe, and, anyway, other regions were as warm as today at that time.

John Bennett  
St Hilaire d’Ozilhan, France

* SIR – I take exception to your statement that “even the northern hemisphere’s cold winter has hurt” the arguments for global warming. This past winter may have been particularly cold in the United States, but it was not cold in Canada, which occupies a not inconsiderable chunk of the hemisphere. In fact, Canada has just had its warmest and driest winter on record.

Daniel Drolet  
Ottawa

Kosovo and the rule of law

SIR – In response to your article on Kosovo (“Time to go straight”, March 20th), corruption has been endemic in south-east Europe for decades and Kosovo is no exception. However, Transparency International’s “Global Corruption Barometer” in 2009 ranked Kosovo lowest in the region for graft. Kosovo’s government is determined to fight corruption and has enacted robust anti-corruption legislation and established a task-force. But as Yves de Kermabon, the head of the European Union’s mission to assist Kosovo on law and the judiciary, put it, “fighting corruption must be based on facts, not on statements or hearsay”.

Since the declaration of independence two years ago, Kosovo’s government has had both to build a state and run it at the same time. Declaring everything and everyone to be corrupt, or shamefully labelling the Kosovo government as a “joint criminal enterprise”, does no service to the fight against this evil and risks throwing the baby out with the bath water. The first results from the anti-corruption task-force are expected soon and they will be based on solid evidence rather than mere perceptions.

Lirim Greicevci  
Political adviser to the prime minister of Kosovo  
Pristina

Put the guns away

SIR – My recent investment in protein powders and trips to the gym to improve my manliness was obviously a poor one, after reading that women in disease-free societies such as America tend to prefer men who look more effeminate (“Face off”, March 20th). I now know that I need to spend more time working on being sensitive in order to find a mate and last night I watched “Billy Elliot the Musical”.

Danny Lowinger  
Brunswick, Maine

SIR – At last someone has cracked the mystery of why effeminate men get more girlfriends. I used to think I was ugly. Now I realise I am just, er…manly.
**Who were we kidding**

* SIR – Thank you for the timely warning about “peak olive oil”. This April Fool’s joke could scarcely be less accurate than your past oil predictions, so I immediately stocked up.

Robert Redelmeier
Houston

* Letter appears online only

**Correction:** Because of an editing error a letter in the April 3rd issue referred to Japan’s magna books, when it should have read manga. The fault was ours entirely.
Sudan’s election

Hunt the missing voter
Apr 8th 2010 | KHARTOUM
From The Economist print edition

Chaos and confusion reign in Sudan’s first multiparty elections for 24 years. But the vote could yet benefit a huge country that is likely soon to split into two

IN SOME respects electioneering in Sudan would be instantly recognisable to the thousands of would-be MPs who set off on the campaign trail this week in Britain. Sudanese candidates, preparing for the presidential and general election that is due to start on April 11th and continue until the 13th, get on “battle-buses” to meet their constituents, are tended by party hacks and helped along by the odd spin-doctor. They address the party faithful at set-piece rallies, even if there is more ululating than on the average British hustings. And the crowds that listen to them are bored or ecstatic, depending largely on how long the candidates speak for.

But the differences are large. For one thing, no one is sure whether the polls will take place on time—if at all. Take Mariam al-Mahdi’s tour of her constituency this week. A parliamentary candidate, she is a leader of the Umma party, the main northern opposition to President Omar al-Bashir’s ruling National Congress Party (NCP). She had two big quandaries. The first was whether her party would, in the end, be competing, since it had called for the poll to be postponed. Her second was whether she could find the voters.

Though there were supposed to be 47,000 of them registered in the red desert that forms the largest part of her “Area 11” constituency, it was hard to find anyone who knew much about the election, let alone a registered voter. At the tiny hamlet of Wadi al-Faki, a few mud huts about 50km (30 miles) west of Omdurman, the city that is across the Nile from the capital, Khartoum, a local man said that 20 of the 40 adults had registered. But according to the official register, this and a similar neighbouring village were supposed to be bulging with 622 voters. Farther down the road, another scruffy settlement called Wadi al-Saial was said to have only about 50 people, children included. But officially there were 478 registered voters. Where are the phantom voters? “Maybe they were underground,” joked an Umma official.

At the end of the day the Umma team took a long drive through a vast shanty town on the fringes of Omdurman itself, damningly known as the “black belt” to the lighter-skinned Arabs of Khartoum. Here live hundreds of thousands of the poorest Sudanese, displaced from Darfur or the south, regions where the present regime’s wars have killed a huge number and made millions homeless. Yet Ms Mahdi believes that
only 5,000 of the shanty town’s voters (among whom are many of Mr Bashir’s most bitter opponents) have been included in her constituency.

The conclusion drawn by the Umma team is that the government-appointed National Election Commission (NEC) has boosted the number of voters in places where the NCP thinks people will vote for it and severely under-registered neighbourhoods where its opponents are strong. Come polling day, some suggest, an anonymous official finger will stamp the box by the tree, the ruling party’s election symbol in a country where about half the population is illiterate. If this sort of rigging works across the country, Mr Bashir should easily win the presidential race.

This precooking of the election eventually persuaded Ms Mahdi’s Umma party, three days before the vote, to say it would boycott the poll at every level. The Communists had already pulled out. The main southern opposition party, the Sudan People’s Liberation Movement (SPLM), withdrew its presidential candidate and most of its parliamentary ones in the north. Yet the boycott seemed certain to give Mr Bashir, wanted for alleged crimes against humanity by the International Criminal Court, a virtual walk-over.

So confusion reigns. The candidates’ names and symbols have already been printed on ballot papers. Many voters will have no idea which party is boycotting what particular level of election. If voters pick boycotting candidates, will the winners take up their seats? Perhaps, to appease the opposition a little, the NEC could declare a short postponement of the election to sort out some of the irregularities. This is unlikely but could yet happen.

**What went wrong?**

It was all supposed to turn out so differently. The election was sold as the mechanism for “democratic transformation” in Africa’s largest country. It is an integral part of the Comprehensive Peace Agreement (CPA), signed between the Muslim north of the country and the Christian and animist south in 2005. The CPA brought an end to Africa’s longest-running civil war—which had cost 2m lives and forced millions to flee their homes, often to the black belt around Omdurman and Khartoum—and was designed to resolve the country’s problems at a stroke.

A root cause of Sudan’s terrible civil conflicts has been the concentration of wealth and power in the centre at the expense of the regions: the south and also Darfur, where a full-scale rebellion erupted in 2003. It was hoped that the elections, which are being held at local, state and federal level, would make the rulers more responsive to the needs and wishes of the ruled. But this is not a prospect that particularly appeals to the two parties that have ruled Sudan since 2005, the NCP in the north and the SPLM in the semi-autonomous south.

Mr Bashir and his NCP, who seized power from Sudan’s last democratically elected government in a coup in 1989, have for the past ten years been concerned mainly with enjoying the country’s oil wealth. This has come courtesy of the Chinese, who buy most of it. Unsurprisingly, the Sudanese leaders are determined by one means or another to remain in control.

The SPLM, for its part, is focused on an entirely different election: the referendum on southern secession that was promised as part of the CPA. This is due to take place in the south next January. Should most southerners vote for independence, as they are expected to, Africa could have its first new state for almost 20 years—ruled by the SPLM.

Determined to get to the referendum without upset, the SPLM has been accused throughout the election of suppressing any opposition to its rule. Its leader, Salva Kiir, is contesting only the presidency of south Sudan, thus demonstrating that his party is now bent entirely on consolidating its position in its own backyard.

Yet even though the election may be a charade, it could have positive results. If Mr Bashir gets his way at the vote, he may be more inclined to let the south leave Sudan peacefully. This event will profoundly change the map of east Africa. It may even alter the politics of north Sudan in ways that, for now, are hard to imagine.

It is also true that despite the government’s restrictions on opposition campaigning, the Sudanese have been able to speak openly about political matters for the first time in years. The sight of opposition politicians on television, even for just 20 minutes, denouncing Mr Bashir for corruption and misgovernment has been a revelation. Now there is hunger for more discussion and more politics.
This week, at an evening rally in Khartoum for the Islamist Popular Congress Party, a lawyer in a flowing jellabiya repeatedly denounced Mr Bashir as a liar, accusing him of being a hypocrite and a stooge of the CIA. This sort of talk in public was unthinkable only a few months ago. Young men hovered at the back of the open-air site, unsure whether to sit down and join in the new politics or lurk safely in the dark, as they are used to.

At several opposition rallies, the economy has been discussed. So far as Mr Bashir has a political platform, he is running on his economic record. All his campaign posters picture him smiling in front of some new development project: the (Chinese-built) Merowe dam, the latest (part Chinese) oil refinery or a new (Chinese-built) road, all the benefits of Mr Bashir’s rule. But the Umma party argues that the country’s oil bonanza has benefited very few Sudanese, and most of those are in the areas north of Khartoum, where most of the NCP leaders are from. Despite all the oil, the vast majority of Sudanese have no easy access to schools or health care.

The campaign has helped opposition parties to reconnect with their supporters, relearning the art of politics and discussing the state of the country openly for the first time in a generation. Nobody knows exactly where this will lead, but the fact that the government is obviously worried tells its own story. For many, particularly, the young, it is heady stuff.

Darfur may also have benefited from the elections, albeit obliquely. Mr Bashir knows that the western region contains the second-biggest number of voters after the south, so he has had to make some peace moves there in the past few months to shore up his support. A peace deal negotiated with neighbouring Chad is holding, and Mr Bashir has also signed a preliminary ceasefire agreement with two Darfuri rebel groups. These deals have provided some much-needed momentum to the meandering Darfur peace talks that are being held in Qatar. The level of violence has also declined slightly.

None of this may outlast the election. There were reports this week that government forces had already clashed with one of the two Darfuri groups that signed the deal. The main rebel group, the Sudanese Liberation Army, led by Abdul Wahid al-Nur, still refuses to enter into any talks with the government.

And Darfur remains the world’s worst humanitarian disaster. Although fewer people are now being killed, fighting continues and more than 3m people are stuck in refugee camps, either in Darfur itself or in eastern Chad. As a result, about 4m Darfuris still rely on food aid from the UN’s World Food Programme (WFP). Few refugees in the camps bothered to register for a vote, fearing that this would prejudice their right to return to their real homes. Whatever happens at the election, the distressed region still awaits a political settlement that the Darfuris themselves feel they are part of.

**Southern fear**

Attention will soon switch to the south and its referendum. Few African heads of state want to endorse the break-up of Sudan, for fear that it would encourage similar secessionist movements elsewhere. Nonetheless, some African leaders have now publicly accepted the obvious: they may not like secession but, if it is done amicably, there is nothing to stop it.

However, just as the election has focused attention on the failings of the NCP, so the SPLM will attract scrutiny once the debate turns to the south. There is mounting concern about the misgovernment of the
south and fear about its future vulnerability as a state. After five years of SPLM rule, too many health and social indicators are slipping backwards. According to the WFP, for instance, the number of malnourished people in the south has now crept up to 47% of the population. That is an ominous statistic for a freshly minted African country. As ever with Sudan, optimism and pessimism go hand in hand.
John Paul Stevens’s imminent retirement

Goodbye to that tie
Apr 8th 2010 | WASHINGTON, DC
From The Economist print edition

Another chance in the near future for Barack Obama to shape the Supreme Court

ONE of the most effective ways for a president to put his mark on the future is to nominate judges to the Supreme Court. Because the nine justices are entitled to serve for life, and because something about life on the court appears to promote longevity, such opportunities are rare. Barack Obama got a first chance early in his presidency. Last summer he appointed Sonia Sotomayor, the court’s first Latina judge. Now he may be about to get a second chance. John Paul Stevens, the present court’s longest-serving justice, turns 90 on April 20th and speculation is rife that he may soon announce his retirement.

Mr Stevens is still vigorous and mentally alert. He spends a lot of his spare time swimming and playing tennis in Florida. He says that after more than 34 years on the bench he still loves the “wonderful job”. But since the Supreme Court is the final interpreter of the constitution, appointments are fiercely political, and political considerations may encourage him to depart. In recent interviews Mr Stevens has said that he will “surely” retire while Mr Obama is still in office. That would give this president a chance to replace Mr Stevens with another liberal. And since a new judge has to be confirmed by the Senate, it would make sense for Mr Stevens to step down before November’s mid-term elections give the Republicans a chance to destroy the Democrats’ majority there.

Presidents cannot always be sure that the judges they nominate will perform as expected. Mr Stevens was the only Supreme Court justice to be appointed by Gerald Ford, a Republican president, and at a time when the young judge thought of himself as a Republican too. He told the New York Times recently that his judicial philosophy was conservative, in that he believes that the job of the court is to decide cases and resolve controversies, not write “broad rules” about society’s questions. But he is now generally held to be the leader of the court’s four liberal judges, the other three being Ms Sotomayor, Stephen Breyer and Ruth Bader Ginsburg. John Roberts, the chief justice, is a conservative, as are Antonin Scalia, Samuel Alito and Clarence Thomas. Anthony Kennedy, though conservative on most issues, is the court’s swing voter.

This delicate imbalance of power in favour of the conservatives is not something Mr Obama will be able to change when Mr Stevens retires, no matter how much he would like to. The president’s relations with Chief Justice Roberts are fraught. In January’s state-of-the-union message in front of Congress, Mr Obama
criticised the court’s decision the previous week to overturn swathes of campaign-finance law and allow corporations and other organisations to spend as much as they liked on political advertising at election time. After that speech, Mr Roberts complained that the state-of-the-union message had become a “political pep rally”. And another thumping collision between the administration and the court could be on the way. Some Republicans question the constitutionality of the requirement in Mr Obama’s new health law for every citizen to buy insurance on pain of a fine.

When Mr Stevens retires, the most Mr Obama can hope to do is to keep the court’s balance as it is by replacing one liberal with another. But even this might not prevent a slight shift to the conservatives. The new judge would certainly lack Mr Stevens’s experience. Nor would this summer be altogether ideal timing. Hearings before the mid-terms would, it is true, allow the Senate to vote when the Democrats can still generally rely on mustering a simple majority. But they would need 60 votes to overcome a filibuster, and an election year gives the Republicans an extra incentive to use the hearings to score political points. For example Goodwin Liu, whom Mr Obama has nominated to a lower court, has run into trouble with critics who accuse him of withholding information about his liberal beliefs. Senator Arlen Specter, a Pennsylvania Democrat, has urged Mr Stevens to wait.

While Mr Stevens makes up his mind, courtesy demands that the White House say nothing in public about his replacement. That has not stopped the rumour mill from highlighting several possibilities, most of them considered last year before Mr Obama settled on Ms Sotomayor. For the moment Elena Kagan, the solicitor-general and a former dean of Harvard Law School, appears at the top of this list. But choosing a candidate in the shadow of an election will be tricky. Another liberal in the mould of Ms Sotomayor might fire up Mr Obama’s loyal base. It could also be the perfect way to alienate those all-important independent voters.
America’s nuclear posture

Logic v politics

Apr 8th 2010
From The Economist print edition

Barack Obama reviews first use and revisits the test-ban treaty

HE HAD stopped over briefly in Prague for a handshake with Russia’s president, Dmitry Medvedev, on a new strategic arms-reduction treaty—and a new start also, it is hoped, in relations with America’s still prickly cold-war rival. And then Barack Obama was due back in Washington to play host to more than 40 heads of government for his own nuclear-security summit on April 12th and 13th. Mr Obama wants pledges from them to secure nuclear materials around the world and to crack down harder on illicit traffickers, ahead of next month’s five-yearly review of the Nuclear Non-Proliferation Treaty, the world’s main bulwark against proliferation and nuclear terrorism.

Yet when it comes to recasting America’s own nuclear-weapons policy to deal more efficiently with the same threats, Mr Obama may have a battle ahead. In many ways, this week’s delayed nuclear posture review simply brings America’s official nuclear thinking into line with long-standing practice, including that of his more warlike predecessor, George Bush. With the demise of the old Soviet threat, nuclear weapons play a diminishing role in America’s defences. Like Mr Bush, Mr Obama plans instead to rely more on America’s array of powerful conventional weapons to deter future adversaries in a crisis.

But Mr Obama has followed this logic several steps further. He did not, as some inside and outside his administration wanted, declare that America would never be the first to use its nuclear weapons. That would have unsettled allies in exposed places who still rely for their safety on America’s nuclear umbrella.

Instead the review repeats a past pledge that America will not use nuclear weapons against states that do not have them and are in compliance, Mr Obama says, with their commitments under the Nuclear Non-Proliferation Treaty. That leaves Iran, Syria and others suspected of illicit nuclear dabbling still theoretically on the potential target list. Yet Mr Obama has also ruled out, as Mr Bush never did, nuclear retaliation against chemical, biological or cyber attacks by the nuclear have-nots—unless, that is, America’s fundamental security or that of its allies is at risk.

He agrees with Mr Bush that America can make deep cuts in the weapons stocks it keeps in reserve to hedge against technical failure or a surprise new threat. Mr Bush would have done this while building fewer, but more modern, replacement nuclear warheads. Mr Obama prefers instead to refurbish some existing ones. He also plans to upgrade further America’s nuclear-weapons labs and other facilities. The vice-president, Joseph Biden, has called the labs “national treasures”. Mr Obama’s budget includes $624m beyond the sum Congress earmarked last year for such work, with more to come over five years.

But already there are grumbles. The extra cash has not stopped the labs’ directors asking for more. Mr Obama needs their support. For he intends to do something Mr Bush refused to do: to work to win Senate ratification of the Comprehensive Test-Ban Treaty (CTBT), which was rejected on a partisan vote in 1999.

The leader of the attack last time was Arizona’s Jon Kyl, still a Republican senator. Mr Kyl insists, as he did then, that a CTBT is unverifiable—and, by banning future testing, puts America’s nuclear safety and security at risk. In fact, America has not felt any need to test its bombs since 1992. Advances in high-speed computing and other technologies allow today’s labs to solve problems that actual weapons tests never could. Meanwhile, the treaty’s global monitoring system is now a reality. Unlike other enemies, however, Mr Kyl is undeterred.
IF YOU have ever wondered what the little metal ball in a wooden labyrinth feels like, drive through rural West Virginia. The roads seem to have been chiselled and corkscrewed into the craggy Appalachian Mountains. Those mountains, and the coal that lies beneath them, dominate West Virginia; it is the only state that lies entirely within the Appalachians, and it produces 15% of America's coal. West Virginia prides itself on its independence (the state motto is “Mountain men are always free”), but if those mountains keep the outside world at bay, they also foster a sense of community. And so, by Tuesday morning, billboards across the state, from churches in the capital city of Charleston to the Country Roads pharmacy in tiny Glen Daniel, said the same thing: “Pray for our miners”.

The day before, an explosion blamed on methane at Upper Big Branch mine in Montcoal killed 25 miners. Another four miners remain missing within the mine, but high concentrations of methane and carbon monoxide have hindered rescue efforts. Rescuers hope that the miners may have found their way to rescue chambers built into the mine, but reaching them requires drilling down 1,000 feet.

In 2006 an explosion at a mine in Sago, West Virginia, trapped 13 miners underground for two days; only one survived. That too was blamed on methane, which had accumulated in sealed-off areas of the mine. In the year before the explosion, the Mine Safety and Health Administration (MSHA), a federal agency that monitors mine safety, cited the Sago mine 208 times for safety violations. In 2009 MSHA cited the Upper Big Branch mine 515 times, often for problems with its ventilation and escape-route plans. Some 48 of the citations were for violations deemed likely to lead to serious injury or illness.

The Massey Energy Company, which owns the Upper Big Branch mine, is contesting many of those violations. But this is not the first time that Massey—the fourth-largest coal company in America—has come under fire for its safety practices. In 2006 two people died in a fire at the Aracoma mine, which Massey owns and which was found to have inadequate water supplies and poor ventilation. Massey paid $4.2m in criminal and civil fines. In 2008 Massey paid $20m in fines levied by the Environmental Protection Agency for clean-water violations.
Don Blankenship, Massey’s boss, was at first rather blithe about safety violations, calling them “a normal part of the mining process”. He may want to consider a change in tone: after the blast, Massey’s share price fell sharply. Of course, mining is inherently a dirty and dangerous business, and America has done reasonably well at making it cleaner and safer: in 2009 18 people died in American mines, while 2,631, down from 3,215 the previous year, died in Chinese ones. Still, that is little comfort to West Virginia, and says nothing about whether Upper Big Branch was operating as safely as it could have been. On Tuesday afternoon, Kevin Stricklin, the federal coal-mine safety chief, hazarded an answer. “We know it wasn’t operating safely,” he said, “or we wouldn’t have had an explosion.”
Corporate taxes are starting to fill the coffers again

FEW financial writers have been able to resist the comparison between the sun-drenched, debt-ridden states of southern Europe and those of the American continent. Where Greece is now going, California—and others—may follow. In 2009 state governments wrestled with budget gaps totalling $110 billion; California’s alone was responsible for over a third of that sum. States fought to close more than $150 billion in budget shortfalls for the current fiscal year, only to watch as an additional $38 billion in midyear gaps appeared. More billion-dollar holes loom in 2011.

Big budget holes have opened because of deep economic downturns: revenues tumbled while payments to the unemployed increased. They are also a symptom of dysfunctional political systems. In California, for example, budget politics are dominated by the interests of large public-sector unions. Meanwhile, the federal government has been willing to play financial brinkmanship with struggling state governments. Senate cuts to state aid in the 2009 stimulus bill deprived California of over $6 billion in assistance included in the House version of the measure.

But many states may in fact be facing an increasingly manageable crisis. A return to growth has helped. By late last year, roughly half of American states seemed to have escaped recession. Rising output slowed the decline of state revenues and by the end of 2009 these had grown, year-on-year, for the first time since the collapse of Lehman Brothers in September 2008 (see chart). Most of the country’s largest states are forecasting revenue increases from the current fiscal year to fiscal 2011.

These increases have come, in part, from tax increases adopted to close budget gaps. Still, the recent turnaround has been strong enough to make some budget forecasts too pessimistic. In the first few months of 2010, revenues have come in ahead of projections in a number of cash-strapped states. In March Virginia revised up its revenue projections for the year by $82.5m. In New York, revenues for the current fiscal year to February have come in $129m ahead of expectations. And to the end of February California’s revenues were about $1.94 billion, or nearly 4%, above the budget forecast.

At first sight, these revenue increases seem unlikely. Recovering output has not much reduced the burden of unemployment, and individual tax payments have failed to provide much of a boost. It is true that personal income-tax revenues have beaten budget forecasts in New York and California; but it is corporate-tax revenues that have most frequently exceeded projections. In California, corporate taxes are 6.9% above expectations for fiscal 2010; in February alone, they improved on forecasts by nearly 90%.
Arizona’s January revenues were $14m more than expected, thanks to corporate-tax receipts that were nearly $24m more than budgeted for. Corporate-tax revenues in Virginia have risen by nearly 32% this year, compared with a forecast increase of 19%.

An increased tax take from the corporate sector is the flip side of the reduced income- and consumption-tax revenues that stem from a jobless recovery. Labour productivity roared ahead in 2009 as companies found ways to meet demand with fewer workers. Rapid productivity gains and tepid wage growth have meant relatively fat profits for the corporate sector. And that has swollen the public coffers.

The slight easing of the budget picture will reduce the number of difficult choices facing state governments. Budgets have largely been balanced by cuts to the heart of state spending: health programmes, schools and transport. But corporate-tax revenues are a relatively small part of the budget picture, accounting for just 4% of state and local revenues last year. For now, big cheques from big companies will help to spare some additional pain, but states might happily forgo the added revenues in exchange for a little more hiring.
The Providence Journal | Apr 8 2010

Lifebelt needed

RHODE ISLAND thought it had seen the worst on March 15th, when the Pawtuxet river crested at 15.2 feet (4.6 m). But two weeks later, with waters still high and ground still saturated, even heavier rain caused the Pawtuxet to reach 20.8 feet, unleashing the worst flooding in the state in over 200 years. Homes and businesses were swamped. Amtrak was forced to reroute its Boston to New York railway service, and flooding shut down the I-95 interstate highway. President Barack Obama declared much of the state a disaster area.

The Warwick Mall, one of Rhode Island’s biggest shopping centres, became an island, with two feet of water inside it. The water has retreated, but the damage remains. Although Aram Garabedian, one of the owners, hopes the mall will reopen within weeks, he says the floods have been devastating. He estimates that cleaning up the 600,000-square-feet ground floor could cost $6m.

Mr Garabedian and some of the larger stores at least had flood insurance. Only about 4% of buildings in Rhode Island—residential or commercial—have such cover. Many victims, not living in places that have flooded before, saw no need for it.

Lowes, a DIY chain, saw water pumps and generators fly off its shelves in the days after the flood. Now shelving and storage units are being snapped up. The Federal Emergency Management Agency (FEMA) has set up a disaster-recovery centre in Lowes’s parking lot. FEMA can give grants of up to $29,000 to those affected in Rhode Island, but businesses are not eligible for this money.

The state’s manufacturing industry has been fading for decades. Today Rhode Island is a state of small businesses, with 85% of them employing fewer than 20 people. Many of them have now been forced to close. The state’s economic-development agency has made $500,000 in low-interest loans available to small businesses, and the federal Small Business Administration’s loan rates are even lower. But “we can’t afford another loan”, says Angelo Padula, who owns a garage and salvage yard. “We were barely getting by before the flood”. The 200 cars he was hoping to sell are under water, except for their roofs.
At the height of the flood, engineers feared a bridge on the Pawtuxet was going to collapse, taking with it a nearby dam, which in turn could have taken out another dam. Luckily it held fast, but needs replacing. According to the 2008 American Society of Civil Engineers infrastructure report, 57% of Rhode Island’s bridges are structurally deficient. Heavy lorries and buses have not been allowed on some I-95 bridges for two years. Certain sewage-treatment plants were damaged, and untreated sewage flowed into the river and then into Narragansett Bay, forcing a ban on shellfish-fishing throughout the state.

The cost of fighting the floods, the subsequent clean-up and the repairs will be high, though the state hopes the federal government will share the burden. “We are not a poor state,” says Ed Mazze, a professor of business at the University of Rhode Island; “what we have is poor leadership.” Even before the flood, Rhode Island was facing a $400m hole in next year’s budget. Unemployment, at 12.7%, is the third-highest in the country. The underemployed may make up another 20%. Leonard Lardaro, also of the University of Rhode Island, thinks the temporary clean-up jobs (3,000 at Warwick Mall, for instance) and the remodelling and reconstruction needed in many Rhode Island homes may help the state out of the recession. “There is a grey—not silver—lining in these dark clouds,” he says.
Mending Los Angeles

Calling on the angels
Apr 8th 2010 | LOS ANGELES
From The Economist print edition

America’s second-largest city is in a fiscal hole

FOR a while, things seemed to be going so well. Crime has been falling for two decades. Race relations have improved. The weather is as fine as ever and the traffic no worse—in fact, there were even plans for expanding public transport that counted as bold in this culture of sprawl and cars. Eli Broad, the city’s leading philanthropist, considers it “one of the four cultural capitals of the world” (along with New York, London and Paris) and talks boldly of attracting as many ”cultural visitors” as the other three to its museums and theatres. Antonio Villaraigosa, the city’s mayor (and the first Hispanic one since the 19th century), tells visitors that this is the only big city in America where “people don’t care who your father is” (Mr Villaraigosa says he has seen his own father, at most, 25 times in his life). LA is, to him, a pure meritocracy and “the capital of the Pacific Rim”.

All of this is true, but hardly helpful now that the city faces a more banal problem: not enough money. Revenues have been falling, and the city is confronting a budget deficit of at least $212m in the current fiscal year, which ends in June, and of $484m in the next fiscal year, according to estimates by Wendy Greuel, the city’s chief accountant. This week, after the city’s power and water utility refused to transfer some money to the city’s general fund, Ms Greuel projected that the fund, the city’s main account, will be overdrawn by May 5th. She would have to tap a reserve to keep paying employees and suppliers.

In part, Los Angeles shares the pain of many large American cities during this recession, which has depressed sales taxes and other local revenues. But Los Angeles has the added problem of being in California, which has been suffering the biggest budget crisis and one of the worst housing busts among the 50 states, and which occasionally raids local funds. And California’s voters have, in ballot measures over the decades, made all money matters more complicated than necessary. The notorious Proposition 13 of 1978 cut and capped property taxes, still the biggest source of city revenue. A lagging indicator of housing prices, they have been roughly flat this year but are expected to fall next year, according to Ms Greuel’s estimates. Proposition 218 of 1996 requires explicit voter approval to raise most other city fees and revenues.

Cutting spending is hardly easier in Los Angeles, which has—like many western cities but unlike the biggest eastern ones—a weak mayor who shares power with a cantankerous city council. Mr Villaraigosa must present a budget proposal to the council this month. He wants to eliminate 4,000 of the city’s 48,500 jobs, cutting pay and getting rid of entire departments, such as personnel. On April 6th he proposed shutting most city agencies for two days a week. He is in for a fight.

Any budget solution, moreover, could jeopardise some of LA’s hard-won successes. The biggest part of the budget, for example, goes to the police, with about 10,000 officers deployed at the moment. “The last place we cut is public safety,” says Mr Villaraigosa. But Charlie Beck, the police chief, is already not paying for overtime and is struggling just to replace the officers who retire each year. He expects the city council to stop him hiring next year. A recent spate of killings, meanwhile, is a reminder that crime could increase again in this city of gangs. “All the remedies have remained untouched till now,” says Mr Beck, referring to his cops on the streets. Los Angeles touches them at its peril.

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
Comcast v the FCC

Raze the mystery house
Apr 8th 2010 | WASHINGTON, DC From The Economist print edition

America needs clearer laws to regulate internet access

ON APRIL 6th the District of Columbia court of appeals ruled that the Federal Communications Commission (FCC) has no authority to regulate how internet service providers manage traffic to their customers. The decision was narrow and appropriate, but it nevertheless leaves Americans without any kind of internet regulator. They need one.

In 2007 several of Comcast’s customers noticed that the company had slowed their access to “peer-to-peer” sites, which allow internet users to share large files directly with each other. This violated the internet principle of “net neutrality”, which says that all packets of digital information should be treated equally (and consequently requires that access to content providers, such as Google, should not be restricted by broadband providers). Several advocacy groups complained to the FCC, and Comcast stopped the practice. The FCC then ordered Comcast to disclose details of its change of heart. Comcast complied but then, in a fit of defiance, challenged the commission’s authority to issue the order at all. So the case went to court.

The FCC was a reluctant regulator to begin with. In the past decade, many European telecoms regulators forced unwilling incumbents to accept open-access policies: telecoms operators had to sell access to their network infrastructure to market entrants, to ensure healthy competition on speed and price. As America’s cable companies rolled out broadband access, they argued, curiously, that a connection to the internet was not a telecommunications service, but an information service, and thus (under America’s arcane telecoms rules) not subject to open-access regulation. In 2002 the FCC agreed, and in 2005 the Supreme Court upheld its authority to agree. Comcast, on that occasion, did not dispute the FCC’s authority.

The distinction between information and telecommunications is important. Comcast offers its customers a variety of bundled services: connection to the internet, cable television, telephony and video on demand. There’s no reason why it shouldn’t, but the FCC’s 2002 decision has left America with a patchwork of local cable monopolies and thus no market recourse for any customer who wants the pure telecommunications service of a simple connection. In its case against the FCC, Comcast argued that peer-to-peer file-sharing was hogging bandwidth. It was. But the most efficient way to allocate bandwidth among customers is to charge heavy users higher prices, which Comcast chose not to do. The real sin, then, was that the file-sharers wanted a service that Comcast did not care to provide. This is not a moral issue, but a market failure.

America needs competition among its high-speed internet providers. Open access has proved to be an effective way to do this elsewhere. Barring that, the FCC’s now-voided rules on net neutrality would have been a poor, but adequate substitute. But now America has neither. Since it is unclear whether the Supreme Court will take up the case, the FCC is left with two options. It could reconsider its stance on open access; sensing this possibility, in February a group of internet service providers (Comcast not among them) promised “years of litigation”. Or the FCC can turn to Congress for a clearer expression of authority. This would be the better course. Thomas Tauke, the head of public policy for Verizon, a telecoms operator, has compared existing regulation to a mystery house, full of empty rooms and dead-end stairwells. It is time to raze it.
IT IS that time of year again, when the cherry trees are blooming and Americans are stuck indoors wrestling with their taxes. Forget, for a moment, whether marginal rates are too high or too low. The most serious problem facing taxpayers is complexity, says Nina Olson, who is the national taxpayer advocate—the head of a watchdog service created by Congress in 1996 and ignored ever since.

The federal tax code, which was 400 pages long in 1913, has swollen to about 70,000. Americans now spend 7.6 billion hours a year grappling with an incomprehensible tangle of deductions, loopholes and arcane reporting requirements. That is the equivalent of 3.8m skilled workers toiling full-time, year-round, just to handle the paperwork. By this measure, the tax-compliance industry is six times larger than car-making.

Every year, the national taxpayer advocate issues a report begging Congress to simplify the system. In her most recent one, published on December 31st, Ms Olson frets that she is repeating herself. She refers Congress to what she said the previous year. An incredible 82% of taxpayers are so flummoxed that they pay for help. Some 60% hire an accountant or tax preparer, while another 22% use tax software. She might have added that even the head of the Internal Revenue Service, Douglas Shulman, gets someone else to do his taxes.

President Barack Obama says he wants to simplify the tax code. But he has just added a ton of health-care-related provisions to the system. And even if he were zealous about simplification, he would find it hard.

Every wrinkle in the tax code represents a favour to some group. It could be a small group, such as loggers, or a huge one, such as homeowners. Politicians use the tax code to encourage things they like, such as driving hybrid cars, and to discourage things they don’t like, such as work. A typical loophole has passionate defenders but no opponents. Those who benefit from it, benefit a lot. Those who would gain from its repeal (ie, taxpayers in general), have never heard of it. So the mess gets ever messier. Happy April 15th.
How the mass incarceration of black men hurts black women

Imagine that the world consists of 20 men and 20 women, all of them heterosexual and in search of a mate. Since the numbers are even, everyone can find a partner. But what happens if you take away one man? You might not think this would make much difference. You would be wrong, argues Tim Harford, a British economist, in a book called “The Logic of Life”. With 20 women pursuing 19 men, one woman faces the prospect of spinsterhood. So she ups her game. Perhaps she dresses more seductively. Perhaps she makes an extra effort to be obliging. Somehow or other, she “steals” a man from one of her fellow women. That newly single woman then ups her game, too, to steal a man from someone else. A chain reaction ensues. Before long, every woman has to try harder, and every man can relax a little.

Real life is more complicated, of course, but this simple model illustrates an important truth. In the marriage market, numbers matter. And among African-Americans, the disparity is much worse than in Mr Harford’s imaginary example. Between the ages of 20 and 29, one black man in nine is behind bars. For black women of the same age, the figure is about one in 150. For obvious reasons, convicts are excluded from the dating pool. And many women also steer clear of ex-cons, which makes a big difference when one young black man in three can expect to be locked up at some point.

Removing so many men from the marriage market has profound consequences. As incarceration rates exploded between 1970 and 2007, the proportion of US-born black women aged 30-44 who were married plunged from 62% to 33%. Why this happened is complex and furiously debated. The era of mass imprisonment began as traditional mores were already crumbling, following the sexual revolution of the 1960s and the invention of the contraceptive pill. It also coincided with greater opportunities for women in the workplace. These factors must surely have had something to do with the decline of marriage.

But jail is a big part of the problem, argue Kerwin Kofi Charles, now at the University of Chicago, and Ming Ching Luoh of National Taiwan University. They divided America up into geographical and racial “marriage markets”, to take account of the fact that most people marry someone of the same race who lives relatively close to them. Then, after crunching the census numbers, they found that a one percentage point increase in the male incarceration rate was associated with a 2.4-point reduction in the proportion of women who ever marry. Could it be, however, that mass incarceration is a symptom of increasing social
dysfunction, and that it was this social dysfunction that caused marriage to wither? Probably not. For similar crimes, America imposes much harsher penalties than other rich countries. Mr Charles and Mr Luoh controlled for crime rates, as a proxy for social dysfunction, and found that it made no difference to their results. They concluded that “higher male imprisonment has lowered the likelihood that women marry... and caused a shift in the gains from marriage away from women and towards men.”

Learning and earning

Similar problems afflict working-class whites, but they are more concentrated among blacks. Some 70% of black babies are born out of wedlock. The collapse of the traditional family has made black Americans far poorer and lonelier than they would otherwise have been. The least-educated black women suffer the most. In 2007 only 11% of US-born black women aged 30-44 without a high school diploma had a working spouse, according to the Pew Research Centre. Their college-educated sisters fare better, but are still affected by the sex imbalance. Because most seek husbands of the same race—96% of married black women are married to black men—they are ultimately fishing in the same pool.

Black women tend to stay in school longer than black men. Looking only at the non-incarcerated population, black women are 40% more likely to go to college. They are also more likely than white women to seek work. One reason why so many black women strive so hard is because they do not expect to split the household bills with a male provider. And the educational disparity creates its own tensions. If you are a college-educated black woman with a good job and you wish to marry a black man who is your socioeconomic equal, the odds are not good.

“I thought I was a catch,” sighs an attractive black female doctor at a hospital in Washington, DC. Black men with good jobs know they are “a hot commodity”, she observes. When there are six women chasing one man, “It’s like, what are you going to do extra, to get his attention?” Some women offer sex on the first date, she says, which makes life harder for those who prefer to combine romance with commitment. She complains about a recent boyfriend, an electrician whom she had been dating for about six months, whose phone started ringing late at night. It turned out to be his other girlfriend. Pressed, he said he didn’t realise the relationship was meant to be exclusive.

The skewed sex ratio “puts black women in an awful spot,” says Audrey Chapman, a relationship counsellor and the author of several books with titles such as “Getting Good Loving”. Her advice to single black women is pragmatic: love yourself, communicate better and so on. She says that many black men and women, having been brought up by single mothers, are unsure what role a man should play in the home. The women expect to be in charge; the men sometimes resent this. Nisa Muhammad of the Wedded Bliss Foundation, a pro-marriage group, urges her college-educated sisters to consider marrying honourable blue-collar workers, such as the postman. But the simplest way to help the black family would be to lock up fewer black men for non-violent offences.
Despite the achievements of Álvaro Uribe’s security policy, his successor will have to tackle a new threat from organised criminal gangs
and the year to June 2007, from 127 to 228. In 2008 local news media uncovered a macabre network that lured unemployed urban youths to the countryside with promises of jobs, only to kill them and pass them off as dead rebels. The government swiftly cashiered 27 senior army officers, including three generals, and rewrote the army's rules of engagement. Cases of extrajudicial executions have fallen dramatically. But the damage to the army's image was done.

The second reason for worry is that violence has increased again over the past year, though not to the levels of the past. The FARC, while severely weakened and mostly confined to remote areas close to Colombia's borders, is still capable of damage. It appears to have been responsible for a car bomb on March 24th that killed nine people and wounded 56 in Buenaventura, a port on the Pacific coast.

Another threat involves new criminal gangs. These outfits, many led by former mid-level commanders of the paramilitaries, are mostly dedicated to the cocaine trade, from controlling coca crops to processing the paste and shipping the product. According to the National Police, they number some 4,000, in eight main gangs spread across 24 of Colombia's 32 departments; human-rights groups say the number is bigger. Officials insist that these gangs are purely criminal and lack a political agenda. They compare them to similar groups which emerged in the aftermath of civil wars in El Salvador and Guatemala.

Some human-rights activists fear that they are a new generation of paramilitaries. The gangs commit massacres and murders of civilians, and have "repeatedly targeted human-rights defenders, trade unionists [and] displaced persons," according to a recent report by Human Rights Watch, a New York-based group. They have also been responsible for the continued eviction of civilians from rural areas they want to control.

Fighting among these groups has undermined progress in controlling violence. One weekend last month 16 people were gunned down in rural areas of Córdoba department, once the headquarters of the paramilitary federation. The gunmen and victims were all believed to be members of rival paramilitary "successor groups". Three years ago Medellín, formerly Latin America's murder capital, was a showcase for the success of the democratic-security policy. But last year the number of murders in the city more than doubled, returning to the level of 2003. Most of them take place in the poorer suburbs on the hillsides above the city centre. In response, the National Police are stepping up patrolling of city streets and neighbourhoods.

The new gangs appear to lack the ideological conviction of their forebears; indeed, they have sought alliances of convenience with the FARC and the ELN. But they remain better armed than ordinary criminals. The government has seized more than 6,000 Chinese-made rifles from them over the past two years.

They may not yet be a direct threat to national security. But whoever takes over from Mr Uribe will have to move swiftly to curb them. Juan Manuel Santos, his former defence minister, who leads the opinion polls, says that security policy needs to be adapted to new threats. He argues that just as special army units were trained to fight the FARC in the jungle, special police units are needed to combat crime in the cities. Noemi Sanin, the Conservative candidate, promises to create a ministry for citizen security. Antanas Mockus, a former mayor of Bogotá who has emerged as the leading candidate of the centre-left, says he would combat all illegal groups with the same energy as Mr Uribe showed against the FARC. Protecting Colombia's turnaround will require vigilance and innovation.
Oil policy in Brazil

Raining on Rio's parade

Apr 8th 2010 | RIO DE JANEIRO
From The Economist print edition

An Olympic city faces a sudden loss of oil revenue

THEIR new-found hoard of oil still lies 7,000 metres (23,000 feet) beneath the Atlantic Ocean, but the signs are that it has already gone to Brazilian officialdom’s head. No sooner had Petrobras, the national oil company, announced the discovery of a gigantic cache of crude oil buried beneath a thick layer of salt below the ocean floor than every vested interest in the country had a plan to spend the windfall. Brazil’s 27 governors and its 5,600 mayors are all looking to garnish their budgets. Civic groups want their cut of royalties to fight poverty, scientists to fight climate change and students to improve education. “Pre-salt oil is like a pretty woman on a dance floor full of men,” Luiz Inácio Lula da Silva, Brazil’s president, put it bluntly. “Everybody wants a go.”

That is troubling for Rio de Janeiro, which as Brazil’s main oil province has until now enjoyed the lion’s share of royalties. Most of the new deposits lie off the shores of Rio and São Paulo states. Last month the lower house of Congress approved by 369 votes to 72 a bill by Ibsen Pinheiro, a congressman from southern Brazil, that would radically redistribute the oil bounty among all states and municipalities. To many Brazilians, spreading the wealth seems reasonable.

Oil accounts for no more than 15% of Rio’s annual revenues, but the immediate impact would be severe: its royalties would wither from around $4.1 billion a year to just $130m. (Espírito Santo, its northern neighbour, faces a similar fate.) A “lynching”, complained Sérgio Cabral, the governor of Rio state; in tears, he warned that the sudden drop in royalties could cause the state’s finances to collapse and jeopardise investment for the Olympic games to be held in the city in 2016.

“What am I going to do, stop paying 220,000 public employees and pensioners? Do I close all the hospitals and sack the police?” says Joaquim Levy, the finance secretary. “That’s how much money we’re talking about.” In late March, some 150,000 protesters, many of them bused in by the governor, braved the rain to rally for royalties in the city centre, while locals dressed up papier-mâché Pinheiros as Judas and thrashed his effigy in the streets. To make matters worse, more than 100 were killed and hundreds made homeless in the state this week as hours of torrential rain triggered mudslides in poorer areas.
The threat comes as Rio has been struggling back to financial health after half a century of setbacks, starting with the loss of its status as the national capital to Brasília and continuing under a string of inept populist leaders. Three years of strong fiscal and administrative reforms have put the state’s shambolic accounts in order—not least by using oil revenues to rescue the loss-making pension system. Standard & Poor’s, a rating agency, has just made Rio the first Brazilian state whose debt is ranked as investment grade. Even the police, one of the most brutal forces in the world, are starting to win praise for pacifying bandit-ridden slums.

Rio’s leaders point out that the state’s oil money balances out its relatively paltry share of federal tax transfers, which flow more copiously to poorer north-eastern states. They hope to persuade the Senate to scrap, or at least soften, the Pinheiro bill. If not, the supreme court might strike it down as unconstitutional. Either way, the bill has revived the rancour that long reigned between Rio and the rest of Brazil. It would be sad if it also derailed Rio’s incipient revival. “Resentment plays into the hands of the worst kind of populism,” says Octavio Amorim Neto, a political scientist at the Getúlio Vargas Foundation. That is a curse Rio’s residents know only too well.
Chile’s wine industry

If one green bottle
Apr 8th 2010 | SANTA CRUZ, COLCHAGUA VALLEY
From The Economist print edition

A propaganda war over earthquake damage to wineries

NESTLING beside the Tinguiririca river, between the north-south Pan-American Highway and the Pacific, the Colchagua valley is sometimes compared to Tuscany. Amid its gentle hills and pretty villages are vineyards that produce some of Chile’s best red wines. At this time of year, during the grape harvest, the valley is normally alive with wine festivals.

Not this year. As a result of the massive earthquake that rocked central-southern Chile on February 27th, only two of the valley’s many hotels and fewer than half of its 18 vineyards are open to visitors and all of the festivals, except for a few fund-raising events, have been cancelled.

Still, Colchagua’s winemakers are counting their blessings. Unlike the apples that the valley also produces, grapes were not shaken to the ground. They are being harvested more or less normally, though there is a shortage of pickers. Many seasonal labourers have either found jobs in reconstruction, or are busy repairing their own wrecked homes.

The earthquake damaged winery installations, too. Just how much wine was lost, and how much time and money it will take the industry to get back to normal, have become matters of fierce argument.

Vinos de Chile, the industry association, says that 125m litres of wine were lost, as storage tanks were ruptured and bottles broken by the earthquake. A fifth of the losses were in the Colchagua valley. The total loss amounts to just 12.5% of national production in 2009, a bumper year. “We’ve been overstocked for a long time and there’s no risk of a shortage of Chilean wine anywhere in the world,” insists René Merino, the president of Vinos de Chile. However, he says producers might have to raise prices later this year if the peso strengthens because of the inflow of reconstruction money.

