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Politics this week

Apr 17th 2008
From The Economist print edition

The World Bank introduced emergency measures to help countries cope with soaring **food prices**, which have caused rioting in some places. The organisation's president, Robert Zoellick, said that the demand for biofuels to help reduce energy pollution in the industrialised world was a “significant contributor” to rising grain prices. He had said earlier that 33 countries were at risk of social upheaval because of the crisis. See article

EPA

Responding to violent protests over food prices, **Haiti's** president, René Préval, cut the cost of rice by 15%. This was not enough to save his prime minister from being ousted in a Senate vote or to stop the rioting, during which a UN peacekeeper was shot dead. Five protesters were also killed.

North Korea is facing a humanitarian crisis, according to the UN World Food Programme. It estimates that 6.5m out of a population of 23m do not have enough to eat.

Chile's education minister was impeached by parliament and barred from office for five years for alleged corruption. She is accused of failing to account for the disappearance of $580m in school subsidies.

Come the revolution

Nepal's Maoists emerged as probable winners of an election to an assembly charged with drafting a constitution. They are almost certain to be the largest party. The Maoists, who had waged a ten-year insurgency against the royal government, joined mainstream politics in 2006. Election observers said that the election was held in a climate of intimidation. The Maoists want to abolish the monarchy; they said King Gyanendra should leave quietly. See article

A meeting on China's Hainan island between **China's** president, Hu Jintao, and **Taiwan's** vice-president-elect, Vincent Siew, was hailed by China as a breakthrough in relations. But Taiwan's president-elect, Ma Ying-jeou, said it had “melted only a small chunk of the iceberg”.

The Chinese press reported that nearly 4,000 “rioters” had been detained in Lhasa, the **Tibetan capital**, and other Tibetan areas since anti-Chinese riots last month. More than half were said to have been released; 400 face formal criminal charges.

Thousands of people attended a rally in Kuala Lumpur, **Malaysia's** capital, to mark the end of a ban that kept Anwar Ibrahim, an opposition leader, from holding office. Mr Anwar claimed the opposition could already form a government with defectors from the ruling coalition, but was biding its time.

He's back

Getty Images

Silvio Berlusconi's centre-right coalition won a decisive victory in **Italy's** general election. Mr Berlusconi becomes prime minister for the third time. See article

Georgia accused **Russia** of trying to annex Abkhazia and South Ossetia after the Russian foreign ministry said it would build closer ties with the breakaway regions.

Vladimir Putin “agreed” to become chairman of the United Russia party, part of a power-sharing arrangement with Dmitry Medvedev, who takes over from Mr Putin as Russia's president in May. See article

Fingers crossed

Kenya's president, Mwai Kibaki, announced a government of national unity, ending a deadlock since disputed elections in December. The leader of the opposition, Raila Odinga, who says the poll was rigged against him, will be prime minister; other ministries have been shared out, though Mr Kibaki has held on to the most powerful ones. See article

Zimbabwe's electoral commission had still not released the results of a presidential election, nearly three weeks after the poll. Robert Mugabe, the incumbent, preparing for a run-off against the challenger, Morgan Tsvangirai, who said he had won outright, began a campaign of intimidation in rural areas where he had done badly in the first round. Britain's prime minister, Gordon Brown, speaking at the United Nations in New York, said: “No one thinks...President Mugabe has won.” See article

An **Egyptian** military court sentenced 25 members (ten in absentia) of the Muslim Brotherhood, the country's main Islamist opposition, to stiff prison terms. Its third-ranking leader, Khayrat Shater, a rich businessman, got seven years. Though officially banned, the Brothers won a fifth of parliament's seats in 2006, but face a mounting campaign of harassment by the government.

Scores of people were killed in car-bomb attacks in three **Iraqi** cities on April 15th. Dozens more were killed two days later when a suicide-bomber attacked a funeral in a town north of Baghdad.

Israeli forces killed at least 17 **Palestinians** in the Gaza Strip on April 16th. Most of those killed were civilians, including a cameraman for Reuters. The attacks followed the killing of three Israeli soldiers at a border crossing.

Doing his sums

John McCain unveiled his economic plans. Among his proposals, Mr McCain said he would reduce corporate tax and abolish the alternative minimum tax. In a nod to populism, he also called for the federal tax on petrol to be suspended during the summer holiday season. The presumptive Republican presidential candidate has taken flack about an alleged lack of economic nous. See article

For the **Democrats**, Hillary Clinton and Barack Obama were grilled about their recent campaign gaffes in a debate broadcast from Philadelphia. Earlier, Mr Obama came in for a storm of criticism for suggesting that voters in the Midwest “cling” to guns and religion because they are “bitter”. Pennsylvania holds its primary on April 22nd.

Less than a week after George Bush sent legislation to Congress for a **free-trade agreement** with Colombia, the measure looked dead.

The Supreme Court ruled that Kentucky's use of **lethal injection** in its executions is constitutional and does not amount to “cruel and unusual punishment”. Many states have put the execution of death-row prisoners on hold for several months while waiting for the decision.

Pope Benedict XVI made his first trip to the United States. He was met by Mr Bush and is due to go to New York, where he will visit Ground Zero. The pope said America's bishops had mishandled scandals involving child abuse by priests, for which he said he was “ashamed”. The scandals have cost $2 billion in damages.

AFP

Business this week

Apr 17th 2008
From The Economist print edition

After months of negotiations, **Delta Air Lines** and **Northwest Airlines** announced their intention to merge, and so create America's biggest domestic carrier. However, the $3.6 billion all-share deal faces stiff opposition from Northwest's pilots, who have so far failed to reach agreement with their colleagues at Delta about integrating the seniority lists that determine flight assignments. See article

British Airways sacked both its director of operations and its director of customer services after the botched opening of Heathrow's Terminal 5, where BA is the exclusive user. A backlog of thousands of bags led to hundreds of flights being cancelled. The airline is deferring until June at the earliest its planned move of remaining long-haul services to the terminal.

Is Immelt in for it?

General Electric's first-quarter profit from continuing operations fell to $4.4 billion, 12% less than a year earlier. The conglomerate also lowered its forecast for the year, undercutting a bullish outlook made a month ago by its chief executive, Jeffrey Immelt. It put the blame partly on “difficult capital markets”, which hurt its financial-services business. GE's share price registered its steepest one-day decline since 1987. See article

IBM's quarterly income from continuing operations rose by 26% compared with a year ago. IBM was boosted by a strong performance abroad, especially in Asia, leading investors to speculate that technology companies might be shielded from the worst of the credit crisis.

Johnson & Johnson said its quarterly net profit had risen by 40% compared with the same period last year (when it took a big charge). The consumer-products company was also helped by strong international sales and a weak dollar.

America's big banks kicked off what is expected to be a dismal quarterly earnings season for financial companies. Among them, **Merrill Lynch** reported more massive write-downs; **Wachovia** recorded a loss of $350m and said it would boost its capital position by $7 billion through a sale of shares; and **JPMorgan Chase's** net profit fell by 50%, compared with a year earlier, partly because it had to write down $2.6 billion.

