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Politics this week
Apr 22nd 2010
From The Economist print edition

Aircraft returned to the skies over Europe after the cancellation of almost 100,000 flights and the biggest-ever disruption to Europe’s commercial airspace, caused by a volcanic eruption in Iceland. Some carriers criticised the almost week-long shutdown, which had effects worldwide, arguing that safety concerns may have been overdone. The International Air Transport Association, an industry body, said that the flying ban cost airlines around $1.7 billion in revenue. See article

A strong performance by Nick Clegg, leader of the Liberal Democrats, in Britain’s first ever televised prime ministerial election debate on April 15th led to an extraordinary surge in support for the party. Yet questions remained over the Lib Dems’ ability to transform their bounce into votes. The prospect of a hung parliament loomed larger. See article

After the plane crash that killed President Lech Kaczynski, who was buried this week, Poland fixed a presidential election for June 20th. Early polls found strong support for Bronislaw Komorowski, the acting president and parliamentary speaker.

A presidential election in north Cyprus was won by Dervish Eroglu, a hardliner who favours independence, dimming hopes for the reunification of Cyprus, which has been split between a Greek-Cypriot south and a Turkish-Cypriot north since 1974. See article

The French government moved ahead with plans to ban the burqa, which is worn by a small number of Muslim women, in all public places. It will submit a draft law to parliament in May.

One of the most controversial issues in Ukrainian-Russian relations was apparently settled when the two countries signed a deal to extend the leasing rights of Russia’s Black Sea Fleet in Sebastopol, a Ukrainian port, for 25 years. In exchange Russia will provide Ukraine with cheaper gas.

No vote in Congress

The Democrats pulled legislation that would have given Washington, DC, a seat in the House of Representatives. The bill, which would have also created an extra seat for Utah, had passed the Senate but with an amendment that would have repealed the city’s strict gun-control laws. See article

America’s Supreme Court overturned, by 8-1, a law that had banned images of dogfighting and other depictions of cruelty to animals because the legislation restricted free speech. It is the second decision
by the court this year that expands the notion of free speech under the constitution; the other ruling lifted restrictions on campaign spending.

**China’s deep pockets**

Hugo Chávez, **Venezuela’s** president, said that **China** had promised to lend $20 billion to build power plants and highways in return for oil. The two countries also signed an agreement for a joint venture to produce up to 400,000 barrels of oil a day in the Orinoco belt.

A consortium led by Chesf, a state-owned electricity generator, won a contract to build the world’s third-largest hydroelectric dam on the Xingu river in the **Brazilian Amazon**. Although the project has been scaled down, green and indigenous groups object to its environmental impact, but failed to persuade the courts to block the contract auction. See article

The International Court of Justice ruled that although **Uruguay** should have consulted **Argentina** before allowing a cellulose factory on their border river, the plant did not pollute and could continue to operate. Uruguayans will hope that their neighbour will end a more than three-year blockade of a border bridge.

**Argentina** unveiled the terms of its long-awaited offer to creditors who chose not to participate in its first debt restructuring in 2005. The proposal is almost identical to the prior exchange, and is seen as relatively favourable to investors. Analysts expect most bondholders to accept.

**Terminating three**

Three leaders of extremist Sunni groups in **Iraq** that are affiliated to al-Qaeda were reportedly killed in joint Iraqi-American operations: Abu Ayyub al-Masri, who was said to head “al-Qaeda in Iraq”; Abu Omar al-Baghdadi, who ran a still more shadowy outfit; and Ahmed al-Obeidi, who organised attacks around Mosul. It is too soon to say if the recent spate of suicide-bombings against Iraqi government targets will now end.

**Israel’s** president, Shimon Peres, accused **Syria** of supplying Scud missiles to **Lebanon’s** Shia party-cum-militia, Hizbullah, raising the possibility of a pre-emptive attack by Israel. The claim has yet to be independently verified and Syria denied the claim.

The authorities in **Rwanda** arrested Victoire Ingabire, a leading opposition politician, and accused her of, among other things, helping a rebel group whose members perpetrated the genocide in 1994. Mrs Ingabire, a Hutu, returned from abroad earlier this year and says she will run for president against the incumbent, Paul Kagame, a Tutsi.

Jacob Zuma, **South Africa’s** president, chastised Julius Malema, the leader of the Youth League of the ruling **African National Congress**, for using threatening language against white South African farmers and for praising President Robert Mugabe on a visit to Zimbabwe. But Mr Malema seemed loth to back down,
suggesting a struggle for authority within the ANC.

**Days of rage**

![Image of people celebrating](image)

A tense stand-off gripped **Thailand**. The army occupied Bangkok’s financial district and threatened to use live ammunition against opposition demonstrators, who barricaded their makeshift camp but called off a march. Government supporters increased pressure on the regime to crack down by threatening a counter-demonstration. But Abhisit Vejjajiva, the prime minister, put the army commander-in-chief, an advocate of a political solution, in charge of national security. [See article](#)

The death toll from the recent **earthquake** that struck China’s Qinghai province rose to more than 2,000.

Relations between the Koreas deteriorated over the mysterious sinking last month of a **South Korean warship**. After an international investigation ruled out an on-board explosion as the cause, Lee Myung-bak, South Korea’s president, vowed, in an emotional television address, that the response would be “unwavering and resolute”. Military analysts reportedly think a North Korean torpedo sank its ship. [See article](#)
Wall Street was stunned as civil-fraud charges were brought against Goldman Sachs. The Securities and Exchange Commission alleges that the bank deceived investors in a synthetic collateralised-debt obligation built on mortgage assets, by not disclosing that Paulson, a hedge fund that had some say in choosing which securities went into the product, would profit if the CDO performed poorly. Goldman vigorously denied the allegations. See article

Goldman found comfort in announcing a $3.5 billion quarterly profit. Staff compensation costs rose to $5.5 billion, but as a share of net revenue this fell to 43%, from 50% in the same quarter last year.

Citi regeneration?

Citigroup reported $4.4 billion in net income for the first three months of 2010, its best profit in almost three years (it made a $4.3 billion profit in the second quarter of 2009 only after selling its Smith Barney unit). With net credit losses declining further, the bank declared that it had “turned the corner”, but remained cautious about its outlook. Citi lost some $30 billion during the credit crisis.

Bank of America posted a net profit for the first quarter of $3.2 billion, a drop of 24% compared with a year earlier. And in its first earnings release since James Gorman became chief executive in January, Morgan Stanley’s quarterly net income was $1.8 billion.

Credit Suisse had a good three months, in which it recorded the biggest gain in new assets from wealthy clients for five years, a sharp contrast to the Swiss bank’s bigger rival, UBS, which has been hurt by net outflows of customers’ cash.

The IMF proposed a scheme for co-ordinated global taxes on banks’ balance-sheets and profits to help pay for the cost of bail-outs. A worldwide bank levy is being mooted by the G20. The fund said that taxpayer-funded rescues during bad times, leaving shareholders and employees to gain during good times, “misallocates resources”.

Congressmen investigating the banking crisis heard testimony about the downfall of Lehman Brothers. The SEC was criticised by a court-appointed examiner for its supervision of the bank. Dick Fuld, Lehman’s boss at the time of its bankruptcy (who was also admonished by the examiner), insisted that the SEC and the Federal Reserve “were privy to everything as it was happening”.

The bill from the repair shop

General Motors announced it had repaid in full the $8.4 billion in loans it received from the American, Canadian and Ontario governments, five years ahead of schedule. The American government still holds a majority stake in the carmaker, but could start selling the shares later this year.

The Bank of Canada hinted that it might raise interest rates in June, which would make it the first central bank in the G7 to do so. Forecasting that Canada's economy will grow by 3.7% this year (but by less in 2011 and 2012) the bank thinks it is now “appropriate to begin to less the degree of monetary stimulus”.

The yield on ten-year Greek government bonds rose sharply again, to well above 8%, just as negotiators from the European Union and IMF began working on the details of a bail-out for Greece.

Information demands
Google provided data for the first time on the number of requests it gets from governments to remove content from its sites. The requests mostly relate to criminal matters, and the figures do not cover filtering or blocking of content. Brazil tops the list, for example, but Google’s Orkut social-networking site is one of the most popular in the country. Google reckons that more transparency on the issue will lead to less censorship.

Arriva, one of Britain’s biggest train and bus operators, agreed to a £1.6 billion ($2.5 billion) takeover from Deutsche Bahn, Germany’s state-owned rail company. More mergers are expected in Europe as transport markets are opened to competition.

EADS, the European aerospace and defence company that owns Airbus, decided to submit a fresh bid to build flying tankers for the American air force. The company’s American partner in the project, Northrop Grumman, pulled out of the process in March claiming the terms favour Boeing. The competition for the $35 billion contract has rumbled on for years, though EADS will raise its profile in America with a new bid.

Work on the next James Bond film, due for release by 2012, was “suspended indefinitely” by the producers because of the uncertainty surrounding the auction of MGM, the studio that owns the Bond franchise. MGM, which has had numerous owners over the years, is grappling with $3.7 billion of debt and its creditors are seeking a buyer. See article
After the volcano

Earthly powers
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Disasters are about people and planning, not nature’s pomp

IT IS a peculiar, if blessed, sort of natural disaster in which nobody dies. The Icelandic volcano Eyjafjallajokull produced a thrilling show—and may continue to do so—but did most of its damage simply by shutting down air traffic in and out of large parts of Europe for nearly a week. Rather than bereavement, it brought the eeriness, and sometimes the joy, of displacement. Colleagues were absent from their desks, and teachers and pupils from their classrooms; the clear blue skies were bereft of the silver needles that sew the world together. Birdsong made loud the silence of the jets, florists’ vases missed the bright blooms of far-off fields, and far-off farmers missed the cash those blooms would have brought. But, this time, almost all that went missing will be returned.

Two arguments spout up from this demonstration of earthly power. The first is immediate and practical: was all this chaos man-made—an immense and costly overreaction by regulators to a spectacle that posed only a minor and manageable risk? The second is more philosophical: what does this say about man’s apparent inability to control nature?

To fly or not to fly

The initial position of Europe’s regulators was that the safe level of volcanic ash was, in effect, zero, thus grounding all flights in the broad swaths of sky which computer models said could be tainted. The fact that this regulatory stance changed in the face of an affluent cadre of displaced people, airlines feeling the pinch, a looming threat to some supply chains and (in Britain) an election, makes it all the more suspicious. Areas with low concentrations of dust and ash are now suddenly deemed navigable, and aircraft passing through them will be given thorough post-flight engine inspections (see article).

How exactly the new safety threshold came to be set at 2,000 micrograms of dust or ash per cubic metre is not clear; the figure appears to have come from engine manufacturers, but the evidence on which it is
based has not yet been made public. Regulations without a clear and open argument behind them are worrisome. But that doesn’t mean the threshold, equivalent to about 100 times the typical level of dust in the atmosphere at ground level, is necessarily a bad one (test flights found patches of dust of up to 20 times normal levels). And the previous position that there was no safe level clearly lacked any sort of evidence base at all.

Had better policies been in place beforehand, much inconvenience might have been avoided. But it is wrong to dismiss the week’s woes as an over-precautionary fuss over nothing. Northern Europe has many hub airports downwind of one of the most volcanic countries in the world, and the emergence of the global aviation industry just happened to coincide with a period of relative inactivity there. Some of Iceland’s volcanoes can shoot hundreds of times as much gunk into the atmosphere as Eyjafjallajokull has, and over long periods. There are other volcanoes, notably in the American north-west and Japan, capable of disrupting a lot of airspace around big cities. The fact that the long-distance risks posed by volcanoes are not, for the most part, insurable seems to have led to them being less well studied than other kinds of natural disaster. A wake-up call was needed, and it has been sounded. The new regulatory approaches now need to be openly justified, and perhaps taken further.

**With great power comes great responsibility**

But the week of absences also offers a less obvious lesson. One of the things that went missing in the shadow of that volcanic dust was a sense of human power. And as with the quiet skies, this absence found a welcome in many hearts. The idea that humans, for all their technological might, could be put in their place by this volcano—this obscure, unpronounceable, C-list volcano—was strangely satisfying, even thrilling.

Such pleasure in the face of overpowering nature, as seen from a place of safety, was at the heart of the idea of “the sublime” as expressed by the great conservative Edmund Burke 250 years ago, and its aesthetic and spiritual allure remains strong. The sublime offers solace and inspiration, but it makes a poor guide to policy. For humans are not completely powerless in the face of nature: rather the reverse.

There is no technology to plug volcanoes which pierce the earth’s crust, or to bind the faults which cause earthquakes. There is not yet even a science for predicting when faults and volcanoes will let loose. To that extent, mankind is still vulnerable to the vagaries of the planet. But the story of human development is one of becoming better at coping with them.

Death by disaster is in many ways a symptom of economic underdevelopment: witness the very different consequences of the earthquakes in Haiti and Chile. In general, richer places and richer people are better able to survive and rebound. More interconnections provide more ways to mobilise resources and explore alternatives when things go wrong. If the Eyjafjallajokull plume had been as risky as it first appeared and long-lived to boot, such interconnectedness would undoubtedly have provided ways to keep Europe supplied, though probably at substantial cost and with a fair bit of lasting disruption. The apparently sublime power of the volcano was largely the result of an initially supine reaction.

Very few events are able to perturb an increasingly globalised world. The Indian Ocean tsunami of 2004 was a murderous event, but the world pushed on and many areas recovered quickly (see Buttonwood). For a natural disaster to represent a global threat, it has to act on a global scale. An eruption of hot plasma from the sun, called a coronal mass ejection, which could do damage to electricity grids over an entire continent, might fit the bill. The largest volcanoes might cause short-term climate change profound enough to reduce agricultural production precipitously in many places at once. A large asteroid strike would do yet more damage.

These are, though, rare events. Very large coronal mass ejections are thought to happen every 500 years or so (the most recent was in 1859). Volcanoes that change climate enough to affect agriculture round the world are perhaps 100 times rarer than that, and cataclysmic asteroids rarer still. What is more, such asteroids could, in principle, be identified and, with plausible technology, nudged aside. Here Burke’s sublime is turned on its head, and human capability seems to humble nature.

This is worth applying to climate change. Many of Burke’s descendants find it difficult to believe that something as big as the earth’s climate could really be at risk from human activity, and even harder to think you could do something about it. But the risk, if not full certainty about its consequences, is there. Moreover, the idea of a counterbalancing, “geoengineered” cooling to counteract some aspects of climate change is worthy of study and discussion. Large volcanic eruptions spread cooling palls through the stratosphere. Techniques for doing something similar in a less dramatic way are plausible.
When people talk about the charms of powerlessness in the face of nature, part of what they are saying is that they don’t want to be bothered with facing up to what humans can do, and to what they might have at risk. The business of looking after a planet requires being bothered in advance—and not just about little matters like volcanoes.
The outlook for the world economy

Curb your enthusiasm
Apr 22nd 2010
From The Economist print edition

A welcome recovery—but an uneven one, with dangers both for sluggish Europe and bubbly emerging economies

THERE is a whiff of exuberance around the world economy these days. Financial markets are buoyant, business confidence is rising and global growth seems increasingly robust. In its latest forecasts, released on April 21st, the IMF predicts that global output will grow by 4.2% this year on a purchasing-power basis, a full percentage point more than itforesaw six months ago. Other seers are even more optimistic, predicting growth of more than 4.5%—or close to the average pace of the boom years before the recession. The level of global output is now back to where it was before the downturn. And given the scale of the financial crisis, the recovery is surprisingly brisk. With global business investment accelerating and consumer spending strong, there is growing optimism that the recovery is becoming self-sustaining.

Some of this optimism is justified. Just as financial stress worsened the recession, so healthier financial markets are now reinforcing the recovery. Higher asset prices have propped up consumer spending and narrower corporate bond spreads have eased firms’ borrowing costs. Economic recovery, in turn, has helped ease financial pain. The IMF has reduced its estimate of banks’ total losses from the crisis by $500 billion, to $2.3 trillion, two-thirds of which has already been written off.

The trouble is that the good fortune has not been shared equally. The healthy pace of global growth belies differences between regions that are big and are getting bigger. Historically, deeper recessions are followed by stronger recoveries. But this time around countries that were least affected by the recession (primarily the largest emerging economies) are seeing the fastest acceleration. China’s economy is now growing at double-digit rates. The IMF expects India’s GDP to increase by almost 9% this year. Some forecasters reckon that Brazil’s growth rate could reach 7%, which would be its fastest pace in a quarter of a century. In contrast, countries where the downturn was deepest have the weakest recoveries. Output fell further in Britain and the euro area than it did in America. Yet the IMF expects output growth of only 1% in the euro zone and 1.3% in Britain this year, compared with more than 3% in America.

One reason for this multi-speed recovery is that the financial crisis was largely confined to the rich world, and recoveries after such crises tend to be slow. But the gap between American and European growth rates means that this cannot be the only explanation. The structure of finance matters (Europe is more dependent on banks), as does an economy’s flexibility (productivity has soared in America, but it has slumped in Europe). Another factor is differences in the scope for, and effectiveness of, policy stimulus. Thanks to their low debt levels, many big emerging economies used fiscal and monetary stimulus vigorously and effectively. In America the Federal Reserve opened the spigots, and the dollar’s reserve-currency status gives the country unusual fiscal latitude. In the euro zone, in contrast, individual countries lack an independent monetary policy. And with high debt levels, many are running out of fiscal room even as their economies remain weak.

The dangers of getting too excited

The danger is that these growth gaps will widen rather than narrow. In Europe output could slow as sovereign debt fears spread beyond Greece, forcing the likes of Portugal (see article) to tighten fiscal policy faster. Big emerging economies, which have little or no spare capacity and which are growing at a faster pace than is sustainable, could easily overheat, risking inflation and asset bubbles. A multi-speed global recovery is, unfortunately, less stable than a synchronised one, not least because the policy combination that makes sense for the rich world—gradually tighter fiscal policy and a prolonged period of cheap money—will encourage more capital to flow to emerging economies in search of higher yields, and
add to their risk of overheating. Nonetheless, both sets of policymakers can do more to prevent the more extreme outcomes.

Rich economies where public debt burdens are soaring urgently need bold and credible plans for medium-term deficit-reduction. They also need supply-side measures that boost economic growth, from tax reform (in America) to freer job markets (in Europe). To prevent bubbles forming as a result of lopsided global growth, emerging economies need to use deft monetary and fiscal tightening, flexible exchange rates and prudential tools such as reserve requirements and capital inflow controls. The urgency is especially great in Asia. China needs to allow the yuan to strengthen soon. India’s recent interest-rate hikes have failed to keep up with inflation. For now, booming growth in emerging economies explains the rosiness of the global recovery. But its sustainability will depend, in large part, on how that prosperity is controlled.
There is a difference between self-interest and breaking the law

WHEN Goldman Sachs went public in 1999 its prospectus began: “Our clients’ interests always come first. Our experience shows that if we serve our clients well, our own success will follow. Our assets are our people, capital and reputation. If any of these is ever diminished, the last is the most difficult to restore.” Only the most naive investor read that as a commitment to do-goodery rather than calculated self-interest. And only the most priggish today would argue that financial institutions are obliged to be fluffy.

That nuance matters, now that Goldman is embroiled in a scandal about mortgage securities (see article). In the court of public opinion it faces three charges. The first is that it was unkind to its institutional counterparties who bought a security that it helped arrange, and which plummeted in value when house prices fell. But it has no legal obligation to be kind, and the idea of willing counterparties, with full and accurate disclosure, each seeking to profit from the other’s inferior grasp, is central to financial markets. And if Goldman sullied its reputation, its customers can always go elsewhere.

The second charge is that Goldman helped the client on the other side of the trade profit from falling house prices. That is no crime, however, and even judged by the yardsticks of morality and economic stability, those who puffed up the housing market have more to answer for than those who bet against it.

It is the third accusation that really matters. The Securities and Exchange Commission says Goldman misled two clients by failing to give adequate disclosure. At the urging of a hedge fund, Paulson, it enlisted an insurance firm, ACA, to select (with Paulson’s input) a pool of mortgage instruments upon which the security’s price would be based. The SEC alleges that Goldman misled ACA into believing that Paulson would co-invest with it. In fact Paulson was betting that the security would decline. The SEC also claims that IKB, a German state bank with a seemingly inexhaustible capacity for self-harm, was not told of Paulson’s role in helping pick the mortgages, a role the SEC argues was material.

Broken dealer?
Both of these possible offences are serious. Goldman denies the first outright, and on the second it argues that Paulson’s role was not material. The arguments appear finely balanced: the investigation has gone on for more than a year and the SEC’s top brass was divided over whether to proceed. It is impossible to second-guess the case’s outcome. But Goldman is already viewed by many as guilty. That fits a broader narrative in which it manipulated the bail-out and profited from economic misery. For those interested in accurate history, this is unfortunate. Some of Goldman’s links with the government were uncomfortably close. But the real story of this financial crisis, like many others, was not about one firm but near universal risk-taking, stupidity—and possibly widespread fraud.

History says that banks bounce back from legal problems. Goldman, however, will continue to be beaten up in public, whatever the outcome of this case. In one way, rightly so. No firm has combined such red-blooded dedication to profit and high pay with so little appreciation of the state’s generosity, in saving it from following Lehman and in propping up finance with subsidies and guarantees (which are now being reconsidered—see article). Many at the firm might wish it could go private again and recover its capitalist vim. But after a decade of huge success it is now too big to do that. It is also so dedicated to trading that it cannot go back to being a normal, boring bank. Greed and success, let alone a guilty verdict, have already pushed Goldman Sachs into a kind of prison.
The IMF and taxing the banks

Stick 'em up
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From The Economist print edition

The IMF’s proposals to tax the banks will be popular, but are incomplete

THE IMF used to be accused of clobbering little people in order to protect Big Finance. Now it is devising ways to squeeze the banks in order to defend society. Its proposals for taxing the world’s financial firms will be debated by the G20 in June. Any banker who assumes they are another bit of theoretical wonkery should think again. Many hard-up Western governments now have a recipe for raising levies that are lucrative, wildly popular and come with the imprimatur of capitalism’s policeman. Surely it can’t get better than that?

Actually, it could. As a central part of the world’s response to the problem of too-big-to-fail finance, the proposals get only a B-plus. They include one good idea (arrived at for fuzzy reasons), one bad idea and one missed opportunity.

The good idea is to tax part of financial firms’ liabilities—crudely put, their debt. When banks are deemed too big to fail, they can borrow abnormally cheaply. This funding subsidy is at the root of many evils. It is why bankers’ fat bonuses, paid from profits boosted by cheap funding, are unfair. It gives banks a potentially dangerous incentive to get bigger and riskier. And it is why badly run firms can still command market confidence. Where such a subsidy exists, taxing it back to tackle these perverse incentives is both just and essential.

The IMF proposes just such a tax, but it is rather vague about why. It wants banks to pre-pay for the next crisis, which it reckons might cost 2-4% of each country’s GDP, with the levy probably going into a bail-out kitty. A tax specifically designed to recapture the subsidy might actually be higher than this. And there is some quirky fine print. By casting the net widely, the IMF seems to include insurance companies, even though their main liabilities are reserves for payments to customers, something no one should have a problem with. And though its desire to tweak the tax to reflect firms’ risk to the system is understandable, it risks duplicating new rules on bank capital.

Treating the symptoms, not the cause
The bad idea within the proposals is that banks should have to pay a further tax on their profits before pay. It is not clear why. If the idea is to get banks to pay for their funding subsidy, then the IMF’s first proposal already does that, and should simply be made bigger. If society’s tolerance for high pay is the problem, then personal tax rates should be the tool. And if the authorities want to try to discriminate between firms, then it is a bad idea to tax those banks that are consistently profitable. Over the past three years they have mainly been traditional, deposit-taking firms, often in emerging economies. Finally, if there is a broader desire to tackle excess profits that banks may make from colluding with each other or confusing customers, then the answer is to try to address those problems directly, through antitrust or consumer-protection regulation, rather than simply skimming the cream of the cash made.

That last argument, of course, also applies to the funding subsidy banks get. Why not try to eliminate it, rather than recoup it? The IMF proposals rightly highlight the importance of a resolution authority that would allow banks to fail in an orderly way. But this is the missed opportunity. Everybody who looks at the “too big to fail” problem grapples with the idea of a bankruptcy body for banks; but no one has truly resolved the Catch-22 at the heart of it. As things stand, no resolution authority can push losses onto creditors, rather than taxpayers, without sparking a run as counterparties flee in expectation of pain. The state will then be forced to make huge loans to dodgy firms, as was the case with AIG and Royal Bank of Scotland. What is needed is not just an agreed system for dealing with failing banks but also an agreed line between creditors that would still be protected (the bulk of them, including most trade counterparties) and those who would not—and whose debts might be turned instantly into equity in the failing entity.

The IMF was not asked to look at this, but it has missed a chance to prod the G20 in the right direction. Now it will have to make the case for its taxes. A few rich-world dissenters, such as Canada, along with most emerging countries, are reluctant to clobber banking systems that have done well. The result of the IMF’s plans could well be a global tax of symbolic value, set at a very low rate. That will still leave banks that cannot fail, but by then the world may have moved on to an even trickier question: what should the bail-out kitty invest in? Mortgage securities, perhaps, triple-A rated and arranged by Wall Street’s finest. What could possibly go wrong?
THERE is something enchantingly British about the startling twist in the country’s general-election campaign. When other nations reject the blandishments of established politicians, they often look to sharp-elbowed radicals and angry tea-partyers. The British have embraced the Liberal Democrats, lampooned not so long ago as gently eccentric granola-eaters and sandal-wearers.

In some recent opinion polls the Lib Dems have leapt from distant third place to first, ahead of both Labour and the Conservatives; in most they are now second, just behind the Tories. The immediate cause of this surge was the televised debate among the three parties’ leaders—Britain’s first—on April 15th, in which Nick Clegg, the Lib Dems’ personable, persuasive (on some issues at least) and hitherto under-exposed front man, introduced himself to the electorate.

But before the debate came the parliamentary-expenses scandal. And before that a sequence of disenchantments, stretching from the recession to the mis-sold Iraq war to the let-down that followed Labour’s euphoric win in 1997. The Tories, meanwhile, have not quite shed their image as a party of heartless entitlement. Neither of the two “old parties”—as Mr Clegg likes to refer to them, somewhat cheekily given his own party’s long if recently undistinguished history—is well-placed to embody the change that many voters crave.

This combination of factors has convulsed the campaign. Mr Clegg’s party is on course for British liberals’ best result since the 1920s. No one knows whether it can sustain its heady bounce until polling day on May 6th: there are two more debates (the next on April 22nd, after The Economist has gone to press); young people, who are most enthusiastic about Mr Clegg, also tend to be least inclined to vote. But, as things stand, the election seems likely to yield a hung parliament, in which no party has an overall majority. That would be an unusual and challenging outcome (the last such result was in 1974). But what followed could be even more dramatic. This election could presage the wholesale reorganisation of British politics.

The coming earthquake
The first-past-the-post system, under which Britons elect their MPs and, indirectly, their governments, has distinct advantages, the most important being that in the past it has helped voters replace discredited administrations with new ones. But its big weakness—the disparity between votes cast for parties nationally and the seats they secure in the House of Commons—has become more pronounced in recent decades, as voters have increasingly opted for parties other than Labour and the Tories. In 2005 Labour won a strong majority with just 35% of the vote. In 2010 Labour could conceivably win fewer votes than its main rivals but the most seats (see article). The Lib Dems—the main victims of the current arrangement—could get almost a third of votes but an eighth of the seats.

In such a situation, a system that has always had its critics would look morally indefensible. It might soon be equally discredited in practice: rather than produce a strong government with a clear mandate, it would have resulted in either a coalition or, more likely, a weak government reliant on the support of other parties and poorly placed to enact the reforms Britain needs. In any case, a new, proportional electoral system would probably be adopted soon, because the Lib Dems would demand it as the price of their co-operation with the “winner”. The shape of British politics would be transformed.

So, because of the sandal-wearers’ surge, an election campaign that was initially mired in sterile and disingenuous micro-rows seems suddenly set to be seismic. That is, unless one of the parties—and such has been the electorate’s volatility that it could be any of them—persuades the country in the next two weeks that it deserves to govern alone. The Tories, in particular—once the presumed victors—have a fortnight to make a compelling pitch for office. The Economist will make its own endorsement next week.
The world’s most complicated island has just got even trickier. The European Union could do something to help

SADLY the words Cyprus and conflict seem inextricably linked. The island has been divided for over 35 years despite many rounds of settlement talks. So the election on April 18th of a hardline Turkish-Cypriot president, Dervish Eroglu, might look like just another episode in a never-ending saga.

Yet, even by Cyprus’s dismal standards, the repercussions of Mr Eroglu’s victory are serious (see article). He has ousted Mehmet Ali Talat, the most pro-settlement leader the Turkish-Cypriots have had. Mr Eroglu is against the idea of a “bizonal, bicomunal federation”, which has been the basis of all Cyprus talks since 1977. He barely knows the Greek-Cypriot president, Demetris Christofias, and speaks almost no English. In contrast, Mr Talat and Mr Christofias were not just pro-settlement but also old trade-union friends and fluent in English. Cypriots on both sides, as well as the United Nations negotiators patiently trying to bring them together, have good reason to ask: if these two were unable to solve the conflict, and Mr Talat was ejected by Turkish-Cypriot voters after 18 months of talks, what chance will anybody else have?

It would be wrong to see this as an issue of only local interest. Cyprus casts a shadow across Europe. In May 2004 the European Union foolishly admitted the (Greek-Cypriot) Republic of Cyprus even though Greek-Cypriot voters had rejected the UN’s Annan plan for unification. As a member, Cyprus has played a destructive role, undermining both the EU’s efforts to help the Turkish-Cypriots, who voted for the Annan plan, and Turkey’s membership talks. Because Turkey is in NATO (but not the EU) and Cyprus is in the EU (but not NATO) these two organisations find it hard to work together.

In search of a solution

What should be done? It is tempting to give up trying to resolve the conflict altogether. Nobody is being killed because of the island’s division. Crossing the “green line” has become far easier in recent years. And, as the election of Mr Eroglu suggests, de facto partition suits many on both sides. Turkey may jib at the annual subsidy, worth some $600m a year, that it has to pay the isolated north. But the Turkish army is happy to have a place to garrison and train a large number of soldiers.

Yet, however frustrating Cyprus may be, it would be wrong to abandon it. Experience suggests that the Greek-Cypriots and Turkish-Cypriots will not solve their conflict alone. To leave their dispute to fester would be bad for the Turkish-Cypriots, whose unrecognised republic is denied direct trade and transport links with the world; bad for the Greek-Cypriots, who face a large Turkish army in the north and have lost territory and property; and damaging to the whole island’s economy, especially its tourist industry. Moreover, it is hard to see how Turkey can ever join the EU without a settlement in Cyprus, since it would first have to recognise the Greek-Cypriot government and abandon the Turkish-Cypriots. Indeed, France and Germany shamelessly use Cyprus as another excuse to keep Turkey out.

There are three ways to revive hopes of a Cyprus settlement. First, Turkey’s government, which pays Mr Eroglu’s bills, must press him to restart the talks where Mr Talat left off. This will be hard. But it will help that the uncharismatic Mr Eroglu does not have much of a following in Turkey itself. Second, the Turkish prime minister, Recep Tayyip Erdogan, must find a way of talking directly to the Greek-Cypriots. This is delicate, because he cannot be seen to go behind Mr Eroglu’s back. His best shot would be to use the good offices of Greece’s prime minister, George Papandreou, whom Mr Erdogan will meet in Athens next month. A joint démarche by the Greek and Turkish governments could do much to offset the damage of Mr Eroglu’s arrival on the scene.
However the biggest problem is not on the Turkish-Cypriot side, but the lack of pressure on the Greek-Cypriots to make concessions. Mr Papandreou may be able to help with this as well. But an even more promising possibility is a potential initiative from Brussels.

A regulation to allow direct EU trade with northern Cyprus has been blocked by the Cypriot government ever since 2004. Now, under an obscure article of the Lisbon treaty, it is being revived in the European Parliament. If it passes, it could be approved by a majority vote of EU governments, clearing the way for the Turks to drop their refusal to open Turkish ports and airports to trade with the Greek-Cypriots. If such an EU manoeuvre were to end the economic isolation of the Turkish-Cypriots, the pressure on the Greek-Cypriots to push harder for a settlement would rise—and the long saga of the Cyprus conflict might just reach a satisfactory ending after all.
Letters

On the Czech Republic, Mexico, nuclear tests, black women and marriage, Britain's election, taxes, states
Apr 22nd 2010
From The Economist print edition

The Czech prime minister

SIR – I feel I must respond to the claim that Jan Dusik resigned as the Czech environment minister after I “had put him under undue pressure to agree” to a plan for a coal-fired power plant run by CEZ, an electricity company in which the Czech state holds a majority stake (“No, minister”, April 10th). What are the facts? In accordance with Czech law, Mr Dusik was obliged to present his position on CEZ’s project by January 4th. He failed to do so and instead of making a decision he requested yet more expert opinions. He had still not reached a conclusion on the matter by March, when I, as prime minister, asked him to decide finally one way or the other in order to comply with the law.

It is untrue that I pressed him to approve the project. On the contrary, I have never indicated to him whether he should approve or reject it. I always made it very clear to Mr Dusik that the decision rested solely with him. Hence, Mr Dusik left the government because he did not have the courage to decide on this complex issue in spite of his legal obligation to do so. He has declared publicly that this was the reason for his resignation.

Jan Fischer
Prime minister of the Czech Republic
Prague

Mexico and the drug war

SIR – Regarding your article “Turning to the gringos for help” (March 27th), neither Brigadier-General Benito Medina, nor our ambassador to the United States, nor any other government official, has actually asked “for international help to win the drug war”. What has been pointed out repeatedly is that this is a borderless phenomenon and as such should be addressed globally and shared responsibly. In working with the United States we are bolstering our collaboration on several fronts. The strategy requires a collective and diversified approach to deal with money-laundering and the trafficking of illegal arms and bulk cash. Co-operation, not help, is the name of the game.

Virgilio Muñuz Alberich
Director-general for international media
Presidency of Mexico
Mexico City

Testing nuclear weapons

SIR – Your article on America’s nuclear posture misconstrued certain facts (“Logic v politics”, April 10th). You stated that the United States “has not felt any need” to conduct a nuclear-weapons test since 1992. But that is because Congress passed an arbitrary moratorium on testing in 1992, which, in fact, interrupted an underground testing programme that Britain was about to undertake at the Nevada Test Site.

Robert Gates, the defence secretary, warned recently that the United States will have to resume testing unless it modernises its nuclear weapons, as Britain, France, China and Russia have done or are doing. It
is no understatement to say that the fate of the recently concluded START follow-on agreement depends on the president submitting to Congress a legally required modernisation plan that is sufficient to reverse the atrophy of the United States’ nuclear deterrent over the past decade, and set America on the path to a safe, secure and reliable deterrent. So far, the president’s budget submission is a half-hearted commitment at best.

Furthermore, you said that the Comprehensive Test-Ban Treaty’s monitoring system is “now a reality”. If that is true, there can be no greater indictment of the treaty than when last May North Korea warned the world that it would conduct a nuclear test. Even with advance notice, the treaty’s monitoring system was unable to detect necessary evidence about the test. It is clear that the CTBT is still not verifiable and is, therefore, an invitation to cheating.

Jon Kyl
Republican whip
United States Senate
Washington, DC

The market for husbands

SIR – Lexington worried about the fate of black women in the marriage stakes because too few black men are available as too many are in jail (April 10th). Why should black women limit themselves to black men? Actually, there is a bigger cohort of potential husbands for black women: black, white, Latino and Asian men. If they dived into the pool of all available men they would find a much greater selection of future husbands, and this could have the unintended consequence of giving black men the added incentive of staying out of prison.

Tony Sweeney
Darien, Connecticut

* SIR – The suggestion that black women need to marry black men in order to bring up healthy and productive children is ridiculous. You take your opinion so far as to suggest that even marrying non-violent criminals is better for a child than not marrying at all. What black women and women in general need is better child care and social support so that those who need to work can do so without putting their children at risk.

Dr Negin Hajizadeh
Medical informatics fellow
Yale University
New Haven, Connecticut

Sizing up a victory

SIR – You described Britain’s electoral system as “curious” because a poll showed that 38% of people backed the Conservatives, and yet this would not be enough “to guarantee outright victory” to the party (“They’re off!”, April 10th). Surely it is a very curious electoral system that does guarantee outright victory to a party that receives less than half the vote. Indeed, an arrangement that allows a party with minority support to gain an outright victory is not only curious, but undemocratic.

A system that was designed before parties even existed to elect people to defend constituents against the state is clearly unsuitable for choosing a modern government. Any really representative government would be elected with at least an element of proportionality. And a government needing support from more than one party leads to a greater chance of it representing majority opinion.

Philip Anderson
Boncath, Pembrokeshire

SIR – It currently looks as if the general election on May 6th could see the Conservatives gaining the highest number of votes, but fewer parliamentary seats than Labour. If this were to happen, and a hung parliament were the result, then I presume the first instinct of the Liberal Democrats would be to apply the principles of proportional representation and try to form a government with the Conservatives?
SIR – The depiction on your cover of the party leaders as devils was a delight. But my personal position on Gordon Brown vis-à-vis David Cameron is better the bully you know than the Bullingdon Club member you don’t.

Sarah Lafferty
London

It’s not rocket science, or maybe it is...

* SIR – Your article on America’s complex tax code (“The joy of tax”, April 10th) was timely, though it understated the problem. In addition to being complicated, the tax rules change annually and require taxpayers to compute the same thing in multiple ways.

I design spacecraft and rockets for a living, and used to assume I had the quantitative skills to do my own taxes. This year I calculated my taxes myself and then a second time with the aid of tax software. After comparing the results I was embarrassed to find I had made not one but two errors. In fact, I almost gave back last year’s stimulus tax-cut.

I humbly suggest that when a rocket scientist can’t correctly fill out his own tax form, it’s time to simplify the tax code.

Josh Hopkins
Littleton, Colorado

You are what you is

SIR – Your discussion of what makes a country was insightful (“In quite a state”, April 10th). However, this vexed question has already been laid to rest by Frank Zappa, an American musician and thinker, who mused that: “You can’t be a real country unless you have a beer and an airline—it helps if you have some kind of a football team, or some nuclear weapons, but at the very least you need a beer.” A count of states under the Zappa criteria would be interesting.