But some people in the industry say the association’s figures are underestimates, aimed at reassuring overseas buyers that supplies will not be interrupted and deterring grape growers from jacking up their
prices. “They’re trying to defend themselves against competitors in Argentina who’ve been telling importers that Chile will be off the map for the time being,” says a wine analyst in Santiago. Concha y Toro, the biggest producer and exporter, has so far declined to reveal its losses even though its shares are publicly quoted. Andrés Sánchez, a wine consultant based in the Maule region, just south of Colchagua, reckons that spillage in the earthquake totalled over 300m litres.

A similar argument is raging over this year’s vintage. Mr Merino insists the earthquake will have no effect. Others disagree. Mr Sánchez thinks that adverse weather—frosts in November and rains in January—meant that this year’s grape harvest was anyway going to be small. The drop in output of white wine, much of which is made farther north in the Casablanca and Leyda valleys, could reach 40%, he says. Wine producers in the Colchagua valley say that damage to irrigation systems meant that some fields could not be watered for up to two weeks after the earthquake. However, a cool spring and summer has increased grapes’ natural acidity. All this points to a smaller, but high quality, vintage. “This will be an exceptionally complex year for the Chilean wine industry and much will depend on what winemakers make of the grapes,” says Mr Sánchez.

Then there is wine-related tourism. This had begun to bring extra money to places like Colchagua. Many of the valley’s attractions were destroyed by the earthquake. They were built of adobe, making them picturesque but deadly. In Santa Cruz, the valley’s main town, the white adobe church on the main square will have to be demolished. All that remains of the church in Peralillo, a nearby village, are two stark white columns.

Carlos Cardoen, who owns the largest hotel in Santa Cruz, says he hopes to reopen in September. But he adds that it will be two years before tourism in the valley returns to normal. Rebuilding more safely while restoring the region’s architectural heritage will be tricky. The hacienda of El Huique, Chile’s nearest equivalent to a British stately home, was so badly damaged that plans to restore it have yet to be drawn up.

Even so, some vineyards got off lightly. One of the lucky ones was Casa Lapostolle, a Franco-Chilean joint venture. Its Clos Apalta winery in the Colchagua valley produces a much-praised red that retails for $80 in the United States. The 2008 vintage might have been spilled and lost but for a providential delay in the arrival of bottles from France, according to Patricio Eguiguren, Lapostolle’s managing director. “That’s the only reason it was still safely in barrels,” he says. Amid the gloom, that at least is something to drink to.
The Caribbean brain drain

Nursing a grievance
Apr 8th 2010 | PORT OF SPAIN
From The Economist print edition

Raise wages, or lose staff

A JAMAICAN nurse, Mary Seacole, cared for British soldiers during the Crimean war in the 1850s. Many more have followed in her footsteps. According to a report last month by the World Bank, almost three-quarters of the nurses who train in the English-speaking Caribbean leave to work in the United States, Britain or Canada. That is causing a problem. Only 7,800 nurses are left in a region with a rapidly ageing population of 6m—and 3,300 unfilled nursing posts. Many rich countries have ten times as many nursing staff per head.

One answer, says the bank, is to train more nurses. There is no shortage of applicants. Countries that recruit them might help by contributing to the costs of nursing education in the Caribbean. But even if the region trained twice as many nurses, hospital wards would still be understaffed by 2025. A few come in from Cuba, India, Nigeria and the Philippines, but most of them quickly move on to North America.

Another answer is to improve pay and conditions. Qualified nurses in Jamaica start on just over $600 a month. The matron of a 500-bed public hospital earns only about three times that amount—or around the same as a trainee nurse in Britain. Three-quarters of Jamaican nurses are fed up with their working conditions, says a survey quoted by the bank. The disillusioned move to other careers as much as to other countries.

Nurses are not allowed to leave before they have repaid their student loans. This restriction rankles, and is ineffective: some recruitment agencies lend Caribbean nurses the money to pay off their debt. Graduates in accountancy or advertising are free to travel, repaying their loans from wherever they choose to settle.

The World Health Organisation is developing a code of practice regarding the international recruitment of
health-care staff, to be discussed at its general assembly in May. It wants to strike a balance between the human right to health, and the right of health-care professionals to make their own career choices. These are fine principles. The reality for small debt-laden Caribbean countries is that they will have to find ways of spending more to keep more nurses at home.
Tear gas, not tulips

An uprising watched throughout Central Asia, with implications for Russia and America

FIVE years after the “Tulip revolution” which led to the ouster of one president, Kyrgyzstan has seen another flee the capital, another new government set up and more elections promised. How stable the new regime will be, however, is far from clear.

Violent clashes between thousands of anti-government demonstrators and police in the capital, Bishkek, on April 7th left at least 65 people dead and about 500 injured. The police used tear gas, smoke grenades and live bullets to dispel rioters in front of the presidential palace in the city centre—to no avail. The crowds stormed the government building and set fire to the prosecutor’s office.

In the afternoon, the president, Kurmanbek Bakiyev, imposed a curfew on Bishkek and three regions in the north and centre of the country. By the evening, though, he had left the capital in an aeroplane and was rumoured to have landed in Osh, his stronghold in the volatile Ferghana valley. His appearance there could raise the spectre of north-south divisions and the continuation of violence.

As the president was fleeing, leaders of the opposition were negotiating with members of his administration about a transfer of power. After the prime minister, Daniyar Usenov, resigned, his post was taken by Roza Otunbayeva, who will lead an interim government for six months until elections take place. Ms Otunbayeva was a prominent opposition figure during the 2005 revolution and became foreign minister. But, disenchanted with Mr Bakiyev, she later joined the new opposition.

The revolution has thus devoured its children. Yet the uprising itself did not come as a surprise, only perhaps its speed and its bloodiness. Discontent had been simmering since the beginning of the year, after a steep increase in energy prices.

That was painful in itself and made the nepotism of President Bakiyev and the increasing scale of corruption by senior officials—worse than under the previous leadership—much harder to bear. The uprising in Bishkek was triggered by events the day before in the city of Talas, in the north of the country, where unrest has been concentrated (President Bakiyev is from the south and southerners dominated his administration). Several thousand demonstrators stormed the regional government building and took the
governor hostage. He was freed by the police, but the demonstrators later retook the building. The protest then swept through the country, reaching Bishkek the next day.

Mr Bakiyev made two decisive mistakes. First, he had almost all the country’s opposition leaders arrested by the morning of April 7th, which left the protesting crowds without any sense of direction or moderating influence. The leaders were almost all released later in the day but by then it was too late. Second, he miscalculated by using brutal force to hang on to power, which ultimately made it impossible for him to stay. The police were also clearly outnumbered by protesters.

Mr Bakiyev disappointed many of his supporters by not living up to his promises of democracy and political reform. He failed to curb corruption, mismanaged the economy, placed some of his numerous relatives in important positions and overall became more authoritarian than the predecessor he helped to oust.

On the eve of the fifth anniversary of the Tulip revolution, on March 23rd, he declared that Western-style democracy, a system based on elections and individual human rights, might not be suitable for Kyrgyzstan (which once styled itself Central Asia’s Switzerland, a tolerant, mountainous place). He thought “consultative democracy”—ie, talking to local bigwigs—would be more in line with the country’s traditions.

The events in Kyrgyzstan have implications for Russia and America, which both have military bases in the impoverished country. The Americans, who supply troops in Afghanistan from Manas base, in the north of the country, just managed to retain rights to it last year. This upset the Russians, who had offered the Kyrgyz $2 billion in aid, presumably hoping Manas would be closed. The Kremlin’s leaders do not seem to have offered Mr Bakiyev asylum in Moscow, as they did to his predecessor. On April 8th, the new prime minister said America can continue to use the Manas airbase.

But the abrupt change in Kyrgyzstan is also being closely watched in the rest of Central Asia. This was the second time that as few as 5,000 demonstrators succeeded in overthrowing an unwanted government in Kyrgyzstan—an example that the no-less authoritarian neighbours fear could be emulated elsewhere. For the Kyrgyz people, though, it is an opportunity to get things right the second time around.
Party divisions suggest Japan’s political transformation has a long way to go

THE survival instincts of Japan’s Liberal Democratic Party (LDP) have long been extraordinary. Born early in the cold war, it was still clinging to power almost 20 years after the fall of the Berlin Wall. Though neither particularly liberal nor especially democratic, nor even (by Western standards) much like a real party, the LDP still once hoped to rule Japan for “half an eternity”. Yet this week it lurched closer to extinction after senior figures walked out to form a new political group.

Compared with the LDP’s overwhelming electoral defeat last year, the departure of Kaoru Yosano, a 71-year-old former finance minister, and at least two other party veterans might be an historical footnote. But it reflects a growing fragmentation of Japan’s political landscape in advance of upper-house elections in July. This poses a threat not just to the LDP but to the ruling Democratic Party of Japan (DPJ).

The Stand Up, Japan party—to be formed by Mr Yosano, and another former LDP minister, Takeo Hiranuma—is unlikely to represent a progressive force. Mr Yosano is a fiscal conservative, Mr Hiranuma a hard-line right-winger. The party appears to have the blessing of some of the Jurassic elements of Japan’s establishment, such as Shintaro Ishihara, governor of Tokyo, and Tsuneo Watanabe, 84-year-old head of the Yomiuri Shimbun newspaper.

Its formation, however, comes at a moment when, for the first time, opinion polls show that more than half of voters reject the DPJ as well as the LDP. That could benefit Japan’s array of upstarts—and one of them in particular, the pro-free-market Your Party, which is edging up in the opinion polls. By setting up to the right of others, Stand Up, Japan may be hoping to draw right-wingers away from both main parties.

For the DPJ government that is troubling because its own poll support has slumped as a result of indecisiveness and funding scandals involving Yukio Hatoyama, the prime minister, and Ichiro Ozawa, the party’s influential secretary-general. Until recently, the party’s only consolation was that its rival, the LDP, was even less popular.

Within the DPJ, despair at Messrs Hatoyama and Ozawa is growing. On April 7th Kozo Watanabe, an influential DPJ rebel, went so far as to suggest that Mr Hatoyama’s cabinet should resign en masse if it fails by next month to resolve a fractious issue concerning the relocation of an American marine base in
Okinawa, an island in southern Japan.

A day earlier, Yosuke Kondo, a deputy minister in Mr Hatoyama’s government, said that 80% of the DPJ think Mr Ozawa should leave his post, and that kicking him out would be a good way for Mr Hatoyama to show leadership. However, he acknowledged there was a risk that a disgruntled Mr Ozawa could team up with Mr Yosano and take some of the party with him. He said Naoto Kan, the finance minister, had recently warned party members of the dangers of turning Mr Ozawa into an opponent. “You have to keep him in the birdcage,” as Mr Kan supposedly put it.

The DPJ is traumatised by fear of internal strife. The previous time the LDP lost power in 1993, the government that took over—which includes many of today’s DPJ stalwarts—promptly tore itself apart through internal wrangling, much of it orchestrated by Mr Ozawa. The LDP was back in charge 11 months later.

What is more, before it took power the DPJ lambasted the LDP for changing a string of prime ministers without holding a general election. “Hardly anyone in the party wants to remove Hatoyama-san from the leadership before he finishes his four-year term,” Mr Kondo says. A revolving door of prime ministers, “damages people’s trust.”

If the polls are right, however, trust is dwindling anyway. Unless the party can restore its lustre before the upper-house elections, say political analysts, the DPJ may be forced to rely on scrappy coalition partners.

If it does badly in those elections, it may find it easier to jettison Mr Ozawa, as the architect of the poor performance, and perhaps get rid of Mr Hatoyama, too. But as Japanese politics fragment, the party may no longer be able to count on an anti-LDP vote. The most powerful message from last August’s election was not of people’s loyalty to the DPJ, though it won overwhelmingly. It was that voters, after five decades of one-party rule, suddenly grasped that they have the power to change politics. The DPJ is now realising, to its alarm, that that change cuts both ways.
Caving in to protesters looks weak; dispersing them by force looks worse

EMERGENCY is becoming almost routine in Bangkok. On April 7th Abhisit Vejjajiva, the prime minister, put the Thai capital and some other parts of the country under a state of emergency for the fourth time in two years. This came after four weeks of street protest by anti-government “red shirts” demanding an early election. Both sides seem to have been trying to provoke the other into extreme action—a dangerous game of chicken that may well end in tears and perhaps even bloodshed.

The government had already invoked special powers under its Internal Security Act. The escalation to a full-blown state of emergency followed a shift in tactics by the protesters. On April 3rd they moved their encampment, a largely good-humoured carnival of songs, speeches and big red clappers, from the government quarter to one of Bangkok’s main shopping districts. This caused some glitzy malls to close and vexed shoppers. Then they briefly stormed the election commission, and, in the final straw on April 7th, the compound around parliament. No one was hurt, but some MPs scurried for safety over the back wall. A few were rescued by helicopter.

The emergency decree bans gatherings of more than five people, and gives the government sweeping powers to detain protest leaders and to censor the press. One of its first uses was to block a television station that supports Thaksin Shinawatra, a self-exiled former prime minister, whom many red shirts support. Another was to set up checkpoints on roads around Bangkok, to stop people joining a big rally called for April 9th in defiance of emergency rule.

The protesters, many from the poor north-east of Thailand, regard Mr Abhisit’s government as an illegitimate front for a commercial, aristocratic and military elite that has repeatedly refused to accept the electoral decision of the people. It took power in December 2008 by cobbling together a parliamentary majority. Protests by yellow-shirted “royalists” and court rulings had toppled an elected government loyal to Mr Thaksin.

Mr Abhisit has said he might dissolve parliament in December (a year before he has to), but not earlier. Now he faces criticism from some of his own middle-class supporters. His failure to keep the shopping malls open riles an elite contemptuous of the red shirts, whom they regard as an uneducated rabble paid by Mr Thaksin to stir up trouble. After the emergency decree, red shirts claimed that soldiers were massing in a skyscraper overlooking their demonstration, and at Bangkok’s international airport.

The crowd of red shirts in the shopping district was reported to have fallen to 2,000-3,000, from perhaps ten times that number, and as many as 150,000 at the big rally on March 14th that launched the protests. But it still included whole families. Mr Abhisit, who came to international prominence as a courageous opposition spokesman after an army massacre of civilians in Bangkok in 1992, seemed loth to risk bloodshed. The army commander, General Anupong Paochinda, was also reported to oppose the use of force, prompting red shirts to speculate about rifts in military ranks. The government hoped that Songkran, the Thai new year holiday on April 13th, might draw protesters back to their homes. But it knows that will not end the cycle of confrontation that began when Mr Thaksin was toppled in a coup in 2006.

On April 8th Mr Abhisit cancelled a scheduled trip to Hanoi for a summit of the Association of South-East Asian Nations. It was preoccupied with the Myanmar junta’s farcical plans for an election this year. At least it has plans, however.
India’s Naxalite insurgents

Politics with bloodshed
Apr 8th 2010 | DELHI
From The Economist print edition

A slaughter reveals the inadequacy of India’s counterinsurgency effort

FOR those who consider India’s Maoist insurgency a grave and urgent threat, the evidence keeps mounting. On April 6th several hundred Maoist guerrillas attacked a convoy in a forest in eastern Chhattisgarh state, killing 76 armed policemen. This was reckoned to be the worst loss in the stuttering, four-decade-long conflict.

It was also an emphatic response from the rebels to the central government’s latest offer of peace talks. Encouraged by an ostensible Maoist ceasefire proposal, India’s home minister, Palaniappan Chidambaram, has repeatedly declared the government ready to talk—provided the insurgents first lay down their arms. On April 4th, on a visit to Lalgarh, a Maoist-infested area of West Bengal, one of six states most affected by the insurgency, Mr Chidambaram asked, “Why do they not come for talks by just shunning violence?” There seems to be little prospect of this.

With roots in a 1967 peasant uprising in the West Bengali village of Naxalbari—hence their name, Naxalites—the Maoists have recently grown more potent. They have an estimated 14,000 full-time fighters and loosely control a swathe of central and eastern India, albeit in jungle areas where the state is hardly present. Last year 998 people were killed in Maoist-related conflict. This year could be even bloodier.

Three things explain the Naxalites’ rise. First, since merging their two main factions in 2004—to form the
Communist Party of India (Maoist) under Muppala Lakshmana Rao, known as “Ganapathi”—they have minimised the internal feuding that plagued them. Second, many festering grievances among tribal communities who live in India’s poor eastern states have provided them willing hands. And third, rapid economic growth there, especially in mining, has given the Naxalites new targets for extorting cash, including foreign and state-owned mining companies.

The official response has been pitiful. Despite calls to action from the central government—in 2006 the prime minister, Manmohan Singh, described the insurgency as India’s “single biggest internal-security challenge”—most state governments, which are primarily responsible for law and order, have hardly stirred. Complacency is partly to blame: until recently few state-level politicians seemed to share Mr Singh’s alarm. Political expediency also plays a part: Shibu Soren, chief minister of Maoist-racked Jharkhand, won an election last year with the guerrillas’ support and is predictably reluctant to fight them.

Perhaps most worrying, with the exception of Andhra Pradesh and West Bengal, the worst-affected states are also among India’s worst-governed. Chhattisgarh and Jharkhand were founded in 2000 as offcuts from two of India’s poorest states. Chhattisgarh’s most notable counterinsurgency ploy, arming an anti-Maoist tribal militia known as Salwa Judum or Peace March, was predictably a violent failure. It displaced over 50,000 villagers and acted as a recruiting sergeant for the Maoists. Yet, to be generous, it was partly a response to the inadequacy of the state police.

For the same reason, Mr Chidambaram is now deploying an additional 15,000 centrally trained troops to the worst-affected states, taking the total to around 75,000. Yet, for a vast area home to 450m people, this is still a tiny force. Moreover, properly trained state-level officers, who know the local language and conditions, have a much better counterinsurgency record. The clearest example is in Andhra Pradesh where, through better policing and generous development schemes, the insurgency has recently been greatly weakened.

To achieve similar results, other states will in the end have to take similar measures. Alas, the latest slaughter in Chhattisgarh showed how hapless outsiders can be. Most of its victims, who hailed from Uttar Pradesh, were killed by cunningly placed landmines after they rushed to take cover from the Maoists’ opening attack. As Mr Chidambaram said, “They seem to have walked into a trap.”
Afghanistan and America

He said what?
Apr 8th 2010 | KABUL
From The Economist print edition

President Karzai threatens to join the Taliban

IN THE weeks between Barack Obama's night-time stopover in Kabul and Hamid Karzai's scheduled trip to Washington, DC, in May, American officials might have expected a patch of calm in the stormy relationship between the two countries. Not a bit of it. In the past week, the troublesome Afghan president has caused alarm and dismay among his allies with three extraordinary outbursts.

First, in seemingly off-the-cuff remarks to election workers, he accused the allies of "massive fraud" during last year's presidential poll, claiming America, Britain and the United Nations were all plotting to undermine him. That was, to say the least, a bold rewriting of history: the Election Complaints Commission, a hybrid Afghan-international watchdog that Mr Karzai has tried to seize control of, found evidence of industrial-scale fraud last year in the president's favour.

Next, after the American ambassador had demanded "clarification" of what on earth Mr Karzai was talking about, the president went further, telling a private meeting with members of Parliament that if foreign interference continued he would "join the Taliban". Finally, in Kandahar for talks with elders about this summer's military operations, he reaffirmed that he meant every word of his original outburst.

Mr Karzai depends on international support for his survival, so is he going completely mad? Rumour in Kabul suggests that yes, he might be. Abdullah Abdullah, the opposition leader and an ophthalmologist by training, describes the president's behaviour as "erratic" and says that "as a former colleague and doctor, I think this is beyond a normal attitude". Peter Galbraith, the former deputy head of the UN mission in Kabul (who had been singled out by Mr Karzai for his role in the alleged plot), said the president's tirades raised "questions about his mental stability" and that he had (according to palace insiders) "a certain fondness for some of Afghanistan's most profitable exports". Mr Karzai's team promptly called Mr Galbraith a liar. The diplomat offered no evidence for his assertions, which were also dismissed by the White House.

There are a number of explanations for Mr Karzai's outbursts, other than the psychotropic or psychotic. Many believe, as the Afghan president himself said this week, that he was simply asserting his country's sovereignty against meddling foreigners. America has increased its demands on the president of late because it needs his help in a counterinsurgency strategy that calls not only for more allied troops but also for a clean-up of the corrupt and ineffective government. Others think Mr Karzai is just talking from the heart, and remains enraged by the blame heaped on him during last summer's election which he genuinely believes he won outright in the first round.

Either way, the outbursts have raised questions about his capacity to deliver his side of the bargain in Afghanistan—more troops for better government—which Mr Obama needs to show is working before America's mid-term elections in November. With the administration almost as reliant on him as he is on them, months of turbulence lie ahead.

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
A constitutional settlement—or a prelude to more trouble?

IT LOOKS like a truce, at least. For the past two years political conflict in Pakistan has pitted the judiciary and main opposition leader on the one hand against the ruling Pakistan People’s Party (PPP) and President Asif Zardari on the other. Now, after last-minute hiccups, a constitutional amendment with 105 clauses, additions and deletions is poised for approval by a two-thirds majority of both houses of Parliament. Not since 1973, when Pakistan’s constitution was written, has political consensus been so much in the air.

Some credit should go to the otherwise-discredited president. Mr Zardari has relinquished powers to appoint or sack prime ministers, service chiefs and judges. He has agreed to the abolition of limits restricting prime ministers to two terms, clearing the way for Nawaz Sharif, the opposition leader, to become prime minister yet again. And he has given the chief justice a veto over the appointment of fellow judges.

But if Pakistanis and the international community think political stability and good government will follow, they could be disappointed. The chances are that Mr Sharif will now push for a mid-term election, while the Supreme Court tries to “get Mr Zardari”. So the hiccups are worth noting as portents.

Mr Sharif delayed signing the amendment until the government agreed to give the chief justice veto powers over a proposed commission on appointing judges. Then, Mr Sharif and his brother Shahbaz
Sharif, the chief minister of Punjab province, absented themselves from the parliamentary session at which the amendment was introduced. The governor of Sindh, Ishra-ul-Ibad Khan, also stayed away. He belongs to the MQM, a coalition partner of the PPP in the federal and Sindh governments. This could have consequences for the coalition. Last year, the MQM refused to back Mr Zardari’s attempt to get immunity for himself and other PPP bigwigs from corruption cases lodged a decade earlier, while last week the attorney-general, an erstwhile MQM supporter, resigned and left Mr Zardari in the lurch.

The Supreme Court and the PPP also seem to be heading for a clash over a money-laundering case against Mr Zardari and his assassinated wife, Benazir Bhutto. The court is demanding the case be reopened. The PPP has vowed to stop what it calls an attempt “dig up the grave of its martyred leader, Benazir Bhutto”.

Mr Sharif, meanwhile, is likely to focus attention on the country’s economic woes, such as 25% inflation, acute energy shortages and strikes. A budget is due in June and will need to meet the conditions of an IMF loan approved in 2008. It could trigger mass agitation for a change of government.
SINCE the Silk Road fell into disuse six centuries ago, Asian commerce has been carried not by land but by sea along coasts and island chains, first on monsoon winds and now in the holds of diesel ships. The story of Asia’s post-war miracle is above all a maritime one. First Japan, then South Korea, Hong Kong, Taiwan and Singapore, and then all of South-East and East Asia bar North Korea and Myanmar, adopted economic models based on exporting manufactures. The rise of China has been nothing if not the embrace of the maritime world. The miracle is inconceivable without the ship-borne container.

The broad lines of Asian security mirror this watery theme. Since the Pacific War of 1941-45, the United States has enforced a Pax Americana through naval strength and a perimeter of island allies, from Australia to Japan. If American dominance is challenged, it will be at sea. The rise of China and India as military powers has been marked by a large increase in their navies.

But Anthony Bubalo and Malcolm Cook of the Lowy Institute in Sydney argue in *The American Interest* that such a perspective is bumping up against the limits of usefulness. It masks a powerful impulse that is starting to reshape continental Asia’s territorial expanses. For much of the 20th century the three powers of the Asian land mass, China, India and the former Soviet Union, bothered little with international exchange, and transcontinental development was derisory. That is now changing.

New roads, railways and pipelines are criss-crossing continental Asia. In December a pipeline 7,000 km (4,400 miles) long opened, bringing gas from Turkmenistan to China, via Kazakhstan and Uzbekistan. Russia and China have a $25 billion project to pipe oil from the Russian Far East into China. An Iran-Pakistan pipeline is being built, and could eventually run into India or China. In Myanmar, South Korean and Indian firms have a big project to bring gas to south-western China.

Road networks are also expanding, led by India (in Afghanistan, for example) and, especially, China. Dusty Myanmar is now plugged into China’s spanking new highway complex. New roads bind neighbours along the Mekong River. Central Asia is also seeing a flurry of road-building.

Railways reflect the boldest ambitions. China has already pushed a railway up the Himalayas to Lhasa in
Tibet, on which 5m people have travelled since 2006. Now it wants to push lines down them into Nepal, Bangladesh and Bhutan. As for high-speed railways, from a standing start China’s are the world’s fastest and longest. The government has plans to roll out a high-speed network across Asia and even Europe. It proposes three main routes to connect two dozen countries, from Singapore in the south to Germany in the west (with a tunnel from mainland China to Taiwan to boot). By 2025, if the railway ministry is to be believed, it will take two days to travel from Shanghai to London.

Immense financial, not to mention political, obstacles stand in the way of such ambitions. But these projects are starting to redefine what people mean by Asia. It is no longer mainly a coastline with strong trade links to the rest of the world. Now, links across Asia matter just as much. Trade within the region is growing at roughly twice the pace of trade with the outside world. From almost nothing 20 years ago, China is now India’s biggest partner, with bilateral trade that may top $60 billion this year. Central Asia’s trade with China jumped from $160m in 1990 to $7 billion in 2006. And China is the biggest merchandise exporter to the Middle East. The crowds of worshippers at the mosque in Yiwu, a town in the eastern Chinese province of Zhejiang with a vast wholesale market, hint at the scale of the links. On the continent’s western edge it is getting hard to know where Asia ends.

For all its promise, the new continental perspective does not negate the maritime one, and sometimes reinforces it. C. Raja Mohan, an Indian academic, points out that continental development is helping tie isolated populations into international markets, by giving them a route to the sea (for example, southwest China to the Bay of Bengal). Meanwhile, the continental infrastructure boom increases maritime business: four-fifths of the crude oil bound for China still passes through the Malacca strait. Resource competition among rising powers and the need to protect sea lanes will keep naval strategists in work for years.

**America all at sea**

Whether competition by land will lead to co-operation or conflict remains an open question. Instabilities abound, including thuggish regimes in Central Asia and fractious populations deep inside China and India. Much depends on how smaller countries respond to the blandishments of their giant neighbours. Not all Central Asians like the energy deals their governments are striking with China. Plenty of South Asians resent India’s swagger. And now Russia wants to regain influence in its backyard.

In continental Asia, there is no enforcer of the peace, as America has been for maritime Asia. None of the new clubs, such as the Shanghai Co-operation Organisation of China, Russia and Central Asian countries, includes America. American pressure on Iran over nuclear programmes has been undermined by the energy interests of China and Russia. Though the United States has a huge military presence in Afghanistan, it vows to get out. And whereas America has tried both containment and engagement to influence the rogue regime of Myanmar, China and India have used their better contacts mainly to advance their commercial interests. With an overemphasis on maritime Asia, say Messrs Bubalo and Cook, the West risks a kind of sea-blindness when it comes to the implications of the new continental trends.

* The American Interest, May-June 2010

Economist.com/blogs/banyan

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
The Brother Guide of Libya has had plenty to celebrate of late. Since the death of Gabon’s president, Omar Bongo, last June, Muammar Qaddafi (pictured above) has held the title of the world’s longest-serving non-hereditary ruler. In September he marked the 40th anniversary of the coup that brought him to power. As a sign of his confidence, he has been freeing political prisoners and inviting exiled dissidents, once hunted by his feared secret police, to return home. Not only has Libya emerged from diplomatic isolation. A surge in wealth brought by high oil prices has prompted a rush of foreign businessmen to Libya’s capital, Tripoli.

Mr Qaddafi may even claim a recent victory as a holy warrior. A month ago he called for a jihad against Switzerland to punish it for banning the building of new minarets following a referendum. Many Qaddafi-watchers, however, thought his warlike words merely heralded a new round in a festering diplomatic tiff that began in 2008 when Swiss police called in the unruliest of Mr Qaddafi’s seven sons, Hannibal, after two of his staff complained that he had beaten them in the Geneva hotel where he was staying.

Those charges were eventually dropped but the Libyans responded to the perceived slight by detaining two Swiss businessmen for allegedly overstaying their visas. This in turn prompted the Swiss last December to ban 188 senior Libyan officials from visiting the country. Because Switzerland is within the Schengen zone of the European Union (EU) and thus abides by the same immigration rules, the Libyans were in effect prevented from visiting any of the 25 countries (including France, Germany and Spain) in that club. The furious Libyans then abruptly barred entry to all Schengen-area citizens (some 400m of them) and slapped a trade boycott on Switzerland.

At the end of last month, the EU hastily scrapped its travel ban and apologised for any offence. Libya’s foreign ministry declared victory. Its glee was understandable. The European retreat marked a stark triumph of self-interest over principle. Moreover, it followed an abject apology squeezed out of America after a State Department spokesman had sniggered at Mr Qaddafi. In both cases, the Libyans merely had to hint that contracts with American or European firms might be reviewed or torn up. Abandoned by its Schengen partners, Switzerland, which is not in the EU, remains ostracised. One of its citizens, who represents a Swiss engineering giant, ABB, is still stuck in a Libyan jail.
Ordinary Libyans seem to enjoy such shows of patriotic toughness and savoured Switzerland’s defeat. Yet, as with many of Mr Qaddafi’s apparent successes, this one carried heavy hidden costs. Tripoli bristles with cranes and its markets are full. But considering that Libya has produced oceans of oil since 1961 and that its output and reserves per head come close to Saudi Arabia’s, it has dismally failed to improve the livelihood of its 6m people as much as it should have. Libya’s physical and institutional infrastructure is still shoddy. Most Libyans live comfortably enough, relying on free public services to compensate for low salaries. But only a tiny few are rich. And no one is truly free.

The chief cause of Libya’s poor performance is the capricious nature of its government. It says it is keen to promote tourism and private investment, for instance. Yet the sudden travel ban on Europeans struck at its biggest source of both. Libya has grown fashionable as a high-end tourist destination and had expected a bumper winter season. But its smattering of boutique hotels and passable restaurants stayed largely empty. Several much-promoted investment conferences, where ministers were to showcase proposed reforms and tout Libya’s potential, went largely unattended. Libyans susceptible to populist slogans may have chuckled over the visa fight, but its biggest effect was to reinforce the impression that Libya is a risky place for tourists or businesspeople alike.

Such self-inflicted damage is neither occasional nor restricted to higher policy. Consider the case of an Egyptian grocer who spent years building a thriving business in Libya, then made the mistake of going home on holiday. Abrupt changes to visa rules mean he can no longer return. Earlier this year, the new manager of a hotel in Tripoli, an expatriate, fired some staff and switched suppliers. This prompted someone to make a telephone call. A sudden snap health inspection of the hotel larder revealed a few tins past their sell-by date. The manager is now in prison.

Or take the case of Verenex, a small Canadian oil firm that joined the rush into Libya in 2005 and struck an exciting find. Early last year, a Chinese company offered to buy Verenex, nearly all of whose assets are in Libya, for close to $450m. The Libyans blocked that sale on technical grounds, but promised to match the price. After months of wrangling in the oil ministry, Libya’s sovereign wealth fund slashed its offer to barely $300m. Faced with more trouble in Libya if they refused to sell, Verenex shareholders reluctantly agreed.

Not even the closest intimates of Libya’s regime appear to be spared such hazards. Mr Qaddafi’s most visible son, Seif, has long and loudly championed the cause of reform. A few years ago he set up a media firm which launched Libya’s first two mildly critical newspapers and later started a satellite television station. All have since been silenced.

The younger Mr Qaddafi still carries influence, however. He was instrumental, recently, in securing the release of 214 jailed Islamist radicals, most of whom had spent a decade or more behind bars. His allies inside government, who include a rising generation of younger technocrats, still press for reform. In some fields they can point to real progress. Revised codes, for instance, have slashed corporate tax in half, to 20%, and income tax to 10%. The nascent stock exchange is set to oversee two big initial public offerings this year, including those of Libya’s two wildly successful mobile-phone services. Libyan investment laws are, on paper, as attractive as anywhere.

Still the trickiest of places

Yet the reformers are struggling to make headway. At unpredictable turns, they rub up against the entrenched interests of a pampered and unaccountable security elite, which includes army and intelligence officers, as well as tribal and revolutionary leaders with close links to the senior Mr Qaddafi. “It happens again and again,” says an Arab investment manager. “You get all the ingredients into the pipeline here, but suddenly it stops and you have no idea why. There is no transparency at all.” With four decades of experience across the region, he says this is the most difficult place he has ever worked.

This is a shame, enthuses the same manager, because Libya has the potential to become as big an investment hub as Dubai. Given its accumulated hoard of close to $140 billion in net foreign assets and plans to sink $150 billion into infrastructure over the next five years, this does not sound implausible. Perhaps what is needed is for Mr Qaddafi, now 69, to feel even more secure. Maybe then he would relax, stop playing the mercurial demagogue, and allow for a little boring predictability, as in Switzerland.
Sushi in Syria

Can exotic food lead to liberty?

Apr 8th 2010 | DAMASCUS
From The Economist print edition

The new yen for sushi may have further consequences

FOR a country with no particular predilection for fish, sushi is slowly but surely conquering Syria’s capital, Damascus. Ever more foreign-food restaurants have been popping up, from Indian to Italian. But sushi, now deemed the height of sophistication, is becoming de rigueur for the capital’s middle class.

Of an evening, the young and well-heeled can be seen propped up on high stools tucking into pieces of nigiri or futomaki, accompanied by a glass of wine and even a cigar, an apparently mandatory male display of wealth. Rather than meet for lunch at an Italian restaurant, your correspondent is now asked to conduct interviews over little rolls of rice and raw fish.

The government-owned Cham Palace has long had a go at producing Japanese cuisine, but the trend took off recently when several sushi bars appeared in rapid succession. Sake, a Lebanese chain, came first, followed by Hanabi, located in an upmarket shopping boulevard. Soon high-class restaurants were jumping on the bandwagon, adding sushi to their fusion menus. Dome, a leading restaurant in Damascus, runs a popular sushi buffet on Fridays, when customers happily pay $38 for a meal, a hefty amount, seeing that Syria’s annual GDP per person is a mere $2,700.

Proud and nationalistic, modern Syria has not been known for welcoming outside influences, be they political, economic or culinary. A decade or two ago Damascus offered just a handful of restaurants serving typical Syrian cuisine. But that is changing as Syria opens up to the world. The sushi boom is partly a product of economic liberalisation, which has most visibly led to a proliferation of luxury services targeting the better-off.

But as more Syrian expatriates return, they are pushing new trends and demanding the services and cuisine they have been used to outside. Syrians no longer automatically cross the border into Lebanon and head for its capital, Beirut, when they want to play. Rich Syrians are starting to invest at home. “The mindset is changing,” says a beady sushi restaurateur. The Syrian outlook is expanding. Flatbread and hummus may no longer do. And is Baathist socialism still tasty?

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
Islam on the web

Bitter religious rivalry in the air
Apr 8th 2010 | CAIRO
From The Economist print edition

A leading preacher, Yusuf al-Qaradawi, falls foul of Muslim geopolitics

SOME 300 journalists and other staff at IslamOnline, a popular website on Muslim affairs, have been staging a three-week sit-in that has captivated Arab media. Broadcasting it live over the internet, they have been getting support from prominent intellectuals and ordinary fans alike. Every turn of the affair is assiduously shared on Twitter. Their ordeal has been described as a battle for the soul of Islam.

That is an exaggeration. At a less spiritual level, IslamOnline’s mostly Egyptian staff has been wrestling for control of the website with its Qatari owner, the al-Balagh Cultural Society, which is based in Doha, Qatar’s capital, and wants to cut jobs in Cairo and move some of its editorial offices back home. The Cairo staff claim that this is a ploy to take the website in a more conservative direction. The managers in Doha counter that IslamOnline has become too parochially Egyptian and has been straying from its mission to reach out to all Muslims.

But this labour dispute also reflects an Arab cold war that pits Egypt against more radical states. Qatari-owned media such as al-Jazeera and IslamOnline have relentlessly criticised Egypt in recent years, notably for its complicity in Israel’s blockade of Gaza. Some suspect that toning down IslamOnline’s news coverage by reining in its staff, some of whom are close to the Muslim Brothers, who in turn are close to the Islamist Hamas movement that controls Gaza, is a Qatari gesture to Egypt’s government. Others point to longstanding rivalry between Saudis and Qataris, who, it is mooted, may be eager to reduce the influence of a Saudi company that has been helping to run the Cairo website.

IslamOnline began in 1997 as a student project at the University of Qatar with cash from Sheikha Mozah, an enterprising wife of Qatar’s emir, and with an endorsement from the prominent and sometimes controversial Egyptian-born scholar, Yusuf al-Qaradawi. At IslamOnline’s launch, speaking on his extremely popular al-Jazeera religious talk-show, “Sharia and Life”, Mr Qaradawi said its mission to guide Muslims is “the jihad of our era.”

On the whole, this jihad has been a soft one. IslamOnline has to some extent been a lifestyle publication, focusing on how to mix modern life and religion. It offers religious advice without fire and brimstone,
tackling sensitive topics such as sexuality conservatively but straightforwardly. Bettina Graf, who writes about the media in the Muslim world, calls it “moralist-conservative and missionary, though not dogmatic.” But it was also, in the words of Khaled Hamza, a reform-minded Muslim Brother, a place were “great intellectual battles” were waged over the future of Islamism, mostly influenced by Mr Qaradawi’s wasatiyyah (centrist) current.

Mr Qaradawi, 84, is sometimes said to be the most influential living Sunni Muslim scholar. He has stirred controversy in the West for endorsing suicide bombings in certain circumstances and for his homophobic views, and has been banned from Britain and the United States. For siding with his Egyptian compatriots against the Qatari management, he has lost his chairmanship of al-Balagh. Some see this as a fall from grace, and wonder if Qatar, which has hosted him for most of his adult life, will now freeze him out. His ideas, notably for tackling Sunni angst over the erosion of traditional religious authority and his attempt to counter millennial strands of Islamism with a conservative reformism, may have lost a resounding voice if he is now kept off IslamOnline.
Kenya and the international court

Will justice be done at last?
Apr 8th 2010 | MOMBASA
From The Economist print edition

Investigators from the International Criminal Court are on their way

SO FAR nobody has been charged with killing any of the 1,100-plus Kenyans who died in the violence after a disputed election at the end of 2007. The Kenyans were meant to set up their own tribunals to punish the worst offenders. But since they failed to do so, the International Criminal Court (ICC) at The Hague has at last agreed to proceed with cases against unnamed powerful Kenyans who, for their own political ends, are suspected of inciting the violence and paying its perpetrators.

The court’s decision has been eagerly awaited for two years. It has been strongly endorsed by Kofi Annan, a former secretary-general of the UN, who helped bring peace after the election by persuading the president, Mwai Kibaki, and the opposition leader, Raila Odinga, to form a unity government. Mr Kibaki, a Kikuyu, stayed on as president, with his pals keeping a grip on finance and security. Mr Odinga, a Luo who claims kinship with Barack Obama, became prime minister, with people in his wider and looser alliance getting a raft of lesser ministries. The bloated coalition’s first task was to set up a special tribunal to charge those responsible for the election violence. But nothing happened. Cases against several thousand people accused of such crimes as arson, rioting, looting and shooting were opened. Thanks to police bungling few have ever come to court.

All the more important, then, to hold the higher-ups to account. The ICC is keen. Its chief prosecutor, Luis Moreno-Ocampo, an Argentine, says the Kenyan case is among the most clear-cut in his docket. Plentiful evidence was gathered at the time by human-rights workers, journalists, security men and diplomats. There is no shortage of witnesses, though the ICC wants a witness-protection programme put in place. Most Kenyans seem to trust the court. Messrs Kibaki and Odinga sound co-operative. Mr Odinga says he will send anybody the ICC asks for to The Hague. Mr Kibaki says he agrees. The justice minister insists his
ministry is ready to help. Mr Moreno-Campo says his team will start work in Kenya in May. Verdicts, he reckons, could be handed down in 2012.

But there are snags galore. For a start, the ICC’s timetable means the trials would take place amid Kenya’s next elections, when the risk of violence is highest. A trial just then might well be portrayed as a show-trial. Then there is the tricky question of whom the ICC would pick to send to The Hague. Mr Moreno-Ocampo has hinted there will be only a handful of prosecutions, perhaps a couple from each side of the ruling coalition. A senior politician from the Kalenjin group might, say, be charged with responsibility for killing Kikuyu women and children in the Rift Valley, while a senior Kikuyu could be accused of paying off Kikuyu gangs to kill opposition backers in Nairobi. Most Kenyans seem to want bigwigs put in the dock, in the hope of ending impunity for top people that has so damaged the country.

It will be hard to nail them down. The rich have expensive lawyers. Mr Kibaki may find excuses for refusing to give up one of his allies. Mr Moreno-Ocampo, for his part, must display the balancing skills of a trapeze artist. If he is thought to favour one side or another, violence could erupt. If the ICC seems to wield too heavy a stick, the accused may stir up anti-colonial feeling—still a potent force—in their defence. Above all, the ICC must navigate the murky waters of Kenyan politics, where alliances can change with unexpected speed. For example, the minister of agriculture, William Ruto, a Kalenjin, has reached out to a once-implacable rival, Uhuru Kenyatta, the minister of finance, a Kikuyu who is a son of Kenya’s founding president and who, by some estimates, is Mr Kibaki’s chosen successor.
Can Congo’s incompetent government make the most of new oil finds?

IN THE wake of exciting oil discoveries on the eastern side of Lake Albert, which separates north-eastern Congo from Uganda, the Congolese government is trying to emulate its smaller neighbour by wooing foreign investors to help rejuvenate its country’s ramshackle but potentially rich economy. But Congo is not Uganda. Though the Ugandans have their share of headaches—for instance, the murderously messianic Lord’s Resistance Army that has ravaged parts of northern Uganda and neighbouring regions—they have at least a core of functioning institutions and infrastructure that the Congolese woefully lack. But Congo’s leaders are hoping a similar oil bonanza will give their country the boost it so badly needs.

At present Congo gets only 28,000 barrels a day, courtesy of a French company, Perenco, from onshore and offshore blocks along its sliver of Atlantic coastline between Angola to the south and the Angolan exclave of Cabinda to the north (see map). But the Congolese are looking to their bit of Lake Albert in the far north-east, where reserves of 2 billion barrels are said to await exploitation. Some of the biggest American, French and Italian oil companies are sniffing around, with Total apparently nosing ahead.

But developing Congo’s newly discovered oilfields will be tricky. For a start, the area is not safe. Two years ago seven people were killed in a couple of skirmishes between Congolese and Ugandans, in one case involving a British contractor, on Lake Albert. A South African-led oil consortium keen to explore the Congolese blocks has given the government $1.5 million to help it police its side of the lake.

Worse, Congo’s president, Joseph Kabila, who managed to be abroad when a recent glitzy oil conference took place in Kinshasa, his capital, has failed to woo or reassure investors. Several independent oil companies, including Tullow, the Irish one that has led the way in Uganda, have been waiting years for presidential decrees giving them the final go-ahead to start exploring blocks for which they have already paid “signature bonuses” (upfront initial payments), in some cases for around $2m a go. To make matters worse, some licences to exploit blocks are being disputed.

In any event, Mr Kabila’s government must tackle several other oil-related issues. It has to settle its differences—over demarcation of its coastal boundaries, for one thing—with Angola, the region’s new oil giant, whose co-operation it requires in oil and political matters. Congo’s parliament must pass a new hydrocarbons code to attract outside investors. With elections due in 2011, it could usefully offer a fresh bunch of signature bonuses to get some cash into the national coffers. And finally it needs to meet the conditions that would entitle it to full membership of the club whose members sign up to the Extractive
Industries Transparency Initiative. This requires governments and foreign energy and mining companies to publish full details of their dealings to ensure that corrupt secret payments are kept to a minimum. But Mr Kabila has yet to convince foreign companies that Congo is willing to play straight.
South Africa's right-wing whites

The laager is almost derelict

Apr 8th 2010 | VENTERSDORP

From The Economist print edition

The ideas of a murdered racist leader are almost dead too

OUTSIDE the magistrates’ court in Ventersdorp, a one-horse town in the rural north of the country, where two black men were accused of murdering Eugene Terre’Blanche, the leader of South Africa’s far-right Afrikaner Resistance Movement, stood a small stand decked out in the blue, white and orange colours of the country’s apartheid-era flag (see article). The people manning it, from another Afrikaner outfit with similar views to Mr Terre’Blanche’s, were collecting registrations for an all-white election next year. Once an assembly has been chosen, it will ask the country’s government to give them a separate homeland for the volk, descendants of the mainly Dutch pioneers who trekked north from the British-run Cape Colony in the early 19th century.

“You must be part of our people, our cultural identity” in order to take part, says Paul Kruger, a proponent of the homeland idea. “It’s not about skin colour,” he adds with a straight face. “It’s about ethnicity.” White Afrikaans-speaking Protestants can automatically join. But if any blacks, Coloureds (as South Africa’s 4.4m people of mixed race are known) or Catholic whites ask to register, “the people must decide whether such applicants are part of the people or not”. So far none has done so. After a year, fewer than 30,000 people have enrolled. South Africa’s white population is around 4.5m in a total of 49m.