Some gain from mortgage pain

Institutional Investor's *Alpha* magazine published its annual ranking of the top earners among **hedge-fund managers**. John Paulson led the list. He made $3.7 billion last year, mostly by betting the farm on shorting the subprime-mortgage market. George Soros was second, on $2.9 billion. The top 50 hedge-fund managers earned a combined $29 billion.

The co-founder of **Bayou Management**, a bankrupt hedge fund, was sentenced to 20 years in prison for defrauding investors and ordered to pay $300m in restitution, one of the most severe sentences ever handed down in America for white-collar crime. In January Bayou's former head of finance also received a 20-year prison sentence for his role in the fraud.

Prosecutors in Seoul charged the chairman of **Samsung Group**, Lee Kun-hee, with tax evasion after an investigation sparked by a whistleblower. (Mr Lee was not arrested so as not to interfere with Samsung's operations.) The conglomerate was cleared of bribery allegations.

QBE launched a A$7.3 billion ($6.8 billion) bid for **Insurance Australia Group**, its smaller domestic rival. IAG has taken a hit from big insurance claims arising from bad weather in Australia, New Zealand and Britain, where it has expanded its business.

The **price of oil** reached a new record. Markets were spooked in part by news that oil production in Russia, the world's second-biggest exporter, had fallen for the first time in a decade. Earlier, the International Energy Agency reduced its forecast for the growth in global oil demand in 2008 from 1.8m to 1.3m barrels a day because of a slowdown in economic output. See article

Hold the party

Brazil has discovered what could be the world's third-biggest **oil reserve**, according to Haroldo Lima, the head of the country's National Petroleum Agency (ANP). He believes a deep-sea find off the coast of Rio de Janeiro is capable of yielding 33 billion barrels in reserves. However, the ANP later qualified the remarks made by its boss and said he was speaking in a personal capacity. See article

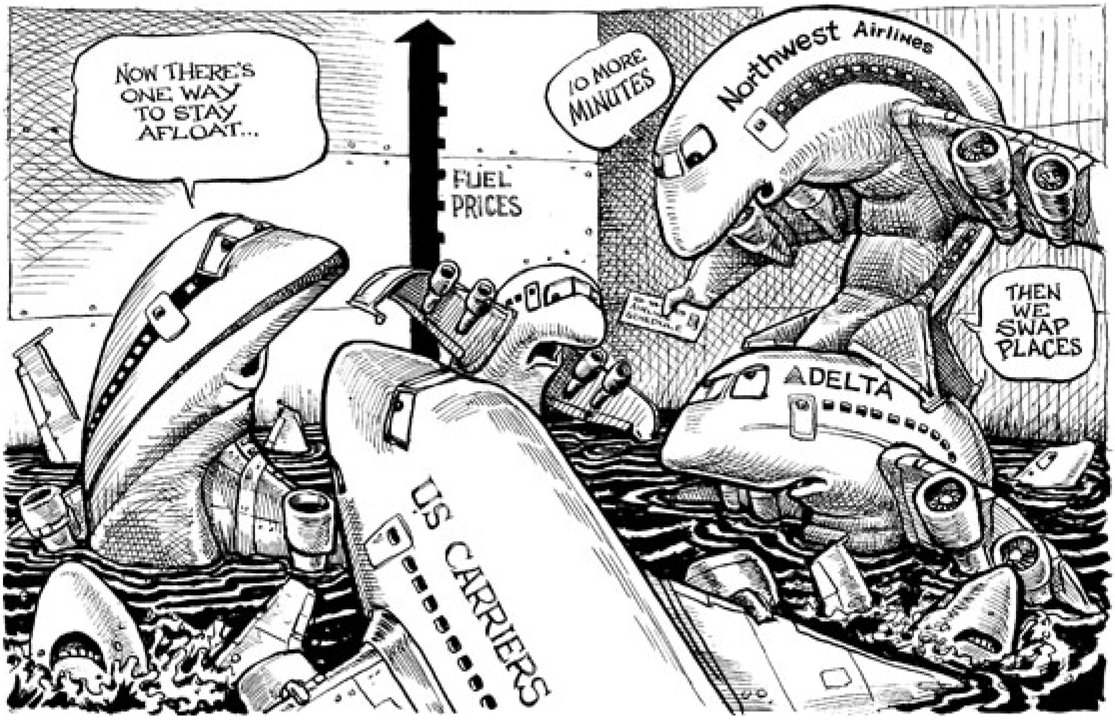
J.K. Rowling, the writer of the **Harry Potter** books, testified in a New York court that a planned encyclopedia about the boy wizard and his companions compiled by the operator of a fans' website was plagiarism. Publishers are watching to see if the court rules that works about an author's characters fall outside established copyright law.

Economist.com **AT A GLANCE**

KAL's cartoon

Apr 17th 2008
From The Economist print edition

Illustration by Kevin Kallaugher



Food

The silent tsunami

Apr 17th 2008
From The Economist print edition

Food prices are causing misery and strife around the world. Radical solutions are needed

Getty Images

PICTURES of hunger usually show passive eyes and swollen bellies. The harvest fails because of war or strife; the onset of crisis is sudden and localised. Its burden falls on those already at the margin.

Today's pictures are different. “This is a silent tsunami,” says Josette Sheeran of the World Food Programme, a United Nations agency. A wave of food-price inflation is moving through the world, leaving riots and shaken governments in its wake. For the first time in 30 years, food protests are erupting in many places at once. Bangladesh is in turmoil (see article); even China is worried (see article). Elsewhere, the food crisis of 2008 will test the assertion of Amartya Sen, an Indian economist, that famines do not happen in democracies.

Famine traditionally means mass starvation. The measures of today's crisis are misery and malnutrition. The middle classes in poor countries are giving up health care and cutting out meat so they can eat three meals a day. The middling poor, those on $2 a day, are pulling children from school and cutting back on vegetables so they can still afford rice. Those on $1 a day are cutting back on meat, vegetables and one or two meals, so they can afford one bowl. The desperate—those on 50 cents a day—face disaster.

Roughly a billion people live on $1 a day. If, on a conservative estimate, the cost of their food rises 20% (and in some places, it has risen a lot more), 100m people could be forced back to this level, the common measure of absolute poverty. In some countries, that would undo all the gains in poverty reduction they have made during the past decade of growth. Because food markets are in turmoil, civil strife is growing; and because trade and openness itself could be undermined, the food crisis of 2008 may become a challenge to globalisation.

First find $700m

Rich countries need to take the food problems as seriously as they take the credit crunch. Already bigwigs at the World Bank and the United Nations are calling for a “new deal” for food. Their clamour is justified. But getting the right kind of help is not so easy, partly because food is not a one-solution-fits-all problem and partly because some of the help needed now risks making matters worse in the long run.

The starting-point should be that rising food prices bear more heavily on some places than others. Food exporters, and countries where farmers are self-sufficient, or net sellers, benefit. Some countries—those in West Africa which import their staples, or Bangladesh, with its huge numbers of landless labourers—

risk ruin and civil strife. Because of the severity there, the first step must be to mend the holes in the world's safety net. That means financing the World Food Programme properly. The WFP is the world's largest distributor of food aid and its most important barrier between hungry people and starvation. Like a $1-a-day family in a developing country, its purchasing power has been slashed by the rising cost of grain. Merely to distribute the same amount of food as last year, the WFP needs—and should get—an extra $700m.