Mark Melford
London

SIR – Based on Zappa’s logic, Burundi ceased to be a state for a while because it didn’t have an airline, whereas Liechtenstein, with a football team and beer—albeit brewed in Switzerland—struggles to claim statehood by lacking an airport. A similar plight befalls its fellow micro nations, Andorra and San Marino, which can also be regarded as nobodies. But by virtue of Zappa’s maxim the Faroe Islands can claim statehood: it has a beer, a football team and an airline.

Rishi Raithatha
Groningen, the Netherlands

* Letter appears online only

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Transforming Britain’s schools

A classroom revolution
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From The Economist print edition

The Conservatives’ plans to change Britain’s deeply flawed education system may be the most interesting idea in this election

THE general election due in Britain on May 6th is not the one David Cameron was chosen to fight. The opposition Conservatives made him their leader in 2005 after a barnstorming speech delivered without notes to their annual conference. His pitch: that he could persuade the electorate to trust him with public services and offer tax cuts too, by “sharing the proceeds of growth”. It was a formula worthy of an earlier young, centrist, opposition politician: Tony Blair, who in 1997 led Labour to victory after 18 years of Conservative rule.

Now there is nothing to share: taxes will have to rise and public spending fall. But still Mr Cameron is reprising Mr Blair. In 1997 Mr Blair memorably said that his priorities were “education, education, education”. In the run-up to this election, education reform is the main, perhaps the only, broad and deeply thought-out proposal from his self-styled heir.

In 2007 Mr Cameron appointed Michael Gove, a close ally, to the schools brief. Soon after, the pair began expounding plans to import market reforms from, of all places, Sweden. This is not the only country where government-funded schools may be privately run: non-profit groups have been running state-funded schools in the Netherlands for the past nine decades, and more recently many American states have passed “charter” laws funding limited numbers of new independent schools. But social-democratic Sweden is a useful exemplar for a right-wing party which wants to reassure centrist voters that it has no plans to dismantle the welfare state.

And Sweden’s system is more sweeping than most. In 1991 a rare right-wing government passed a law allowing not only charities, religious organisations and groups of parents but also businesses to open schools and get as much state money per student as state-run ones. When the law was passed, private education was almost unknown in Sweden; since then more than a thousand of these “free schools” have opened, and 12.5% of 11-16-year-olds attend one. This is the sort of revolution the Tories are now proposing.

Turning schools around matters both for economic growth and for social justice. Britain is an unequal...
place, with income disparities higher than in most rich countries (see chart 1). It is a rich country where 4.8m adults and 1.9m children under 16—a sixth of all of children—live in workless households; where four in every 100 girls under 18 get pregnant each year; where even during steady economic growth a tenth of 16-18-year-olds were neither studying nor working. And a child’s chances are strongly shaped by the prosperity of the family into which he is born.

Schools are hardly the sole cause of these woes, yet British schools tend to make matters worse. Although the current Labour government has doubled spending on schools since coming to power in 1997, pupils are falling behind their counterparts in other rich countries. Their recent showing in the tests of 15-year-olds’ reading, mathematics and science skills carried out by the OECD, a rich-world think-tank, has been sobering. Between 2000 and 2006 Britain tumbled down the OECD’s rankings in all of them (see chart 2). Though the pricey private schools attended by a mere 7% of children are mostly outstanding, state schools are often mediocre. According to the OECD, their quality is more variable than in most other countries, too, and poor children are very likely to end up in the worst ones.

Stoking middle-class parents’ concerns is the simple fact that education matters even more for a child’s life-chances in Britain than in most other rich countries. Its universities form a steep hierarchy, with Oxbridge at the top, so national exam results really matter. And in such an unequal society, the financial
returns from education are very high (see chart 3).

Labour’s failure

When Mr Blair declared education his priority in 1997, his chief intention was to satisfy concerned middle-class parents. That meant offering them free of charge the choice and quality available in the private sector. Parents who chose private schools were seen as evidence of the state’s failure to offer something sufficiently good.

In order to drive up standards and inform parents’ choices, he turned to tools inherited from the Tories. They had beefed up the schools inspectorate and brought in a national curriculum and a series of tests that state-school children of various ages must take, publishing the results. Secondary schools were set targets for GCSEs, the exams taken by 16-year-olds. Those that failed to get enough, or that fell short in inspections, could be taken over or closed.

Where these education-assessment methods have led in primary schools was described in the Cambridge Primary Review, an independent inquiry that concluded last year. It found that since only reading, writing, mathematics and science are tested at the end of primary school, they squeeze out other subjects like history, geography and the arts. “We bought our house because it’s right next to a primary school inspectors say is outstanding,” says one parent. “But when we visited, we found out that in the final year children spend most of their time on test-drill.”

Meanwhile secondary schools switched pupils from harder subjects to easier ones in the chase for good exam results. The number in state schools studying the core subjects of history, geography, languages and the sciences to age 16 has fallen dramatically since 1997, with a rise in easier-to-pass subjects such as media studies and psychology. Teacher-assessed courses in subjects like sport or “travel and tourism” are given a spurious equality with traditional exams in government figures, and hardly anyone fails them.

Grade inflation has occurred across the board. Officially, 80% of children leave primary school now at the expected standard in reading and 79% in mathematics, up from 63% and 62% respectively in 1997. About 70% of 16-year-olds get five good GCSEs or the vocational equivalent, up from 46%. More 18-year-olds take A-levels, the university entrance exams, and they get far higher grades: 26.7% of all entries receive the highest grade, up from 16.3%.

The government takes these soaring results as evidence of ever-rising standards. Independent experts disagree. One group of academics in Durham, who test random samples of pupils leaving primary school each year, find only a modest rise in English and mathematics before 2000, and none since. Its analysis of GCSEs and A-levels is no more encouraging: the tests have become so much easier that a student of the
The lack of a solid official exam currency means that those who need to know what young people have learned must look elsewhere. Some of the best universities now use their own entrance exams to pick the most promising out of hordes of straight-A applicants. Private schools are increasingly abandoning GCSEs for the more demanding independent versions aimed at the international market, so that their pupils can stand out from the crowd.

As for the private-school customers whom Mr Blair wanted to win back, there are more now than in 1997, despite fees that have doubled in real terms, and the share of parents who say they would send their children private if they could afford it has risen to well over half. Private out-of-school tuition is more popular than ever, as those who can afford to do so pay to fix deficiencies in their children’s education.

**The Brown row-back**

Mr Blair never changed his mind about the importance of parental choice, but he never managed to persuade his party’s left wing either. As his majorities shrank, it became harder to push through such policies. By the time Gordon Brown took over as prime minister, the Labour Party had started to talk of middle-class pickiness not as evidence of a problem, but as the problem itself. Struggling to exercise choice within the state sector was now seen as unfair middle-class snaffling of a limited resource at the expense of the poor.

Last year the rhetoric hardened significantly when the official who oversees school admissions described some parental manoeuvrings as a “form of theft”. He was talking not only of lies, such as applying from a false address, but also of tricks such as renting close to a desired school and moving there temporarily around application time. Unpopular schools were fine, it now seemed, so long as middle-class children had to attend them too.

The central problem was that, though parents could exercise choice in theory, supply did not increase in response to demand. “Parent groups are encouraged to come forward to their local authority,” says the education department in its guidance on new schools, “where local provision is insufficient to meet their needs.” But only two “parent-promoted” schools have opened. (Two more are in the works.) Parents in Birkenshaw, a Yorkshire village, want a new secondary school to replace their middle school, which is slated for closure. Their request has been rejected on the grounds that it would “undermine” the (distant) schools their children would otherwise have to use.

**Swedish inspiration**

Labour’s manifesto still talks about parent power. In their version, parental ballots could be held and local-government officials would have to sack head teachers or hand schools over to be run by more successful ones, if that was what parents said they wanted. But it adds up to very little. Real parent-power is what the Tories are proposing, in their plan to let parents set up brand new state-funded schools. (Scotland, Wales and Northern Ireland all run their own schools, so the Tories’ writ would run only in England.)

Will it work? The evidence from other countries is broadly positive. Swedes in general approve of their new schools, and the parents who patronise them are satisfied too: nine in ten say they are happy with their children’s education, compared with under two-thirds of parents with children at state-run schools. Studies have found that they have better results, and also spur improvements in nearby state-run schools. The system as a whole responds better to parents’ wishes, too: if local authorities try to close a much-loved small rural school, parents simply apply to open their own one. When officials realise that the hoped-for efficiency savings will not materialise, they back down.

It is hard to draw general conclusions about America’s charter schools because laws differ so much from state to state, but Caroline Hoxby, an economist at Stanford University, has found a similar positive “competition effect”. And the Netherlands, where 70% of children attend independent state-funded schools, comes well above average in the OECD’s ranking.

Many worry that the Tories’ plans, for all their benefits for the middle-class, would offer little to the downtrodden. The Conservatives counter by saying that the new schools would have to abide by the old admissions rules, with no interviewing of applicants and no preference for able students. International evidence is reassuring. A study in Sweden in 2003 found no indication that low-earning parents were less
likely to pick free schools than richer ones. America’s charter-schools are mostly in deprived areas, and most of the pupils they teach are black and poor.

There is plenty of interest in setting up Swedish-style free schools in England, says Rachel Wolf of the New Schools Foundation. Miss Wolf, a former adviser to Mr Gove, set up the independent think-tank last year to campaign for greater freedom in state schooling. She has heard from around 450 groups, nearly half of them teachers keen to improve education in poor areas. Many of the best American charter schools are run by teachers who joined the profession via Teach for America, a programme that places ambitious graduates in tough urban schools. Teach First, the English version, seems likely to be an equally fruitful source of new-school entrepreneurs.

Kunskapsskolan, a Swedish for-profit company that runs more than 30 free schools, is also interested, even though the Tories would not allow schools to be run for profit. Indeed, it will soon be running some English schools no matter who wins the election: in September it will open two “academies”—semi-independent state schools created by Labour to replace failing schools, and overseen directly by central government. As a brand, English schooling is still very strong, says a spokeswoman for Kunskapsskolan. Running schools in England would help the company drum up business elsewhere.

The Tories hope that by taking the power of veto over new schools away from officials, they would end the zero-sum game in which a good school place for one child means one fewer for others. The biggest constraint will be the supply of teachers. Coaxing high-calibre graduates into the profession is always difficult in the country where the canard “Those who can, do; those who can’t, teach” was coined, and financial services, law firms and the like pay so much more. Graduates are now applying hand over fist to teacher-training courses, as other jobs are scarce, but the bonanza will not long outlast the recession.

The Conservatives also intend to tame grade inflation by giving control over exam-setting and -marking to universities, who have a natural interest in keeping results informative. And they say they would insist on having the results of different types of exams reported separately, so that less demanding qualifications do not drive out better ones.

Creative destruction

One piece of evidence from Sweden suggests both a challenge and an opportunity for the Tories, however. This was a study finding that, though free schools pushed up standards in neighbouring state-run ones, the competition effect faded over time. The researchers speculated that this was because few state schools closed when independent schools opened. In these straitened times in Britain, there is no money for new schools to be run alongside half-empty old ones. So schools could be in for a fruitful bout of creative destruction—and the Tories for a pitched battle with the teachers’ unions.

The result of the election is now looking too close to call. A series of televised debates that give Nick Clegg, the leader of Britain’s third party, the Liberal Democrats, equal billing with his Labour and Tory counterparts, seem to be providing a big boost to the Lib Dems. That makes Mr Clegg a possible kingmaker, and means that the Tories are hurriedly looking for ways to work with a party that often seems a more natural fit with Labour.

That means closer scrutiny of the Liberal Democrats’ plans than is usual. The party’s manifesto pledges do not suggest much common ground with the Tories on education—parent groups could “be involved” in setting up new schools, but the local authorities would still have the whip hand. And the Tories are “naive”, says the Lib Dems’ schools spokesman, David Laws, to think that parent power by itself would deliver improvement: schools must be accountable to a new regulator, and government must be able to
ensure that some new schools go where they are most needed—namely, where parents are least likely to agitate for something better.

On the other hand, Mr Laws is critical of Labour’s record of centralisation and grade inflation. And he makes some market-friendly noises: he is “keen” to see new providers of state education, “passionate” about choice and competition, and would like to see all schools have more freedom over such matters as curriculum and teachers’ pay, rather than just the new ones, as the Tories envisage.

Even if the Lib Dems could work with Mr Cameron, it is not clear that he would have either the nerve or the authority to face down angry teachers. Yet his party’s plans would tackle the biggest cause of Labour’s failure to improve state schools: the bureaucratic grip on the power to open new ones. The preferences of those on the receiving end could finally inform decisions about what to teach, and how. Just finding out what would make England’s disgruntled parents happy would be a big deal. Using the choices of motivated ones to drive up standards for all would be a very big deal indeed.
MIGHT the Republicans seize the Senate from the Democrats in November’s mid-term elections? It looks a tremendously long shot; at present the Democrats control 59 of the 100 seats, and even the most optimistic list of probable and possible pick-ups sees the Republicans adding at most only eight of the ten seats they would need for control. A 50-50 split would favour the Democrats, because in that case the vice-president, Joe Biden, would hold a casting vote.

But the Republicans are hoping to get most of the way there; and they are hoping, above all, to inflict a deep humiliation on the Democrats by toppling one of the chief architects of Barack Obama’s proud victory in reforming health care. Harry Reid, the leader of the Senate’s Democrats, makes up, along with Mr Obama himself and the speaker of the House, Nancy Pelosi, the three-headed leadership of the Democrats in Washington. And he faces the battle of his life as he seeks a fifth six-year Senate term.

All the opinion polls suggest that Mr Reid is in deep trouble in his home state of Nevada. Granted, the western desert state has not exactly been besieged by the pollsters. But Pollster.com, a leading psephological website, lists no fewer than 12 polls so far this year in which voters were asked to choose between Mr Reid and his most probable Republican challenger, Sue Lowden. (The Nevada primaries are not until June 8th, but most analysts reckon Mrs Lowden is a shoo-in, while Mr Reid is so far running unopposed.) Every one of them gave Mrs Lowden the edge, mostly by double digits. Realclearpolitics.com says its weighted average (which emphasises the most recent results) has Mrs Lowden up by 11 percentage points.

Of course, it is still early days. Mr Reid, most obviously, has not yet started to spend much of the gigantic war-chest he has assembled. This amounts already to over $9m, and David Damore, a political scientist at the University of Nevada, Las Vegas, reckons that by the time of the election Mr Reid will have been able to count on as much as $25m or so, thanks to his ability to raise money on a national scale.

Unlike Mrs Lowden, he will not have to spend any of it fending off a primary challenger from his own party. Mrs Lowden is up against Danny Tarkanian, a former basketball star who is getting a lot of backing from Nevada’s “tea-party” conservatives. Since there are only 2.6m people in Nevada, and they are
overwhelmingly concentrated in and around Las Vegas, Mr Reid’s $25m will go a long way.

Mrs Lowden, by contrast, needs to spend a lot of money that she does not have just getting herself known. She is not exactly a nonentity, having served as a state senator for the Clark County area (which includes the Las Vegas Strip, with most of the big casinos and hotels) in the 1990s. She was once a Miss America runner-up, and is now a fairly prominent businesswoman in the gaming world. But she obviously cannot compete with Mr Reid on name recognition.

Recognition, though, for what? The Republicans’ hopes rest on blaming Mr Reid for failing to help Nevada dig its way out of the mess it is in. Apart from Michigan, home to Detroit’s big three carmakers, no state has been so hard hit by the recession. Nevada’s unemployment rate is running at 13.4%, against a national average of 9.7%, and you only need to walk the length of the Las Vegas Strip to see why.

The giant steel skeletons of mothballed megahotels and luxury condominium towers blight one of the world’s most famous skylines, testimony to the transmutation of the most spectacular boom in the gambling city’s history into its most painful bust. The north end of the strip, where work on the Echelon and the Fontainebleau hotels has halted, feels especially desolate, and casts a pall of gloom around other nearby properties.

For a state whose prosperity has been built on construction and tourism, the downturn has been savage. Hotel-occupancy rates are running at just over 80%, which sounds good until you realise that in 2007, the last year before the recession started to hit, they averaged over 90%. And in 2007, the average room rate was around $130; now it is running at under $90, as hotels have slashed their rates to keep business moving. About the only bright spot comes from the gold industry; Nevada is one of the world’s largest producers, and gold has been trading at record highs. Unfortunately for the state’s finances, which involve a budget gap of close to $1 billion, state law exempts mines from almost any taxes.

Is it fair to blame Mr Reid for any of this? The unrestrained boom that led to the bust happened during the Bush years, of course; but Mr Reid does, oddly enough, stand guilty of having failed to bring much in the way of bacon home from Washington now that help is sorely needed. Nevada gets less money per inhabitant from the federal government than any state bar Utah. Robert Uithoven, who is advising Mrs Lowden, notes that it gets only about 65 cents back for every dollar it sends to Washington in the form of federal taxes. In part, this is because Nevada is a lean state, and does not like putting up the matching funds many federal programmes require.

Mr Obama is doing his bit to help. In February Mr Reid was able to boast that he had helped persuade the administration to stop a deeply unpopular proposed nuclear-waste storage facility at Yucca Mountain in southern Nevada before it has received even a single barrel of spent fuel. But when people are suffering, they tend to blame incumbents. And they don’t come much more incumbent than Mr Reid.
Arizona's immigration law

Hysterical nativism
Apr 22nd 2010 | LOS ANGELES
From The Economist print edition

A conservative border state is at risk of becoming a police state

RUSSELL PEARCE is the quintessential Arizona Republican. He wears stars-and-stripes shirts and has clips of John Wayne and Ronald Reagan on his website. He loves guns, his family, his Mormon faith, his country and the law, which he enforced for many years as deputy sheriff of Maricopa County. He jokes that being Republican, and thus not having a heart, saved his life when he got shot in the chest once. But his main passion is illegal immigrants, whom he calls “invaders”. He loathed them even before his son Sean, also a sheriff’s deputy, got shot by one. But now it is personal.

Mr Pearce, a state senator, has sponsored an Arizona law that, if enacted, would be the toughest in the country. It is so brazen it has caused outrage. This week it passed the last hurdles in the state legislature. As The Economist went to press, it was awaiting the signature of Arizona’s Republican governor, Jan Brewer.

Illegal immigration is a federal crime. Mr Pearce’s law, however, would also make it a state crime and would require the police, as opposed to federal agents, to make arrests and check the immigration status of individuals who look suspicious to them. Citizens who think their cops are not vigilant enough would be encouraged to sue their cities or counties, and no city or county may remain a “sanctuary” where this law is not enforced.

In Mr Pearce’s opinion his law merely “removes the handcuffs” from the police and sheriffs’ deputies so they can do their work. To a great many other people, however, it screams racial profiling. Arizona is an overwhelmingly white state, and virtually all illegal immigrants—perhaps about half a million in the state—are Hispanic. Whom else would cops suspect and arrest but the brown ones? Even American Latinos who happen to be out without their driving licence might be at risk.

“Illegal is not a race; it is a crime,” Mr Pearce likes to retort. And many Arizonans agree with him. Arizona has become the main crossing point for Mexicans, some of whom have brought Mexico’s drug violence with them. A few weeks ago a prominent white rancher near the border was killed, possibly by a smuggler or illegal immigrant. Republicans run Arizona and are now in a state of hysteria, competing with one another to deal most toughly with the threat. Even Arizona’s senior senator, John McCain, who once resisted demonising illegal immigrants but is now facing a challenge in the primaries for his seat, has come out in favour of Mr Pearce’s law.

Arizona’s Latinos, by contrast, have not mobilised politically. They make up 30% of the state’s population but only 12% of the electorate. And many are from families that have been American for generations, no longer speak Spanish and are ambivalent toward the new arrivals. They are thus very different from Latinos in Texas and California. During the 1990s attempts to turn back illegals at the border complied with voter initiatives against undocumented immigrants in California motivated Latinos there to become a political force which Republicans fear to cross. Arizona, however, may still be a generation behind.

Nonetheless, the Republicans are playing with fire. The entire country is now watching. Roger Mahony is archbishop of America’s largest, and very Hispanic, archdiocese, Los Angeles, and will soon be succeeded by a Latino. He calls Mr Pearce’s bill “the country’s most retrogressive, mean-spirited and useless anti-immigrant law” and wonders whether Arizonans are “now reverting to German Nazi and Russian Communist techniques”.

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The battle to save a vanishing American icon

APRIL 18th was a perfect Sunday on the Dull family farm in Thorntown, Indiana. Children played near a lilac tree. Teenagers, wearing their “Future Farmers of America” jackets, ate potato salad at picnic tables. The star of the afternoon, however, was a gleaming barn, painted red with white trim. Over the past few days volunteers had worked hard to restore it, and were celebrating.

Nothing typifies America’s pastoral ideal like a big old barn. More than 200 years after Thomas Jefferson exalted the yeoman farmer, barns remain symbols of hard work, community and reverence for the land. These days food packaging is adorned with barns. The cover of “The Real America”, by Glenn Beck of Fox News, shows that unique patriot beside an old barn. This does not mean that barns themselves are faring particularly well. Thorntown’s bucolic bliss was thanks to a corporate sponsor, Campbell Soup. But such efforts are not enough.

America’s old barns suited an old model of farming. Animals lived on the ground floor; the upper level stored hay and grain. But in the 20th century farms grew in size and fell in number, from 6.5m in 1920 to 2.2m in 2007. Grain farmers replaced working animals with combines and planters, which demanded different homes, usually wide metal sheds. Livestock farmers preferred long buildings, where animals could be easily packed in and fattened up.

Preservationists in Iowa reckon they are losing 1,000 barns each year. The 2007 agriculture census was the first to track old barns; the next one is not until 2012. But farm country is filled with bleak evidence. Barns lean wildly or collapse inwards, slouchy silhouettes beside neat rows of corn.

A few people are trying to save these relics. After the 1980s farm crisis, the National Trust for Historic Preservation formed “Barn Again!” to offer awards and advice on everything from tilting barns to preservation tax credits. A few states, such as Washington and Vermont, give out small grants; Iowa offers a 25% tax credit. But money is scarce. In 2002 Congress authorised grants for old barns, then never provided the cash.

The main task is to put old barns to new use. The Dulls’ barn is part of a Christmas-tree farm. Most
promising are sustainable farms, which can use barns for their small, diversified operations. For many farms, however, barns may go the way of the horse. The county with by far the most barns is Lancaster, Pennsylvania: Amish country.
No votes for you lot unless you ease up on those pesky gun controls

YOU see it printed on car licence-plates all over town: a grumpy little line saying “Taxation without Representation”. And it is true. The 600,000 or so residents of the nation’s capital do not have a voting representative in Congress. That is a right the constitution grants only to states; and the District of Columbia, for all its pomp and self-importance, is a mere federal district. The latest in a long history of attempts to end this anomaly seemed until recently to be galloping to success. But at the final fence this week it tripped over another bit of the constitution: the right to bear arms. Congress has in effect decided that if the people of Washington want to vote on Capitol Hill, they will have to allow more guns to be carried on their city’s streets.

After they had at last come so close, this week’s defeat was a bitter disappointment to Washingtonians. Early last year the Senate passed a bill to give DC a full voting representative in the House of Representatives (it already has one who is not allowed to vote, except in committees). The number of seats in the House would rise from 435 to 437, because the deal that smoothed the bill through also gives an extra seat to Utah, in the expectation that the western state would elect a Republican to balance the Democrat DC was likely to elect. Later the extra Utah seat would be reassigned on the basis of the new census.

Barack Obama threw the authority of the White House behind the proposal. On April 16th, which DC celebrates as Emancipation Day, the day Abraham Lincoln freed the city’s slaves, Mr Obama issued a statement urging the House to pass the matching legislation that would enable him to sign the measure into law. Shouldn’t Americans who pay taxes and serve in the armed forces be entitled to vote as well? Just four days later, however, Steny Hoyer, the House majority leader, was forced to concede that he could not after all muster the necessary support.

The bill faced many obstacles. Senator Orrin Hatch of Utah was unhappy with the way his state’s extra seat would be organised. Even if the bill were passed, its constitutionality would almost certainly have been challenged in the courts. But the fatal blow turned out to be the pressure brought to bear on both chambers of Congress by the mighty gun lobby, the National Rifle Association.

When the Senate passed its bill, it did so only after attaching an amendment requiring the district to ease its gun-control laws, which are strict by national standards. They include a ban on semi-automatic weapons and on carrying arms in public. Joe Lieberman, one of the Senate bill’s sponsors, called the amendment to repeal those rules “an unnatural appendage” to the voting-rights measure. But it became clear in recent days that the House bill would not attract enough votes unless it contained a similar amendment.

So: representation or gun control? The choice divided both congressmen and the city council. Eleanor Holmes Norton, DC’s (non-voting) representative in the House, had hoped to reach a compromise with the gun lobby. But the terms on offer were too tough. Washington was known once as America’s murder capital, and many attribute a sharp decline in homicides over recent decades to its stricter gun controls. DC for Democracy, one of the local groups that had campaigned hard for the bill, said that giving these up was too high a price to pay. Apart from striking down existing rules on weapons, the organisation complained, the amendment would “prohibit our democratically elected city council from ever again regulating gun ownership”. No need to change those car plates yet.
The sugar boom

Life is sweet

Apr 22nd 2010
From The Economist print edition

Record prices for the sticky stuff

MANOEVRING a tractor up and down rows of sugarcane on his 3,000-acre (1,200 hectare) farm in Louisiana’s Terrebonne Parish, Wallace Ellender, a fifth-generation farmer, shouts over the din that he is feeling an unfamiliar sense of optimism. With sugar prices at record highs recently, he anticipates sweet profits after two decades of hard times.

Louisiana is America’s second-largest sugarcane producer, pumping $1.7 billion into a region with a historically high poverty rate made worse by the devastation of Hurricane Katrina. Almost all Louisiana’s sugarcane farms are, like Mr Ellender’s, family-owned; in Florida, America’s top-producing sugar state, almost all of the sugar is in the hand of agribusiness.

Even so, the number of sugarcane farms in Louisiana has dwindled to 550 compared with 850 as recently as 2002, thanks to years of stubbornly low sugar prices and rising fuel and fertiliser costs. "It’s been killing us,” says Mr Ellender, who has seen many of his friends and neighbours lose their farms.

But the price per pound of American raw sugar has doubled in the past year and reached a peak of 40 cents per pound in February, retreating only slightly last month. The spike has prompted confectionery and sweet cereal manufacturers including Hershey, Kraft and General Mills to warn that they will have to raise prices and lay off workers if America does not ease import restrictions on foreign sugar—a move the Department of Agriculture (USDA) indicated earlier this month that it is considering. America’s powerful sugar lobby is vehemently opposed, and cites the security of the home-grown supply.

The cause of the price hike is, mostly, voracious consumption. According to the American Sugar Alliance, a trade group based in Washington, DC, the average American eats 44 pounds (20kg) of sugar per year, which means the population cumulatively eats 25% more than the country can produce from sugarcane and beets. Even with quotas, the alliance says, America is the second largest sugar importer in the world, after Russia.

Besides, the world’s collective tooth is getting sweeter. Increasing wealth in developing countries has raised demand for the nicer things in life, just as economic insecurity in developed countries means more people are reaching for the cookie jar for comfort. The USDA estimates that worldwide sugar consumption will increase by 1.5m tons this year.
And supply is tightening. Monsoons and bad weather last year damaged sugar crops in India and Mexico; and the largest sugar exporter, Brazil, now uses half the sugar it produces to make ethanol. All of which is good news for Mr Ellender. Sugar is an ingredient in 70% of manufactured food; so he knows he’s growing a crop that benefits from sticky demand.
The Supreme Court and discrimination

When rights clash
Apr 22nd 2010 | WASHINGTON, DC
From The Economist print edition

Can a Christian student group discriminate against unrepentant gays?

A GENERATION ago, gays felt the system was stacked against them. These days, at least on liberal university campuses, it is fundamentalist Christians who feel beleaguered. On April 19th the Supreme Court heard a case about a clash between the two groups. At issue is whether a public university’s rules barring discrimination against gays should trump the right of the faithful to practice their religion.

At the Hastings College of the Law, an arm of the University of California in San Francisco, a student group called the Christian Legal Society (CLS) wants to be led only by those who share its beliefs. These include the notion that sex outside of traditional marriage is immoral. Gays are allowed to join the group, as indeed are other “sinners”, but only if they repent.

Hastings decided that this violated its rule barring student groups from discriminating against anyone because of their sexual orientation, among other things. The college withdrew its recognition of the CLS. This means that the group no longer gets subsidies and easy access to campus meeting rooms. It is also unable to use the college e-mail system, to advertise its meetings on the main college bulletin board or to recruit at the welcoming fair for new students. The CLS sued, accusing the college of breaching its own policy forbidding discrimination on grounds of religion, not to mention the constitution’s guarantees of freedom of religion and of association.

It is a tricky case. The college insists that it has not trampled on anyone’s religious freedom. The Christian students are free to go and hold their meetings elsewhere. The Christian students retort that they have been singled out. Until recently, the college tolerated a Hispanic student group that had a rule excluding non-Hispanics.

The Christians say that anyone is welcome to attend their meetings, but that only those who share their core beliefs may vote or assume leadership positions. If they cannot insist on this, they say, there is nothing to stop their group from being taken over by people hostile to its principles. Other groups would also be vulnerable: the campus Republicans would have to admit Democrats, Jewish groups would have to admit neo-Nazis and so on. Presumably, a small student society devoted to the study of philosophy could...
be taken over by a larger group of students who wished to spend its resources on beer.

The stated purpose of the university’s non-discrimination rule is to promote a diversity of viewpoints. But “if the student organisations are not allowed to have a coherent set of beliefs, there can be no diversity among them,” complained Michael McConnell, a lawyer for CLS. He echoed what the late Justice William Brennan argued in 1984, that: “freedom of association ... plainly presupposes a freedom not to associate.”

At oral arguments, the Supreme Court appeared sharply divided. Justice Antonin Scalia, a reliable conservative, said it was “weird” to require a Republican club to admit Democrats, and “crazy” to insist that a Christian society “allow atheists not just to join, but to conduct Bible classes”. Justice Ruth Bader Ginsburg, a liberal, was inclined to give the college the benefit of the doubt. “It may be an ill-advised policy, but the school says: It’s our policy, it’s working fine, and all the hypotheticals about sabotage [and] takeover, they haven’t happened,” she said.

Justice Anthony Kennedy, who is often the Court’s swing voter, sounded as though he was swinging towards Ms Ginsburg’s position. “If the Christian Legal Society has these beliefs,” he said, “I am not so sure why people that don’t agree with them want to belong to them.”

Barack Obama has carefully kept his distance. He does not want to upset people with traditional religious views. But however the top court rules, the issue is likely to come up at the Senate confirmation hearings for Mr Obama’s next nominee to join it. One candidate on every pundit’s shortlist to replace him is Diane Wood, who once issued a stinging dissent when, in a similar case, an appeals court in Chicago ruled in favour of a local chapter of the same Christian group. “Even if [a university’s anti-discrimination] policy somehow infringes upon a First Amendment right of CLS or its members,” she argued, “that infringement may be justified if it is in furtherance of a compelling state interest,” such as promoting diversity. If Judge Wood is nominated, expect fireworks.
Immigration places America at the centre of a web of global networks. So why not make it easier?

IMMIGRANTS benefit America because they study and work hard. That is the standard argument in favour of immigration, and it is correct. Leaving your homeland is a big deal. By definition, it takes get-up-and-go to get up and go, which is why immigrants are abnormally entrepreneurial. But there is another, less obvious benefit of immigration. Because they maintain links with the places they came from, immigrants help America plug into a vast web of global networks.

Many people have observed how the networks of overseas Chinese and Indians benefit their respective motherlands. Diasporas speed the flow of information: an ethnic Chinese trader in Indonesia who spots a commercial opportunity will quickly alert his cousin who runs a factory in Guangdong. And ties of kin, clan or dialect ensure a high level of trust. This allows decisions to be made swiftly: multimillion-dollar deals can sometimes be sealed with a single phone call. America is linked to the world in a different way. It does not have much of a diaspora, since native-born Americans seldom emigrate permanently. But it has by far the world’s largest stock of immigrants, including significant numbers from just about every country on earth. Most assimilate quickly, but few sever all ties with their former homelands.

Consider Andres Ruzo, an entrepreneur who describes himself as “Peruvian by birth; Texan by choice”. He moved to America when he was 19. After studying engineering, he founded a telecoms firm near Dallas. It prospered, and before long he was looking to expand into Latin America. He needed a partner. He stumbled on one through a priest, who introduced him to another devout IT entrepreneur, Vladimir Vargas Esquivel, who was based in Costa Rica and looking to expand northward. It was a perfect fit. And because of the way they were introduced—by a priest they both respected—they felt they could trust each other. Their firm now operates in ten countries and generates tens of millions of dollars in annual sales. Mr Ruzo wants the firm, which is called ITS Infocom, to go global. So although he and Mr Vargas Esquivel natter to each other in Spanish, they insist that the firm’s official language must be English.

Trust matters. Modern technology allows instant, cheap communication. Yet although anyone can place a long-distance call, not everyone knows whom to call, or whom to trust. Ethnic networks can address this problem. For example, Sanjaya Kumar, an Indian doctor, arrived in America in 1992. He developed an
interest in software that helps to prevent medical errors. This is not a small problem. Perhaps 100,000 Americans die each year because of preventable medical mistakes, according to the Institute of Medicine. Dr Kumar needed cash and business advice to commercialise his ideas, so he turned to a network of ethnic Indian entrepreneurs called Tie. He met, and was backed by, an Indian-American venture capitalist, Vish Mishra. His firm, Quantros, now sells its services to 2,300 American hospitals. And it is starting to expand into India, having linked up with a software firm there which is run by an old school chum of one of Dr Kumar's Indian-American executives.

Ethnic networks have drawbacks. If they are a means of excluding outsiders, they can be stultifying. But they accelerate the flow of information. Nicaraguan-Americans put buyers in Miami in touch with sellers in Managua. Indian-American employees help American consulting firms scout for talent in Bangalore. The benefits are hard to measure, but William Kerr of the Harvard Business School has found some suggestive evidence. He looked at the names on patent records, reasoning that an inventor called Wang was probably of Chinese origin, while some called Martinez was probably Hispanic. He found that foreign researchers cite American-based researchers of their own ethnicity 30-50% more often than you would expect if ethnic ties made no difference. It is not just that a Chinese boffin in Beijing reads papers written by Chinese boffins in America. A Chinese boffin in America may alert his old classmate in Beijing to cool research being done at the lab across the road.

Network effects

In Silicon Valley more than half of Chinese and Indian immigrant scientists and engineers report sharing information about technology or business opportunities with people in their home countries, according to AnnaLee Saxenian of the University of California, Berkeley. Some Americans fret that China and India are using American know-how to out-compete America. But knowledge flows both ways. As people in emerging markets innovate—which they are already doing at a prodigious clip—America will find it ever more useful to have so many citizens who can tap into the latest brainwaves from Mumbai and Shanghai. Immigrants can also help their American employers do business in their homelands. Firms that employ many ethnic Chinese scientists, for example, are more likely to invest in China and more likely to do so through a wholly owned subsidiary, rather than seeking the crutch of a joint venture, finds Mr Kerr. In other words, local knowledge reduces the cost of doing business.

Immigration provides America with legions of unofficial ambassadors, deal-brokers, recruiters and boosters. Immigrants not only bring the best ideas from around the world to American shores; they are also a conduit for spreading American ideas and ideals back to their homelands, thus increasing their adoptive country’s soft power.

All of which makes the task of fixing America’s cumbersome immigration rules rather urgent. Alas, Barack Obama has done little to fulfil his campaign pledge to do so. With unemployment still at nearly 10%, few politicians are brave enough to be seen encouraging foreigners to compete for American jobs.
Energy in Brazil

Power and the Xingu

Apr 22nd 2010 | RIO DE JANEIRO
From The Economist print edition

A huge Amazon hydropower project shows how hard it is to balance the demands of the environment and of a growing and prospering country

PROTESTERS in paint and headdresses in Brasília, warring tribes of lawyers and a mountain of pig dung: yet another giant Brazilian public-works contract was up for grabs, and the lobbies were restless. After the courts struck down an avalanche of eleventh-hour injunctions, late on April 20th a consortium of contractors won the right to build Belo Monte, a huge hydroelectric power station to be raised on the Xingu river in the eastern Amazon basin.

The victors—led by Chesf, a state-owned hydropower generator, and several construction firms—celebrated quietly and quickly. Their discretion was understandable. Waiting outside the auction room at Brazil’s power regulator was an angry mob, kitted out in overalls and warpaint, and three tonnes of fresh manure, courtesy of a local pig farm. “Belo Monte de Merda” read the banner in the ripening heap.

But Brazil’s rapidly growing economy needs more energy, preferably renewable. The scale of the dam—it will be the world’s third-largest hydroelectric station after China’s Three Gorges and Brazil’s own Itaipu—is epic. So is the investment, of at least 19 billion reais (nearly $11 billion). But ever since the engineers in Brasilia rolled out the blueprints for damming the Xingu two decades ago, the project has attracted powerful opposition.

Environmental groups and river dwellers say Belo Monte will flood vast patches of rainforest while
“The forest is our butcher shop, the river is our market,” Indian leaders wrote in a newspaper. They were aided by greens from Europe and the United States, including the tribes of Hollywood. James Cameron, a film director, flew in to daub his face in red paint, hug an Indian and join the protest.

In his past as a labour leader, Luiz Inácio Lula da Silva, Brazil’s president since 2003, might have joined them. Now he has a legacy to mind. Belo Monte is the centrepiece of the government’s ambitious public-investment programme—the flagship initiative of Dilma Rousseff, his former chief of staff and would-be successor, who faces a tough fight in October’s presidential election against José Serra, the main opposition candidate. As president, Lula has shown little patience for tree-huggers (see article), never mind grandstanding gringos. “They don’t need to come here and give us advice,” he snapped.

Yet greens were not alone in their lack of enthusiasm for the project. Some of the country’s leading builders, such as Odebrecht and Camargo Corrêa, pulled out of the auction, convinced that the government-dictated power rates, capped at 83 reais ($47) per megawatt-hour, were too low to assure a fair return on their investment. (The winning consortium offered a slightly lower rate.) The government had to pledge billions of dollars in soft loans and tax breaks to lure bidders. Even so, two firms in the winning consortium immediately dropped out, apparently because they thought the tariff too low.