That shows how fast the far-right has fizzled out. In the last whites-only poll, in 1992, more than 875,000 white South Africans voted no in a referendum on reforms that would lead to a multiracial democracy two years later. Nearly 2m whites said yes. By the time of his death Mr Terre’Blanche, who once embodied the threat of a race war in South Africa, was a fringe ideologue, more of a figure of ridicule than of terror after serving a prison sentence for trying to murder a black security guard, and falling off his horse at a rally. Last year, when he sought to relaunch the Afrikaner Resistance Movement (better known by its Afrikaans initials, AWB), only a few hundred people turned up. Steyn van Ronge, its new leader, says that “thousands” of people have applied to join since Mr Terre’Blanche’s death but declines to reveal how many members the AWB now has. Its supporters’ blood-curdling rhetoric after the murder was quickly retracted, replaced with promises of non-violence.

Most whites, including Afrikaners, who still make up more than half the white total, now back the Democratic Alliance (DA), the biggest opposition party, while another 147,000 plumped for the Freedom Front Plus, a mainly Afrikaner outfit, in last year’s poll. Some irreconcilables refuse to vote at all. The New National Party, which succeeded the old one that had run the show under apartheid since 1948, announced in 2004 that it would merge with the ruling African National Congress (ANC), enabling its head, Martius van Schalkwyk, to join the cabinet. But he failed to take his former voters with him. Nowadays maybe 15% of whites—a mix of old liberals and radicals and young whites who like the ruling party’s officially non-racist, non-sexist stance—back the ANC.

Most South Africans still vote for people with whom they most easily identify, partly on the basis of race. That puts the DA in a tricky position. In last year’s general election it got 17% of the vote, four percentage points more than in 2004. But it is still widely seen as a party for whites and Coloureds, and is still failing to make big inroads among black voters.

Mr Kruger is among the irreconcilables who refuse to vote at all. “I don’t want to legitimise the process of my right to self-determination being trampled,” he says. Few whites these days agree.
Election season in central Europe

Crossed words
Apr 8th 2010 | BUDAPEST AND WARSAW
From The Economist print edition

This year sees elections in many countries in central Europe. The results may not change all that much

IN A scruffy Budapest district, a postgraduate student from Cambridge is getting a bruising reception. Gabor Scheiring knocks on voters’ doors to say he is fed up with Hungarian politics and wants change. His party, a greenish outfit called Lehet Más a Politika (Politics Can be Better), is campaigning for cleaner, less partisan politics. His donnish manner and shabby car mark him out from the slippery, bombastic figures who dominate Hungarian politics. But Mr Scheiring is more likely to resume his studies in Britain than to win a parliamentary seat. “They say they hate all politicians,” he says glumly.

The two rounds of Hungary’s general election are likely to deliver a big victory for the centre-right, with a strong showing also for the far-right (see article). But a deeper trend across all central European countries facing elections this year is that voters may back politicians they know even if they dislike them, rather than risk new faces from outside. Crossness about misgovernment, economic hardship, corruption and poor public services is palpable. But the politicians who have run the region for most of the past 20 years remain firmly in charge.

In the Czech Republic the likely winner in the general election on May 28th is a former Social Democratic prime minister, Jiri Paroubek. He may end up in coalition with the country’s unrepentant Communist Party. In Slovakia the centre-left prime minister, Robert Fico, is likely to be re-elected. In Poland the presidential election in October will probably be won by the candidate from Civic Platform, the party that heads the centre-right government.

At the height of the financial crisis 18 months ago, the political fallout looked ominous. Higher unemployment, tax rises and lower living standards suggested that a social and political crisis might follow the economic one. Outsiders noted the shallow roots of democracy in much of central Europe and fretted about violent public protests, nakedly populist politicians and spreading political chaos.

Reality has proved reassuringly boring. One reason for this is the success of Poland. It is by far the biggest country in the region and also has the most stable politics, the strongest economy and the most active diplomacy. The prime minister and leader of Civic Platform, Donald Tusk, can boast of economic
growth in 2009 of 1.7% and a government with strong approval ratings. He has just calmed a long row with Russia about the Soviet wartime massacre of 20,000 Polish officers at Katyn by persuading his Russian counterpart, Vladimir Putin, to attend a joint ceremony.

Mr Tusk’s approach contrasts sharply with the more abrasive style of Civic Platform’s big political rival, Law and Justice. The incumbent Law and Justice president, Lech Kaczynski, faces re-election in October. But he and his twin brother Jaroslaw (who leads the party) have been outmanoeuvred by Mr Tusk. Civic Platform’s candidate, Bronislaw Komorowski, seems set to win the presidential election. An aristocratic figure with a distinguished record in the communist-era underground, Mr Komorowski easily defeated the foreign minister, Radek Sikorski, in a primary election among Civic Platform members.

The main effect of the crisis has been on unemployment. In the European Union’s ten central European members it has risen from 6.5% at the height of the boom in 2008 to 9.5% this year. But by the standards of some southern European countries—Spain, for example (see article)—that is hardly apocalyptic. The central European economies shrank by an average of 3.6% in 2009, and the World Bank expects them to grow by a measly 1.6% this year. That is unpleasant but it is not disastrous—and the recovery in 2011 is likely to be stronger than in western Europe.

Economic policy is unlikely to change much anywhere after the election season is over, though Poland may find it easier to speed reforms if the president and prime minister can work in tandem. Scarred by memories of communism and distrust of government, central European voters (unlike some west Europeans) show little appetite for more statist policies. Middle-class voters are the most disillusioned by the failure of their elites to bring Western-style stability, prosperity and good government, says Ivan Krastev, a political scientist. But that discontent has yet to find an outlet. “Nowhere do you find a really interesting policy debate,” he says.

The biggest shifts are likely to be felt in more peripheral matters. A fraying sense of social solidarity may harden attitudes to minorities such as Roma (gypsies), notes Mr Krastev. The treatment of Roma is central Europe’s worst social problem, and it could easily turn a lot nastier. Foreign policy too offers some scope for change, potentially of a harmful kind. Many worry that Hungary’s Viktor Orban will squabble with such neighbours as Slovakia, where a large Hungarian ethnic minority feels increasingly alienated by Mr Fico’s own ethnocentric approach.

A growing rapprochement with Russia is also under way in most places. For all his firebrand rhetoric, Mr Orban seems to get on well with Mr Putin. Mr Fico is particularly chummy with Russia, as is the would-be Czech leader, Mr Paroubek. Mr Tusk has made a remarkable breakthrough over Katyn. In short: in diplomacy as well as politics, central Europe is looking increasingly like western Europe. If only living standards and the quality of life would catch up as well.

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
POWER is a politician’s sweetest birthday present. Viktor Orban, who founded Fidesz, Hungary’s centre-right opposition party, 22 years ago in March 1988, hopes for a double celebration after this weekend’s election. Analysts predict a landslide victory for Fidesz against the ruling Socialists. A poll of voters who say they will turn out gives Fidesz 62%, the Socialists 20% and the far-right Jobbik party 13%. The Socialists have been in power for eight years, during which the economy has done badly, poverty has soared, corruption has flourished and the dire situation of the country’s Roma minority has worsened.

Foreign investors, once seen as Hungary’s saviours, now spark sour resentment. Angry young nationalists wear T-shirts proclaiming “Magyar Vagyok: Nem Turista” (“I am a Hungarian, not a tourist”). Cars are emblazoned with maps of Greater Hungary before it was truncated by the 1920 Treaty of Trianon. Gordon Bajnai, Hungary’s caretaker prime minister, has won plaudits abroad for his careful fiscal management (the budget deficit is now 4% of GDP, down from 9% in 2006). But with unemployment above 11% and inflation almost 6%, the Socialists remain unpopular.

Mr Orban, who was prime minister between 1998 and 2002, promises to create a million jobs over the next decade and to bring corrupt officials to justice. Everybody will have to take responsibility for what they have done, says Peter Szijjarto, Fidesz’s chief of staff. Mr Orban plans a radical overhaul of Hungary’s complex tax system, an attack on the black economy, a simplification of the bureaucracy and new laws bringing openness to public procurement.

As for Jobbik, Fidesz will have nothing to do with it, promises Mr Szijjarto. A stream of lurid stories about the party has appeared in the Hungarian media recently. A party spokesman, Andras Kiraly, resigned after pictures of him at a Gay Pride parade in Toronto appeared on the internet. A member of the now illegal Magyar Garda, Jobbik’s uniformed wing, was found to have starred in a lesbian pornographic film. Smears
and slanders, say Jobbik officials.

Yet Jobbik’s dark side is plain enough. A recent issue of Barikad, a magazine edited by one of the party’s leaders, showed St Gellert above Budapest with a seven-branched menorah-like candelabra and the strapline “Wake Up Budapest: Is This What You Want?”. An article inside spoke of “Judapest”. Party officials deny that Jobbik is anti-Semitic and say the magazine was just responding to a 2007 speech by Shimon Peres, Israel’s president, proclaiming that Israel was buying up Hungary, Manhattan and Poland. But Jobbik’s ascent has coincided with rising anti-Semitism. Election posters have been defaced with Stars of David. The windows of a rabbi’s apartment in Budapest’s Jewish quarter were shattered during Passover. Even some Socialist and liberal voters hope for an Orban landslide to stop Jobbik’s rise.
Drinking in Europe

Rolling away the barrel
Apr 8th 2010
From The Economist print edition

Alcohol consumption is falling in most big European countries

ACROSS Europe, economies are stagnating and unemployment is climbing. Reason enough, you might think, to hit the bottle. Europeans put away over nine litres of alcohol a year per person, twice the global average. The European Commission has declared that alcohol is a “key public-health and social concern”. Yet in most big EU countries drinking is in decline. In France and Italy the average adult drinks over a third less than he or she did 30 years ago. Germans and Spaniards are also drying out quickly (see chart). Alcohol consumption has likewise fallen in most of eastern Europe in recent decades.

What explains the great sobering-up? In part, the drivers appear to be social and cultural. The decline in drinking is most marked in southern Europe, where there has been a notable dropping-off in wine-drinking, especially during the working day. Rising numbers of urban workers and the insidious spread of Anglo-Saxon fast-food habits are working against the old traditions of a glass with breakfast followed by a long lunch fuelled by a bottle or two. These countries also had a lot further to fall. In 1980 France, Italy and Spain were the booziest nations in Europe.

Not only are Europeans drinking less, they are drinking differently. Their habits are converging, as the old geography of drinking on the continent, with its well-defined wine, beer and vodka “belts”, slowly gives way to a patchwork quilt. Young people, unshackled by tradition, are leading the charge away from old stereotypes. Russians and Poles are these days almost as likely to be found downing bottles of beer as shots of vodka. Britain, which John Major, then prime minister, predicted in 1993 would still be a country of “warm beer” 50 years hence, has become a land of chardonnay and pinot noir: last year, for the first time, Britons spent more on wine than on beer.

This shift may also explain why Britain, in this matter as in so many others, is out of step with its EU partners. Alcohol consumption in Britain rose more or less continuously after 1956 and has levelled off only in the past few years. The British are still mid-tablers in the EU drinking league, but the extent to which the country is bucking the European trend—Poland is the only other country among the ten largest EU members to have seen a rise in alcohol consumption since 1980—is striking.

The shift from beer to wine in Britain may have boosted overall drinking, suggests Rachel Seabrook, research manager at the Institute of Alcohol Studies, a London-based think-tank. Britons may have adopted the tipple of southern Europeans, but they also retain a fondness for “heavy episodic
drinking” (ie, bingeing): pouring the stuff down their throats rather than sipping it in the slow, relaxed manner of Spaniards or Italians. The difference is that they now do it with 12%-strength wine rather than 4%-strength beer. Affordability is another factor: Britons spend more time at home drinking cheap supermarket-bought booze than in the pub buying expensive pints. In Britain, at least, it may be right still to see alcohol as a big public-health and social concern.
Spanish unemployment

In search of a job

Apr 8th 2010 | MADRID
From The Economist print edition

The jobless numbers get nearer to a grim milestone

THE queues at Spanish employment offices have never been longer. For the first time since military service was scrapped in 2001, the army is near full strength. Picking up a gun and risking roadside bombs in Afghanistan is one answer to the problem faced by the 4m Spaniards who are jobless. Unemployment rose again in March, a month when it usually drops. The 36,000 extra jobless were fewer than in March last year, but they still helped push the unemployment rate even closer to 20%.

When unemployment began to rise 18 months ago, the Socialist prime minister, José Luis Rodríguez Zapatero, predicted that a job recovery would start at the end of 2009. He has since put his forecast back to the end of 2010. But the Bank of Spain says the turnaround may not actually come until the second half of 2011, when unemployment will hit 20%.

Spaniards are worried. As many as 42% say that unemployment has affected their lives. Some 3.2m are now on unemployment benefit. More than 400,000 long-term unemployed draw just €426 ($570) a month. Their numbers will rise as the more generous benefits, based on previous earnings, run out after two years. Things are particularly grim for immigrants and the young. Some 40% of under-25s are unemployed, twice as many as in other hard-hit European countries. Sebastián Mora, secretary-general of a Roman Catholic charity, Caritas, talks of a crisis of despair. Caritas's workload of those needing its help has doubled in two years.

When unemployment began to rise 18 months ago, a senior trade unionist said that 4m would provoke a social revolution. Plenty of conservative pundits similarly predicted riots on Spanish streets. Yet the 4m mark has now been reached and neither rioting nor social revolution has broken out. Even crime rates remain relatively low, despite a squeeze on hiring police officers (for which there are 30 applicants for every job).

Why? Spain has a historically high tolerance of unemployment. Strong family networks help to ease the pain. Mr Zapatero's supporters also claim that he deserves credit for widening unemployment benefits, even though this has increased the budget deficit. And a vigorous and growing underground (black)
economy makes a big difference. The tax inspectors’ union, Gestha, believes that it accounts for more than 23% of GDP and that it grew by 0.7% last year when recorded GDP shrank by 3.1%. The black economy is especially attractive to those still receiving unemployment benefits based on previous earnings. They are often reluctant to go back into formal work until the two-year payment period is over.

Spain has Europe’s most volatile labour market. It has destroyed jobs quickly, but not long ago it was also creating them in unprecedented numbers. Even now, Spain has created more jobs (net) since 2000 than any other big European country, points out Emiliano Carluccio of Carlos III University. But many of those jobs depended on a frothy construction industry. Short of knocking down the million unsold new homes left after the property bubble burst, that will not pick up for many years. In fact, construction is still adding to the dole queues, as projects started before the bust come to an end.

Spain has seen unemployment rise faster than even America and Ireland, where firing is relatively cheap. A Bank of Spain study suggests that this is down to a two-tier labour market, which condemns a third of the workforce to a merry-go-round of unstable, temporary jobs while the rest enjoy ironclad permanent contracts. Miguel Ángel Fernández Ordóñez, the central bank’s governor, is among the loudest voices calling for labour reform.

Yet Mr Zapatero has made clear he will not impose this on reluctant unions. And they show little appetite for more than blowing life into an existing but rarely used special contract that reduces the cost of firing permanent employees from 45 days pay per year worked to 33 days.

Mr Carluccio points out that a two-tier labour market is matched by two-tier education. Spain equals other European countries in numbers with university-level education, but a shocking 30% of Spaniards leave school with no qualifications—worse than elsewhere. These people find it hardest to get work. You can see why so many apply to the army, says Mr Carluccio; you don’t need a master’s degree.
Rumours test the voters’ indifference to their leaders’ private lives

IT ALL began on Twitter. Next, it appeared in a blog posting on a newspaper website. Now it has the makings of a mini-affair of state. A rumour about the presidential couple’s alleged extramarital romances has for weeks been met by official silence and by disdain in France’s traditional media. This week, however, a presidential adviser talked of an “organised plot” to destabilise Nicolas Sarkozy and his wife, Carla Bruni. His lawyer said a judicial inquiry was looking into whether the original author had been “manipulated”. Even Ms Bruni chipped in, though to play down talk of a plot. At a stroke, parlour tittle-tattle has become a legitimate news subject, testing the limits of privacy, free expression on the internet—and voters’ tradition of indifference to public figures’ private lives.

Denouncing the stories as “totally unfounded”, Thierry Herzog, Mr Sarkozy’s lawyer, suggested that “somebody is behind the propagation of these rumours”. It appears that they started as idle tweets that were picked up by the foreign press only after they were referred to in a blog on the Journal du Dimanche’s website. The Paris public prosecutor is now investigating, after the group that owns the newspaper filed a lawsuit for “fraudulent entry of information into a computer system”. Two people at the group’s website subsidiary have “resigned”.

Claims and counter-claims are flying. Pierre Charon, an adviser to Mr Sarkozy, hinted at “financial movements” behind the plot. One minister muttered darkly about efforts to destabilise France ahead of its presidency of the G20 later this year. In an abrupt move, Rachida Dati, a former justice minister who fell out of favour with Mr Sarkozy, was deprived of the chauffeur-driven car she had hung on to despite leaving her job to become a member of the European Parliament. This week she described as “scandalous” reports that she might have been behind the rumours.
French tradition, combined with the country’s strong privacy laws, once dictated that the public interest stopped at the bedroom door—even when newsrooms were in the know. François Mitterrand kept secret for years a daughter he had out of wedlock and then lodged at the state’s expense. Today, however, those rules have been thrown out. The growth of an American-style celebrity culture has raised the pressure to publish first and pay the penalty later. With tight privacy laws, public figures often sue even when a story is true. François Baroin, the new budget minister, is suing Paris Match for splashing a picture of him and an actress on a recent cover. Celebrity magazines, says one editor, simply build the (relatively low) cost of fines into their budgets.

Unlike Mr Baroin, Mr Sarkozy has blurred the line between his public and private lives. He campaigned for election with photos of himself and his then wife, Cécilia, jogging on the beach and playing football with their son. It is hard for him to ask for privacy as he did when divorcing and remarrying while in office. Bloggers and tweeters, who tend to disregard such niceties as proof or accuracy, make enforcement of the privacy laws harder.

As French journalists agonise, does the public care? Perhaps not. As many as 92% of respondents to one poll said that Mr Sarkozy’s divorce made no difference to their opinion of him. And 79% said it was of no importance to political life.
What lies behind a battle over privacy on Facebook

IN THE challenge by Ilse Aigner, the German minister of consumer protection, to Mark Zuckerberg, the 25-year-old founder of Facebook, it is hard to say who is the David. Mrs Aigner accuses Facebook of being careless over the privacy of its 400m members. “What is private must stay private,” she wrote to Mr Zuckerberg on April 5th. “Unfortunately, Facebook ignores this principle.” Shape up, Mrs Aigner warned, or she would quit the social-networking site.

Mrs Aigner fired her slingshot after Facebook had said it might send data on members to hand-picked partners such as CNN and Yahoo! without consulting them first. The American way with data is not for Germany. In 1983 Germany’s constitutional court elaborated a right to “informational self-determination”, anchored in laws, monitored by officials and fiercely defended by activists. The Pirate Party, which champions digital freedom, won 2% of the vote in last year’s federal election.

In German privacy wars, Mrs Aigner’s party is normally cast as Goliath. She comes from the Christian Social Union (CSU), the Bavarian wing of the Christian Democratic Union (CDU). Both parties are keener to chase criminals and terrorists than to fuss over suspects’ privacy. After the constitutional court overturned a law in March that required telecoms and internet firms to make records available to police, the CDU and CSU clamoured for a robust replacement. One reason the Pirate Party did well is that the previous government had passed a law to block child-pornography sites on the internet. That was a step to broader censorship, the new party argued.

Mrs Aigner’s snarl at Mr Zuckerberg is designed to appeal to privacy partisans. In February she demanded that Google get residents’ permission before showing their houses on its Street View service. Patrick Breyer, a lawyer, says the government has become more sensitive since the liberal Free Democrats joined the CDU/CSU in coalition. The new CDU interior minister, Thomas de Maizière, seems keener to balance security with privacy than his predecessor was. He talks to privacy activists and may even consider the idea of requiring firms and agencies to send out “data letters” telling people what information is collected about them.

Mr Breyer is not impressed. In courting pro-privacy voters, the centre-right tries to make it seem that the menace is data collection by business, not by the state. “The CDU will always give priority to law enforcement over privacy,” he declares. Mrs Aigner’s shot will not do much damage to Facebook, either. If she quits, her 1,900-odd friends may notice, but Mr Zuckerberg seems unmoved. In truth there are no Davids in this fight.
SEEN from afar, Europe looks like a “gerontocracy”, an American newspaper reported in 1963. Europeans were young in years and outlook (their median age was just 32). But their leaders included the 87-year-old Konrad Adenauer in Germany; septuagenarian despots in Spain and Portugal; Charles de Gaulle in France (then 72, and destined to hang on to the presidency for six more years); and the baby of the bunch, Britain’s 68-year-old Harold Macmillan, who was soon to quit as prime minister.

Today Europe again faces rule by the elderly. Not because its leaders are all ancient: modern politicians tend to flaunt pregnant wives and school-age children, and disport themselves in cycling shorts and running kit. Now it is the voters who have aged. By 2050, more than a third of potential European Union voters will be over 65. And because older voters turn out more reliably than the young, they could wield crushing power.

That alarms those worried about Europe’s pension and welfare systems. David Willetts, a British Tory, has caused a stir with “The Pinch”, a book accusing baby-boomers (a huge cohort born between 1945 and 1965) of stealing their children’s future. Boomers own more than half of Britain’s £6 trillion ($9 trillion) of personal wealth, he claims. The causes include a house-price boom and generous company pension schemes that are closed to younger workers. Mr Willetts (born in 1956) fears that an army of retired boomers may vote for whopping sums to be spent on health care and pensions, against the wishes of younger taxpayers who might prefer spending on things like education.

Such fears are inspiring bold thinking. Arji Lans Bovenberg at Tilburg University in the Netherlands (born in 1958) wonders if parents should be given an extra vote at elections for each young child in their charge. An economist at Vienna University, Dennis Mueller (born in 1940) notes that the old have to take driving tests to keep their licences. What about citizenship tests before they are allowed to vote, similar to the civic quizzes faced by many immigrants? Some political parties, including Labour in Britain, have suggested that the legal voting age should fall to 16.

Such solutions tend to have drawbacks. They discriminate against those who cannot have children. Or they insult older voters who have served their countries for decades. In 2008 Austria became the first...
European country to allow 16-year-olds to vote in national elections. A lot of them promptly voted for far-right parties, which got more support from the young than from the old.

It is easy to be gloomy about the idea of a gerontocracy seizing power in the European Union, a place already struggling to stay competitive. Eurobarometer opinion polls, which survey 1,000 citizens in each of the 27 EU members, offer rich seams of evidence that political and economic preferences vary with age. For instance, older voters are less satisfied with their lives and more pessimistic about the economic future. Older Europeans are more likely to say that the fall of the Iron Curtain in 1989 made life in their country “more insecure”, a pattern that holds true in both eastern and western Europe.

Overall, Europeans are less entrepreneurial and less mobile than Americans. The averages conceal age differences. A 2007 Eurobarometer found 61% of Americans would rather be self-employed. Europeans under 24 came close to American levels of enthusiasm for the risky freedom of the entrepreneur. But older Europeans preferred having a regular salary, thank you.

And yet a fixation on age risks missing a more serious problem facing Europe. It is true that Eurobarometer surveys show opinions varying with age. But such differences are trumped by those based on nationality. Take enthusiasm for self-employment. Older Europeans are less keen than the young on going it alone, but not by much. Yet at Europe’s extremes the gaps are huge: 57% of Portuguese fancy being self-employed, but only 30% of Belgians. (The survey found Belgians especially keen on fixed working hours, a finding that rings true for anyone needing a Brussels plumber at the weekend.)

**Golden oldies**

A recent Eurobarometer asked if governments should make it easier for older people to keep working after their retirement age, if they wished. It found small differences by age, but astonishing gulfs by nationality. Almost nine out of ten respondents in Britain, Denmark, Finland and the Netherlands said oldies should be helped to work if they wanted. At the other extreme, 55% of Greeks were opposed. That may be because Greeks lead the EU in believing the lump-of-labour fallacy: a huge majority agree that, as older people work longer, “fewer jobs will be available for younger people”. The fallacy that working oldies would automatically steal jobs from the young is also popular in Cyprus, Hungary, Portugal and Italy, even though those countries face very different rates of ageing. In other words, national political cultures matter more than age.

Spain’s government appears scared even to debate a higher pension age. Others are braver. In Nordic countries legal retirement ages are increasingly pegged to life expectancy. Earlier this month a Dutch trade union boss, Peter Gortzak, suggested that workers should be promised a fixed length of retirement, say 20 years, with their retirement dates calculated backwards from average life expectancy in their sector (ie, those in tougher trades could retire younger).

Gerontocratic rule certainly poses long-term dangers. But Europe must above all avoid being pulled apart, as some countries tackle ageing better than others. Old age is not the enemy of reform: ignorance, selfishness and timidity are. The old have no monopoly on these vices and may have picked up some wisdom. In the coming decades, Europe will need much of that.
The election race

They're off!
Apr 8th 2010
From The Economist print edition

Why the campaign will count in a contest that matters

THE election date had been an open secret for so long that its announcement this week might have come as an anticlimax. Yet even the inevitable can whet the appetite when it finally happens. There was an undeniable frisson of excitement on April 6th when Gordon Brown at last made his trip to Buckingham Palace to request the dissolution of Parliament and named the day when the voters will go to the polls: May 6th.

For this is a contest that matters greatly. The next government must deal with a woeful inheritance of vaulting public debt. It must chart a new way forward for the economy and finance after the old model has foundered so spectacularly. It must rebuild trust in politics following a scandal over parliamentary expenses that has soured the public mood. And after a decade of sending overstretched armed forces to fight foreign wars, it must either provide them with adequate resources or settle for a more modest role in the world.

Unlike the last three elections, in which Labour led by Tony Blair sauntered home, this time the outcome is uncertain. Lewis Carroll’s White Queen told Alice that she could believe six impossible things before breakfast. Britain’s voters are in line to produce one of three historically improbable events a month from now.

If Mr Brown wins, it will be a record-breaking fourth consecutive victory for Labour and make the prime minister the Lazarus of latter-day politics. If, on the other hand, David Cameron delivers victory to the Conservatives, it will be with the biggest swing to the party from Labour in the past 60 years (see chart). And if neither big party manages to get an absolute majority, it will mean the first hung parliament since February 1974, and only the second since 1929. That might give Nick Clegg, leader of the Liberal Democrats, the power to determine whether Mr Brown stays on in Downing Street or Mr Cameron takes over from him. In either case a loose parliamentary alliance is more likely than a formal coalition with the Lib Dems.

At first sight, this uncertainty is baffling. The Conservatives have what seems a big lead over Labour. True, it has diminished since last year, when at times it reached 15 percentage points and more. Even so,
a rolling average of polls calculated in early April by UKPollingReport, which tracks these things, showed that 38% of people backed the Tories, 30% supported Labour and 20% preferred the Lib Dems.

But under Britain’s curious electoral system, this is not enough to guarantee outright victory to the Tories. The party has been labouring under a disadvantage for the past two decades. One reason is the lag in adjusting electoral boundaries for the steady exodus of people out of Labour-leaning cities into Tory-leaning suburbs and the countryside. Although the election will be fought in England on new boundaries (Scotland’s were adjusted in 2005), they reflect electorates in 2000 and are thus already a decade out of date.

Even allowing for this bias, the Tories convert their nationwide votes into seats less efficiently than Labour. This is partly because they pile up big majorities on high turnouts in safe seats, whereas Labour wins its safe seats on lower turnouts. But it is also because of what happens in the marginal constituencies, held with narrow majorities, which will determine the outcome of the election. In recent elections Labour has done especially well in such seats, helped by tactical voting. Supporters of third parties like the Lib Dems have often backed Labour candidates to keep the Conservatives out.

A crucial question is whether such anti-Tory voting will dissipate in the 2010 election. John Curtice, an electoral specialist at Strathclyde University, says that the polls are not yet picking up tactical voting, because third-party supporters generally make up their mind to vote this way late in the day. Lib Dem voters do still tend to be relatively more sympathetic to Labour than to Conservatives. But as antipathy to the Tories seems to have waned a bit since Mr Cameron sought to modernise his party, tactical voting may well hurt them less than in the past, says Mr Curtice.

So how can the parties turn the campaign to their advantage? Clearly they have to hang on to committed supporters and ensure that they turn out. As Labour support dipped perilously last year, this became a priority for Mr Brown. That is one reason why the party has tried to present itself as the defender of crucial public services (for example, promising real rises in spending on schools until March 2013), despite the straitened government finances.

But elections are won or lost by appealing to less committed voters in the middle. In 1979 Margaret Thatcher won over the skilled working class, those whom market-researchers dub “C2s”. Economic and social change has thinned their ranks and, according to Roger Mortimore, head of political polling at Ipsos MORI, lower- middle-class (“C1”) voters are now an especially coveted demographic group, not least because they make up over a quarter of the electorate.
So too are other groups. Younger women with children (many of whom will also be C1s) swung to Labour in 1997 and are now being wooed by both parties. The love-in of all three main party leaders with social-networking websites like Mumsnet in recent weeks was hilarious. And older folk, who have the electoral merit of turning out reliably to vote, are another target. In recent days both Labour and the Tories have fallen over themselves to promise goodies to the grey-haired.

Elections, though, are much more than precision marketing aimed at specific groups. The battle has to be taken to all voters. The main front will be the economy, now uppermost among the issues worrying people. Both the main parties are vying to present themselves as best able to secure the recovery. Public services such as the National Health Service are next in importance when people decide how to vote, they tell pollsters. This helps to explain why both the main parties say they will shield the NHS from real spending cuts, Labour until early 2013 and the Tories for the whole of the next parliament.

That may nonetheless underestimate the impact of the economy on the election. Voters decide whom to vote for in a broad-brush way, says Mr Curtice. Competence in running the economy is likely to be one of the crucial judgments that influence their decision.

And competence is not just about party pledges and the like but about people. More than any past election, this one will be about leadership, pitting a young pretender against an old hand. That will also make the televised debates of the three main party leaders—a first in a British general election—a crucial part of the campaign. They will give unusual prominence to another Young Turk, Mr Clegg, thus perhaps benefiting the Lib Dems the most.

Some campaigns matter; others don’t. In 2005 voting intentions changed little in the run-up to the election, whereas in 1970 and February 1974 they changed fundamentally. With so much uncertainty about the outcome, in this election the campaign could well make the difference.
## Electoral politics

### Who’s who

**Labour**

**Gordon Brown**  
**Prime minister**  
He has been compared to both Joseph Stalin and the hapless comedy character Mr Bean. To his friends: serious, high-minded, impatient with fripperies. To his enemies: indolent, irascible, lacking the human touch. He inherited the party leadership from Tony Blair in 2007, and has survived several coup attempts since then.

**Peter Mandelson**  
**Business secretary**  
Returned to the government in 2008 following a stint in Brussels, after twice resigning from Mr Blair’s administration. A founding member of New Labour, Lord Mandelson’s real talents lie in the dark sorcery of public relations and internal party discipline.

**Ed Miliband**  
**Energy secretary**  
Clever, approachable and a Browning from an early age, he is seen as a possible future leader (although his Blairite elder brother David, the foreign secretary, is more fancied). For now, he has been entrusted with the job of writing Labour’s election manifesto.

**Conservative**

**David Cameron**  
**Leader of the opposition**  
Mr Cameron has led the Tories for almost five years, and has tried to soften their lingering image as “the nasty party”. His pokka background makes him an irresistible target for class warriors, but his instincts are sharp: his once-unelectable party is now firmly camped on the politically crucial centre ground, and leading in the polls.

**George Osborne**  
**Shadow chancellor**  
A close Cameron ally. Was fond of talking about the need for severe fiscal retrenchment till party command realised it was frightening voters, who remain unsure about the new, cuddlier Tories. Struggles to shake off the perception, especially among businessmen, that he isn’t quite up to the job.

**Michael Gove**  
**Shadow schools secretary**  
The nearest thing the Camerons have to a guru. Even gurus need a guru: Edmund Burke, he says, is his. A liberal interventionist in the mould of Mr Blair. Responsible for an eye-catching policy, imported from Sweden, to allow parent groups, charities and so on to open their own schools.

**Liberal Democrat**

**Nick Clegg**  
**Party leader**  
Suffers from comparisons with Mr Cameron, whose image (young, modernising) is virtually identical but who has a bigger PR budget. A free-marketer, he is more Liberal than (Social) Democrat. He has called for voters to be treated like “grown-ups” over the fiscal tightening to come.

**Vince Cable**  
**Treasury spokesman**  
The politician who has done best out of the financial crisis. Once Shell’s chief economist, Mr Cable’s analysis has won him many plaudits. Adds heft to a party often seen as lightweight. He could be chancellor if the Lib Dems make a pact with another party.

**Chris Huhne**  
**Home-affairs spokesman**  
Lost the 2007 party leadership election to Mr Clegg. An ex-journalist, City economist and MEP, he has more of a hinterland than many top politicians. An advocate of environmentalism in general and green taxes in particular, both of which play well with the party’s base.
The fight for Finchley

Heir apparent
Apr 8th 2010
From The Economist print edition

Local factors weigh as much as national ones in Margaret Thatcher’s old seat

A GOLD-FRAMED portrait of Finchley’s most famous daughter dominates the headquarters of the local Conservative Association. Margaret Thatcher, once prime minister, smiles down on a room full of election paraphernalia. A whiteboard displays vote pledges and ward maps are covered in pins denoting poster sites, says Mike Freer, who is running to regain the parliamentary seat for the Tories after Labour snatched it up in the party’s landslide victory in 1997. Some 300 residents have offered to display posters, compared with just 65 in 2005.

Mr Freer says Lady Thatcher inspired him to enter politics. “I was completely enamoured,” he recalls, and adds that he would be "proud to return the seat” of Finchley and Golders Green, the most marginal in the country, to the Conservatives. The incumbent Labour MP, Rudi Vis, is stepping down and modest boundary changes have smiled on Mr Freer, who is heavily favoured to win.

A strong local and national reputation will help the Tory too. Mr Freer was leader of the local council, Barnet, until he stepped down in December. His vision for the borough attracted national attention last year when he argued that the council should retain only limited functions and staff, devolving budgets to residents and allowing them to top up some services for cash and get money back on others. Much of this has been popular with the area’s largely wealthy residents. Journalists were not slow to dub Barnet easyCouncil, in a nod to a no-frills airline, easyJet.

But Mr Freer has attracted criticism as well. The council had £27.4m ($41.5m) invested in two Icelandic banks that went bust in 2008. It also lost a High Court battle in December over a controversial decision to cut warden services in sheltered housing for frail and vulnerable people. No one could have foreseen Iceland’s financial collapse, counters Mr Freer, and cutting services in sheltered housing would permit the council to provide an equal level of support to all older people.

The chairman of the Labour group on Barnet council, Alison Moore, is standing against Mr Freer in the parliamentary contest and makes much of his local record. She insists that he used his position as council leader to make a national name for himself, and says that the debacle over warden services, as well as his identification of 300 costly “problem families”, has laid bare the harsh underpinnings of “compassionate Conservatism”. So could Mr Freer end up being as controversial as his famous predecessor?
Matthew Taylor, formerly head of Tony Blair’s Policy Unit and now chief executive of the Royal Society for the Arts, which champions new forms of what it calls “citizen power”, reckons there is an “ideological thrust” behind much of Mr Freer’s outsourcing and easyCouncil approach. But other “cutting-edge” local authorities of different political hues also aim, as he does, to nudge citizens into certain sorts of behaviour—recycling, say—through the use of financial sticks and carrots.

Back at the Conservative club, Derek Phillips, who met Lady Thatcher when she first arrived in Finchley and recalls her as “wonderful”, says Mr Freer is a worthy heir to “her” seat. Whether he will be remotely as influential remains to be seen.
The first crop of memorable moments

Dodgy sound-bite of the week

"I want to tell you what I am fighting this election for—it is the people I call the Great Ignored."

David Cameron’s “great ignored” was probably modelled on Richard Nixon’s “silent majority”. But it didn’t have quite the same ring to it, sounding perilously close to the “great unwashed”.

Trouble at t’mill of the week

The British National Party was rocked by the arrest of a senior official, who allegedly threatened to kill the BNP’s leader, Nick Griffin. Mark Collett, until recently the BNP’s head of publicity, was also accused of planning a “palace coup”.

Shortest-lived tax rise of the week

In the budget last month, the chancellor announced a steep rise in duty on cider. This week the government sacrificed the measure during the last-minute bartering over outstanding parliamentary bills. It came into effect on March 29th and will be reversed on June 30th (unless Labour wins and renews it). A rare example of a tax introduced just before an election and scrapped straight after it.

Gaffe of the week

"If you look at the case of should a Christian hotel owner have the right to exclude a gay couple...if it’s a question of somebody who’s doing a B&B in their own home, that individual should have the right to decide who does and who doesn’t come into their own home."

Chris Grayling, the shadow home secretary—who may or may not get the real job if the Tories form the next government—expresses some un-detoxified views on homosexuality.

Photo of the week

Vince Cable, the Lib Dem Treasury spokesman, looking on in bemused toleration as Nick Clegg, his leader, gives an interview, is a close second. But the most striking image was Lord Mandelson, standing in front of the door of Number 10, slightly apart from the throng of cabinet ministers as they waited for Gordon Brown to emerge and announce the election. Everyone got the message: this is Lord Mandelson’s moment too.

Exploitative use of the World Cup of the week

"Wayne Rooney’s just had an injury to his foot and I know everyone will be hoping he’s fit for the World Cup, but after an injury you need support to...get back your full strength and then go on to lift the World Cup. So with the economy—we’re not back to full fitness...If you withdraw support too early, we’ll risk doing more damage."

Mr Brown enlists the country’s favourite footballer, implying that anyone opposing his fiscal policy is also opposed to England winning the World Cup.

War wound of the week
“Daddy, stop making so many boring speeches.”

Attributed by Mr Cameron to his four-year-old son. The remark was allegedly backed up with a kick to the Tory leader’s head, which explains the facial blemish he took into the campaign.
The small-business vote

Together, a multitude

Apr 8th 2010
From The Economist print edition

A constituency that could make a difference

POLITICIANS ignore the business vote at their peril, and not just because of the noise made by captains of industry. The Federation of Small Businesses (FSB) reckons that about 6,000 voters in each constituency are sole traders or own small businesses. For a candidate in a marginal seat, securing that vote is important. Labour has got off to a bad start.

Last month businesses large and small rallied to support George Osborne, the shadow chancellor of the exchequer, when he said that the Conservatives, if elected, would reverse most of the government’s proposed hike in national-insurance contributions. That increase, first mooted in November 2008 and enlarged a year later, is due to take effect from April 2011. Adding a percentage point to both employer and employee contributions, it is supposed to bring the exchequer £6.3 billion—but only after the economy has, according to optimistic official projections, resumed growth of 2.5% or more.

Mr Osborne and most businessmen denounce it as a “tax on jobs”. The FSB calculates that 57,000 positions would be cut or not created, sacrificing potential business growth. A letter to the Daily Telegraph from 23 leading company bosses on March 31st urged the government to cut public-sector waste instead. Another 45 added their names over the next few days. Mr Osborne, it seemed, was on a roll.

There are limitations to the Tory proposal. It mitigates the impact of the rate hike by raising the threshold of earnings to which it applies. That will make it harder to simplify the way national-insurance contributions interact with personal-income tax. In 2007 the government announced laudable plans to align the systems better (though its own subsequent tinkering undermined them).

But bosses understand how the tax works, and Gordon Brown’s assertion this week that Mr Osborne had somehow misled them into supporting him sounded patronising. The prime minister is fighting on, no doubt hoping to find in the Tories’ rejection of his tax increase a way of discrediting their entire fiscal-sobriety pitch.

In any event, small firms have other concerns as pressing as national insurance. Many say that the overall
cost of starting and running a business is a bigger worry. Business rates, paid on shop and company premises, can be just as hard to handle in a downturn. In the budget last month the government did offer further business-rate relief, a popular move. But small businesses would prefer to be taxed only on profits, not on premises or staff, since “at least it’s money you’ve made,” says Andrew Aves, the FSB’s organiser for Kent and Medway.

Small firms have small public footprints, but together they are immense. Some 4.8m of them employ 58% of the private-sector workforce. They have weathered the recession without much help from the government or, incidentally, the banks. Hiscox, an insurance company, says many owners dipped into their own pockets to ride out the crisis, a third taking salary cuts and a fifth investing a total of £16 billion. They are the “unsung heroes of the recession,” says Alan Thomas of Hiscox. They may also prove the common-sense voters of this election.
The female vote

What women really want

Apr 8th 2010

From The Economist print edition

Much the same as men—but with subtle differences politicians hope to exploit

WITH a tight race looming, all the parties are looking for any advantage they can find. One promising place is in the small but consistent political differences between the sexes. All three main parties are wooing women.

The fairer sex is a familiar target for political parties. “Soccer moms” were thought vital to Bill Clinton’s presidential campaign in 1996, and “Worcester woman” was said to be crucial to Tony Blair’s victory in 1997. Today it is the “Mumsnet voters”, named after a website that many mothers frequent, who are in the crosshairs. Such is the importance attached to the group who are drawn to the site that the leaders of the three main parties have fallen over themselves to be interviewed on it. David Cameron, the Conservative leader, travelled to Bristol recently to discuss nappies for disabled children with a Mumsnetter who was dissatisfied with the answers he gave online.

The site serves relatively well-heeled women with young children, most of whom are at school. Until 1997 such women were more likely to vote Conservative than Labour. They switched their allegiance to Tony Blair: indeed, according to Ipsos-MORI, a polling firm, in 2005 more women than men voted for Labour, the first time that has ever happened.

Rosie Campbell of Birkbeck College, London attributes the shift to the increase in the number of working women. When fewer women worked outside the home, she says, they tended to support political parties that kept the state out of that home. Now that most women have jobs, they seek state help not only with employment law but also with pressing practical matters such as child care. Ms Campbell thinks women view politics “through a lens of family life” in a way that men do not. Yet she reports that the trend towards Labour may be going into reverse.

The reasons for the apparent volte-face remain mysterious. But it is consistent with some observers’ perception that women are harder to second-guess than their male counterparts. Women are thought to remain undecided for longer, often making up their minds as they enter the polling booth. They also appear less tribal and more likely to switch their affections—one reason why politicians are so keen on...
courting them. And women are more dutiful democrats: in the 2005 election they were about four percentage points more likely to vote than men, says Ms Campbell.

So far the Tories seem to be winning the battle for female hearts and minds. A Mumsnet survey suggests a small Conservative lead, although the results fluctuate from poll to poll. But the Tory message could use a little fine-tuning: in their posts many Mumnetters oppose giving tax breaks to married couples, the details of which Mr Cameron has promised to reveal before the election. A lot of them are unmarried, and many of those who are wed think it unfair to penalise single mothers. Others are worried that the proposals favour stay-at-home mothers at the expense of their working counterparts. And some with philandering husbands claim to see the tax break as a potential “golden halo” to a new wife.

The Tories appear to be gaining support from poorer mothers too. A rival website called Netmums, which caters for the less prosperous, published a more rigorous poll on April 4th. This showed that 34% of its members intended to vote for the Conservatives (up from 16% in 2005), 24% of them for Labour (down from 35%) and 16% for the Liberal Democrats (up from 12%). Good news all round then for Mr Cameron, who is due to become a father again after the election.
AGEING societies put their electioneering politicians in a bind. Being seen to represent youth, the future and the prospect of change is generally a good thing. At the same time, policies must be crafted with the teeming grey vote in mind. The result is often a dissonance between a party’s brand and its actual product.

New Labour, as the name suggests, made a fetish of youth; Tony Blair went out of his way to speak of Britain as a “young country”. Many of its most expensive innovations, though, such as free television licences for the elderly and the broader strategy to fight pensioner poverty, were in fact aimed at old people.

Something similar is true of the Conservatives now. David Cameron, their leader, trades on his youth as much as Gordon Brown, the prime minister, burnishes his middle-class social background. But there are many Tory policies that are either aimed at old people directly (such as his promise to peg the state pension to earnings, a pledge also made by the government) or benefit them disproportionately (such as the two-year freeze on local council tax, the bane of those on fixed incomes).

It is easy to see why political parties are keen on oldsters. To start with, there are more of them all the time as baby-boomers hit retirement. The median age in Britain rose from 34 in 1971 to 39 in 2004, and is expected to hit 43 in 2031. There are 17m people over the age of 55, and, thanks to improvements in health care, the very old are growing particularly fast. Age UK, a pressure group for the elderly, is running a campaign during the election under the slogan “our power is our number”.

The ultimate power of older folk, however, stems from their propensity to vote. A survey published by Age UK on April 5th showed that eight out of ten over-55s said they would definitely vote in the coming general election. That is 13.4 million votes, or half the total turnout at the last two general elections. Only half of 18- to 24-year-olds said they were certain to vote. And grey voters are strategically scattered across the country. In research conducted for the pressure group by De Montfort University, over-55s were expected to account for the majority of votes cast in 94 marginal constituencies.
The grey vote leans Tory. Those between 55 and 64 prefer Mr Cameron’s party over Mr Brown’s by a margin of 12 points, which grows to 26 points among the over-65s. This is an historic pattern, but it may also owe something to Mr Brown’s personal unpopularity among some of the elderly. As chancellor of the exchequer for ten years, his efforts to improve the lot of poor pensioners often saw him claw funds from more prosperous ones. Many have not forgiven him for a paltry increase in the basic state pension in 2000, or for removing a tax relief enjoyed by private pension funds three years earlier.

Still, Mr Brown may be right to question whether doing more for the elderly as a group is a sensible idea. Many of them remain poor, it is true, and even those who are not may have serious anxieties about the affordability of social care. But the elderly as a whole are better off than their children are likely to be. Baby-boomers have done well out of the welfare state.