And because the problems in many places are not like those of a traditional famine, the WFP should be allowed to broaden what it does. At the moment, it mostly buys grain and doles it out in areas where there is little or no food. That is necessary in famine-ravaged places, but it damages local markets. In most places there are no absolute shortages and the task is to lower domestic prices without doing too much harm to farmers. That is best done by distributing cash, not food—by supporting (sometimes inventing) social-protection programmes and food-for-work schemes for the poor. The agency can help here, though the main burden—tens of billions of dollars' worth—will be borne by developing-country governments and lending institutions in the West.

Such actions are palliatives. But the food crisis of 2008 has revealed market failures at every link of the food chain (see article). Any “new deal” ought to try to address the long-term problems that are holding poor farmers back.

Then stop the distortions

In general, governments ought to liberalise markets, not intervene in them further. Food is riddled with state intervention at every turn, from subsidies to millers for cheap bread to bribes for farmers to leave land fallow. The upshot of such quotas, subsidies and controls is to dump all the imbalances that in another business might be smoothed out through small adjustments onto the one unregulated part of the food chain: the international market.

For decades, this produced low world prices and disincentives to poor farmers. Now, the opposite is happening. As a result of yet another government distortion—this time subsidies to biofuels in the rich world—prices have gone through the roof. Governments have further exaggerated the problem by imposing export quotas and trade restrictions, raising prices again. In the past, the main argument for liberalising farming was that it would raise food prices and boost returns to farmers. Now that prices have massively overshot, the argument stands for the opposite reason: liberalisation would reduce prices, while leaving farmers with a decent living.

There is an occasional exception to the rule that governments should keep out of agriculture. They can provide basic technology: executing capital-intensive irrigation projects too large for poor individual farmers to undertake, or paying for basic science that helps produce higher-yielding seeds. But be careful. Too often—as in Europe, where superstitious distrust of genetic modification is slowing take-up of the technology—governments hinder rather than help such advances. Since the way to feed the world is not to bring more land under cultivation, but to increase yields, science is crucial.

Agriculture is now in limbo. The world of cheap food has gone. With luck and good policy, there will be a new equilibrium. The transition from one to the other is proving more costly and painful than anyone had expected. But the change is desirable, and governments should be seeking to ease the pain of transition, not to stop the process itself.

Economist.com OPINION LEADERS

The return of Silvio Berlusconi

Mamma mia

Apr 17th 2008
From The Economist print edition

Italians may come to regret electing Silvio Berlusconi once again

ASTONISHINGLY, *il Cavaliere* is back. At the ripe age of 71, Silvio Berlusconi won a convincing victory in Italy's general election on April 13th and 14th, giving him a big majority in both houses of the Italian parliament. There is every sign that his government will last. His political group, People of Freedom, has absorbed the right-wing National Alliance party, he has shed one unreliable ally in the centrist UDC party, and his main partner, the Northern League, will be reluctant to unseat him. Despite a dotty electoral system, foisted on the country by Mr Berlusconi himself in 2006, Italy may be in for five years of relatively stable government (see article).

Why did Italian voters return Mr Berlusconi for a third time, after his previous wins in 1994 and 2001? There are three answers. The most important was disappointment with the bickering centre-left government of Romano Prodi. It may have repaired Italy's unruly public finances, but only by the unpopular means of raising and collecting more taxes. It did little by way of broader reforms. Because the election came only 23 months after Mr Prodi took office, his successor as centre-left leader, Walter Veltroni, had too little time to establish himself as a credible alternative.

The second explanation for Mr Berlusconi's success is, as ever, his grip on Italy's media. Through his Mediaset empire, he controls most of Italian private television. Now that he is back in government, he will indirectly control state-run television too, giving him influence over some 90% of Italian TV. It is to the centre-left's eternal discredit that in its two recent periods in office it did nothing to deal with Mr Berlusconi's conflicts of interest in the media. Nor did it reverse the mish-mash of judicial and procedural laws that Mr Berlusconi pushed through to help him stave off conviction in the myriad court cases that Italy's magistrates have brought against him.

Still unfit

It was Mr Berlusconi's conflicts of interest and his tangled web of judicial proceedings that first led *The Economist* to judge him unfit to be prime minister. We stick to that view. When he suggests that magistrates should be subject to mental-health checks, or when one of his close associates, a senator who is appealing against conviction for associating with the Mafia, says a convicted mob killer was a hero, there are good reasons to argue that Mr Berlusconi should not lead his country.

Yet the biggest challenge now for Mr Berlusconi does not concern conflicts of interest, court cases or the Mafia. It is the dire state of the Italian economy. Indeed, economic woes provide the third explanation why disillusioned voters preferred him to the centre-left. They felt that Mr Prodi's government had done nothing for them except to increase their tax bills. And, against all previous experience of Mr Berlusconi's tawdry governments, many people still want to believe in the magic that made him Italy's richest man. They hope that some of it may rub off on them, making all Italians richer.

Voters have good cause to fret about the economy. In the past two decades Italy has unquestionably become the sick man of Europe. The IMF forecasts that, both this year and next, its economy will grow by a mere 0.3%, the slowest rate of growth in the European Union and among G8 rich countries. This year Italy's GDP per head has fallen below the EU average for the first time. Next year, it will fall below Greece, after being overtaken by Spain in 2006. Even against a slowing world economy, Italy stands out for its dim prospects.

The country's slow growth has persisted under governments of centre-right and centre-left. Its causes are deep-rooted and structural, so they will take years to remedy. Italy is deemed by international watchdogs to be one of the most heavily regulated of all rich countries. Trade unions and special interests have repeatedly fought off attempts at reform. Infrastructure is crumbling, the investment climate is unwelcoming, inflation is troubling and productivity growth has been low (indeed, it has recently been negative). The education and health-care systems are deteriorating. Public administration is inefficient and corrupt, especially in the south—the latest evidence being the Naples garbage mountain.

Time to liberalise

What Italy needs is wholesale liberalisation and the promotion of more competition to reinvigorate its legion of entrepreneurs and small businesses. There is no reason to assume that it would fail. The north of Italy has done well even as the south has stagnated. Italian exporters have proved nimble and creative. Fiat has been transformed. The banks, once notoriously inefficient, have become internationally competitive.

Mr Berlusconi and his finance minister and chief ideologue, Giulio Tremonti, now have a golden opportunity to build on these successes by exploiting their huge parliamentary majority to bring in sweeping supply-side reforms. The question is whether they will take it. The ousting of the far-left from parliament may risk making confrontations over reforms or spending cuts worse. But if the government succeeds in reforming, our verdict on Mr Berlusconi would have to be tempered by the acknowledgment that even he is capable of improvement. Unfortunately there are grounds for scepticism about the new government's reforming credentials.

Mr Tremonti has taken to railing against globalisation as the primary cause of Italy's (and Europe's) problems. The Northern League, which did well in the election, is even more overtly anti-immigration and protectionist. Mr Berlusconi's own words about the future of Alitalia, the country's sickly airline, suggest that he is keener on state-fostered national champions, however inefficient, than on the discipline of the free market. Indeed, he and Mr Tremonti often prefer to cast blame on the EU, the euro and the European Central Bank than to accept that Italy's ills are largely home-grown.