Not since a military government quartered the Amazon basin with roads, dams and settlements in the 1970s has Brazil seen such a row over the rainforest. Ironically, Belo Monte is a project shaped by the lessons of the past, drawn and redrawn to cull the power of the forests without razing them. That challenge—developing the wilds and having them too—is in many ways the riddle of modern Brazil. The rest of the developing world is watching closely to see whether it can be solved.

A generation ago similar protests over an earlier version of the same dam—known then as Kararao—forced officials to rethink their strategy. They came up with Belo Monte. It was not just a marketing ploy. Instead of building a great wall across the Xingu to create a massive reservoir, Belo Monte is designed as a run-of-river dam, a technique that harnesses the natural flow of the river to drive the turbines.

The new version will still flood a lot of forest: a reservoir of 516 square kilometres (200 square miles) will leave scores of villages awash and force thousands from their homes. But that is a third of the area that the original dam would have inundated. The consortium has committed to help relocate the displaced and patch up any damage to the environment.

But these environmental safeguards will also curb Belo Monte’s capacity to generate power, which will vary with the flow of the Xingu. When swollen by the rainy season, the river will cascade through the turbines, turning out up to 11,200 megawatts—adding 10% to Brazil’s existing generating capacity. But during the dry Amazon summer, when the Xingu shrinks, Belo Monte’s assured output will plunge to an average of 3,500-4,500 megawatts. Add in the likelihood that the rate cap leads to escalating subsidies, and no wonder that some Brazilians wonder whether an all-too familiar species has re-emerged in the Amazon: a white elephant.

But with the economy set to grow by up to 7% this year, and tens of millions of Brazilians consuming more after leaving poverty, investing in more power generation is essential. The protesters want smaller wind or solar plants. But without Belo Monte, Brazil would probably have to build nuclear power plants or invest in coal-fired thermal energy. And then the protests would no doubt be even bigger.
Another Silva

Apr 22nd 2010 | SÃO PAULO
From The Economist print edition

A celebrated environmentalist pitches for the presidency

OCCASIONALLY, a politician comes along who seems too principled to be thrown into an electoral dogfight in a giant democracy. Marina Silva, the candidate of the small Green Party in Brazil’s presidential election in October, is such a candidate. What she lacks in party machinery she is trying to make up with ethical force. Her immediate aim is to make it to the run-off ballot. This will not be easy: a recent poll gave her only 10% of the vote. But that is not bad given that many Brazilians, like voters elsewhere, do not count saving the planet as one of their priorities.

Ms Silva was born in Acre, in Amazonia. Her father, a migrant from the poor north-east, found work there as a rubber tapper. It was a hazardous place to grow up: of Ms Silva’s 11 brothers and sisters, only eight survived beyond infancy. Malaria, hepatitis and other forest diseases bequeathed health problems to the adult Ms Silva, including a collection of allergies to things from seafood to air-conditioning.

She worked as a maid to put herself through university in Acre (later she earned a postgraduate degree too). She campaigned with Chico Mendes, an environmental organiser from Acre who was murdered by a landowner in 1988. She was a founding member of the Workers’ Party, along with Luiz Inácio Lula da Silva, a trade unionist of similarly modest origins. When he became president in 2003 he made Ms Silva, who had entered politics as a state deputy and federal senator, his environment minister.

In government she lost arguments, some better-founded than others, over the introduction of genetically modified soya, the paving of the BR-163 road through the Amazon and nuclear power. She was accused of filling her ministry with greens (to which she pleads guilty) and fellow evangelical Protestants (a charge she rejects). In 2008 she resigned shortly after another minister was handed responsibility for reforming the law on land tenure in the Amazon. She refused to criticise Lula publicly.

Ms Silva’s main campaign theme is that Brazil has a moral responsibility to become a high-tech, low-carbon economy as an example to other developing countries. In a tacit critique of Lula’s fondness for a big state and for Fidel Castro, she also says that Brazil must lower its tax burden and not cuddle up to tyrants. Guilherme Leal, who owns Natura, a big cosmetics firm, and is one of Brazil’s richest men, is considering a request to be her running mate. She still has a lot of ground to make up. “My grandfather
told me that the animal with the shortest legs has to run the farthest,” she says, before rushing off to her next campaign appointment.
Mexico’s population

When the niños run out
Apr 22nd 2010 | MEXICO CITY
From The Economist print edition

A falling birth rate, and what it means

FENCES, soldiers, infra-red cameras: the United States goes to great lengths to hold back the teeming masses across its southern border (see article). But the masses are teeming less. Mexico’s birth rate, once among the world’s highest, is in free-fall. In the 1960s Mexican mothers had nearly seven children each (whereas women in India then had fewer than six). The average now is just over two—almost the same as in the United States. The UN reckons that from 2040 the birth rate in Mexico will be the lower of the two.

The fall follows a government u-turn nearly 40 years ago, when a contraception campaign replaced the previous nation-building policy. Today, four out of ten married Mexican women are sterilised, a radical measure that partly reflects the continuing lack of other contraception in some areas as well as strict laws against abortion everywhere but the capital. Broader changes, such as more women in education and work, and pricier housing, have pushed down the size of families even more. (Brazil, where the government has promoted contraception less forcefully, has experienced a similar baby bust.)

The slowdown provides both relief and trouble for the state. In the 1970s each school year was 4% bigger than the last. But Carlos Welti, a demographer at Mexico’s National Autonomous University (UNAM), points out that 2m new Mexicans are still minted each year—exactly the same number as during the 1970s. Some public services are more oversubscribed, not less: UNAM used to accept nearly all applicants but now turns away more than 90%. Mexico’s total population will not peak until 2043 (at 130m).

Nevertheless, Mexicans are rapidly ageing. This trend, which took a century in Europe, has happened in three decades, Mr Welti points out. In 1980 the average Mexican was 17 years old; he is now 28. At the moment, one in ten Mexicans is aged 60 or over; within three decades, the figure will be almost one in four. A health-care system geared towards women and children must be recalibrated to deal with geriatrics.

So too must social security. The poor who clean windscreens and sell pirate CDs in Mexico City include a growing number of elderly people. Only about one in five of the over-75s has a pension, and today’s smaller families will find it harder to care for elderly relatives. Two reforms are needed to defuse this social-security time-bomb, says Jorge Rodríguez of the UN’s Economic Commission for Latin America. More of Mexico’s enormous black market must be brought into the formal economy, so as to get more companies to contribute to employees’ pensions. And a fund must be built up to help those without a contributory scheme. Other analysts, such as Santiago Levy, a former Mexican official now at the Inter-American Development Bank, point out that a fund of that kind might undermine the incentives for firms and workers to go legal.

All this could have a profound impact on the United States, which in recent years has absorbed about half of each new Mexican generation. By 2050 there will be 20% fewer Mexicans in their 20s. Farming, construction and health care in the southern states, which rely on migrant labour (documented or otherwise), will have a smaller pool from which to recruit.

Or will they? Mexicans are healthier than they were. Those prepared to make the arduous crossing are now drawn from a wider age-range; once there, they may stay up to a decade longer before heading home for their final years.

In addition, Mexicans in the United States are more fertile than their counterparts back home. “Mexico has impregnated the United States,” says Joel Kotkin, an urban historian at Chapman University in Los Angeles, who points out that Mexican genes will proliferate north of the border even if immigration falls. Higher wages mean that it is easier to afford a decent family home in Houston than in Mexico City.

History teaches caution in assessing the link between demography and migration. The Mexican baby boom of the 1950s coincided with lowish emigration, whereas the exodus to the United States kicked off in the
1980s, just as Mexico’s birth rate was plummeting. Today’s falling fertility rate will curb the flow. But the main motors of migration will still be economic boom or bust—on both sides of the border.
EARLIER this month the railway link to Machu Picchu, the ruined Inca citadel that is Peru’s foremost tourist attraction, reopened after a two-month gap caused by floods that washed away stretches of the line in January. For the moment just 900 passengers a day—less than a third of the normal number—can be carried, and they are bused from Cusco, travelling only the last stretch by train. PeruRail, the operator, hopes to restore normal service next month. But repairing the line is not its only problem.

The railway involves a natural monopoly: the only other way of getting to the ruins is a four-day hike along the Inca Trail. When it privatised the line in 1999, the government of President Alberto Fujimori was eager to attract foreign investment. It granted a 30-year concession to PeruRail, which is managed and half-owned by Orient-Express Hotels, a Bermuda-based company.

PeruRail invested in new trains, but even so its monopoly has been highly lucrative. It carries 1.1m passengers a year and fares for the 110km (70 miles) journey from Cusco start at $96. Orient Express owns luxury hotels and trains around the world. It lost $69m last year, but made a profit of $12.8m from PeruRail and four hotels in Peru. One is a formerly state-owned hotel overlooking the ruins at Machu Picchu where rooms now start at $825 a night.

Three other companies would like to run train services on the line to Machu Picchu, but they have been thwarted by a string of lawsuits from PeruRail. One of the newcomers, Inca Rail, a Peruvian company, finally began offering services in November; another, Andean Railways, a Peruvian-American venture, plans to start soon.

They got a boost last month when a preliminary report from Indecopi, Peru’s competition watchdog, accused PeruRail and two related firms of a “predatory strategy” involving sham litigation to force rivals out of business, and recommended they be fined $10.8m. PeruRail says it will fight the recommendation, which it claims is without merit.
A final ruling from Indecopi’s antitrust tribunal will not come for another year. Since capacity at the ruins is limited, so is the scope for more services to Machu Picchu itself. But competition might well lower fares and bring more tourists to the valleys on either side.
Rebuilding Chile

Taxing times
Apr 22nd 2010 | SANTIAGO
From The Economist print edition

A balanced reconstruction plan

RIGHT-of-centre governments—especially one led by a wealthy businessman like Sebastián Piñera, Chile’s president since March 11th—would not normally be expected to raise taxes. But these are not normal times in Chile. During his election campaign, Mr Piñera promised selective tax cuts. But that was before central-southern Chile was badly hit by an earthquake on February 27th.

The $8.4 billion reconstruction plan unveiled by Mr Piñera on April 16th involves an extra $3 billion in taxes over the government’s four-year term, with the rest of the money to come from Chile’s sovereign wealth fund, bond issues and cuts in other public spending or asset sales. Private business, which suffered uninsured damage of some $6.7 billion, expected the tax rises but did not welcome them.

They include a temporary rise of 3% in corporate income tax. The mining industry, sited mainly in the north and little affected by the quake, was put on the spot by a proposed “voluntary” increase in royalties that it can only refuse at the expense of its public image.

Some of Mr Piñera’s supporters wanted more of the cash to come from Chile’s $11 billion offshore sovereign fund (built up from windfall copper revenues). But the president may want to show that he can be tough on business after being criticised for delays in complying with a campaign promise to divest his own business interests.

Despite the complaints, the plan looks balanced. The government will this year withdraw $400m from the sovereign fund (and $300m from a defence kitty) and issue a $1 billion bond—the first since 2004. With $8 billion expected to come in from abroad in insurance payments, heavier reliance on foreign financing would have risked making the currency even stronger, pricing Chile’s exports out of foreign markets. The peso has appreciated by 29% against the dollar since the end of October 2008.

The quake struck as the economy was recovering from recession, helped by fiscal stimulus. By the end of its term, the government plans to return to a balanced budget and to have replenished the sovereign fund. Mr Piñera’s team doesn’t want to be remembered just for rebuilding. He promised to raise growth to 6% a year, making Chile a developed country by 2018. “We don’t want to abdicate that promise,” says Cristián Larroulet, the president’s chief-of-staff. Fulfilling it will be tough.
If North Korea did deliberately destroy a South Korean warship, what next?

Clarification to this article

IT WAS a dignified address. Before wiping tears from his eyes with a folded handkerchief, President Lee Myung-bak (right) read out the names of 46 sailors who died last month when their ship, the Cheonan, exploded in South Korean waters. He carefully avoided pinning the blame on anyone, but on April 22nd, Yonhap, South Korea’s news agency, reported that the government’s military-intelligence agency, using intelligence gathered jointly with America, had concluded the regime in North Korea had deliberately attacked and destroyed the 1,200-tonne warship.

Even if tangible evidence of North Korean involvement emerges, the president’s caution on April 19th will nevertheless be understandable. Hot-blooded retaliation against a nuclear-armed despot would be fraught with danger for the peninsula, and for relations between America and China, the main backers of south and north respectively.

But ever since a preliminary investigation of the Cheonan’s salvaged stern concluded that the blast did not come from on board the vessel, suspicions have turned towards North Korea. This, analysts say, puts Mr Lee in the most delicate position of his two-year-old administration. If the suspicions prove correct, a tough response would be expected and perhaps unavoidable. The pressure on Mr Lee is all the greater because local elections are due on June 2nd, and they may serve as an unofficial referendum on his handling of the crisis.

So far, the regime in Pyongyang has only indirectly denied involvement. After three weeks of silence on the incident, it said on April 17th in a news report: “Failing to probe the cause of the sinking of the ship, the puppet military warmongers, right-wing conservative politicians and other traitors in South Korea are now foolishly seeking to link the sinking with the North at any cost.” A non-denial denial.

Signs of aggression continue. On April 21st South Korea said it had arrested two northern agents who, it
claimed, had been sent to assassinate a prominent defector to the south. And speculation abounds, fed by defectors and South Korean analysts, that the north may be preparing for a third nuclear test in defiance of United Nations Security Council resolutions.

The government in Seoul is publicly discussing its options, but these look limited. Yu Myung-hwan, the foreign minister, has said South Korea would take the matter to the UN Security Council for additional sanctions if there were hard evidence that North Korea was involved. But North Korea is already subject to stiff sanctions. Mr Yu also says stalled six-party talks on the north’s nuclear disarmament might be suspended for the time being. But he has flatly ruled out calls from conservative politicians in the south for nuclear weapons to counter the threat from the north.

The hawks are taking wing. On April 20th the Chosun Ilbo, the south’s biggest-selling daily, urged the government not to rule out military action. However, as an official notes, there is as yet little support in the south for warmongering, and the stockmarket has held firm. That suggests people believe the crisis will be defused, as happened after previous flare-ups on the UN-mandated Northern Limit Line, the disputed maritime border. Mr Lee, who hopes to show off South Korea’s economic prowess as host of the G20 summit this year, is a conservative more interested in economic strength than the military sort.

Some analysts commend him for his handling of the crisis so far. He has bought himself time by refusing to speculate publicly on the cause of the blast. Yet as commander-in-chief, he bears responsibility for the military shortcomings if, as some suspect, North Korea torpedoed the Cheonan from a semi-submersible vessel and got away with it.

If that is indeed what happened, many will wonder what lies behind North Korea’s aggression. Kim Jong Il, its despotic leader, is desperate for financial aid and his government had recently signalled that it was keen to return to the six-party talks. Of all recent South Korean presidents, Mr Lee has taken the hardest line against bailing out Mr Kim’s bankrupt regime unless it pledges to destroy its nuclear weapons first. The senseless murder—if that is what it was—of 46 young sailors under his command is hardly likely to soften his line.

Clarification: In an earlier version of this article we quoted Yu Myung-hwan as saying stalled six-party talks on the north’s nuclear disarmament might be suspended indefinitely. He said they might be suspended for the time being. The article was changed online on April 23rd.

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China’s leaders

Hu, Wen—what, where, why and how

Apr 22nd 2010 | BEIJING
From The Economist print edition

The political significance of praise from China’s prime minister for a semi-disgraced party leader

ON APRIL 15th the arcane and neglected art of reading China’s political tea leaves suddenly surged back into fashion. The Communist Party’s turgid broadsheet, the *People’s Daily*, published an article on the top of its second page by the prime minister, Wen Jiabao. Its glowing praise for Hu Yaobang, a politically incorrect former party chief whose death triggered the Tiananmen Square protests 21 years ago, struck a remarkably liberal note.

Hu’s death on April 15th 1989 prompted thousands of students to take to the streets in mourning. They bore aloft pictures of the late leader, who though still a member of the ruling Politburo when he died had been forced to resign as the party’s general secretary two years earlier for being too soft on dissent. Because Hu had not been fully purged, the party had no choice but to hold an elaborate funeral for him. This provided cover for the students, who soon switched their attention to demands for democratic reform.

Since the bloody suppression of the protests, Hu has been referred to sparingly by Chinese officials—and the liberalism with which he was associated has also been permitted only sparingly. Of late, it has been notably absent, as the party cracks down on human-rights activists, tightens controls on the internet and frets about unrest in Tibet and Xinjiang. Yet China’s leaders are preparing for a change of guard in 2012-13. Mr Wen will be stepping down. Could it be that, having established China as a global economic power, he and his colleagues are at last thinking of trying to make it politically more respectable?

Hu’s reputation has sometimes been used in arguments about the direction of the country. In an exception to the general rule that he has been neglected by his successors, a symposium was held in the Great Hall of the People in Beijing in November 2005 to mark the 90th anniversary of his birth. It was widely interpreted as an attempt by President Hu Jintao to boost his own public standing by allowing open tributes to his still-popular namesake. A speech by China’s then vice-president, Zeng Qinghong, lavished praise on Hu Yaobang’s career as one of the Communist state’s revolutionary founders, tactfully avoiding mention of his dethronement.
Since then the leadership has mostly ignored Hu Yaobang’s death. Last year’s 20th anniversary of the Tiananmen movement made officials especially nervous of anything that might revive memories of that period. Even though the milestone passed with little more than token attempts inside China to observe it, the authorities have yet to ease their grip. Last December a prominent dissident, Liu Xiaobo, was jailed for 11 years for “inciting subversion”.

This made the appearance of Mr Wen’s essay of more than 3,000 characters especially striking. Unlike Mr Zeng’s 2005 speech, Mr Wen’s article marked the first time since 1989 that a top leader has written about a personal connection with the former party chief. It recalls a trip he made with Hu in 1986 to a rural area of the poor southern province of Guizhou. “Every time I think back on this …cherished feelings stored in my heart for all these years swell up like a tide, and it takes a long time for me to calm down,” Mr Wen wrote.

A few other official newspapers also published reminiscences, this time apparently less restrained than in 2005, when the party’s propaganda bureau responded furiously to a liberal magazine’s articles related to the anniversary. Thousands of Chinese internet users have praised these latest pieces in online forums.

But hope that Hu’s partial rehabilitation might lead to a reassessment of the Tiananmen protests will certainly be dashed. Hu’s political views have been notable for their absence in the recent articles, suggesting that only his affable character is open for discussion. This is a safe topic for Mr Wen, who prides himself on the same man-of-the-people quality that his article praised in Hu. Mr Wen’s caring image has been on display again during his visit, on April 15th, to Qinghai Province on the Tibetan plateau, affected by an earthquake which killed more than 2,000 people.

Tea-leaf readers are divided over what, if any, further political message might have been intended. Few believe Mr Wen would have published such an article without consulting his colleagues. But there is a school of thought that Mr Wen, feeling that his own political career is drawing to an end, is trying to signal a yearning for political reforms which have not been pursued more vigorously. President Hu has kept silent on Hu Yaobang, but both he and Mr Wen owe earlier promotions to the late leader. In his article Mr Wen revealed that he had visited Hu Yaobang’s home every year since his death, a gesture that readers would interpret as showing considerable loyalty.

Bao Tong, who was a top aide to the late Zhao Ziyang, Mr Hu’s equally liberal successor, believes there could be an ultra-subtle message in the party’s re-embrace of Hu. Officials—he points out—like to encourage the idea that Zhao helped topple Hu (though Mr Bao says he did not). Far from being a sign of yearning for reform, support for Hu could indicate repudiation of Zhao, about whom reminiscences are still strongly discouraged. Zhao was thoroughly purged after Tiananmen and died under house arrest five years ago.

Mr Wen’s article, however, does hint at a recurrent political problem. It describes how Hu instructed Mr Wen to sneak out of an official guesthouse and visit a village under cover of darkness, to find out what peasants were really thinking. “Remember, do not inform the local government”, Hu was quoted as saying. A quarter of a century later, Chinese leaders remain almost as prone to deception by underlings.
China and the first world war

Strange meeting
Apr 22nd 2010 | YPRES, BELGIUM
From The Economist print edition

A corner of a foreign field that is forever China

FEW European visitors to Beijing visit its ancient astronomical observatory, perched on a grey stone tower amid smoggy snarls of traffic. Yet the instruments on the observatory’s roof offer a rare physical link to one of China’s least-known historical adventures: its ill-fated involvement in the first world war.

China sent 140,000 labourers to the mud and barbed wire of the Western Front. They dug trenches, toiled in docks and railway yards or worked in arms factories for the allies. After years of near-silence, the labourers’ part in the war is finally attracting attention, both in China and Europe. A first big exhibition will open on April 24th in Ypres, a Belgian town, and site of one of the war’s bloodiest battles.

The young Chinese republic—founded three years before the outbreak of war—gained little from its status as an ally. The 1919 Treaty of Versailles handed over control of Germany’s colonial possessions in China to Japan. One of China’s few tangible rewards was the return of the Qing-dynasty astronomical instruments, which had been taken by German troops from Beijing after the Boxer Uprising of 1900, and installed in a park in Potsdam. China’s humiliating at Versailles had dramatic effects back home, triggering student protests that morphed into a modernising movement which contributed to the growth of the Communist Party.

Nearly 100,000 Chinese labourers served near the front lines in Flanders, together with a few hundred Chinese students recruited as interpreters. Most were volunteers, poor farmers from coastal provinces attracted by high pay and contracts promising (falsely) that they would be kept away from the fighting. Neutrals until China declared war on Germany in 1917, they became part of a nominally civilian “Chinese Labour Corps”, but in fact endured military discipline under British officers.

The Chinese lived in camps behind the front lines but death found them anyway. Two thousand are buried in Belgium and northern France, killed in bombardments and air raids or by disease. Their gravestones, neatly incised with Chinese names, can still be seen in the immaculate war cemeteries that dot the Flemish landscape.

The story ended bitterly for survivors, too. The Chinese were blamed for many crimes in the lawless months after the Armistice. Hundreds died in the influenza that swept post-war Europe. The last were shipped home in 1920, kicked out by Belgium’s government.

A handful of decorated shell cases, finely engraved with dragons, flowers and inscriptions, are almost the only artefacts they left behind. One of several displayed at the “In Flanders Fields” museum in Ypres bears a lovingly carved poem. It is about homesickness.

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AT FIRST, the sight from the helicopter soaring above the Cuttaburra Channels, in outback New South Wales (NSW), seems hard to believe. After a decade of drought, said to be Australia’s worst in a century, the plains that were brown and parched just weeks ago are now smiling green. Waves of water from two magically timed floods, in northern NSW and southern Queensland, are slowly making their way south towards the Murray and Darling rivers, bringing the desert back to life with birds, frogs and plants that many outback folk had given up hope of ever seeing again. Australia’s biggest river system is shared by four states and feeds two-thirds of the country’s irrigated farmland. But with both rivers depleted from drought, climate change and the plundering of their waters, the floods are also watering a political dispute over how their bonanza should be managed: to save farmers’ livelihoods or the rivers themselves.

The politics begins with the Menindee Lakes, to which much of the flood water is flowing. Normally the lakes are jealously controlled by NSW for that state’s irrigators. But the floods have filled the lakes to a volume (140 billion gallons, or a bit more than Sydney Harbour) that allowed the Murray-Darling Basin Authority, a national body, to take over their management on April 10th. After a century’s competing squabbles between NSW, Queensland, Victoria and South Australia, cries for better ways to conserve the country’s water have never been louder. Ken Henry, the head of the Treasury, one of Australia’s most senior public servants, told an environmentalists’ jamboree recently: “Water management on this driest inhabited continent on earth has been a disgrace.”
The federal government in Canberra has told the authority to produce a plan next year for sustaining the entire river system, to which the four states must defer. Farmers along the Darling worry that irrigated agriculture will take second place in the plan to billabongs (oxbow lakes), wetlands and other environmental needs that have suffered for decades. Before the floods, the knotty rules governing farmers’ water rights had slashed by two-thirds the average volumes they were allowed to extract each year.

Diminishing water rights may be one reason why Clyde Agriculture, one of Australia’s biggest farming companies, is selling its 12 properties. Four are near Bourke, a Darling river town where Clyde (a subsidiary of the British-based Swire group) has been an economic mainstay for 20 years.

For the moment, the floods have allowed the Darling’s farmers to fill their reservoirs. Cotton, fruit and other thirsty crops, planted in an arid region where sheep and cattle once ruled, should produce bumper harvests next season. But David Harriss of the NSW Office of Water, a state-government body, can see the outback’s boom-bust cycle returning after the rivers fall again. “Water is like gold now,” he says. “We’re running out of the stuff.”
India’s criminal tribes

If they were crooks, wouldn’t they be richer?

 Apr 22nd 2010 | ASHTI, MAHARASHTRA
 From The Economist print edition

Millions of poor Indians are considered criminal by tradition. Most are nothing of the sort

INSIDE his hovel of branches and rags, a grizzled pauper called Badshah Kale keeps a precious object. It is a note, scrawled by a policeman and framed by Mr Kale, proclaiming that he “is not a thief”. For members of his Pardhi tribe, who are among some 60m Indians considered criminal by tradition, this is treasure.

Squatting beside Mr Kale, on a turd-strewn wasteland outside Ashti, a village in India’s western state of Maharashtra, Pardhi men and women describe what it is like to be branded criminal at birth. A woman says her husband is hauled in every week or two by the police, against whom the Pardhis have ring-fenced their wretched colony with thorny branches. He has thrice been tried for robbery but was never convicted. Sporting a bright pink turban, another Pardhi says six of his seven sons have been imprisoned numerous times. All, predictably enough, claim to be law-abiding—though, giggling, Mr Kale’s wife admits to hawking copper trinkets as gold. “Even if we try to live like normal people,” she says, “the [Hindu] upper-castes will never accept us.”

This stigma goes back over a century. Mostly itinerant—some blue-eyed Pardhis look like they might come from the far north-west—India’s “criminal tribes” have always lived on society’s edge. Yet their plight was made worse by a series of 19th-century changes, including rapid deforestation, which stopped them from
hunting, and the imposition of a tax on salt, which many had traded. No doubt this drove many to crime—which encouraged India’s British rulers to a harsh conclusion. Imbued with a bureaucratic aversion to nomadism and a Victorian relish for the Hindu caste system, they adjudged many Indian tribesmen, Pardhis included, to be preordained crooks. According to an 1880 report of the Bombay Presidency, an area dominated by the modern states of Maharashtra and Gujarat, members of a Pardhi sub-tribe are “always ragged and dirty, walking with a sneaking gait”.

To fix these vagabonds, the Raj introduced the 1871 Criminal Tribes Act, under which members of around 150 tribes were forced to register with the police, forbidden to move around freely and, in many cases, herded into barbed-wire camps. The law was scrapped soon after India won independence, and the criminal tribes were formally “de-notified” in 1952. Some have prospered: in Rajasthan, the Meenas dominate a preferential-treatment scheme to allocate government jobs to tribal people, which has let them become part of India’s elite civil services. Yet the fortunes of many de-notified tribes (DNTs) have scarcely improved.

The Pardhis, of whom there are more than 200,000 in Maharashtra, are especially wretched. They are mostly jobless and landless, and they are often informally barred from villages. Thousands live destitute in Mumbai, Maharashtra’s capital. In response, the state government has made two of the three local Pardhi sub-tribes eligible for positive-discrimination measures. Yet few Pardhis have the documentation or education needed to take advantage of this. Around 80% are illiterate, even if more than half of Pardhi children may now be in school. Among 60-odd Pardhis squatting outside Ashti, only one has a formal job, as a school janitor. He credits his success to passing himself off as a dalit, one of Hinduism’s former “untouchables”.

To examine the plight of India’s estimated 100m-odd DNTs and other nomadic people, the central government appointed a commission which reported back in 2008. Its recommendations, to which the government has not responded, included taking steps to extend positive-discrimination measures to those tribals—perhaps a fifth of the total—who lack them. It also urged state governments, which control policing in India, to scrap draconian laws used by the police to lock up repeat offenders. These are often used against DNT members, enforcing a cycle of poverty and discrimination that keeps many in crime. Pardhi poachers, for example, are one of the biggest threats to India’s dwindling population of tigers, which they have eradicated from several national parks.

According to Ashti’s police chief, S.S. Gaikawad, a quarter of local thefts are carried out by Pardhis. His deputy reckons half of Pardhi men are criminal. Mr Gaikawad attributes high rates of criminality to poverty, but believes culture also plays a part: “The more criminal cases against a Pardhi man, the higher his status, and therefore the better his marriage prospects are.” In a country where over a quarter of parliamentarians face criminal charges, this is not as surprising as it might seem. Yet Rajendra Kale, a Pardhi activist in the nearby town of Ahmednagar, says it is exaggerated. He reckons no more than 10% of Pardhi men break the law. To help his poor community, Mr Kale, who says he was twice wrongly imprisoned for theft as an eight-year-old, demands a reform that the government cannot easily provide: “Pardhis must be accepted into the village.”

This is happening, he says, but slowly. He points to some bloodied figures, a Pardhi man and two women,
waiting on the pavement nearby. The man, Faillu Bhosle, said they had been attacked by high-caste Marathas while they were cultivating common grazing-land. They had come to town seeking treatment for Mr Bhosle’s father, who lost an eye in the attack, and to report the incident to the police. The policemen of their own village, who have arrested Mr Bhosle four times, refused to record their complaint.
AFTER a riot on April 10th which left 23 Thais dead, a tense stand-off has ensued on the streets of Bangkok, paralysed for the past several weeks by red-shirted anti-government protesters. This week the red shirts, occupying Bangkok’s main shopping district, abandoned plans to move on the financial district when it learnt that the army had got there first and threatened to shoot them. The prime minister, Abhisit Vejjajiva, who has already met the protest leaders once, insists from the barracks in which he has taken refuge that he remains open to negotiation. The army chief, Anupong Paochinda, whom Mr Abhisit has just put in charge of national security, says he wants a political solution and plans no further crackdowns. In the land of smiles, Thais love to point out their peaceful nature.

Can further bloodshed be averted? Two factors suggest not. First, in Thailand violence is more embedded than most care to admit. Second, the establishment frontended by Mr Abhisit and backed by an ailing king and his courtiers misunderstands the red shirts whom they see as an unwashed rabble under the sway of Thaksin Shinawatra, an exiled former prime minister. In fact, the protesters are deadly serious about challenging the establishment’s self-appointed right to continue running the country.

The violence first. The shootings on April 10th, in which five soldiers and 18 protesters died, raised the spectre of previous military slaughters of innocents, which also happened in 1973, 1976 and 1992. True, the army has shown restraint this time. It first applied modern crowd-control techniques—water cannon, tear gas, rubber bullets. But the crowds refused to disperse. Worse, the army was caught after dark in civilian-filled streets, which smart commanders know to be a recipe for disaster. Soldiers fired into the crowds, in self-defence (they said) against armed “terrorists”. Then they fled for their lives, abandoning a column of armoured personnel carriers. Humiliated, junior officers want revenge.

Violence is not a military monopoly. Thailand can be a vicious place. Crime and vigilante justice are rampant, hitmen are cheap, militias abound and a Muslim insurgency rumbles on in the south. Under Mr Thaksin, extrajudicial squads killed thousands of suspected drug-pushers and other criminals.

From the start, the red shirts have had a thuggish element. Most reds are disciplined, conscious that a good image counts for much. But a minority has long carried sticks and knives and lobbed petrol bombs.
Then, on April 10th, mysterious “men in black” entered the fray, picking off army commanders with high-powered rifles. Some Thais blame an unknown “third hand” that wants to stir up trouble. Others claim the men are in Mr Thaksin’s pay. Or perhaps the hot-heads called for back-up against the army and got it. Yet in the red narrative soldiers are the bad guys for using live rounds on unarmed protesters. Now the movement has its martyrs, their faces plastered on posters and footage of their deaths passed around on DVDs.

Both army and protesters, then, have their grievances. And now, after months away, the yellow shirts are back. These are the pro-establishment People’s Alliance for Democracy (PAD) whose own minority of black-clad guards once used guns and explosives against the police and which stockpiled golf clubs as weapons—nicely reflecting the group’s milieu. On April 18th leaders of the PAD called for martial law and gave the government a week to end the protests or, they said, they would order their own people back on to the streets. All this amounts to one big reason to believe peace will have to wait.

The stubborn delusions of the political elite provide the second reason. In 2006 the elite ousted Mr Thaksin, who for all his flaws was popularly elected, in a military-backed coup. In 2008 it ousted a popularly elected government loyal to Mr Thaksin. The red-shirt movement was born out of these acts.

Mr Abhisit is typical of the elite in his frustration with the red shirts. How, he asks, can these people, drawn chiefly from the lower parts of society, allow a billionaire (of all people) to whip up class divisions? “Thaksin”, he says, “should not speak in a way that could create hatred between rich and poor. Society would be fine as long as people could do their jobs…”

Accept your station in life: Thailand’s prime minister, an old Etonian, is not the only one to admire that sentiment. King Bhumibol Adulyadej, now in his fumbling twilight, admires what he calls Thailand’s “sufficiency economy”. In essence, the village poor must take their place along with everyone else in a perfect hierarchy topped by the king’s benevolent patronage. The political corollary might be dubbed a “sufficiency democracy”: rule by a self-appointed aristocracy claiming to protect the monarchy while amassing wealth and privilege.

Bringing the ceremonial back

In a brilliant subversion of a word that these days has insulting connotations, red shirts now call themselves “prai”, literally, “commoner”, much as marginalised American blacks pushed back by co-opting the insult “nigger”. But Thailand no longer has the great, deferential, unwashed mass on whom the old political system rested. As one commentator puts it, a typical red-shirt villager probably has a secondary education, a pick-up truck and a healthy scepticism of Bangkok officials. Mr Thaksin’s policies of universal health care, microcredit and so on, contributed to the change. But the red-shirt movement, for all that it remains inchoate, has outgrown Mr Thaksin.

This has turned into a revolution of rising expectations. And the chief expectation, as Federico Ferrara, an expert on Thailand, puts it, is to put the aristocracy back into the more ceremonial role it once occupied. Alas, mere ceremony seems a long way away from the tense and bloodied streets of today’s Bangkok.

Economist.com/blogs/banyan
Yemen

A lonely master of a divided house
Apr 22nd 2010 | ADEN AND SANA'A
From The Economist print edition

Can Yemen’s president, Ali Abdullah Saleh, survive against such odds?

THERE is good reason to admire the craftiness of Yemen’s embattled president, Ali Abdullah Saleh. He has ruled northern Yemen since 1978 and its union with the once-independent south since 1990. Its 24m people are scattered over deserts and craggy mountains in 150,000 settlements. Its resources are limited, its tribes fiercely independent and well-armed, its plagues of poverty, illiteracy and malnutrition persistent. It is famously hard to govern. Yet even if the power of Mr Saleh’s state has seldom extended beyond Yemen’s main towns, roads and oilfields, it is remarkable that he has maintained even a semblance of control (see book review). These days, however, even the agile Mr Saleh is finding it increasingly hard to keep the peace and secure his grip.

Qat, the mildly euphoria-inducing leaf that most Yemeni men while away their afternoons chewing, is one powerful pacifier. But Mr Saleh has skilfully played off tribes, parties and religious factions against each other or bribed their leaders into acquiescence. To get foreign aid he has also milked Yemen’s perennial vulnerability, its tradition of outspoken pluralism if not real democracy, and its stunning landscapes. Meanwhile he has concentrated ever more power and wealth in the hands of his own extended family and clan.

Yet his magic has lately been wearing off. For the past six years he has sent his army on increasingly costly and bruising annual campaigns against a tribal rebellion in the north, displacing some 200,000 people. In February he agreed to yet another ceasefire but the conflict shows little sign of abating. The Houthis, as the rebels are known after the name of a leading clan in the remote and spectacularly rugged region, have survived the repeated assaults not just of Yemen’s own modern army but also, in the latest campaign, heavy bombardment by the Saudi air force’s Tornadoes and F-15 fighter aircraft. An anecdote explains why. In one night engagement, the Houthis are said to have tied torches to a dozen goats and herded them into range of a Yemeni army platoon. The soldiers opened fire, revealing their position. The few who survived the Houthi counter-attack are said to have deserted.

Yemenis tend to say that, compared with the Houthis, the danger from armed jihadist groups is exaggerated. These groups include a local branch of al-Qaeda, which has sought a haven in the country’s lawless hinterlands. Yet sporadic terror attacks on Western targets, as well as on Yemeni security forces,
have frightened off sorely needed foreign investment.

Mr Saleh has played a delicate game with the Islamist radicals. He sponsored the dispatch of mujahideen to Afghanistan in the 1980s and enlisted jihadist help in his own campaigns against southern separatists in the 1990s and allegedly also against the Houthis, many of whom practise Zaydi Islam, a Shia version that the Sunni jihadists abhor. But he has also co-operated, sometimes closely, with Western anti-terrorism efforts. If such collaboration brings useful foreign aid, it also risks a nationalist backlash that helps the jihadists.

A case in point was a series of raids in December by Yemeni special forces with American kit backed by American intelligence. At the time it was claimed the raids had killed dozens of al-Qaeda fighters. Later, embarrassed government officials admitted that 42 civilians had died, along with only two suspected fighters. Yemeni forces have continued to strike at jihadist cells, and foreign security aid still flows. The Pentagon recently announced that it is earmarking $34m for “tactical assistance” to Yemeni special forces as part of the $150m America has committed to Yemen this year, up from just $67m last year.

Yet Yemeni officials squirm with embarrassment when the Americans insist, for instance, on demanding the extradition of Abdul Majeed al-Zindani, a fiery populist cleric who heads a powerful Islamist political party as well as a college accused of spreading jihadist ideas. Worse yet, Barack Obama’s officials have said American forces may target Anwar al-Awlaki, an American-born Yemeni preacher accused of ties to several terrorist episodes, including the attempt by a Nigerian “underpants bomber” to blow up a civilian airliner over Detroit in December. Mr Awlaki is not well known in Yemen but he hails from a prominent family within the powerful Awlaki tribe. Its territory in the southern province of Shabwa straddles a vital oil pipeline.

Mr Saleh needs the goodwill of the Awlakis not only to secure his main if diminishing income from oil, but to dampen a burgeoning secessionist movement in the south. To many in Yemen, this is the country’s biggest security threat. The south, which was an independent state from 1967 (when Britain ended 128 years of rule over what it called the Aden Protectorate) to 1990, holds barely a fifth of Yemen’s people but two-thirds of its land and most of the oil and gas that provide the central government with three-quarters of its income.