In a recent book, “The Pinch”, David Willetts, a cerebral shadow cabinet member with a special interest in generational politics, estimates that the over-65s own £2.3 trillion of Britain’s £6.7 trillion in personal wealth and those aged between 45 and 64 £3.5 trillion. Younger adults have more limited prospects of a decent occupational pension or housing nest-egg and will work far longer than their parents.

Some older voters, perhaps moved by their offspring’s inability to buy their own home, recognise this. The Age UK survey shows that 71% of over-55s think there is too much emphasis on youth in politics, but only 50% agree that politicians actually “put the needs of younger people before those of older people”. Many politicians (and Mr Cameron more than most) try to exude youth while designing policy for the old; they should try doing the opposite.
This general election marks the end of an era. What comes next is rather less clear

GO ON: have a vote in the general election on May 6th. Tell you what, since it’s you, I’ll chuck in the local elections too: buy none, get another one free. In fact, here’s what I’m gonna do: I’ll give you this general election now, and you can pay for it later. And believe me, love, you won’t get an offer like this one again, not for a long time. You really won’t.

Some general elections mark the end not only of governments but of historical eras too. The one in 1945 signified the end of pre-war social atomisation and adumbrated the birth of the welfare state; the election of 1979 marked the demise of the post-war economic settlement. The election called by Gordon Brown after his visit to the queen on April 6th also coincides with the end of an era: the passing of the era of free stuff. The contest will in a sense be a referendum on that giddy age; its freebies and excesses—big and small, public and private, enjoyed by rich and poor alike—will loom over the campaign. The new era that lies on the other side of polling day, however, is less well defined.

The big free stuff includes much of the infrastructure upgrade of the past decade. Many of the new schools, hospitals and other gleaming facilities of which Labour will boast in the next month were constructed under the private-finance initiative, and so have largely not been paid for yet. And the country has belatedly realised that it hasn’t settled the bill in full even for those things it thought it had bought upfront. Instead the government ran a fiscal deficit that was irresponsible in the fat years and became calamitous in the lean ones. Last year it was £167 billion, or 11.8% of GDP. Debt is the elephant in the polling booth.

There has been plenty of free stuff for individuals too. Almost the same number of people subsist on state benefits—over 5m—as when Labour came to power. This is one of the most damning statistics of its time in office, and it deserves to be aired frequently during the campaign. And while too many have-nots have been left freely to rot, many of the haves have been having more than they could afford. There is a theory that the invention of the credit card ruined capitalism, by breaking the link between effort and reward. It has some relevance to contemporary Britain, whose citizens are more heavily indebted those of any other big economy. They have been insulated from the consequences by low borrowing costs—but probably will not be for long.
Meanwhile, too many MPs helped themselves to all manner of free stuff of their own: free home renovations, free manure, duck houses and so on. One of the main mysteries of the election is whether the parliamentary-expenses scandal will galvanise turnout on polling day, or whether a wholesale disenchantment with politicians will depress it. (The various plans for parliamentary and constitutional reform, touted by party leaders this week as compensation for their colleagues’ greed, are unlikely to assuage the ire.) And for most of the noughties politicians were blessed with a more intangible, but, in its way, equally corrupting luxury: an apparent freedom from hard decisions, such as deciding between holding direct taxes down and raising public spending, or between compassion for the poor and concern for its price.

This is the context of the election. The glut of free stuff is over. Everyone knows it, both the politicians and, in their bones, many voters. But there’s an unfortunate problem with free stuff. People find it hard to give up, even if they know they ought to.

**Vote now, pay later**

Apart from MPs’ soft furnishings, free stuff remains inconveniently popular. Even if they realise that the bill will have to be met eventually, voters like refurbished schools and magically multiplying doctors; they crave tax cuts, but would prefer them to carry no obvious cost in lost services and privileges. This is the awkward if predictable evidence of recent public-opinion polling. The upshot is that this election’s obsequies for the era of free stuff will be mostly euphemistic, relying on the weaselly vocabulary of “tough choices”, “efficiencies” and “transparency” rather than gritty specifics. In the early days of campaigning this week, even those platitudes were uttered only rarely.

The Conservatives’ label for the dying epoch is the “age of irresponsibility”, a tag they once laudably applied to profligate householders as well as to the government. But these days the Tories are quieter about the “age of austerity” that was once the corollary. Their avowed fiscal conservatism is clouded by their pet inheritance-tax cut and tax break for marriage. Their notion of the “Big Society”—in which public-sector monopolies would be broken up and power devolved to communities—is as close as the election is likely to come to a Big Idea. But it is only indirectly and remotely a plan for saving money. For his part, Mr Brown is obliviously pledging more state activism and better public services. The Liberal Democrats are only marginally more frank.

Now, it is only natural that politicians are striving to make the post-free-stuff era sound like a happy opportunity rather than purgatory. But the risk is that a campaign that might have served as a cathartic transition instead leaves the nation woefully unprepared for what is to come: tax rises (VAT is the obvious candidate), public-sector cuts for which swingeing may be too kind an adjective, as well as, eventually, higher interest rates. An election that was supposed to re-forge trust between politicians and the electorate could end up shattering it even more. Whoever wins (if indeed someone does) will probably boast only a slim and shallow mandate, and incur swift and deep unpopularity.

So, in a way, this general election is itself set to be a freebie: the last hurrah of the free-stuff era, as well as a requiem for it. The country is indeed being invited to vote now and pay an unspecified price later. The real sales pitch for it should be: dissatisfaction guaranteed, and no money back.
Defining what makes a country

In quite a state
Apr 8th 2010
From The Economist print edition

How many countries in the world? The answer to that question is surprisingly difficult

APPLY online for visa-free entry to the United States and the Department for Homeland Security offers 251 choices for “country where you live”. The wide but rum selection includes Bouvet Island, an uninhabitable icy knoll belonging to Norway in the South Atlantic; South Yemen (which stopped being a state in 1990); and the “Neutral Zone”—a diamond-shaped bit of desert between Saudi Arabia and Iraq that vanished after the 1991 Gulf war.

That is the trouble with such lists. Places that are not real states at all end up on them. And places that approximate a bit more closely to countries (at least in their own eyes) may be absent. America’s list, for example, excludes Abkhazia and South Ossetia, self-proclaimed states that broke away from Georgia with Russian backing. Just three other countries—Nicaragua, Venezuela and the islet of Nauru—recognise those breakaway statelets as independent. Meanwhile nobody at all in the outside world seems ready—yet—to give southern Sudan a label of its own, though that day may not be far off.

Private-sector lists are just as odd as those compiled by governments. Hotmail offers 242 “countries/territories” from which you can register an e-mail account. Web-savvy penguins may be pleased that Bouvet Island is on the list. But human beings in Kosovo (recognised by 65 states) and Western Sahara (more than 80) will search in vain for their homeland.

Any attempt to find a clear definition of a country soon runs into a thicket of exceptions and anomalies. Diplomatic recognition is clearly not much guide to real life. In the early years of the cold war most countries recognised the Chinese regime in Taiwan (“Free China”) while the mainland communists (“Red China”) were isolated. Now the absurdity is the other way round. The number of countries with formal diplomatic ties to Taiwan has shrivelled to just 23—mostly small, cash-strapped islands. Yet Taiwan is not just a country, but a rather important one. Under mainland-pleasing names such as “Chinese Taipei” it is a member of the Asian Development Bank and the World Trade Organisation, and an observer at some OECD panels. It has nearly 100 “trade offices” around the world.

If diplomatic recognition is not the main thing that marks out a country, what does? Is it the ability to issue passports that are of some use to the holder, or simply actual control of a stretch of land? Again, the
picture is cloudy. Legitimacy, physical control and the capacity to issue documents that other people accept don’t always coincide. For example, lots of countries that do not recognise Kosovo accept travellers bearing its passports. For decades, Lithuania’s exiled diplomats issued usable passports even though their country was under Soviet rule. The Sovereign Military Order of Malta, a do-gooding outfit with crusader roots, issues not only passports but postage stamps (and has diplomatic relations with over 100 countries). Its territory is just two nice buildings in Rome. Vatican City, an enclave of just 44 hectares in the middle of Italy’s capital, is only a little bigger—but it very much sees itself as a sovereign state (see article). Yet the Vatican’s diplomats serve the papacy—the Holy See—rather than the state where it is based. And the See, not the statelet, is an observer at the United Nations.

Not that presence or absence from the UN is much help to anyone seeking clarity. Israel joined the world body in 1949, but 19 of its 192 members do not accept the Jewish state’s existence, and many avoid uttering its name, preferring formulas like “Zionist entity”. A third of UN members do recognise Kosovo, but the UN itself does not.

**Living in limbo**

In reality, UN membership is neither a necessary nor a sufficient condition for functioning statehood. Being outside the UN means that Kosovo is still waiting for its own internet domain name, phone prefix and chance to play international football. But Taiwan, recognised by even fewer countries, manages to have all three.

The Turkish-backed administration in northern Cyprus proclaimed independence in 1983 but it has been recognised only by Turkey and remains in a state of partial economic isolation. Attempts have been made to start direct air links with Britain, but in 2009 a court ruled that this would contravene international law which gives the island’s internationally recognised government (which controls the Greek-speaking part of the island) sovereignty over its airspace.

A German thinker, Max Weber, defined statehood as “the monopoly of the legitimate use of violence”. That may be a practical approach but it doesn’t end the confusion. Chaotic Somalia spectacularly fails to meet this criterion, yet still counts as a sovereign state. Yet its northern bit, Somaliland, has met this standard with increasing impressiveness since it declared independence in 1991. It has a currency, car registrations and even biometric passports. But only private firms such as DHL, a courier company, link it to the outside world. International postal service requires membership of the Universal Postal Union, which for non-members of the UN need approval by at least two-thirds of that body’s members. The African Union refuses to recognise Somaliland’s independence because it dislikes changing any African borders. Outsiders hold back until African countries change their minds.

One reason for confusion is simple laziness. Deleting countries that have disappeared or places that have always been uninhabited should be easy (the Department of Homeland Security blames out-of-date historical data for its list and says it will change it soon). But sheer inertia, and a feeling among many sovereign states that changes of boundary and status set a bad precedent, makes changes less likely.

How far a populated patch of land qualifies as a country is ultimately a subjective question for politicians; it will never be settled by lawyers in a way that everybody accepts. And the fact that there are degrees of recognition—ranging from full diplomatic ties to virtually denying a state’s existence—gives governments a calibrated set of tools which can be used to reward good behaviour and penalise bad.

And whatever diplomatic theory says, life goes on. Taiwan is celebrating a friendly resolution from the European Parliament, and dishing out aid to Haiti. Kosovo rents dialling codes from Monaco and Slovenia. A football championship for teams from unrecognised countries is due to start next month in Malta. And a delegation of senior politicians from Somaliland had a friendly meeting at the White House on April 3rd. Presumably they had squared things with immigration control.
A penchant for conspiracy is no help to the Vatican’s image

IT WAS a scene that could have come from medieval times: the ruler sat on a gilded throne before the multitude as a courtier extolled his virtues. The sovereign, he said, was an “unfailing rock” who would not be deterred by the “idle chatter” of critics.

The setting was St Peter’s Square at the start of the most solemn Mass in the Roman Catholic liturgy, on Easter Sunday, April 4th. The ruler was Pope Benedict XVI and his courtier Angelo Sodano, the dean of the college of cardinals. His oddly anachronistic eulogy was a reminder that the Vatican is not a democratic state or a multinational firm, but a sort of absolute monarchy. Catholics believe its ruler owes his place to divine right: that he is chosen not by the cardinals who elect him, but ultimately by the Holy Spirit working through them.

That is why it may be misleading to view the scandal over clerical sex abuse that is rocking the Catholic church as a latter-day Watergate, certain to undermine the pope’s legitimacy in the eyes of his own lieutenants. Deeming their mandate to be from God, popes believe it can only be taken away by the Almighty at death. Whatever evidence is produced to embarrass Benedict and his church, it will be irrelevant to the length of his tenure. But it will not be irrelevant to his—or its—moral authority, and that point risks being lost as the Vatican sinks ever deeper into self-pity, laced with conspiracy theory.

Beyond its high walls, the crisis is deepening. On April 7th it was reported that a bishop, Georg Mueller of the Norwegian diocese of Trondheim, had resigned last year after confessing to the sexual abuse of an altar boy. He is the most senior prelate to have been linked to the scandal.
So far, the pope has made no direct comment on the crisis, whose recent effects have been sharpest in continental Europe. Last month, he sent a message to the faithful in Ireland about the scandals there, which go back several years, but he rejected suggestions that he make it a letter to the entire church. Benedict extended his silence through Easter, leaving Vatican officials to fill the void. The tone of their response was set on April 2nd when the pope’s personal preacher, Raniero Cantalamessa, claimed there was a “violent and concentric attack on the church, the pope and all of the Catholic faithful” from all over the world. He also read out a letter he said he had received from a Jewish friend comparing the methods used to criticise Catholics with those deployed in the persecution of Jews. Reactions from Jewish leaders ranged from dismay to fury. It was the latest of many signs that, under Benedict, high-profile speeches—like this one, given at the main Good Friday service—are not checked for the impact they could have on the outside world.

Father Cantalamessa apologised. But in an interview with the Vatican daily, L’Osservatore Romano, four days later, Cardinal Sodano offered fresh fuel to those who claim the Catholic hierarchy is trying to turn the crisis into a confrontation with the world’s Jews. Portentously, he declared that the controversy over sex abuse “is now a cultural clash: the pope embodies moral truths that are not accepted and so the shortcomings and mistakes of priests are being used as weapons against the church.” He went on to compare the “attacks on the pope” with criticism of Pius X (the hero of ultra-traditionalist Catholics), Paul VI (who condemned contraception) and Pius XII, whose silence over the Holocaust remains a painful controversy. Rabbi Giuseppe Laras, honorary president of the Italian Rabbinical Assembly, retorted that “bringing in Pius XII gives an impression that behind the storm over paedophile priests are the Jews [and that] we are mobilising public opinion against the Vatican.”

The Vatican’s search for ulterior motives is in tune with Italian political culture, with its love of dietrologia (or “background-ology”). So is the tendency for those accused in scandals to adopt the role of victim (Italy’s prime minister, Silvio Berlusconi, has successfully used both tactics). Despite the German origins of the current pope, many features of the Vatican still reflect the country where it is based. That may explain the inability of its senior officials to understand the irritation, or even contempt, which its pronouncements sometimes stir in other places.

It is not as if they have no arguments. Sexual abuse of children is scarcely confined to Catholic priests (though figures from Malta where, according to the diocesan authorities, 45 of the 850-odd priests on the island have been accused, suggest it is alarmingly widespread). Pope Benedict, unlike his predecessor, has not ignored the problem of clerical sex abuse and has improved procedures for tackling it.

But there is also abundant evidence that the Catholic hierarchy remains addicted to secrecy, and that it instinctively sees as its main task the safeguarding of the reputation of the church, rather than cooperation with the civil authorities or protecting potential victims. One recent case involves a priest found to be working in India, four years after criminal charges for sexual assault, which he denies, were laid against him in America. Father Palanivel Jeyapaul had been tried under canon law in India, but not defrocked, even though, according to a statement from the Vatican’s lawyer on April 5th, it had recommended he be dismissed from the clergy.

Something was obviously wrong in the handling of that case, as in the management of many others. It doesn’t help much when all concern about the Vatican’s approach is dismissed as mere “chatter”. 
Win or lose, you may still be able to sue

WHEN the tribes of ancient Israel defeated the Midianites, the victors got the losers’ 675,000 sheep, 72,000 oxen, 61,000 asses and 32,000 female virgins (males and non-virgin women were slaughtered), as well as the gold and jewels. The biblical account suggests that, in that era at least, this was a standard post-conflict resolution of property questions.

These days, the accepted rules on what a conqueror can grab are different. A bid to enforce one of the biggest awards of compensation to a victim of wartime looting is now under consideration by Canada’s Supreme Court. The story started when lawyers representing Kuwait Airways filed a commercial claim in an English court in 1991 against Iraq and the state-owned Iraqi Airways for seizing ten aircraft and aircraft parts during the 1990-91 Gulf war. After much wrangling, it gained a $1.2 billion judgment which it is now trying to collect in at least nine jurisdictions. The Canadian court is being asked to rule on whether a Kuwaiti airline can impound some assets in Montreal—including six aircraft and two buildings—that belong to the Iraqi state.

Although aircraft lack the resonance of the cultural treasures which have given rise to some famous disputes over looting, some of the legal arguments are similar, says Christopher Gooding, a lawyer for Kuwait Airways. The rules on respect for property during conflicts have “stabilised” after a long process that began with the Napoleonic wars, according to Wayne Sandholtz, author of a book called “Prohibiting Plunder: How Norms Change”.

Napoleon’s campaigns saw such voracious plundering that his foes eventually forced France to give much of it back. The Lieber code, issued by Abraham Lincoln in 1863, set a new norm of respect for property, even in the heat of war. “Private property, unless forfeited by crimes...of the owner, can be seized only by way of military necessity,” it said, while listing individual acts of “pillage and sacking” as crimes.

The Geneva Conventions, the first of which was negotiated by European nations in 1864, and a series of meetings that began in The Hague in 1899, also set limits on the victor’s right to claim spoils. And respect for cultural property was mandated by the Hague Convention, concluded in 1954: a treaty which the
United States ratified in 2009 and backs diplomatically.

The convention guides judges in private suits over plunder, as well as states wrangling over property after a war. But that does not mean that it is observed, during or after war. One notorious case of wartime theft occurred in American-occupied Iraq, when mobs looted Baghdad’s museum and Donald Rumsfeld, then defence secretary, was criticised for his lack of concern. But as Mr Sandholtz argues, legal historians will also recall the fact that other American officials acknowledged their duty to protect the museum, and deplored the way this duty was neglected.

As the history of the 20th century shows, evidence of plunder that meets legal standards is hard to collect in the chaos of war, and against a background of even graver horrors. Among the myriad Nazi crimes against the Jews was the creation of bogus bills of sale or forced transfers of property. Unravelling such documents is still keeping lawyers busy.

And sometimes might still equals right. Russia holds onto much Soviet-era plunder, taken from Germany and other countries, including from private citizens who were anti-Nazis. Some of that is justified as reparation for damage done by Hitler’s forces, such as the seizure of the Amber Room, a chamber in a tsarist palace, whose fate is a mystery. In other cases the reason seems to be spite: Russia refuses to hand back, for example, Estonia’s presidential seal and regalia, seized during the annexation in 1940.

And there will always be victims of looting who could claim but lack the resources to do so. A glaring case is Congo, whose neighbours intervened and plundered in the chaos that followed Mobutu Sese Seko’s fall in 1997. Much of this was documented in UN reports. But in such places the ancient laws of war still apply.
With a month to go, voters seem to think Labour deserves to lose the election but the Conservatives don’t deserve to win it. An unexpectedly close race could hand an important role to a third party for the first time in almost four decades.
THIS time next month, a government may have fallen, and New Labour gone to its rest alongside Thatcherism. But the mood in 2010 is very different from the buzzing eagerness of 1997, when the Labour Party swept the Conservatives from power. This time the polls are close; party positions are far less distinct than party rhetoric; many voters are undecided; and a big chunk of them are more apprehensive about the future than elated by it.

Five years ago Labour won an unprecedented third consecutive victory. Five months ago it looked as if that would have to be the limit of its ambition. Labour seemed tired and divided, its leader, Gordon Brown, ham-fisted and hated. The Tories, redeemed from political Siberia by a fresh-faced centrist, David Cameron, were streets ahead in polling, and had only to hold on to win.

But things moved on. The prime minister, bloodied but unbudgeable, urged voters to “take a second look
at Labour” and “a long, hard look” at the Conservatives. They did. And decided they either didn’t know what the Tories stood for or didn’t like it. By the end of March a hung parliament, in which no party enjoys an overall majority, seemed a plausible outcome.

The background to all this is one of wrenching change and uncertainty, on several fronts. For a decade and a half Britain enjoyed solid growth. The City of London was the world’s biggest international financial centre. Jobs grew on trees. Heavy spending on public services pulled up their quality a fair bit. Most Britons grew more tolerant of diversity (or maybe more indifferent to it). And there was a certain swagger on the world stage. Mr Brown, chancellor of the exchequer for ten years, preached the virtues of Anglo-Saxon capitalism to benighted folk in other lands. As prime minister, Tony Blair intervened militarily hither and yon.

So the shock was considerable when, in 2008, Britain slid into its worst recession since the 1930s, taking longer than other big countries to crawl out. Banks needed handouts. Factories closed. Now prospects for growth are wan and the budget deficit eye-wateringly large. Spending will be cut back and taxes are already rising. People are frightened about their economic future, and their children’s.

That increases unease in another area: social cohesion and behaviour. Britain has just undergone its biggest wave of immigration in history. Race relations were already mixed when Islamist attacks in London in July 2005 threw them into the headlines. Other questions were raised by the influx of workers from central and eastern Europe, such as what Britain’s own working class was for. And while new people were arriving, old problems were disappearing only slowly, including binge-drinking, crude, rude young people and dysfunctional families. As opportunities evaporate, anxiety about identity and entitlement seems to be sharpening.

The third big shock has to do with foreign policy and defence. As it limps away from the war in Iraq and struggles with the cost, in money and lives, of another in Afghanistan, Britain is re-evaluating its place in the world. Not for the first time, it faces the prospect of relegation from the Premier League of nations with worldwide influence. This time a long, strong fiscal squeeze will make it hard to spend as much on diplomacy, defence and foreign aid as keeping a top spot requires.

So this election matters more than many. The central choice is, as usual, between the two main parties, Labour and Conservative. But with the polls close, the Liberal Democrats are in the spotlight too. And in a very tight election any of the parties in the devolved bits of the United Kingdom—the Scottish National Party, the Welsh Plaid Cymru and four Northern Ireland parties—could also hold the balance of power.

The issues most on voters’ minds as they head to the polls are the economy, health and education, immigration, and law and order, according to Ipsos MORI, a polling firm that tracks these things. Policy differences are not always clear-cut (though party manifestos due out soon will seek to make them so). Austerity is on the way whoever wins, though both the Tories and the Lib Dems would cut the deficit faster than Labour. No main party has made immigration the strident issue the Tories did (disastrously) in 2005, though it is cropping up more as the election nears. Foreign wars, too, are less divisive this time than last. The biggest foreign-policy gaps are over Europe, with the Lib Dems its loudest cheerleaders and the Tories the most sceptical.

If the debate over economic and fiscal policy is mainly about judgment (when to cut, how much and where), big differences of principle emerge in the argument over education. Recognising that the failure of the school system to equip a great many children for life or work is Britain’s Achilles heel, the Conservatives (and indeed the Lib Dems) want to shake it up with the kind of supply-side reforms that New Labour has given up on.

But this election is in fact less about ideology than it is about values and personalities. The Tories talk of reducing the role of the state and strengthening families; Labour, drifting to the left, laments the persistence of privilege and promises “fairness” in distributing pain or gain. In the end, it may come down to how well the party leaders project competence and empathy, or even whether a televised preference for pancakes or bacon butties echoes the voters’ own. Britain’s parliamentary elections are becoming ever more presidential.
A briefing on the British election

Once and future kings

Apr 7th 2010
From The Economist print edition

The three men who would be prime minister, and what they represent

WHEN Gordon Brown moved into Number 10 in June of 2007, The Economist said he had the makings of a disappointing prime minister, and also of a fine one. We were right, albeit not in equal measure.

In the autumn of 2008, when banks were toppling and capitalism seemed to be imploding, Mr Brown’s government introduced a bail-out plan that saved Britain’s financial system and served as a model for bank rescues elsewhere. History may regard that intervention as his main positive achievement as prime minister. The rest of the world was impressed; indeed, many foreign observers have never understood why Mr Brown has been record-breaking unpopular at home.

The explanation is that the bail-out was a moment of unusual resolution and boldness. For much of the past three years he has tottered from one calamity or cock-up to the next, often flirting with farce.

The trouble began in October 2007, when, after a competent start, Mr Brown toyed with calling an early general election, only, in popular parlance, to “bottle it”. His claim to strong leadership never recovered; thereafter a run of mistakes and accidents transformed his image, as Vince Cable, the Treasury spokesman for the Liberal Democrats, devastatingly put it, “from Stalin to Mr Bean”.

And despite a recent push to soften his perceived persona, Mr Brown has struggled to communicate with the public. He responded leadenly to the parliamentary-expenses scandal that convulsed British politics in 2009. Perhaps most surprisingly, he has seemed to have little in the way of an animating mission to communicate. Having coveted the top job for so long—his supporters fought for years to force out Tony Blair—Mr Brown has too often seemed uncertain about just what he wanted to do with it.

Partly because of the old Blair-Brown rancour, and partly because of Mr Brown’s own failings, his premiership has been blighted by repeated attempts within his own party to oust him. Had he not brought his old political foe, Lord Mandelson, back into the cabinet in 2008—since when the business secretary has been Mr Brown’s canniest defender—the putschists might have succeeded. All this raises a big and strange doubt about Labour’s pitch: even if the party clings to office, it
might find a way to ditch its leader and install someone else.

Mr Brown’s re-election bid—re-election for his party that is: he himself became prime minister without a contest in either his party or the country—rests mainly on his strategy for the British economy. The man who said he had abolished “boom and bust” has presided over the longest, deepest recession since the second world war. As chancellor and subsequently prime minister, he has overseen the build-up of a massive deficit (the result of inescapable global forces, he argues). Nevertheless, Mr Brown now casts himself as a sort of economic war leader, safeguarding the recovery while planning for a green, zippy future economy.

In the meantime he claims to have hit on a fresh approach to what is conventionally the other main battleground of general elections: the public services. Labour is peddling public-service “guarantees”—entitlements to minimum standards in schools, hospitals and so on—that are in theory an alternative to both the top-down targets applied in Mr Blair’s first term, and the choice- and market-driven reform strategy that the government eventually adopted.

Part of Labour’s problem, however, is that the recession and deficit have undermined more than Mr Brown’s claim to economic competence. They have also called into question New Labour’s whole method of government. That now seems to have relied on benign economic conditions that enabled lavish spending without requiring the tax rises that can alienate the middle classes. The days of “have cake and eat it” politics are now over—and, despite Mr Brown’s guarantees and ideas for the economy, Labour has struggled to come up with an updated philosophy. It boasts some decent thinkers, such as the Miliband brothers—David and Ed, the foreign and energy secretaries, respectively—both plausible future leaders. But it hasn’t seized the chance for intellectual renewal that many on the left felt the crisis offered.

Still, if there is uncertainty about Labour’s direction and even leadership in a putative fourth term, there are also doubts about the convictions of the Conservatives, and of the man who leads them.

Before David Cameron became party leader in 2005, the Tories, once one of the great election-winning forces of Western politics, had come to seem hopelessly estranged from the British people. His accomplishment has been to make them electable. But the once-gaping Tory poll lead has shrunk, and a victory that looked almost certain now seems much less so (see chart). Many attribute both Mr Cameron’s success and his recent stumble to the apparent malleability of his views.

If Mr Brown’s “offer” is an uneasy mix of change and experience, Mr Cameron’s is unequivocally one of change. Exactly what sort of change is less obvious.

Besides a spell in public relations, Mr Cameron has spent his adult life in politics, beginning as an adviser to various ministers in John Major’s government. His tight circle of strategists is largely drawn from his colleagues in that era (many of them from backgrounds as privileged as his own). This coterie appreciated that their priority was to “decontaminate” the Tory brand, still seen by many as sleazy, greedy and heartless. To that end, Mr Cameron embraced causes such as environmentalism, the National Health Service (NHS) and the alleviation of poverty, not previously associated with his party. He espoused liberal views on social issues, such as civil partnerships. As Mr Blair did when he reinvented Labour, Mr Cameron, as Westminster-watchers say, “ran against his base”.

---

**Cameron tried out a new role, that of saviour of the public finances**

---

**Anyone’s call**

Voting intention, poll of polls, %

<table>
<thead>
<tr>
<th>Years</th>
<th>Labour</th>
<th>Conservatives</th>
<th>Liberal Democrats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: BPIX, ComRes, ICM, Ipsos MORI, Populus, YouGov
At the same time, partly out of necessity and partly out of conviction, he has coddled the Tory faithful. Many of his policies—tax support for marriage, for example, or a potentially distracting Euroscepticism—are old-fashioned. This combination of the modernising and the traditional created tensions in his leadership from the beginning: between his environmentalism and enthusiasm for the market, say, or between his defence of civil liberties and his tough line on crime.

Then came the financial crisis. Mr Cameron tried out a new role: that of saviour of the public finances, more Margaret Thatcher in 1979 than Mr Blair in 1997. If Mr Brown is the dour deliverer of an upbeat message on the economy, Mr Cameron has often seemed the reverse: a chirpy prophet of doom, who vows to inaugurate an “age of austerity” in public spending in place of Mr Brown’s “age of responsibility” (though Mr Cameron has brandished his axe somewhat less enthusiastically as his poll lead has shrunk).

The trouble is that this new imperative has clouded and sometimes contradicted his previous goals, such as the commitment to the public services (part of his modern, compassionate agenda) or the aspiration to cut taxes (one of his orthodox Tory themes). For many, this combination has led to a lack of clarity about what sort of Conservatism Mr Cameron represents, and thus what sort of government he might lead. He has seemed at times to stand in the incremental tradition of Disraeli or Macmillan, paternalistic and not zealously ideological; at others he has posed as a Thatcher-style revolutionary.

His greatest asset, say his boosters, is his even temperament, often contrasted with Mr Brown’s irascibility. As prime minister, Mr Cameron’s patience might be tested by, among other things, his own party. His leadership is not in jeopardy as Mr Brown’s is. But many of his MPs and others in the party do not share his cuddly views on the NHS or relatively pragmatic stance on Europe. Eventually—especially if he lacks a strong majority—such disagreements may prove problematic.

Nick Clegg, the personable leader of the Liberal Democrats, likes to joke that he cannot help being roughly six feet tall, male, white and in his early 40s—like Mr Cameron. When he became his party’s leader in 2007 he seemed intent on making his mark through stunts, such as staging a walkout of Lib Dem MPs from the Commons.

Gradually, however, he has managed to instil a degree of intellectual consistency in a party that has historically been torn between its authentically liberal and its social-democratic instincts. He argues that the liberal tradition is irreconcilably different from the statist thinking that is habitual for Labour politicians. Perhaps unexpectedly for a Lib Dem leader, Mr Clegg has pared back his party’s manifesto themes, especially its spending commitments, realising that the fiscal situation made a more extensive list of promises impractical and incredible. He has an important ally and asset in Mr Cable, his Treasury spokesman, who emerged with more credit than most politicians from the financial debacle.

The Lib Dems are the principal victims of Britain’s first-past-the-post electoral system. In the 2005 election, when they were buoyed by their opposition to the Iraq war, they won more than a fifth of the votes, but less than a tenth of the seats. (Mr Clegg’s scepticism about the British deployment in Afghanistan—the Liberal Democrats seemed for a while to be on the verge of advocating withdrawal, thus emulating their 2005 position on Iraq—has softened since Barack Obama authorised the Afghan “surge”.) Replacing the current voting system with a proportional one is a priority for the Lib Dems, along with wider political reforms.

But it is possible that Mr Clegg could exercise power of sorts without it. Conventional wisdom has it that the Lib Dems will struggle to hold on to their 63 seats, some of which may be captured by the resurgent Tories. Perhaps; but even if their numbers drop, Mr Clegg’s MPs may hold the balance of power if neither Mr Cameron nor Mr Brown emerges from the election with an outright majority in the House of Commons. It seems unlikely that Mr Clegg would enter into a formal coalition with either. But he may enjoy more influence over government than any Liberal leader in Britain since before the second world war.
The question is whether, in difficult times, a dubious record is better than no record at all

ECONOMIC management was Labour’s trump card at the elections of 2001 and 2005, but it will not be in 2010. Instead of arguing about what went right, the parties will cross swords about how things went so wrong. There will be claims and counter-claims about how the financial crisis and recession were handled, and who is most capable of ensuring a real recovery. But, as in a dispute among heirs to a disappointing legacy, the parties are fighting over an economy whose prospects have dulled after the great fall (see chart).

When David Cameron became the new Conservative leader four years ago and set out his stall, he took for granted an economy that would deliver the goods. The proceeds of growth would be shared between higher public spending and lower taxes. He concentrated his efforts on communicating warmly about social and environmental themes.

Gordon Brown, then chancellor of the exchequer, thought so too. He had put an end to boom and bust, he said on more than one occasion. Both main parties were caught on the hop by the banking crisis, soon followed by economic meltdown and fiscal catastrophe.

Mr Brown argues that Britain’s economic stability was genuine. GDP grew without a break, by an average of 2.9% a year (per person, by 2.4%) in Labour’s first decade in power. Inflation was low and steady as the Bank of England, freed by Mr Brown to set interest rates in order to hit an inflation target, deftly steered the economy. The subsequent 6.2% decline in national output from the first quarter of 2008 until the third quarter of 2009 was caused, Mr Brown says, by a global recession induced by a worldwide financial crisis.

His critics have a different version. Puffed up by his apparent success in presiding over a long run of growth, Mr Brown ignored the steam coming out from under the economic bonnet. He did not heed the warning signs as household savings fell, a current-account deficit persisted and a budget shortfall emerged. He failed to do anything about the dangers arising from the housing-market bubble and the build-up of private debt. Indeed, he made his own contribution to derailing the economy through pushing public spending up too fast and too long.
Mr Brown’s vainglory about his ten years as chancellor will haunt him in the campaign. His briefer record as prime minister since June 2007 will come under scrutiny too. Mr Brown presents himself as a battle-hardened veteran who has earned his spurs battling financial crisis and recession. He (eventually) took the bold step of nationalising Northern Rock, the mortgage lender that was the canary in the banking coal mine. It was he who led the way to the global banking rescue in October 2008 by force-feeding weak banks with extra capital. His government brought in a fiscal stimulus and authorised the Bank of England to pursue “quantitative easing”—injecting money into the economy by buying financial assets, mainly government bonds. Mr Brown says that his activism has worked in cushioning the downturn and setting the economy on the path to recovery. Unemployment in particular has risen less than once seemed likely.

This is more awkward ground for the Conservative opposition to contest. True, they backed the banking rescue and quantitative easing. On the other hand, they opposed both nationalising Northern Rock and pumping in fiscal stimulus to fend off an even direr slump. They also took a while to adapt their good-time economic message to the language of public austerity. The Liberal Democrats, with Vince Cable speaking on Treasury matters for them, were quicker to see what needed to be done on Northern Rock, as well as the broader implications of the banking crisis.

Oppositions, condemned to talk rather than act, often struggle to impress the electorate on matters of economic management. Voters cast their ballots mostly on the government’s record. But the important issue is what the different parties can offer in future both to sustain a recovery that got off to a modest start, with output rising by 0.4% in late 2009 after six quarters of recession, and to rebuild an economy that has had a huge spanner thrown into its works.

The biggest and most important battle is being fought over fiscal policy. It is the Tories who have talked toughest about cutting the deficit, with the Lib Dems close behind and at times more sensible. But all three main parties’ fiscal positions are converging (see Back to basics). And other differences on economic policy are smaller than they would have voters believe.

Inflation-targeting will continue and the Bank of England will be in charge of hitting the number regardless of who is in Number 10. Although the Tories would disband the Financial Services Authority (FSA) and put the central bank back in charge of banking supervision, financial regulation will be tougher and more focused on “macroprudential” risks, such as asset-market bubbles and excessive credit growth, whoever wins the election. Even if the FSA retains its current role, as Labour plans, the regulator and the central bank, together with the Treasury, will co-ordinate their activities far more than they did before Northern Rock exposed the flaws in the split “tripartite” system.

Despite these nuances in policy, the broad picture will be much the same with any of the main parties at the helm. The economy must be weaned off the exceptional support, both fiscal and monetary, it has received during the recession. The tougher the budgetary tightening that lies ahead, the easier monetary policy can be, with the base rate staying longer at or close to its all-time low of 0.5%, and possibly more doses of quantitative easing.

Even if this delicate balancing can be accomplished, Britain’s medium-term economic prospects are
uninspiring at best. Whoever takes charge will inherit an economy laden with debt. British households are the most indebted (relative to disposable income) in the G7 group of big developed countries. As they now reduce those loans, they will rein in their spending. British banks are also under pressure to reduce their balance-sheets for prudential reasons. That will weaken the recovery if it starves businesses of credit, although larger firms should be able to raise money in the capital markets.

With private consumption and government spending restrained, a sustained recovery will have to come from other sources. Over the next five years or so net trade—exports less imports—and private investment must drive growth.

Britain has managed such a switch before, most recently in the mid-1990s, after the pound fell steeply on its expulsion from the European exchange-rate mechanism. This time sterling has fallen even more, by a quarter in trade-weighted terms since mid-2007, which suggests that an export-led upswing could occur again. But Britain is not alone in trying to rebalance its economy this way. And about half of its exports go to the rest of Europe, which is struggling with its own slow growth.

So export-led growth is not assured, and some think the economy’s ability to grow may have been permanently impaired by the financial crisis and deep recession. Past experience suggests that banking crises inflict a lot of harm, but also that some economies get off more lightly than others. The Treasury has lopped 5% off its estimate of the underlying productive capacity of the economy, which looks reasonable. But it thinks the economy can expand from this lower level at the same pace as before, 2.75% a year, and that is optimistic. The National Institute of Economic and Social Research, a think-tank, reckons that trend growth is now 2.4% a year. And some economists think it could have fallen to around 2%.

One important reason to expect slower growth is fewer immigrants. During the boom years, a big influx of working-age foreigners helped to increase Britain’s overall output. But with unemployment high and the pound low, Britain is no longer as attractive a destination and some migrants are returning home. In any case both main parties are committed to restraining immigration.

With the longer-term prospects darkening and a question-mark over just how big a role financial services will play in future, the search is on for new sources of economic dynamism. Lord Mandelson, Labour’s business secretary, has one answer to this. He thinks the state should play a more active role in fostering opportunities for British firms, especially those arising from the shift to a low-carbon economy and advances in the life sciences. The Tories are also flirting with industrial policy. But the state’s record at picking winners has not been inspiring.

Jobs will remain a big worry. The fact that unemployment has risen less than expected—from 5.2% of the labour force before the recession to 7.8%, on figures out in March—has its downside. As firms have held on to workers during the economic downswing, they will probably be slow to hire more in an upswing that anyway looks likely to be lethargic. And the public sector, which has been a haven during the recession, will be shedding staff.

As politicians peddle their wares on the campaign trail, trying to come up with a line that offers hope for the future while recognising the grim realities of the present, Britain’s economic prospects are as uncertain as they have been since the war. If recovery does take hold, there is plenty of room to grow because of the amount of spare capacity (even if potential output has taken a hit). But expansion built on net trade rather than consumption, and coupled with continuing fiscal contraction, will feel very different from the heady years of the debt-fuelled boom. Whatever party comes to power, all that Britain can sensibly expect during the next parliament is a feel-bad recovery.
Britain must learn to live within its means. But how, and how fast?

THE most pressing piece of business for any new government will be coming up with a credible plan for restoring fiscal sanity. For the past year investors and credit-rating agencies have been living in a state of suspended disbelief as Britain’s public finances have deteriorated vertiginously.

In 2007-08, the year before recession hit, the budget deficit was £34 billion, equal to 2.4% of GDP. By 2009-10 it had risen to £167 billion, or 11.8% of GDP—the highest since the second world war—and it is likely to stay close to that this year (see chart).

Britain’s position looks dire compared with other big economies. According to the IMF, its deficit as a share of GDP will be the biggest among the G7 countries in 2010. Some of the borrowing will go away as the economy recovers. But on the Treasury’s latest projections the Institute for Fiscal Studies (IFS), a think-tank, reckons that spending cuts and tax rises worth around 5% of GDP are needed to put things right.

The parties differ on when and how to start. Both Labour and the Liberal Democrats want to wait until 2011, arguing that an early start could derail the recovery. Although Alistair Darling, the chancellor of the exchequer, has introduced a new 50% top rate of income tax on high earners this April, the real retrenchment is to begin next year and carry on until 2016-17. Among his revenue-raising measures is increasing national-insurance contributions from April 2011. But on spending his account lacks crucial detail (the Lib Dems have been more specific). And his timetable is anything but urgent, leaving the deficit at 4% of GDP in four years’ time. That figure would have seemed worryingly high before the crisis.

By contrast, the Conservatives want to get going this year since they fear that delay could imperil Britain’s credit rating and thus push up interest rates. George Osborne, their Treasury spokesman, has talked tough about reducing the deficit, and says he would hold an emergency budget within 50 days of the election. But as the Tories’ poll lead has shrunk, Mr Osborne has changed tack. He will cut spending by £6 billion in 2010-11, he says, but will use the savings in future years to pay for a reversal of most of Labour’s planned national-insurance increase. The Tories’ real workout, beginning in 2011-12, would end in 2015-16, a year earlier than Labour’s.

Under both parties spending will bear the brunt: two-thirds of Mr Darling’s proposed squeeze (until 2014-15, at any rate—the rest is blank) and four-fifths of Mr Osborne’s. Under Labour total expenditure would stay roughly the same in real terms in the four years after 2010-11. But as interest charges rise because
of more borrowing, and welfare budgets also increase at their usual rate, even a standstill in total spending implies cutbacks elsewhere.

So painful times lie ahead for the public services, which account for nearly 60% of total spending. The IFS says that Labour’s plans, for example, imply cuts of 12% by 2014-15. The outlook is particularly bleak in areas such as defence and transport because both the main parties want to shield some politically sensitive services from real cuts, as well as to keep raising the (small) overseas-aid budget. The Tories have said they will ring-fence the NHS. Labour would protect almost all health spending and increase the bulk of spending on schools by 0.7% a year in 2011-12 and 2012-13. Taking these pledges into account, other departments could see reductions of 14% by 2012-13, says the IFS. The Lib Dems have refused to exclude the NHS from cuts.

One approach would be to slice into the welfare bill, the single biggest item of public spending at nearly 30% of the total. But since much of it goes to poor people, this would be tricky. A solution might be to means-test payments such as child benefit which go to all income groups now. But that would be a hard sell politically, and Mr Osborne, for one, ruled it out last year.

The idea of raising taxes is also difficult to stomach. Labour’s tax measures will raise revenue by just over 1% of GDP, according to the IFS, although the new top rate of income tax may yield less than expected. The Tory plan to reverse most of the rise in national-insurance contributions will still leave taxes rising substantially. The Conservatives also propose raising the inheritance-tax threshold and giving a tax break to married couples, although these measures should cost relatively little. The Lib Dems, for their part, envisage a revenue-neutral reform that would take those earning £10,000 or less a year out of income tax altogether.

Yet tax increases greater than those Labour plans will almost certainly be needed to plug the fiscal hole. One widely canvassed measure is to push up the main rate of VAT, a consumption tax, from 17.5%. If it rose to 21%, this would bring in an extra 1% of GDP. Another might be to introduce a carbon tax.

After so big a fiscal blowout, regaining credibility may require more than a deficit-reduction plan. Labour has enshrined in law a commitment to halve the budget deficit by 2013-14, although the Treasury requires no extra powers to cut borrowing. The Tories would set up an independent Office for Budget Responsibility to keep the chancellor’s feet to the fiscal fire.

Despite the differences of detail, whoever wins will preside over a long parliament of fiscal austerity. And it will be longer and more austere than anyone now dreams if the hole that has to be filled in the public finances turns out to be even greater than the Treasury says.
LIKE an arsonist who has lit a fire, then jumped into his fireman’s kit to put it out, Gordon Brown claimed in December 2008 to have “saved the world” from the financial inferno (charitable folk will deem it a slip of the tongue). Yet a decade earlier, it was he and his party who set up the new system of regulation whose tolerance of excess had let the fuel mount up.

When the new Labour government of 1997 made the Bank of England independent to pursue monetary policy, it dismantled its powers of bank supervision. These went to a new super-regulator, the Financial Services Authority (FSA).

The FSA developed “light-touch” regulation into a fine art. Although the central bank was still meant to be the guardian of financial stability, it had surrendered the ability to relate that to the behaviour of individual banks. In theory, the Bank of England, the FSA and the Treasury were to deal with crises together, according to an ill-defined “tripartite” arrangement. In practice, no one spotted the trouble building up at Northern Rock, a go-go mortgage bank, and no one handled it well when it hit in August 2007. The crises that followed were dealt with more expeditiously. In October 2008 (and again the following year) the government poured capital into the washed-up Royal Bank of Scotland and Lloyds Banking Group. But the regulatory system was hardly a roaring success.

This matters, because the role of finance and the City is one of the big questions hanging over this election. Banks everywhere made mistakes. But Britain’s banks are larger, relative to the underlying economy, than most. And the City is still home to some of the world’s most cutting-edge markets and practices.

One of the hallmarks of New Labour was a relaxed attitude toward making

The FSA
money. Tony Blair cultivated City folk, who also gave generously to party funds and pet projects. They were more suspicious of Gordon Brown’s meddling tendencies. But he too courted the City and commended to others the unobtrusive regulation that made its effervescence possible. Bank assets doubled between 2001 and 2007, to more than £6 trillion.

In the good times financial services contributed 8% to national output and, directly and indirectly, almost 14% of the government’s total tax take, on figures from PricewaterhouseCoopers, an accounting firm. But when disaster struck, the banks required colossal amounts of taxpayers’ money to keep going. Despite this, they are failing to support the economy by lending as much as politicians thought they would. And, though some in the business lost their jobs (if not their pensions), many did not lose even their bonuses.

Britain’s financial sector is now dominated even more than before by a few big banks which must surely be considered “too big to fail”. A future government has the choice between keeping the system roughly as it is and changing it radically. The risk in cutting the banks down to size is that tax revenues and jobs might diminish too, as well as any chance of getting taxpayers’ money back from the rapid sale of the state-owned banks. The risk in not hacking the banks back is that another financial crisis might blow up, and this one could find the Treasury empty.