Yet the omens are not all bad. Mr Berlusconi seems to understand, belatedly, the seriousness of Italy's economic situation. His comfortable majority means that he has no more excuses for putting off reforms. This will be his biggest test; hope, for Italy's sake, that he passes it.

Economist.com OPINION LEADERS

McCainomics

One cheer for the Arizona senator

Apr 17th 2008
From The Economist print edition

John McCain has followed the Democrats down the populist road

AP

THE presumed Republican nominee tends to bristle at any implication that economics is not his strong suit, though according to the *Boston Globe* he said late last year that the subject "is not something I've understood as well as I should." On April 15th, tax-filing day, John McCain sought to dispel the doubts with his most detailed presentation yet of his economic policies. He was only partly successful.

Mr McCain plainly has some good instincts. He wants to cut taxes, for some people at least, and simplify America's ludicrous tax code (see article). But look at the details, and problems present themselves on each count: the tax system might not in practice be much simpler than it is now, most of the tax cuts go to the better-off and not enough of them are paid for.

Begin with the simplification. At the moment many Americans have to complete their tax forms twice: once under the standard system, with its myriad deductions, credits and sundry other loopholes, and again under an "alternative minimum tax" (AMT) system which offers lower rates but very few deductions. They then pay whichever of the two bills is higher. This is a complex and perverse system which needs to be phased out; but such a phase-out will need to be paid for. And though there is a sound economic case for getting rid of the AMT, the huge sums of cash it would take to fix could be better spent elsewhere.

Mr McCain's best idea is to produce a simpler, flatter tax system, replacing the existing six tax bands with just two, and with only minimal deductions. But he has not yet spelt out just what those remaining deductions ought to be, which makes it hard to judge the plan (though presumably it would be better than the existing code); and, worse, he has said that it will continue to co-exist with the old one, in all its labyrinthine monstrosity. So either not much will change, because people will think it worthwhile to stay in the old system, or else the government will end up with another revenue hit. And the extent of this hit is still unquantified.

Democrats are already howling that most of Mr McCain's tax cuts will go to the better-off or to companies (which get a juicy cut in their tax rate from 35% to 25%). That is hard to avoid, though, because rich people and companies pay most taxes. The bigger worry is that the savings in government spending he promises will not come anywhere close to paying for the tax cuts. Mr McCain once bravely argued against Mr Bush's tax cuts, because there was no cash to pay for them; with the government already running a big deficit, and no progress on reining in spending on health care and pensions, it would be odd to junk that prudence now. America can ill-afford another profligate Republican; and once again directing most of the benefits to the well-off is tone-deaf politics.

Populist guff

Worst of all is Mr McCain's proposal to suspend the federal tax on petrol over the summer, which conflicts with one of his other selling-points, his commitment to act against global warming. Unfortunately, this naked appeal to populist instincts may serve the senator well, especially if, as still looks most likely, he ends up fighting Barack Obama.

The Democrat has enough alarming policies of his own, including tax hikes for the rich and an increasingly shrill assault on free trade. But his appeal to working-class whites has taken a beating, following his snooty assertion that “bitter” Americans don't like him because they prefer to cling to their guns, to God and to xenophobia (see article). Scrapping the gas tax may help Mr McCain with the bitter, white vote. But the old Mr McCain would have called it populist guff.

Zimbabwe

Africa's shame

Apr 17th 2008
From The Economist print edition

South Africa's president has prolonged Zimbabwe's agony

AFP

CAN Thabo Mbeki, South Africa's lame-duck president, truly believe there is no crisis in Zimbabwe? If so, it must be concluded that there is a crisis also in South Africa—a moral one. For it is unconscionable that the man who leads by far the most powerful country in Africa should shrug off the horror that persists in neighbouring Zimbabwe as a procedural hiccup in a perfectly normal election. By every objective calculation, Robert Mugabe, despite using an array of dirty tricks in a presidential contest nearly three weeks ago, was trounced by the challenger, Morgan Tsvangirai. As *The Economist* went to press, Zimbabwe's electoral commission, plainly under duress, is still refusing to divulge the figures (see article). Can Mr Mbeki seriously suggest, with a straight face, that the result would have been held back if Mr Mugabe had not lost?

If Mr Mbeki had an iota of honour or courage or sense, he could have squeezed Mr Mugabe out of power several years ago—just as South Africa's leaders pulled the plug on the nastily bigoted Rhodesian regime of Ian Smith three decades ago, albeit after succouring it for far too long. Most of the other leaders in southern Africa—with a few notable exceptions, including Jacob Zuma, Mr Mbeki's rival and possible successor—have been equally feeble and downright dishonest. By failing to come together to denounce Mr Mugabe unequivocally, they have not only prolonged Zimbabwe's agony; they have damaged the whole of southern Africa, both materially and in terms of Africa's reputation.

As many as 4m Zimbabweans, one-third of the population, may have fled the ruins of their once blooming country. Western governments are rightly poised to offer generous backing to a new government that would represent the wishes of Zimbabwe's battered survivors. The rich world also seeks, with offers of all kinds of aid, to bring other countries in Africa out of their poverty. But why should it help the governments in the region that seem blind to the monstrosity of Mr Mugabe, whose venality has helped impoverish much of the rest of the region too? Why should Africa as a whole be taken seriously when its leaders, on the whole, refuse to co-operate to remove such a cancer from their midst?

Flouting the people's wishes

Mr Mbeki's apologists will argue that his vaunted “quiet” diplomacy has worked—or may yet work. They say that he helped cajole Mr Mugabe into holding an election in the first place. As a result of negotiations that Mr Mbeki's people oversaw between representatives of Messrs Mugabe and Tsvangirai, some procedures were improved. In particular, the results of the count now must be made public outside every polling station; that limits the scope of the electoral commission, most of whose members are picked by

Mr Mugabe, to fiddle the figures at a central count. But the list of criteria for a fair election, repeatedly drawn up for Mr Mugabe by Mr Mbeki and his fellow SADC leaders, had been habitually ignored by Mr Mugabe, without a squeak of protest from his conniving African counterparts. There is little evidence that Mr Mbeki intended to enforce the departure of Zimbabwe's disastrous leader.

Even now, Mr Mbeki seems to be hoping for a government of national unity, with Mr Mugabe graciously agreeing to step down some time soon, to be replaced by a fellow villain from within his brutal and corrupt ZANU-PF party, perhaps alongside Mr Tsvangirai and an assortment of others. This would be quite wrong. ZANU-PF is as rotten as Mr Mugabe. It has ruined and pillaged the country. Most Zimbabweans do not want to be ruled by it any more. Mr Tsvangirai, by contrast, says he will gather a government of all the talents, looking beyond his own party perhaps to include a few exceptional ZANU-PF people, maybe—if he is wise—along with the likes of Simba Makoni, the able ZANU-PF man who bravely broke with Mr Mugabe to emerge as a third man in the election. Why should Mr Mbeki seek to flout the wishes of the Zimbabwean majority?

It is a sad truth that the main reason for Africa's malaise has been bad government. In the past decade Western leaders have made big efforts to right the wrongs of the past, above all by rewarding and encouraging better government. They should go on doing so. But it is not surprising that Western taxpayers feel loth to be generous when African leaders en masse refuse to help boot out one of their most wicked colleagues.