Largely enthusiastic about unity with the north 20 years ago, southerners have grown ever more disillusioned. Many contrast the frugal egalitarianism under Marxist rule as a Soviet-aligned state with the corruption, unemployment, religious fanaticism and lawlessness they blame on northern domination. In recent years their grievances have grown more specific and pressing. Well-connected northerners are said to have seized the best lands and business opportunities, while southerners, including military officers, have been sidelined. Aden, the southern capital, once a busy trading port, is moribund. Promises of big investment have largely failed to materialise, as oil income has been siphoned to the national capital, Sana’a, and, it is said, into the pockets of Mr Saleh’s friends.

Demonstrations and riots, erupting sporadically across the south since 2007, have been crushed with growing brutality. Southern campaigners say the police killed some 148 civilians last year and have killed 36 so far this year. Government sources put the toll among civilians this year at eight, along with ten policemen. Yet that relatively modest death toll belies both the strength of southern feeling and its effect. Beyond Aden and the well-protected oil infrastructure, much of the south has become a danger zone for
northern security forces. Aden’s governor claims that 100% of people in his city favour unity. But on the street, three people in one day begged this correspondent not to quote them for fear of being killed by police, then whispered a bitter litany of complaints. “If I were to argue for federalism, I would be stoned to death,” says an intellectual. “People want full independence or nothing.”

Northern officials tend to dismiss such talk, insisting that economics, not politics, lies at the root of most of Yemen’s ills. Yet failure to contain the secessionist movement would wreck Mr Saleh’s biggest achievement. This may explain why he has put out feelers to exiled leaders of the former southern state. Some speak of a series of secret meetings in Arab capitals, aimed at seeking a deal whereby, in exchange for a degree of autonomy, southern leaders would back a change to the constitution which Mr Saleh purportedly seeks. Currently prohibited from re-election when his term expires in 2013, Mr Saleh would stay in power.

Would more aid save Saleh’s skin?

But there is no guarantee that such an idea would work, even if the southerners agreed. For the president faces yet another growing challenge. The patronage system he has built, which relies on buying off tribes and political opponents while maintaining a loyal caste of underemployed bureaucrats, policemen and army officers, is greased entirely by oil money. Yemen has never been a big producer. Output peaked in 2002 and may peter out in a decade. As an Arab sociologist puts it, in a tribal society you do not buy loyalty, you only rent it.

The value of Yemen’s currency has slid in recent months, speeding up inflation at a time when, according to UN reports, 8m Yemenis may be “food insecure” and 58% of children malnourished. Sana’a, a fast-growing city of 2m, now boasts fancy cafés, well-stocked supermarkets and traffic-packed streets. But a swelling army of beggars badgers drivers at crossroads. For the past two weeks, teachers at the main state university have been on strike for higher wages. The main trade union federation is threatening to join them. If Mr Saleh cannot soon bring a modicum of prosperity to his people, the spirit of revolt may seep into his own back yard.
Socotra

A still-enchanted island

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From The Economist print edition

Will Yemen’s magical island manage to stay aloof?

MAROONED in pirate-infested waters off the Horn of Africa but tied to unruly Yemen 400km (250 miles) away, the archipelago of Socotra has a forbidding look. Scorching summer winds strand ships. So fierce is the constant gale that it has whipped beachfuls of blinding white sand into dunes hundreds of metres high that ride up the cliffs. Even in winter it is blisteringly hot. Rats, the sole occupants of one rocky islet, are so ravenous that seasonal fishermen sleep in their skiffs, afraid to languish ashore.

Yet Socotra, whose main island is the size of Majorca or Long Island, is one of the world’s last enchanted places. The 50,000 native Socotris, speaking four dialects of a singsong ancient language unintelligible to other Yemenis, subsist on fish, goats and not much else. But they inhabit a wildly varied landscape of surreal beauty. The sea teems with giant lobsters, turtles and leaping dolphins. A unique breed of civet cat roams the limestone plateaus that are seamed with gorges carved by rushing streams, and spiked by finger-like granite towers rising to 1,500 metres. The cats are just one among 700 native species of plants and animals found nowhere else on earth.

Most astonishing are the trees. The dragon’s blood species, oozing red sap and looking like a cross between a steroidal mushroom and a monster broccoli, towers to 15 metres and lives for up to 500 years. The bottle tree, plump and leathery at its base, tapers to a sprout of twisting, hand-like little branches clutching bouquets of pink flowers. But even the ordinary here seems odd. Socotri cows, a breed recorded in Egyptian reliefs dating to 1,400bc, could be Friesians or Jerseys, except that they are barely waist-high.

Since Yemen’s government tarmacked an old British air force strip in 1999, jets land on Socotra, bringing a daily handful of tourists, environmental do-gooders and bales of qat. Paved roads now link the main towns. Even some of the troglodytic hamlets of the rocky interior sport satellite dishes. Time, which used to follow the 13-day months of an ancient Socotri calendar, is falling into rhythm with the rest of the planet. The Socotris, whose sultan was deposed by the Marxists of South Yemen and later found themselves ruled from even-more-distant Sana’a, feel aloof from Yemen’s troubles. Will their enchantment last?
A bribery case in Israel

A former leader under a shadow

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From The Economist print edition

A prominent Israeli politician, Ehud Olmert, is accused of dishonesty

THE distinctiveness of Israel's latest corruption scandal is that it almost literally hits you in the eye. Many Jerusalemites feel affronted each time they look up at the Holyland Project, a string of four high-rise buildings tearing through the skyline on the western hilltops edging the city. Five more towers are to rise up under plans inexplicably approved by the municipal and district authorities.

Inexplicably, that is, unless the wheels were illicitly oiled by the developers. A state's witness says bribes were indeed paid, to the tune of millions of shekels. He claims that the two mayors who preceded the present incumbent were both on the take: Uri Lupolianski (2003-08) and before him Ehud Olmert (1993-2003), who has also been accused of continuing to help the developers when he moved on to become minister of commerce. Both men fiercely deny any wrongdoing.

Mr Olmert later became prime minister (2006-09) until forced to stand down amid separate allegations of financial impropriety, for which he is now standing trial. But those proceedings have been suspended for a month while prosecution and defence grapple with the latest allegations.

Mr Lupolianski, an ultra-Orthodox leader honoured by the state for creating a now-huge philanthropic trust that lends medical equipment, was arrested on April 14th. Most of his alleged bribe money—a good 2m shekels ($537,000), according to the key witness—is said to have gone on medical equipment. If eventually charged, he may well contend that the cash was for donations to the charity, not bribes for himself. The police say the law makes no such distinction. Anyway, they say, some donations went to his political campaigns.

Politicians pocketing rich men's largesse has long been an area of law steeped in ambivalence in Israel, as in other democracies where lax election-financing rules shade into bribery. Many prominent public figures, among them the defence minister and Labour party leader, Ehud Barak, have fended off investigations by the police and the state comptroller arising out of profligate campaigning. A son of Ariel Sharon, prime minister in 2001-06, was sent to prison for seven months after taking sole blame for his father's flagrant overspending and other shenanigans in a party primary campaign in 2000. His rival in that race, who apparently played by the book (and lost), was Mr Olmert.

Not everyone is happy with the law-enforcement agencies' new zeal against politicians. Some say the public administration is being gummed up as officials defer decisions for fear of prompting malevolent and spurious investigations. Filing criminal complaints against a rival has become a standard political tactic. By the time the file is closed or the case thrown out, the damage is often irreversible.

But such reservations pale before the Holyland affair. "That's why I feel so wholeheartedly behind the justice of this case," says a veteran Jerusalem commentator. "It's real corruption, hurting ordinary people." That, however, is yet to be proven. "I have never taken a bribe and never been offered a bribe," Mr Olmert assured the nation before the Holyland Project's fixer fell out with his employers. He says he funnelled millions of dollars in bribes to elected officials and civil servants in order to expand the original plan for three modest hotels on the hillside into a massive nine-tower complex, which a judge has termed an architectural monstrosity. He meticulously recorded every transaction. But the accused may seek to weaken his evidence by arguing that he has a chip on his shoulder. The prosecution will need independent corroboration if it is to nail Mr Olmert.

If he were eventually to go to prison, he would be his cabinet's second member to do so. His finance minister, Avraham Hirschson, is serving five-and-a-half years for embezzling millions from the trade union he used to head. And another former minister, Shlomo Benizri, who belongs to a religious party, Shas, is serving four years behind bars—for taking bribes.
The Arabic language is dying. Its disloyal children are ditching their mother tongue for English and French. It is stagnating in classrooms, mosques and the dusty corridors of government. Even such leaders as the Lebanese prime minister, Saad Hariri, and Jordan’s foreign-educated King Abdullah struggle with its complicated grammar. Worse still, no one cares. Arabic no longer has any cachet. Among supposedly sophisticated Arabs, being bad at Arabic has become fashionable.

That, at least, is an opinion prominently aired in the National, an English-language newspaper in Abu Dhabi. It reflects a perennial worry in the Arab world about the state of the language. Classical Arabic, the language of the Koran, and its modern version, Modern Standard Arabic, known in academia as MSA, are a world apart from the dialects that people use every day. Spoken and written in the media and on stuffy occasions, this kind of Arabic is no one’s mother tongue. It is painfully acquired through hours of poring over grammar textbooks and memorising the Koran. Could it one day become obsolete?

Arabic certainly faces competition. Clive Holes, a professor of Arabic at Oxford University, concedes that learning formal Arabic tends to be undervalued by students in the Middle East, many of whom increasingly see it as divorced from success in the real world, especially in the international sphere, where English prevails. A lack of investment in education by Arab governments means it is often badly taught. In the Gulf countries Westerners and Asians, neither with much Arabic, far outnumber native speakers.

But that hardly means the language is dying. Arabic is the essence of Arab identity. Arabs are inordinately proud of their linguistic heritage. Handed down by Allah, many believe the Koran must be read only in the classical mode in which it was written. Even non-Arabic speaking Muslims force themselves to learn enough of it to read it. Stumble though they may, Arabs from different countries are enabled by MSA to communicate.

The popularity of a recent television programme beamed from Abu Dhabi in which people competed to see who could best recite traditional Bedouin poetry suggests there is plenty of appetite for Arabic in all its forms. In the absence of an authentic Arabic word, people may instead use an English word like “zip”, as the writer in the National laments. But such changes and borrowings are inevitable and may be quite healthy. Arabic will evolve from the prescriptions of the grammar book, taking in new words and discarding obsolete ones. But as Mr Holes points out, this is a sign of dynamism rather than demise.
A muddle over “indigenisation” looks set to slow down an economic recovery

FOR a moment it seemed as though a mortal threat to businesses in Zimbabwe had been lifted. Now the usual lack of clarity has been restored. Would-be foreign investors and local businessmen alike do not know what to do next, except to hold their breath.

Two months ago Zanu-PF, the party of Robert Mugabe, who marked 30 years in power on April 18th, unilaterally announced regulations to put into effect an “Indigenisation and Economic Empowerment Act”. The law, passed two years ago but not previously enforced, required all firms worth more than $500,000 to be majority-owned by “indigenous Zimbabweans”—and to show plans within six weeks for compliance within five years.

Under Mr Mugabe’s bluntly racist conception of nationality, white Zimbabweans are excluded, since the law defines “indigenous” as those “disadvantaged by unfair discrimination on the grounds of his or her race” before independence in 1980, plus their descendants. So any white Zimbabwean, let alone a foreign firm, is liable to be prevented from wholly owning any smallish enterprise or farm. Whites are barred altogether from some sectors, including bakeries and beauty parlours.

Among the foreign firms that would be hit are Barclays Bank and Standard Chartered, two British banks that are big in the region, as well as Nestlé, the Swiss-based food giant, and Impala Platinum Holdings (Implats), one of the world’s biggest producers of platinum, which is headquartered in South Africa but is one of Zimbabwe’s prime mining companies.

Just ahead of a deadline for companies to submit their plans for compliance, the Movement for Democratic Change, the former opposition party that is locked in an unhappy national unity government with Mr Mugabe’s lot, said that the cabinet had pronounced the regulations “null and void”. Rubbish, said Saviour Kasukuwere, a Zanu-PF man who is the minister in charge. He insisted that there would merely be further “consultation” before the law is put into action.

Even the delay gave foreign and local white business people a glimmer of hope that they could go on running their own shows. Zanu-PF would be loth to admit publicly that it was backing down over anything, least of all in the face of foreigners and whites. Mr Mugabe says that indigenisation “recognises our sovereign right of ownership”. Ultimately, he says, his law will prevail.

The next step is for a parliamentary committee to consider the regulations, so far without a deadline. But the MDC’s slim majority in the lower house, which it won in a general election two years ago despite rigging and intimidation, is steadily being whittled away by deaths, arrests and criminal convictions which mean that a growing number of the party’s MPs cannot vote in parliament. And even if the indigenisation rules were suspended or scrapped, that would be no guarantee of security. Earlier this month a South African-owned game ranch was invaded, even though a new bilateral investment-protection treaty between the two neighbouring countries’ governments had just come into force.

In any event, the indigenisation debate and Zanu-PF’s capriciousness hardly encourage foreigners—let alone white citizens—to invest. Despite Zimbabwe’s mineral riches, most big mining firms have stalled future plans. And the uncertainty is spiking the efforts of Tendai Biti, the MDC man who is the unity government’s finance minister, to secure the foreign cash the country sorely needs to recover from Mr Mugabe’s ruination of the economy.

Some say this is part of Zanu-PF’s plan to fight the next election, perhaps as early as next year, on its usual populist platform, blaming the West for all Zimbabwe’s ills. It is certainly wary of letting the MDC take the credit for a recovery.
The president has in effect stepped down, but almost no one knows how he is

IN RECENT months, Nigerian protesters have repeatedly taken to the streets with placards asking: “Umaru, where are you?” They say they want to see—actually see—Umaru Yar’Adua. The president of Africa’s most populous country has been completely out of sight of his 150m compatriots for the past five months.

Mr Yar’Adua abruptly left Nigeria in November for a clinic in Saudi Arabia. Since returning under cover of darkness in February, he has—as far as anyone can tell—been holed up in the presidential villa in Abuja, the capital. Some say an intensive care unit has been installed.

There was a flicker of life this month when Mr Yar’Adua hosted separate prayer sessions with small groups of Muslim clerics and Christian pastors, thus accommodating the country’s two main faiths. These religious leaders are among the few people to have seen the president in five months, apart from his immediate family. The sessions lasted only around ten minutes and were closed to the public.

Mr Yar’Adua’s wife, Turai, is said to head a clutch of gatekeepers and aides who keep the president off-limits. Those who wish to see him must apparently seek permission, often denied, from the first lady. Even Goodluck Jonathan, the acting president, has not seen or spoken at length to him since November.

The president was already ill when he took office in 2007. He has periodically sought treatment abroad for a chronic kidney condition, the details of which have never been disclosed. When he disappeared in November, his doctor said he was also suffering from pericarditis, an inflammation of the heart’s lining. But no updates have been issued. In this info-vacuum, rumours of the president’s weight loss and frailty abound.

Nigeria’s media have made scant progress in solving the mystery. One of the bolder newspapers reported
in January that Mr Yar’Adua was brain-damaged. But it cited only anonymous sources. In any case, Nigerian journalists say their readers are losing interest in an absent leader. Mr Jonathan has begun to replace him in the limelight. This month he appointed a new cabinet and met Barack Obama (whose latest blood-pressure readings are posted on the White House website). As speculation rises over Mr Jonathan’s decision whether to run in next year’s elections, those placards may soon read: “Umaru, who are you?”
Germany and Afghanistan

What is this thing called war?
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Slowly and painfully Germany’s leaders and voters are coming to terms with being at war in Afghanistan

GERMAN troops have been fighting in Afghanistan for eight years. But Germans have been slow to accept this. “Stabilisation deployment” was how the politicians described Germany’s role in the NATO-led International Security Assistance Force (ISAF), to which it is the third-largest contributor of troops. This was meant to convey the impression that the soldiers were helping Afghans build schools and dig wells rather than killing or being killed. Thus did ministers seek to reconcile Germany’s duties as an ally with its instinctive pacifism, born of the horrors of the second world war.

The euphemism now lies buried beneath the rubble of reality. On April 15th the Taliban killed four and wounded five German soldiers who were escorting two Afghan battalions south of Kunduz in northern Afghanistan, the main area of German operations. Three soldiers were killed on patrol two weeks earlier. In September a German commander called an airstrike near Kunduz that killed and wounded as many as 142 people, some of them civilians. This was the bloodiest action involving the German army since 1945. German war deaths now stand at 43.

In the wake of this bloodshed has come plainer speaking. Karl-Theodor zu Guttenberg, who became defence minister in October, alluded early on to Afghanistan’s “warlike conditions”. Now he frankly admits that Germany is at war. Chancellor Angela Merkel, who has kept her distance from its tragedies, appeared at a memorial service for fallen soldiers for the first time on April 9th. Federal prosecutors have now cast politicians’ hesitant talk of war in legal form. In siding with the Afghan government in a civil war, they ruled on April 19th, Germany is engaged in a “non-international armed conflict”. “Legally, the situation is now fully clarified,” says Claus Kress, a professor of international law at the University of Cologne.

The purpose of this new candour is twofold: to shore up support for an increasingly unpopular war and to give the armed forces a legal framework in which to prosecute it. Success on both counts matters to the entire ISAF operation. The Dutch have already said they will withdraw from Afghanistan this year. Canada plans to pull out most of its troops by 2011. The Taliban are clever enough to exploit Germany’s ambivalence by making its deployment more painful. The task for German leaders is to show that they are not the weakest link, but nevertheless to reassure voters that the pain will end soon.
Opposition to the war is rising. Some 62% of Germans want to pull out, the highest level recorded by Forsa, a pollster. But the resistance is politically passive and a cross-party consensus in favour is holding. In February the Bundestag extended the Afghanistan mandate by another 12 months and raised the number of troops that could be deployed by 850, to 5,350. The Social Democratic Party (SPD) led the government that took Germany into the war. Only the ex-communist Left Party is demanding an immediate pullout.

What happens this year and next will be decisive, says Rainer Arnold, an SPD member of the Bundestag. In the short run he expects more violence. The new ISAF tactics call for allied troops to accompany Afghan forces in joint operations, exposing them to attack. If the bloodshed continues to increase “support will fall so massively that it will be very difficult” to continue in Afghanistan, says Mr Arnold. If it ebbs, “society and my party will tolerate a few more years.”

Belatedly, the government has decided that it is wiser to defend the mission than to downplay it. On April 22nd Mrs Merkel appeared before the Bundestag to defend NATO’s plan to pacify the country alongside the Afghan army and police and then hand over responsibility for maintaining peace as quickly as possible. Mr zu Guttenberg, the cabinet’s most charismatic minister, has fashioned himself into a champion of his troops, many of whom feel they are undertrained, ill-equipped and badly led by generals schooled in fighting Soviet tanks. He has visited Afghanistan three times and ordered more equipment, including armoured vehicles and howitzers. The Americans may supply up to 70 sorely needed helicopters.

This stood Mr zu Guttenberg in good stead when he suffered the first big reversal of a dazzling career. On taking office he called the Kunduz airstrike militarily “appropriate” despite its horrific death toll. But he then reversed himself and sacked the top general and his ministry’s most senior civilian official for failing to inform him properly. They in turn have accused him of lying. Mr zu Guttenberg is expected to survive a parliamentary inquiry, thanks largely to his soldierly sheen and his popularity with voters.

Now the Kunduz airstrike has become the catalyst to help Germany redefine the Afghan operation in more warlike terms. As part of a “stabilisation” force, troops were expected to act more like policemen in camouflage, which “drastically limited” their scope for action, says Mr Kress. That may be one reason why the relatively tranquil north has become progressively more dangerous. Germany loosened its rules of engagement last summer. But the government waited until early this year to admit that the operation qualified as an “armed conflict,” which frees soldiers to operate still more forcefully in their own defence.

The federal prosecutors seem to have endorsed this shift by deciding not to charge the German commander who had ordered in the Kunduz airstrike with war crimes. He would have been guilty only if he had known that the number of civilian casualties would be disproportionate to the military gain, the prosecutors said. Out of bitter necessity, Germany is making its peace with war.
WHEN the French government decided to bring in new number plates, it all seemed simple. Under the old system, car-owners had to change their plates every time they moved from one département to another. Under the new rules, which came into effect last year, a licence plate belongs to the car even if the owner changes address. As a logical consequence, new plates would no longer display département numbers.

Yet this was to underestimate the fierce attachment of the French to their départements, first created after the 1789 revolution. Under the first version of the new plan, the département number was to have been an optional add-on. One argument, never quite made explicit, was that this would enable drivers to avoid stigmatisation. Those from certain rough banlieues, such as Seine-Saint-Denis, north of Paris (93), have always been treated with extra suspicion by the police. They could now choose to be less identifiable on the road.

The French were dismayed. One poll found that 71% disapproved of the numbers becoming optional. Some feared that it might be the beginning of the end of the administrative département. Families argued that it would ruin car games for children. Over 220 parliamentary deputies and senators joined a campaign, “never without my département”, demanding the numbers’ reinstatement. “It’s a matter of roots, of attachment to a land,” said Richard Mallié, a deputy from Bouches-du-Rhône (13), who led the campaign.

Eventually the government backed down and agreed to make département numbers compulsory again—but in tiny, almost illegible characters. The result is an overloaded ugly mess. Worse, the département number is now pure whimsy: car-owners can choose anywhere they want, not just where they live. And they can change without modifying their official registration.
A year after the new licence plates were introduced, who wants to parade their roots, and who to disguise them? The most popular choices seem to be the 69 of Rhône, around Lyon, and the 59 of the Nord, centred on Lille, a département mythologised in “Bienvenue chez les Ch’tis”, a warm-hearted 2008 box-office hit. And the least sought-after? Not the 93 of Seine-Saint-Denis, but the 75 of Paris and the 92 of Hauts-de-Seine, which includes the swanky suburb of Neuilly. Parisians, the car dealers say, turn out to be the ones who are keenest to hide their origins—perhaps to protect their cars from casual vandalism when motoring on holiday, prompted by their reputation for haughty arrogance.
Northern Cyprus

A Mediterranean quagmire

A nationalist Turkish-Cypriot leader will make it harder to sort out Cyprus

The prospects of Cyprus's reunification and of Turkey joining the European Union both took a blow this week. The cause was the election of Dervish Eroglu as president of Turkish-controlled north Cyprus on April 18th. Mr Eroglu, a nationalist hardliner who opposes the framework of the Cyprus settlement talks, took 50.4% of the vote. The incumbent, Mehmet Ali Talat, trailed with 42.8%.

Mr Eroglu says he will continue the UN-sponsored negotiations with Demetris Christofias, the Greek-Cypriot president. But unlike Mr Talat, who accepted the goal of a “bizonal, bicomunal federation”, Mr Eroglu talks of a confederation of independent states, which the Greek-Cypriots will not accept. Rumours fly that he may appoint a veteran Turkish-Cypriot leader, Rauf Denktash, as his negotiator. Mr Denktash, who has long dreamed of formal partition, fought hard for Mr Eroglu’s victory.

Cyprus has been divided since July 1974, when Turkey invaded after a Greek-backed coup that led to an abortive attempt at enosis (union with Greece). Since 1983 the self-proclaimed Turkish Republic of Northern Cyprus has run the north. It is recognised only by Turkey and relies on the protection of the Turkish army and on fat annual subsidies from Ankara.

Turkey cannot seriously hope to join the EU without a Cyprus deal. The (Greek-Cypriot) Republic, an EU member since 2004, has a veto. Eight of Turkey’s 35 negotiating chapters have been frozen since 2006 because of the government’s refusal to open its ports and airports to the Greek-Cypriots. Turkey will not give way until the EU honours its 2004 promise to end the isolation of northern Cyprus as a reward to Turkish-Cypriot voters for backing the UN’s Annan plan for reunification in April 2004 (Greek-Cypriots voted against it).

It was only a week after the Annan plan failed that Cyprus joined the EU as a divided island. The Greek-Cypriot government has since used its membership to veto any easing of restrictions on the north. The EU violated its own principles by rewarding the Greek-Cypriots with membership, Abdullah Gul, the Turkish president, complained recently. Thousands of settlers from mainland Turkey, many of whom would have to go home under a Cyprus settlement, voted for Mr Eroglu, whereas most Turkish-Cypriots favoured Mr Talat.
Turkey continues to push for a solution in Cyprus. “Ultimately, it is Ankara not Eroglu who calls the shots,” says Basaran Duzgun, a Turkish-Cypriot commentator. Recep Tayyip Erdogan, the Turkish prime minister, backed Mr Talat in the election. But his efforts were not enough to overcome voters’ disappointment with Mr Talat’s failure to secure a deal. Yet Mr Erdogan still wants a solution by the end of 2010. Turkey’s generals, usually keen on a presence on the island, have been silent.

Mr Eroglu’s hope is to maintain the status quo with the ultimate goal of independence, says Cengiz Aktar, a Turkish commentator. That would doom Turkey’s hopes of EU membership. Yet it is apparently backed by Turkey’s opposition parties. With a parliamentary election due in Turkey next year, the government is unlikely to risk nationalist ire by deserting Mr Eroglu. But Mr Erdogan may call for Greek intervention in Cyprus when he visits Athens on May 12th. He may float the idea of an international conference to bring to the table both Cypriot sides, the UN, Greece and Turkey. But a dispute between Turkey and Greece over the Aegean Sea will make this harder. Dogfights have broken out between Turkish and Greek pilots.

Anyway, some powerful European interests are in no hurry to see a deal. France and Germany, who insist that Turkey should have a privileged partnership but not full EU membership, are only too happy to hide behind Cyprus’s objections.
The importance of not being Greece

FORGET slogans about golden beaches or vinho verde. What the Portuguese government wants the world to know is simpler: Portugal is not Greece. Far from having the next sovereign-debt crisis, as predicted by several economists, politicians are painting Portugal as a well-behaved member of the euro, in no way comparable to wayward, mendacious Greece.

Portugal is doing better than Greece in its budget deficit (9.4% of GDP in 2009, compared with 12.7%) and public debt (85% of GDP this year, against 124% in Greece). Unlike Greece, its public accounts are credible and it has a record of taking tough fiscal measures when necessary—between 2005 and 2007, it cut its budget deficit in half, from 6.1% of GDP to 2.6%. A four-year austerity programme to chop the budget deficit again, this time to 2.8% of GDP in 2013, has been adopted.

Again unlike Greece, the centre-left government of José Sócrates is a pioneer of reform. It has linked pensions to changes in life expectancy and introduced incentives for later retirement. According to the European Commission, age-related public spending will rise by only 2.9% of GDP in Portugal over the next 50 years, compared with a euro-area average of 5.1% and a startling 16% in Greece. Despite some public-sector protests, opposition to spending cuts is less noisy than in Greece.

So why are markets fretting over Lisbon’s debt burden (yields on two-year bonds have risen to 4.8%)? And why have such figures as Simon Johnson, a former IMF chief economist, and Nouriel Roubini, a New York economics professor once labelled Dr Doom, said that a Greek-style crisis could infect Portugal?

One answer is that Portugal’s biggest problem is not primarily fiscal. It concerns growth—or the lack of it. Real GDP growth over the decade since Portugal joined the euro has been the slowest in the zone, despite a boom in Spain, its main trading partner. The country avoided a property bubble of the kind that burst so disastrously in Spain and Ireland. Though it doesn’t help much, Portugal’s already slow growth also made it less vulnerable to the global recession. “Spain was the wild tiger of Europe and had much further to fall when the recession came,” says João Talone, a private-equity manager. “Portuguese companies were already used to extracting value in a difficult climate.”

Low growth reflects a disastrous loss of competitiveness since the country joined the euro. Portugal has lost export-market share to emerging economies (including those of eastern Europe) that churn out similar low-value products. This is largely due to a steady rise in unit labour costs, as wage increases
outstripped productivity growth (see chart). One consequence is that the Portuguese, once exemplary savers, have been borrowing heavily abroad. Household debt is now the equivalent of almost 100% of GDP and the debt of non-financial companies is nearly 140%.

Mr Sócrates sees himself as the modern face of a country in transition from low-cost manufacturing to knowledge-based industries. In five years, he claims, Portugal has become a European leader in renewable energy. It has also cut civil-service jobs from 747,000 to 675,000. It sends some 35% of its young people to university. It is investing over 1.5% of GDP in research, much more than Spain. At the same time, however, Portugal is losing some of its EU structural funds to the club’s newer, poorer members from eastern Europe.

A slow-moving bureaucracy, inefficient courts, poor schools and state-supported pockets of the economy protected from competition combine to hold Portugal back. Businessmen moan about rigid labour laws, which there is little political will to reform. Portugal has one of Europe’s toughest employee-protection regimes.

In short, Portugal is indeed different from Greece. But if the markets decided to put this to the test, chronic low growth, a drastic loss of competitiveness and high public and private indebtedness are all weaknesses which could swiftly undermine the protection that being different is meant to bring.
HANDCUFFED to his prison guard, Mikhail Khodorkovsky, once boss of the Russian oil giant Yukos, is greeted with spontaneous applause as he is escorted into a bulletproof glass cage with his former business partner, Platon Lebedev. Since the second trial of the two men began a year ago, writers, actors, politicians, diplomats and journalists have all flocked to the small courtroom. Now that Mr Khodorkovsky has begun to give evidence, the benches there have become the hottest seats in town.

To mark the occasion, two exhibitions have been staged in Moscow. The latest, a surreal show of comic pictures, was mounted in a derelict factory with a façade resembling the wall of a prison (see article). Yet no art form can compare with the absurdity of reality. Mr Khodorkovsky, already serving an eight-year sentence for underpaying tax on Yukos’s profits, is now charged with stealing the oil produced by his company. The new case violates the principle of double jeopardy and also contradicts the first one. Had Mr Khodorkovsky stolen all the oil, how could Yukos have recorded a big profit and underpaid tax? The lack of an injured party and of evidence that the oil ever went missing makes the second trial Kafkaesque.

The explanation may be simple, however. Mr Khodorkovsky’s sentence runs out next year. Those who put him in jail cannot afford to let him out, partly for political reasons and partly because they are worried that the property which they expropriated from Yukos is now the subject of international litigation. To keep Mr Khodorkovsky in jail, the old charges have been repackaged into a new case that could keep him locked up for as long as another 22 years.

The political motives of the new case also explain its legal inadequacy. The prosecutors have thrown every possible charge at Mr Khodorkovsky with little in the way of evidence. Instead, they caricature the entire Yukos operation as illegal. The indictment is vague, woolly and incoherent. But this has made Mr Khodorkovsky’s defence stronger. His detailed, page-by-page analysis of the indictment (which can be read here) demonstrates the legal nihilism of the prosecution. Kirill Rogov, a political observer, has argued
that this is now a courtroom where the prosecutors, not Mr Khodorkovsky, are on trial.

He speaks with the authority of a chief executive of what was once Russia’s largest oil company. He explains how Yukos and Russia’s oil industry functioned, but he goes beyond business matters. What he is defending is not his long-lost business, but his human rights. The transformation of Mr Khodorkovsky from a ruthless oligarch, operating in a virtually lawless climate, into a political prisoner and freedom fighter is one of the more intriguing tales in post-communist Russia.

Good and bad oligarchs

The legacy of Mr Khodorkovsky’s oligarchic past is still evident in the ambivalent attitude revealed by opinion polls. Few Russians believe that their courts are objective or that the destruction of Yukos has benefited anyone other than a small group of Kremlin cronies. But only a quarter would like to see Mr Khodorkovsky set free. Even so, the respect he now commands among Russia’s intellectual and business elite is a tribute both to the strength of his personal convictions and to the progress he has made since being arrested at gunpoint on a Siberian airport runway seven years ago.

His arrest and imprisonment were expected and could have been avoided. After Vladimir Putin came to power as Russia’s president in 2000, the choices offered to Russia’s oligarchs were clear: either submit to the Kremlin and join the ranks of its loyal friends; or surrender your wealth and leave the country. Unlike other oligarchs, Mr Khodorkovsky would not choose. He decided to stay in Russia and defend his rights to property, dignity and independence. His personal ambition was no longer satisfied by making money and building Russia’s most successful oil company. He said he wanted a normal country too: one in which wealth and independence need not be mutually exclusive.

To this end, he fully disclosed his financial interests. He openly financed different political parties, including some strongly opposed to the Kremlin. He defended the independent media. And he channelled his wealth into building a civil society in Russia. It was these actions, says Lyudmila Alexeyeva, a veteran human-rights activist, that landed Mr Khodorkovsky in jail.

Having chosen this path, Mr Khodorkovsky has engaged in activities traditional for Russian dissidents and political prisoners. He has written political articles, exchanged letters with Russian thinkers and writers, and commented on every significant event in the country. “He has not wasted those years in prison: he has read and thought a great deal,” comments Ms Alexeyeva. One of his exchanges cost him 12 days in solitary confinement, but more recently, his articles have been widely published without any immediate repercussions.

Some of his statements have stirred controversy—notably when he lambasted Russian liberals for their servility and when he argued for a greater role for the state in the economy (which he contrasted with the Kremlin’s use of state functions in narrow commercial interests). But his right to speak his mind was beyond dispute.

The person who is most irritated by Mr Khodorkovsky’s enhanced status is Mr Putin. In a recent interview he went out of his way to compare Mr Khodorkovsky to Al Capone and implicate him in a murder in the 1990s of which he has never been formally accused. Mr Putin’s crossness is understandable. Mr Khodorkovsky’s arrest and trial became a defining moment of his presidency.

In this narrow sense, indeed, the imprisoned Mr Khodorkovsky might be compared to the exiled Andrei Sakharov in the 1980s. Both Mr Khodorkovsky and Sakharov, an eminent nuclear physicist, chose a thorny path. And both of these one-time political prisoners then, in effect, took their persecutors and jailers hostage. Just as Mikhail Gorbachev’s talk of perestroika, opening up and new thinking, rang hollow until the moment when he allowed Sakharov to come home, so any talk by the Kremlin of the rule of law or about modernisation will be puffery so long as Mr Khodorkovsky remains in jail.
A new round of farm reform may produce less spending but more interference in markets

THE European Commission has just kicked off a new debate on the reform of the common agricultural policy, or CAP—a mere 40 years or so after the first such debate began. During 2011 this will be subsumed into a bigger argument about the European Union’s next five-year budget. With money tight, even the loudest advocates of farm subsidies are changing their arguments. To simplify, money (a visible cost) may come to matter less than wheezes to regulate markets (which impose a hidden cost).

As always, France is the self-appointed leader of the pro-CAP camp. It remains the biggest single beneficiary, scooping up about a sixth of the EU farm budget of €57 billion this year. President Nicolas Sarkozy has seen his support among farmers plunge: he will want to win it back before the next presidential election in 2012. Even so, when he addressed farmers in March, Mr Sarkozy sketched out a new grand bargain. France, he said, should be “flexible” over subsidies, but “unbending” in its demands for more regulation of market prices and for “community preference” (ie, favouring EU produce over imports).

That might sound like give and take. In fact, Mr Sarkozy is offering to give up something that once suited France for something that now suits France more. The CAP reform comes as the taps on farm money for eastern Europe open (new members had only partial payments in their early years). In 2013 France will become a net contributor to the CAP—and, coincidentally, be more open to budget rigour. And a switch from taxpayers’ cash aid to price support via “community preference” is a step back from reform.

Something has to give, even so. EU leaders have agreed that the overall budget should focus more on competitiveness. There is talk of money for non-CAP things like research, innovation and “green” industries. Rich countries that bankroll the EU, including Germany, Britain and France, say that the next overall budget must remain no bigger than now: about 1% of overall EU national income. So the CAP is likely to get smaller, at least proportionally (agriculture now accounts for some 40% of EU spending, down from two-thirds 20 years ago).

Yet this smaller CAP budget will also be under greater pressure. Even with payments at full flow, there are huge inequalities between new and old members. That must change, says the new agriculture
commissioner, Dacian Ciolos, a Romanian. The CAP must be “fair and transparent” if all Europeans are to support it. Mr Ciolos talks of the need to compensate farmers for “public goods” such as landscape management and animal welfare. Voters need to understand that farmers cannot live by selling their produce alone. He talks lyrically of hill farmers on high mountain pastures, whose grazing herds prevent avalanches and provide jobs in remote villages.

Bruno Le Maire, the French farm minister, advances a bolder argument. “The legitimacy of CAP funding is derived exclusively from the environmental and food-safety demands we make of our producers,” he declares. Yet in the next breath, he talks of the “strategic” goal of securing the “total food independence” of Europe. The Chinese are buying up millions of hectares of Africa to grow food, he notes. But is it coherent to scaremonger about food security in Europe and yet to call for less intensive (and thus less productive) agriculture? Europe has made an “idealistic” choice, Mr Le Maire says cheerfully, and an “expensive” choice: to produce more food and pay attention to the environment.

Such rhetorical leaps and pirouettes conceal something more pragmatic: a drive by CAP supporters to find mechanisms that do not involve big subsidies but still stabilise the incomes of farmers. Paolo De Castro, chairman of the European Parliament’s agriculture committee, says no country wants a bigger EU budget, so CAP reform “is not a question of more money, it means more regulation.” The EU needs “better market instruments”. Mr Le Maire is frank that French farmers long for a return to price controls, production quotas and other tools of state planning. Those old ways are gone, he says. Instead he paints a corporatist vision of managed markets, in which “producer organisations” fix maximum and minimum market prices (this would mean changing EU competition rules). Alongside EU-subsidised insurance for farmers, there could be new “adjustment funds” to smooth variations in farm revenues, with governments and farmers putting aside money when things are going well, for release in leaner times.

**Revealed preference**

Mr Le Maire fudges just what he means by “community preference”. It could mean a tax on imports that do not meet EU standards, he says. Or it could mean more precise labelling (to encourage consumers to buy local produce and shun imports), or distribution networks to favour local sales. In Brussels Mr Ciolos is seen as something of an honorary Frenchman: he studied in France, speaks the language fluently and his appointment was called a “victory for France” by Mr Sarkozy. But he is cautious on “community preference”. Better to play to Europe’s strengths, says Mr Ciolos: local production and quality. His big idea is CAP mechanisms that help small farmers sell directly to local shoppers, bypassing big supermarket chains.