Against that background only one party, the Liberal Democrats, suggests root-and-branch change. The Lib Dems’ Treasury spokesman, Vince Cable, has called for the big banks to be broken up, and for those in state ownership to be forced to lend more to credit-hungry companies.

Labour’s rhetoric has become more incendiary in response to popular anger over bankers’ perceived greed. But the government has chosen not to interfere much with the running of even the banks it owns. It has, however, proposed a new Council for Financial Stability to pay more attention to “macroprudential” risks. The FSA is also to get powers to monitor largely unregulated firms such as hedge funds and rip up bankers’ job contracts if they might encourage reckless trading. Consumer protection would also be strengthened.

One might expect the Tories to roll over and play dead on City matters; David Cameron’s father, after all, was a stockbroker. Yet in one respect they are bolder than Labour. They want to abolish the FSA, shift supervision of banks and other financial institutions to what they see as the safer hands at the Bank of England, and create a consumer-protection agency. But since the proposal was aired in July, worries have emerged in the Tory camp as to how the change would be implemented, and how costly and disruptive it might be.

The substance of regulation is in any event more important than who does it, and Britain is keen that any serious changes be implemented internationally. Both big parties agree that banks must hold more capital. Both agree that they must prepare a “living will”—a plan for their orderly wind-up if they get into trouble. Both are sceptical about American proposals to forbid banks to trade on their own account or invest in hedge funds (though the Tories have hinted that riskier activities should be separated from retail banking). And both big parties are open to an international call for a levy on banks to pay for the risks they pose to the system.

For voters who know something is wrong but can’t quite make out if anyone is right, the differences come down broadly to this. Labour offers more of the same; the Conservatives would rearrange the deckchairs; the Lib Dems would shake up the system but haven’t really said how. It’s a choice, if not a great one.
With the City in the stocks, all parties want to revive the spirit of manufacturing. It is a long shot
year. These do not seem ideal conditions to foster the rebirth of manufacturing. All three parties have talked about ways to fill the gap left by the reluctant banks. The budget on March 24th promised more funding, especially for smaller businesses, and higher targets for lending by the banks that are partly under state control.

Lord Mandelson, the business secretary, thinks government should be more active in helping British firms, particularly high-tech, high-value-added and creative enterprises. Such assistance would include steps to plug financing gaps that can hinder smaller firms and start-ups, together with arrangements to bring university research and businesses closer together. The Tories are also keen, and say they want Britain to become Europe’s leading high-tech exporter (Germany might have something to say about that). Sir James Dyson, an entrepreneur and author of a report for the Tories on Britain’s exporting future, urges more tax breaks for research-intensive high-tech start-ups.

The problem with tax breaks and other subsidies, however, is that they complicate the tax system and distort incentives. More prosaically, and perhaps more realistically, all British companies, whether in manufacturing or in services, would benefit from clearer, more predictable taxes and streamlined regulation.

Businessmen blame Labour for fiddling around hyperactively with both these things. Small businesses more than most find it hard to function with proliferating requirements to do with health and safety, flexible working and the like. Though the government did cut the corporate-tax headline rate from 30% to 28% in 2008, it is now discussing controversial proposals to extend its tax reach over foreign subsidiaries controlled by British-domiciled companies. Even more irritating, to some, are the recent increase in the top rate of personal-income tax, adjustments to tax relief on pension contributions and a one-off 50% tax on bonuses. Such moves have unsettled business bosses, and a few have headed off overseas.

George Osborne, the shadow chancellor, says that he wants to tackle both tax and regulation to make Britain a more competitive proposition for companies. He would cut corporation tax further, to 25% (although this would be funded by cutting some allowances). The Liberal Democrats also want to reduce the corporate-tax rate, paying for it by removing "complex reliefs". And both opposition parties would overhaul the costly Regional Development Agencies, which seem to do more for their overpaid bosses than for firms.

Will the Conservatives again be seen as the party of business they were once axiomatically taken to be? For all the seductive talk of rebalancing the economy, of reviving manufacturing, of supporting the creative industries, high-tech start-ups or whatever, the best thing that any new government can do for enterprise is to restore the public finances and stop dominating the credit markets. That, more than anything, would help the private sector become the engine of the economy it is meant to be.
WORRIES about social divides in Britain go back a long way. In 1845 the Tory Benjamin Disraeli wrote of “two nations”—the rich and the poor—in the same year that Friedrich Engels, collaborator of Karl Marx, published an essay on the condition of the English working class. Nowadays David Cameron speaks of mending a “broken society”, Gordon Brown of delivering “a future fair for all”.

At the heart of this divide is a degree of continuing, rather concentrated poverty, made worse by an education system that is failing to help people climb out of it. An important issue in this election is what sort of society Britain aims to be, and whether state-mandated redistribution from rich to poor (as Labour increasingly espouses) or energising families and the “little platoons” of civil society (the Tory mantra) is the best way to get there.

Among the ambitions of New Labour at its newest was to reduce poverty, especially among the young and the old, without soaking the rich. So child benefit, which is paid to all mothers, was retained, while poorer parents also received the child-tax credit. Similarly, the basic state pension available to rich and poor workers alike was maintained, but poorer pensioners got a top-up credit. A pledge not to raise income-tax rates featured in all three of Tony Blair’s election manifestos, and was totemic in his rebranding of his party.

That was phase one. After the banking crisis, in a no less totemic move, Mr Brown brought in a new top rate of income tax at 50%, from April 2010. Labour justifies its U-turn on its 2005 manifesto pledge by arguing that the rich (who are also getting less tax relief on pension contributions) should shoulder the
cost of the crisis. It proudly says that its income-tax rises will affect only the top 2% of earners.

Mr Brown’s anti-rich policies have yet to show up in the figures, but his anti-poverty drives have been less effective than he hoped. The number of poor pensioners (those living on less than 60% of median income) fell until 2005-06, but has risen since then. A target to halve the number of poor children between 1998-99 and 2010-11 will be missed by miles.

This has implications for inequality, which is greater in Britain than in countries like France or Germany. On one measure, the Gini coefficient, which looks at distribution overall, income in 2007-08 was shared out more unequally than at any time in the past 50 years (see chart). On another, the ratio of the incomes of those 10% from the top to those 10% from the bottom (the 90/10 ratio *), inequality was higher than in 1997. The trend has been even more notable at the very top of the scale.

Labour has been rowing against a powerful tide as high earners have raced ahead. That tide may be turning as rewards in the City become less egregious. But the extreme contrasts in prosperity in most cases lie not between those with jobs but between the employed (especially full-timers) and the workless. The most telling indictment of Labour’s record is that more than 5m people—14% of the working-age population—get out-of-work benefits.

In an era of public austerity, raising employment will have to be the main way to tackle poverty. Labour has already been moving in this direction. Single parents can no longer stay on benefit until their youngest child is 16, as they could until recently. That age is being brought down in stages to seven.

After a decade of drift the government is also trying to get more of the 2.6m people on incapacity benefit—up to two-thirds of whom may be able to work—into jobs, and to make it harder to claim the allowance in the first place. The Conservatives say they will be even tougher in involving private firms and paying them according to how many claimants they get back to work.

The three main parties agree that the state-pension age must rise (though the Tories want to move faster than Labour or the Liberal Democrats). If it does not, decent pensions will become unaffordable as people live longer and baby-boomers retire in bulk. The parties are also at one on re-linking the basic state pension to earnings rather than to slower-rising prices. Otherwise more people will be sucked into the means-tested pension credit, which discourages saving for retirement.

The other big problem for an ageing society is personal care for the elderly. Labour is now proposing a taxpayer-funded care service for all, though not in the next parliament, whereas the Conservatives prefer a voluntary insurance scheme.

When times were good, most working Britons did not mind if some of their taxes were used to curb poverty. But according to the latest British Social Attitudes survey, a big annual poll, support for redistribution has been waning. With tax increases looming for most people (not just the top 2%), voters may draw the line. However socially unfair inequality may be, higher taxes will feel personally unfair, and that will almost certainly be the more powerful political sentiment.
Big promises on migration will be hard to keep. But great British traditions such as binge-drinking might be tackled.

Voters in this year’s general election are a more numerous bunch than in 2005, when they last went to the polls. Britain’s population keeps rising—to over 61m, according to the latest estimates. Much of this increase is directly or indirectly down to immigration, a hot topic in this election as it was in polls past. But the reasons for worry, and the arguments for and against it, have changed.

Labour has presided over the single biggest intake of immigrants in British history. Since 1997, 5.6m people have come to stay for a year or more (though most years over 300,000 emigrated too—see chart), and 1.6m, mainly from developing countries, have been granted permanent right of residence. Swelling the numbers were citizens of the eight central and eastern European countries that joined the European...
Union in 2004; Britain was one of only three old EU members to allow them to come to work without restrictions. As more than a million arrived in four years, Poles became the single largest foreign national group in Britain, up from the 13th largest.

White, and mostly uninterested in seeking citizenship, the European influx is different from the South Asian and Caribbean mass migrations of the past. The multicultural tensions that were so acute in 2005 and 2006, after the Islamist attacks in London, seem to have abated. Rather than emotional arguments about race and culture, immigration more recently has provoked more pragmatic complaints about jobs—that foreigners are elbowing Britons out—and the strain on public services.

The impact of the newcomers on the labour market is disputed. Polish turnip-pickers have indeed made life harder for unskilled Britons, but they have created new jobs too, by allowing turnip farmers to expand and recruit more white-collar (often British) staff. There seems to have been some downward pressure on wages at the bottom end of the job market, but on one estimate they have fallen by less than 1%: the national minimum wage means that pay for people over 22 cannot legally go below £5.93 per hour, and many of these jobs were on that baseline already. The low-paid, outdoor, tiring jobs that Poles and Lithuanians have often taken are not ones that the long-term unemployed in Britain seemed wild about turning out for. Had Britain not imported the workers, it might have had to export the jobs.

But although immigration is ebbing, as the economic downturn and sterling’s weakness make Britain less attractive, the issue has lost none of its salience. The notion that Britain is an increasingly crowded place—its population set to hit 70m in the next 20 years, mainly because of immigration—worries many. In office Labour opened the door to foreigners for a host of reasons (all defensible individually) without pausing to consider the impact on the existing residents. Though the economy grew overall, there is little sign that wealth per person increased much as a result.

Early in the New Labour years, social and economic liberalism were popular, and an immigration policy encompassing both was more or less accepted. But that mood is changing now that economic prospects are bleaker. Public housing, already in short supply, is one irritant. Poorer British-born whites, who have become a bit more likely of late to cast their vote for the far-right British National Party, feel discriminated against in housing as in no other area. In 2001, 15% of whites thought their race held them back in getting accommodation. Now 24% think so. Education is touchy too. In Norfolk, for example, where many east Europeans are employed in agriculture, parents complain of a sudden influx in their children’s schools of pupils who cannot speak English. Immigration deserves a far more serious public debate than it has received to date.

Politicians are not immune to this change of mood. Yet for all the political heat it generates, immigration is not something that British governments can do a great deal about. Workers from outside the EU make up just one-fifth of all immigrants when students (who pay valuable tuition fees) are excluded. Fewer than 30,000 people sought asylum in Britain in 2009. Most unskilled non-Europeans (other than relatives of British residents) are banned already, so it is the well-qualified, well-paid ones who would face exclusion if controls were tightened.

The Conservatives’ proposed annual cap on the number of immigrants runs squarely into this problem. So does Labour’s heavily promoted new “points-based system”, which is supposed to select more desirable immigrants. The main difference between them is that the Tories would place an absolute limit on annual non-EU inflows, a task made near-impossible by the time-lag in the publication of reliable statistics on migration. The Liberal Democrats, among others, are sceptical about the merits of such a cap. Their home-affairs spokesman, Chris Huhne, pointed out recently that imposing a national limit would fail to ensure that immigrants go to the parts of Britain lacking labour rather than to overcrowded bits such as London.

One useful thing the government could do is gather better information about migration. The Lib Dems’ call to improve recording of those leaving the country would be a good start. Labour wants to go much further, with the introduction of ID cards (which the Conservatives and the Lib Dems oppose, both because of their expense and because they think they infringe personal liberty). Some non-European migrants are already required to hold ID cards, and a sceptical general public in various parts of the country is being offered the chance to do so too. Namely, one of the arguments ministers now use in favour of the multi-billion-pound scheme is that it will help young people prove they are old enough to buy a drink.

Meanwhile, in Tunbridge Wells
Those who blame immigration for the changing face of British society forget that Britons themselves have changed dramatically. It is not so much that Britain is “broken”, as tabloid headlines and Tory sound-bites would have it. The image of a place overrun by binge-drinkers, feral youths and incompetent single mums misses the improvements in teenage pregnancy rates, smoking and most sorts of crime, for starters. It also ignores a less quantifiable softening of social attitudes towards, for example, gays and ethnic minorities.

But Britain is changing, and fast. Under the next government, it is possible that children of unmarried parents will become the majority in maternity wards (see chart). This is of great concern to the Conservatives, who want to support marriage through the tax system, and officially of no concern to Labour or the Lib Dems, who say that all committed relationships should be treated equally.

The Tories plan to tempt couples down the aisle with a tax break, perhaps allowing married couples to pool their tax-free personal allowances. This would make couples with one working partner better off but leave couples in which both partners work, or in which both are jobless, untouched. In practice, the policy is likely to be applied only to couples with young children, such is the miserable state of the public finances. It looks regressive: of the 3.9m children living in poverty only 11% would be in line to benefit. Even if their parents all got married at once, only 15% would be included.

Stronger families might improve all manner of other problems including teenage drinking and drug-taking, or so the Conservatives hope. Labour took a liberal approach to drink to start with, paving the way for 24-hour licensing (which in practice has meant some pubs staying open past midnight, rather than closing at 11pm). It is now rowing back. Bars have been asked, gently at first and now rather crossly, to cut back on promotions that encourage binge-drinking. Off-licences have had an easier ride and are now in the sights of the Tories. If the Conservatives win, shops stand to lose their licences more easily and supermarkets could be banned from selling alcohol for less than it costs them. No party in Westminster has yet adopted the policy that is being proposed by the Scottish National Party: introducing a minimum price for each unit of alcohol.

Treatment of drug abusers may also change, and fundamentally, depending on who gets into power. Labour has pumped money into treatment and increased the number of addicts going into rehabilitation. Britain’s drug-treatment regime is excellent by international standards. But those who go through it seldom come out drug-free; rather, it has become the norm for heroin addicts to be “maintained” on prescriptions of methadone, a replacement drug that is not much better for the patient’s health (though it stops them stealing or prostituting themselves to buy from dealers).

The Conservatives want to switch tack, diverting patients from methadone to abstinence and getting them clean once and for all. A noble aim, with just two problems. The vaunted success rates for the abstinence approach are based on the current intake of selected volunteers, so if the scheme is extended, expect its effectiveness to diminish. Secondly, good abstinence treatment is intensive and expensive, and the Tories seem not to be putting in more money. Being a social reformer at a time of budget cuts is going to be hard.
A briefing on the British election

How to catch them, and where to put them

Apr 7th 2010
From The Economist print edition

Reforming the police and easing prison pressure will be big jobs for the next government

IN A country where crime has been falling for 15 years, it is not obvious why law and order should figure much in the election. But though total offending is estimated to be about 45% lower than it was in 1995, crime will still be talked about on the campaign trail. All parties are keen to capture the law-and-order vote, and they have come up with different strategies for doing so.

One is fibbing. Both Labour and the Conservatives have earned themselves official rebukes from the statistics watchdog for massaging crime figures. Downing Street was ticked off for rushing out figures on knife crime which had been taken from an incomplete pilot study, whereas the Tories were caught out comparing recent violent-crime figures with an earlier series that had been measured differently. Voters should treat any claim cautiously.

Questionnaires by the Home Office show that people have in fact become quite a lot happier with the crime situation in their local area, but that worries about the national crime rate still run high. This partly reflects the steady diet of horrific stories featured in the national media. But is there any truth in the idea that the number of the most serious crimes has got worse? Although violent crime has gone down a lot, most of the fall has been caused by a drop in domestic violence. Street hold-ups, which are more visible and more frightening to the public, are still about as common as they used to be.

Some policemen reckon that organised crime, such as drug- and people-trafficking, has been given a relatively easy ride over the past decade, as the plods have been focusing on the extremes of terrorism and petty anti-social behaviour. Labour’s invention of the Serious Organised Crime Agency in 2006 has helped a bit, but SOCA is small and hardly merits the comparisons with America’s FBI made before its launch. Yet the most serious forms of violence do not appear much more common than in the past: gun crime, already lower than in most of Europe, has been pretty flat, and gun killings have been falling lately. It is hard to stand up the idea that Britain overall is getting more dangerous when the homicide rate is at its lowest in 19 years.

Labour and the Conservatives have both made “anti-social behaviour” a big part of their campaigns. In office, Labour elevated this sort of low-level nuisance—comprising everything from graffiti to noisy
neighbours—from a matter for the council to a problem for the home secretary. The introduction of the anti-social behaviour order (ASBO), a civil sanction that can result in a jail term if breached, has proved popular with voters and with the press, though the regime’s effectiveness is doubtful. When Gordon Brown arrived in Downing Street it appeared that Labour might have lost its enthusiasm for the ASBO scheme. That seems to have changed, however: Alan Johnson, the home secretary, has indicated that he wants more ASBOs to be given out, after Labour feared the Tories were catching up with them on law and order.

At the opposite end of the criminal spectrum, terrorism and ways of dealing with it appear to have slipped down the political agenda of late. Perhaps more than any other subject, fear of terrorism is driven by events. Britain has been lucky not have suffered a serious terrorist attack since the London bombings of 2005, though a steady stream of foiled plots and near-misses provides a constant reminder of a lurking danger. And an old menace is stirring again in Northern Ireland, which has seen an increase in dissident activity.

Yet counter-terrorism legislation has provoked some of the most ferocious battles of the current parliament. It dealt Tony Blair his first-ever parliamentary defeat in 2005, when he tried, and failed, to give the police the power to hold suspects for up to 90 days without charge. Mr Brown managed to get a bill permitting 42-day detention through the House of Commons but it was derailed in the Lords. The Liberal Democrats have consistently opposed such measures. More surprising, the Tories have taken a liberal view, opposing prolonged detention. There has even been talk of a bill to reverse some of Labour’s counter-terrorism measures should the Tories win power. Civil liberties in general have become a fault-line in this election, though it is not one that most voters seem particularly interested in.

In any event, reshuffles on the Tory front-bench have left it looking a bit less libertarian than it did a couple of years ago, and the party’s rank and file are as crusty as ever. But the truth of the matter is that whatever is in any party’s manifesto would probably be thrown out of the window in the event of an atrocity. Debate evaporates in the face of a real attack, as was seen this year when some British airports introduced compulsory “electronic strip-search” scanners following the Christmas underpants plot.

What comfort can politicians offer voters against the not-so-terrifying tide of crime? All three major parties have made the time-honoured election promise of putting more bobbies on the beat. Only the Liberal Democrats would actually recruit more policemen (3,000 of them, they say); Labour and the Conservatives both want to get more coppers on to the streets by reducing the paperwork that currently keeps many indoors. Given the money lavished on policing under Labour, it is probably time for reform rather than more resources. The number of officers has already risen by over 14% since 2000, and by 27% if one includes police “community-support officers”, a cheaper variety of neon-clad patrolman introduced in 2002.

All parties agree that the paperwork and centrally-imposed targets designed by Labour to drive up standards must be reduced, to eliminate the perverse incentives that they created. The Tories would like to abolish the form that officers must fill in when they stop someone to search or question him; details would be speedily radioed back to the station instead. The police themselves are making some efforts to get a bit leaner: the head of Scotland Yard recently announced that officers in London would walk the beat alone, rather than in pairs, in order to increase the number of patrols.

A bigger political question is to whom the police should answer. At the moment chief constables report to the home secretary, a powerful but distant figure, and to their local “police authority” of assorted community worthies, which keeps a closer eye but is essentially toothless. This set-up, created to give more power to Whitehall to fight local corruption, has resulted in top-heavy governance that confines police forces in a straitjacket devised in London.

The Conservatives would change this by replacing police authorities with directly elected “police commissioners”. Commissioners would boss police forces around as police authorities are supposed to do now but with far more clout, derived from their vast constituencies. There are 43 police forces in England and Wales so each commissioner would have a direct electoral legitimacy greater than any of the area’s 569 MPs The system has already been given a high-profile whirl of sorts in London, where the Tory mayor, Boris Johnson, became chairman of the Metropolitan Police Authority in 2008, before relinquishing the post in January of this year.

Labour’s plans look tepid by comparison: the government has decided against any form of direct election to police authorities, for fear of politicising the forces. The Lib Dems have opted for a mishmash: in areas where the police-force boundary is the same as the local-council boundary, the council would become the
police authority; elsewhere the authority would be partly elected and partly appointed.

No one seems to have the stomach for a bigger shake-up, such as amalgamating some of the police forces, an idea that has been repeatedly floated but abandoned in the face of opposition from the police themselves. Instead, the government has persuaded forces to start sharing resources (rather than each having its own helicopter-maintenance people, for instance) and doing procurement together. Whoever gets into power next should press ahead with this.

The trouble with catching criminals, however, is that you have to put them somewhere. The man who holds the keys to Number 10 will inherit a bulging prison system. The jail population has expanded rapidly under Labour, just as it did under the Conservatives (see chart). Overcrowding had become so acute that, until recently, some prisoners were being released 18 days early, to free up space. In February the government announced that it would stop the practice in April, matching a Tory election pledge (and perhaps leaving an incoming Conservative government with an immediate prison crisis to battle).

The Tories have ambitious ideas about prison reform, which will be difficult to achieve given their promise to make budget cuts sooner rather than later. Plans to sell old prisons (which often occupy prime sites in the centres of towns) to finance the building of bigger, better, out-of-town jails were hit for six by the financial crisis and its impact on property prices. But the policy is still in place. Adding extra jail spaces will reduce overcrowding, so prisons should be better at rehabilitation. That, in turn, should cut re-offending and thus the jail population, the theory goes.

But another Conservative plan is a heck of a gamble: scrapping the current sentencing regime, under which many offenders are automatically released on licence after serving half their sentence, and making lags “earn” this early release instead. Those who don’t play ball will occupy a cell for twice the time that they currently do, potentially adding vast numbers to the jail population—and to the cost to the taxpayer. But not all of these pledges will survive the budget cuts that the next government, whatever its colour, will have to make.
WHEREAS Britain’s government is the main force in shaping the domestic realm, it is just one actor on a crowded world stage. Foreign affairs and defence may therefore be the toughest area of policy to forecast. Tony Blair famously began his premiership by speculating that his might be the first generation never to fight a war. He ended up waging five.

And yet a glance at the Labour Party’s manifesto of 1997 suggests that foreign-policy plans can survive contact with messy reality. The manifesto promised more participation in the European Union, new controls on the arms trade, greater foreign aid and an “environmental internationalism”. All of this came about—as did, for better or worse, the overall vision of a restlessly active Britain, driven by values as well as interests.

Indeed, if the post-war era has been one of decline in global profile for Britain, the past 13 years may come to be seen as its Indian summer. In the myriad fights against terrorism, rogue states, poverty and climate change, Britain was a big player—but at often heartbreaking cost. The wars in Iraq and Afghanistan, which have claimed hundreds of British lives, remain unpopular. And the country’s ability to pay for projections of power—even of the “soft” kind, such as giving aid—has been ravaged by the economic crisis.

With a political culture shaped by centuries of globe-trotting, Britain is unlikely ever to renounce its world role explicitly for a quieter life. In an otherwise inward-looking continent, at a time of rising non-liberal powers elsewhere, this may be no bad thing. But Britain will need to be more resourceful than ever, boxing clever to preserve its influence. In other words, foreign policy will matter.

The biggest international worry under any government will be the Afghan campaign, now one of Britain’s longest wars. The Conservatives and the Liberal Democrats have questioned the strategy there but neither has echoed the majority view in the country in favour of quickly ending the war. This is understandable, as the war (unlike that in Iraq) commanded broad political support when it was launched in the wake of the terrorist attacks on America in 2001.
The army certainly feels more confident about the mission, now that it has more men and better equipment in the field. It is greatly helped by America’s commitment of tens of thousands of its own troops to Afghanistan—starting with Helmand province, the most violent in the country, where underpowered British forces had struggled to hold the line alongside smaller Danish and Estonian forces.

General David Richards, the army chief and a former NATO commander in Afghanistan, is especially committed to the campaign and foresees some sort of British presence in Afghanistan lasting for years. The voters, though, may see it differently. Their patience will be tested by what looks likely to be another bloody year of fighting. Still, the political consensus is likely to hold at least until the middle of 2011, when America expects to start drawing down its troops. How many will leave, and how quickly, is unclear. Much will depend on whether NATO can show some real improvement in the coming months.

David Cameron’s “liberal conservatism” is the latest attempt by a politician to say, rightly but banally, that the choice between the idealistic and pragmatic traditions of statecraft is a false one. In truth, the Tory leader leans towards the second. It is revealing that one of the Tories’ few specific foreign-policy proposals—the creation of a National Security Council to co-ordinate the work of various departments—is about process rather than ends. Mr Cameron will chair the council but, in a sign of the strong role the Tories envisage for the Foreign and Commonwealth Office (FCO), the deputy will be William Hague, now shadow foreign secretary. Under Labour the department for international aid has grown in influence, its budget expanding as the FCO has had to close or shrink embassies abroad. It may struggle to enjoy that kind of power under the Conservatives.

Even on Europe, the one issue on which Mr Cameron is supposedly an ideologue, pragmatism prevails. His party’s Euroscepticism causes consternation in European capitals but he is a moderating influence. Many Tories wanted him to promise a referendum on the Lisbon Treaty (a repackaging of the unloved EU constitution) even after it had been ratified. He refused.

Still, Europe is one of the few international issues that sharply divide the parties. Labour makes the case for a problem-solving Europe. It wants an EU-wide agreement to match its own target for reducing carbon emissions, for example, and says that anyone serious about making European economies more competitive must fight for the decade-old Lisbon agenda of reforms. Mr Cameron agrees with much of this, but not with the rights and regulations imposed by “social Europe”. He wants to repatriate some powers from Brussels, though few fancy his chances.

After seeing voters grow more Eurosceptic under the most pro-European government ever, even the Lib Dems (the most Europhile party) are glad that no integrationist drive looks likely to emerge for some time. Much of Europe wants tougher regulation of the financial sector, though, and guarding the City of London from this will be harder now that Britain no longer holds an economic brief in the European Commission. As for the single currency, Mr Brown has little interest in joining, Mr Cameron is flat-out opposed and the Lib Dems’ Nick Clegg is supportive.

The state of Britain’s relations with America continues to grip the political class as much as those with Europe. In reality, the relationship fluctuates little: it is rarely much closer than under Mr Blair, or much cooler than at the turn of the 1990s, when the first President George Bush turned to other European powers. The preoccupation with just how “special” Britain’s relationship is with a country that will always be its most important ally is odd. A richer field of diplomacy in years to come may be Britain’s relations with emerging non-Western powers, including states such as Turkey, South Korea and Chile. The Tories, keen to look beyond Europe, say this will be a priority for them. They frequently, if nebulously, talk about using the Commonwealth as a way of cultivating links with the likes of South Africa. Labour makes less play of it.

All the main parties are pledged to hold the first strategic defence review since 1998. They insist that it will be informed by foreign-policy priorities and real-world threats. In practice it may become a cost-cutting exercise. Even before the economic crisis, some reckoned the defence-equipment budget was overcommitted to the tune of £35 billion. No party has promised to preserve defence spending.

But what to cut? The army argues that future wars will look much like Afghanistan: “asymmetric” struggles fought against weaker opponents, often via proxies. That implies giving priority to “boots on the ground”, and to equipment such as helicopters and drones, while “taking risk” in, say, air defence. The navy and the air force counter that there are threats beyond Afghanistan, and that state-on-state wars cannot be ruled out. This means preserving high-end fighter jets and warships.
Given the uncertainty, a future government will want to keep a bit of everything—a deployable army, a blue-water navy, a deep-strike air force and top-notch special forces—and so may hollow out a bit of everything. The number of new carriers could go down from two to one. Some favour giving up the nuclear deterrent. Not even the Lib Dems, the most dovish of the big parties, will go that far, but the Trident system may be pared back from four submarines to three. Whether such salami-slicing will save enough is questionable.

There will be promises to overhaul procurement procedures. But such reform is hard to do, in part because governments, in seeking short-term savings, often incur long-term costs by delaying or scaling back new equipment. One answer, suggested in a recent green paper, is greater collaboration with European countries, particularly France, on joint projects, pooling of equipment and developing different military specialisms. Certainly the old British argument against European defence co-operation (that it would undermine NATO) has weakened now that France, under a Gaullist president no less, has rejoined NATO’s military command. The Americans are also relaxed about it. The Conservatives are becoming more open at least to bilateral co-operation with France. The last attempt to achieve this, at the Anglo-French summit at St Malo in 1998, did not achieve much.

After defence, the most expensive item on Britain’s foreign-affairs bill is aid. Curiously, perhaps, in an age of austerity, all three parties back the existing target of spending 0.7% of GDP on international development by 2013 (it is 0.4% today).

Money spent on certain kinds of military operations can be counted as aid, however. And though no party calls for “tying” aid to the purchase of British goods, all of them promise new measures to ensure value for money. The Tories would concentrate aid on fewer countries and set up an independent watchdog to monitor how it is dispensed. The Lib Dems say that aid money is often badly spent because those receiving it are not consulted—though they are clearer about how to involve recipient governments than the needy people they (not always democratically) represent. Labour, pointing to the indifference to foreign aid of many Tory MPs and candidates, say Mr Cameron’s commitment to the cause will waver in office. The polls suggest that voters would not hold this against him.

As well as its unpredictability, foreign policy is distinguished by the broad agreement it commands in Westminster. Only on Europe are voters faced with a clear choice. This may change. External shocks in the past three decades pushed Britain into war: 9/11, Iraq’s invasion of Kuwait and Argentine aggression in the Falklands. A similar crisis could occur early in this decade. If there were a choice to be made over whether to join a military strike against Iran, for example, it could leave British politics as riven as the Iraq war did. Even a small, Kosovo-style humanitarian intervention somewhere would be contentious in a country tired of war.

But such speculation is the grimmest futurology. For the time being, politics, to a degree that some find heartening and others worryingly complacent, still stops at the water’s edge.
Labour’s record on schools and universities is patchy. The opposition has promising, though unproven, plans

AFTER the economy, education will be one of the fiercest battlegrounds of the coming election. Tony Blair gave it top billing when his party came to power in 1997. Thirteen years later, despite the Labour government pumping money into schools and constantly changing the way they are run, British children remain ill-educated compared with their counterparts elsewhere, the poorest in particular.

Though British children of all ages now do better in national exams than they used to, much of that progress is illusory, the result of rampant grade inflation and relentless drill in exam technique by schools that are judged on their pupils’ performance. Independent analyses and international comparisons are less flattering. A team at Durham University gives randomly selected children the same test each year—and finds little evidence that today’s know more than their predecessors. In studies by the OECD, a rich-country think-tank, British 15-year-olds came well above the average in 2000, at eighth in mathematics and seventh in reading out of 27 countries. In 2006 they scored below the average in both, at joint 18th and 13th respectively. In science, at least, they remained above-average—but fell from fourth to ninth. The 2009 data are unlikely to buck the trend.

These disappointing results have come at considerable cost. Education is the third-largest area of government spending, with the lion’s share going to schools (running education is devolved to the governments of Scotland, Wales and Northern Ireland, but the money comes from central government). The amount spent per pupil is now £5,850, twice what it was in 1997 even after taking inflation into account.

Some of the extra cash went on grandiose school buildings; more went on raising teachers’ salaries and giving them all a half-day a week away from the classroom. A cannierr government would have demanded reforms in return: summer tuition for stragglers, say, or an end to national pay bargaining. But Labour missed its chance. As with the bungled contracts struck with family doctors in 2003, costs soared without the taxpayer getting much in return.

Higher pay and the recession have made teaching more attractive: severe
shortages, apart from in a few subjects such as physics, are now a thing of the past. But with teachers’ pay still set nationally, better-off children in comfortable suburbs have benefited most. Tough schools stuffed with hard-to-teach children still struggle to find well-qualified teachers, one reason for a shameful gulf in attainment between the best- and worst-off.

Expensive too has been the mass hiring of classroom assistants: over 180,000 of them now grace the nation’s schools, three times as many as in 1997. A recent study suggests this mums’ army has been worse than a flop. Peter Blatchford of the Institute of Education in London found that these less-qualified staff work mostly with children who are already struggling, depriving them of teachers’ attention, which means that they fall even further behind.

Able pupils have also been shortchanged. Labour has started and then wound down three schemes to stretch students in the top 5%, whether academically (“gifted”, in the parlance) or in music or sport (”talented”). Attempts to find some sort of talent in everyone, and teachers opposed to giving anything extra to those already doing well, scuppered each in turn.

Labour says that, should it form the next government, it would protect the schools budget. That will feel like famine after a decade-long splurge. So its new pledges are modest: individual tuition for children who fall far behind their peers in primary school, for example, and a guaranteed college or training place for every youngster who has been seeking work for six months. There is wooly stuff, too: Ed Balls, the schools secretary, says he will “ensure there is strong discipline and good behaviour in every school” and repeats his promise to rebuild or refurbish all secondary schools and half of all primary schools “in the coming years” (before the recession, this was meant to happen by 2020).

The academies programme, begun under Mr Blair to create a tier of well-resourced schools with some independence from local government, has proven popular, if pricey. Labour has exceeded its original goal of setting up 200 by 2011 (by contrast, there are 3,300 secondary schools in all in England). All three main parties promise to expand academies, though the Liberal Democrats would tinker with how they are run, and the Conservatives claim they would be truer to the original vision than Labour, which has recently removed some of academies’ freedoms. And all three stand behind state-funded religious schools, though these are frequent flashpoints in Britain’s various multicultural battles.

There is also broad agreement over directing more money towards the pupils most likely to do badly. In theory that happens now: money flows from central government to schools through formulae intended, for example, to recognise that poor children are tougher to teach. But these formulae are complex, and as the money passes through town halls some gets siphoned off to pay for school buses and the like. The result is a system in which schools in Leicestershire get half as much per child as schools in the City of London.

Mr Balls acknowledges that the current system “is largely based on historical allocations rather than present need” and says he would improve it. The Lib Dems and the Tories both talk of a clearer, fairer “pupil premium”: extra per-capita cash for schools that take poor children. But with no more money in the kitty that could mean schools in rich areas getting less. That would be fair, but the articulate middle classes are unlikely to be impressed.

The Conservatives’ plans to shake up schooling, presented by Michael Gove, the shadow schools secretary, are perhaps the most innovative of their policies. If they win, they promise to remove the decision on who gets to open new schools from the dead hand of local government. Parents, charities and other not-for-profit groups will be encouraged to create new schools that could be open by September. Funded by the state according to the number of children who attend, they will stand or fall according to their popularity with parents.

A similar scheme in Sweden appears to be working: results have improved more in places with lots of new schools—not only in those schools, but also in the state-run ones that had to raise their game to survive. And Swedish parents like choosing where to educate their little darlings. But in Sweden firms are allowed to run schools for profit; in Britain they will not be profit-making, at least at first. That could put a damper on things.

There are costs to the Tory scheme. If parents are to have genuine choice there must be excess capacity, and this is expensive. If many pupils leave mainstream state schools, more of the latter will become unsustainable as their rolls fall. That will be tough on those who remain to the bitter end—and the resulting job cuts and school closures will rile the powerful teaching unions. And though Mr Gove plans a
vetting process to stop extremist organisations or people with “a dark agenda” from running schools, discouraging the well-intentioned-but-wacky will be harder.

The Lib Dems also say they are keen on supply-side reforms. But since they would leave local authorities in charge, that means little. They want to cut class sizes, which their schools spokesman, David Laws, thinks would take an extra £2.5 billion a year, and to get teachers to spend more time in the classroom and give after-school lessons to laggards. Persuading teachers without the usual inducement of higher pay will be a tall order.

Labour’s education record is brightest when it comes to universities. Britain lures more overseas students than any other country except America. And British universities are the only European ones near the top of the two main international league tables. This is hardly Labour’s doing: Cambridge, Oxford, Imperial College and a handful of others have long been world-famous. Some people in government, not least Gordon Brown, have indulged in sporadic populist rumblings over such institutions’ supposed elitism. But Labour deserves credit for largely leaving universities to run themselves.

The government has also given universities lots more money, ending a long-standing tendency to stuff more students into lecture halls without providing extra cash. Its target of getting half of all young people to university by 2010 was missed, but not by a mile. And it has treated science well, spending on both high-quality facilities and the research that is done in them.

Some of the new money came from taxpayers, but some came from students themselves. Just weeks after Mr Blair entered Downing Street, a review of university funding commissioned by the previous Tory government recommended introducing university-tuition fees. He agreed, and six years later, though vehemently opposed by the left wing of his own party, let fees rise to a maximum of £3,000 a year. Another review will report soon after the election and is likely to recommend lifting that cap, probably to at least £5,000 a year.

Both Labour and the Tories are likely to support the move, though they are wary of saying so in the run-up to the election. Even the Lib Dems have postponed their once-totemic plans to scrap fees altogether, citing the parlous state of public finances.

Even so, higher education’s fat years are about to be followed by a period of lean ones. Though boom and bust is no rational way to run laboratories or train scientists, any cuts to education will be felt mostly by universities, since schools are politically far more sensitive. And no party is likely to allow universities to recruit lots more students, even though more young people than ever want to go, rather than sit out the downturn on the dole. It would cost taxpayers a lot, even with higher fees, because students can borrow their tuition fees from the state on easy terms.

In February Gordon Brown described education as “a ladder to social mobility”. That used to be true. But under Labour schools have failed to narrow the gap between Britain’s haves and have-nots. Liberating more schools from state control could lift Britain from the educational doldrums. It certainly needs a boost.
THE National Health Service was at or close to the top of public concerns in the past three elections. In a hammy gesture on the eve of the 1997 poll, Tony Blair claimed that voters had just 24 hours to save the NHS. Thirteen years and many billions of pounds later, there are still big concerns about the quality of health care in Britain, though the economy has given voters something even bigger to worry about.

But if debate on the NHS seems oddly muffled it is because there is rough consensus about its immediate future (in England, that is, because devolved regions are free to do things differently). David Cameron has done his utmost to appear its friend. Although the Tories want to make changes, they will be in the direction favoured by Tony Blair of fostering competition to improve service. Whoever wins, the NHS will remain free at the point of use and financed by taxes. The state will still pay for over 80% of all spending on health care.

Though the Liberal Democrats do not rule out cutting the NHS budget, both the main parties see eye to eye about money. The NHS makes up nearly a fifth of public expenditure. The Tories have ring-fenced it from real cuts over the next parliament. Labour has said that, after a boost in 2010-11, "front line services" (95% of the NHS budget) will be protected from real reductions in the following two fiscal years.

The NHS is thus much better placed than most public services. But the pressures pushing up medical bills are intense. The new dispensation will feel harsh after a decade in which the health budget has grown by over 6% a year in real terms. That permitted the NHS to recruit a third more sta., purchase more pricey kit and increase the number of medical treatments. Drugs prescribed by family doctors (GPs) shot up.

Labour will make much of this record, and especially of its victory in the war on waiting. Interminable delays for non-urgent operations such as hip replacements are a thing of the past. Nearly all patients are
treated within 18 weeks of their referral to hospital by a GP. Almost all those who need emergency services at a hospital are now seen within four hours.

Labour’s opponents say that the quality of care still leaves much to be desired. Britain compares unfavourably with similar countries in survival rates after a cancer diagnosis, for example (see chart). Stroke care is relatively poor too. Many patients now worry, with reason, that if they end up in hospital they may get a nasty bug.

Such failures reflect managerial shortcomings rather than lack of money. The NHS can surely get more value out of its huge budget. Its doctors are now among the world’s best paid. Productivity has been falling over the past decade, especially in hospitals.

David Nicholson, who runs the NHS in England, thinks that by 2013 the service could wring 15% out of its budget, meeting increased demand with the same real resources. But pay would have to be held down and the workforce cut by around 10%, say NHS-watchers. Some district hospitals would have to close, or do less. The Tories have fought unpopular closures, but may have to allow them if they win.

Beyond money matters, is there a fundamental fight over the future of the NHS? Not really. In his second term Mr Blair drove through reforms to enhance choice and competition. But Mr Brown was never that keen on mixing markets with health care. Since he became prime minister, the bolder measures have petered out.

The Tories want to pick up the Blairite reforming mantle. They would reopen the NHS to competition from the independent sector by allowing it to bid for work on equal terms. The opposition parties also want to do something about the primary-care trusts (PCTs), the purchasers in the NHS internal market. The Liberal Democrats would have them locally elected to give them more clout. The Conservatives would give GPs much more of a say by reviving the 1990s system of fund-holding in which many GP practices had their own budgets for elective care done by hospitals.

The opposition parties would also drop Labour’s heavy-handed performance targets, arguing that they demoralise sta., sap initiative and contribute to poor care. In fact the government has been moving away from them, though it is rebranding some as patient "guarantees". It makes much of a new "constitution" setting out patients’ rights—in effect recasting what the NHS is supposed to provide anyway.

Both Labour and the Tories would use the payments system of the internal market to reward quality and penalise poor care. But they also want it to encourage productivity. A big question is what to do about the expensive and delayed plan to create electronic patient records.

Whether health care can really be enhanced, or even maintained, when money will be so tight seems a stretch. If services deteriorate, Britain may have to reconsider whether it is sensible to rely on taxpayers to pay so much of the bill. But that will be for another election.
ENERGY policy is unfamiliar territory for Britain’s political parties. North Sea oil and gas provided three decades of plenty, allowing Britain happily to ignore a question that has made insomniacs of many other big-country leaders: how to keep the vital humours of any modern economy—oil, gas and electricity—flowing.

How different things look today. Production from Britain’s bit of the North Sea peaked in 1999. The country was slow to build the storage and import terminals that other nations take for granted. A winter cold snap in 2005 caused a gas shortage: factories shut and the authorities came close to cutting off some households, too. More storage and more import capacity has since been built, but every winter sees jittery speculation that perhaps, this time, there won’t be enough gas to go around.

As with gas today, so, perhaps, with electricity tomorrow. Elderly nuclear power stations and dirty coal plants must be shut down over the next five years. Without new capacity, reckons Ofgem, the energy regulator, demand will start to exceed supply around the time of the election after this one. Most providers seem intent on filling the gap with gas-fired generation. But gas already provides two-fifths of the nation’s power and most of its heating, and the prospect of becoming even more reliant on it makes many people nervous.

Complicating all this is climate change. Notionally, Britain remains committed to slashing its carbon emissions by 80% in 2050, compared with 1990 levels. But progress towards this goal has stalled.

Prodded by the gas shortages, fearful of a power crunch and constrained by its own carbon targets,
Labour has abandoned its previous policy of benign neglect. A sharp political about-face has rehabilitated nuclear power. Energy (alongside climate change) was promoted out of the business ministry to become a cabinet-level post in its own right. The Infrastructure Planning Commission (IPC), a quango with the ability to force through important national projects over the objections of locals, is supposed to make it easier to build power lines, storage plants, wind farms and the like. Ministers have become more prescriptive in their announcements, specifying the number of nuclear-power stations they want built and where. Plans for a “green industrial revolution” unite the seemingly opposed goals of cleaning up the economy while encouraging growth, although so far the revolution exists more in theory than in practice. The government has not officially abandoned its renewable-energy targets, but few think that plans for 8,000 offshore wind turbines by 2020 stand a chance of being realised.

Greenery is important to the Conservatives, whether for branding reasons or because the party truly cares. Environmentalism was a big part of David Cameron’s early efforts to “decontaminate” the Tory image (huskies figured in the new leader’s photo shoots and the party’s logo is now an impeccably eco-friendly tree). Mr Cameron’s promise on March 18th to bring in an economy-wide floor price for carbon did much to revive his reputation for greenery, which had sagged as the economy slumped. Yet whatever Mr Cameron’s personal views, his party sees environmentalism as an indulgent luxury: in a poll, Tory MPs ranked climate change as the lowest policy priority for a Tory government.

Securing supplies, on the other hand, has more appeal among the backbenchers. The Conservatives want mechanisms to force markets to provide a minimum level of gas storage and a minimum quantity of spare capacity in electricity generation. The Tories promise handouts to households for insulation, and hint at a “decentralised energy revolution” to break the monopoly of big power suppliers. They oppose expanding Heathrow airport, partly on environmental grounds, and support a north-south high-speed rail link for similar reasons. Like Labour, they talk up the economic opportunities that environmentalism throws up.

Again like Labour, the Tories favour new nuclear plants for reasons of both security and the environment—but only if they can be built without subsidy (which would be an historic event). Coal stations would be permitted if their emissions could be sequestered underground.

Suitably for the party that is the traditional home of the green-minded, the Liberal Democrats have cornered the market in rhetoric. Nick Clegg, their leader, calls for an effort “on the scale of the Apollo moon landings” to make Britain self-sufficient in energy and cut its carbon emissions.

The Lib Dems plan to insulate every home in the country and want to reform the market so that the profits of energy retailers do not depend on selling as much power as possible. What energy is sold will come from a hugely expanded renewable-energy sector, enabled by the construction of offshore power cables. But they oppose nuclear power, a position that puts them at odds with a fair number of environmentalists who have concluded, reluctantly, that a low-carbon future without nuclear energy is a pipe-dream.