Economist.com OPINION LEADERS

Brazil

An economic superpower, and now oil too

Apr 17th 2008
From The Economist print edition

Oil could transform Brazil's economy. But not necessarily for the better

THE legend is that Brazil never lives up to its vast potential. When Stefan Zweig, an exiled Austrian writer, said in 1941 of his new home that it was the “country of the future”, popular humour quickly added the rider “and it always will be”. More recently, when Goldman Sachs bracketed Brazil with Russia, India and China as the “BRIC” countries that collectively represent the world's economic future, there was much muttering that its mediocre rate of economic growth condemned it to be an interloper in such dynamic company.

Yet there are reasons to believe that South America's economic powerhouse of 190m people is starting to count in the world. Economic growth has risen steadily, to 5.4% last year. That is modest by Chinese standards—but the comparison is misleading. Brazil enjoyed Chinese rates of growth in the third quarter of the 20th century. That was when it was almost as poor as China. It is much harder for a middle-income country, as Brazil now is, to grow at such rates. And now it looks as if Brazil will become an oil power, too (see article).

Brazil's previous growth spurt was derailed by debt and high oil prices, a debacle that obliged its then military government to give way to civilian rule. The early years of restored democracy saw chronic inflation, economic torpor and political drift. In the past decade and a half, however, under reforming democratic governments, Brazil has conquered inflation, opened a protected economy to the world and begun to tackle its social problems. Poverty and inequality are falling steadily. Under President Luiz Inácio Lula da Silva, the left came to power in 2002 and, to the surprise of some, maintained its commitment to economic stability and openness.

All this has gradually created a new mood among business people. Brazilian companies, traditionally inward-looking family-owned affairs, are going to the stockmarket to raise funds, in many cases to finance expansion abroad. Some, such as Vale, the world's second-biggest mining company, and Embraer, its third-largest maker of civilian aircraft, both privatised in the 1990s, are well-known. A string of others are about to become so. Outsiders have caught the mood: foreign direct investment reached a record $34.6 billion last year.

Beware of bonanzas

Many of these companies are linked to agribusiness or other primary commodities. One reason to worry that Brazil is again flattering only to deceive is that it has been a huge beneficiary of high commodity prices—that same trend that is pushing up the cost of food around the world. Strip out this cyclical stimulus and the country's performance would look less sprightly. But some economists argue that Brazil is the beneficiary of a structural shift, in which the industrialisation of Asia and the rise of a new middle class in the developing world will keep commodity prices high. Besides, Brazil produces more than just soyabeans. It has a lot of manufacturing industry too. And its newly discovered offshore fields of oil and natural gas may turn out to be bigger than those in the North Sea in the 1960s.

Oil wealth is lovely, of course. But it is also a cause for concern. Brazil's currency, the real, has already soared to levels that make manufacturers wince. If it becomes a petro-currency, many factories will be forced to close unless the needlessly high costs of doing business in Brazil are slashed. Moreover, the most impressive economic achievements of Brazil as a democracy have tended to come when the government has had little room to manoeuvre.

The worry now is that a bonanza of oil will weaken an already infirm resolve to drill deeper into the economy's structural problems. These difficulties include an oppressive tax system and a labour code that makes firms wary of hiring. Between them these have confined some 40% of the workforce to the informal economy. Though he needs to spend much more on infrastructure, Lula has squandered a chunk of record tax revenues on padding the public payroll.

An oil gusher could also sharpen Brazil's already voracious appetite for the politics of the pork barrel. Lula has done much to make Brazil's democracy more genuine. But he was re-elected in 2006 despite a corruption scandal that would have felled a politician of lesser skills. Since then he has basked in popularity derived from sunny economic times and well-designed social policies. The danger is complacency. Compared with its past, Brazil is indeed doing much better. But before oil euphoria kicks in, Brazil's leaders should ask themselves why so many other countries have made bigger returns from a much smaller natural endowment.

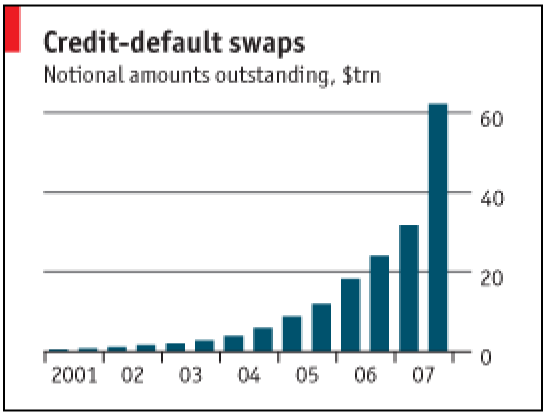
Economist.com OPINION LEADERS

Derivatives

Taming the beast

Apr 17th 2008
From The Economist print edition

It is time to simplify derivatives trading—but not to stunt it



BANKERS, erstwhile masters of the financial universe, are not used to being spoken down to. But just days after the industry resolved, in the words of Deutsche Bank's Josef Ackermann, to “clear our house first and not leave it to the regulators to do it for us”, the Group of Seven finance ministers made it clear that they took such resolutions with a pinch of salt—and vowed to oversee the spring-cleaning themselves.

Reports from the IMF, the Financial Stability Forum, the Basel Committee on Banking Supervision and other august bodies have drawn attention in the past week to the appalling risk-management by many banks before the credit crisis. That is almost bound to mean tighter capital standards and tougher supervision. Quite right, given that the authorities have gone to extraordinary lengths to bail the banks out. More problematic, though, is the G7's focus on the market for financial derivatives traded off-exchange. These are the volatile instruments that, had Bear Stearns collapsed, could have brought down the financial system with it. Given their fissile nature, it is no wonder regulators are keen to simplify and standardise them. They would be wise, however, to tread carefully.

Swap meet

It is not hard to picture derivatives as a central battleground between banks and their regulators. For bankers, the ability to create specialised products for their clients, sold over-the-counter (OTC) like a tailored suit, is not only a fabulous source of fees. It is also a product of what some of them like to call their “intellectual capital”—which is far cheaper than the stuff on their balance sheets, especially now (see article). Clients seem to agree. Despite the crisis, the notional value of credit-default swaps, bedrock of a market for insuring against the risk of default, almost doubled last year, to $62 trillion.

After previous derivatives blow-ups in the 1990s, banks fought hard to stop the business being herded onto lower-margin exchanges. This time the authorities may not be so sanguine. The swaps are mostly bespoke, traded between two parties (who often offset the risk by trading with third parties, and so on) and would have been subject to huge counterparty risk if, say, a big dealer like Bear Stearns had collapsed. They may sound sophisticated, but their settlement can be anything but (many contracts are still buzzed by fax from a buyer to a seller for signing). Three years ago, financial supervisors in America and Europe obliged big banks to start clearing a huge backlog in unconfirmed swaps contracts, fearing a legal quagmire if a lot of them needed to be exercised at once.

The radical solution is to take the unwanted complexity out of derivatives by forcing them onto exchanges. In an ideal world, that would make for more standardised products that enjoy more liquidity, easier valuations, less risk of legal challenge and more transparency. If you trade swaps like futures, the risk of any trading partner collapsing becomes far less acute; the exchange is the counterparty, and it has the job of monitoring the creditworthiness of the buyers and the sellers.