Others will have a say in this debate, of course. Franco-German agreement is needed before Paris can get its way on the future CAP. The Germans like the idea of the EU compensating farmers for higher Euro-standards, but are wary of market-meddling (and not sure who would pay). CAP reformers used to dream of simply slashing the farm budget. But they also favoured direct cash support for farmers because it is visible and so stirs up political debate. By contrast, price regulation and obscure trade barriers are harder to spot and more burdensome to the poor. Free markets and consumers will be the losers.
NICHOLAS WILLIAM PETER CLEGG is an unlikely rebel. The journey that led him three years ago to the leadership of the Liberal Democrats, a party now threatening to outgrow its status as the distant third force in British politics, took in elite private schools and a decade in Brussels, the ultimate insider’s capital. He and his wife, a Spanish lawyer, are exemplars of a certain kind of multilingual, transnational elite.

Yet his ability to play the iconoclast explains Mr Clegg’s huge boost in the polls after the televised debate on April 15th between the leaders of the three main parties vying for votes at the coming general election. Neither Gordon Brown, the prime minister, nor David Cameron, the Conservative leader, performed badly. And Mr Clegg aired some promising policies, not just an outsider’s ire. Ultimately, though, it was the fact that he channelled popular disdain for the political class—and portrayed his two rivals as irredeemable fixtures of it—that stole the show.
The implications of the Lib Dem surge could be historic. Used to hovering at 18-20% in the polls, the party may now overtake Labour at around 30%, according to some surveys, and others show it in first place. Even if it loses half of this bounce before the May 6th polling day, it could still win enough votes to deprive Mr Cameron of seats he needs, especially in the south. Britain’s first hung parliament since 1974 looks increasingly likely.

What happens then? If the Conservatives emerge as the biggest party in Parliament, they could form a coalition with the Lib Dems or get their backing for a minority Tory government. If Labour wins, a “red-yellow” arrangement might be reached. But the Lib Dems could strike a deal with the smaller of the other two parties, though it might look bad. Even as Mr Brown and Mr Cameron attack the Lib Dems’ credibility to keep them at bay, they are also “love-bombing” them to win their support in case there is no clear winner.

The haggling over what shape the new administration takes could be hard to stomach for a country unused to the back-room deals that democracies with proportional voting systems rely on to form governments. The better the Lib Dems do in the election, the harder the bargain they can drive over how many cabinet seats they get in a coalition. Mr Clegg says co-operation with the other parties will also depend on their commitment to a more redistributive tax system, more spending on poor schoolchildren, a greener economy and political reform, such as ditching the first-past-the-post voting model.

The permutations do not end there. Thanks to the vagaries of the voting system, there could well be a big gap between votes won across the country and seats won in Parliament. Labour may end up with the fewest votes of the three main parties but the most MPs. The Lib Dems could finish first but have the fewest seats. The case for a more proportional electoral system could then become irresistible, though that would not answer the immediate question of who governs.

Certainly, there would be an historical neatness to a Labour-Lib Dem pact; Tony Blair privately sought such a deal before becoming prime minister in 1997. Many senior Labour figures—such as Lord Mandelson, the business secretary, and David Miliband, the foreign secretary—are keen. The two parties agree on the most pressing issue facing the country, which is how quickly to cut public spending to ease the fiscal crisis (not while the economy is weak, they concur). Both are overtly redistributive in preaching “fairness”. Mr Clegg’s party is a fusion of the old Liberal Party and the short-lived Social Democrats, who broke away from Labour in the 1980s—and most of his activists lean in the second direction.

Yet many Labour supporters, especially the trade unions, have long disdained liberals of all sorts, whom they regard as ideologically perfidious, bourgeois dilettantes. Mr Brown’s wooing of Mr Clegg has been done through gritted teeth; the then-chancellor’s opposition was one reason why Mr Blair’s desire to ally his party with the Lib Dems never got anywhere.

And the broad thrust of Mr Clegg’s leadership has been rightward. His party is more fiscally austere and keener on market-based reforms to public services than it was under previous management, and than Labour is now. There is something incongruous about the prospect of Mr Clegg—and David Laws, one of his most talented colleagues—featuring in a Brown-led government. The prime minister’s departure may be the price of Mr Clegg’s support for Labour. Even then, his message of change would be undermined if he propped up a 13-year-old government.
Neither are the Tories a natural fit for the Lib Dems. Mr Clegg and Mr Cameron do share an analysis of the British state as over-centralised and bureaucratic. Both parties’ heartlands are largely to be found in prosperous suburbs and the countryside. But as the Tories want immediate cuts, it is hard to see how they could win Mr Clegg’s support for their planned budget this summer. Most Conservatives cannot abide the Lib Dems’ pro-Europeanism, and much of Mr Clegg’s own party wants nothing to do with the Tories either.

For all his sudden success, then, Mr Clegg’s position is not an entirely enviable one. He cannot make a choice that pleases everyone and, if a hung parliament leads to a quick second election (as it did in 1974), his party may be squeezed as voters throw their weight behind one of the other parties for the sake of stable government. What now looks to be a realignment of British politics could turn out to be a blip induced by the novelty of a television debate. And he may founder under unreasonably high expectations in the next two debates (the first of which, on foreign policy—not his strongest suit—was set to take place after The Economist went to press).

The more disturbing problem faces Labour and the Tories. Contempt for politics was stoked by last year’s expenses scandal, but it was there before. True, there is some ugly nihilism mixed in with voters’ legitimate grievances. And given Britain’s prosperity in recent decades, popular cynicism may be the product of a kind of complacent assumption that the good times would just keep rolling. Still, this anti-politics Zeitgeist is a reality, and the two major parties have found no answer to it. In such a climate, perhaps the strangest thing about the breakthrough of the Lib Dems—less besmirched by fiddled expenses than the other parties, and untainted by office—is that it took so long to come.
Despite expectations, traditional media are dominating the election

IT WAS supposed to be the new-media election. E-mail, blogging, social networking and tweeting were expected to surge in importance and perhaps to decide the race. Something else has happened. Britain’s first television debate, on April 15th, was followed by a ten-point swing to the Liberal Democrats. The debate and its aftermath dominated political news for several days and has transformed the race. It is a triumph for old media.

There were signs even before the debate that new media were not living up to expectations. A survey carried out during the first week in April by the National Endowment for Science, Technology and the Arts found that 79% of Britons could not recall seeing any online electioneering—not even an e-mail. The outfit concluded that politicians were failing to take advantage of new media’s huge potential to engage with voters. Perhaps. Or perhaps this is to confuse novelty with importance. For several reasons, traditional media are rather good at delivering political messages.

The first television debate, on ITV, was watched by 9.4m Britons. That works out to 37% of the prime-time audience—better than the share of Americans who watched the first round between John McCain and Barack Obama in 2008. The second debate, scheduled for broadcast on Sky News on April 22nd, may draw fewer viewers. Although almost everyone in Britain has access to Sky News, it is often buried deep in the programme guide. But the debate is nonetheless likely to hog the headlines for days afterwards.

Television is the only technology that can reach so many people in a single day. But others are not far behind. Although their circulation has declined, newspapers still reach large audiences. The Sun, which supports the Conservatives, is read by 8m people each day. By comparison, much-touted social media like Twitter are so niche as to be almost invisible. Get Elected, a political-research outfit, has examined 100 tight races, where online campaigning should presumably be fierce. It found that only 45% of the candidates in those races had Twitter accounts. The politicians who used it attracted an average of just 614 followers. The average English constituency contains 70,000 people.

And old media take up a big proportion of people’s leisure time. Each televised debate lasts for 90 minutes. The average reader spends 40 minutes with his daily newspaper and an hour with the Saturday and Sunday papers. It takes just seconds to read an e-mail or a politician’s tweet. One must make some heroic assumptions about the appeal of digital media to think they influence people as much as traditional outlets.
Unlike the internet, newspapers and television tilt towards the old. Fully 47% of the audience for the first debate was aged 55 or older. Some 36% of the Daily Mail’s readers, and 41% of the Daily Telegraph’s, are aged 65 or older, according to the National Readership Survey. Advertisers are less keen to reach the old than the young, which is one reason newspapers are losing money. But an aged audience is precisely what politicians want. The old are much more likely to vote than the young.

Of course, the television debates have been refracted through tweets and e-mails, just as they have been dissected by newspapers. New media are handy for firing up committed supporters, too. But when it comes to reaching the voters who matter, the old technologies are still the best.
This week’s rhetorical and sartorial misjudgments

Unconvincing anecdote of the week

“I was in Plymouth recently, and a 40-year-old black man... said, ‘I came here when I was six, I’ve served in the Royal Navy for 30 years. I’m incredibly proud of my country. But I’m so ashamed that we’ve had this out-of-control [immigration] system...’”

As the party leaders swapped soppy anecdotes during their first televised debate, David Cameron revealed to a waiting world that he had recently met a man who had apparently joined the navy at the age of ten. The man eventually stepped forward: he turned out to be 51, rather than 40, and had served for six years rather than 30—but he is worried about immigration.

Unconvincing excuse of the week

“What do I do? I have two children, I’ve got a wife who was working at that time. What do I do?”

Gordon Brown explains to radio listeners why he thought it was reasonable to put his domestic cleaning on expenses. Other parents with working spouses may not have been wholly persuaded by his plea. Especially if they are taxpayers.

Lousy interview of the week

Questioned by a BBC reporter about his party’s proposal to ban the burqa in public buildings, Lord Pearson, leader of the UK Independence Party, argued that the policy would appeal to “quite a lot of [Muslim] women”. Pressed on his party’s approach to bank regulation, an exasperated Lord Pearson protested that he hadn’t “come here to deal with the minutiae”. Finally, insisting to the interviewer that he had indeed read his party’s manifesto, he conceded that he hadn’t “remembered it all in detail”.

Election song of the week

The self-styled “Cameron girls” launched a valiant but ultimately doomed bid to emulate the hotpants-wearing “Obama girl” who helped sweep the president into the White House. (Sample lyrics: “They call us the Cameron girls/ Won’t find us wearing twinsets and pearls”, and “Do you mind if I call you DC?/ I sense we have real chemistry./ I can wear an apron and pour you tea,/ I’d even wear a hoodie if you’d hug me.”)

But the accolade goes to the bizarre video cover of the Bucks Fizz classic (sort of) “Making your mind up”, organised by Total Politics, a magazine, to encourage viewers to vote. Among those who get jiggy on the video are Nigel Farage, Peter Tatchell, Alastair Campbell and Ann Widdecombe.

Campaign attire of the week

A gaggle of senior ministers emerged from Downing Street to announce plans for launching an emergency flotilla to rescue Britons stranded on the continent for days by volcanic ash. The gravity of the moment was slightly undercut, however, by Lord Mandelson’s jacket, a cream linen number that looked as if he were heading off for a whisky sour at a provincial hotel rather than to a meeting of the government’s “Cobra” emergency committee.
GAZE down from Portsmouth’s Spinnaker Tower and the history of the Royal Navy lies before you. The three great masts of HMS Victory, Lord Nelson’s flagship at the battle of Trafalgar, jut out proudly. Just beside it rises the odd Lego-like forecastle of the navy’s newest ship, HMS Daring. The first of the service’s ultra-modern Type 45 air-defence ships, HMS Daring is twice as large as HMS Victory but sails with less than a quarter of its crew. Instead of engaging in close-quarters broadsides, HMS Daring will fight targets that are beyond sight, visible only as electronic blips.

Yet there is another sight in Portsmouth that worries modern-day admirals: the dwindling number of active warships. The fleet has been cut repeatedly to save money, and there are questions over its future. One of the main tasks of Daring-class ships is to protect the new generation of aircraft carriers that will be based in Portsmouth. These are being assembled, in Portsmouth and elsewhere. But there is huge pressure on the defence budget. The cost of the carriers, and of the new Joint-Strike Fighters that will fly
off them, is rising.

Inevitably, in a city that is home to the Royal Navy, the carriers have become an election issue. Labour presents itself as their foremost champion, as well it might. Portsmouth South, where *HMS Victory* surveys the harbour, has had a Liberal Democrat MP since 1997 and is likely to re-elect him. But Portsmouth North is on a knife-edge. Labour held it in the 2005 election with a majority over the Conservatives of just 1,139 votes. Boundary changes have reduced that to a few hundred or less.

The Lib Dems came a poor third in 2005. But their surge in national opinion polls after the first leaders’ debate may transform what has been until now a two-woman race between Labour’s Sarah McCarthy-Fry, a minister in the Treasury, and the Conservative contender, Penny Mordaunt, who boasts of “a successful career in business and communications” and is training as a Royal Navy reservist. And the Lib Dems do run the city council.

Voters seem more concerned with the wild fortunes of Portsmouth’s football club, indebted and relegated to the second tier yet a finalist in the FA Cup, than with politics. Canvassers are walking past more light-blue flags in praise of “Pompey” than political posters. Most people said they did not know how they would vote, or declined to share the information.

Still, Darren Sanders, the Lib Dem candidate and a city councillor, reckons his leader’s strong TV performance has turned Portsmouth North into a genuine three-horse race. “We can do exceptionally well here,” he says. The Tories disagree. There is “not much evidence” of a Lib Dem surge, says Ms Mordaunt; perhaps only of greater confusion among undecided voters. Ms McCarthy-Fry admits there is “interest” in the Lib Dems. But she predicts that even those impressed by Nick Clegg are likely to vote for Labour to keep the Tories out.

Ms McCarthy-Fry leans heavily on the claim that the carriers will be at risk if the Tories are elected. Their pledge to produce a new budget within 60 days of the election means that cuts could be enacted before the completion of a planned defence review. “This worries me dreadfully,” she says, noting that not just shipbuilding jobs, but also the viability of Portsmouth as a naval base, could be at stake if the carriers were cancelled.

Mr Sanders echoes similar concerns. He notes, optimistically, that the carriers were not on the list of possible cuts offered by Vince Cable, the Lib Dems’ Treasury spokesman. Ms Mordaunt stresses the fact that the Tories’ shadow defence secretary, Liam Fox, recently called the ships “an important addition to the fleet”. He has also said that Britain cannot specialise in counter-insurgency warfare alone, but must be ready to fight state-on-state wars that necessarily require high-end equipment.

The views of Portsmouth voters could crystallise after the second of the leaders’ debates, due to take place as *The Economist* went to press. This focuses on foreign policy, which informs defence choices.

On the eve of the encounter, the Royal United Services Institute published articles by the three leaders setting out their positions on defence. Gordon Brown boasted of raising spending in real terms by 10% since Labour took power, in contrast with Tory cuts earlier. The future of the Trident submarine-based nuclear missiles would be excluded from the defence review, the prime minister said.

For David Cameron, Britain has to “play an active and influential role in the world”. Beyond a commitment to maintain Britain’s nuclear deterrent, he said little about equipment. Nick Clegg, for his part, accused the others of sacrificing British interests for a “default Atlanticism”, notably in the invasion of Iraq; it should instead seek to lead an energised European foreign policy and co-operate with Europe to cut the cost of military equipment. The Lib Dems say they will not replace Trident, but will seek a cheaper alternative instead.

Of the three, only Mr Brown said he was committed to the carriers, “for which steel is already being cut”. Portsmouth voters will be hoping that, by the time a new government of whatever stripe takes office, so much steel will have been cut, and so much money spent on the ships, that nobody could think of scrapping them.
Be careful of offering people what they claim to want

IT SOUNDS easy. In a democracy, the party that offers the public more of what it wants ought to win elections. Reality, inevitably, is much more complicated. People are often unclear about what exactly it is they do want.

New polling for *The Economist* by Ipsos MORI illustrates the point. We asked Britons their views on issues ranging from more local control of public services to better equipment for soldiers and the need to cut the national debt, clamp down on boozing and discourage air travel to reduce greenhouse-gas emissions. Four sets of answers are shown below (full data can be found at here).

A striking trend emerges. Many voters agree strongly with each of the original propositions in their pure form. But, when the downsides of those policies are pointed out to them, support drops off sharply. The fall is particularly big when it comes to kitting out British soldiers with better equipment: 83% of respondents agreed strongly with the general principle, but only 46% once it was suggested that, other things being equal, more guns abroad would mean less butter at home.

The Conservatives might wish to examine in particular the responses to the question on beefing up local control over public services. The party has based its election campaign on the notion that ordinary citizens can be recruited to improve schools, hospitals, policing and so forth. (The Tory manifesto is styled “an invitation to join the government of Britain”; the idea is that the state needs to be smaller and society bigger.) And, at first blush, it looks popular: 54% of respondents are strongly in favour. But when they are reminded that meaningful local control will inevitably lead to differences of provision in different places, only 29% retain their original enthusiasm. Strong opposition rises from 2% to 10%.

The question on deficit-trimming reveals why no political party has yet come clean about the fiscal pain
that must follow the election. Although more respondents agree than disagree that cuts in spending are
needed, when they are reminded that those cuts will affect them directly, the positions reverse: only 19%
are strongly in favour of trimming debt, whereas 27% are strongly opposed. Those claiming to offer the
public “honesty” about the fiscal situation are playing with fire: real honesty and popularity seem not to be
cointerminous.

Only alcohol (and climate change, not shown in the chart) buck the trend. When asked, 32% of
respondents want the government to try to limit people’s boozing by taxing alcohol more. That number
does not fall when people are reminded that they will end up paying more for their own beer; indeed it
rises slightly, though the increase is still within the statistical margin of error.

Bobby Duffy of Ipsos MORI points out that drinking is seen as a moral issue in a way that local control of
services, for example, is not. Because of that, people may give unusually upright responses to pollsters,
particularly in telephone interviews such as these. A less elevated interpretation is that voters grasp from
the start that higher alcohol taxes mean more expensive booze and do not change their views when
reminded of the fact. More abstract issues may be harder to think through initially.

The results reveal a quirk of human behaviour that psychologists (and economists) have long been
familiar with: that people’s first responses may not be their “real” ones, and that pointing out the
implications of a decision, particularly if it involves a direct cost to the individual, can alter preferences. It
is popular at dinner parties to castigate politicians for their euphemisms and evasions. But the public’s
contradictory opinions present them with a tricky challenge: they must appear to be honest, while at the
same time finessing the unpalatable decisions that voters themselves are not keen to make.
First-time voters in Chester

What every student wants
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From The Economist print edition

Candidates are targeting young people, whose political views are still fluid. If only they voted

SOME 2.5m youngsters will enter the polling booths for the first time on May 6th. Because their opinions have yet to become entrenched, virgin voters hold a particular attraction for parliamentary candidates (their low propensity to vote is less appealing). Nowhere is this more so than in marginal seats such as city of Chester. A swing of just over one percentage point from Labour would give Chester back to the Conservatives, who held it for almost a century until the Labour landslide in 1997.

At Christleton High School, a state secondary school, some 150 students assembled on April 19th to quiz candidates from the three main parties. Pressed on the issue, Christine Russell, now the Labour MP for Chester, and Elizabeth Jewkes, who is standing for the Liberal Democrats, both say they are in favour of allowing 16-year-olds to vote. To cheers, Ms Jewkes reiterates her party’s promise to abolish university tuition fees; to general agitation, Ms Russell points out that the Lib Dems have not committed themselves to honouring the pledge within the next parliament.

Stephen Mosley, the Conservative candidate, arrives late (his initial absence was booted). “Our country has been spending too much money and run up a deficit, and we have got to get control,” he says, otherwise jobs will be lost and the economy stagnate. Within minutes, he has the noisier elements of the crowd behind him.

Chester is a mostly prosperous city, with medieval galleries within its Roman walls that are now colonised by boutiques. Beyond them, substantial houses sit back from the thoroughfares. About a third of its workers are low-paid, serving the tourists who flock to the city in the summer. A quarter work in financial services: the city’s biggest employer is Bank of America. And students make up an increasing proportion
of its folk. Chester boasts a university that first opened its doors as a teacher-training outfit in 1839, gaining its new status in 2005. It is expanding fast, and now has 3,000 more students than it did in 2005, taking the total above 15,500. Ms Russell’s majority in the 2005 election was just 915.

Young people are less likely to vote than their parents: only 37% of 18-24-year-olds did so in 2005. But well-educated ones are more likely to vote than their peers. Jamie Northrup, president of the university’s students’ union, has been badgering his fellow students to register to vote in Chester, supplying them with forms and returning their completed paperwork. The main issue for students is economic recovery so they can find work after they graduate, he says, though many are also concerned about minutiae such as the price of petrol and the paucity of parking spaces. He expects a good turnout for a hustings at the university on May 4th, though getting students out of the bar and into the polling booths two days later may prove tricky.

Mr Northrup says a straw poll he conducted the day after the first television debate among the three party leaders strongly favoured the Lib Dems. More formal national counts concur. Support for the party among those aged under 35 increased at least twice as much as support among voters older than that, according to two opinion polls right after the debate.

A third poll, of students at elite universities carried out before the debates, told a different story, with the Conservatives well in front on 30%, Labour on 21% and the Lib Dems on 19%. Such surveys have previously predicted the outcome of general elections, albeit before the advent of televised debates. But this time a high proportion of the students polled—almost one in five—hadn’t a clue which party they would vote for. The debates may be helping them make up their minds, and, if Chester is any guide, in favour of the Lib Dems.
Mud is being slung in west London over expenses and Heathrow’s expansion.

LAST year, when squatters broke into Ann Keen’s house on a quiet, suburban street in Brentford, west London, the neighbours’ reaction was surprising: they made soup for the interlopers. But then, Mrs Keen is the Labour MP for Brentford and Isleworth, and one of the politicians most vilified over the parliamentary-expenses scandal. Although Brentford is just eight miles from Westminster, Mrs Keen and her husband, Alan, who is MP for neighbouring Feltham and Heston, claimed for the cost of maintaining a second home close to Parliament. This was not against the rules of the day but it riled many locals, who dubbed the couple “Mr and Mrs Expenses”. In the end the Keens had to pay back £1,500 that they had claimed while renovating their Brentford home.

Brentford and Isleworth is a Neapolitan ice cream of a constituency, made up of posh Chiswick in the east, predominantly white working-class Brentford in the middle and multicultural Hounslow in the west. A three-way marginal, it is a microcosm of the national election.

The campaign is being fought on two main issues. The first is, unsurprisingly, sleaze. Mary Macleod, the Tory candidate, is keen to exploit anger over Mrs Keen’s accounting. But Ms Macleod herself is not untouched by controversy. Rivals claim that she has received money from Lord Ashcroft, a controversial Conservative donor who has “non-domiciled” status and thus is presumed to pay little tax in Britain. Ms Macleod says the funds came from Conservative headquarters, not directly from Lord Ashcroft, although she accepts that he contributed to them.

Thanks to Lord Ashcroft or not, Ms Macleod’s campaign has been a slick one, and the Tories are favourites to overhaul Labour’s 4,411 majority. Ms Macleod maintains that Labour is her only serious rival. Just as the Conservatives are pushing the message at the national level that a vote for Nick Clegg, the leader of the Liberal Democrats, is a vote for five more years of Gordon Brown and Labour, so locally they hope to scare off potential Lib Dem voters with the idea that splitting the anti-Labour vote means more of Mrs Keen.

The nation’s new-found love affair with the Lib Dems does not yet make them obvious winners in Brentford and Isleworth. The party gained 23% of the vote in 2005, compared with the Tories’ 30% and Labour’s 40%. The LibDem candidate, Andrew Daker, provides a sharp contrast to the well-oiled Labour and Conservative machines. Whereas Ms Macleod has an army of supporters canvassing the streets of Chiswick, Mr Daker cuts a solitary figure handing out leaflets outside primary schools and train stations. Whereas Ms Macleod has traversed the country in search of a parliamentary seat—she stood in 1997 in Ross, Skye and Inverness West—Mr Daker, a local councillor, pushes his neighbourhood roots. His talk rarely drifts from local issues, such as the regeneration of Brentford’s High Street and, most importantly, Heathrow airport.

Heathrow’s shadow hangs over the constituency and, with sleaze, is seen as the most important issue in the election. Although the airport is economically vital to the area, noisy jumbos concern many residents and plans for a third runway, supported by Labour, are hugely unpopular. Those plans have now been put on hold, but the fact that Mrs Keen—who is also lukewarm on the proposal—did not follow 28 Labour MPs in voting for a Conservative motion to rethink expansion is another stick for her rivals to beat her with.

In the end, however, the contest may well come down less to policies and more to which candidate has thrown the stickier mud. In another reflection of the national campaign, the Tory candidate challenged her Labour rival to a public debate. Unlike Gordon Brown, Mrs Keen declined. Some suspect she thought she would have more to lose than Ms Macleod in a public slanging match; critics accuse her of straining for invisibility in the middle of her own campaign. The local paper, the Hounslow and Brentford Times, says that she spoke to them this week for the first time in six months.

She has agreed, though, to attend one of the election hustings, in Chiswick a week before the election.
Legend has it that this area, in 54BC, was where Cassivellaunus, a British chieftain, made a stand against Julius Caesar’s conquering army. Expect another acrimonious battle there.
A new look for Newcastle

Geordie pluck
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A city shrugs off a bank collapse and goes for pastures green

NORTHUMBERLAND STREET, adjacent to the Eldon Square shopping centre, is awash with people. Their retail enthusiasm contrasts with the fear gripping those looking a little way ahead. A strategist at a local trade association predicts that “2011-12 will be carnage year.”

The fear has to do with jobs. More than one job in three in Newcastle upon Tyne is in the public sector—in administration, education and health. The British average is about one in four and only Liverpool, among the bigger cities, is more dependent on the public sector. If, as is widely predicted, big cuts and “efficiency savings” in public spending lie ahead, they are likely to hit Newcastle hard, though perhaps some public jobs will be moved north from London.

Tyneside’s traditional industries, shipbuilding, coal and brewing, are long gone. Not much has been found to replace them, though the southern riverbank sports The Sage, a silver, pupa-shaped music venue, and the BALTIC Centre for Contemporary Art. More recently on Tyneside, Clipper Windpower, an American company, has started to build a factory for making giant offshore wind turbines. It spurs hope that Newcastle will play its part in a green-manufacturing revolution. Down the coast in Sunderland, Nissan is developing electric cars with the help of public money.

Martin Levy, a chemistry don at Northumbria University, wants more public investment in regional manufacturing, and preferably full public ownership—which he also recommends for Britain’s bailed-out banks. His ideas, as the Communist Party’s parliamentary candidate for Newcastle East, do not sound as off-target today as they did a few years ago. Yet for all the popular dissatisfaction with the two main parties, Mr Levy is likely to improve only marginally on the 206 votes he got in 2005. The three Newcastle constituencies are solid Labour. Only in Newcastle North do the Liberal Democrats, today’s self-styled champions of the people, stand even a modest chance of victory; the party has controlled the city council since 2004.

It may be just as well that Mr Levy is unlikely to be lured from his teaching. His remedies would not help the sector most in need of a boost: small business. The Newcastle region has a poor record for business start-ups, at about two-thirds of the national average. Private-sector employment has tended to rely on large companies, and some of those in turn depend on the public sector for work. Eaga, for example,
employs 4,475 people, largely thanks to energy and home-insulation contracts outsourced by government departments. And Northern Rock, a mortgage bank headquartered in the city which crashed in September 2007, is now wholly government owned, though its 4,500 employees are not exactly civil servants.

The Northern Rock brand was lucky to survive (banks which failed later, such as Alliance & Leicester and Bradford & Bingley, were absorbed by rivals). The name is a source of local pride and still appears on the football shirts of Newcastle United, which on April 5th regained its place in the Premier League after relegation last year. The effect of the crash on the local economy was slight: of the 1,300 employees Northern Rock lost, 500 took voluntary redundancy and the other 800 found other work. Today there is still local demand for banking staff: Tesco, a retailer expanding into the sector, is on the prowl.

The city sees its future as a centre of science, culture and design—though recent assessments find the plans to turn science into a money-spinner rather optimistic despite Newcastle University’s reputation in human genetics. It has poured millions into Newcastle Science City, a business park linked with the university, the city council and One North East, the regional development agency. It will pour more into Science Central, a multi-use development on the site of a former brewery. The aim is to create businesses and private-sector jobs. That is already starting to happen, says Nick Wright, pro-vice chancellor at the university. Some of his graduates and even undergraduates are engaged in business start-ups. The university’s business school has appointed four entrepreneurs as part-time “professors of practice” to encourage business links.

Most locals agree that some public money is needed in the mix. Recently the Department for Business has channelled financial help into the Nissan project, and into offsetting job losses at Corus’s Teesside steel plant, mothballed by its Indian owner, Tata. Lord Mandelson, they say, has been rooting for the north-east more energetically as business secretary than he ever did as Labour MP for nearby Hartlepool.
Two contradictory trends, with a common cause, are helping the Lib Dems in the south-west and beyond

NICK CLEGG confronts Gordon Brown and David Cameron on prime-time television, as British politics finally enters the 20th century. Meanwhile, less glamorously—but importantly—Duncan Hames, the Liberal Democrat candidate for the constituency of Chippenham, takes on Wilfred Emmanuel-Jones, his Conservative rival, at Corsham community centre in Wiltshire.

Two political phenomena are shaping this election. The headline one is the new presidentialism of the campaign, most evident in the game-changing television debates, and also in the increased visibility of the leaders’ wives. The other, less-remarked trend, which Bagehot observed on a circuit of marginal constituencies in the south-west, is the enlarged role of local issues and candidates. On the face of it these two trends seem contradictory. But they stem from the same basic cause.

Consider Somerton and Frome, a sprawling Somerset constituency that includes pleasant market towns, picturesque villages and beautiful countryside. Though there is some deprivation (of an inconspicuous, rural kind), this is an England that seems untouched by the multiculturalism and social decay of political rhetoric. And at 11th on the Tories’ target list, it is also the kind of seat that Mr Cameron’s party until recently expected to take from the Lib Dems, along with several others in the south-west—seen as a vital battleground in the now-receding days when the Tories seemed within reach of a majority in the House of Commons.

The Lib Dems’ yeoman MP is David Heath. He has apparently built up a personal following: “I’m voting for the man,” explains one supportive woman carrying a (right-wing) Daily Mail, as Mr Heath strolls around Somerton with Lord Ashdown, his party’s former leader. (“I’d have killed for it,” Lord Ashdown says of the exposure the debates are giving Mr Clegg.) The Tory candidate is Annunziata Rees-Mogg; alas, she proved elusive, and her nervy handlers unhelpful, so Bagehot can’t confirm the rumour that Mr Cameron once suggested she truncate her name to Nancy Mogg.

Conservative canvassers in Wiveliscombe, a pretty town in the adjacent seat of Taunton Deane (29th on the Tories’ hit list), seem mostly to field parochial inquiries: one woman wants to know if they can get a
tree in her neighbour’s garden cut down. Their distinctly un-Cameroonian candidate is Mark Formosa, an outspoken enthusiast for capital punishment. Jeremy Browne, the Lib Dem incumbent, compares the way Taunton issues and the leaders’ debates both seem to matter—the way voters are thinking in two contrasting registers at once—to consumers’ habit of shopping at both supermarkets and farmers’ markets. As with all Lib Dems MPs, it helps him that the Tories’ main national message—get Labour out—is blunted in Lib Dem-held seats.

As things stand, the Lib Dems should keep Somerton and Frome and Taunton Deane. The most interesting south-western contest may be in Chippenham, a newly created Wiltshire constituency. The Lib Dem and Tory candidates were both selected in 2006, so have had four years to immerse themselves in local disputes, which, as elsewhere, involve post offices (good) and housing developments (generally bad). Both are strong candidates, but of very different kinds. Mr Hames, the Lib Dem, is a mild-mannered accountant. (“Come on, win!” a passing driver yells at him; “Haven’t you got anything better to do?” asks another.) Mr Emmanuel-Jones, his better-funded adversary, was born in Jamaica, grew up in Birmingham with eight siblings, established “The Black Farmer” food range and has robustly independent views. “We should never have been there in the first place,” he says of Afghanistan, to a constituent startled by his candour.

Personality goes a long way

Psephologists have traditionally been snooty about the influence of individual candidates. But, in tight races such as Chippenham, and in so tight a general election, it may be almost as telling as the sort of presidential event that ignited this week’s Cleggmania. Both suggest the same underlying shift: the rise of what can glibly be described as personality politics, but might equally and less judgmentally be called trust-based politics.

Behind that rise, of course, lies the parliamentary-expenses scandal, for many Britons itself only the outward sign of a rottenness that had long contaminated politics. It has generated understandable anger (a new MP, says a Chippenham resident, will be “just someone else to put their hand in the till”), but also intense scrutiny of local incumbents and candidates. More than in previous campaigns, it seems, Britons want to know who, precisely, is asking for their vote. Since they emerged relatively unscathed from the expenses debacle, sitting Lib Dem MPs may withstand this scrutiny better than others. Meanwhile, at a national level, Mr Clegg has harnessed the rage in a way that Mr Brown and Mr Cameron, as big-party leaders, haven’t and perhaps couldn’t.

The layer of politics between the local and the presidential—ie, the echelon of national policy—seems, on doorsteps and in the polls, to matter less. Many of Mr Clegg’s policies, for example, are much less popular than he now is: The Economist may sympathise with, say, his relatively liberal stance on immigration and prisons, but most Britons don’t. Besides the smothering impact of the expenses affair, that disjuncture may reflect a widespread conviction that government is essentially managerial; that the choice is between people rather than ideologies. Given Britain’s fiscal plight, and the decisions it will entail, that view is less true of this election than the last three. But, like the anti-politics mood, it obscures policy and elevates personality.

In 2010 personality and trust are not distractions from the issues: they are the issue. Partly as a result, this campaign is uniquely presidential and intensely local. And, so far, in the south-west and beyond, the Lib Dems have been the beneficiaries.
IS THE world returning to an age of class war and industrial strife, as victims of the recession join forces against heartless bosses? In many countries, both rich and poor, it has started to feel that way.

Well before a volcano wreaked havoc with Europe’s air transport, travellers across the continent were coping with the effects of labour disputes that had an old-fashioned tinge. Strikes by flight attendants afflicted British Airways for seven days last month. In February a stoppage at Germany’s national carrier, Lufthansa, was declared illegal after the first day—but still caused disruption.

France’s railways are in the grip of a strike led by communist unions over new work practices and job cuts. In Britain a rail strike—it would have been the first since 1994—was averted this month by a last-minute court ruling. London’s underground trains have already been disrupted. On April 21st, French newspapers did not appear; print and distribution workers went on strike for the fourth time this year.

And on several fronts, unions are joining hands across national boundaries. Britain’s Unite union, which represents flight attendants, among others, held talks with America’s Teamsters, whose 1.4m members include 40,000 air-industry workers. United Steel Workers, another big American union, sent a delegation of support to Mexico’s Cananea copper mine, where workers have mounted a three-year strike.

Elsewhere, firms are feeling the knock-on effects of unrest in any part of a global production line. General Motors had to halt car output at several of its American plants because of a strike at Rico, an Indian firm that makes parts. Among rich countries, France has lived up to its name as a hotbed of militancy. There has been a spate of “boss-napping”—taking senior managers hostage—often in foreign-owned firms. French employees of a tyremaker, Continental, went on the rampage (see picture) when their jobs were axed. Labour unrest has even struck nations with a cooler-headed image. In March a two-week strike by Finnish dockworkers crippled the country’s exports, including those from the vital timber industry. And in Britain, in particular, there is a creeping sense of déjà vu: as in 1979, an unpopular Labour government is living out its final weeks amid taunts from the Conservatives that it is “soft on the unions”.

Despite the headlines, there is no epidemic of strikes—but worse unrest may be looming in bloated public sectors once spending cuts begin
Yet for all the sound and fury, none of the recent news implies that industrial relations around the world have returned to the dire state of two or three decades ago. By historic standards, they are still “pretty good”, insists Paul Nowak, national organiser of Britain’s Trades Union Congress.

Statistics bear him out. In virtually all rich countries, union membership and the amount of time lost to strikes has plunged. The days when unions had big strike funds, and could ride out long disputes, are mostly gone. (Where long strikes do occur—as in Mexico—they reflect desperation more than muscle.) And that decline seems to have accelerated with the recession. Downturns have opposing effects: they make workers angry but also reduce their bargaining power.

In Britain, for example, the number of working days forfeited to strikes fell to 460,000 in 2009 from 1.04m in 2007. (In 1979 the figure was 29m.) In Denmark, which saw an uptick of unrest among nurses and care-workers in 2008, industrial workers voted this week to accept their union’s recommendation of minimal pay rises. In Poland barely 13,000 workers were involved in strikes last year, compared with 209,000 in 2008. And despite India’s record of violent labour disputes, the number of days lost between January and November last year was a tenth of the average for the previous five years. A recession is “not the most propitious time” to strike, says Thea Lee, policy director of the AFL-CIO, America’s largest labour federation.

In some countries, admittedly, workers’ patience may be waning. In Poland, for example, unions are moving away from the “passive position” they adopted when the recession struck and want some reward for their restraint, says Jan Czarzasty, an industrial-relations analyst.

But amid many other effects, globalisation has on balance weakened unions. American firms can now credibly threaten to ship jobs to Asia or Mexico. With whatever strength they still have, unions are replacing business as the chief advocates of protection. In September 2009, when America slapped tariffs on Chinese tyres, it was in response to unions, not local firms. And the Teamsters have won a curb on the right of Mexican trucks to operate in the United States. But the unions’ ability to lobby for anything is limited by splits in their ranks. In Sweden workers in manufacturing face keen competition and have moderated their wage claims; those who work in retailing are more strident. But the weak, divided state of the labour movement does not mean that the world can expect industrial peace, punctured by odd outbursts. Confrontation may be looming in the public sector of industrialised countries, where harsh cuts look inevitable and unions remain strong.

America recently crossed a threshold: a majority of union members are now government workers, not private-sector ones. As of last year, just 7.2% of private-sector employees were unionised (a total of 7.4m) whereas in the public sector 37.4% (or 7.9m people) belonged to unions. The share of private-sector workers in unions was the lowest since 1900, whereas in the public sector the share is edging upwards.
Public-sector unions are much less subject to market discipline and foreign competition than private-sector ones; strikes by providers of essential services have a harsher effect on the economy than one at a private firm with competitors.

And it is the public sector that will bear the brunt of the coming crunch. By 2014 the public debt of the leading rich countries will reach an average of 110% of GDP, up by almost 40 percentage points from 2007, says the IMF. Reducing these levels, some of the highest ever seen in peacetime, will be a brutal job. Taxes may be part of the mix, but in most cases, spending will have to be slashed.