Two elephants lurk in the darkening room. All the parties want lower fuel bills. But nuclear-power stations and wind turbines are expensive, so, whoever wins, higher bills for domestic consumers seem inevitable. Ofgem predicts that they will rise by around 60%, in real terms, over the decade to come. That will be hard for credit-crunched voters to swallow after years of cheap energy. More basically, Britain’s vaunted liberalised-market model is looking ragged. Serious commentators are suggesting a return to varying degrees of state control. In this election, that question has been left hanging in the air.
A briefing on the British election

Room at the top
Apr 7th 2010
From The Economist print edition

But the Tories must climb a hill to get there, and the Liberal Democrats an Alp

THIS is an election that matters. Not because ideology divides the parties fundamentally, as it did in 1979. Not because a bold new Zeitgeist dawns, as it did in 1997. Britain is on the rocks economically and its self-confidence is shot. Now if ever is the time for leadership, competence and integrity. What are the chances of getting them?

General elections are increasingly hard to predict. Gone are the days when they were basically a shoot-out between two big parties, with the others peering out from behind the bar-room door. In 2005 around one in three voters chose a party other than the main two (though under Britain’s first-past-the-post electoral system, six of seven resulting MPs were still Labour or Conservative).

It is not just that the Liberal Democrats have attracted solid support, now hovering around 20%. The share of smaller parties—including the nationalists in Scotland and Wales, the Greens, the anti-Europe UK Independence Party and the pro-white British National Party—has grown too, from under 6% in 1992 to over 10% in 2005. Some polls now put it at 12% or more (though this could shrink on the day). So the two main parties need to beat each other by a wider margin than before to control the House of Commons.

That is harder for the Conservatives than for Labour. Tories are scattered, they turn out to vote more and the seats they win tend to be larger than Labour’s, so a lot of Tory votes are “wasted”. Rounding the numbers, in 2005 Labour emerged with one MP for each 27,000 votes cast and the Conservatives with one for each 44,000 (the Liberal Democrats fared worst, with one for each 97,000). The bias against the Tories will be less this year, as most constituencies in England and Wales have had their boundaries redrawn. But winning is still uphill work for them.

A year ago the Tories had a double-digit lead over a ragged and squabbling Labour Party. The election seemed theirs for the losing. But as the economy improved so did Labour’s prospects. In the last week of March, a poll of polls showed the Tories on 37% and Labour on 31%.

If voters in every constituency voted just like that, and third parties stayed roughly the same, the Tories would emerge with 283 seats and Labour with 273, using the formula devised by Colin Rallings and Michael Thrasher of the University of Plymouth. The Tories would be the biggest party but without the 326 seats they need to command an overall majority in a 650-member Commons. (Had the Tory and Labour votes been reversed, the latter would have had more than enough votes for an overall majority.)
The Conservatives say they are polling better in the marginal constituencies they have targeted (see map for the seats they could most easily gain—or lose). But they need a national swing from Labour of 1.6 percentage points (i.e., more than a three percentage-point lead) to rob Labour of its overall majority, 4.3 points to become the largest party and 6.9 to gain an overall majority, assuming no big change in support for other parties. It is not impossible: Labour managed a 10.2% swing in 1997. But it had a far bigger lead going into the vote than the Tories do today, and some of that movement has already been reversed in 2001 and 2005. The largest swing from Labour in Tory history was 5.3%, in 1979.

So civil servants have been dusting off their manuals on what to do in case of a hung parliament, and the Lib Dems elaborately refuse to set out the terms on which they would co-operate with either main party in a formal coalition or an informal alliance. The last time a general election failed to produce a clear winner, in February 1974, a minority Labour government paddled around for eight months before holding another election, which it just managed to win. What followed—economic chaos, IMF intervention—is a dispiriting precedent. It is not surprising that investors and credit-rating agencies view the prospect of a hung parliament with alarm, fearing that the lack of firm leadership will delay fiscal retrenchment.

In fact, this need not be the case. All three parties accept the need for austerity. Of the ten largest fiscal retrenchments carried out by OECD countries since the 1970s, seven were pushed through by coalition or minority governments. But voters may well hesitate to vote for third parties.

If, that is, they vote at all. Turnout has fallen from around 84% in 1950, a post-war high, to 61% in 2005.
(a little higher than in 2001), even though postal ballots have been made pathetically easy. And hanging over these elections is an anti-politics mood of some magnitude.

The parliamentary-expenses scandal is far from the only reason, but it is a big one. Dissatisfaction with how MPs are doing their job rose by eight points, to 44%, over the past year, according to a survey by Ipsos MORI for the Hansard Society. Only 19% of people consider Parliament one of the three most influential institutions in their life, down from 30% in 2004, and the importance of the prime minister is rated even lower.

Yet against a rather bleak backdrop, there is everything to play for in this election. The economy and the budget are the central issues, and how they are tackled will do much to shape society over the coming decade. The parties must now define their policies and defend them, for the first time in publicly televised debate. This newspaper will express its view in the week before the election.
Wireless health care

When your carpet calls your doctor

Apr 8th 2010 | NEW YORK
From The Economist print edition

The coming convergence of wireless communications, social networking and medicine will transform health care

IS IT possible that amid all the hoopla about Apple’s iPad, one potential use has been overlooked? Larry Nathanson, head of emergency-medicine “informatics” at one of Harvard Medical School’s hospitals, has experimented with using the device in the casualty ward. He writes that “initial tests with our clinical applications went amazingly well…the EKGs look better onscreen than on paper. It was great having all of the clinical information right at the bedside to discuss with the patient.”

Dr Nathanson’s enthusiasm hints at the potential of wireless gadgets to improve health care, and to ensure more personalised treatment in particular. Pundits have long predicted that advances in genetics will usher in a golden age of individually tailored therapies. But in fact it is much lower-tech wireless devices and internet-based health software that are precipitating the mass customisation of health care, and creating entirely new business models in the process.

Wireless health is “becoming omnipresent” in hospitals, according to Kalorama Information, a market-research firm; it estimates that the market for such devices and services in America alone will grow from $2.7 billion in 2007 to $9.6 billion in 2012. Don Jones of Qualcomm, a maker of networking technology, argues that the trend speeds diagnosis and treatment, and saves doctors’ and nurses’ time. GE, an industrial giant, and Sprint, an American mobile operator, have joined forces to offer hospitals such services. GE’s Carescape software allows the secure monitoring of patients’ health via mobile phones, as does rival software from Airstrip.

Doctors are an obvious early target for wireless health. A forthcoming report by the California HealthCare Foundation (CHCF), a think tank, estimates that two-thirds of American physicians already have smartphones. Over one-third of American doctors use Epocrates, a program for mobiles and laptops which offers instant information on drug-to-drug interactions, treatment recommendations and so on. The software will soon be able to access electronic health records (EHRs) via mobiles—which the author of the CHCF’s report thinks could be “the killer application” of wireless health.

The hope is that nimble new technologies, from smart-phones to EHRs to health-monitoring devices, will
empower patients and doctors, and thus improve outcomes while cutting costs. The near ubiquity of mobile phones is the chief reason to think this optimistic scenario may come true. Patients with fancy smart-phones can certainly benefit from interactive “wellness” applications that track diet, exercise and vital signs. Apple’s App Store, for example, offers thousands of health-related applications. Jitterbug, an American mobile operator that offers easy-to-use phones for the elderly, recently added more health services; rival mobile carriers are doing much the same.

But Carolyn Buck-Luce of Ernst & Young, a consultancy, points out that “mHealth” is transforming health care in poor countries as well as rich ones. Medical Home, a Mexican outfit that provides medical consultations by mobile, already has millions of customers. Paul Meyer of Voxiva, an American technology firm that has set up mHealth systems in Rwanda and Peru, among other places, says that such schemes have been so successful in the developing world that they are now being adopted in the rich world too. His firm has helped the American government with its recent launch of Text4Baby, a public-health campaign to educate pregnant mothers (they receive free text messages with medical advice) that will soon become the biggest such effort in the world.

What is more, mobile phones are but one part of a broader wireless trend in health care that McKinsey, a consultancy, estimates may soon be worth up to $60 billion globally. Many companies are coming up with “home health” devices embedded with wireless technology. Some are overtly clinical in nature: Medtronic, a devices giant, is developing a bedside monitor that wirelessly tracks the blood sugar levels in diabetic children sleeping nearby. GE has come up with “body sensor networks”, tiny wireless devices that track the vital signs of those who wear them.

The most successful gadgets may be, as Eric Dishman of Intel puts it, “surreptitious”. His firm, a big chipmaker, is investing in devices to track the health of the elderly, such as “magic carpets” that sense erratic movements and thus can predict a fall. Continua, an industry coalition, is developing shared standards so that blood-pressure monitors and scales can wirelessly transfer readings to doctors’ offices or personal EHR services like Google Health.

All these devices and services do not just allow doctors to make more accurate diagnoses, prescribe more effective treatments and keep better track of patients’ conditions. They also allow health services to tailor treatments depending on patients’ personal preferences and behavioural foibles. Studies show, for example, that although some patients with chronic conditions are fastidious about taking pills or insulin properly, others are careless or forgetful. Some prefer efficient electronic reminders, whereas others respond best when a nurse calls home. A global consumer survey released on April 6th by PricewaterhouseCoopers (PWC), a consultancy, finds that the elderly prefer high-quality care with lots of personal attention, whereas younger types prefer low-cost care and wellness schemes.

Many health systems, PWC’s accompanying report finds, are beginning to divide customers into different categories and customise treatments accordingly. For example, Discovery Health, a South African insurer, uses a variety of different methods to get patients with chronic diseases to follow through on their treatments, from text messages reminding them to take their pills to rewards for good behaviour.

A similar scheme run by HealthMedia, a wellness firm owned by Johnson & Johnson, a big drugs firm, uses online tools (it calls them “digital health coaches”) to help patients manage diabetes and lose weight. Its studies suggest that half of the digitally coached do lose weight, and the improved health of those with chronic conditions is worth $1,000 a year to their employers.

Virgin HealthMiles, an American rival, has taken the same idea a step further, using online social networks, through which co-workers or family members can cheer on or nag patients electronically, in order to encourage exercise or weight loss. Patients seem to like this kind of thing: one patient who suffers from ulcerative colitis, for example, has created a forum for fellow sufferers that can be accessed through an iPhone application.

All these initiatives are particularly promising because they help bring about behavioural change, normally the hardest element of any treatment. Patients often ignore doctors’ lectures, but are more inclined to listen to supportive friends and family. By the same token, doctors and nurses are not always on hand to encourage healthy behaviour, but mobile phones and other wireless gadgets can be. That is something that even personalised genetic therapies could not offer.
Health-care costs in America

Called to account

Apr 8th 2010 | NEW YORK
From The Economist print edition

The politics of health care generate excitement about accounting rules

WHEN the American economy sickens, there is nothing Congress likes more than to call in a few chief executives for hearings in which politicians can upbraid big business. On April 21st the Energy and Commerce Committee of the House of Representatives will excoriate the latest bunch of hapless bosses: those who had the temerity to apply accounting standard ASC 740.

That is the rule under which several big firms have tallied billions of dollars of new costs stemming from the recent passage of the health-care reforms championed by Barack Obama. The biggest write-down so far has been the $1 billion booked by AT&T, followed by one of $970m at another telecoms giant, Verizon. Boeing, an aerospace firm, has announced a $150m charge, as has John Deere, a maker of farm equipment. Caterpillar, which makes construction and mining gear, has taken a $100m hit.

This has outraged Democrats, including Gary Locke, the commerce secretary, who described the announcements as “irresponsible and premature”. He complains that the wayward firms are creating the misleading impression that health-care reform will be costly for American business when “what you have is a law that is unquestionably pro-business and pro-jobs”. The firms point out that they gave warning of the impending costs before the legislation was passed, and that the charges are a straightforward application of Generally Accepted Accounting Principles (GAAP).

“There was nothing untoward in the charges that the firms took; the tax-accounting rules are the tax-accounting rules,” says Jack Ciesielski, of the Accounting Observer, a newsletter devoted to bean counting. Those rules allow firms to classify expected future tax breaks, such as the one on medicines for retirees under company health schemes, as a “deferred tax asset” which they carry on their balance-sheet. When the value of the asset changes, in this case thanks to the abolition of the tax break, the difference is treated as a gain or a loss—as the firms in question have now done.

Critics of the write-downs may still be on to something, however. Most of the firms concerned admit that, whereas the impact of the change to the tax subsidy is clear, they are still evaluating other consequences of the reform. Yet Trevor Harris, a professor of accounting at Columbia University, reckons the future health-care costs that firms currently recognise are almost certainly hugely underestimated. For instance, they are typically based on the assumption that health-care costs will rise by 5% a year, whereas over the past couple of decades the true figure has been around 9%. Even if health-care reform does reduce this inflation (and who knows if it really will), it still may not fall to the rates foreseen by corporate America. If outraged congressmen are thinking of demanding more punctilious accounting of health-care costs at the upcoming hearing, they should be careful what they wish for.
Daimler and Renault-Nissan join forces

A big plan for small cars

Apr 8th 2010
From The Economist print edition

A two-way carmaking alliance recruits a third member

IT IS more than ten years since Renault forged its transformative alliance with a nearly-bankrupt Nissan. Ever since, Carlos Ghosn, the man who made his reputation by turning round the Japanese carmaker, has been scouring the globe for a third partner to achieve even greater economies of scale. General Motors shortsightedly turned down Renault-Nissan’s overtures in 2006. But on April 7th Mr Ghosn announced a deal with Daimler.

The tie-up with the German luxury car and truck firm falls some way short of the kind of full-blown alliance that Mr Ghosn would doubtless like, although it does go further than the co-operative deals that are commonplace in an industry that is always looking for ways to save money. Whereas Renault holds a 44% stake in Nissan, which in turn has a 15% (non-voting) share in the French company, Daimler will take a much more modest 3.1% stake in each of them, and they will each take a tiny 1.55% stake in it. Mr Ghosn believes that cross-shareholdings are a critical signal to employees, especially engineers, that the partnership is both long-term and strategic, but Dieter Zetsche, Daimler’s boss, was reluctant to go further in that direction.

It is easy to see what Daimler gets out of the deal. Its Mercedes brand urgently needs to find a better way of producing small cars. The world’s drivers are increasingly turning to smaller, more efficient vehicles as environmental regulations bite harder and populations age in rich countries. Mercedes is not new to making small cars, but its efforts have been crippled by products that are sub-scale and over-engineered. It has lost huge amounts on its Smart, A-Class and B-Class programmes—perhaps as much as €7 billion ($9 billion) over the past decade, according to Max Warburton of Bernstein Research.

In its efforts to stop the rot Daimler has talked to Volkswagen and Fiat as well its great rival, BMW. However, Renault-Nissan’s experience in making partnerships work and the complementary nature of the firms’ products made the pair a good fit for the German firm.

The new alliance will focus on sharing resources in four main areas: platforms for small cars and light commercial vehicles; small petrol and diesel engines; technology for fully electric and hybrid cars; and bigger diesel engines. The first fruit of the collaboration is likely to be the development of a new platform for the little Renault Twingo that will also be used by Mercedes for the next two- and four-door Smart cars, due in 2013.

Renault will not benefit as much from technology sharing, but Nissan will get Mercedes diesel engines for its high-end Infiniti range, which is struggling to establish itself in Europe without a diesel option.
According to insiders, the three partners will also earn around €2 billion from the deal in the form of cost savings and additional sales over the next five years.

Perhaps more important to Mr Ghosn is the apparent vote of confidence from Daimler. For much of the past decade Renault has been a disappointingly mediocre performer, bolstered by substantial dividends from the more successful Nissan. Thanks to the launch last year of the new Mégane hatchback and Scenic minivan, Renault’s market share in Europe is rising. But despite (or perhaps because of) Renault’s bold attempt to be the first volume maker of purely electric vehicles, investors, according to Mr Warburton, still see the firm as “a long-term structural loser”. Mr Zetsche’s cautious endorsement could shift that perception, but only if he and Mr Ghosn can convincingly show how they will make their tie-up work.
Magazines and CDs get luxurious

Loving touch
Apr 8th 2010
From The Economist print edition

Media companies try to breathe new life into physical products

ANYBODY who picks up an American magazine next week is likely to find advertisements for the very thing they are holding. “We surf the internet. We swim in magazines” reads one ad, which will soon appear in glossy publications. Another compares the internet to instant coffee, and print to the real thing. “We’re not ready to walk away from the printed product,” explains Ann Moore, the boss of Time Inc.

Far from it: even as media outfits develop digital products—Time magazine was one of the first to launch an iPad application—they are striving to improve the look and feel of their old-fashioned physical products. Fortune, another Time Inc magazine, began printing on thicker paper in March. Hearst Corporation supersized Good Housekeeping earlier this year, and will do the same for Country Living in September. But the most striking efforts to jazz up physical products are being made in the troubled music business.

Visitors to music shops (there are a few left) are confronted with packages of wildly varying prices. How much, for example, would you like to pay for “Plastic Beach”, the new album by Gorillaz? The basic CD costs £7.99 ($12.13) at HMV in London’s Oxford Street. For £17.99 you can buy the more elegantly packaged “experience” edition, which comes with a DVD and access to online content. Or you could pay £19.99 for a box containing the CD and a T-shirt.

In the past few years sales of CDs have been hammered by illegal file-sharing and digital downloading services such as Apple’s iTunes. Yet the silver disc still dominates. Consumers in Britain, for example, bought 113m physical albums last year and only 16m digital ones, according to the British Phonographic Industry, a trade group. (Although they also downloaded almost 150m individual digital tracks, that works out to only about 15m albums’ worth of music.) Any music label that dumped the CD would be giving up most of its sales.

File-sharing and iTunes are fine for people who want to investigate a band (and free music-streaming services like Spotify and We7 are even better). They are not so good for devoted fans who want to pore over everything a group puts out. And they are even less good for people who are looking for a present.
Yet the CD in the plastic case is not what it was, either. Now that music is available free online, a mere physical album is thought to have little value. “It’s perceived as a rather stingy gift,” says Max Hole, who runs Universal Music Group’s businesses outside America. Hence the deluxification of the CD. Labels have long put out boxed sets of music by veteran acts. Now they are releasing deluxe editions of new and recent albums, too. Deluxe CDs accounted for 27% of Universal’s sales from its biggest new releases in 2009—up from 20% in the previous year. It reckons that the proportion will keep growing.

For magazines, the campaign to push print is an admission that online advertising is never going to be worth as much as the paper kind. The internet simply provides too many alternative opportunities to tout products. And it would be desirable to rely less on advertising anyway. Print and online ads alike plunged sickeningly during the recession. In America the number of advertising pages in magazines dropped by 26% between 2008 and 2009, according to the Publishers Information Bureau. Firms must persuade people to pay for their products, and to stump up more for them. Hearst’s size increases have been accompanied by price rises.

Oddly, honing their old-fashioned physical products may help media firms adapt to technological change. Ideally, says Peter Kreisky, a media consultant, the magazine on the news-stand would become a gateway to a brand that exists profitably on many different platforms, from the iPad to the web. If that seems impossibly idealistic, consider one tech-savvy company that lavishes attention on the look and feel of its physical products, and the places where they are sold. Its name is Apple.

--

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
CEZ and Czech energy

No, minister
Apr 8th 2010
From The Economist print edition

A mighty Czech power company runs into criticism

CYNICAL Czechs sometimes pay mock homage to their powerful national electricity company, CEZ, (pronounced "chezz") by calling their country the “CEZ Republic”. The firm is unusually powerful, even by the standards of former monopolies such as EDF in France. It generates some 75% of the country’s electricity. Though nominally state-run, many see the power flowing the other way: from CEZ’s board into politics.

Last month the environment minister, Jan Dusik, a Green Party nominee in the caretaker government, resigned. He complained that the prime minister had put him under undue pressure to agree a 25 billion crown ($1.3 billion) plan for the reconstruction of a big coal-fired power plant, Prunerov II, which is the country’s largest producer of greenhouse gases. His replacement is expected to be his deputy, who once worked for CEZ, and is likely to give the plant the go-ahead.

Mr Dusik has released a report on the plant that his ministry commissioned from DNV, a Norwegian firm, which faults the technology CEZ plans to use, on the grounds that slight improvements could reduce its output of carbon dioxide by 205,000 tonnes a year. CEZ responded by saying that its aim is to reduce emissions of nitrogen and sulphur—the main pollutants in Northern Bohemia, where the plant is located. It describes CO₂ as a “harmless gas, inhaled by plants and creating bubbles in beverages”.

CEZ’s critics say the row reflects the company’s influence over Czech politics. Jan Machacek, an investigative journalist from the weekly magazine Respekt, complains that it is backed by a “cartel” of big political parties. Such worries gained ground last year when pictures leaked to the media of politicians from the two leading centre-right and centre-left parties at a resort in Italy with CEZ’s boss, Martin Roman, and some of the company’s lobbyists. Also among the holiday-makers was a former prime minister, Mirek Topolanek.

Nonetheless, CEZ has come under widespread attack of late, not just over its plans for Prunerov. The police have accused CEZ employees of blackmailing customers who did not pay their bills; prosecutors are investigating 13 of them on the lesser charge of “subjugation”. The company dissolved the unit concerned in February and apologised for its behaviour.
The European Union, meanwhile, worries that CEZ is overly dominant in its markets. In November European competition officials raided the offices of both CEZ and J&T, a Slovak firm with various investments in energy, while investigating allegations that the pair colluded to raise electricity prices and exclude competitors. If found guilty they face fines of up to 10% of their annual turnover. The firms deny any wrongdoing and blame aggrieved competitors for stoking the issue.

Competitors certainly have plenty of bruises. CEZ posted a record net profit of 52 billion crowns last year, which was 6.3 billion crowns higher than the net profit of five largest Czech banks combined. That may be good news for the state as shareholder, but it does not placate Czech consumers, who pay electricity prices that are among the highest in Europe on a purchasing-power basis.
India’s evolving conglomerates

Avantha’s advance

Apr 8th 2010 | BHIGWAN
From The Economist print edition

A sprawling family business charts a course for its rivals to follow

WHEN Arsenal, an English football club, took on Reading in 2007, the cover of the official programme featured Theo Walcott, a stripling winger known for his speed. A copy is on display near the town of Bhigwan in the Indian state of Maharashtra, in a factory belonging to Ballarpur Industries Limited (BILT). It is India’s biggest maker of writing and printing paper, including the glossy stock that Arsenal supporters browse before kick-off.

BILT is part of the Avantha Group, a conglomerate headed by Gautam Thapar that spans agribusiness, power and manufacturing, among other things. The group has grown at a pace that would shame Mr Walcott, earning revenues of about $4 billion in 2009, compared with $1 billion in 2003. It provides one example of how corporate India might evolve, as it globalises its operations, professionalises its management and modernises its technologies, while remaining a family conglomerate.

The group was founded in the 1920s by Karam Chand Thapar, who passed it on to his son, Lalit Mohan. Like many family conglomerates, it split in its third generation. But it split amicably, leaving Mr Thapar with the lion’s share of the businesses. Other corporate siblings squabble over the family name. Mr Thapar dropped it, rebranding the group “Avantha” in 2007.

Mr Thapar cites a European tradition, where the heirs to family businesses first go off to try their luck elsewhere, before returning to the family fold. By accident, if not by design, he enjoyed a similar upbringing. As the second son of Lalit Mohan’s brother, Gautam grew up “twice removed from any position of inheritance.”

That was probably just as well. Sudhir Trehan, who runs Crompton Greaves, Avantha’s electrical equipment-maker, jokes that when he joined as a trainee in 1972, the management would not drink tea unless it were served with white gloves from a silver pot. That complacent culture could not survive the less sheltered economy of the 1990s. Mr Thapar became boss of BILT after steering it clear of bankruptcy in the latter half of that decade. Thereafter his uncle left him free to get on with it.

Mr Thapar cultivates a similar relationship with those who work for him, giving promising young executives responsibility for smaller units early on, so they can make their mistakes before the stakes get too big. “You actually believe it’s your company,” says Vineet Chhabra, head of Global Green, a subsidiary which exports gherkins and other foods to 50 countries.

One advantage of a conglomerate is that it allows the ambitious to graduate from one company to another without leaving the group. When Mr Chhabra began to chafe at Global Green’s small scale, he was given that option. But instead he chose to turn Global Green into the bigger company he wanted to run. With the group’s backing, it acquired Intergarden, a Belgian company three times its size. The purchase illustrates another advantage of the conglomerate: it gives units access to finance they could not raise on their own.

Indian companies typically buy firms abroad to secure materials, markets, or technologies. Avantha has gone in search of all three. Intergarden, for example, gave Global Green valuable customer relationships. BILT bought a Malaysian firm to gain access to its timber. Crompton Greaves wanted Pauwels, a Belgian company, mainly for its know-how.

Mr Thapar is unusual among Indian businessmen in seeking inspiration (as well as acquisitions and markets) in continental Europe. In both Europe and India, he points out, the state remains a big owner of enterprise, the capital markets have yet to supersede banks as a source of corporate finance, and share ownership is often concentrated in family hands. Even the group’s new name is an unlikely mix of Indian and European. It evokes both the Sanskrit for “strong foundations” and the French for “advance”—a combination worth trading the family name for.
Stéphane Richard, the new boss of France Telecom, wants to overhaul its strategy as well as its offices

WHEN Stéphane Richard appeared recently in Paris Match, a celebrity and news magazine, lightly tanned in an open-necked shirt and leaning jauntily against the corporate logo of his new firm, France Telecom, he raised eyebrows in the buttoned-down world of French telecoms. Mr Richard did not attend the elite engineering school which produces almost all of France’s senior telecoms executives, including his predecessor at France Telecom, Didier Lombard, and the boss of Vivendi, a rival. Instead, he is a political operator who has made a fortune in property. He is a friend of Nicolas Sarkozy, France’s president, and worked until recently as chief of staff to the finance minister. He became boss of France Telecom last month with the immediate task of responding to a wave of suicides among employees which had prompted a political outcry.

Since 2008 over 30 France Telecom employees have killed themselves, some explicitly blaming the company. Even though the firm’s suicide rate is in line with the national average, France Telecom says that it was partly to blame. Because of the group’s former status as part of government, 66,000 or 65% of its employees are classed as civil servants, with guaranteed tenure. Unable to fire them, France Telecom instead subjected them to a system called “Time to Move”, in which they were obliged to change offices and jobs abruptly every few years.

“The former management needed to change the nature of peoples’ jobs due to technological change and increased competition,” says Mr Richard, “but the company underestimated the consequences.” For the first time in 15 years, he has promised, France Telecom will expand its workforce. Job and office moves will become voluntary, and up to 30% of the variable pay of the firm’s top 1,100 managers will be tied to their “social” performance. Other measures include making France Telecom’s numerous offices more pleasant: the company will renovate 800 of its buildings and create 270 new “conviviality spaces” for employees.

Mr Richard, a former board member, joined the firm in 2009 as heir apparent to Mr Lombard, with the
blessing of the government, which still holds a 27% stake. He was not due to take over until next year, but the handover was accelerated in the midst of the crisis. In an unusual outburst last week, Louis-Pierre Wenes, the group’s former deputy chief executive, who resigned under pressure last year, told a British website that “external stakeholders” in France Telecom had taken advantage of the suicides to advance their agenda. Mr Lombard was not close to the current administration, whereas Mr Richard is.

Minority shareholders are now waiting to hear in detail what Mr Richard plans for the business beyond improving morale. He is a talented communicator, but some foreign investors grumble that despite having been at the firm for over six months, he tends to turn to other executives when asked for precise details on France Telecom’s financial performance. But Mr Richard clearly has lots of business nous. The grandson of a shepherd, he made his fortune from a leveraged buy-out of a property developer, Nexity, in 2000-01. He is likely to push France Telecom into behaving like a private firm, and further away from its past as a public monopoly.

“Stéphane Richard is far more attuned to the market than Didier Lombard,” says Xavier Niel, founder of Iliad, a young telecoms firm which has upended the French broadband market. “Under his management France Telecom will become a more dangerous competitor for us.” Already, while at the finance ministry, Mr Richard demonstrated a strong belief in the beneficial effects of competition by helping Iliad obtain a mobile licence in the face of fierce resistance from the incumbents and their political allies.

In the past, says Mr Richard, France Telecom, having recruited most of the graduates of the X-Corps des Telecoms, the most elite stream of telecoms students, “thought there were few skills or knowledge on telecoms outside France Telecom”. Engineers still tend to call the shots, rather than marketing types. Whereas Iliad offers just one kind of set-top box, he points out, the equivalent product from France Telecom appears in 140 different types and generations, resulting in far too much complexity for users. “We must not lose our superiority in technology, research and development and innovation,” he says, “but we need to be more marketing-oriented and mindful of customers”.

With its premium products and pricing in France, which provides two-thirds of its cashflow, France Telecom’s market share and profits are being eroded by newcomers such as Iliad, which will launch its new mobile service in 2012. The firm’s shares performed far worse than those of its European peers in 2009, says Antoine Pradayrol of Exane BNP Paribas, a brokerage. Investors want to know how Mr Richard will fend off France Telecom’s rivals as well as how he will cheer up its staff.
A surprising number of companies spend some time in the clinic

THE venerable Augusta National Golf Club has been playing host to the Masters Tournament since 1934. But this year it is also playing host to another great drama, the relaunching of the most valuable personal brand in the world. Tiger Woods’s penchant for cocktail waitresses and porn actresses ended up costing an astonishing amount of money: two economists at the University of California, Davis, have calculated that his biggest corporate sponsors, such as Nike and Gatorade, saw as much as $12 billion wiped off the value of their shares in the wake of the scandal. But Mr Woods’s warm reception at Augusta suggests that he is well on his way to recovering his star power.

Brand Tiger is thus likely to join a long list of brands that have come back refreshed after a spell in rehab. These include not just the predictable roster of celebrity brands such as Martha Stewart and Kobe Bryant, but also a surprising number of solid corporate citizens such as Johnson & Johnson and Coca-Cola. Brand-threatening scandals are becoming a regular feature of the corporate landscape, thanks to a toxic mixture of globalisation, which scatters corporate activities hither and yon, and the internet, which allows bad news to spread like wildfire. Oxford Metrica, a consultancy, estimates that executives have an 82% chance of facing a corporate disaster within any five-year period, up from 20% two decades ago. Indeed, just the day after Mr Woods made his return to golf, the American government fined Toyota over $16m for its tardiness in addressing safety concerns.

The key to a successful relaunch lies in making a cool-headed assessment of how much the scandal damages your company. Does it involve life and limb, rather than less consequential matters? Has it spread beyond particular products or particular divisions to afflict the entire corporate brand? If the answer to both questions is yes, then companies are well advised to go into collective overdrive; if it is no, then they can experiment with more nuanced responses, such as lopping off a tainted product or sacrificing a rogue division.

Marsh & McLennan and JetBlue provide good examples of companies that took a no-holds-barred approach to brand rehabilitation. In 2004 Marsh & McLennan was accused of taking kickbacks to recommend insurance providers to its clients, an accusation that went to the very heart of its identity as one of the country’s biggest insurance brokers. The firm was not content with issuing grovelling apologies...
and paying $850m in compensation. It also appointed a new boss, Michael Cherkasky, who was the head of its financial-investigation division, Kroll. Mr Cherkasky proceeded to de-emphasise the insurance business and boost other divisions, such as Mercer Consulting and Kroll.

In 2007 bad weather presented JetBlue with a nightmare of its own. Thousands of passengers were left stranded and one planeload of unfortunates spent eight hours sitting on the tarmac, with precious little food or drink to sustain them. The company’s founder and boss David Neeleman immediately recognised that this made a mockery of his promise to “bring humanity back to air travel”. He threw himself into dealing with the problem, issuing public apologies, telling his employees to contact passengers personally by phone and e-mail, producing a retroactive passengers’ “Bill of Rights” and ponying up around $25m in compensation.

The JetBlue case underlines two of the most important rules of successful crisis management. First, the boss needs to take charge. This means sidelining corporate cluck-cluckers such as lawyers (who worry that any admission of guilt will lead to lawsuits) or financial officers (who obsess about the bottom line). It also means putting the survival of the company above personal considerations (Mr Neeleman stepped down three months after the crisis). Many of the most damaging crises, by contrast, have resulted from foot-dragging at the top—as appears to be the case with Toyota today.

The second rule is that crisis-racked firms should redouble their focus on their customers. One former aide to George Bush junior, David Frum, tells the story of another, Karen Hughes, who sees a small plane towing a banner reading, “Jill, please come back. I am nothing without you. Jack.” Her response is, “Wrong message. It’s too much about you, not enough about her.”

Companies have a habit of acting like Jack when their brands are in trouble—talking endlessly about how they are fixing this or reorganising that. But most successful decontaminators look at the world’s from Jill’s point of view. Johnson & Johnson’s handling of the Tylenol crisis (when an unidentified attacker poisoned some bottles of the painkiller) is the gold standard of crisis management because the company simply recalled all Tylenol without hesitation or demur. Similarly, Edward Breen, the boss of Tyco, rescued the conglomerate’s reputation after his predecessor, Dennis Kozlowski, was imprisoned, by launching a public-relations campaign that focused on what the company’s products do to improve people’s lives.

Never waste a crisis

Crises can even give brands a long-term boost, provided the rehabilitation is properly handled. Coca-Cola emerged stronger from its disastrous recipe change in 1985. In response to widespread outrage from customers, it reverted to the original formulation within three months. The whole episode reminded consumers of their fierce attachment to Coke, and thus ended up increasing sales. Tiger Woods, too, could well emerge with added lustre from his own debacle. There is nothing Americans like more than a redemption story—particularly when the man being redeemed is supremely good at his job.
Correction: The health-care squeeze
Apr 8th 2010
From The Economist print edition

Two weeks ago Schumpeter improbably claimed that 500,000 baby-boomers were becoming eligible for Medicaid every day. In fact, he meant Medicare. Baby-boomers will not start becoming eligible for Medicare until January, at an initial rate of roughly 8,000 a day. We apologise for the errors.
Japan’s government will eventually have a disaster on its hands if it fails to tackle the deep-seated problems of debt and deflation

IF CHINA is the workshop of the world, Japan is the pristine, state-of-the-art laboratory in its backyard. You can see that by the sort of products shipped through the East China Sea in ever-greater quantities from Japan ever since China led a recovery in world trade last year. Forget the digital cameras and other high-tech gadgets. Japanese exports to China are reviving mainly on the back of products that seem to have all the sex appeal of gravel: plastic materials (up 105%, year on year, in January and February), non-metallic mineral goods (up 113%), construction machines (up 152%), textile machines (up 171%), vehicle parts (up 144%) and scientific instruments (up 133%).

Despite appearances, these are all high-tech products or high-value industrial ingredients that feed into a supply chain that snakes through the factories of East Asia to the rest of the world. With public money in China pushing growth there to a brisk canter, and inventories all over the world being restocked, it was only a matter of time before Japan’s exporters began to benefit.

The strength of the recovery has surprised many economists. Japan was one of the hardest-hit countries during the global financial crisis. The collapse in exports helped put a nail in the coffin of the Liberal Democratic Party (LDP), which had ruled Japan for most of the past 55 years, partly on the strength of its ties with Japan’s globe-trotting corporate giants. It was swept from power last September by the Democratic Party of Japan (DPJ), which promised to end the economy’s dependence on fickle exports and promote a more balanced economy.

Fickleness cuts both ways, however. Japan’s recession hit bottom in the first three months of 2009. JPMorgan calculates that over the subsequent nine months the export revival led to annualised growth of 3.1%, outstripping both America and the euro zone. Corporate profits enjoyed their biggest surge on record, albeit from very depressed levels. Unemployment has edged downwards and in January this year monthly wages crept higher compared with a year earlier for the first time in more than 18 months. JPMorgan recently upgraded its forecast for first-quarter GDP growth from 1.8% to 3.5%.

Last year’s rebound in GDP, JPMorgan notes, was only a quarter of what Japan lost in the first 12 months
of the crisis, so it still has a long way to go. Unless growth in global demand is sustained, it remains heavily reliant on pump-priming, both in China and at home. The recovery is likely to be given an extra fillip this year by the 2010 budget, passed on March 24th, which includes handouts to families with children under 16. In principle, spurring domestic consumption by any means available is the right thing for the seven-month-old government to do, given the fragility of the rebound. But given Japan’s precarious public finances, a bigger question is: can the recovery be sustained?

The answer, disappointingly, is not for very long. That is because the cyclical upturn is unlikely to do any more than paper over Japan’s deep-seated problems. These include deflation, huge public debt, ugly demographics and a glaring lack of decisiveness among policymakers about how to deal with them. Unless things change radically, these problems seem destined to sap nominal growth for years to come, with possibly disastrous consequences.

**Deeply depressing**

![Falling into the gap](chart)

To start with, Japan’s economy continues to operate far below capacity. The output gap stands at 7%, three times bigger than it has been at any time since Japan’s asset-price bubble burst 20 years ago, according to Richard Katz of the *Oriental Economist*, a newsletter. The gap between actual GDP and potential GDP (when the economy is at full throttle) correlates well with deflation, he argues (see chart 1). That suggests consumer prices have further to fall. In its latest estimate the Bank of Japan (BoJ), the credibility of which should rest on ending deflation, predicted that consumer prices would continue to fall until March 2012.

Falling prices mean that nominal GDP, which last year hit its lowest level since 1991, is likely to remain in the deep freeze. That will add to pressure on the public purse: in the 2010 budget, borrowing, at ¥44 trillion ($468 billion), is for the first time forecast to exceed tax revenues, at ¥37 trillion. It also means the gross debt-to-GDP ratio, already the highest in the rich world at 190%, will continue to rise.

Some argue that this combination of deflation-sapped growth and high debt makes Japan next in line for a Greek-style debt crisis. In a report last month, Goldman Sachs said some foreign investors were positioning themselves for a “meltdown”. They were buying options to prepare for two related events: a sharp rise in long-term interest rates because of an erosion in debt sustainability, and a slump in the yen caused by capital flight from Japan.

One senior bureaucrat in the finance ministry returned from a G7 meeting in Canada in February, his ears ringing with worries about Greece—and, by extension, Japan. But he appeared to find it more wearying than alarming. “For years we have been hearing warnings that Japanese-government bonds are going to collapse. It’s like the doomsday view of the dollar,” he moaned. Pointing to a trading screen on the wall where ten-year Japanese bond yields were yielding a meagre 1.4%, he noted that the market was still holding firm (in Greece, yields were about 7% at the time). He believes that Japan still has plenty of room to avoid a fiscal implosion.
In the short term, there are grounds for sharing his confidence. In many sovereign-debt crises, the trigger is not the level of debt, but the government’s inability to finance it. In a recent IMF working paper*, Kiichi Tokuoka notes that in recent years there has been scant linkage between Japanese government-bond yields and the size of Japan’s debt and deficits. Indeed, when net debt was less than 20% of GDP in the early 1990s, ten-year bonds yielded 7%. As the debt has soared, yields have moved in the opposite direction (see chart 2).

There are many Japan-specific reasons for this, he argues. The Japanese have a large, albeit now scarcely growing, store of savings that have helped finance the build-up of debt. At the end of 2008 domestic investors held 94% of Japanese government bonds, perhaps reflecting the risk-averse nature of Japanese society. More than half of the country’s ¥1,400 trillion of financial assets is held in cash and deposits (in America the figure is 14%), and a large part of these are invested in Japanese government bonds via the banking system. Big public institutions such as the Japan Post Bank hold lots of government bonds. So do Japanese firms, many of which have large financial surpluses after a long period of post-bubble deleveraging.

There may be other factors at play, too. Even with nominal interest rates so low, deflation has given investors a pretty good risk-adjusted return. Why diversify? Other assets, such as land and shares, remain at paltry levels compared with their bubble-era peaks. Investing abroad has been hobbled by the yen’s strength. Japanese government bonds, by contrast, have enjoyed one of the biggest bull runs in history. Some even suggest, with a conspiratorial wink, that one reason the authorities have done so little to tackle deflation is that they fear the consequences in the bond market if consumer prices were to accelerate.

Crisis? What crisis?

Paradoxically, however, the belief that there is no imminent crisis brewing may be Japan’s biggest problem. Without it, there may be nothing to force Japan’s policymakers out of a deep paralysis. The scale of the institutional lethargy in Japan is at times breathtaking. Everyone, it seems, puts the blame for deflation and rising debt elsewhere.

Take deflation, for instance. By any reckoning it has had a corrosive effect on consumption, debt and investment in the past decade. And expectations of further deflation are entrenched: more than 35% of people expect prices to be flat or lower in five years’ time. The finance ministry, led by Naoto Kan, a newish finance minister, argues with increasing stridency that it is necessary for the BoJ to root out deflation, so that Japan can once again resume nominal GDP growth. Yukio Hatoyama, the prime minister, has collared Masaaki Shirakawa, the BoJ’s governor, on the issue.

Yet because the annual decline in consumer prices has been only moderate—they have never fallen by more than 1.4%, in contrast with the rapidly plunging prices of America’s Depression in the 1930s—the central bank tends to view deflation as insidious, rather than cataclysmic. As one insider rather nonchalantly puts it, it is a symptom of bigger underlying problems, rather than the problem itself.

The bank thinks the real problems are low productivity growth in Japan, which keeps wages low and
suppresses demand for goods and services, and high public debt. In that sense, bizarrely for a central
bank, it does not appear to believe that deflation is a monetary problem. Its own earlier experience of
monetary stimulus since 1995, when it more than doubled the monetary base with little discernible effect
on nominal growth, has left it unimpressed. As a result, it injected liquidity only half-heartedly into the
system during the global financial crisis, putting it at odds with central banks in other rich countries.

The BoJ’s resistance to acting more forcefully may be rooted in its own analysis of its earlier experience. It
also seems to be haunted by the potential consequences for its credibility if it acts and fails. That position
might be understandable if it were a clearly stated policy. But the bank seems to want it both ways. After
much government pressure, in March it said it would extend its emergency supply of three-month loans to
the banking system by ¥10 trillion. But far from being seen as a principled move to jump-start lending,
this was perceived as a weak attempt by the bank to get the government off its back—and the BoJ’s
credibility took a further knock.

When it comes to public debt, the finance ministry’s ostrich-like argument that there is little it can do
about it until the BoJ deals with deflation is just as frustrating. It, too, appears to think that things are not
as bad as the outside world believes. As one central banker ruefully puts it: “Japan is not faced with an
imminent debt crisis. But that is a mixed blessing.”

The torpor dates back years. The finance ministry is haunted by its premature attempt to raise
consumption taxes before a recovery was fully under way in 1997. Another attempt to overhaul spending
and taxation was launched in 2006, not long before the bursting of the global credit bubble brought it to a
halt. According to the OECD, under previous LDP governments, much of the emphasis on improving public
finances was focused on spending cuts rather than tax increases. Taxation as a share of GDP remains
among the lowest in the OECD. But the tax system is hardly conducive to growth, with some of the
highest corporate-tax rates and lowest consumption-tax rates in the rich world. To bureaucrats in the
finance ministry, this suggests there is plenty of fiscal flexibility in Japan to deal with the debt problem.
The trouble is they have never succeeded at tax reform.

Into this policy vacuum came the new DPJ government last year, with Mr Hatoyama vowing that he would
not consider raising the consumption tax until the next elections in 2013. Greece’s fiscal mess may have
knocked a greater sense of urgency into his administration. After his first G7 meeting in February, Mr Kan,
the newly appointed finance minister, began to speak more publicly of fiscal reform.

Others have taken up his call. Yoshito Sengoku, Mr Kan’s replacement as strategy minister, says that the
moment borrowing exceeded tax revenues in the 2010 budget, it was clear that Japan had reached a
turning point. “I don’t think the situation will go immediately as it did in Greece. But going forward the
Japanese bond market will always be under pressure and the government officials who are in charge of
fiscal policies have to be ten times more cautious than before,” he says.

He favours an increase in the consumption tax and may also support cuts in corporate tax when he
announces a medium-term plan for fiscal reform in the spring. But the politics of a significant overhaul are
excruciatingly complicated. After a series of political-funding scandals involving Mr Hatoyama, support for
his administration has fallen sharply ahead of upper-house elections in the summer. So it is a safe bet
that any talk of tax reform will be accompanied by soothing promises of higher welfare spending.

We can’t go on like this

At present none of the ideas being aired to deal with Japan’s problems is anything like bold or concrete
enough to sound convincing. And though the government may muddle through for a few years yet,
ultimately the situation is unsustainable. At some point, unless radical steps are taken, Japan’s
government will go bust.

The IMF’s Mr Tokuoka reckons that as the population ages, savings will dwindle, which could reduce
inflows to the government-bond market. He calculates that even if the household savings rate remains at
2.2%, by 2015 gross public debt could exceed households’ financial assets, which might make domestic
funding more difficult and lead Japan to rely more on foreigners. Meanwhile, government pension funds
have more flexibility to invest in other assets besides government bonds.

With interest payments at 26% of tax revenues, rising yields would come as a huge shock to Japan.
Already, some economists argue that flat bond yields give only the illusion of market stability. Ryutaro
Kono, chief economist of BNP Paribas in Japan, says that given the fall in Japan’s potential growth rate
and the drop in inflation expectations, yields should normally have plunged. “The fact that the long-term rate has generally been flat for the last 18 months suggests the risk premium is rising on questions of the sustainability of Japan’s public debt,” he says.

What’s more, rising social-security payments as the population ages are likely to put even more pressure on public financing, while the shrinking workforce will mean even slower growth and smaller tax revenues. In 1990 almost six people of working age supported each retiree. By 2025 the Japanese government expects that ratio to fall to two. At some point Japan may have no other option than a domestic default in which the older generation, who hold most of the government bonds, will see the value of their investments cut to reduce the pressure on the younger generation. Such an intergenerational transfer would come at enormous political and social cost, not least in a society with such a strong sense of communal well-being.

Economists suggest many schemes to forestall such a crisis, most of which involve the government and the BoJ producing what the Oriental Economist’s Mr Katz calls a “fiscal-monetary one-two punch” to kick-start nominal growth. Massive and well-targeted fiscal stimulus is one option, he writes: the current “eco-points” subsidy scheme, which has led to a surge in purchases of energy-saving durable goods, is a good example. In return, the BoJ should commit to keeping long-term rates low by increasing its purchases of government bonds. Others favour a sharp cut in corporate tax rates to boost competitiveness.