So far, so simple. But the world of credit is not ideal—especially now. To be useful hedges, swaps need to have a degree of specialisation. Fixed-income contracts can often be more than $1m in size, which means they are not easy to trade widely. There is no guarantee that an exchange-traded contract would be a liquid one. Far better, then, to let the exchanges themselves muscle in on the OTC market when they see an opportunity, grabbing contracts when they can offer greater liquidity, transparency and trust than private parties.

Instead of squashing the market, regulators should continue to encourage efforts to standardise the central clearing of contracts—the messy hinterland where so many of the counterparty problems fester. More automation and standardisation of documents would help minimise potential disputes. It would speed up the process between execution and settlement. And if there is foot-dragging by the banks, the authorities could spur things along by requiring them to post more capital against contracts where there is a risk that a counterparty will go bust. Armed with their brooms and pinnies, the regulators clearly can help to tidy up the OTC market. There is no need to sweep it out of existence.

The World Bank, Macedonia, Silvio Berlusconi, Ian Paisley, Turkey, Heathrow

Apr 17th 2008
From The Economist print edition

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Trouble at the World Bank

SIR – A particularly disturbing feature of the latest corruption scandal to hit the World Bank ("Dirty linen", March 22nd) is the fact that it is not, or at least should not have been, news to the bank. Many staff at the bank working on projects financed by the bank knew about it for a long time, but were not listened to or did not dare raise the issues with their higher-ups. As I can testify from experience as a senior economist at the bank, this problem undermines the organisation's anti-corruption efforts. Everyone at the bank understands that being too frank or proactive about corrupt activities in one's projects may not be welcomed. Regrettably, the bank has not done much about it until now.

The long-promised reform of whistleblower protections led the bank's management to commission high-quality reports by external consultants including Robert Vaughn and Graham Scott. These reports contained many specific and sometimes far-reaching recommendations. Yet the set of reform measures that is on its way to being implemented is only a pale reflection of these prescriptions.

Yang-Ro Yoon
Senior human-development economist
World Bank
Washington, DC

The World Bank placed Ms Yoon on administrative leave in March.

Still thinking about a name

SIR – Maybe it would help you to understand Greek sensitivities over the use of the name "Macedonia" by another country if you were to imagine a hypothetical political situation ("With allies like these", April 5th). What would you think if, in the future, some southern counties of Scotland formed an independent country and decided to pursue membership of international organisations calling itself "Northumbria"? Wouldn't that upset the citizens of Newcastle? Wouldn't you insist on a more nuanced name to acknowledge modern boundaries, let alone respect the historical record?

Dimitris Pantelidis
Berlin

Silvio's fortune

SIR – You referred to Silvio Berlusconi as "still Italy's richest man" ("A Leopard, spots unchanged", April 5th). The latest survey of billionaires from *Forbes* lists Mr Berlusconi as Italy's third-richest man, behind Michele Ferrero and Leonardo Del Vecchio.

Ezio Di Nucci
Edinburgh

Anachronisms

SIR – I can think of many words to describe the Rev Ian Paisley, the soon-to-retire first minister of

Northern Ireland, but "medieval" is certainly not one of them (Bagehot, April 5th). I am sure Mr Paisley would fulminate at any link being made between himself and that age, when the Catholic church ruled the Western world and Protestantism was just a twinkle in the eye of Martin Luther's ancestors.

Simon Jarrett
London

A mildly Islamist party

SIR – You rightly criticised moves in the Turkish courts to ban the Justice and Development (AK) Party ("Courtroom drama", April 5th). However, the surreal option of banning a political party to protect democracy is not limited to Ankara. The European Court of Human Rights upheld Turkey's 1998 decision to ban the Welfare Party, ruling that it was consistent with the European Convention on Human Rights to prohibit a party if its manifesto infringed on human rights.

It is perfectly right that the courts strike down an act that breaches human rights, but using the courts to snuff out peaceful political parties on the basis of a proposed policy platform is fundamentally anti-democratic. Claiming that democracy supports such a decision only adds a mischievous gloss to an unjustifiable position. It is unacceptable in Turkey, and in Strasbourg.

Ryan Goss
Oxford

Airport baggage

SIR – Heathrow's unsuitability as a hub airport was recognised decades ago ("How to fix Heathrow", March 29th). In 1968 the Roskill Commission began to look at the requirements for a new airport for London. It examined 78 possible sites and using a cost-benefit analysis selected an old military airfield near Cublington in Buckinghamshire. The government of the day ignored the findings and instead chose an unstable sandbank in the outer reaches of the Thames estuary. The scheme was eventually abandoned. If it had been built in Buckinghamshire, London would now have an airport equal to anything that Paris, Amsterdam or Frankfurt could produce.

Patrick Arnold
London

SIR – The main problem at Heathrow is a lack of runways and therefore slots for landing and take-off. One solution is to concentrate Britain's domestic flights on to fewer widebody aircraft. There are roughly eight morning flights from Edinburgh to Heathrow. These flights use small jets such as the A319 and A320. If bigger aeroplanes such as the B767, A330 or even B777 were used, the number of flights could be reduced. The downside is that there would be slightly less choice for departure times, but does 15-30 minutes really matter?

Philip Bath
Nottingham

SIR – Reducing the number of Heathrow's transit passengers will make it less crowded and provide a better service for people travelling to and from Britain. Heathrow may have had an advantage when aircraft had barely enough range to cross the Atlantic, but technology has moved on. Is it a sign of things to come that Emirates chose a direct route between Dubai and New York for the first flight of its A380?

John Ratsey
Swindon, Wiltshire

SIR – It seems that *The Economist* has developed a prejudice against Heathrow. In the past year I've read three articles slating the place and another half-dozen taking energetic sideswipes. I have experienced far worse airports. Gatwick, for example, has longer security lines. Then there are O'Hare in Chicago and LAX in Los Angeles.

These two horrors serve nearly as many passengers as Heathrow, are more overcrowded and have worse amenities. Many American airports routinely deal with bad weather conditions resulting in delays, cancellations and excess time spent in dismal terminals, which Heathrow travellers are usually spared.

O'Hare is in an utterly different league of unpleasantness compared with Heathrow. I am into my third hour of waiting for a delayed flight.

Dave Taggart
Concourse H, Terminal 3
Chicago O'Hare airport

SIR – Sitting on my bag in the shambles that is Heathrow and thoroughly frustrated at my flight being delayed by ten hours I flicked through *The Economist* to cheer me up. It worked a treat until I got to the article about Willie Walsh's love for his new terminal (Face value, March 29th). I agreed with only one statement in the article; British Airways' boss has indeed learned a lot from Ryanair.