In France a fight with public-sector unions is on the horizon, for reasons predating the recession—the government has long been eager to get a grip on the spiralling cost of pensions. It wants to raise the legal retirement age from 60; the unions call this right non-negotiable, and most citizens seem to agree.

Even in countries where the governments have kept public-sector wage rises low, strains are showing in other ways. Canada’s federal workers have been told that pay rises of 1.5% this year and next can go ahead as agreed, but that costs will have to be cut to fund them. Unions fear part-time jobs will be axed, adding to the burden on remaining workers and lowering standards. Ontario, the largest province, is imposing a pay freeze, and the city of Montreal is offering less than unions want, though it is open to productivity deals, of the kind that has produced “win-win” solutions to some Canadian disputes.

Canada is one of several rich countries where the public sector is seen by voters as ripe for change after a decade of benign treatment. Ireland, meanwhile, is often cited as a country where public-sector workers have reacted to a sharp downturn with impressive self-denial. In February 2009 they were asked to take a 7% pay cut, and offered only token resistance; this was followed by further reductions in December. A fresh package of reforms (promising no further pay cuts for four years, and holding out the chance that cuts will be reversed) was agreed on March 30th, but union members may yet vote to reject the deal; not all agree with the compliant stance of their leaders.

Ireland has been rewarded for its self-discipline by lower borrowing costs. But in other troubled European economies, abnegation is less evident. European Union and IMF negotiators, tasked with rescuing the Greek economy, flew into Athens this week to find a public-sector stoppage in full swing, with the main union seeking a reversal of all austerity measures.

In Romania, too, public-sector unions are up in arms over spending cuts that were decreed under a bail-out agreed with the IMF and EU. Portugal’s public workers held a 24-hour strike in March to protest against a wage freeze. Dutch local-government workers are also mounting one-day strikes over a pay freeze; and on April 10th government workers marched through London chanting: "No ifs, no buts, no public sector cuts." Yet cuts there will be, whoever wins the British election.

How well governments manage to trim their public sectors, without triggering an explosion, may depend on elusive factors like trust in the political system. Ken Georgetti, head of the Canadian Labour Congress, said his members were more worried about “attacks” on their pensions than about wages. Still, strife between the government and its employees was not inevitable, in his view. "If they try to take away,
there will be pushback from unions for sure. If they bargain, it might work.”

Paradoxically, in countries where the public sector is big and dysfunctional, trimming it may be hardest because its employees have a strong sense of entitlement. At this week’s meeting of G20 labour ministers in Washington, DC, with union leaders also present, Mr Georgetti was struck by the militancy of his counterparts from Spain, Greece and Turkey. “They are angry about what’s happening in their economies, and the price they are paying. It’s very emotional for them.”
International efforts to police the net remain deadlocked

WHEN people talk about the digital divide, they usually mean the gap between people who are benefiting from the information revolution, and those who through lack of education or money are missing out. But at a United Nations conference in Brazil that concluded on April 19th, a different (though related) sort of divide was on show, and ten days’ chatter by over 100 countries failed to bridge it.

If there was one thing on which almost everybody agreed, it was that criminals are mastering computer technology much faster than most governments are learning to foil them. Rich countries say they are beset by fraudsters, pornographers and hackers operating from poor places where they will never be caught—because their “host” governments can’t or won’t stop them.

One response is the Budapest Convention, an accord launched at the Council of Europe in 2001, and ratified by the United States in 2006. One of its aims is to let authorities in one country give chase, at least electronically, to criminals in another.

But Russia has opposed the principle of “transborder access”, especially since 2000, when American agents hacked into the computers of two Russians who were defrauding American banks. Instead, Russia is backing a UN treaty which would be respectful of borders while also giving police more powers to shut down websites dealing in “propaganda.” Many countries like that idea—but not enough to push it through. For now, the only winners are the criminals.
Shareholders v stakeholders

A new idolatry
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The economic crisis has revived the old debate about whether firms should focus most on their shareholders, their customers or their workers

THE era of “Jack Welch capitalism” may be drawing to a close, predicted Richard Lambert, the head of the Confederation of British Industry (CBI), in a speech last month. When “Neutron Jack” (so nicknamed for his readiness to fire employees) ran GE, he was regarded as the incarnation of the idea that a firm’s sole aim should be maximising returns to its shareholders. This idea has dominated American business for the past 25 years, and was spreading rapidly around the world until the financial crisis hit, calling its wisdom into question. Even Mr Welch has expressed doubts: “On the face of it, shareholder value is the dumbest idea in the world,” he said last year.

In an article in a recent issue of the Harvard Business Review, Roger Martin, dean of the University of Toronto’s Rotman School of Management, charts the rise of what he calls the “tragically flawed premise” that firms should focus on maximising shareholder value, and argues that “it is time we abandoned it.” The obsession with shareholder value began in 1976, he says, when Michael Jensen and William Meckling, two economists, published an article, “Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure”, which argued that the owners of companies were getting short shift from professional managers. The most cited academic article about business to this day, it inspired a seemingly irresistible movement to get managers to focus on value for shareholders. Converts to the creed had little time for other “stakeholders”: customers, employees, suppliers, society at large and so forth. American and British value-maximisers reserved particular disdain for the “stakeholder capitalism” practised in continental Europe.

Now, Mr Martin argues, shareholder value should give way to “customer-driven capitalism” in which firms “should instead aim to maximise customer satisfaction.” This idea is winning some converts. Paul Polman, who last year became boss of Unilever, a consumer-goods giant, recently said to the Financial Times, “I do not work for the shareholder, to be honest; I work for the consumer, the customer…I’m not driven and I don’t drive this business model by driving shareholder value.”

Nor is it just customers who are expected to benefit from a backlash against the cult of shareholder value. Mr Lambert reports that a recent survey of the CBI’s members found that most expected that a “more
collaborative approach would emerge with various different groups of stakeholders”, including suppliers and the institutions that educate workers. And a forthcoming book by Vineet Nayar, the chief executive of HCL Technologies, a fast-growing Indian business-process outsourcing firm, takes a quite different position to Mr Martin, as is evident from its title: “Employees First, Customers Second”.

Has the shareholder-value model really failed, however? The financial meltdown has certainly undermined two of the big ideas inspired by Messrs Jensen and Meckling: that senior managers’ pay should be closely linked to their firm’s share price, and that private equity, backed by mountains of debt, would do a better job of getting managers to maximise value than the public equity markets. The bubbles during the past decade in both stockmarkets and, later, the market for corporate debt highlighted serious flaws with both of these ideas, or at least with the way they were implemented.

A firm’s share price on any given day, needless to say, can be a very poor guide to long-term shareholder value. Yet bosses typically had their pay linked to short-term movements in share prices, which encouraged them to take measures to push the share price up quickly, rather than to maximise shareholder value in the long run (by when they would probably have departed). Similarly, private-equity firms took on too much debt during the credit bubble, when it was available on absurdly generous terms, and are now having to make value-destroying cuts at many of the companies in their portfolios as a result.

In some ways the current travails of Goldman Sachs (see article) epitomise the problem. The investment bank embraced the maximisation of shareholder value when it went public in 1999. Although it insists that it does not live quarter to quarter, senior figures from its previous incarnation as a partnership, when it naturally championed the long-term interests of its employees (the partners), argue that it would have been much more wary in those days of any deals that made a quick buck at the risk of alienating customers. But, as Mr Lambert points out, “It wasn’t just the banks which had a rush of blood to the head. For a few years, a fair number of other companies seemed to put almost as much effort into managing their balance-sheets as into wooing their customers.” In his view, “If you concentrate on maximising value to shareholders over the short term, you put at risk the relationships that will determine your longer-term success.”

Yet this need not mean that the veneration of shareholder value is wrong, and should be replaced by worship at the altar of some other business deity. Most of those preaching reverence for other stakeholders concede that the two are usually not mutually exclusive, and indeed, often mutually reinforcing. Mr Martin, for example, admits that “increased shareholder value is one of the by-products of a focus on customer satisfaction.” Likewise, in India’s technology industry, where retaining talented staff is arguably managers’ hardest task, Mr Nayar’s devotion to employees, which he says has helped increase revenues and profits, may be the best way to maximise long-term shareholder value.

In other words, the problem is not the emphasis on shareholder value, but the use of short-term increases in a firm’s share price as a proxy for it. Ironically, shareholders themselves have helped spread this confusion. Along with activist hedge funds, many institutional investors have idolised short-term profits and share-price increases rather than engaging recalcitrant managers in discussions about corporate governance or executive pay.

Giving shareholders more power to influence management (especially in America) and encouraging them to use it should prompt them and the managers they employ to take a longer view. In America, Congress is considering several measures to bolster shareholders at managers’ expense. In Britain, the Financial Reporting Council has proposed a “stewardship code” to invigorate institutional investors. “This is a phoney war between shareholder capitalism and stakeholder capitalism, as we haven’t really tried shareholder capitalism,” says Anne Simpson, who oversees corporate-governance activism for CalPERS, America’s biggest public pension fund. “Rather than give up on shareholder value, let’s have a real go at setting up shareholder capitalism.”
Car-sharing revs up

Teaming up with the Joneses
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From The Economist print edition

Two start-ups aim to get car owners to share their vehicles with strangers

WHEN eBay, now the world’s biggest auction website, went online in 1995, many expected it to fail. Why would anyone buy used items from perfect strangers? Two new services—WhipCar, which was launched in London on April 21st, and RelayRides, which will start up in Boston, Massachusetts, early this summer—will face similar scepticism. Both aim to get car-owners to rent their vehicles to strangers when not using them themselves.

At heart, both offerings are online exchanges. Car-owners and drivers register, contact one another through the site and agree to a rental contract. To ensure that both parties are trustworthy, WhipCar asks, among other things, for details of both the rented car’s registration and the renter’s licence, and checks them against official data. It also provides insurance for the duration of the rental and a replacement car if there is an accident. In addition to these measures, RelayRides only accepts cars that have gone through a safety check and installs a device that allows them to be unlocked with a special card. This way, owners and renters do not have to meet, as they do with WhipCar.

Both firms allow owners to set the price, taking a 15% cut. Even with the insurance premium and other fees added in, the firms expect the rental price to be lower than using a conventional car-rental firm or an urban car-sharing club. WhipCar provides suggestions for the prices different cars might fetch in various neighbourhoods. Shortly after the site went live an Audi A4 in central London cost £10 ($15) an hour or £41 a day.

Will the idea take off? The main hurdle will be car-owners’ reluctance to share so personal a possession (and the requirement to keep it clean). The firms must also overcome a problem all exchanges face: attracting enough members to make the service useful.

Yet cars are expensive, underused assets. On average, a British car is driven for less than an hour a day but costs about £5,500 a year to own—a sum many would love to reduce in these straitened times. Drivers, for their part, are ever more willing to share a car. By 2016 some 4.4m Americans will be members of a car-sharing club, nearly ten times as many as today, projects Frost & Sullivan, a consultancy. On April 21st two big clubs, Britain’s Streetcar and America’s Zipcar, announced that they would join forces. Pooling assets, it seems, is all the rage.
Shareholder activism at Lagardère

Under siege
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From The Economist print edition

A French fortress is assailed by an American activist investor

Lagardère has an invincibility potion

AGGRESSIVE foreign shareholders have attacked several French firms in recent years. Both Valeo, a medium-sized car-parts firm, and Atos Origin, an IT company, changed their management and strategy following activist campaigns. Colony Capital, a property fund based in Los Angeles, helped shake up Carrefour, a multinational retailer. Alexander Vik, a Norwegian investor, made an unsuccessful run at Vivendi, a telecoms and entertainment firm. But the attempt by Guy Wyser-Pratte, a New York financier, to alter the corporate structure and strategy of Lagardère, a media firm, will be by far the most daring and difficult. Mr Wyser-Pratte is seeking a seat on the firm’s board at its annual general meeting on April 27th.

Lagardère, founded by one of France’s best-known entrepreneurs, the late Jean-Luc Lagardère, used to have interests in cars, telecoms and arms manufacturing as well as in media. It still owns a 7.5% stake in EADS, Europe’s aerospace and defence champion. Lagardère also has a stake in Le Monde, the newspaper of the French elite, and publishes Paris Match, a celebrity and news magazine. The world’s second-biggest publisher of books, it is behind Stephenie Meyer’s bestselling vampire novels and the comic-strip adventures of Astérix, a cunning Gallic warrior.

If Mr Wyser-Pratte wins a seat on the board, he will push for a change to the firm’s status as a limited partnership in which two general partners—Arnaud Lagardère, son of Jean-Luc, and a company that he controls—have unlimited liability for the debts of the firm in return for near-total control. The board’s powers are limited so that ordinary shareholders have little sway over the running of the company. Most shareholder proposals, for instance, must be approved in advance by Mr Lagardère, who owns less than 10% of Lagardère’s shares.

Such an arrangement, which virtually precludes a takeover, is very unusual among large French firms, according to RiskMetrics, an advisory service for institutional investors. Of the 84 companies with a market capitalisation of more than €3 billion ($4 billion), it says, only two others, both family-owned, have the same structure. In addition to a change of status, Mr Wyser-Pratte wants a strategic review of Lagardère’s various businesses, following a period of poor performance relative to its peers.
Mr Wyser-Pratte needs 51% of the votes cast at the AGM to get on the board. RiskMetrics is backing his campaign, meaning that institutional investors such as Alliance Bernstein, a French-controlled fund manager which is Lagardère’s biggest shareholder with a 10% stake, are likely to vote for him. But a subsequent change to the firm’s status is unlikely. Mr Lagardère has the right to veto any such move and recently said that switching to a standard corporate structure was out of the question.

Nevertheless, Mr Wyser-Pratte has found a vulnerable target. “I usually first hear of my target companies through local word of mouth,” he says. “Several highly-placed French executives set me on Lagardère.” Many senior French business people reckon that Mr Lagardère has not got to grips with the company he inherited. “He’s not seen as a business person, but as someone with a passion for just one part of the media—sport,” says an influential investor in Paris. Mr Lagardère is currently expanding the firm’s sports-rights business.

Lagardère’s problems, however, may have more to do with the woes of print media than with Mr Lagardère himself, although he has intensified the group’s focus on media. According to RiskMetrics, Lagardère’s share price has fallen by 43% in the past five years, leaving it lower relative to the firm’s profits than the shares of its European media rivals. The main reason for this, says Charles Bedouelle of Exane BNP Paribas, a brokerage, is that Lagardère is far more exposed to print products, which are in sharp decline. Lagardère’s distribution division, for example, which ships printed material out to retail stores, has fixed costs and direct exposure to tumbling newspaper and magazine circulation. “The business is not badly run,” says Mr Bedouelle, “but they’re in some unattractive areas.” Lagardère has just put a 20% stake in Canal+, a pay-TV firm which it judges peripheral to its strategy, up for sale. That is unlikely to quell its critics.
After a slow start, internet shopping explodes in China

A WOMAN living in Shanghai takes a long time to list all the items she has bought online in recent months: an iPod, a blender, a lamp, a rice cooker, a mobile phone, credit for it, a coffee-maker, coffee to put in it, Levi’s jeans (both real and counterfeit), underwear, paper, milk, snacks, toilet paper, butter, shampoo, DVDs and even some pretty orange fish for her aquarium. She also bought a few electric bicycles online and resold them at a profit to Americans via eBay, but has had to scrap this sideline thanks to stiff competition from other online entrepreneurs. Consumers in some places (notably America) have been slow to use the internet to make everyday purchases such as groceries. But in China the low cost of delivery and the high cost of property are feeding an e-tailing frenzy.

Online retailing had lagged in China, thanks both to a relative scarcity of internet access and the lack of a trusted payment system for e-commerce. Financial regulators had no intention of allowing non-Chinese systems like PayPal to enter the market until strong domestic companies had established themselves. But both of these issues have now been resolved. Computers, internet cafés and web-browsing mobile phones have become ubiquitous. A local firm, Alibaba, has come up both with a popular electronic trading platform, Taobao, and an electronic payment system, Alipay (in addition to its business-to-business exchange, which is listed in Hong Kong).

With the building blocks in place, the growth of both formal e-tailing and the more informal sort of online entrepreneurship has been stunning (see chart). As elsewhere, customers have been quick to buy clothing and consumer electronics online. But many other goods are also increasingly bought via the internet. Nielsen, a consumer-research firm, says that two-thirds of Chinese households with internet connections bought an everyday item online in the past six months, and half of all wired households with babies have bought nappies or formula online. Surveys suggest that more than 10% of baby gear is now sold online, along with a growing share of cosmetics. The most common item Unilever sells through Taobao is Lipton’s tea; the consumer-goods firm cleverly matches offline advertising campaigns to online promotions. In other markets, all of these products are typically bought in shops.

Goods are generally sold online at an even greater discount relative to bricks-and-mortar stores in China than elsewhere: a survey by Credit Suisse revealed an average discount of 21%. That is partly thanks to competition, as Chinese entrepreneurs have rushed to set up websites to exploit any pricing inefficiency. Equally important, delivery costs next to nothing. For five yuan ($0.73) swarms of scooter drivers are willing to deliver almost anything to anyone in Shanghai and many other cities in less than an hour,
although how they make a decent return on their frenetic efforts is a mystery. Alternatively, distribution is sometimes done through warehouses that frequently relocate, thus taking advantage of temporary deals and avoiding the costs that come with China’s arcane, overheated and often corrupt property market.

Aside from shoppers, who get better prices and more convenience, the biggest beneficiaries of this shift are products that have well-known, trusted brands, since these are the easiest to peddle online. That has been a huge boost for Western firms, which have otherwise often found themselves at a disadvantage in the Chinese market. They continue to sell through big retailers too, but most of those are also scrambling to add online capacity.

Awkwardly, this leaves retailers selling the same product at different prices online and in their stores. Gome and Suning, the two biggest electronics chains, offer discounts online. Clever buyers visit a branch to take a look, and then order via the internet. The cannibalisation of higher-margin sales must be painful, but the reasoning is easy to understand: if the retailers do not undercut themselves, thousands of resourceful web-surfers will.
A plan for Fiat and Chrysler

Let there be two Fiats
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From The Economist print edition

Serio Marchionne, the boss of both the Fiat Group and Chrysler, likes to spring surprises. At a marathon presentation in Turin of his five-year plan for Fiat on April 21st he confirmed, as expected, that he is planning to separate Fiat’s other businesses from Fiat Auto as a precursor to creating a combined entity with Chrysler. But he also revealed, to the amazement of many, that Chrysler, in which Fiat received a 20% share last summer as part of a deal with the American government to turn the bankrupt carmaker around, had made an operating profit of $143m in the first quarter. Just as significantly, Mr Marchionne announced that its net debt had fallen from $8 billion in November to $3.8 billion.

Although it may have taken a good deal of financial engineering to produce such numbers, Fiat is easily exceeding its targets for restoring its affiliate to (at least short-term) health. Relatively undemanding milestones will quite soon take Fiat’s stake in Chrysler up to 35%. This, along with the news that John Elkann, a 34-year-old scion of the Agnelli family which holds a controlling interest in Fiat, would replace Luca di Montezemolo as chairman, cheered investors. Mr Elkann is also chairman of Exor, the Agnellis’ listed investment company which holds a 30% stake in Fiat. He has consistently supported Mr Marchionne in his efforts to transform Fiat’s subscale car business. Since last year that has meant backing him in the deal with Chrysler and the failed attempt to carry off a second distressed asset in the form of General Motors’ European unit, Opel/Vauxhall. Unlike Europe’s other great automotive dynasties—the Peugeots and the Quandts of BMW—Mr Elkann (who is a director of the Economist Group) appears more interested in unlocking value than in preserving family control.

Mr Marchionne believes that spinning off Fiat Industrial, which will include CNH, a producer of farming and construction equipment and Iveco, a truckmaker, will give those businesses, which currently account for 35% of group sales, greater visibility. Meanwhile Fiat Auto, which will remain in the holding company, will be free to gain scale from mergers or partnerships with other car firms and to raise capital.
Inevitably, investors remain focused on Mr Marchionne’s efforts to revive Chrysler. Despite this week’s good news, some scepticism is still warranted. The target of gaining a 14% share of the brutally competitive American market by 2014, compared with today’s 9%, looks optimistic in the extreme. The new model pipeline is still bare, with few genuinely new vehicles due before 2013, when Fiat-based cars should begin to appear. There must also be some doubt whether Fiat, whose main expertise lies in small cars, can steer to safety a firm whose sales have historically depended on light trucks. A recovery in the housing market should give a lift to the still-fresh Dodge Ram pickup, by far Chrysler’s most profitable product. But as Max Warburton of Bernstein Research argues, Chrysler came back from the dead in the past thanks to defining vehicles such as the Voyager minivan and the Grand Cherokee SUV. Unless it has a saviour model up its sleeve now, it will struggle.

Even if Mr Marchionne ultimately fails, Fiat will still get something of value—the Jeep brand and cut-price re-entry to North America for Fiat and Alfa Romeo using the remnants of Chrysler’s dealer network and manufacturing base. Whether that will be enough to justify the spinning off of Fiat Industrial is hard to say.
A rare victory against piracy

Repelling the attack
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From The Economist print edition

South Korea’s music industry succeeds in fending off pirates

CAN the battle against music piracy be won with sweeping new laws? In one country the answer appears to be yes. A year ago South Korea tightened copyright laws and allowed media firms to demand that warnings be sent to people who flout them. If they ignore three such warnings, their broadband connection can then be cut. This provided the model for “three strikes” laws subsequently passed in France and Britain. New figures from the South Korean branch of the International Federation of the Phonographic Industry (IFPI) suggest the pioneering law has had an effect. Music sales rose by more than 10% in 2009, to $159m. In the music business any trend other than a decline is noteworthy.

It is a recovery from an extremely low base. South Korea is a leader in both broadband connections and piracy. In 2004 the American government put it on a watch list for failing to protect intellectual property. International media firms, which had been drawn to the country by the pan-Asian “K-pop” boom, wrote it off.

The revival of music sales is not solely attributable to the new law, however. Sales rose more steeply between 2007 and 2008, before it came into effect. And it is just part of a blizzard of anti-piracy activity. In 2007 the supreme court ruled that Soribada, a popular music-sharing website, had infringed copyrights. In the same year all “online service providers”—a category that includes peer-to-peer services—were required to take down pirated files. The government also launched an education campaign. It is hard to know which of these measures are working, but something is. The number of copyrighted music files found online by the government dropped by a remarkable 92% between 2008 and 2009.

Music piracy has certainly not disappeared. “It wasn’t as though the law came into effect and all illegal activity stopped,” says Maysee Leong of the IFPI. Keen pirates simply pull music from Chinese sources instead of local ones. And an important factor in the revival of South Korea’s recorded-music business was the launch of legal music-subscription websites, including a cleaned-up Soribada. In contrast with music, the supply of pirated video files has not declined at all.

South Korea’s model will be tricky to emulate. Its music business is small, and much smaller than it used to be. In 2000 it was worth $202m. And, as Beom Joon Yang of Universal Music explains, South Koreans are unusually proud of their country’s exports of culture as well as things like televisions. Governments that try to enact three-strikes laws tend to emphasise their revivifying effect on local film and music industries. In France and Britain such arguments meet with shrugs, but in Korea they go down well.
C.K. Prahalad’s death on April 16th has deprived the world of a great management thinker

COIMBATORE KRISHNARAO PRAHALAD, universally known as C.K., was the most creative management thinker of his generation. He revolutionised thinking on two big subjects, business strategy and economic development, and made a significant contribution to a third, innovation. His admirers were legion, including bosses of some of the world’s biggest companies, heads of NGOs and founders of scrappy start-ups.

Mr Prahalad burst onto the management scene with two path-breaking articles in the Harvard Business Review, "Strategic Intent" (1989) and "The Core Competence of the Corporation" (1990), and a bestselling book, “Competing for the Future” (1996), all co-written with his former pupil, Gary Hamel. "Core competence" remains one of the most frequently reprinted articles ever published by Harvard Business Review.

Mr Prahalad shifted the focus of strategic thinking dramatically. He believed firms should seek not simply to position themselves well within their existing markets but to capitalise on their advantages to redefine markets in their favour. That, he argued, involves identifying and developing strengths, such as logistics or miniaturisation, that cannot easily be imitated by competitors. Firms should then “stretch” those skills to the maximum, setting themselves ambitious and industry-transforming goals, and using those goals to galvanise their workers. He cited a long list of successful Japanese companies, such as Sony, Canon and Komatsu, which had done just that.

Mr Prahalad was particularly struck by the ability of these firms to harness the ideas of their humbler employees. And, later in his career, he became increasingly fascinated by innovation. He argued that company-centric innovation was giving way to “co-creation”, in which firms collaborate with their customers and business allies. He also shifted his attention to the legion of small businesses that were redefining the corporate world.

Mr Prahalad’s work on strategy and innovation turned him into a superstar. He sat on the board of several prominent companies, including Hindustan Unilever and Pearson (which is a part-owner of The Economist), and worked as a consultant for others, including AT&T, Citigroup, Oracle and Philips. He
subjected these corporate titans to often coruscating questions about their ability to "compete for the future". He commanded huge speaking fees and lived in grand houses in Michigan and California.

But his native India always tugged at Mr Prahalad’s heartstrings. He was a leading member of Indus Entrepreneurs, a self-help group for Indian entrepreneurs. He was haunted by the contrast between the rich world he inhabited and the poor world he had grown up in. This led him to veer off in a radically new direction—and to produce perhaps his most thought-provoking book. “The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits” (2004) was a counterblast against two types of intellectual laziness: that of corporate titans who were ignoring the bulk of humanity and that of humanitarians who regarded profit as a dirty word. He argued that the world’s poor represented trillions of dollars’ worth of pent-up spending power. And he demonstrated that a legion of innovative companies in the developing world, including several in his native India, were learning how to turn these people into paying customers.

The book proved to be perfectly timed. Companies were waking up to the fact that technological innovation and economic reform were opening up new markets in poorer countries. Firms from those countries were growing in confidence. And academics were recognising the limits of their state-sponsored view of development. Mr Prahalad was lionised in the emerging markets, particularly in India, and hailed by corporate philanthropists, notably Bill Gates. The United Nations gave him a seat on its commission on the private sector and development.

What made Mr Prahalad such a creative thinker? And why was he able to keep reinventing himself when his fellow gurus were happy to trot out the same ideas for ever-rising lecture fees? For all his success, he was an outsider in the American-dominated world of management theory. He was one of nine children of one of Chennai’s leading judges and Sanskrit scholars, and spent a formative period in his youth working for Union Carbide, an American chemicals firm which later became infamous for the deadliest industrial accident in history, at a factory in India.

This outsider’s view went hand in hand with intellectual restlessness. Mr Prahalad invariably worked with a collaborator and never wrote more than two articles on the same subject. This gave his work an unfinished air. He did not revisit the idea of “core competences” in the light of the poor performance of some of the Japanese Godzillas he once worshipped, nor the idea of “stretch” in the wake of the epidemic of over-leveraging. Nor did he provide a satisfactory reply to critics who argued that the real promise of emerging markets lay in the middle of the pyramid.

**Preaching, not practicing**

This impatience led to one of the few failures of Mr Prahalad’s otherwise gravity-defying career. In 2000 he co-founded a software company, Praja, which was meant to act as a test bed for his ideas, particularly his commitment to bringing information to ordinary people. Instead, it ate up millions of his own dollars and was sold off two years later. He concluded that he was no good at the “blocking and tackling” that fills most managers’ days.

But then Mr Prahalad’s core competence lay in big ideas rather than in dotting the “i”s and crossing the “t”s. He taught the world’s biggest companies to think of themselves anew, as a “portfolio of competencies” rather than as a “portfolio of businesses”. He taught everyone to see the developing world not as an also-ran but as a vortex of innovation and creativity. The world of management theory has more than its fair share of charlatans, but C.K. Prahalad was the genuine article.
Volcanoes and air travel

Small eruption in Iceland

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From The Economist print edition

A cloud of ash from an Icelandic volcano shut European airspace for several days. Our first article examines the science of volcanic emissions. Our second looks at the past week's disruption of travel

SOME natural disasters, like the Indian Ocean tsunami of 2004, strike out of the blue. Only with hindsight do they come to look like the sort of thing people should have been prepared for. Other events get dress rehearsals. The eruption of Eyjafjallajokull in the south of Iceland was one of these. In February 2008 officials from air-traffic-control services across Europe, as well as representatives of weather services and airlines, ran an exercise that simulated a strikingly similar eruption. The volcano they chose was not Eyjafjallajokull, but its neighbour, Katla; the weather conditions were not quite the same. But the procedures were.

Given the details of the hypothetical eruption, the Volcanic Ash Advisory Centre, London—one of nine regional centres that between them provide such services for more or less the whole world—set its computer models running. Representations of the volcanic plume were introduced to the weather-forecasting models used by Britain's Met Office, VAAC London's home base, and the modellers foresaw hypothetical ash sweeping down the North Sea into the Benelux countries and eastern England by the end of the day. They passed their findings on to the air-traffic controllers, who started looking at the practicalities of getting warnings out, rerouting hundreds of flights and cancelling a thousand more. The exercise differed from the real thing in some crucial ways: it ran for only a day, and it hardly affected anyone who wasn't an air-traffic controller. Eyjafjallajokull's eruption, in contrast, caused British airspace and that over much of the rest of Europe to be closed on April 15th, and to remain shut for five days of mounting chaos (see article).

The ban was imposed because once the ash cloud, as predicted by VAAC London, had spread out far enough it was hard to get any routes through it. The various regulators (in Britain, the Civil Aviation Authority, or CAA) had taken the view that anywhere in the region where the ash was predicted to have spread was a no-go zone.

Fire and ice
No one denies that volcanic ash can cause jet engines to fail in flight. An engine's heat melts the fine-ground rock, which proceeds to encrust the cooler parts of the mechanism, stopping it from working. Lower concentrations can damage engines without having an immediate effect on how well they work. But where the boundaries between danger, potential damage and safety lie, and how they vary with the type and number of ash particles, was not taken into account in the decisions to close airspace. Things were made worse by the fact that the computer models of the ash cloud's dispersion gave only a very broad sense of where the ash might be.

That is a lot better than nothing, at least for nuclear fallout (for which the model was first developed): the case for being safe not sorry is overwhelming, and once the fallout has fallen, a Geiger counter will tell you whether the model's forecasts of which places would be affected have turned out to be right. It is less useful for ash which has yet to fall and instead is distributed, in clumps and layers, at various altitudes and thus in different wind conditions through a large patch of atmosphere. If that large patch of atmosphere were over Russia's Kamchatka peninsula, or some other remote but volcanic region, the uncertainty would not be so bad, as it could, at a price, simply be skirted round. When the forbidden zone stops aircraft getting in or out of Heathrow, Schiphol and Charles de Gaulle, things get a bit more desperate.

Over the weekend both airlines and research agencies made test flights. Air France-KLM, British Airways, Lufthansa and others carried out over 40 flights. Subsequent engine inspection apparently revealed no unacceptable damage. On April 21st the CAA established a new rule, deeming regions thought to have less than 2,000 micrograms of dust per cubic metre safe for flight. That threshold, the CAA says, was provided on the basis of data from equipment-manufacturers; Rolls-Royce, the leading European maker of jet engines for airliners, has made no comment on this. The new safety level is about 100 times higher than the background level of dust at ground level. It is also considerably higher than anything seen by research aircraft over Britain since the eruption started; those flights have encountered no patches of sky with an ash density of more than 400 micrograms per cubic metre, 20 times the background level.

If the exercise two years ago did not capture the range of problems that an Icelandic volcano might cause, it did show that the general situation was entirely foreseeable. A ridge of submerged mountains runs down the middle of the Atlantic Ocean; Iceland is the result of a "hotspot" in which material rises from deep within the Earth, pushing part of this ridge up into the air. Both hotspots and mid-ocean ridges are volcanic, so Iceland is doubly so. It boasts a fearsome array of volcanoes, 33 of which have erupted once or more since the end of the last ice age, around 12,000 years ago.

As these volcanoes go, Eyjafjallajokull is neither very big nor particularly prolific. It has erupted only three times since Iceland was settled in the ninth century. That is why the air-traffic exercise planners chose Katla, 25km (16 miles) away; it typically erupts every 30-80 years, and in a much more spectacular way. But a combination of circumstances meant that, though comparatively small, Eyjafjallajokull's current eruption punched above its weight in the ash-production league in its early days, emitting much more fine ash than is normal. Fine ash can travel farther than the heavier stuff, but still does a lot of harm to engines if encountered in significant quantities.

The fineness of the ash in this case is unusual, says Thorvaldur Thordarson, an Icelandic volcanologist. Most ash particles are normally 50-100 microns (millionths of a metre) across. But at a site 50km east of the eruption, a quarter of the ash falling to the ground was in the form of particles of ten microns or less. Studies of ash captured from the air show that for every one of the largest particles (about 300 microns) there are a million or more with a size of only around two microns. So though the total volume of the eruption, put at about 0.14 cubic kilometres, is low, the amount of ash capable of travelling long distances is high. A lot of fine ash, along with weather conditions which spread it out over Europe, rather than blowing it to Greenland or the Azores, or washing it from the skies in large rainstorms, kept the warnings from VAAC London flowing.

Two factors have contributed to the high volume of fine ash. One is the composition of the lava. The more viscous lava is, the harder it is for gases within it to bubble out. This tends to make it explosive, throwing ash into the air. Eyjafjallajokull's lava is, by Icelandic standards, quite viscous. The other factor is the presence of water. Direct contact of molten lava with water or ice also leads to explosions which eject fine dust. A small ice cap on top of Eyjafjallajokull has promoted such shenanigans.

Eyjafjallajokull's most recent previous eruption, from late 1821 to early 1823, also had quite viscous lava. But that does not mean the volcano produced fine ash continuously. It settled into a pattern of flaring up every now and then before dying back to a grumble. If this eruption continues for a similar length of time, it would seem fair to expect something similar. The effects of water and ice, too, are likely to be intermittent, and to trail off a bit as the reserves on top of the mountain are used up.
Hot history

What of the other volcanoes on the island? Katla is getting a lot of attention because past eruptions of Eyjafjallajökull seem to have acted as harbingers of eruptions by its larger neighbour. Although there is no geophysical evidence for a causal relationship, neighbouring volcanoes can share some plumbing, and only when that plumbing started gurgling into action would its existence become clear.

Volcanologists disagree about the importance of this possible link, but they agree that Katla’s next eruption is overdue—it last went off in 1918—and some suspect that its tardiness may translate into a particularly impressive show of strength. Katla’s eruptions can be 100 times larger than what is going on at Eyjafjallajökull. This would be far more disruptive for the people living in southern Iceland: a couple of hours after an eruption started, a huge flood from underneath Katla’s ice cap would sweep away roads to the south, which is one reason why the mountain is particularly well monitored. It could also do harm much farther afield. A big eruption, thought to be one of Katla’s, left ash all across northern Europe about 10,300 years ago. When explosive volcanic eruptions in Iceland and elsewhere in the Arctic are large enough to insert significant long-lasting hazes into the upper atmosphere, they seem able to change weather patterns around the world. There is some evidence for their weakening the flow of the Nile and disrupting monsoons.

Katla is not the worst that Iceland can do. Its volcanoes do not have the explosive oomph of some eruptions in the “ring of fire” around the Pacific, such as those of Tambora and Krakatoa in the 19th century, let alone the prehistoric eruptions of Taupo, in New Zealand, and Toba, in Indonesia, which were large enough to have severe, if short-lived, effects on the global climate (see chart). But the eruption of Oraefajökull, in the south-east of the island, in 1362 is thought by some to have eclipsed that of Mount Vesuvius which destroyed Pompeii and Herculaneum in 79AD. It may have been the biggest bang in Europe since the eruption in the 17th century BC of Santorini, which devastated the Minoan civilisation on nearby Crete. Nor is explosive power the only measure of a volcano’s spitefulness. The eruption of Laki, an Icelandic volcanic fissure, in 1783 sent poisonous gases across Europe.

Another concern is that Iceland’s volcanoes, especially those under its central ice cap—which, other things being equal, will produce more explosive plumes if they break through—seem to show a cycle in activity, perhaps due to the hotspot that feeds them. On this reading of the record, activity can be expected to increase for the next 40 years or so. The past few decades have been one of the quiet patches. It seems likely that the first 50 years of jet travel across the North Atlantic enjoyed particularly clear skies.
BY THE early hours of April 15th, Britain’s air-traffic controllers feared the worst. They had hoped the wind would carry the ash from Eyjafjallajökull south-east of the country, but the wind had changed. Guided by computer models used by volcanic-ash watchers at the Met Office, the air-traffic agency said it was withdrawing service. British airspace was closed.

As the ash cloud spread eastwards, northern Europe’s airports shut down one by one, stranding millions of passengers, many of them attempting to return from Easter holidays, all over the world. On April 17th nearly 17,000 flights to and from Europe were cancelled out of about 22,000 on a normal day. With weather forecasts suggesting that the cloud might not budge for five days and talk of months of disruption, desperate travellers began trying to get home by any means possible.

Trains and coaches filled up; car-rental firms were ransacked for vehicles, despite rocketing prices; the most affluent and impatient hired taxis to drive them home or to Channel ports. A rail strike in France did not help. Britain’s prime minister, Gordon Brown, mindful of the general election next month, said three naval vessels would be sent to rescue stranded Britons abroad. (Only one was.) Those stuck in the Americas or Asia could try to get an over-booked flight to southern Europe and then strike north over land or just sit it out.

Meanwhile, the airlines were becoming more and more restless. Some suspected that the models used to justify the flight ban were based on sketchy data and incomplete science. IATA, their trade body, claimed the disruption was costing them up to $400m a day in lost revenues and passenger compensation. European airlines are obliged to provide hotels and food for passengers awaiting re-routing, and European airports say they have lost €250m ($336m). IATA’s boss, Giovanni Bisignani, said governments were not basing their actions on fact: “We must”, he said, “make decisions based on the real situation in the sky, not on theoretical models.”

Dozens of test flights by airlines reported no damage to aircraft or engines. British Airways’ pugnacious
boss, Willie Walsh, who was aboard one of the flights, said: “Since airspace was closed...our assessment is that the risk has been minimal.” Airlines, he said, were best placed to assess the risks to aircraft, crew and passengers.

Other airline bosses agreed with Mr Walsh. Both BA and KLM, after all, had direct experience of what flying through volcanic ash can do to a high-bypass turbofan jet engine. In 1982 a BA flight hit a cloud of ash over an Indonesian volcano and all four engines stopped. In 1989 a KLM 747 survived a similar experience over Alaska. These incidents led directly to today’s European safety procedures.