Many observers agree that fiscal looseness is the best first step to faster nominal GDP growth. Jesper Koll, a strategist at Merrill Lynch, plausibly argues, however, that raising the consumption tax in small increments each year might encourage people to accelerate their spending plans. Whatever their prescriptions, few are optimistic. As Mr Katz puts it: “To reject both fiscal and monetary tools is to say that Japan can only wait for the rest of the world to rescue it. That’s the passive mindset that has kept Japan stagnant for two decades so far.”

One of the biggest challenges in stimulating growth is to persuade households and firms to borrow again. Richard Koo of the Nomura Research Institute calls their reluctance to do so the “debt-rejection syndrome”. Having finally paid off their bubble-era bills, many are likely to have a visceral objection to borrowing. He thinks an investment-tax credit for firms, and a promotion of investment by homeowners in Japan’s feeble housing stock, would help.

Macroeconomic medicine, though essential, will not be enough to solve Japan’s problems. Structural reforms to raise the economy’s efficiency will be needed too. The list of areas which need a shake-up is as long as it is familiar. The heavily mollycoddled agricultural sector needs deregulating, and services from transport to power generation need to be opened up to foreign competition. Allowing more immigrants would boost the labour force. Many of these proposals are a hard sell culturally. But if the perils of inaction were well laid out, it would not be the first time Japanese citizens have been asked to accept big sacrifices in the national interest.
The trouble is, there is little tangible sense, either among politicians or in the country at large, that a crisis is brewing. And if the economy continues its cyclical improvement, the urgency of reform may appear even less compelling. It will be even harder given people’s abiding faith, Toyota’s humiliating recalls notwithstanding, in the prowess of Japan’s cutting-edge exporters and their growing links with China. As one businessman puts it, in a country that has been blighted by wars, fires and earthquakes throughout its history, people have grown accustomed to waiting until disaster is actually upon them before they focus on renewal.

A lot about this state of affairs—particularly the reluctance to do anything radical—is profoundly Japanese. It may mean the country is consigned to stagnation, which only makes an eventual default appear more inevitable. But the lessons from Japan are important for all countries, such as America, Britain and parts of Europe, that have suffered a big asset bust. It shows that in the aftermath of a meltdown, slow growth, low productivity, rising public debt and deflationary pressures can last a lot longer than anyone thinks—and that policymakers can make all sorts of mistakes as they try to escape them.

* "The Outlook for Financing Japan’s Public Debt" by Kiichi Tokuoka, IMF

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
Greece’s deepening debt crisis

The wax melts

Apr 8th 2010 | ATHENS AND LONDON
From The Economist print edition

Worries about Greece’s ability to roll over its maturing debt are giving way to bigger fears

GEORGE PAPANDREOU may have spoken too soon. On April 6th, just three days after the Greek prime minister claimed “the worst is over,” the yield on Greek ten-year government bonds leapt from 6.5% to above 7%. Yields remain at alarming levels. On April 7th the spread over their German equivalents stood at more than four percentage points, the highest since Greece joined the euro in 2001. The D-word (default) is increasingly on the lips of analysts. The cost of insuring Greece’s bonds surpassed that of Iceland’s this week; Greek banks have asked to tap a government liquidity scheme. Far from coming to an end, the Greek debt crisis seems scarcely to have begun.

On the face of it, this week’s renewed bond-market jitters were caused by growing doubts that an emergency-aid package patched together by European Union leaders last month offers Greece much help. Under the terms of the EU deal, any short-term support would have to be approved by all of the 16 countries in the euro zone. German anger at Greece’s profligacy could easily delay the cash it would need should bond markets close.

Any rescue package would be co-financed by the IMF, which may be good for €12 billion ($16 billion) of swift support. But the stipulation, insisted on by Germany, that EU cash would only be furnished at near-market rates meant the deal failed to provide an interest-rate ceiling for Greece’s public debt, leaving the country to suffer every turn in market sentiment. Senior EU sources say a formula is being discussed to address this flaw. The interest-rate benchmark would be set over a long period, so it would not be unduly influenced by immediate market stresses. Rates paid by countries with a credit rating similar to Greece’s would also be a factor.

Optimists are still confident that the government can raise enough funds in the next six weeks to stave off default, though at a high cost. The government has more than €13 billion in cash, enough to refinance maturing debt and fund the budget deficit during April. It needs to raise another €10 billion-12 billion in May. The likely borrowing requirement for the remainder of the year, around €25 billion, is spread more evenly. “If we can get over the May borrowing hump, it’s a relatively smooth cruise for the rest of the year,” says one trader in Athens.
That is a big "if", say pessimists. In the six months since the Socialists were elected, spreads have jumped by more than two percentage points. Greece can no longer risk holding an auction for a new issue of bonds for fear that it fails. Its Public Debt Management Agency has resorted to syndicated-bond sales managed by big international banks. But the pools of spare cash that Greece can tap seem to be drying up.

Subscriptions for a new seven-year bond on March 29th reached only €6.2 billion, just above the target of €5 billion. Two previous issues this year were heavily oversubscribed, even if the investors who were allocated bonds are now cursing their luck. On March 30th Greece failed for the first time to raise a targeted amount when it offered a fresh slug of an existing, but illiquid, 20-year bond. In an auction restricted to local market-makers just €390m was subscribed against a target of €1 billion. The bond was reopened in part to accommodate hedge funds that wanted to cover short positions. Some may subsequently have bought the bonds they needed more cheaply elsewhere. But for many observers this was a clear signal that Greece will need a bail-out soon.

George Papaconstantinou, the finance minister, plans to lead a roadshow to America in the last ten days of April. He hopes to persuade American investors, including emerging-market funds, to buy $5 billion-10 billion worth of a new dollar-denominated bond. It would be a heavy irony if Greece, a member of the euro club, were temporarily reprieved by loans in dollars. But the fear is that investors will stick to buying the bonds of genuine emerging markets, which have much more solid growth prospects.

It is not yet clear what Greece’s fallback plan will be if American demand is weak. “The roadshow will be decisive. If it doesn’t fly, the alternative is either a wave of T-bill issues at very high interest rates, or a rescue package,” says a senior Greek banker. Mr Papaconstantinou insists that Greece does not plan to fall back on support from the EU and IMF. But he also accepts that the government cannot go on borrowing at such high interest rates.

Even at lower interest rates, however, Greece will struggle to keep borrowing. Previous analysis of the country’s debt dynamics by The Economist, based on fairly benign assumptions, concluded that Greece’s public debt would stabilise above 150% of its GDP. That burden is probably too much to bear for a small country with such ropy economic prospects: it also implies that a much bigger bail-out pot is needed than the one currently being mooted. Some buyers of Greek debt may still think the interest rewards on offer are worth the default risk, but they seem to be a diminishing band. The bigger worry for Greece is not its immediate funding hump, but that investors are starting to lose faith that the country will be able to sustain its growing indebtedness.
WHEN Hercules wanted to steal the golden apples of the Hesperides he offered a trade with Atlas, the titan who was holding up the heavens. Hercules would assume the burden for a bit if Atlas would fetch the apples, which were guarded by a many-headed monster. When Atlas returned, Hercules had to trick him into taking back his load.

The story can be seen as an analogy for the debt crisis. In a bid to prevent economic collapse the public sector has taken on some of the debt burden of the private sector. But in the medium term governments need to persuade the private sector to become the engine of economic growth once more.

The latest news has been fairly encouraging. The purchasing managers’ indices for March were strong across the board, indicating that the global economy may be generating its own momentum. The recent strength in commodity prices, the rise in bond yields and the continuing stockmarket rally can all be seen as signs that a “normal” recovery is under way. With central banks in America, Europe and Japan unlikely to raise interest rates any time soon, the optimists believe the recovery can become firmly established.

But completing a successful handover from Hercules back to Atlas will still be tricky. Governments have traditionally been able to assume a heavy burden of debt because their taxation and money-printing powers give them an instant-overdraft facility that is not open to the private sector. It is hard (although not impossible) for governments to be subject to the kind of liquidity crisis that hit the banks in the autumn of 2008.

Markets will nevertheless react if they feel that governments have taken on too big a burden. In Greece the current cost of long-term government debt, at around 7%, is simply unsustainable given the likely growth rate of nominal GDP and the high debt-to-GDP ratio. It may need to transfer the load to other governments.

But you could argue that the Greek crisis is simply an example of predators picking off the weakest member of the herd. The wider issue is whether governments in general will come under pressure to cut their deficits. Sebastien Eisinger of Pictet, a Swiss bank, suggests that governments are in a race to revive their economies before the markets lose patience with the scale of their deficits. For those governments that lose the race the resulting fiscal tightening could choke off the nascent recovery.
If the public sector spends less, will the private sector take up the slack? There has been a revival in corporate-bond issuance, but the all-important small-business sector seems unwilling, or unable, to borrow. The end of the Federal Reserve’s scheme for purchasing mortgage-backed securities has already led to a jump in the rates paid by homebuyers. Broad-money supply is contracting in the euro zone and growing only slowly in America. A recent paper* by five leading economists concluded that there would be a “continuing, if modest, drag from overall financial conditions on economic growth during 2010”.

Dhaval Joshi of RAB Capital, a hedge-fund manager, says there is a close link between global economic activity and the sum of Chinese and American borrowing, albeit with a nine-month lag. With the Chinese government now trying to crack down on credit creation, that suggests a slowdown in global growth in late 2010 and early 2011.

The problem with a Keynesian (or indeed a monetary) stimulus is that it can become addictive. Governments never feel the economy is quite strong enough to withdraw it. But as a British election campaign begins, it is worth remembering that past governments have eventually been forced to change tack. In the 1970s the then Labour prime minister, Jim Callaghan, declared to his party conference that: “We used to think that you could spend your way out of recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step.”

This time round the problem may not be inflation but market indigestion caused by heavy bond issuance by both governments and companies. The debt burden may be too big, even for the combined strength of Hercules and Atlas.

* “Financial Conditions Indexes: A Fresh Look after the Financial Crisis” by Jan Hatzius, Peter Hooper, Frederic Mishkin, Kermit L. Schoenholtz and Mark W. Watson

Economist.com/blogs/buttonwood

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
China's currency

Bending, not bowing
Apr 8th 2010
From The Economist print edition

The Chinese case for a stronger, more flexible currency

CHINA’s trade with America is notoriously skewed. But diplomatic exchanges between the two countries are more finely balanced. On April 3rd Tim Geithner, America’s treasury secretary, tactfully postponed a report due this month that might have condemned China for manipulating its currency, keeping it weak to favour its exporters. Mr Geithner, who made an unscheduled trip to Beijing this week, said he would rather press America’s case at its regular “Strategic and Economic Dialogue” with China in May and at the G20 summit in Canada in June. The delay puts America’s diplomatic account with China briefly in surplus. What will China offer to clear the balance?

The immediate quid pro quo is the presence of China’s president, Hu Jintao, at a summit on nuclear proliferation in Washington, DC on April 12th-13th. There is also talk of allowing the yuan to wobble a little more in daily trading with the dollar. In time it is expected to resume the slow crawl upwards that ended in July 2008.

America’s Treasury is willing to bide its time. But its patience is not shared by members of Congress. Last month 130 of them wrote to Mr Geithner urging tougher action against China. After the currency report was postponed, Chuck Schumer, a New York senator, said he would push his bill to slap anti-dumping duties on some Chinese goods and countervailing tariffs on all of them if China did not allow its currency to strengthen.

The tussle in America between a cautious Treasury and slap-happy senators is mirrored by subtle divisions in China. Its policymakers and economists are, of course, united in their distaste for America’s tariff talk. Many can scarcely believe that a country so indebted to China would try to intimidate it. (Mr Schumer points out that the Chinese cannot dump their dollar holdings without undermining their own peg, thereby “cutting off their nose to spite their face”.) But the noisy dispute between the two countries is drowning out an interesting debate within China on the virtues of its inflexible currency.

On one side of the discussion is the People’s Bank of China (PBOC), the country’s central bank. Its chairman, Zhou Xiaochuan, suggested last month that keeping the yuan stable against the dollar was a crisis measure which would be withdrawn “sooner or later”. With China’s recovery well advanced, the central bank is keen to get a grip on bank lending and keep a lid on inflationary pressures. A stronger yuan would cut import prices; a suppler one would give the central bank a freer hand to raise interest rates, without worrying about the capital inflows such rates might attract despite China’s capital controls.

On the other side of the debate are China’s commerce ministry and some members of its National Development and Reform Commission (NDRC), which formulates long-term economic strategy. Beyond the PBOC, Chinese policymakers do not see the yuan as a tool to manage inflation. They see it instead as a tool to “maximise export employment”, says Stephen Green of Standard Chartered Bank, one that they are not yet ready to give up.

Although China’s output grew by over 10% in the year to the fourth quarter, its policymakers believe they have done a better job of shoring up GDP than of shoring up employment, according to Eswar Prasad of the Brookings Institution, a think-tank. The World Bank says that rural wages (outside farms) fell by almost a fifth between 2007 and 2009 as migrant workers fled to their villages in search of jobs.

What accounts for this jobless recovery? Much of China’s epic stimulus was channelled through its banks. But in doling out credit Chinese banks still follow a “political pecking order”, as Yasheng Huang of the Massachusetts Institute of Technology has put it. They reserve the first and biggest bites for large state-owned enterprises. These firms in turn favour capital-intensive investment projects, which add more to the output figures than to the payrolls. As a result China’s policymakers still count on the country’s exporters to create jobs, Mr Prasad argues. They are reluctant to do anything to jeopardise their prospects.
How much damage might a stronger yuan inflict? Several studies suggest that China’s exports fall by about 1.5% when its trade-weighted exchange rate, adjusted for inflation, strengthens by 1% (see chart). But if the yuan did move against the dollar, the currencies of China’s neighbours and rivals might rise in sympathy, limiting the damage to its competitiveness. And China’s coastal workshops have staged an impressive recovery from the worst days of the crisis, when factories closed and container ships idled in the ports. Exports in February were 8% higher than two years earlier. A few more months of robust figures may reassure policymakers that the country’s exporters are back on their feet.

Some of China’s rulers, it is true, see no benefit to China from a stronger yuan. But they are also the ones most determined to resist foreign pressure. They would, therefore, back down only if American tariffs inflicted real pain. Theirs are not the only voices in the government. The PBOC recently appointed three scholars to advise it, two of whom, David Daokui Li and Xia Bin, have advocated currency reform. Whether they can overcome the commerce ministry and its allies remains to be seen. But their efforts to sell their ideas will come to naught if they are crowded out by imported arguments from America.
China and America

Repelling borders
Apr 8th 2010
From The Economist print edition

China has retreated more from free trade during the crisis than America

AMERICA and China may yet find a civilised way to settle their differences over the yuan (see article) but there are plenty of other sources of friction between the world’s largest economy and its most dynamic one. American accusations about Chinese mercantilism are met by Chinese finger-pointing about America’s “Buy America” legislation. Since 2008 each has dragged the other to the WTO thrice. Both America and China, it seems, are convinced that the other is retreating from free trade.

Openness is not that easy to define. The sum of imports and exports in 2008 as a fraction of GDP—24% for America and 56% for China—may suggest that China is much more open than America is. But trade-to-GDP ratios vary across countries for reasons ranging from the structure and size of economies to levels of income. For similar reasons America’s bilateral merchandise trade deficit with China—$226.8 billion in 2009—is not evidence in itself that China is discriminating against American imports.

Measuring trade policy directly is more fruitful. Although China’s official trade barriers are lower than those in other big emerging economies, America clearly has more liberal trade policies. In 2008 the average applied tariff was 3.5% in America and 9.6% in China. (The rates for India and Brazil were 13% and 13.6% respectively.) Non-tariff barriers such as import quotas or restrictions on foreign involvement in government tenders were equivalent to an added tax of 9.4% on imports into China, compared with 6.5% for America, according to UNCTAD estimates.

Of course, countries find all sorts of ways to make it difficult for importers to sell goods in their markets. Chinese regulations on foreign investment have gone from explicitly requiring technology transfers to "encouraging" them, for example. But foreign companies argue that this distinction is meaningless in practice. The enforcement of intellectual-property rights in China is a long-standing bugbear. Developing countries are concerned that American efforts to condition free-trade agreements on labour standards are designed to push up their costs.

Tension over government-procurement policies is growing. Both countries’ stimulus packages have provisions discriminating against foreign suppliers. Companies that do business with China are particularly worried about its "indigenous innovation" directive, issued in November, which aims to promote the use of Chinese high-tech products in government procurement. The American Chamber of Commerce in Shanghai found that of those companies who were aware of this directive, 30% thought it would hurt their business in China.

Subsidies to domestic producers are another increasingly fraught issue. China reckons that America’s bail-out of some of its carmakers was protectionist. America ripostes that China routinely subsidises its domestic industries (including exporting firms) by providing them with inexpensive land and credit from state-controlled banks at cheap rates. America also argues that China’s restrictions on the export of minerals such as bauxite and magnesium push up their prices for foreign producers and subsidise local outfits that use them.
Indeed, the principal concern among China’s trading partners is less about restrictions on imports and more about the extent to which Chinese exports are being unfairly subsidised. Demands for anti-dumping investigations against China, which are initiated when a domestic industry feels threatened by what it considers to be unfair competition from cheap imports, are on the rise. According to Chad Bown, who maintains the World Bank’s anti-dumping database, China’s exporters were targeted in more than 70% of new country-level investigations in the last quarter of 2009. He reckons more than 90% of the imports targeted by American anti-dumping investigations started in the year to March 2009 came from China.

Simon Evenett, a trade economist at University of St Gallen in Switzerland, has been co-ordinating a global effort to document government trade policies during the crisis on the Global Trade Alert website. Such monitoring allows him to rank countries by what he calls “four measures of protectionist harm”. Mr Evenett finds that China’s measures have been more harmful than America's on all four measures (see table). Neither China nor America is blameless when it comes to trade, but China, it seems, has more to answer for.
What is pushing up the price of copper and other base metals?

AS WELL as being close to each other on the periodic table, copper, nickel and zinc share several traits. Like other commodities such as oil and gold, the prices of all three are soaring again after a crisis-induced collapse (see chart). In an astounding recovery, metals prices have almost doubled over the past year.

Copper, used for electrical wiring and in construction, has had the most striking ascent. It briefly rose above $8,000 a tonne on April 6th, its highest level since August 2008 (and within shouting distance of its record of nearly $9,000, set in April that year). Nickel, mainly used to make stainless steel, has gained 32% since the start of 2010 and, at around $25,000 a tonne, is close to a two-year high. Zinc, lead, tin and aluminium have also run up smartly over the past year.

Growing optimism about the world economy helps explain why prices are surging. News from developed economies has become sunnier. And metal-hungry China (it consumes a third of the world’s base metals) is expected to grow so fast that its metal demand could return to pre-crisis levels in a year or so.

Supply and demand is not the only thing helping keep prices aloft. There is an “extraordinary market” for copper that has departed from fundamentals, reckons Andrew Keen at HSBC. Growing copper inventories at metals-exchange warehouses (half a million tonnes or so by some estimates) have coincided with increasing prices. The same seems to be happening with aluminium, lead and nickel. In the past, prices have fallen as warehouse inventories have risen.

Some observers attribute this phenomenon to investors buying metals in the expectation that prices will rise further in 2011, when demand is forecast to outstrip supply. Yet prices may crumble if speculators suddenly get cold feet. A shift away from the low interest rates that have encouraged commodity investments could spark a change in sentiment. So might a rising dollar: commodity investments offer a hedge against a depressed greenback. Mining bosses acknowledge that prices may be more volatile as a result of such investment.

Price rises in nickel, lead and zinc may slow in any case. The ores of all three metals are plentiful, so it is easy to expand production. Stainless steel can be milled without much nickel, although the end-product is harder and more expensive to work. Nickel restocking to replace inventories run down after the crisis will come to an end eventually. The momentum of copper, whose supply is harder to ramp up, looks more resilient. Copper mines need constant spending to maintain peak output. The collapse last year of investments in working mines will keep supply tight for a while yet.
Economics focus

The mean streets of Guildford
Apr 8th 2010
From The Economist print edition

Spending more on education and private security are cost-effective ways of cutting crime

GUILDFORD is a prosperous town in London’s commuter belt and an unlikely setting for a seminar on crime. But one of the best sessions at the recent annual conference of the Royal Economic Society (RES), held at the University of Surrey, teased out two of the big themes on the economics of crime—deterrence (what it is that prevents crime?) and incentives (what it is that makes for law-abiding citizens?).

To start, Philip Cook of Duke University unveiled a new paper, written with John MacDonald of the University of Pennsylvania, on private contributions to public order. Their paper is based in part on a study of Business Improvement Districts (BIDs) in Los Angeles. BIDs are not-for-profit bodies that provide services, such as private security guards and sanitation, on behalf of local firms. The marvel of such public goods is that one firm’s use of them does not make them less useful to others. The flaw is that businesses can benefit even if they do not bear the costs. A change to Californian law in the 1990s addressed this problem by forcing all businesses to join a collective scheme if enough local firms had signed up to it. It helps, too, that the city authority collects the levies that finance the BIDs.

Private security turns out to be a cost-effective way of cutting crime. The study compares crime rates in 30 BIDs set up after 1995 with those in neighbouring districts. BIDs tend to be high-crime areas, so the authors adjust for this. They find that each $10,000 spent by an average BID resulted in 3.4 fewer crimes per year.

To work out whether this was money well spent, the authors surveyed the public to put a cash value on each crime prevented. People were asked whether they would vote for a scheme that reduced a particular crime by 10% at a particular cost in tax dollars (the range of “offers” varied from $25 to $225). The authors used the responses to assign a social cost to different crimes. They calculate that preventing a robbery is valued at $263,000, an assault at $79,000 and a burglary at $21,000. Given the reduction they bring about in each sort of crime, every $10,000 spent by the average BID bought some $200,000-worth of crime prevention.

A benefit-to-cost ratio of 20 to one is impressive, though it does not tell us whether the schemes directly benefit the firms that pay for them—through increased custom, fatter profits, higher property values, and
so on. It is clear, however, that private security is good value for society as a whole. So good, in fact, that one suspects that some of the costs have been left out. Perhaps crime was not stamped out but merely shifted elsewhere. Or perhaps BIDs work so well because they draw on extra support from the police. That is not the case, says Mr Cook. Establishing a BID leads to fewer arrests and so reduces the cost of policing. Nor is there evidence that crime increases in neighbouring districts after BIDs are set up, he says. If anything, crime nearby falls.

Why is private security apparently so cost-effective? One reason, says Mr Cook, is simply that guards are paid less than police officers. Another is they are dedicated to a single district and are directly responsible for making it safe. Guards can specialise. They know which shifty characters to look out for and which policing works best in their area. Unlike policemen, they are not called away to supervise a parade or protect a dignitary.

The research also shows how effective “target hardening” (ie, self-protection against crime) can be. Mr Cook noted that there were twice as many cars in America in 2008 as in 1989, but fewer car thefts. Steering locks, engine immobilisers and tracking systems have made newer cars harder to steal. In a similar vein, a paper presented by Ben Vollaard of Tilburg University showed that newly built homes are harder to burgle. Mr Vollaard and his co-author, Jan van Ours, reckon that homes put up after a change in the Dutch building code in 1999 were 26% less likely to be broken into than those built beforehand. To comply with the code, builders had to fit high-quality locks and burglar-proof windows and doors. These may not put off a determined thief but are enough to slow down an opportunist, said Mr Vollaard.

Too cool for school

Are there ways to prevent people from becoming criminals in the first place? In principle, a lengthier education ought to reduce crime by raising people’s future earning power from legitimate work, making a criminal career less attractive. School also keeps would-be criminals in touch with the right sort of peers and social attitudes. There is plenty of evidence that a lack of education goes hand in hand with criminal behaviour. Studies of America’s jail population in the 1990s showed that most inmates had not finished high school. But few studies have established that less education is actually a cause of crime.

A third paper presented at the conference, written by Stephen Machin of University College London, Olivier Marie of Maastricht University and Suncica Vujic of the London School of Economics, uses a statistical trick to find a causal link between low education and crime. The authors looked at the crime rates of a cohort of British school-leavers, some of whom were forced to stay in school for longer because of a legal change to the school-leaving age. They found this group was less likely to engage in criminal behaviour than an earlier cohort. The authors calculate that one year of extra education reduces property crimes by 1-2%, and that the cost of the extra schooling is outweighed by the benefits of reduced crime. These results echo a study of American crime by Lance Lochner of the University of Western Ontario and Enrico Moretti of the University of California, Berkeley, which found the biggest benefit from extra education was in fewer violent crimes. That result is not replicated in the newer study, perhaps because there are too few murders in Britain to show up statistically. After all, Guildford is a long way from Los Angeles.

The article refers to the following papers:

“Mobilising Private Inputs for Crime Prevention.” NBER working paper (forthcoming)

“Does Regulation of Built-in Security Reduce Crime? Evidence From a Regression Discontinuity Approach.” University of Tilberg (mimeo)


The presentations from the RES special session on the economics of criminal behaviour can be found at: http://www.resconference.org.uk/index.php?option=com_content&task=view&id=29&Itemid=36
Applications are invited for The Economist’s 2010 Marjorie Deane internship. Financed by the Marjorie Deane Financial Journalism Foundation, this award is designed to provide work experience for a promising journalist or would-be journalist, who will spend three months at The Economist writing about finance and economics. Applicants are asked to write a letter introducing themselves, along with an original article of no more than 500 words that they think would be suitable for publication in this section. The deadline is April 23rd 2010. To apply, visit www.marjorie.deane.com
Eating lots of fruit and vegetables may not help stave off cancer, after all

FOR snivelling children and recalcitrant carnivores, requests that they should eat five portions of fruit and vegetables every day have mostly fallen on deaf ears. But those who did comply with official advice from charities, governments and even the mighty World Health Organisation (WHO), could remind themselves, rather smugly, that the extra greens they forced down at lunchtime would greatly reduce their chances of getting cancer. Until now, that is. Because a group of researchers led by Paolo Boffetta, of the Mount Sinai School of Medicine in New York, have conducted a new study into the link between cancer and the consumption of fruit and vegetables, and found it to be far weaker than anyone had thought.

In the past, veggie-associated reductions of cancer-risk rates as high as 50% had been reported. But it appears that some of these early investigations may have been biased by the use of “case-control” studies. Such studies try to identify the factors contributing to cancer by comparing people who have the disease with those who do not, but are otherwise similar. The problem is that they can easily be biased if researchers do not adequately establish that the two groups being compared are, indeed, otherwise similar. Walter Willet, at the Harvard School of Public Health, says it appears that earlier investigations were more likely to use health-conscious people as their controls. These types of people are, unsurprisingly, more likely to agree to be interviewed about their health than slobby couch potatoes.

Dr Boffetta and his colleagues have therefore carried out a different kind of study, known as prospective cohort study, which they report in the Journal of the National Cancer Institute. Their work follows a group of individuals over time and looks at how different factors contribute to different outcomes—in this case, the development of cancer. Analysis of dietary data from almost 500,000 people in Europe found only a weak association between high fruit and vegetable intake and reduced overall cancer risk.

Green with envy

According to Susan Jebb, of the British Medical Research Council’s Collaborative Centre for Human Nutrition Research in Cambridge, the new study suggests that if Europeans increased their consumption of fruit and vegetables by 150g a day (about two servings, or 40% of the WHO’s recommended daily
allowance), it would result in a decrease of just 2.6% in the rate of cancers in men and 2.3% in women. Even those who eat virtually no fruit and vegetables, the paper suggests, are only 9% more likely to develop cancer than those who stick to the WHO recommendations.

On the face of it, that is quite a blow to the smug salad eaters, and the health lobby’s spin-doctors were out in force in the wake of the paper’s publication, to play down its conclusions. Before racing to the food-recycling bin with the contents of an ageing fruit bowl, they pointed out, there are a number of other factors that nutritionists would urge that you consider.

One is that this kind of study has attempted to adjust for every possible factor that might contribute to the relationship, and isolate only the contribution that fruit and vegetables make. This means that if people who turn away from fruit and vegetables end up eating more processed meats or foods high in fat instead, they probably will increase their cancer risk, even though the direct cause is not the consumption of less fruit and veg.

More importantly, there is still good evidence that fruit and vegetables protect against heart disease and strokes by reducing blood pressure. A separate investigation of the people involved in Dr Boffetta’s study suggests that those who eat five servings a day of fruit and vegetables have a 30% lower incidence of heart disease and strokes than those who eat less than one and a half servings. It is also possible that some specific foods, such as tomatoes, broccoli and other cruciferous vegetables, do offer protective effects against particular kinds of cancer.

As a consequence, the best advice is probably still to eat your five a day. But for snivelling children and recalcitrant carnivores the fleeting thought that you might not have to was nice while it lasted.
Nanotechnology could improve the quality of mobile-phone cameras

CAMERA-PHONES, a gimmick and a luxury a few years ago, have become ubiquitous. The International Telecommunications Union estimates that 4.6 billion mobile phones are in use at the moment. Of those, more than a billion are equipped with cameras, according to Tom Hausken, an analyst at Strategies Unlimited, a market research firm based in Mountain View, California. Dr Hausken estimates that some 800m camera-phones will be sold this year.

Yet most of the photos taken with these phones will be grainy and of low resolution—fine for capturing the essence of a moment to send to friends and family, but not good enough to frame for the wall. The reason is that both camera and lens have to be small, to fit with all the other gubbins on a phone. A typical camera-phone is equipped with a one- or two-megapixel silicon-based camera chip that is about 8mm across. Phone cameras with up to five megapixels are becoming available, but InVisage, a small firm based in Menlo Park, California, hopes to leap from that to a photographically respectable 12 megapixels, without an increase in size or cost, by adding tiny crystals called quantum dots to the process.

In a typical camera-phone, the image is focused by the lens onto a photosensitive silicon chip. Light striking this detector liberates electrons from some of the silicon atoms, producing an electrical signal that is converted by the chip’s electronics into a picture. Silicon, however, is not the best material for sensing light. Its physical properties (its narrow bandgap, in physics parlance) mean that it sometimes releases electrons even though no light has fallen on it, resulting in a noisy image. On top of that, the way chips are made requires the incoming light to pass through circuitry that has been deposited on to the silicon, reducing the level of illumination.

InVisage’s approach is to build the photodetector out of quantum dots on the surface of a chip, above the circuitry. A quantum dot is a semiconducting crystal just a few nanometres (billionths of a metre) across that can be engineered to absorb light of a particular colour by changing its size. The larger the dot, the redder the light it absorbs; the smaller, conversely, the bluer. Placing the quantum dots on top of the electronics means more pixels can be crammed into a given area and less incoming light is lost. Moreover, photodetectors based on quantum dots produce less noisy images, so the picture is sharper even if the
number of pixels is not increased.

Edward Sargent, InVisage’s chief technology officer and a professor of optoelectronics at the University of Toronto, says his firm’s quantum dots are made of metal chalcogenides (which are a combination of metals such as zinc, indium, bismuth and lead with selenium, sulphur or tellurium). The dots are synthesised in a paint-like colloidal suspension which is then coated on to silicon wafers before they are cut up into chips.

In addition to using them in camera-phones, Dr Sargent is working on employing quantum dots to make solar cells. He thinks cells made this way will be comparable in cost to organic solar cells (themselves much cheaper than traditional silicon ones) while being at least twice as efficient. But commercialisation of quantum-dot solar cells is still a few years away. For the moment, he is concentrating on camera-phones.
Coal ash, fertiliser and even seawater may provide nuclear fuel

ONE of the factoids trotted out from time to time by proponents of nuclear power is that conventional coal-burning power stations release more radioactivity into the environment than nuclear stations do. The reason is that the ash left over when coal is burned contains radioactive elements, notably uranium and thorium.

Turn that logic on its head and it suggests that such ash is worth investigating as a source of nuclear fuel. And that is exactly what Sparton Resources, a firm based in Toronto, is doing. It has signed a deal with the China National Nuclear Corporation (CNNC), the authority that runs the country’s nuclear-power stations, to recover uranium from coal ash at a site in Lincang, in Yunnan province.

Uranium is usually extracted from ore that contains 1,000 or more parts per million (ppm) of the element. The Lincang coal ash holds much less, about 300ppm. That said, it does not need to be mined—which brings costs down. Sparton says it can extract a kilogram of uranium for $77 or less. Uranium’s spot price is now near $90 a kilo. That is not a huge margin, but it is a profit nonetheless.

To extract the uranium, Sparton adds sulphuric and hydrochloric acids to the ash, along with water, to make a slurry. With some sorts of ash, nitric acid is also used. The acids dissolve the uranium, and various other things, leaching them from the ash. The trick is to get the dissolved uranium out of the resulting solution.

Sparton’s process uses a charcoal filter made from burned coconut husks to trap floating particles and eliminate organic compounds. The filtered solution is then passed through small beads of an ion-exchange resin. These selectively remove uranium ions while leaving the others behind—extracting about two-thirds of the uranium in the ash, according to the company. The uranium is then dissolved from the beads using a solution of ammonium carbonate and precipitated as “yellow cake”, a mixture of uranium oxides.

China is developing ash-mining for reasons of energy security more than economics, according to Wang Hongfang, a marketing manager at CNNC. The country wants to get uranium from “every possible channel”, Mr Wang says. These include stripping it out of the tailings from gold and copper mines, and also from phosphoric acid produced during the manufacture of fertiliser. Nor is CNNC alone in this aspiration. NUKEM, a German-American company that enriches and sells nuclear fuel, hopes soon to begin “mining” fertiliser in Florida.

Some people are even turning to seawater as a source of uranium, in an eerie recapitulation of Fritz Haber’s attempt to pay off Germany’s first-world-war debts by extracting gold from the ocean. Though seawater contains only three parts per billion of uranium, mostly in the form of uranyl tricarbonate, the element can be sucked out of it by ion exchange.

Several organisations, including Japan’s Atomic Energy Agency and the Bhabha Atomic Research Centre in India, are attempting to do so. Their methods include the use of strips of ion-exchanging plastic, braided with polystyrene to toughen them up. These are placed in wire cages and anchored in a current of seawater. After a month or two, the plastic is removed and soaked in acid to dissolve the uranyl tricarbonate. The solution is then treated to precipitate uranium oxide.

At the moment, this process costs more than ten times as much as conventional mining, but some countries might regard that as a small price to pay for security of supply. Perish the thought that the supply is for anything other than providing fuel for civilian nuclear-power stations.
The golden age of zoology was the 19th century, and the islands of South-East Asia were particularly rich hunting grounds. Indeed, it was on an expedition to the area that Alfred Russel Wallace came up with the idea of evolution by natural selection and, through a letter to Charles Darwin describing his hypothesis, panicked Darwin into publishing his own thoughts on the matter in “The Origin of Species”. It might therefore be thought that by now the area’s jungles would have been picked clean of large, showy species. Not so, apparently. This week Biology Letters, one of the journals of the venerable Royal Society of which both Wallace and Darwin were fellows, describes something novel from northern Luzon, in the Philippines, that is large, showy and also slightly strange. It is a monitor lizard as long as a man is tall, which is a close relative of the notoriously carnivorous Komodo dragon, yet which is, itself, vegetarian. Varanus bitatawa is, as is often the way of these things, well known to local hunters. Until Luke Welton and Rafe Brown of the University of Kansas came along, though, it was unknown to science.
Another fossil human, this time from South Africa

This year is shaping up to be a good one for human palaeontology. Two weeks ago, on March 24th, what appears to be an entire new species of human was announced on the basis of the DNA preserved in a single finger bone from Siberia. Now, another manlike species has been described using more traditional evidence, from a more traditional source of ancient human remains: Africa.

The new species, dubbed *Australopithecus sediba*, is reported in *Science* this week by Lee Berger and his colleagues at the University of the Witwatersrand, in Johannesburg. It is represented by the fragmentary remains of two skeletons found in caves at a site called Malapa, in South Africa. As a member of the genus *Australopithecus*, *sediba* is less manlike than the as-yet-unnamed Siberian discovery, which was a member of the genus *Homo*. Palaeoanthropologists are nevertheless excited because some of its features, particularly the shape of its pelvis (which would have made upright walking more efficient) and the size of its teeth (which were smaller than those of its ancestors), have a lot in common with members of *Homo*. At a bit less than 2m years of age, the new skeletons seem to be younger than the oldest known representatives of *Homo*, and therefore cannot be directly ancestral to that genus. Nevertheless, these features suggest to some that an ancestor of *A. sediba* was also an ancestor of *Homo*, and thus of modern humanity.

That is still a guess. Human fossils, particularly of such an age as this, are rare in the extreme—so rare that each new discovery has a tendency to rewrite the history books. Nor is there the remotest possibility of extracting useful DNA from the new fossils. They are too old and Africa is too hot for significant traces of the molecule to have survived. But some new evidence has been added to the ascent of man, and that is always welcome.
A SCULPTED grasshopper that measures six feet (1.85 metres) in length stands at the entrance to the private apartments at Windsor Castle. Made of brass, steel and Sévres porcelain, it was a gift to Queen Elizabeth from President Georges Pompidou after her state visit to France in 1972. It was an arresting, witty and practical offering: lift up the creature’s back and the interior serves as a wine cooler. The grasshopper was made in Paris by François-Xavier Lalanne, who, since the 1960s, had exhibited with his wife, Claude, as the Lalannes.

Unlike Claes Oldenburg and his wife, Coosje van Bruggen, the Lalannes did not collaborate so much as co-create. These independent artisan-artists made their pieces out of metal, but he hammered and riveted while she moulded. In their choice of subject matter they were polar opposites. He favoured animals; she vegetation. Nevertheless, as a 150-piece retrospective in Paris demonstrates, seen together their works produce an echoing harmony. At once punchy and dreamlike, this is a hugely attractive show.

Visitors are greeted by a bronze rabbit, 11 feet long with ears blown back as if by the wind. Its feet, however, are hooves and its tail is that of a bird. The large bronze cat also combines elements of several creatures. When young, Mr Lalanne worked as a guard at the Louvre, where he studied its Egyptian collection. The influence of Hindu deities is also clear. Among his other works on view are a rocking-chair bird, a series of life-sized rhinos and a gorilla whose chest opens to reveal a safe. Many of Mrs Lalanne’s pieces are fashioned from sinuous vines and leaves twisted into candelabra, garden benches, jewellery and gates. Their debt to Surrealism and Art Nouveau is obvious. So is their droll, devil-may-care inventiveness.

Mr Lalanne died in December 2008. His widow chose Peter Marino, an architect-decorator and longtime friend and Lalanne collector, to design this exhibition. The result is a mixture of intimate and public spaces; cosy rooms and sweeping, contemporary-gallery-style vistas. Some walls are covered in ivy. Part of the vast central court is a turquoise reflecting pool which has no water, but is filled with frogs and graceful waterfowl. It is backed by sand dunes on which two shaggy camels rest. Elsewhere in the court a flock of life-sized sheep straggle across a field of AstroTurf. It was sheep on rollers that launched the Lalannes’ career. In 1966 Mr Lalanne sent a herd of 24 woolly ones to the Salon de la Jeune Peinture. Each could be sat on; together they became banquette or beds. They were hailed as three-dimensional Magrittes. The Lalannes were on the art map.

Alexander Iolas, champion of the Surrealists, became their dealer and introduced the Lalannes to America. A year after the Salon, the Art Institute of Chicago gave them a show, and Life magazine a four-page spread. “Baby” Jane Holzer, known as one of Andy Warhol’s “superstars”, asked Mr Lalanne to make one
of his rhinos in leather. That beast, which breaks into a set of comfy-looking chairs, was shown in the early 1970s at the influential Castelli gallery in New York. It is one of the works on loan to the Paris show.

By the 1980s Mr Iolas’s gallery had closed; minimalism and conceptualism were in vogue in America. It was not until 2007 that a dealer named Paul Kasmin began to represent them in New York. Their work was snapped up by a new generation of young collectors. Two years later, he organised a display of Lalanne sculptures along the traffic islands on Park Avenue, including Mrs Lalanne’s bronze of a big, big apple.

The artists’ greatest admirers have been in France. A room in the retrospective spotlights Yves Saint Laurent’s acquisitions. Among them are a modernist bar by Mr Lalanne and a group of mirrors by his widow. At Christie’s Yves Saint Laurent/Pierre Bergé sale last year the Lalanne bar sold for more than $3.5m, over ten times the top estimate, and the ensemble of 15 mirrors for nearly $2.5m, twice the estimate. The whopping prices and global coverage of the sale introduced the Lalannes to a new audience. Ben Brown, their London dealer, reports that his biggest problem now is not finding buyers, but works to sell.

The Lalannes have always occupied the borderland between high and decorative art. Some critics feel they did not break new ground; others the opposite, that they drew serious attention to this terrain. Rob Wynne, a New York artist who is represented by the same Paris dealer, will surely not be the only one to see the influence of the Lalannes on artists, such as Barry Flanagan, a Welsh sculptor known for his giant bronze hares, or the famous fish lamps made by Frank Gehry. In the Lalannes’ world the down-to-earth and the funny merge with the fantastical and baroque.

A fine writer fills in the gaps

The Bridge: The Life and Rise of Barack Obama. By David Remnick. Knopf; 672 pages; $29.95. Picador; £20. Buy from Amazon.com, Amazon.co.uk

IT IS no easy thing to write a fresh life of Barack Obama. For one thing, an author must contend with the president’s own, moving account, the bestselling “Dreams From My Father”, published in 1995. For another, until becoming president just over a year ago, Mr Obama had not done very much beyond community organising in Chicago, some university teaching, and brief stints as a state legislator and then junior senator. For a politician he is an enigma, a private man whose big moment in history has only just begun. That leaves little for a serious biographer to go on.

Despite these obstacles, this biography of Mr Obama, by the editor of the New Yorker, is superb—beautifully written and artfully constructed. It is also nearly 700 pages long, which means that it contains a lot of padding. But this is “padding” of the highest quality. The tale of Mr Obama’s precocious ascent to the presidency is already very well known, so many readers will find that the most rewarding parts of this book are David Remnick’s detailed descriptions of the contexts and settings—the Hawaii childhood, the Indonesian interlude, black politics in Chicago, Harvard Law School—in which the now familiar drama unfolded.

Two especially rewarding examples of this context-filling are Mr Remnick’s dissection of the stormy racial politics Mr Obama encountered in Chicago and of the ideological tempests that were buffeting Harvard Law School in the late 1980s, when he took a break from his adopted city in order, he said later, to learn “a way of thinking”. Each of these chapters is a self-contained sociological essay that would be worth reading in its own right even if there had been no future president in the picture. As it is, the manner in which Mr Obama navigated the choppy waters of these very different settings provides tantalising clues to his future comportment in national politics.

At Harvard Mr Obama’s chief mentor was Laurence Tribe, a passionate civil- libertarian. This was no surprise, given Mr Obama’s deliberate choice to define himself as black and identify with the glory days of the black civil-rights movement. Paradoxically, though, his election as the first black president of the Law Review, an achievement that brought him national attention, was clinched by a flair for apparently dispassionate mediation between strongly opposed views and for seeming to transcend his racial identity. Hence the “bridge” of Mr Remnick’s title. “Obama is black, but without the torment”, is how another Harvard mentor put it.

Had he lacked that ability to be proud of blackness without making whites uncomfortable, Mr Obama would not be president. But this biography is a reminder of the many other reasons for his rise. They include a cool intellect, single-minded ambition and a willingness to be ruthless when required. In 1995, when he was campaigning to become an Illinois senator, the black political establishment implored him to stand aside for Alice Palmer, the well-liked African-American incumbent who had promised to leave her seat but changed her mind when her own national ambitions were thwarted. He refused—and successfully challenged the signatures on her nominating petition.

Luck has played its part, too. Mr Obama entered politics at a time when America’s changing demography—only about half the population under 25 is now white—was making the notion of a black president plausible in a way that it had not been when Jesse Jackson ran twice for the job. And in most of his electoral contests, from Illinois to the White House, Mr Obama’s rivals have had an uncanny habit of tripping over their own personal flaws and political mistakes. Will that luck hold firm for him as president? Either way, it is to be hoped that Mr Remnick will at some point tell the next part of the story whose beginning he has recounted with such flair.
Pearl Buck in China: Journey to the Good Earth. By Hilary Spurling. Simon & Schuster; 340 pages; $27. Published in Britain by Profile as “Burying the Bones: Pearl Buck in China”. Buy from Amazon.com, Amazon.co.uk.

FOR a novelist whose plots were full of clichés, Pearl Buck led an unusual life. Buck’s fiction, exemplified by her bestselling 1930s trilogy, “The Good Earth”, was suffused with sympathy for the underdogs of an impoverished China. But at one point she “came close”, according to her biographer, Hilary Spurling, to sharing a conventional missionary view of the Chinese as “a menacing, faceless horde, morally obnoxious and numerically overwhelming”.

Pearl Buck herself was far from conventional. Her missionary parents viewed fiction as “inherently coarse, trashy and time-wasting”, says Ms Spurling. Many of Buck’s fellow foreigners in pre-Communist China, where she grew up, kept the Chinese at a distance. Yet Buck, who lived in China for nearly half her life, churned out books, including a few non-fiction works, at the rate of one or two a year for four decades. In 1938 she became the first of only two American women to win the Nobel prize in literature. Buck relished the company of the Chinese, (when in China “I was Chinese, I spoke Chinese and behaved as a Chinese”, she wrote)—even though many Chinese disliked her work as exposing too much of China’s darker aspects, and wrote disapprovingly of it. Under Mao Zedong her work was banned.