Aidan Cahalane
Terminal 5

Food and the poor

The new face of hunger

Apr 17th 2008
From The Economist print edition

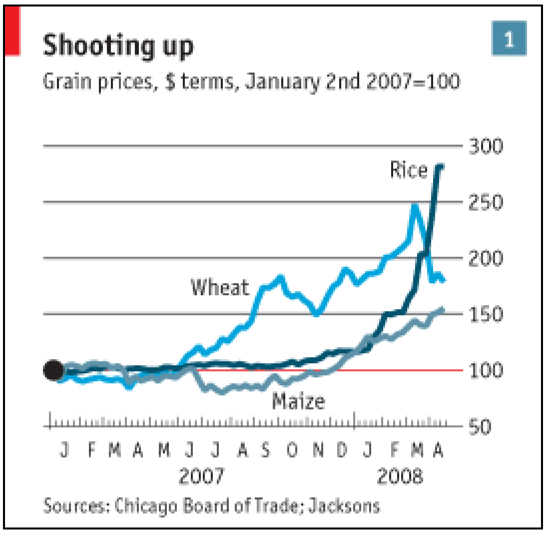
Reuters

Global food shortages have taken everyone by surprise. What is to be done?

SAMAKE BAKARY sells rice from wooden basins at Abobote market in the northern suburbs of Abidjan in Côte d'Ivoire. He points to a bowl of broken Thai rice which, at 400 CFA francs (roughly $1) per kilogram, is the most popular variety. On a good day he used to sell 150 kilos. Now he is lucky to sell half that. “People ask the price and go away without buying anything,” he complains. In early April they went away and rioted: two days of violence persuaded the government to postpone planned elections.

“World agriculture has entered a new, unsustainable and politically risky period,” says Joachim von Braun, the head of the International Food Policy Research Institute (IFPRI) in Washington, DC. To prove it, food riots have erupted in countries all along the equator. In Haiti, protesters chanting “We're hungry” forced the prime minister to resign; 24 people were killed in riots in Cameroon; Egypt's president ordered the army to start baking bread; the Philippines made hoarding rice punishable by life imprisonment. “It's an explosive situation and threatens political stability,” worries Jean-Louis Billon, president of Côte d'Ivoire's chamber of commerce.

Last year wheat prices rose 77% and rice 16% (see chart 1). These were some of the sharpest rises in food prices ever. But this year the speed of change has accelerated. Since January, rice prices have soared 141%; the price of one variety of wheat shot up 25% in a day. Some 40km outside Abidjan, Mariam Kone, who grows sweet potatoes, okra and maize but feeds her family on imported rice, laments: “Rice is very expensive, but we don't know why.”



The prices mainly reflect changes in demand—not problems of supply, such as harvest failure. The changes include the gentle upward pressure from people in China and India eating more grain and meat as they grow rich and the sudden, voracious appetites of western biofuels programmes, which convert cereals into fuel. This year the share of the maize (corn) crop going into ethanol in America has risen and the European Union is implementing its own biofuels targets. To make matters worse, more febrile behaviour seems to be influencing markets: export quotas by large grain producers, rumours of panic-buying by grain importers, money from hedge funds looking for new markets.

Such shifts have not been matched by comparable changes on the farm. This is partly because they cannot be: farmers always take a while to respond. It is also because governments have softened the impact of price rises on domestic markets, muffling the signals that would otherwise have encouraged farmers to grow more food. Of 58 countries whose reactions are tracked by the World Bank, 48 have imposed price controls, consumer subsidies, export restrictions or lower tariffs.

But the food scare of 2008, severe as it is, is only a symptom of a broader problem. The surge in food prices has ended 30 years in which food was cheap, farming was subsidised in rich countries and international food markets were wildly distorted. Eventually, no doubt, farmers will respond to higher prices by growing more and a new equilibrium will be established. If all goes well, food will be affordable again without the subsidies, dumping and distortions of the earlier period. But at the moment, agriculture has been caught in limbo. The era of cheap food is over. The transition to a new equilibrium is proving costlier, more prolonged and much more painful than anyone had expected.

“We are the canary in the mine,” says Josette Sheeran, the head of the UN's World Food Programme, the largest distributor of food aid. Usually, a food crisis is clear and localised. The harvest fails, often because of war or strife, and the burden in the affected region falls heavily on the poorest. This crisis is different. It is occurring in many countries simultaneously, the first time that has happened since the early 1970s. And it is affecting people not usually hit by famines. “For the middle classes,” says Ms Sheeran, “it means cutting out medical care. For those on $2 a day, it means cutting out meat and taking the children out of school. For those on $1 a day, it means cutting out meat and vegetables and eating only cereals. And for those on 50 cents a day, it means total disaster.” The poorest are selling their animals, tools, the tin roof over their heads—making recovery, when it comes, much harder.

Because the problem is not yet reflected in national statistics, its scale is hard to judge. The effect on the poor will depend on whether they are net buyers of food or net sellers (see article); for some net buyers, the price rises may be enough to turn them into sellers. But by almost any measure, the human suffering is likely to be vast. In El Salvador the poor are eating only half as much food as they were a year ago. Afghans are now spending half their income on food, up from a tenth in 2006.

On a conservative estimate, food-price rises may reduce the spending power of the urban poor and country people who buy their own food by 20% (in some regions, prices are rising by far more). Just over 1 billion people live on $1 a day, the benchmark of absolute poverty; 1.5 billion live on $1 to $2 a day. Bob Zoellick, the president of the World Bank, reckons that food inflation could push at least 100m people into poverty, wiping out all the gains the poorest billion have made during almost a decade of economic growth.

Small is fairly beautiful

In the short run, humanitarian aid, social-protection programmes and trade policies will determine how well the world copes with these problems. But in the medium term the question is different: where does the world get more food from? If the extra supplies come mainly from large farmers in America, Europe and other big producers, then the new equilibrium may end up looking much like the old one, with world food depending on a small number of suppliers and—possibly—trade distortions and food dumping. So far, farmers in rich countries have indeed responded. America's winter wheat plantings are up 4% and the spring-sown area is likely to rise more. The Food and Agriculture Organisation forecasts that the wheat harvest in the European Union will rise 13%.

Ideally, a big part of the supply response would come from the world's 450m smallholders in developing countries, people who farm just a few acres. There are three reasons why this would be desirable. First, it would reduce poverty: three-quarters of those making do on $1 a day live in the countryside and depend on the health of smallholder farming. Next, it might help the environment: those smallholders manage a disproportionate share of the world's water and vegetation cover, so raising their productivity on existing land would be environmentally friendlier than cutting down the rainforest. And it should be efficient: in terms of returns on investment, it would be easier to boost grain yields in Africa from two tonnes per hectare to four than it would be to raise yields in Europe from eight tonnes to ten. The opportunities are greater and the law of diminishing returns has not set in.

Unfortunately, no smallholder bonanza is yet happening. In parts of east Africa, farmers are cutting back on the area planted, mostly because they cannot afford fertilisers (driven by oil, fertiliser prices have soared, too). This reaction is not universal. India is forecasting a record cereal harvest; South African planting is up 8% this year. Still, some anecdotal evidence, plus the general increase in food prices, suggests that smallholders are not responding enough. “In a perfect world,” says a recent IFPRI report, "the response to higher prices is higher output. In the real world, however, this isn't always the case." Farming in emerging markets is riddled with market failures and does not react to price signals as other businesses do.