By the time European transport ministers finally met, by video conference, on the morning of the 19th, airlines were up in arms. The European Union’s transport commissioner, Siim Kallas, promised greater co-ordination between the 38 member states of Eurocontrol, the body supposed to integrate air navigation services across Europe, and a more dynamic approach to risk assessment. Planes would be allowed to fly through the thinner parts of the plume. The next day, restrictions were eased across much of Europe and flights began. But the no-fly zone still applied to most of Britain, and a new cloud of volcanic ash was reported to be on its way.

Mr Walsh’s patience with what he saw as foot-dragging by Britain’s regulator, the Civil Aviation Authority (CAA), was at its limit. He ordered 26 BA planes at different long-haul destinations to be flown to their London bases, Heathrow and Gatwick. The gamble worked. At first British air-traffic controllers told the approaching aircraft that they would not be allowed to land, but at 8pm the CAA suddenly announced that “new guidance” would allow “a phased reintroduction” from 10pm. There would still be some no-fly zones, but they would be much smaller and did not cover Britain. Flying, according to the British government’s chief scientific adviser, John Beddington, was “completely safe” again. Although airlines gave warning that it would take several days for services to return to normal and for all passengers to be flown home, the crisis was over.

The blame game, however, was only just beginning. Last year, in the grip of the recession, Europe’s airlines lost $3.8 billion. IATA was forecasting a loss of $2.2 billion this year, but its chief economist, Brian Pearce, now thinks the figure will be nearer to $4 billion. BA was losing £20m ($31m) a day and Air France-KLM half as much again; even Dubai-based Emirates lost $50m in the first five days of disruption. The bigger airlines had enough cash to survive for a while, but demands for state compensation—and for changes to costly passenger-rights rules—are growing.

In the longer term, Mr Bisignani believes that the past week’s events will spur completion of the “Single European Sky”, an attempt to pool sovereignty over airspace. The airlines want Europe to adopt a system for dealing with volcanic-ash eruptions similar to that in America, where the Federal Aviation Authority gives carriers information and data but lets them make their own risk assessments. Europe now seems to be heading that way. The CAA’s revised guidance says airlines should conduct their own risk assessments, look for ash damage before and after flights and report any incidents to the regulator.

Gauging the economic impact of the crisis is as difficult as predicting when and where the next cloud of ash will appear. Industries other than travel have been little affected. Almost all the world’s freight goes by sea, rail and road. That said, the 2% by volume that goes by air accounts for around 35% of the value: light, expensive goods such as high-end electronic components tend to be flown. Exporters of perishables, such as flower and vegetable producers in Kenya, suffered immediate damage. An estimated $8m-worth of blooms have been destroyed and several thousand casual workers sent home. Carmakers were beginning to worry about interrupted supplies of electrical components from Asia slowing production lines.

According to Bruno Sidler, the chief operating officer of CEVA, which manages logistics and freight for companies in 170 countries, European manufacturers are vulnerable to any big supply shock because they have run down their inventories over the past two years to conserve cash. However, their response to dodging a bullet this time, he thinks, will not be to rebuild their supply chains but to “take a chance on this not happening again.” That will be the reaction of many people—even the holidaymakers caught in the chaos.

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WHEN he was a child, Warren Buffett had an awe-inspiring encounter with Sidney Weinberg, Goldman Sachs’s legendary leader, sparking a lifelong affection for the bank. These days the super-investor’s admiration for Wall Street’s most powerful firm, cemented by an investment during the recent crisis, puts him in a minority—and one that shrank further when, on April 16th, the Securities and Exchange Commission (SEC) accused Goldman and one of its employees of fraudulently misrepresenting structured instruments tied to subprime mortgages. The civil charges have dented the firm’s aura of invincibility, sent shivers across Wall Street and possibly (and perhaps not coincidentally) changed the calculus of regulatory reform.

The case centres on a synthetic collateralised debt obligation that Goldman structured and marketed. It told investors that the securities bundled together to form the CDO, known as ABACUS, had been selected by an independent “collateral manager”, ACA. The SEC alleges that Goldman failed to disclose that Paulson & Co, a hedge fund that also had a hand in choosing what went in, had bet that the CDO would perform poorly. This gave it an incentive to select securities that would bomb—and bomb they did, costing investors, including IKB, a German bank (see article), and ACA itself, $1 billion. The employee, Fabrice Tourre, is alleged to have misled ACA into believing the hedge fund was a long investor.

Such charges are usually announced along with a settlement. But Goldman’s determination to fight—with help from a former White House counsel—is not surprising, given what is at stake. The charges are sharply at odds with the firm’s jealously guarded self-image as a paragon of integrity. Goldman sees itself as “long-term greedy”, preferring to forgo profit today rather than to alienate a client.

Many outsiders think the crisis exposed this characterisation as bogus. The popular narrative is that Goldman uses its privileged trading position in capital markets to double-deal, favouring some clients more than others, but above all favouring itself; that it sneakily sought to profit from the crash; that its alumni in high places helped it manipulate the bail-out; that it contributed to the global fiscal crisis by helping Greece and other countries mask their debt; and so on. The media have heaped on the pressure, comparing Goldman to a vampire squid and mocking its boss, Lloyd Blankfein, for suggesting, albeit tongue-in-cheek, that it was doing “God’s work”. An insider admits that the fraud charges will “fan the
flames”.

Still, the SEC must prove its case. The regulator has helped itself by boiling it down to a fairly straightforward failure of disclosure. But lawyers say it is a gamble, reflected in the commission’s three-to-two split on whether to proceed. The investors were sophisticated (on paper, at least) and the securities unregistered, reducing underwriter liability. Much of structured finance is uncharted territory for litigation. Only months ago, America’s Department of Justice lost a high-profile legal battle against two hedge-fund managers from Bear Stearns (although criminal cases have to clear a higher bar than civil cases).

Whether or not Goldman settles—if it doesn’t, the case could drag on for years—the monetary damage will be manageable. With $73 billion in shareholder equity, it could survive penalties of several times investors’ losses. More worrying is the possibility that its deep base of clients will begin to lose faith. So far they have remained loyal. Goldman posted stellar first-quarter net profits of $3.5 billion this week, driven by strong trading income. It even announced a share buy-back.

At a minimum, though, Goldman faces “headline risk”, likely further probes and distractions from running the business, says Mike Mayo, an analyst with CLSA. The board is firmly behind Mr Blankfein, but a top-level sacrifice may eventually be needed, especially if the firm’s legal troubles escalate. Britain’s Financial Services Authority has launched an investigation. Frank Partnoy of the University of San Diego’s law school expects class-action and other private suits over, among other things, Goldman’s failure to inform markets last year that it had received notification of a probe. IKB is considering its options, as is AIG, which lost a fortune selling Goldman credit protection on duff CDOs.

Goldman is not alone. It was far from the biggest CDO underwriter in the go-go years (see chart). A number of banks worked with hedge funds that wanted to short housing. The newly muscular SEC is scrutinising other deals. The rating agencies that gave CDOs such absurdly high ratings, though not named in the ABACUS case, should also worry.

Some question the SEC’s timing. The decision to attack Wall Street’s bogeyman-in-chief just as the White House makes a big push to get its financial-reform bill through the Senate is certainly striking. It raises “serious questions about the commission’s independence and impartiality,” said Darrell Issa, the top Republican on the House Oversight Committee.

Whatever the motive, the charges will increase pressure on Republican senators, already wary of being cast as Wall Street’s buddies, to compromise, reckons Douglas Elliott of the Brookings Institution, a think-tank. For many Americans, clamping down on banks is almost as big a concern as jobs, says Ted Kaufman, a Democratic senator. As The Economist went to press, Democratic leaders were hoping to bring the bill to the Senate floor within days.

The Goldman case could make it harder to see off draconian legislative proposals, such as a plan to force
banks to divest their swaps-trading units. Combined with higher capital charges for trading and with the Volcker rule, which would ban banks from proprietary trading and investing in hedge funds and private equity, these would hit capital-markets businesses hard. Goldman is arguably the most exposed: 80% of its first-quarter net revenue came from trading and principal investments.

Writing the firm off would be foolhardy. It has recovered from adversity many times. Its risk management is top-notch, its people super-smart (and don’t they know it). For all its ham-fisted PR, it has, so far, been able to ride out its image problems. But now it must defend itself, both in the court of public opinion and also, quite possibly, in courts of law. And where Goldman goes, much of Wall Street could be dragged.
"WHO’S on the other side, who’s the idiot?” is the question posed by one of the characters in "The Big Short", Michael Lewis’s new book on those few investors who bet against the subprime-mortgage market. “Düsseldorf. Stupid Germans,” is the answer they keep getting. “They take rating agencies seriously. They play by the rules.”

For Düsseldorf, read IKB Deutsche Industriebank, a bank that plays the role of hapless victim in the SEC’s complaint against Goldman Sachs and a strong contender for the title of leading chump in the financial crisis. This was a firm that was supposed to lend to Germany’s famed legion of middle-sized companies, or Mittelstand. When about one-third of the bank came onto the market in 2001, KfW, Germany’s state-owned development bank, bought into IKB to “maintain its role as a key provider” of finance to small businesses.

But instead of just sticking to the dull but profitable business of keeping the engine of Germany’s economy turning, IKB turned its hand to dabbling in America’s housing markets. IKB was far from being the only German bank to burn its fingers doing so. WestLB, a fellow-citizen of Düsseldorf, has had to be rescued four times in the past four years after it managed to accumulate a portfolio of €85 billion ($114 billion) of toxic assets that are now worth a fraction of that value. Most German Landesbanken suffered from poor governance. “All these toxic assets seem to have accumulated in those places where oversight was poorest, and the risk-return ratio was ignored,” says Jörg Rocholl of the European School of Management and Technology in Berlin.

Yet even by these dismal standards, IKB stands out. It was one of the first banks to be bailed out, in the summer of 2007, and its reliance on investments in structured finance was extreme. “Between 2002 and 2007 almost all of their profits came from the capital markets,” says Achim Dübel, a consultant in Berlin. “Almost none came from their Mittelstand business. The question is why they were allowed to go from funding the Mittelstand to being invested in American mortgages.” One possible reason was poor oversight
by KfW—another contender for the chump title after it mistakenly transferred €300m to Lehman Brothers on the day the American investment bank filed for bankruptcy.
Funds of hedge funds

One and ten, never again?
Apr 22nd 2010 | NEW YORK
From The Economist print edition

Funds of funds try to prove their worth

DAVID SWENSEN, Yale University’s investment guru, has called them “a cancer on the institutional-investor world” and says they “facilitate the flow of ignorant capital”. His distrust of funds of hedge funds, which channel investors’ money to a portfolio of managers, is apparently shared. Investors allocated nearly $26 billion of new capital to single-manager hedge funds in the first quarter of this year but withdrew around $12 billion from funds of funds. At the end of 2007 funds of funds controlled around 43% of assets under management in the industry; by the first quarter of 2010 their share had fallen to 34%, according to Hedge Fund Research.

The most dramatic reason for this shift is Bernie Madoff, perpetrator of the world’s largest Ponzi scheme. Investors pay funds of funds to avoid the likes of Mr Madoff by carrying out the due diligence they lack the time or resources to perform themselves. But some big funds of funds fell victim to Mr Madoff’s fraud.

The need to go through a fund of funds to reach specific managers has also diminished as cash-hungry funds have become more approachable. The across-the-board collapse in returns during the crisis has weakened the appeal of diversification, too. Funds of funds have typically charged investors 1% of assets and 10% of gains, on top of fees of 2% and 20% levied by individual funds in the portfolio. Some investors question what those fees are buying them.

In response, funds of funds are focusing more intensely on screening fund managers and their investment strategies. They are also offering investors greater transparency. Some funds have started to offer investor calls quarterly, rather than annually; a few even allow investors to track where their assets are on a daily basis. Many funds of funds are now offering investors separate, or “managed”, accounts, so their assets are not commingled with those of other investors.

Funds of funds are also reducing their fees. According to Eurekahedge, a data provider, the average performance fee for funds of funds was 6.5% in 2009, down from 10% in 2007. Some are also trying to negotiate lower fees with the hedge funds they invest in. The hope is that such savings can offset their own fees. “For us, a Utopia would be that we’re effectively a free service,” says Scott Perkins of Lighthouse Partners, a fund of funds.

Haggling over fees is easier for funds of funds with plenty of heft, of course. Mergers and acquisitions are likely to pick up, not least because some smaller funds of funds may have to put themselves up for sale. New regulations could also force banks to offload their hedge-fund businesses. Some are looking to sell anyway: on April 14th Citigroup sold its hedge-fund business, including its fund-of-funds unit, to SkyBridge Capital for $4.2 billion.

Others are planning for a future without investors. According to Meredith Jones of PerTrac Financial Solutions, some funds of funds have started to offer advice to non-investors on where to put their assets. Mr Swensen is not thought to be a client.
Economies are remarkably resilient to exogenous events

IS YOUR journey really necessary? The second-world-war slogan springs to mind in the wake of the volcanic cloud that has disrupted air travel this week. Although business people tend to think of their foreign trips as vital, the eruption is expected to have very little impact on the global economy. In this, it follows a long line of travel scares that have included SARS, swine flu and terrorist attacks.

Even the attacks of September 11th, which had an understandable impact on confidence, caused American output to dip by only 0.3% in the third quarter of 2001. Other “exogenous events” of this kind are hard to spot in the macroeconomic data. Of course, such events can cause immense hardship to individuals and businesses. Airlines and Kenyan flower producers are two obvious current examples. But there are often gainers as well as losers.

Given all the talk about a connected world, it may seem odd that air travel does not seem to matter that much. In fact, globalisation is far more about ships than about planes. An event which closed the docks in Rotterdam or Long Beach would have a far greater economic impact than the grounding of aircraft. According to the Royal Bank of Scotland, 46% of goods in Europe are transported by road, 37% by sea and 11% by rail; less than 1% goes by air. Economists anticipate a maximum volcanic effect of one or two tenths of a percentage point on Europe’s second-quarter GDP, well within the margin of statistical error.

In addition, economies are adaptable. Substitution effects predominate. If all air travel were stopped for a year, northern Europeans would no longer make their pilgrimages to Spain and Greece. But they would still take their holidays at home, just as they did before the era of cheap flights: domestic hotels and restaurants would benefit.

As for business travel, most meetings could be held via telephone and videoconference. Executives might even increase their productivity if they spent fewer hours on board planes (or kicking their heels at airports). The internet helps. Workers stranded far from the office can work on their laptops and vital documents can be sent via e-mail instead of courier.

True, this episode has already caused disruption for the car industry, which sends some lightweight, high-value parts by air. If the flight ban had lasted longer, such goods would have had to be shipped, potentially creating a long-term deadweight cost in the form of higher inventory levels. Even so, with
everything else going on in the economy, that would still be hard to spot in the GDP data.

It is this very adaptability that makes economic forecasting so difficult. It is impossible to do a counterfactual analysis—to hold one factor constant and see the effects on the rest of the economy. That applies to official policy as much as to “black swan” events like volcanic eruptions. Charles Goodhart, a British economist, has joked that he would love to be able to conduct quantitative easing in the north of Britain, but not in the south, to judge whether the policy worked. Since that cannot be done, economic historians will probably spend the next 75 years debating whether monetary or fiscal policy dragged the developed world out of recession, just as they still discuss whether the actions of the Roosevelt administration really shortened the Depression.

Indeed, though it may seem obvious that the level of interest rates or the size of the budget deficit can have a big economic impact, the effect of a host of other government initiatives and regulations is far less clear. The popular perception is that Britain has a completely different economy from France, with the former devoted to liberalisation and free labour markets and the latter governed by dirigiste policies and inflexible employment rules. Despite all that, in 2008 the two countries’ GDP-per-head figures were virtually identical (Britain was ahead on a purchasing-power-parity basis). One cannot claim from the data alone that one model is superior to the other.

A government can completely wreck an economy (see Zimbabwe or North Korea). Societies need the rule of law and respect for individual property rights if they are to function properly. But assuming these basics are in place, the factors that most determine long-term growth are demography, technological innovation, and the skills and education of the workforce. Government policy can affect these (particularly the last) only in the long term. As for occasional acts of nature like volcanic eruptions, most of them are, literally and metaphorically, noise.

Economist.com/blogs/buttonwood

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"NOBODY knows anything,“ said the screenwriter William Goldman of the film business. But a great many people think they do. And they may soon get the chance to back their hunches with money. On April 20th America’s Commodity Futures Trading Commission (CFTC) approved the second of two exchanges that would allow trading of contracts based on films’ box-office takings.

It is an answer to a real problem. The six main studios, which have become dependent on small numbers of big-budget films, are finding it hard to spread risk. Investors who fled during the credit crunch have not yet returned. Independent filmmakers are struggling to sell the rights to foreign box-office takings in advance—something they used to rely on to pay for their pictures. There is a need to hedge against failure. But Hollywood is not convinced that the exchanges meet it.

Although the markets run by Cantor Fitzgerald and Media Derivatives have been approved, the contracts to be traded on them have not. Hollywood is lobbying hard to stop them. It has launched a separate effort to have Congress ban box-office futures. Politicians as diverse as Barbara Boxer, a California liberal, and Orrin Hatch, a Utah conservative, have spoken out against them. It is the equivalent of a coast-to-coast marketing blitz.

Some of the objections are silly. A joint letter from Hollywood’s trade associations points out that box-office figures, though treated as reliable, are in fact estimates by the studios. True, but this is surely an argument for better figures, not for a ban on trading. There are, however, more serious problems with the exchanges.

The first is the information imbalance in the film business. Cantor’s market is based on an existing predictive market, the Hollywood Stock Exchange, which uses play money. A study of that exchange, by Thomas Gruca of the University of Iowa, found that it errs in predicting box-office returns by an average of 31%. But the studios know a lot more than other investors. They know how audiences are responding to test screenings, on how many screens a film will play, and how much they are going to spend marketing it. Although such information leaks out, it does so selectively and unevenly. As a result, almost every trade by a studio would be an insider bet.
And it is highly unlikely that a studio would ever short one of its own products. In Tinseltown, more than in almost any other industry, rumour and reality bleed together. A Hollywood executive is powerful and successful largely because he is viewed as being powerful and successful. A film that is rumoured to be a dud tends, by means of “bad buzz” leaking to newspapers and the internet, to become a dud. So a bet against a film would become self-fulfilling—to say nothing of how hard it would be to explain to the talent.
The Federal Reserve

No exit
Apr 22nd 2010 | WASHINGTON, DC
From The Economist print edition

Despite internal dissent, the Fed plans to maintain ultra-easy monetary policy

**Two ways to tighten**

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Source: US Federal Reserve

AMERICA’S GDP is growing, employment is finally expanding and the stockmarket is buoyant. Yet one thing has not changed: the Federal Reserve’s monetary pedal remains firmly pressed to the floor. For more than a year it has kept its short-term interest-rate target near zero while pledging to keep it there for an “extended period”. It has also bought $1.7 trillion of long-term bonds, primarily mortgage-backed securities (MBS), to keep long-term interest rates down.

That is unsettling some inside the Fed, fuelling speculation it will soon signal an exit from that ultra-easy monetary policy, perhaps even by altering its “extended period” commitment when its next two-day policy meeting wraps up on April 28th.

The most vocal dissident is Thomas Hoenig, president of the Federal Reserve Bank of Kansas City and the Fed’s longest-serving policymaker, who has twice formally objected to the Fed’s “extended period” language. That commitment plus zero rates, he explained on April 7th, lead “banks and investors to search for yield... take on additional risk [and] increase leverage”. He argued the Fed should soon raise rates to 1% to “end the borrowing subsidy”.

The next day Narayana Kocherlakota, president of the Minneapolis Fed, voiced a different concern: that the excess bank reserves created by the Fed’s MBS purchases create the potential for high inflation. He advocated selling $15 billion-25 billion of MBS a month, which would clear the Fed’s inventory in five years instead of the 30 it would take for the bonds to mature.

The rest of the Fed and its chairman, Ben Bernanke, have listened politely but are not ready to drop or even water down the “extended period” language, much less raise rates. Dropping the commitment would be tantamount to a tightening of monetary policy as bond yields rise in anticipation of short-term rate hikes. Mr Bernanke has already said the Fed would eventually sell some MBS, but not now. By pushing up long-term rates that too would be a tightening of monetary policy.

Bank credit is contracting and getting more expensive. Excess bank reserves will not lead to inflation so long as the Fed can still raise interest rates, which it can. Indeed, the Fed has an embarrassment of ways to tamp down inflationary pressure when the time comes, from raising interest rates on excess reserves to selling bonds to telling banks to tighten lending standards. It has far fewer tools at its disposal for battling deflation, not a remote risk.
Still, as long as the recovery proceeds, the debate cannot be put off forever. The Fed will spend a lot of its policy meeting talking about how to talk about its exit. The Bank of Canada has helpfully provided a tutorial. On April 20th it dropped its own commitment to keeping its short-term rate at 0.25% until the second half of this year, citing stronger growth and firmer inflation than expected. “The need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus,” it said. Bond yields and the Canadian dollar rose in response.

The Fed also sees its “extended period” commitment as conditional. It does not mean six months, as many seem to think, but only as long as unemployment remains high and inflation (both actual and expected) stays low. If those things change, so will interest rates.
Europe’s insurers

No time to relax

Apr 22nd 2010 | BERLIN
From The Economist print edition

Insurers have fared well in the crisis. Its aftermath is more worrying

THE global financial crisis has spared few industries, not least those that live by the wits of their risk managers and survive at the whim of capital markets. So it is perhaps surprising that insurers have fared as well as they have. Barring those that acted like banks, AIG being the most glaring example, and those that owned banks, such as some Dutch insurers, the insurance industry has needed hardly any bail-outs.

The industry reckons that of the $11 trillion in direct and indirect support that governments gave to the financial sector as a result of the crisis, only $10 billion or so went to insurers other than AIG. Yet the next few years may be far tougher on insurers, partly as a result of actions taken to mitigate this crisis.

Insurers survived this shock with few failures for two main reasons. The first is that, unlike banks, they are funded by premiums rather than flightier forms of debt. The only way many of their clients can get their money back is if they suffer misfortune. As it happens, mishaps such as warehouse fires have a tendency to rise suspiciously in economic downturns, but not by enough to strain the balance-sheets of big insurers.

The second reason is that insurers had already been tested by the bursting of the dotcom bubble, which sent the values of their share portfolios plunging and left many close to being unable to meet their commitments. Since then most have brushed up on risk management and cut back on their equity holdings.

Many in the industry now trumpet the success of their model and say they are winning new business as a result. Andrea Moneta of Aviva, a large insurer, says demand for its savings products has increased as consumers have become averse to taking investment risks themselves.

The danger, however, is that even while patting themselves on the back, European insurers face considerable trouble ahead. The first and perhaps biggest threat that insurers must deal with is a prolonged period of slow economic growth and low interest rates. Many insurers across the continent happily sold policies in the 1980s and 1990s with guaranteed minimum returns in the belief that long-term interest rates would not fall much below 5%. In Germany, for instance, the central bank reckons that insurers are paying out about 4.3% a year to policyholders, which is about one percentage point higher than the returns they are earning, forcing firms to “persistently pay out beyond their means” and “live from their assets”.

Most insurers are reducing or eliminating guarantees on new business in the hope that profits on new policies will allow them to outrun their past mistakes. Yet many are also casting a weather eye on Japan, where eight big insurers went bust between 1997 and 2001 because interest rates on government bonds fell faster than the firms could reduce the average guaranteed rates on their policies. The collapses affected 10m policies and almost 10% of the industry’s total assets.

A second set of risks relates to proposed reforms to insurers’ capital and risk-management under the incoming Solvency 2 regime. Most big insurers welcome the thinking behind these changes. Raj Singh, the chief risk officer of Swiss Re, sees them as aligning regulations with “the economic and risk-based view” that already helps steer the company. But guidelines set out by regulators last year seemed unduly punitive to many: analysts at JPMorgan, an investment bank, fretted that the rules could increase the amount of capital that insurers need to hold by as much as 75%.
The proposed rules would also have crippled some firms, such as Britain’s annuity providers, by forcing them to invest almost exclusively in lower-yielding government bonds rather than corporate debt. The consequences could have been widely felt. Insurance assets are significant in relation to the size of European economies (see chart) and insurers play a big role in providing capital to companies. Savers would also have been left out of pocket. A reduction in the investment yield on a policy of one or two percentage points can cut the total payout to a retiree by 30-50%.

On April 15th the European Commission overruled the regulators and proposed less stringent rules which would significantly reduce the amount of capital required and allow British insurers, for instance, to keep buying corporate bonds. These tweaks have insurers across the continent breathing sighs of relief. But the rules may now be too lenient. As the crisis has shown, the biggest dangers come from unexpected places. The new solvency models assume, for instance, that holdings of government bonds are risk-free. Mr Singh says that “the essence of risk management is to think the unthinkable.” Given fears of sovereign defaults in Europe, the unthinkable is already imaginable.
What would happen if China revalued the yuan? The past offers some clues

A BIG export-oriented economy is booming but its trading partners are livid. Year after year, they point out, it runs large current-account surpluses. The country regards itself as an export powerhouse whose goods are prized abroad. Others castigate it for mercantilism. Some argue that it subsidises its exports unfairly by giving exporters credit at cheap rates and by keeping its currency artificially undervalued. Pressure builds on the country to revalue its currency and boost domestic consumption, which makes up an unusually small share of its GDP.

Today this description makes you think of China, or perhaps Germany. But as research published in the IMF’s latest “World Economic Outlook” makes clear, plenty of other countries have been in a similar situation: Japan in the early 1970s, West Germany in the late 1960s, and South Korea, Japan or Vietnam in the years leading up to 1988. The Chinese current-account surplus in 2008 was 21% of the combined total for surplus countries. Germany in 1967 and Japan in 1971 both had a fifth of the world’s total surplus, too. Today’s surplus countries can take some comfort from the fact that they are not historical anomalies.

That these surplus economies of the past resemble China or Germany today is not the only reason they are interesting. It turns out that they also did much as these countries are now being exhorted to do, altering their economic policies to reverse their persistent surpluses. Some relied in the first instance on allowing their exchange rate to appreciate, as America would like China to do (though fiscal or monetary adjustments often followed). Others turned to fiscal and monetary stimulus to boost domestic demand, a policy Germany is now being urged to follow by some of its euro-zone peers. Yet others used labour-market or financial-sector reform to boost domestic demand. By poring over countries’ current-account statistics and changes in economic policy, IMF economists have identified 28 instances of such ”policy-induced surplus reversals” over the past half-century. They then examined those episodes for clues about the possible impact of similar moves by today’s surplus countries.

Less may be more

Changing course certainly worked as far as restoring external balance was concerned. On average, the surplus narrowed by 5.1 percentage points of GDP. The contribution of net exports to GDP growth fell by 1.6 percentage points, mainly because imports increased sharply whereas exports were on average unchanged. Oddly enough, however, shifting out of surplus did not affect growth appreciably in either direction (see chart). The IMF economists reckon that it was a few tenths of a percentage point higher in the three years after countries started tackling their surpluses than in the three preceding years, but this difference is so small that it is well within the statistical margin of error.
That is because increased contributions to growth from private consumption and investment, which boosted expansion by an additional 1.0 and 0.7 percentage points respectively, were enough to offset the declining contribution of net exports. Economic growth simply came from different sources. Foreign demand was replaced by local demand. Likewise, fewer workers were employed in the parts of the economy that produced goods for sale abroad, but just as many more found work making things that were consumed within the country’s borders. On average, there was “full rebalancing”.

All this might suggest that China has little to fear from a revaluation of the yuan. But that conclusion is slightly tempered by another of the fund’s findings. Countries that engineered a reversal primarily by revaluing their currency fared differently from those that relied on fiscal or monetary stimulus. Growth declined in the former case and rose slightly in the latter. Once again, neither effect was large enough that it lay outside the margin of error. But the economists find that, all else being equal, a 10% appreciation in the exchange rate reduces GDP growth by around one percentage point. Given actual exchange-rate movements, the IMF reckons that if the only thing surplus countries had done was to let their currencies rise, then growth might have ended up declining by between two and four percentage points.

Countries do not, however, tend to rely on only one tool to get rid of their surpluses. That the declines were much smaller on average was because the effects of the appreciation were offset by demand-boosting fiscal, monetary and structural policies. For instance, South Korea and Taiwan in the 1980s, which are two of the surplus countries of the past that look most like China today, also significantly liberalised their domestic financial sectors when they let their currencies rise. In some countries that had exchange-rate appreciations exports moved up the value chain: this also helped. These countries did not so much export less after they revalued as export different, more expensive things. But they saved less and consumed and imported more, contributing more to global demand.

A separate analysis, published as part of the Asian Development Bank’s (ADB) latest “Asian Development Outlook”, also indicates that Asia’s exports may be less sensitive to exchange-rate movements than a study of history may suggest. This is because many production processes are now separated into stages that are carried out in different countries. This means that a greater share of Asian trade—32% of exports from Asia’s developing economies in 2007, up from 13% in 1992—is now made up of trade in parts and components. The ADB’s economists find that trade in parts is much less sensitive to changes in the real exchange rate than trade in finished products. If China revalues, it may need to worry even less about a collapse in its exports than past experience implies.

There are, in any case, other benefits to reducing current-account surpluses than just satisfying miffed trading partners. In many cases of past rebalancing, an undervalued exchange rate also led to excessive growth in money supply, making it harder to tame inflation. The desire to regain control over monetary policy was one of the reasons South Korea let the won rise in 1989 and Taiwan allowed its currency to appreciate in 1988. If China revalues the yuan in 2010 it may be for similar reasons.
Television dramas that rely on forensic science to solve crimes are affecting the administration of justice

OPENING a new training centre in forensic science (pictured above) at the University of Glamorgan in South Wales recently, Bernard Knight, formerly one of Britain’s chief pathologists, said that because of television crime dramas, jurors today expect more categorical proof than forensic science is capable of delivering. And when it comes to the gulf between reality and fiction, Dr Knight knows what he is talking about: besides 43 years’ experience of attending crime scenes, he has also written dozens of crime novels.

The upshot of this is that a new phrase has entered the criminological lexicon: the “CSI effect” after shows such as “CSI: Crime Scene Investigation”. In 2008 Monica Robbers, an American criminologist, defined it as “the phenomenon in which jurors hold unrealistic expectations of forensic evidence and investigation techniques, and have an increased interest in the discipline of forensic science.”

Now another American researcher has demonstrated that the “CSI effect” is indeed real. Evan Durnal of the University of Central Missouri’s Criminal Justice Department has collected evidence from a number of studies to show that exposure to television drama series that focus on forensic science has altered the American legal system in complex and far-reaching ways. His conclusions have just been published in Forensic Science International.

The most obvious symptom of the CSI effect is that jurors think they have a thorough understanding of science they have seen presented on television, when they do not. Mr Durnal cites one case of jurors in a murder trial who, having noticed that a bloody coat introduced as evidence had not been tested for DNA, brought this fact to the judge’s attention. Since the defendant had admitted being present at the murder scene, such tests would have thrown no light on the identity of the true culprit. The judge observed that, thanks to television, jurors knew what DNA tests could do, but not when it was appropriate to use them.
The task of keeping jurors’ feet on the ground falls to lawyers and judges. In one study, carried out by Dr Robbers in 2008, 62% of defence lawyers and 69% of judges agreed that jurors had unrealistic expectations of forensic evidence. Around half of respondents in each category also felt that jury selection was taking longer than it used to, because they had to be sure that prospective jurors were not judging scientific evidence by television standards.

According to Mr Durnal, prosecutors in the United States are now spending much more time explaining to juries why certain kinds of evidence are not relevant. Prosecutors have even introduced a new kind of witness—a “negative evidence” witness—to explain that investigators often fail to find evidence at a crime scene.

Defence lawyers, too, are finding that their lives have become more complicated. On the positive side, they can benefit from jurors’ misguided notion that science solves crimes, and hence that the absence of crime-solving scientific evidence constitutes a reasonable doubt and grounds for acquittal. On the other hand they also find themselves at pains to explain that one of television’s fictional devices—an unequivocal match between a trace of a substance found at a crime scene and an exemplar stored in a database, whether it be fingerprints, DNA or some other kind of evidence—is indeed generally just fiction.

In reality, scientists do not deal in certainty but in probabilities, and the way they calculate these probabilities is complex. For example, when testifying in court, a fingerprint expert may say that there is a 90% chance of obtaining a match if the defendant left the mark, and a one in several billion chance of a match if someone else left it. In general DNA provides information of a higher quality or “individualising potential” than other kinds of evidence, so that experts may be more confident of linking it to a specific individual. But DNA experts still deal in probabilities and not certainties. As a result of all this reality checking, trials are getting longer and more cases that might previously have resulted in quick convictions are now ending in acquittals.

Criminals watch television too, and there is evidence they are also changing their behaviour. Most of the techniques used in crime shows are, after all, at least grounded in truth. Bleach, which destroys DNA, is now more likely to be used by murderers to cover their tracks. The wearing of gloves is more common, as is the taping shut—rather than the DNA-laden licking—of envelopes. Investigators comb crime scenes ever more finely for new kinds of evidence, which is creating problems with the tracking and storage of evidence, so that even as the criminals leave fewer traces of themselves behind, a backlog of cold-case evidence is building up.

The CSI effect can also be positive, however. In one case in Virginia jurors asked the judge if a cigarette butt had been tested for possible DNA matches to the defendant in a murder trial. It had, but the defence lawyers had failed to introduce the DNA test results as evidence. When they did, those results exonerated the defendant, who was acquitted.

Mr Durnal does not blame the makers of the television shows for the phenomenon, because they have never claimed their shows are completely accurate. (Forensic scientists do not usually wield guns or arrest people, for one thing, and tests that take minutes on television may take weeks to process in real life.) He argues that the CSI effect is born of a longing to believe that desirable, clever and morally unimpeachable individuals are fighting to clear the names of the innocent and put the bad guys behind bars. In that respect, unfortunately, life does not always imitate art.
Measuring small things

The force is weak with this one

Apr 22nd 2010
From The Economist print edition

Scientists measure a few yoctonewtons for the first time

How small is small? In the widely used international system of units known as the SI system (after the French Système International d'Unités), "yocto" is the smallest prefix. Adopted in 1991, it stands for a multiplying factor of one part in a million billion billion (one septillion) parts, which is often written as $10^{-24}$.

That is pretty small. A proton’s mass at rest is about 1.6726 yoctograms and a neutron’s mass just a tad more at 1.6749 yoctograms. But other than this, there has not been much need for the yocto prefix. That may change. Michael Biercuk, then at America’s National Institute of Standards and Technology (NIST) in Boulder, Colorado, and his fellow researchers have reported that they have measured a force of 174 yoctonewtons (yN). This is the smallest force ever detected, by some three orders of magnitude.

The newton, named after the physicist Isaac Newton, is approximately the force exerted by gravity on an apple at the Earth’s surface. A yoctonewton is a septillionth of one newton. To detect such a tiny force, the NIST team confined about 60 ultra-cold beryllium ions in a device called a Penning trap, which uses magnetic and electric fields to imprison charged particles. At such low temperatures the ions are exquisitely sensitive to electrical or magnetic forces, which change their rate of thermal vibration.

The scientists applied a force to the ions by imposing an additional electric field on them. Changes in the ions’ vibration rate were measured by bouncing laser light off them. Because of the Doppler effect, the frequency of light reflected by ions that are moving towards the laser will be higher than that of light reflected by ions that are moving away from the laser. (An everyday example of this effect is the change of pitch of an ambulance siren as it approaches and recedes.) It was thus possible to measure the force applied to the ions.

The smallest force the team detected was 174yN. Reducing the number of beryllium ions in the trap will boost the sensitivity further, the researchers say, and, with a single beryllium ion, it should be possible to measure a single yoctonewton. But for the time being, their measurement of 174yN is a world record (and about a thousand times smaller than the previous record). Dr Biercuk has posted details of the NIST experiments on arXiv, an electronic repository scientists use to share work before it appears in a refereed journal.
What could such a sensitive force-detector be used for? One of the benefits of this technique is that it allows for a relatively rapid detection of tiny electric and magnetic fields. Such fields are everywhere, and the researchers suggest that their approach could be used for mapping electric fields on the surfaces of materials and getting a better understanding of their properties. Other ideas include building a detector to see if the spin of an atomic nucleus can be measured, or using the technique as an ultrasensitive antenna.

Now that physicists have entered the yocto-realm in measurements, some are wondering whether it is time to begin to look at new prefixes for the SI system. Austin Sendek, a Californian undergraduate, has started a campaign on Facebook to designate “hella” as the prefix for large things of the order of 10^{27} (a billion billion billion). Mr Sendek says the term is already used colloquially in some places to denote large numbers (such as, “there are hella stars tonight”). It could be useful to denote things such as the sun’s mass (2.2 hellatons) and energy output (approximately 0.4 hellawatts).

Yotta (10^{24}) remains the largest prefix in the SI system. Like yocto, its etymological roots lie in the Greek octa—yotta signifies one thousand raised to the 8th power, and yocto signifies one thousandth raised to the 8th power. A “y” is added to avoid using the letter “o” as an abbreviation, since it might get confused with the number zero.

This all implies, therefore, that the next SI prefixes should be based on the Greek ennea (for nine). It is doubtful that Mr Sendek’s hella campaign, which had almost 60,000 supporters earlier this week, will be able to trump tradition. But it’ll have been one helluva try.
Putting electric motors into the wheels of cars is the way forward

THERE are many innovations turning up in the latest experimental and production electric cars, affecting everything from batteries to motors to control systems. The need to make them all work together is prompting a complete rethink about the way cars should be designed and manufactured, and it is unclear which technologies will dominate as the constraints imposed by internal combustion engines give way to the new limits and possibilities associated with electric propulsion. But one group of engineers have stuck their necks out and declared that a particular technology, the electric hub motor, is likely to become the most widely used drive system.

A hub motor, as its name suggests, is built into the hub of a wheel and drives it directly, rather than having a single motor driving the wheels via a mechanical transmission. It is an idea pioneered by Ferdinand Porsche, the founder of the carmaker of the same name, more than 100 years ago. Mr Porsche got his first job in the automotive business with Jacob Lohner in Vienna, and put electric motors into the hubs of the wheels of the Lohner-Porsche, a vehicle which made its debut at the 1900 World’s Fair in Paris. It was a hybrid car that relied on both batteries and a generator to produce electricity for its motors. Capable of more than 56kph (35mph), it also set a number of speed records.