Ms Spurling’s account of Buck’s “rootless and fractured existence” provides a fascinating dissection of the tortured relationships between a man of God, the hapless wife sucked into supporting his mission and their increasingly sceptical daughter, Pearl, who, in 1933, publicly turned her back on her late father’s church. It is also just as revealing about the no less tortured relationship between the West and China in the early part of the last century. Ms Spurling quotes Helen Foster Snow, the wife of another famous
American chronicler of China in those turbulent days, as saying that Buck was the first to “humanise the Chinese and make them comprehensible”. The gulf that “The Good Earth” helped to bridge is much narrower today, but it still threatens the Sino-American relationship.

Buck’s early life was overshadowed by the menace of mutual contempt between foreigners and Chinese and its occasional eruption into violence. Around the time of the anti-foreign Boxer uprising of 1900, her father never went out without a stick to beat the dogs loosed on him by the Chinese wherever he went. In 1927, as Chiang Kai-shek led his nationalist army north to subdue the warlords who had divided China, ordinary Chinese took advantage of mayhem in Nanjing, where Buck was then living, to pillage foreign property. The attackers were, says Ms Spurling, “consumed by resentment and rage as much as greed”.

Buck’s sympathy with China’s downtrodden peasants, exemplified by Wang Lung in “The Good Earth” (who eventually prospers), did not translate into lasting affection for her American husband, John Lossing Buck, whose country ways she appears to have disdained. She married again, this time to her much more dashing publisher, Richard Walsh. Buck ended her days in Vermont, often sitting in the window of a shop selling her works “as the town’s sole tourist attraction”. She died, lonely and withdrawn, in 1973 at the age of 80. For years she had wanted to go back to China, but the Communists would not let her. Zhou Enlai, the leader who helped reopen China to the West in the 1970s, personally signed the memo banning her.
Rose Tremain's gift for surprises

Trespass. By Rose Tremain. Chatto & Windus; 320 pages; £17.99. To be published in America by Norton in October. Buy from Amazon.co.uk

ROSE TREMAIN is a difficult author to pigeonhole. She has written about Restoration England and 19th-century New Zealand. Her main characters—courty rogues, transsexuals, immigrants—are very different from one another and, as she often says in interviews, readers don't get bored of her as an author because they never know what is coming next.

Some themes, however, recur. In “The Road Home”, which won Ms Tremain the 2008 Orange prize for fiction, an eastern European tries to make a life in a hostile city. In “The Colour”, two settlers find only misery in their adopted country. “Trespass”, Ms Tremain’s 12th novel, again uses the outsider in a dark thriller that also evokes the many disappointments of ageing.

Set in the arid hills of the Cévennes in southern France, where the past holds the present in thrall, “Trespass” revolves around two sets of siblings, one French, one English. Aramon Lunel muddles along in alcohol-soaked chaos in the family home, the crumbling Mas Lunel, desperate to sell up and escape. His sister, Audrun, lives in a tatty bungalow nearby. Prone to “episodes” when her mind wanders, Audrun’s only distraction from the betrayals that have blighted her life is her desire for revenge against her brother.

Into the mountain sunlight arrives Anthony Verey, antique dealer to the “ignorant rich” and adorer of fine furniture and plump-arsed boys. Verey knows that his London star has faded. His only hope is his beloved sister Veronica, a garden-designer, who lives with a needy lover, Kitty, in a “mood of robust contentment” at Les Glaniques, a fine Cévennes farmhouse.

Within weeks of arriving in France Verey is bewitched by the promise of a new life and decides to buy the Mas Lunel. His decision sets in motion the book’s perfectly orchestrated denouement, in which past wrongs are revisited and a deadly retribution is wrought—with dramatic repercussions for all.
Seeking extraterrestrial intelligence

A deathly hush
Apr 8th 2010
From The Economist print edition

The little green men may be on their way

**The Eerie Silence: Renewing Our Search for Alien Intelligence.** By Paul Davies. *Houghton Mifflin Harcourt; 242 pages; $27. Published in Britain by Allen Lane as “The Eerie Silence: Are We Alone in the Universe?”*. Buy from Amazon.com, Amazon.co.uk

FIFTY years ago, an American astronomer called Frank Drake started to search for signals coming from alien civilisations. Paul Davies, a British physicist, examines in a new book why it might be that mankind has not heard from extraterrestrials, the significance of this lack of response, whether aliens might yet make contact and how people might react to them. The short answer is: no one knows.

The universe is immense, which makes many scientists confident that life might have evolved elsewhere. Perhaps, concedes Mr Davies, but for life to signal its existence, it must be intelligent, which whittles things down a bit, and it must have developed science, which further slims the chances. Moreover, because the universe is so vast, it takes years for a signal travelling at the speed of light to reach only as far as the next star to our sun. Modern man evolved as a species 100,000 years ago but began broadcasting his existence (in the form of radio communications intended for domestic consumption but which might also be picked up by aliens) less than 100 years ago. If mankind were, this week, to receive a reply from extraterrestrials that had tuned in to the earliest broadcasts, they must be living less than 50 light-years from Earth. That is a tiny pocket in the universe. No surprise, then, that so far nothing has been heard.

Mr Davies points out that scientists who search for aliens using radio telescopes are assuming that other life would use this form of communication. But people are increasingly using the internet to talk to one another. Within the next 100 years, mankind may no longer use radio. Astronomers are using the only tools at their disposal but these may well be the wrong ones for the job.

Of course, there is the possibility that intelligent, scientifically minded alien species do evolve quite readily on extrasolar planets. This would be ominous for humanity, and is what makes the silence eerie. The lack of contact would suggest that intelligent life and technological civilisations may be inherently unstable, and destroy themselves before they can signal their existence to one another.

Given the great size not only of space but also of time, perhaps intelligent life looks different elsewhere. If mankind persists for a further 100,000 years, the species will surely change. Indeed, it has already developed intelligent machines and is well on its way to building devices that are more intelligent than their makers. Perhaps the baton of intelligence will be passed to these contraptions, in which case, those looking for extraterrestrial life should be seeking not little green men but little green machines.

Should mankind finally receive a message from the skies, Mr Davies considers the impact it might have, who should have the right to reply and what should be said. (One of the winning entries to a competition, run by the *Daily Telegraph*, for the best message Earthlings might send to extraterrestrials, reads, “Two thousand years ago, we had a very enlightening visit from the Creator’s Son. Has he been to visit you yet?”) Mr Davies provides a timely and thought-provoking account of a search that, after five decades, has not yet produced any sightings.
Did You Really Shoot the Television? By Max Hastings. Harper Press; 278 pages; £20. Buy from Amazon.co.uk

BUMPTIOUS, noisy and a bit larger than life, Sir Max Hastings might have been expected to cast himself in a more central role in this sad and funny memoir. But although the author did indeed shoot a television (as an 11-year-old, taking out Perry Mason while mucking about with one of his father’s vast arsenal of weapons), he is for the most part a self-effacing chronicler of what he calls his “Tribe”.

This is partly because what we have here is a kind of prequel to two earlier (rather less unassuming) memoirs covering Sir Max’s adult life as a war correspondent and then as editor of two Fleet Street newspapers. But mostly it is because what he really wants to do is tell us about his remarkable parents, Macdonald “Mac” Hastings and Anne Scott-James, two well-known but very different journalists.

Sir Max picks up the story of his family in the late 19th century and introduces the reader to some pretty colourful characters, but he hits his stride when his parents arrive on the scene. Anne was working for Picture Post when Mac, one of the legendary magazine’s ace reporters, proposed, announcing his intention to “hook” her. Their son observes: “It is easy to see why Mac married Anne. She was beautiful, clever, witty, effective, a merciless realist... it is harder to perceive what Anne saw in Mac...for all his gifts and charm, Mac was a fantasist of heroic proportions.”

Like so many wartime marriages, theirs was a wholly predictable failure, albeit one that endured after a fashion for 17 years. Anne became a well-rewarded columnist for the Daily Mail and a trailblazer for other female journalists. After several years spent losing large amounts of his own and other people’s money editing magazines, Mac was picked to be the “Special Investigator” for the Eagle, a comic. Middle-aged and bespectacled, he became an unlikely hero for a generation of boys by undertaking daunting new assignments on an almost weekly basis, in effect, being paid to act out every romantic fantasy that had ever occurred to him. On a famous escapade, he sets out across the Kalahari desert in an old truck to find the last Bushmen, or “Stone Age Men” as he called them.
Mac’s last great stunt as a Robinson Crusoe-type castaway—sold to a tabloid Sunday newspaper for £5,000 urgently needed to pay a tax bill—very nearly did for him. Mac “maroons” himself on a deserted atoll in the Indian Ocean to see whether, equipped with just a gun, an axe, a cooking pot and some rope, he can survive for five weeks. With only a giant turtle called Fifi and a murderous terrier for company, Mac slowly starves. He is rescued in the nick of time. But when he arrives back in London on a stretcher, after a “terse exchange of incivilities”, Anne sweeps past him in the hall of their flat to begin a holiday in the south of France. It is the final act of their marriage.

Both Mac and Anne remarried happily. In awe of his mother, but in love with his father, the adolescent Max chose to stay with Mac, who lived just long enough to see his son “liberate” Port Stanley from the Argentine army in 1982. Relations with Anne, spiky and energetic to the last, appear to have remained fairly cool until her death last year at the age of 96. That Sir Max reveals little about himself in this memoir hardly matters. By bringing Mac, a character of true and now enduring tragicomic greatness, back to life, he provides ample compensation.
One of Britain’s favourite cultural television shows gets the chop

The South Bank Show: Final Cut. By Melvyn Bragg. Holder & Stoughton; 307 pages; £20. Buy from Amazon.co.uk

The “South Bank Show” has for years been almost the only serious regular culture programme on ITV, Britain’s main commercial broadcaster, the intellectual conscience of an increasingly tacky network. Now, after profiling artists of all persuasions for 32 years, it has been axed, and the pretence of intellectual respectability abandoned. In his new book Lord Bragg, the show’s presenter, looks back at 25 of his subjects, weaving excerpts from their interviews into fuller artistic portraits.

The “South Bank Show” has been a long-running answer, indeed rebuke, to the hoary old question about the relative merits of John Keats and Bob Dylan. Its ethos has been that quality should be recognised in popular as well as elite culture, an approach that led to it being criticised as at once worthy and trivial. This collection, like the programme’s run, opens with Paul McCartney: “I led with McCartney”, Lord Bragg writes, “because I wanted to show I was serious.” Several of his interlocutors—such as David Puttnam and David Hockney—are of his generation, and like him came from the British provinces to London in the 1960s and 1970s to explore and exploit “a new classless culture, sexy and delighted with itself.”

Probably the most affecting profiles, however, are of more exotic figures: Luciano Pavarotti (“He gives a good name to ‘simple’ and ‘spoiled’”), Rudolph Nureyev (“one of the most dramatic and unlikely personal journeys in art in the 20th century”), and a twin depiction of Barry Humphries and Dame Edna that brilliantly draws out the co-dependency of comedian and character. The book’s many biographical curiosities—such as the fact that Sir Harold Pinter once worked as a chucker-out at the Astoria ballroom—make it an entertaining volume to dip into. But it also offers some cumulative lessons.

One is about Lord Bragg. In Britain he is the target of much backbiting, often motivated by ill-disguised envy for his success and his sheer industry (he is a prolific writer and radio presenter, among other commitments). Here he comes across as a lucid, supple and valuable analyst of many artistic genres and their varying different potential; he is good on the relative merits of television and film, for example, and on the alchemy of acting. He is a fine reader of faces, and a useful tutor in the craft of interviews: when to press, when to sit back, when to needle and when to leave be.

Together his essays offer some intriguing generalisations about the making and methods of artists. The backgrounds of the people Lord Bragg examines are often humble but disciplined; typically they are exposed to art, or encouraged into it, by some fortuitous incident or acquaintance. He looks for turning points in lives and careers (Tracey Emin being abused by her ex-lovers during a dance competition; Pavarotti’s mother siding with her son when his father wanted him to find another job). Writing of David Lean, he summarises the pattern as “a very early passion which quickly became an adolescent obsession which became an adult, single-minded struggle to have it realised.”

The subjects are mostly less exercised by meaning than by form. And, for many—Eric Clapton, Francis Bacon, Ingmar Bergman, Pinter and others—there is ultimately a sense of mystery and spontaneity; of art coming from elsewhere.
Eugene Terre'Blanche, a Boer demagogue, died on April 3rd, aged 69

ON DECEMBER 16th 1838, a small band of trekkers defeated a large Zulu army at the Battle of Blood River. Some say the white men prevailed because they had guns, whereas the Zulus made do with spears. But others think God intervened. Before the battle, the Afrikaners prayed, vowing always to commemorate that day if they won. Their descendants honoured that pledge. But a century and a half later, a disrespectful history professor at the University of South Africa suggested that the “Day of the Covenant” was nothing special and that God was not necessarily rooting for the tribe that created apartheid. Eugene Terre'Blanche was incensed. With a posse of followers, he burst into a lecture hall, poured hot tar on the professor and then decorated him with feathers.

This act of showboating cruelty vaulted Mr Terre'Blanche to fame. Before that day in 1979, he was just a bearded racist in a country where such people were hardly in short supply. Few people noticed when in 1973 he founded a group called the Afrikaner Resistance Movement, better known later by its Afrikaner initials, AWB. He attracted as followers the kind of Boers who enjoyed donning absurd uniforms and playing soldiers. He adopted a flag that looked remarkably like a swastika, though he insisted that the design was of three interlinked 7s and represented a Christian riposte to 666, the Number of the Beast. His ideology, stripped to its essentials, was that blacks were not only inferior but also a mortal threat to the Afrikaner volk. Plenty of white South Africans agreed.

Times, however, were changing. As the 1980s rumbled on, slowly and secretly at first, the ruling National Party reached out to the African National Congress (ANC), the main black liberation movement. Mr Terre'Blanche opposed every tiny concession. Give the black terrorists and communists an inch, he predicted, and they would destroy the country. To preserve white supremacy, he threatened a civil war. And for a while, the world worried that he might make good on his threat.

Eugene Ney Terre'Blanche was born on a farm in Ventersdorp, a small town in the north, in 1941. His family was of French Huguenot stock, and was said to have been in South Africa since the 1760s. His grandfather had fought against the British during the Anglo-Boer war. The young Terre'Blanche stood out among his small-town peers, leading both the school rugby team and its debating club. On leaving school, he joined the police. He provided protection for politicians, and acted in plays staged by the Police Cultural Group, which he also ran. His thespian skills were the key to his success. He had a rich, chocolatey voice and genuine charisma. Alternately thundering and whispering from the podium, he wove together biblical,
historical and apocalyptic themes. He called Nelson Mandela “Barabbas from Robben Island”. At the peak of his notoriety, said that tens of thousands of commandos would rise up when he gave the word.

In the early 1990s, when apartheid was dying, Mr Terre'Blanche tried violently to revive it. In 1993 his men crashed an armoured car through the glass façade of a building near Johannesburg where the government was now openly negotiating with the ANC. Having driven out the delegates, Mr Terre'Blanche’s bully boys held a barbecue. But when they left, the talks resumed. In March the next year, with about 100 of his followers, he invaded Bophuthatswana, a nominally independent “homeland” created by the apartheid government as a dumping-ground for jobless blacks. They drove around in their bakkies (pick-up trucks), killing black pedestrians at random, and seemed genuinely surprised when black policemen shot back at them. After three khaki-shorted AWB thugs were killed, the rest fled in disarray. And that was that for the white counter-revolution. Some of Mr Terre’Blanche’s supporters set off bombs to disrupt the poll, killing around 20 people. But that was nowhere near enough to stop millions of blacks from turning out to vote.

The “leader”, as he styled himself, was no nicer in private. Though he won amnesty for his political crimes, he was jailed for beating one black worker into a coma and attempting to murder another. Yet unintentionally, he did some good. By making his cause look ridiculous, he weakened it. He fell off his horse at a parade. He wore green underpants with holes in them. He could fill a stadium and put on a show, but as a military commander, he was hopeless. Newspapers mocked him with punning headlines, such as “O volk! Terre’Blanche is back again”. Had he been less of a buffoon, South Africa’s road to democracy might have been bloodier.

In the late 1990s he released a CD on which he read his own poems. They were packed with images of wide farms, dry riverbeds, windswept veld, frolicking gemsbok and scratching guinea fowl. Even the birds were better off than Afrikaners, he grumbled: “Even the marsh-lourie has his sleeping-place and his fellows, his lourie-people.” How far, he wondered, would he have to travel to find his own volkstaat?

He was beaten to death last week, allegedly by two black farmworkers. The murder has sparked fears of renewed racial violence in South Africa. But the motive was apparently personal: unpaid wages and, one imagines, a less than agreeable management style.
Overview

For the **G7 countries** taken together, the OECD reckons that the most recent high-frequency data point to slower GDP growth in each of the first two quarters of this year than in the final quarter of 2009. The think-tank predicts that America’s GDP will grow at an annualised rate of 2.4% in the first three months of this year and by 2.3% in the second quarter, much slower than the 5.6% growth rate seen in the three months to the end of December. It expects growth to pick up in Britain and Italy, while slowing in France and Japan.

**Euro-area** GDP was unchanged between the third and fourth quarters of 2009, and shrunk by 2.2% in the fourth quarter compared with the same period a year earlier.

In **America** non-agricultural employment increased by 162,000 in March, after falling by 14,000 in February and edging up by an identical amount in January. March was the first month since November 2007 in which employment rose by more than 100,000.

**Russia’s** economy shrank at an annual rate of 3.8% in the fourth quarter of 2009 after contracting by 7.7% in the third quarter. GDP fell by 7.9% in 2009 as a whole.

**India’s** exports grew by 34.8% in February compared with a year earlier. Imports rose by 66.4%. The country’s trade deficit in February was $8.96 billion.

**South Korean** export growth accelerated to 35.1% in the year to March from 30.5% in the twelve months to February.
## Output, prices and jobs

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross domestic product</th>
<th>Industrial production</th>
<th>Consumer prices</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>latest</td>
<td>qtr*</td>
<td>2010†</td>
<td>2011‡</td>
</tr>
<tr>
<td>United States</td>
<td>+0.1 %</td>
<td>+5.6</td>
<td>+3.3</td>
<td>+2.9</td>
</tr>
<tr>
<td>Japan</td>
<td>+1.0 %</td>
<td>+4.3</td>
<td>+1.8</td>
<td>+1.9</td>
</tr>
<tr>
<td>China</td>
<td>+0.7 %</td>
<td>+2.7</td>
<td>+2.7</td>
<td>+2.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>+5.1 %</td>
<td>+9.6</td>
<td>+9.6</td>
<td>+9.6</td>
</tr>
<tr>
<td>Canada</td>
<td>+0.1 %</td>
<td>+3.3</td>
<td>+3.3</td>
<td>+3.3</td>
</tr>
<tr>
<td>Euro area</td>
<td>+2.4 %</td>
<td>+4.3</td>
<td>+4.3</td>
<td>+4.3</td>
</tr>
<tr>
<td>Austria</td>
<td>+1.4 %</td>
<td>+1.1</td>
<td>+1.1</td>
<td>+1.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>+1.2 %</td>
<td>+1.3</td>
<td>+1.3</td>
<td>+1.3</td>
</tr>
<tr>
<td>France</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+1.1 %</td>
<td>+1.6</td>
<td>+1.6</td>
<td>+1.6</td>
</tr>
<tr>
<td>Greece</td>
<td>+2.0 %</td>
<td>+3.1</td>
<td>+3.1</td>
<td>+3.1</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+0.7</td>
<td>+0.7</td>
<td>+0.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>+0.8 %</td>
<td>+1.1</td>
<td>+1.1</td>
<td>+1.1</td>
</tr>
<tr>
<td>Spain</td>
<td>+0.7 %</td>
<td>+0.6</td>
<td>+0.6</td>
<td>+0.6</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>+3.0 %</td>
<td>+3.0</td>
<td>+3.0</td>
<td>+3.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>+4.7 %</td>
<td>+4.7</td>
<td>+4.7</td>
<td>+4.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>+1.7 %</td>
<td>+1.7</td>
<td>+1.7</td>
<td>+1.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Greece</td>
<td>+3.1 %</td>
<td>+3.1</td>
<td>+3.1</td>
<td>+3.1</td>
</tr>
<tr>
<td>France</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>+2.4 %</td>
<td>+2.4</td>
<td>+2.4</td>
<td>+2.4</td>
</tr>
</tbody>
</table>

### More countries

Data for the countries below are not provided in printed editions of The Economist.

- **Estonia**: -9.5 %
- **Finland**: -1.4 %
- **Iceland**: -1.0 %
- **Ireland**: -5.1 %
- **Latvia**: -1.6 %
- **Lithuania**: -1.2 %
- **Luxembourg**: -2.5 %
- **New Zealand**: +0.9 %
- **Peru**: +3.6 %
- **Philippines**: +1.8 %
- **Portugal**: -1.0 %
- **Senegal**: -7.4 %
- **Serbia**: -3.1 %
- **Ukraine**: -5.8 %
- **Vietnam**: +5.8 %

*Note: All data is as of the latest quarter unless otherwise stated.*

---

The Economist poll or Economist Intelligence Unit estimate/forecast. National definitions. RPI inflation.
### The Economist commodity-price index

**Apr 8th 2010**

From The Economist print edition

---

#### Dollar index

<table>
<thead>
<tr>
<th></th>
<th>Mar 30th</th>
<th>Apr 5th*</th>
<th>% change on one month</th>
<th>% change on one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Items</td>
<td>215.8</td>
<td>216.4</td>
<td>+2.6</td>
<td>+29.9</td>
</tr>
<tr>
<td>Food</td>
<td>198.5</td>
<td>195.5</td>
<td>-0.6</td>
<td>+3.0</td>
</tr>
<tr>
<td>Industrials</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>238.2</td>
<td>243.5</td>
<td>+6.2</td>
<td>+78.3</td>
</tr>
<tr>
<td>Naf</td>
<td>205.8</td>
<td>210.2</td>
<td>+4.8</td>
<td>+74.5</td>
</tr>
<tr>
<td>Metals</td>
<td>255.8</td>
<td>261.6</td>
<td>+6.8</td>
<td>+60.0</td>
</tr>
</tbody>
</table>

#### Sterling index

<table>
<thead>
<tr>
<th></th>
<th>Mar 30th</th>
<th>Apr 5th*</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Items</td>
<td>216.6</td>
<td>215.9</td>
<td>+1.2</td>
</tr>
</tbody>
</table>

#### Euro Index

<table>
<thead>
<tr>
<th></th>
<th>Mar 30th</th>
<th>Apr 5th*</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Items</td>
<td>148.7</td>
<td>149.5</td>
<td>+4.1</td>
</tr>
</tbody>
</table>

#### Gold

<table>
<thead>
<tr>
<th></th>
<th>Mar 30th</th>
<th>Apr 5th*</th>
<th>% change on one month</th>
<th>% change on one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ per oz</td>
<td>1109.20</td>
<td>1138.50</td>
<td>+1.4</td>
<td>+29.2</td>
</tr>
</tbody>
</table>

#### West Texas Intermediate

<table>
<thead>
<tr>
<th></th>
<th>Mar 30th</th>
<th>Apr 5th*</th>
<th>% change on one month</th>
<th>% change on one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ per barrel</td>
<td>82.42</td>
<td>86.75</td>
<td>+6.7</td>
<td>+76.8</td>
</tr>
</tbody>
</table>

*Provisional †Non-food agriculturals.

---

Copyright © 2010 The Economist Newspaper and The Economist Group. All rights reserved.
### The Economist poll of forecasters, April averages

(Apr 8th 2010)

From The Economist print edition

#### Real GDP, % change

<table>
<thead>
<tr>
<th>country</th>
<th>2010 high/low</th>
<th>2011 high/low</th>
<th>2010 average</th>
<th>2011 average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2.1/4.0</td>
<td>2.7/4.6</td>
<td>3.1 (2.9)</td>
<td>3.4</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.6/1.0</td>
<td>1.1/1.8</td>
<td>1.3 (1.4)</td>
<td>1.5</td>
</tr>
<tr>
<td>Britain</td>
<td>0.7/2.0</td>
<td>0.9/3.4</td>
<td>1.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Canada</td>
<td>1.0/3.7</td>
<td>1.8/3.6</td>
<td>3.0 (2.7)</td>
<td>3.0</td>
</tr>
<tr>
<td>France</td>
<td>1.0/2.0</td>
<td>0.9/2.4</td>
<td>1.5 (1.6)</td>
<td>1.6</td>
</tr>
<tr>
<td>Germany</td>
<td>1.1/2.0</td>
<td>1.2/2.2</td>
<td>1.6 (1.5)</td>
<td>1.6</td>
</tr>
<tr>
<td>Italy</td>
<td>0.4/1.1</td>
<td>0.8/2.1</td>
<td>0.7 (0.9)</td>
<td>1.1 (1.2)</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0/2.8</td>
<td>0.9/2.2</td>
<td>1.9 (1.7)</td>
<td>1.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.7/1.9</td>
<td>1.1/2.4</td>
<td>1.1 (1.2)</td>
<td>1.5</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.0/0.3</td>
<td>0.1/1.5</td>
<td>-0.4 (-0.3)</td>
<td>0.8 (1.0)</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.2/2.5</td>
<td>1.6/3.6</td>
<td>1.9 (2.2)</td>
<td>2.6 (2.4)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.0/2.5</td>
<td>0.9/2.8</td>
<td>1.7 (1.3)</td>
<td>1.8 (1.6)</td>
</tr>
<tr>
<td>United States</td>
<td>2.5/3.8</td>
<td>1.6/4.5</td>
<td>3.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.8/1.6</td>
<td>1.0/2.2</td>
<td>1.2</td>
<td>1.4</td>
</tr>
</tbody>
</table>

#### Consumer prices, % increase

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Britain</td>
<td>2.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Canada</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>France</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Germany</td>
<td>0.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Italy</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Spain</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Euro area</td>
<td>1.3</td>
<td>1.4</td>
</tr>
</tbody>
</table>

#### Current account, % of GDP

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>-4.4 (-4.0)</td>
<td>-4.2 (-4.4)</td>
</tr>
<tr>
<td>Belgium</td>
<td>-0.2 (0.4)</td>
<td>0.3 (0.8)</td>
</tr>
<tr>
<td>Britain</td>
<td>-1.1</td>
<td>-0.8 (-3.7)</td>
</tr>
<tr>
<td>Canada</td>
<td>-1.8 (-2.3)</td>
<td>-1.6 (-1.3)</td>
</tr>
<tr>
<td>France</td>
<td>-2.0 (-1.8)</td>
<td>-1.9 (-1.6)</td>
</tr>
<tr>
<td>Germany</td>
<td>5.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.5</td>
<td>-2.3 (-2.4)</td>
</tr>
<tr>
<td>Japan</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Spain</td>
<td>-3.8 (-4.5)</td>
<td>-3.1 (-3.9)</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8.7</td>
<td>9.5</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Euro area</td>
<td>-0.2 (-0.4)</td>
<td>nil (-0.2)</td>
</tr>
</tbody>
</table>

Sources: BNP Paribas, Citigroup, Commerzbank, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, ING, Morgan Stanley, RBS, Schroders, Scotiabank, Société Générale, UBS
Trade, exchange rates, budget balances and interest rates
Apr 8th 2010
From The Economist print edition
## Trade, exchange rates, budget balances and interest rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade balance*</th>
<th>Current-account balance</th>
<th>Currency units, per S</th>
<th>Budget balance</th>
<th>Interest rates, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>latest 12 months, $bn</td>
<td>latest 12 months, $bn</td>
<td>% of GDP</td>
<td>Apr 7th year ago</td>
<td>% of GDP 2010†</td>
</tr>
<tr>
<td>United States</td>
<td>-986.8 Jan</td>
<td>-499.2 Q4</td>
<td>-1.1</td>
<td>-1.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>382.1 Q4</td>
<td>-0.3</td>
<td>0.45</td>
<td>0.45</td>
</tr>
<tr>
<td>China</td>
<td>+175.6 Feb</td>
<td>+264.4 Q4</td>
<td>+5.2</td>
<td>5.88</td>
<td>5.88</td>
</tr>
<tr>
<td>Britain</td>
<td>-129.3 Jan</td>
<td>-88.0 Q4</td>
<td>-1.1</td>
<td>0.66</td>
<td>0.66</td>
</tr>
<tr>
<td>Canada</td>
<td>-2.5 Jan</td>
<td>-36.6 Q4</td>
<td>-1.8</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Euro area</td>
<td>+35.5 Jan</td>
<td>-67.6 Jan</td>
<td>-0.2</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Austria</td>
<td>-5.0 Dec</td>
<td>+7.5 Q3</td>
<td>-1.5</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Belgium</td>
<td>+18.2 Dec</td>
<td>+2.7 Dec</td>
<td>-0.2</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>France</td>
<td>-59.0 Feb</td>
<td>-51.6 Jan</td>
<td>-2.1</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Germany</td>
<td>-151.5 Jan</td>
<td>+10.4 Q4</td>
<td>-0.4</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Greece</td>
<td>+45.4 Jan</td>
<td>-16.3 Jan</td>
<td>-0.7</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Italy</td>
<td>-8.4 Jul</td>
<td>-0.1 Q4</td>
<td>-0.1</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Netherlands</td>
<td>+28.0 Q4</td>
<td>-5.8 Q3</td>
<td>-0.6</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Spain</td>
<td>-70.4 Jan</td>
<td>-79.9 Jan</td>
<td>-3.8</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>+40.0 Feb</td>
<td>-1.4 Jan</td>
<td>-2.1</td>
<td>18.9</td>
<td>20.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>+128.3 Jan</td>
<td>+130.0 Jan</td>
<td>-2.2</td>
<td>3.58</td>
<td>3.58</td>
</tr>
<tr>
<td>Hungary</td>
<td>+63.3 Q4</td>
<td>+40.4 Q4</td>
<td>-2.3</td>
<td>200.0</td>
<td>223.0</td>
</tr>
<tr>
<td>Norway</td>
<td>+54.3 Feb</td>
<td>+53.6 Q4</td>
<td>+14.8</td>
<td>5.97</td>
<td>6.71</td>
</tr>
<tr>
<td>Poland</td>
<td>-12.0 Mar</td>
<td>-7.2 Q4</td>
<td>-2.8</td>
<td>2.87</td>
<td>3.38</td>
</tr>
<tr>
<td>Russia</td>
<td>+120.8 Q4</td>
<td>+47.5 Q4</td>
<td>+4.2</td>
<td>29.3</td>
<td>33.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>+106.0 Feb</td>
<td>+29.2 Q4</td>
<td>-6.8</td>
<td>7.25</td>
<td>8.29</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-34.6 Jan</td>
<td>-6.2 Q4</td>
<td>-0.5</td>
<td>1.07</td>
<td>1.07</td>
</tr>
<tr>
<td>Australia</td>
<td>+45.2 Jan</td>
<td>-27.6 Q4</td>
<td>+4.4</td>
<td>1.08</td>
<td>1.41</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-7.7 Q4</td>
<td>+18.0 Q4</td>
<td>-0.1</td>
<td>0.76</td>
<td>0.76</td>
</tr>
<tr>
<td>India</td>
<td>-7.0 Feb</td>
<td>-44.5 Q4</td>
<td>-3.7</td>
<td>4.45</td>
<td>5.37</td>
</tr>
<tr>
<td>Indonesia</td>
<td>+21.7 Feb</td>
<td>+10.6 Q4</td>
<td>+1.5</td>
<td>9.05</td>
<td>11.32</td>
</tr>
<tr>
<td>Malaysia</td>
<td>+35.2 Jan</td>
<td>+30.2 Q4</td>
<td>+12.7</td>
<td>3.21</td>
<td>3.63</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-14.7 Feb</td>
<td>-3.4 Q4</td>
<td>-2.3</td>
<td>83.5</td>
<td>80.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>+26.5 Feb</td>
<td>+40.4 Q4</td>
<td>+12.3</td>
<td>1.40</td>
<td>1.52</td>
</tr>
<tr>
<td>South Korea</td>
<td>+41.1 Mar</td>
<td>+40.2 Q4</td>
<td>-3.6</td>
<td>1.12</td>
<td>1.355</td>
</tr>
<tr>
<td>Taiwan</td>
<td>+17.8 Feb</td>
<td>+42.6 Q4</td>
<td>+8.4</td>
<td>31.6</td>
<td>33.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>+14.9 Feb</td>
<td>+16.8 Q4</td>
<td>+4.2</td>
<td>32.3</td>
<td>35.5</td>
</tr>
<tr>
<td>Argentina</td>
<td>+16.6 Feb</td>
<td>+11.3 Q4</td>
<td>+2.4</td>
<td>3.88</td>
<td>3.68</td>
</tr>
<tr>
<td>Brazil</td>
<td>-7.1 Feb</td>
<td>-48.1 Q4</td>
<td>-2.4</td>
<td>1.76</td>
<td>1.76</td>
</tr>
<tr>
<td>Chile</td>
<td>-1.6 Mar</td>
<td>-51.7 Q4</td>
<td>+2.6</td>
<td>0.57</td>
<td>0.57</td>
</tr>
<tr>
<td>China</td>
<td>-5.3 Jan</td>
<td>-0.1 Q4</td>
<td>-0.1</td>
<td>1.91</td>
<td>2.38</td>
</tr>
<tr>
<td>Colombia</td>
<td>-12.1 Mar</td>
<td>-5.3 Q4</td>
<td>-1.8</td>
<td>12.2</td>
<td>13.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>-5.7 Feb</td>
<td>-5.2 Q4</td>
<td>-1.1</td>
<td>5.73</td>
<td>5.24</td>
</tr>
<tr>
<td>Venezuela</td>
<td>+16.2 Q4</td>
<td>+8.8 Q4</td>
<td>+5.6</td>
<td>2.75</td>
<td>3.18</td>
</tr>
<tr>
<td>Egypt</td>
<td>-25.4 Q4</td>
<td>-3.2 Q4</td>
<td>-0.8</td>
<td>0.51</td>
<td>0.52</td>
</tr>
<tr>
<td>Israel</td>
<td>-5.4 Q4</td>
<td>+7.2 Q4</td>
<td>3.1</td>
<td>0.70</td>
<td>0.74</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>+212.0 2008</td>
<td>+134.0 2008</td>
<td>+11.3</td>
<td>3.75</td>
<td>3.75</td>
</tr>
<tr>
<td>South Africa</td>
<td>-1.2 Feb</td>
<td>-11.4 Q4</td>
<td>-4.5</td>
<td>7.26</td>
<td>8.16</td>
</tr>
</tbody>
</table>

### MORE COUNTRIES

Data for the countries below are not provided in printed editions of The Economist:

- Estonia
- Finland
- Greenland
- Iceland
- Latvia
- Liechtenstein
- Lithuania
- Luxembourg
- New Zealand
- Peru
- Philippines
- Portugal
- Slovakia
- Slovenia
- Ukraine
- Vietnam

*Statistical trade and current-account data are from IFS. Figures may not add to totals shown due to rounding. Stock yields and interest-rate data are from Standard & Poor's.*
<table>
<thead>
<tr>
<th>Region</th>
<th>Index</th>
<th>Apr 7th</th>
<th>one week</th>
<th>% change on Dec 31st 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (DJIA)</td>
<td>10,897.5</td>
<td>10,897.5</td>
<td>-0.1</td>
<td>+4.5 in local terms</td>
</tr>
<tr>
<td>United States (S&amp;P 500)</td>
<td>1,182.5</td>
<td>1,182.5</td>
<td>+0.8</td>
<td>+6.0 in $ terms</td>
</tr>
<tr>
<td>United States (NYSE comp)</td>
<td>4,052.2</td>
<td>4,052.2</td>
<td>+7.1</td>
<td>+7.1 in $ terms</td>
</tr>
<tr>
<td>Japan (Nikkei 225)</td>
<td>11,292.8</td>
<td>11,292.8</td>
<td>+1.8</td>
<td>+7.1 +6.4 in $ terms</td>
</tr>
<tr>
<td>Japan (Topix)</td>
<td>955.5</td>
<td>955.5</td>
<td>+1.6</td>
<td>+9.7</td>
</tr>
<tr>
<td>China (Shanghai SSE)</td>
<td>3,300.8</td>
<td>3,300.8</td>
<td>+0.6</td>
<td>-4.0</td>
</tr>
<tr>
<td>China (Shanghai SHSE)</td>
<td>965.5</td>
<td>965.5</td>
<td>+1.6</td>
<td>+9.7</td>
</tr>
<tr>
<td>France (CAC 40)</td>
<td>4,027.0</td>
<td>4,027.0</td>
<td>+1.0</td>
<td>+2.3 +4.8 in $ terms</td>
</tr>
<tr>
<td>Germany (DAX)</td>
<td>6,222.4</td>
<td>6,222.4</td>
<td>+1.3</td>
<td>+4.4 +2.9 in $ terms</td>
</tr>
<tr>
<td>Greece (Athex Comp)</td>
<td>1,987.6</td>
<td>1,987.6</td>
<td>-5.2</td>
<td>-9.5 +15.8 in $ terms</td>
</tr>
<tr>
<td>Italy (FTSE/MIB)</td>
<td>23,151.3</td>
<td>23,151.3</td>
<td>+0.6</td>
<td>-0.4 -7.4</td>
</tr>
<tr>
<td>Netherlands (AEX)</td>
<td>353.9</td>
<td>353.9</td>
<td>+3.0</td>
<td>+5.5 +1.8 in $ terms</td>
</tr>
<tr>
<td>Spain (Madrid SE)</td>
<td>1,155.4</td>
<td>1,155.4</td>
<td>+1.9</td>
<td>-7.0 -13.5</td>
</tr>
<tr>
<td>Austria (ATX)</td>
<td>155.7</td>
<td>155.7</td>
<td>+1.3</td>
<td>+5.7 +3.7 in $ terms</td>
</tr>
<tr>
<td>Belgium (Bel 20)</td>
<td>2,697.0</td>
<td>2,697.0</td>
<td>+1.5</td>
<td>+7.4 0.1</td>
</tr>
<tr>
<td>Denmark (OMX)</td>
<td>371.1</td>
<td>371.1</td>
<td>+3.5</td>
<td>+1.6 +11.9 in $ terms</td>
</tr>
<tr>
<td>Hungary (BUX)</td>
<td>25,307.2</td>
<td>25,307.2</td>
<td>+4.1</td>
<td>-19.2 +12.5 in $ terms</td>
</tr>
<tr>
<td>Norway (OSEAX)</td>
<td>454.1</td>
<td>454.1</td>
<td>+3.0</td>
<td>+3.5</td>
</tr>
<tr>
<td>Pakistan (KSE)</td>
<td>10,923.0</td>
<td>10,923.0</td>
<td>+0.5</td>
<td>+3.1 +13.2 in $ terms</td>
</tr>
<tr>
<td>Russia (RTS, $ terms)</td>
<td>1,639.0</td>
<td>1,639.0</td>
<td>+3.3</td>
<td>+8.0 +11.7 in $ terms</td>
</tr>
<tr>
<td>Singapore (STI)</td>
<td>2,988.1</td>
<td>2,988.1</td>
<td>+1.9</td>
<td>+3.1 +3.7 in $ terms</td>
</tr>
<tr>
<td>South Korea (KOSPI)</td>
<td>1,726.0</td>
<td>1,726.0</td>
<td>+1.6</td>
<td>+2.0 +6.6</td>
</tr>
<tr>
<td>Switzerland (SMI)</td>
<td>8,218.0</td>
<td>8,218.0</td>
<td>+2.0</td>
<td>-0.8 +0.5</td>
</tr>
<tr>
<td>Turkey (ISE)</td>
<td>58,645.6</td>
<td>58,645.6</td>
<td>-4.4</td>
<td>+11.0 +11.1 in $ terms</td>
</tr>
<tr>
<td>Australia (All Ord)</td>
<td>4,983.2</td>
<td>4,983.2</td>
<td>+1.1</td>
<td>+2.1 +5.4</td>
</tr>
<tr>
<td>Hong Kong (Hang Seng)</td>
<td>21,928.8</td>
<td>21,928.8</td>
<td>+2.6</td>
<td>+0.3 +0.2</td>
</tr>
<tr>
<td>India (BSE)</td>
<td>17,970.0</td>
<td>17,970.0</td>
<td>+2.9</td>
<td>+7.5 +18.7 in $ terms</td>
</tr>
<tr>
<td>Indonesia (ISX)</td>
<td>2,889.6</td>
<td>2,889.6</td>
<td>+3.6</td>
<td>-14.6 +19.3 in $ terms</td>
</tr>
<tr>
<td>Malaysia (KLSE)</td>
<td>1,345.1</td>
<td>1,345.1</td>
<td>+2.0</td>
<td>+5.7 +12.8 in $ terms</td>
</tr>
<tr>
<td>Mexico (EMS)</td>
<td>5,132.4</td>
<td>5,132.4</td>
<td>+0.7</td>
<td>+6.7 +11.7 in $ terms</td>
</tr>
<tr>
<td>Pakistan (KSE)</td>
<td>10,523.0</td>
<td>10,523.0</td>
<td>+0.5</td>
<td>+2.1 +13.2 in $ terms</td>
</tr>
<tr>
<td>Singapore (STI)</td>
<td>2,988.1</td>
<td>2,988.1</td>
<td>+1.9</td>
<td>+3.1 +3.7 in $ terms</td>
</tr>
<tr>
<td>South Korea (KOSPI)</td>
<td>1,726.0</td>
<td>1,726.0</td>
<td>+1.6</td>
<td>+2.6 +6.6</td>
</tr>
<tr>
<td>Taiwan (TWI)</td>
<td>8,218.0</td>
<td>8,218.0</td>
<td>+2.0</td>
<td>-0.8 +0.5</td>
</tr>
<tr>
<td>Thailand (SET)</td>
<td>812.6</td>
<td>812.6</td>
<td>+3.0</td>
<td>-10.6 +14.1 in $ terms</td>
</tr>
<tr>
<td>Argentina (MERV)</td>
<td>2,453.7</td>
<td>2,453.7</td>
<td>+2.0</td>
<td>+5.7 +3.5 in $ terms</td>
</tr>
<tr>
<td>Brazil (Bovespa)</td>
<td>70,792.0</td>
<td>70,792.0</td>
<td>+1.2</td>
<td>+3.2 +2.0 in $ terms</td>
</tr>
<tr>
<td>Chile (IGPA)</td>
<td>17,959.2</td>
<td>17,959.2</td>
<td>+1.8</td>
<td>+8.0 +5.9</td>
</tr>
<tr>
<td>Colombia (IGBC)</td>
<td>12,334.4</td>
<td>12,334.4</td>
<td>+2.4</td>
<td>+6.3 +13.4 in $ terms</td>
</tr>
<tr>
<td>Mexico (FWM)</td>
<td>4,672.4</td>
<td>4,672.4</td>
<td>+0.7</td>
<td>+4.7 +11.7 in $ terms</td>
</tr>
<tr>
<td>Peru (IPC)</td>
<td>58,107.7</td>
<td>58,107.7</td>
<td>-0.4</td>
<td>+5.5 +13.6 in $ terms</td>
</tr>
<tr>
<td>Russia (RTS, $ terms)</td>
<td>1,639.0</td>
<td>1,639.0</td>
<td>+3.3</td>
<td>+8.0 +11.7 in $ terms</td>
</tr>
<tr>
<td>South Africa (JSE AS)</td>
<td>29,265.2</td>
<td>29,265.2</td>
<td>+1.8</td>
<td>+5.8 +7.3 in $ terms</td>
</tr>
<tr>
<td>Europe (FTS Eurofirst 300)</td>
<td>1,086.2</td>
<td>1,086.2</td>
<td>+1.7</td>
<td>+5.0 -2.3</td>
</tr>
<tr>
<td>World, det'd (MSCI)</td>
<td>1,213.3</td>
<td>1,213.3</td>
<td>+1.0</td>
<td>+3.8 +3.8</td>
</tr>
<tr>
<td>Emerging markets (MSCI)</td>
<td>1,043.0</td>
<td>1,043.0</td>
<td>+3.3</td>
<td>+5.4 +5.4</td>
</tr>
<tr>
<td>World, all (MSCI)</td>
<td>311.5</td>
<td>311.5</td>
<td>+1.3</td>
<td>+4.0 +4.0</td>
</tr>
<tr>
<td>World bonds (Citigroup)</td>
<td>814.2</td>
<td>814.2</td>
<td>-0.3</td>
<td>-2.0 -2.0</td>
</tr>
<tr>
<td>EMBI+ (JP Morgan)</td>
<td>512.5</td>
<td>512.5</td>
<td>+0.4</td>
<td>+1.5 +1.5</td>
</tr>
<tr>
<td>Hedge funds (HFRX)</td>
<td>1,182.0</td>
<td>1,182.0</td>
<td>+0.7</td>
<td>+2.2 +2.2</td>
</tr>
<tr>
<td>Volatility, US (VIX)</td>
<td>16.0</td>
<td>16.0</td>
<td>17.1</td>
<td>21.7 +21.7 (levels)</td>
</tr>
<tr>
<td>CDS, Eur (TRAXX)</td>
<td>72.6</td>
<td>72.6</td>
<td>+3.4</td>
<td>+3.7 +3.5</td>
</tr>
<tr>
<td>CDS, N Am (CDX)</td>
<td>98.8</td>
<td>98.8</td>
<td>-1.8</td>
<td>-9.1 -9.1</td>
</tr>
<tr>
<td>Carbon trading (EU ETS)</td>
<td>13.5</td>
<td>13.5</td>
<td>+4.7</td>
<td>+6.4 -1.0</td>
</tr>
</tbody>
</table>
Central banks track the growth of “broad money” to help forecast inflation. The exact definition varies between countries, but broad money usually includes things like short-duration deposits and short-term securities other than shares. These are less liquid than currency or demand deposits (which make up “narrow money”) but can be encashed fairly quickly. Broad money was growing rapidly in most rich countries, with the exception of Japan, until the crisis struck. Growth has since slowed markedly and is still declining in most rich countries. In America growth has picked up once again, though it remains low. Broad money in the euro area was lower in several recent months than a year earlier.