At this week’s Deutsche Messe technology show in Hanover, researchers at the Fraunhofer Institute displayed an electric vehicle which they are using as a test platform to investigate new vehicle systems. It includes electric hub motors, which they have developed to be markedly more powerful than any such motors currently available. The motors have all the necessary power and control systems integrated into the wheel hub, greatly reducing the number of connections between the hub motors and the rest of the vehicle.

Because hub motors can deliver power independently to each wheel, tricks like four-wheel-drive are possible. With software monitoring each wheel, stability and traction control can also be built-in. Besides dispensing with the traditional engine bay on a car, hub motors save space and weight because there is no need for a mechanical transmission, with its driveshafts and differential units.
Some critics of the technology think having heavy electric motors in the wheels of cars will have a negative effect on vehicle handling. But Hermann Pleteit, a project manager with one of the 33 Fraunhofer research centres that have teamed up to work on the experimental car, says the chassis and many other parts of the vehicle can be configured in such a way to compensate for this.

Several carmakers and component suppliers are interested in hub motors. Michelin, for one, is developing a system it calls the Active Wheel. As well as an electric motor to drive the wheel, it contains a second electric motor to operate an active suspension system that is also built into the wheel hub. Michelin reckons this arrangement, which is now being tested in cars, could make other conventional parts, like shock absorbers, unnecessary.

Such a wheel would, in effect, transform Michelin from being a tyremaker into an engine and suspension supplier as well. Many other such changes are coming for the companies in the automotive business, say the Fraunhofer engineers, because some parts will no longer be required for electric vehicles, but other new parts will be needed instead. So as electric propulsion takes hold, it will not just be the shape and the dynamics of the vehicles themselves that will change, but also those of automotive companies, too.
Using biomass and bugs to create synthetic rubber

Oil does not just provide the fuel that powers the internal-combustion engines in cars. Its by-products are also the basis of many of the materials, such as plastics, from which cars are made. One of these petroleum by-products is isoprene. This is used to make the synthetic rubber in car tyres. About a billion tyres are made every year—each one requiring about 26 litres (or seven American gallons) of oil. Now a way has been found to make greener tyres by using genetically modified bugs to produce isoprene biologically.

The work is being carried out by Genencor, an industrial biotech company based in California, in collaboration with Goodyear, one of the world’s biggest tyremakers. In the laboratory Genencor has produced enough of what it calls BioIsoprene for Goodyear to build and successfully test prototype tyres made with the new material. Genencor is now completing a dedicated pilot factory which will be used to develop a mass-production process, which could be operating commercially around 2015.

Isoprene is a monomer, which is a substance whose molecules can be linked together chemically to form a polymer. Latex, a material obtained from rubber trees, is a natural polymer of isoprene. Isoprene can also be artificially polymerised to make synthetic rubber. Tyres are made of a combination of natural and synthetic rubber to provide the grip and endurance required by carmakers. Typically around a quarter of each tyre is made from isoprene derived from petrochemicals, and about 60% of worldwide isoprene production is used by tyremakers. The rest goes into making other products, including glues, disposable nappies and surgical gloves.

Genencor used a genetically modified form of E-coli, a favourite species of bacteria in microbial genetics, to produce BioIsoprene. By splicing in genes from other bugs, the company was able to engineer synthetic metabolic pathways—ones that do not exist in nature—that enable the bacteria to produce isoprene from the sugars found in plant materials such as sugar cane, corn cobs and switchgrass, a tall-growing variety native to North America. The modified organism ferments sugars in the biomass to produce isoprene, in such a way that it bubbles out as a gas. This makes it easier to collect and purify compared with separating it out from a liquid. Isoprene needs to be extremely pure to make synthetic rubber.

Having the flexibility to use different crops and agricultural by-products as the feedstock for the process is important, says Karl Sanford of Genencor. The company wanted to avoid the contentious issue of using crops that might otherwise provide food. Moreover, supply chains for biomass are still being developed, so the availability of feedstock will change.

Research is continuing into using other micro-organisms, such as yeast, which might be engineered to create similar metabolic pathways. If biologically derived isoprene becomes more widely available, Mr Sanford thinks, industry could find additional uses for it. And if production costs end up being as low as the company hopes, isoprene might itself become a feedstock from which to produce synthetic fuels, such as petrol or diesel. So as well as helping build cars in a more environmentally friendly way, it might eventually help power them in a greener way, too.
The Spanish-American war

The sweet smell of gunpowder

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Whoopee! Teddy Roosevelt and his Rough Riders had the country behind them

The War Lovers: Roosevelt, Lodge, Hearst, and the Rush to Empire, 1898. By Evan Thomas. Little, Brown; 480 pages; $29.99. To be published in Britain by Little, Brown in October; £25. Buy from Amazon.com, Amazon.co.uk

WHAT he calls “eerie parallels” are drawn by Evan Thomas between America’s invasion of Cuba in 1898 and its invasion of Iraq in 2003. Both, he says, were “wars of choice”, neither of them vital to the national interest but ostensibly waged for broader, sometimes humanitarian, reasons. Just as the threat of weapons of mass destruction proved illusory in Iraq, so the sinking of the battleship USS Maine in Havana harbour, the pretext for intervention in Cuba, was not a Spanish plot but, he insists, almost certainly a shipboard accident. The publishers even suggest that a reader could mistake part of the book for the memoirs of Dick Cheney and that the Americans acquired the cruel technique of water-boarding in Cuba.

Mr Thomas seeks to make the now almost forgotten Spanish-American war more accessible by telling its history through five central characters. Two of them were doves. Thomas Reed, the House speaker, wanted America to keep its nose out of foreigners’ affairs. William James, a philosopher and brother of the novelist Henry, invented the slogan “the moral equivalent of war” in urging a fight against ignorance, poverty and disease rather than against other countries.

His three hawks are brighter plumed. Teddy Roosevelt, a future American president, was a Social Darwinist who believed that the fitter races were biologically bound to triumph over the less fit. William Randolph Hearst, proprietor of scurrilous newspapers and anti-hero of the film “Citizen Kane”, sent an infamous telegram to a press photographer: “You furnish the pictures, and I’ll furnish the war.” Henry Cabot Lodge, a New England patrician, was a staunch imperialist.

James’s liberal internationalist views are shared by the author. Yet the doves are soon eclipsed in his book by Roosevelt. Like the American public of the late 19th century, Mr Thomas finds it hard to resist the boisterous bravado of a politician who, as our illustration shows, left his office desk to ride into war whooping “Holy Godfrey! What Fun!” The Rough Riders, a ragtag regiment of cowhands, ranchers and sporting gentlemen raised by Roosevelt, had an even more belligerent war cry: “Rough tough, we’re the
We want to fight and we can’t get enough! Whoopee!” No wonder Roosevelt’s visage is carved into Mount Rushmore alongside those of Washington, Jefferson and Lincoln.

The book provides an excellent account of how America’s declaration of war after the blowing up of the Maine hastened the demise of the once mighty Spanish empire, and of how within a year Spain had lost the Philippines as well as Puerto Rico and Guam. Unfortunately, however, “The War Lovers” is the sort of popular history that misleads as much as it entertains. The comparison between Cuba and Iraq is fanciful, and not only because it is preposterous to equate Roosevelt with either George Bush or Mr. Cheney. The Spanish-American war enjoyed deep and broad public support, far greater than the support given to the invasion of Iraq.

The influence of men more moderate than Mr. Thomas’s cast of five central characters is much underestimated. William McKinley, president at the time, is an important case in point. He was infamously and unfairly traduced in Samuel Eliot Morison’s magisterial “The Oxford History of the American People” as a kindly soul in a spineless body. In fact, McKinley shared the public’s horror of Spanish tyranny in Cuba but his memory was scarred by the slaughter he had witnessed during the civil war at Antietam, the bloodiest day in America’s military history. He tried hard and long to persuade Spain to relinquish its hold on Cuba and so avoid war.

Another moderate, Senator Redfield Proctor, was perhaps as influential. He went on a fact-finding mission to Cuba, convinced the horrors were exaggerated, and returned to report that they were worse than he could ever have imagined. The sinking of the Maine did not matter nearly so much to him as the native Cubans, “struggling for freedom and deliverance from the worst misgovernment of which I ever had knowledge”. Since Proctor was renowned for his scepticism, his words carried weight with the McKinley administration and Congress. But not with Mr. Thomas. Thoughtful, influential voices are sacrificed in his book in the interests of a much racier tale.
The perils of Yemen

Beware! Keep out!
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From The Economist print edition

How the president has survived, so far


ALI ABDULLAH SALEH has conducted an extraordinarily serpentine jig for the past 32 years as Yemen’s leader. The subtitle of this riveting book is Mr Saleh’s own description of his survival technique.

To be precise, Mr Saleh became president in 1978 of the more populous northern chunk of what were then two separate and very different Yemens. Since 1990 he has run the larger unified version. Victoria Clark explains his uncanny skill: “It is his intuitive sense that he must only ever be perceived as behaving in the manner of a wise and just sheikh—mediating, balancing, reconciling, co-opting, rewarding, forgiving—that...has preserved him from the fate of his two predecessors [both of whom were assassinated] for so long.”

The first half of her book is devoted to a pithy history of Yemen, in its various forms, until 2000. Thereafter she focuses on the dilemma faced by Mr Saleh and the Western governments that support him, especially America’s. These governments fear that Yemen is close to being a failed state and is already a haven for some of the world’s toughest jihadists. But they fear that if they challenge the jihadists militarily, the inevitable killing of civilians will make the Islamists more popular. The fact that the young Nigerian who tried to blow up an American aircraft over Detroit on Christmas Day had started his venture in Yemen sharpens the West’s dilemma.

Ms Clark paints a more nuanced picture. Though she describes Yemen as the fount of many modern jihadists—for instance, most of the 9/11 bombers came originally from the south-western part of Saudi Arabia that is historically and culturally part of greater Yemen—she makes a convincing case that other forces are far more influential than religion in moulding the ambitions and psychology of the Yemenis. “The imams, the Ottomans, the British, the Egyptians and the Soviet backers [of the erstwhile communist state that existed in the south until 1990] had all had to recognise that what Yemeni tribesmen cared about most was money and land, not peace or religion or any ideology.” Tribal law (urf) continues to
trump the fragile modern legal system that virtually nobody seems keen to uphold.

In the past few years Mr Saleh has had to handle snakes biting him from all corners of the pit. First, he has been tackling a fierce northern rebellion by the Houthi clan. Second, the country’s southerners, who were generally content to abandon communism after a bloody war between factions in 1986, have recently become more resentful of domination by the president and his northerners. Third, he has come under increasing pressure from his Western backers to swat the pockets of al-Qaeda that he used to tolerate in return for the jihadists leaving him more or less alone. Though the Americans see al-Qaeda as Mr Saleh’s chief enemy, Ms Clark says that he, “like the Yemeni man-in-the-street”, has “good reasons to rank the jihadist threat to his country a distant third to the independence movement in the south and the rebellion in the north.”

The author illustrates her analysis with a string of vignettes drawn from her intrepid journeys into the remotest parts of the country, including Wadi Doan, a valley in the rugged Hadhramaut in the east, whence the family of Osama bin Laden and several other famously rich Saudi-based merchants originate. She also describes a jolly meal with one of Mr bin Laden’s former drivers who now helps run government courses to “rehabilitate” former jihadists yet who, after a little amiable prodding, happily acknowledges that he still reveres his old boss.

The most telling such interview is with Tariq al-Fadhli, sometimes cited as the country’s top jihadist but clearly a man in the classic Yemeni mould: a pragmatist determined to prevent foreign domination of his country, full of charm and intelligence, and entirely without ideological or even religious scruples. His progress from scion of a powerful tribe to Afghan jihadist, then back to collaborator with Mr Saleh and now, in all probability, a leading fomenter of southern secession is one of Ms Clark’s brilliant lessons in Yemeni history.

This book is compulsory reading for anyone who wants to get to grips with Yemen’s pit of slithery serpents. Whether the great survivor can continue to dodge their poison is debatable. Ms Clark implies that Mr Saleh probably cannot.
Information theory

A quantum calculation

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A physicist argues that information is at the root of everything

Decoding Reality: The Universe as Quantum Information. By Vlatko Vedral. Oxford University Press; 256 pages; $29.95 and £16.99. Buy from Amazon.com, Amazon.co.uk

ONE of the most elusive goals in modern physics has turned out to be the creation of a grand unified theory combining general relativity and quantum mechanics, the two pillars of 20th-century physics. General relativity deals with gravity and time and space; quantum mechanics with the microscopic workings of matter. Both are incredibly successful in their own domains, but they are inconsistent with one another.

For decades physicists have tried to put the two together. At the heart of the quest lies the question, of what is the universe made? Is it atoms of matter, as most people learned in school? Or some sort of energy? String theory, currently a popular idea, holds that the universe is made up of tiny vibrating strings. Other equally esoteric candidates abound. Indeed, cynics claim that there are as many grand unified theories as there are theoretical physicists attempting unification.

Now Vlatko Vedral, an Oxford physicist, examines the claim that bits of information are the universe’s basic units, and the universe as a whole is a giant quantum computer. He argues that all of reality can be explained if readers accept that information is at the root of everything.

So what is information? Mr Vedral’s notion of information is not the somewhat fuzzy concept most people have of it, but a precise mathematical definition that owes itself to Claude Shannon, an American mathematician considered to be the father of “information theory”. Shannon worked at Bell Labs, at the time the research arm of AT&T, a telephone giant, and in the 1940s became interested in how much information could be sent over a noisy telephone connection. This led him to calculate that the information content of any event was proportional to the logarithm of its inverse probability of occurrence. (Unlike many popular-science books that eschew equations, Mr Vedral includes a couple and tries his best to explain them to the reader.) What does the equation mean? As Mr Vedral points out, it says that an unexpected, infrequent event contains much more information than a more regular happening.

Once he has defined information, Mr Vedral proceeds to show how information theory can be applied to biology, physics, economics, sociology and philosophy. These are the most interesting parts of the book. Of particular note is the chapter on placing bets. Mr Vedral gives a good description of how Shannon’s information theory can be applied to winning at blackjack or in buying shares (Shannon and his friends made fortunes in Las Vegas as well as on the stockmarket). And his exposition of climate change and how to outwit the CIA make entertaining reading. One quibble: Mr Vedral often digresses from the point at hand, so the overall effect tends to be a bit meandering.

Mr Vedral’s professional interests lie in quantum computing and quantum information science, which use the laws of quantum mechanics respectively to build powerful computers and render codes unbreakable. There is a lot of discussion of both, which is very welcome because there are not many popular science books that cover these relatively young fields. Quantum computers, as Mr Vedral points out, “are not a distant dream”. Though still rudimentary, “they can solve some important problems for us that conventional computers cannot.”

Unusually for a physicist, Mr Vedral spends a fair bit of time talking about religious views, such as how God created the universe. He asks whether something can come out of nothing. Throughout the ages philosophers and theologians have debated this question with respect to Judeo-Christian faiths, in which dogma holds that the world was created from the void, creation ex nihilo. Others side with King Lear who tells Cordelia that “Nothing can come of nothing.” Mr Vedral makes a persuasive argument for a third option: information can be created out of nothing.

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Rich pickings for the sharks

Rich pickings for sharks


ALTHOUGH he appears not to like many of the films that Hollywood churns out, Edward Epstein admires the cunning of its inhabitants. "The Hollywood Economist" is full of tales of resourceful wheeler-dealers who are adept at exploiting tax breaks and fleecing outside investors. Lawyers and agents scheme to ensure that their stars take a cut of a film’s proceeds before anybody else gets to the pie. Actors and journalists scratch one another’s backs: the former lend their star power to magazines, the latter provide free publicity for films.

Mr Epstein tells some good stories. There is a nice explanation of how Disney and Michael Moore worked out a way to distribute the hugely successful "Fahrenheit 9/11" even while Mr Moore was accusing the studio of trying to kill his film at the behest of the Bush administration. There is a justified dig at the Academy awards, which perpetuate the myth that Hollywood is dedicated to the production of high-minded films rather than teenage mousetraps. It is, he says, as though international oil firms got together once a year to present awards to avant-garde artists who paint in crude.

The book shows how dramatically Hollywood has changed over the years. Thanks to the boom in multiplexes, there are now enough seats to pack in just about everybody who might want to see a film in a single weekend. Marketing strategies have evolved in response. In the 1970s films such as "Star Wars" trundled slowly around America, gradually building audiences through word of mouth. These days studios conduct global marketing blitzes, trying to corral their audiences before the next blockbuster appears. It is a high-stakes game, which explains why so many films are, in the jargon, "pre-sold"—that is, based on earlier films, television shows or comic-book superheroes.

The author argues that a film’s theatrical run is little more than a marketing campaign for the subsequent release of DVDs and TV broadcasts, where the real money is to be made. Cinemas become less and less important as piracy and digital distribution eat away at Hollywood’s "windows": the time that separates the appearance of a film in cinemas from its arrival on DVD and pay-TV. Eventually, Mr Epstein predicts, studios will release films almost concurrently in all formats. Executives have "as much chance of reversing the secular shift of audiences from the theatre to the home as King Canute had in commanding the tide to recede."

Although he bemoans Hollywood’s habit of recycling material, Mr Epstein does quite a bit of it in his own book. A chapter about the cost of insuring Nicole Kidman appears to be drawn from “The Big Picture”, his 2004 study of the film business. Other sections derive from columns that he wrote for Slate, an online magazine. This perhaps explains why "King Kong", a 2005 film, is written about in the future tense.

"The Hollywood Economist” seems dated in other ways, too, although this is partly a reflection of how quickly the place changes. Despite the recession, cinemas had a splendid 2009 and are faring even better this year. Cinema-goers are cheerfully shelling out three or four dollars extra to see films in 3-D, even though those movies cost only a trifle more to produce. Meanwhile sales of DVDs, supposedly the industry’s lifeblood, are slumping. Cinemas have not seemed so important to the film business for years.

Mr Epstein’s conviction that films are a terrible business for all but Hollywood’s sharks also seems to have been overtaken by events. A terrible business compared with what? Mortgage-backed securities, perhaps? How about car companies or newspapers? A bank or a hedge fund with a few million dollars to invest in the spring of 2008 might have been better off putting it into a slate of films than a great many other things. There might even have been an opportunity to meet a few starlets.
New film: “Greenberg”

Mumblecore meets the mainstream
Apr 22nd 2010
From The Economist print edition

And a new young star who amazes Hollywood with her magical freshness

DURING the opening credits of Noah Baumbach’s film “Greenberg”, the camera takes a long look at Florence Marr (Greta Gerwig) as she picks her way through the Los Angeles traffic and loves what it sees: hazel eyes, scruffy blonde hair, real skin. “Are you going to let me in?” she asks softly of someone off-camera, then changes lanes when the driver behind her lets her in. The theme of the film has been announced and Florence’s character established. We soon learn that she is the personal assistant of a well-to-do family whose bad moods she gently absorbs. Her sweet, unfocused nature will serve her well when she meets Roger Greenberg (Ben Stiller).

Roger is a failed musician who wrecked his band’s first record deal in the 1980s because he feared having to compromise his principles. More recently he was released from a mental hospital where he was being treated for a generalised anxiety condition that is now entering its 40th year. He has come back to Los Angeles to reconnect with the people whose lives he touched before he left. But they have moved on and Roger hasn’t. Still a blindly self-absorbed malcontent, he will eventually infuriate or wound anyone who gets near him. The only person he might “let in” is Florence, who submits without a murmur to his web-footed sexual advances and is rewarded with a series of cuffs and rebuffs.

Ms Gerwig has been crowned “the queen of mumblecore”, the nickname for very low-budget films featuring 20-something non-professionals improvising talky chronicles of contemporary romance, angst and drift. She makes the transition to Hollywood without acquiring a single actor’s tic, and Mr Baumbach has created a showcase for her refreshing style that is replete with mumblecore fetishes: unmoored characters and dialogue scenes on couches. Although the very well-known Mr Stiller violates the movement’s first rule—never cast anyone over 30—the presence of his young co-star seems to have inspired his best performance to date. We root for Roger’s recovery even as we fantasise about strangling him. Will Ms Gerwig, who is to her kind of cinema what Rita Tushingham was to British “kitchen sink” dramas of the early 1960s, have more opportunities to work her magic on Hollywood?
How the venerable Metropolitan Museum came by its many Picassos

THE portrait of Gertrude Stein (shown right) was the first Picasso to enter the collection of New York’s Metropolitan Museum of Art. It arrived in 1947. By then the Museum of Modern Art (MoMA) had 82 of his works. The tortoise never overtook the hare. Nevertheless, with 500 works, the Met today has the second most important collection of Picassos in the United States. Now, 300 of them have been brought together for an exhibition (from April 27th to August 1st) that is absorbing and quirky—and has quite a tale to tell.

On view are all of the Met’s Picasso paintings, drawings, sculptures and ceramics and half of its 400 prints. From the painter’s rose period there is “The Actor”, newly restored. “Head of a Woman”, Picasso’s first large cubist sculpture, occupies the centre of a room devoted to that period. “Woman Reading” is a love song to a mistress and muse, Marie-Thérèse Walter. In sharp contrast, “Man with a Lollipop” is an unsettling introduction to the artist’s cruel streak. One large room is hung with jaunty linoleum prints. There are also visual puns. “Tie”, cut out of paper, has four eyes drawn in crayon descending from its faux knot to its point. It was a gift to Alfred Barr, MoMA’s first director, who was famed for his good eye.

Most of the Met’s Picassos came as bequests or gifts. In his catalogue essay, the exhibition’s curator, Gary Tinterow, wittily tells the story of how they came to be where they are. It is fun to match the works on view with the people who gave them, speculating about the characters of the benefactors. Scofield Thayer, a poet and publisher, favoured dreamy Picassos with the odd bit of pornography thrown in. Alfred Stieglitz, photographer and art dealer, preferred edgy, angular cubist works on paper. Jacques and Natasha Gelman, film buffs, seemed to concentrate on nervy, aggressive images.

From its opening in 1870, the Met showed contemporary art. But both the art and the men who ran the museum were conservative. During the century that followed, the men remained much the same. Art changed radically.

In 1921 champions of impressionist and post-impressionist art from France proposed a show. The Met’s trustees were afraid it would provoke public outrage and Bryson Burroughs, its director, thought Picasso a madman. But the modernists, including Gertrude Vanderbilt Whitney, an heiress and sculptor, kept up the pressure and, reluctantly, the Met went ahead. There was a press uproar. “Friends” of the museum issued
a pamphlet giving warning of its moral decay.

A quarter of a century later Stein bequeathed Picasso’s portrait to the Met. It may seem a perverse decision for a self-declared modernist. But she had a stupendous ego. In her view the work was a collaboration between two 20th-century geniuses: the artist and his sitter. It deserved, it demanded, a secure home. In 1946, when Stein wrote her will, MoMA was only 15 years old. The Met was established and rich.

Luckily for the Met others too found this a persuasive argument. For the museum had no acquisition policy. There was no targeting of works to fill gaps. The helter-skelter collection just accumulated. None of Picasso’s pots and plates came to the Met; there is nothing of his imaginative metal sculpture. The weight is on early works: the blue, rose and classical periods leading to cubism. What might seem a limitation gives the show a freshness that retrospectives often lack.

A degree of balance is achieved at the exhibition’s end. The last room is hung with 119 prints from Picasso’s Suite 347, aquatints and etchings made in 1968, five years before he died. They are a visual autobiography. Here is the artist with his models and his mentors, among them Raphael and Velázquez. There are horses and musketeers, lovers and lots of women with their legs open wide.

Cynics may suppose that this exhibition of the Met’s own treasures is a bid to make the best of recession cutbacks (shows of pictures on loan are expensive). The museum’s director, Tom Campbell, insists that this is not so: “this is not the Met in lockdown mode.” Instead, it reflects his decision to increase the attention given to the museum’s magnificent permanent collection. Big loan-shows are on the way. But so are more in-house blockbusters.

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Wilma Mankiller, first woman chief of the Cherokee Nation, died on April 6th, aged 64

ALL through her life, white people tried to help Wilma Mankiller. As she walked to school, two miles down the hilly, narrow lanes of north-eastern Oklahoma, women in big cars would stop and offer her a ride. She didn’t want one. The same women would appear sometimes at the wood-frame house, where her family of 11 lived in three rooms, burning coal-oil and hauling water from the spring, and offer them second-hand clothes. She would run away. If they caught her, they would pat her on her black-haired, Indian head. “Bless your little heart,” they murmured.

In 1956, when she was ten, white people suggested her family should move from their farm at Mankiller Flats to San Francisco. The government, having forced her ancestors in 1838 along the Trail of Tears from eastern Tennessee to Indian Territory, now promised them a better life even farther west. They caught the passenger train from Stilwell; she wept Cherokee tears all the way to California. No one had forced them out this time. But they ended up in a drab, violent housing project where her father found back-breaking work in a rope-factory and she was mocked at school for her stupid name. She knew it meant “guardian of the settlement”; but that all seemed far away and irrelevant now.

Many years later, when she was principal chief of the Cherokee Nation, a white woman offered money for college scholarships for Indians. She said she wanted to “give pride back” to them. Ms Mankiller had never heard such arrogance. Yes, her tribe needed schools, clinics, day care, Head Start programmes, and all these she was busy procuring for them. But it did not need the patronising charity of white people. Under Ms Mankiller, the Cherokee were learning to rely on themselves again.

It had taken time. Over the years the tribe had been absorbed until almost everything was lost. In 1907 the tribal lands in Oklahoma had been broken up into allotments, one of which was given to Ms Mankiller’s grandfather at Mankiller Flats; and nothing did more damage to the tribe, she believed, than that loss of commonalty and spiritual, as well as physical, interdependence. Her family had tried to preserve it, bartering with and working for other people. But the Cherokee could not easily find their sense of oneness again.

She herself was almost lost to the tribe for a while, married to a Latino at 17, having two daughters early, living a middle-class Californian life. But the San Francisco of the late 1960s gradually radicalised her. The stiletto heels were swapped for sandals; the husband was sidelined; the two small daughters were taken
by boat to be part of the Native-American reclamation of the prison-island of Alcatraz; and in 1976 she went back with them in a U-Haul van to Mankiller Flats. There, on the land that was still her family’s, they camped under the stars and learned to tell the time by the sun, Cherokee-fashion. Nine years later she was chief of the Cherokee Nation.

Hard graft was required. When she first ran for office in 1983, the entire tribal council opposed her: not because she was an activist, but because she was a woman. No woman had led such a large tribe before. She slogged on, “keeping steady”, until she had won them over. Organising in California for other tribes had taught her how to type, draw up grant applications and analyse land treaties; she brought in revenue and social programmes. But firstly she taught self-reliance. She had never forgotten the women at the Indian Centre in San Francisco, poor single mothers who made themselves ballgowns from cast-offs and went out to dance on Saturday nights, their hair piled up under Aqua Net lacquer, determined to unite and shine.

She was credited with many things, including the expansion of the tribe from 55,000 to almost 200,000 members, its control of a $75m budget, the revival of the Sequoyah high school and the broadening of horizons for all Indian women. But her own favourite project was one she had masterminded in 1981 in the village of Bell, 14 miles from Mankiller Flats. There she persuaded a dying Cherokee settlement of 300 people, mostly chicken-catchers in run-down shacks, to build their own 16-mile water-line to the mains supply. If they dug or drilled, they would get new houses. The people took a year of persuading; but they built the line. No white person helped them. The “shiftless” Cherokees proudly did everything necessary.

**The healing spring**

Ms Mankiller was not an easy taskmaster. She scolded the people of Bell until they obeyed her. When the tribal council cavilled about her disregard for ceremony, she turned off their microphones. Because the owners of smokeshops refused to pay their taxes, she shut them down. She battled on through constant illnesses, ending with pancreatic cancer, but still considered her biggest challenge was to restore the Cherokees’ lost faith in themselves.

One cure she knew. At Mankiller Flats, where she went back to live, the old wooden house had been burned down by hunters, but the spring still flowed. A Cherokee ritual called “going to the water” could heal negative thoughts as poultices healed wounds. So there, among the rocky slopes of bending hickory and walnut trees, her feet slightly wary of crawfish in the icy water, she would gather positive strength for herself, as well as for her tribe.
The **euro area** went from having a trade deficit of €9 billion ($12.8 billion) with the rest of the world in January to having a surplus of €2.6 billion in February. Exports in February were 2.7% higher than in January on a seasonally-adjusted basis, while imports increased by 1.5%.

**Greece’s** current-account deficit was €3.25 billion in February, more than two-and-a-half times last February’s figure of €1.24 billion. The unemployment rate rose to 11.3% in January from 10.2% in December.

Inflation gathered pace in both the **euro area** and in **Britain**. British inflation quickened to 3.4% in March from 3% in February. Inflation in the euro area, which was 0.9% in February, rose to 1.4% in March.

**Britain’s** unemployment rate for the three months to the end of February was 8%, an increase of 0.1 percentage points over the rate for the previous three-month period. The number of people claiming unemployment benefits edged down in March by 32,900 to 1.54m.

**India’s** central bank raised interest rates by 0.25 percentage points for the second time in two months to tackle inflation. Wholesale prices rose by 9.9% in the year to March.

The Bank of **Canada** said a faster-than-anticipated economic recovery meant that the time for keeping its benchmark rate at a record low of 0.25% was “passing”. The bank ended its “conditional commitment” to keeping the rate at that level until July.
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**MORE COUNTRIES.** Data for the countries below are not: provided in printed editions of The Economist

- Estonia
- Finland
- Iceland
- Ireland
- Latvia
- Lithuania
- Luxembourg
- New Zealand
- Peru
- Philippines
- Portugal
- Sweden
- Ukraine
- Vietnam

*% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. **PPI inflation.
**The Economist commodity-price index**

Apr 22nd 2010
From The Economist print edition

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<th>Index</th>
<th>Apr 13th</th>
<th>Apr 20th*</th>
<th>% change on one month</th>
<th>% change on one year</th>
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*Provisional  †Non-food agriculturals.
The global recession sent the economies of rich countries into a tailspin, but merely caused the emerging economies to slow down a bit. Developing countries are now recovering faster in what the IMF calls a “multi-speed recovery”. This has affected the sources of global growth. Measured on a purchasing-power basis, virtually all of world GDP growth last year came from developing countries. In 2010 advanced economies outside America will be a drag on global growth. The IMF reckons that even in 2015, almost three-quarters of global growth will come from China and other developing countries. During the 1990s the contribution of the emerging economies averaged 40%, rising to 58% for the years between 2000 and 2007.
Trade, exchange rates, budget balances and interest rates
Apr 22nd 2010
From The Economist print edition
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<th>Country</th>
<th>Trade balance* latest 12 months, $bn</th>
<th>Current-account balance latest 12 months</th>
<th>% of GDP 2010†</th>
<th>Currency units, per $ Apr 21st year ago</th>
<th>% of GDP 2010†</th>
<th>Interests, % 3-month latest 10-year govt bonds, latest</th>
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* Year-on-year change. **The Economist as a Financial Intelligence Unit service. Data: Economists, London and New York. Source: Economist Intelligence Unit."
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<td>+3.5</td>
<td>+13.2</td>
</tr>
<tr>
<td>Denmark (OMXCB)</td>
<td>381.7</td>
<td>+2.0</td>
<td>+20.9</td>
<td>+12.8</td>
</tr>
<tr>
<td>Hungary (BUX)</td>
<td>2,042.2</td>
<td>+4.3</td>
<td>+13.2</td>
<td>+8.3</td>
</tr>
<tr>
<td>Norway (OSEAX)</td>
<td>438.8</td>
<td>+0.1</td>
<td>+4.4</td>
<td>+2.3</td>
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<tr>
<td>Poland (WIS)</td>
<td>4,217.8</td>
<td>-2.0</td>
<td>+8.1</td>
<td>+7.1</td>
</tr>
<tr>
<td>Russia (RTS, $ terms)</td>
<td>1,610.2</td>
<td>-3.8</td>
<td>+7.1</td>
<td>+11.5</td>
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<tr>
<td>Sweden (OMX30)</td>
<td>1,042.5</td>
<td>-0.9</td>
<td>+9.5</td>
<td>+8.9</td>
</tr>
<tr>
<td>Switzerland (SMI)</td>
<td>6,814.7</td>
<td>-1.5</td>
<td>+4.1</td>
<td>+0.6</td>
</tr>
<tr>
<td>Turkey (SEM)</td>
<td>58,650.9</td>
<td>-1.5</td>
<td>+10.6</td>
<td>+11.6</td>
</tr>
<tr>
<td>Australia (All Ord.)</td>
<td>4,980.5</td>
<td>-0.7</td>
<td>+2.0</td>
<td>+5.2</td>
</tr>
<tr>
<td>Hong Kong (Hang Seng)</td>
<td>21,510.9</td>
<td>-2.8</td>
<td>-1.7</td>
<td>-1.8</td>
</tr>
<tr>
<td>India (BSE)</td>
<td>17,472.6</td>
<td>-2.0</td>
<td>+14.8</td>
<td>+19.8</td>
</tr>
<tr>
<td>Indonesia (JSX)</td>
<td>2,928.8</td>
<td>+1.0</td>
<td>+14.8</td>
<td>+12.8</td>
</tr>
<tr>
<td>Malaysia (KSE)</td>
<td>1.332.6</td>
<td>-0.2</td>
<td>+4.8</td>
<td>+12.3</td>
</tr>
<tr>
<td>Pakistan (KSE)</td>
<td>10,590.2</td>
<td>+0.2</td>
<td>+12.8</td>
<td>+13.4</td>
</tr>
<tr>
<td>Singapore (STI)</td>
<td>2,967.7</td>
<td>-1.1</td>
<td>+2.2</td>
<td>+4.8</td>
</tr>
<tr>
<td>South Korea (KOSPI)</td>
<td>1,748.4</td>
<td>+0.7</td>
<td>+3.9</td>
<td>+9.2</td>
</tr>
<tr>
<td>Taiwan (TWI)</td>
<td>7,990.5</td>
<td>-1.3</td>
<td>-2.4</td>
<td>-0.4</td>
</tr>
<tr>
<td>Thailand (SET)</td>
<td>757.9</td>
<td>-0.4</td>
<td>+3.2</td>
<td>+6.9</td>
</tr>
<tr>
<td>Argentina (MERV)</td>
<td>2,423.3</td>
<td>-1.4</td>
<td>+4.4</td>
<td>+2.5</td>
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<tr>
<td>Brazil (BVSP)</td>
<td>69,318.0</td>
<td>-2.4</td>
<td>+1.1</td>
<td>+0.6</td>
</tr>
<tr>
<td>Chile (IGPA)</td>
<td>18,881.6</td>
<td>-0.2</td>
<td>+7.6</td>
<td>+4.1</td>
</tr>
<tr>
<td>Colombia (IGBC)</td>
<td>12,478.4</td>
<td>-0.3</td>
<td>+7.6</td>
<td>+12.7</td>
</tr>
<tr>
<td>Mexico (IPC)</td>
<td>35,572.7</td>
<td>-1.7</td>
<td>+6.3</td>
<td>+11.8</td>
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<tr>
<td>Venezuela (IFC)</td>
<td>59,727.9</td>
<td>-1.6</td>
<td>+8.4</td>
<td>-21.6</td>
</tr>
<tr>
<td>Egypt (Egypt 30)</td>
<td>2,081.7</td>
<td>-0.1</td>
<td>-22.1</td>
<td>+7.0</td>
</tr>
<tr>
<td>Israel (TA-100)</td>
<td>1,115.6</td>
<td>-1.9</td>
<td>+6.6</td>
<td>+8.3</td>
</tr>
<tr>
<td>Saudi Arabia (Tadawul)</td>
<td>6,730.1</td>
<td>-2.3</td>
<td>+9.9</td>
<td>+10.0</td>
</tr>
<tr>
<td>South Africa (JSE)</td>
<td>28,938.8</td>
<td>-1.9</td>
<td>+4.6</td>
<td>+3.8</td>
</tr>
<tr>
<td>Europe (FTSE Eurofirst 300)</td>
<td>1,096.1</td>
<td>-0.8</td>
<td>+4.8</td>
<td>-2.2</td>
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<tr>
<td>World, dev'd (MSCI)</td>
<td>1,257.4</td>
<td>-0.1</td>
<td>+4.9</td>
<td>+4.9</td>
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<td>Emerging markets (MSCI)</td>
<td>1,026.9</td>
<td>-1.9</td>
<td>+3.8</td>
<td>+3.8</td>
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<tr>
<td>World, all (MSCI)</td>
<td>231.6</td>
<td>-1.2</td>
<td>+4.7</td>
<td>+4.7</td>
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<tr>
<td>World bonds (Citigroup)</td>
<td>819.5</td>
<td>-0.4</td>
<td>-1.3</td>
<td>-1.3</td>
</tr>
<tr>
<td>EMBI+ (JP Morgan)</td>
<td>519.0</td>
<td>-0.2</td>
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<td>+5.3</td>
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<tr>
<td>Hedge funds (HFRX)</td>
<td>1,185.1</td>
<td>-0.2</td>
<td>+4.2</td>
<td>+2.4</td>
</tr>
<tr>
<td>Volatility, US (VIX)</td>
<td>10.3</td>
<td>15.6</td>
<td>21.7</td>
<td>(levels)</td>
</tr>
<tr>
<td>CDS, Eur (Tribal)</td>
<td>73.6</td>
<td>6.4</td>
<td>5.1</td>
<td>-1.9</td>
</tr>
<tr>
<td>CDS, NAm (CLN)</td>
<td>88.9</td>
<td>-8.4</td>
<td>-18.3</td>
<td>-18.3</td>
</tr>
<tr>
<td>Carbon trading (EU ETS)</td>
<td>14.7</td>
<td>3.7</td>
<td>15.8</td>
<td>8.1</td>
</tr>
</tbody>
</table>
In October last year the IMF put the scale of write-downs on loans or securities that banks worldwide would have to make between 2007 and 2010 at $2.8 trillion. It has now revised this estimate down to $2.3 trillion. The fund reckons that around two-thirds ($1.5 trillion) of this had been realised by the end of last year. The IMF reduced its estimate of loan write-downs by American banks, many of whose loans went bad when housing prices crashed, by $66 billion to $588 billion. Economic growth and stabilising house prices have helped, though the IMF cautions that mortgage delinquencies continue to rise and almost a quarter of American borrowers owe more on their mortgages than their houses are now worth.