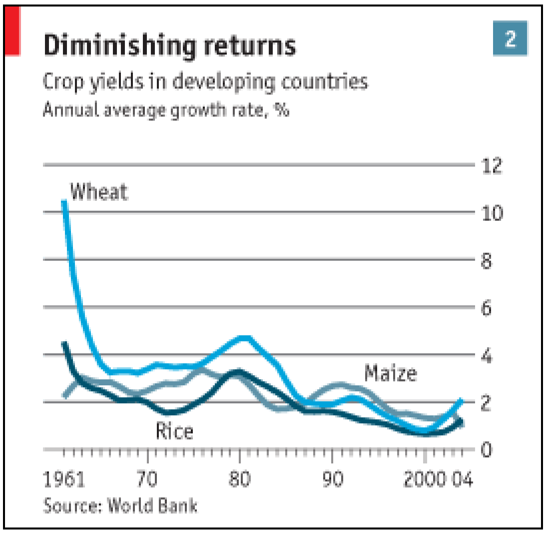
This is true to a certain extent of farming in general. If you own a toy factory, or an oilfield, and the price of toys or oil rises, you run the factory night and day, or turn the taps full on. But it always takes a season to grow more food, which is why farm prices everywhere tend to be "sticky": a 10% increase in prices leads to a 1% increase in output. But the food crisis of 2008 suggests farm prices in developing countries may be stickier than that.

The quickest way to increase your crop is to plant more. But in the short run there is only a limited amount of fallow land easily available. (The substantial unused acreage in Brazil and Russia will take a decade or so to get ready.) For some crops—notably rice in East Asia—the amount of good, productive land is actually falling, buried under the concrete of expanding cities. In other words, food increases now need to come mainly from higher yields.

Yields cannot be switched on and off like a tap. Spreading extra fertiliser or buying new machinery helps. But higher yields also need better irrigation and fancier seeds. The time lag between dreaming up a new seed and growing it commercially in the field is ten to 15 years, says Bob Zeigler of the International Rice Research Institute (IRRI) in the Philippines. Even if a farmer wanted to plant something more productive this year, and could afford to, he could not—unless research work had been going on for years.

It has not. Most agricultural research in developing countries is financed by governments. In the 1980s, governments started to reduce green-revolutionary spending, either out of complacency (believing the problem of food had been licked), or because they preferred to involve the private sector. But many of the private firms brought in to replace state researchers turned out to be rent-seeking monopolists. And in the 1980s and 1990s huge farm surpluses from the rich world were being dumped on markets, depressing prices and returns on investment. Spending on farming as a share of total public spending in developing countries fell by half between 1980 and 2004.

This decline has had a slow, inevitable impact. Creating a new seed is a bit like designing a flu vaccine: you need to keep updating it, or pests and disease will negate its effectiveness. When the rice variety IR8 was introduced in 1966, it produced almost ten tonnes per hectare; now it yields barely seven. In developing countries between the 1960s and 1980s, yields of the main cereal crops increased by 3-6% a year. Now annual growth is down to 1-2%, below the increase in demand (see chart 2). "We're paying the price for 15 years of neglect," says Mr Zeigler.



Alterations in the structure of farming have exacerbated the effects of underinvestment. Farming is just one part of a food chain that stretches from fertiliser and seed companies at one end to supermarkets at the other. In the past, the end of the chain nearest consumers was less important. Food policy meant improving links between farmers and suppliers. The Green Revolution of the 1960s, for example, provided new seeds and subsidised fertilisers. Malawi is doing something similar now. But over the past decade, the other end of the chain has come to matter more. The main reason why Kenyan and Ethiopian farmers planted less this year was not just that fertilisers were expensive, but that farmers could not get credit to finance purchases. Supermarkets are also more important to farmers than they used to be, accounting for half or more of food sales, even in many developing countries.

Success in patches

In theory, the growing importance of traders and supermarkets ought to make farmers more responsive to changes in prices and consumer tastes. In some places, that is the case. But supermarkets need uniform quality, minimum large quantities and high standards of hygiene, which the average smallholder in a poor country is ill equipped to provide. So traders and supermarkets may benefit commercial farmers more than smallholders.

To make matters worse, smallholdings are fragmenting in many countries. Because of population growth and the loss of farmland, the average farm size in China and Bangladesh has fallen from about 1.5 hectares in the 1970s to barely 0.5 hectares now; in Ethiopia and Malawi, it fell from 1.2 hectares to 0.8 in the 1990s. By and large, the smaller the farm, the greater the burden of the cost of doing business with big retailers. Smaller smallholders are also at a disadvantage in getting loans, new seeds and other innovations on which higher yields depend.

Such bottlenecks and market failures make it harder for smallholders to respond to higher prices, even without the multiple distortions that governments also introduce into world food markets. They mean the transition to a new equilibrium will be prolonged and painful. But they do not mean it will not happen. Lennart Båge, the head of the International Fund for Agricultural Development, a UN agency in Rome, argues that if farmers can keep the higher prices, they will overcome the problems that beset them. As he points out, India feeds 17% of the world's people on less than 5% of the world's water and 3% of its farmland—and, along with China, is seeing its cereal crop rise this year. Similar success stories are cropping up, in patches.

Reuters

A burden to afford

Despite East Africa's problems, Ethiopia this week opened its own commodity exchange, a rare thing on the continent, in an attempt to improve the markets that connect farmers and traders. The spread of mobile phones also relays market information more widely. In landlocked Malawi, it costs almost as much to ship maize to and from world markets as it does to grow it locally, so Malawian farmers have found it hard to export their surplus even with prices high. But partly because of the political disaster of Zimbabwe, regional markets are now springing up out of nowhere in southern Africa—and Malawi's farmers are selling there.

Moreover, technological improvements are still pushing through the neglected soil. Mr Zeigler reckons IRRI has enough tinkerings in the pipeline to increase yields by one or two tonnes a hectare. And if European countries relax their hostility to genetically modified organisms, crop scientists could do things—such as redesigning photosynthesis in plants—which could boost yields 50% or more.

Between November 2007 and February 2008, rice exports from Thailand (the world's biggest exporter) were running at 1m tonnes a month—an unprecedented bonanza. But for even for producers and traders, the blessing was mixed. Some farmers sold their crop before prices soared. Millers tried to keep supplies back, waiting for higher prices. The government capped exports below last year's levels. The secretary-general of the Thai rice exporters' association told IRRI that “We don't know where the 2007 harvest is.” Vichai Sriprasert, a big exporter, describes the Thai rice market using language that, elsewhere, is literally true. “This is a crucial time,” he says. “It will tell the story of who will survive and who will not survive.”

How countries cope

Reviving the ration card

Apr 17th 2008
From The Economist print edition

Making food cheaper is not impossible

IN RANGPUR, one of Bangladesh's poorest districts, prices of rice, wheat, cooking oil and pulses have doubled in the past year. About 40% of people there live on less than $1 a day and, in the country as a whole, more than half are landless labourers, who buy rather than grow their food. Government officials talk about “hidden hunger”.

In Malawi, on the other hand, farmers are weighing a record crop, thanks partly to government-subsidised fertilisers. Malawi has few landless poor people, though many smallholders are net food buyers.

The impact of higher food prices varies dramatically from place to place. So does countries' capacity to respond by getting cheap food to poor consumers. The simplest way is to cut taxes on imported food. Twenty-four of the 58 countries tracked by the World Bank have done it. Côte d'Ivoire, for example, halved value-added tax after its food riots. Ethiopia scrapped VAT on food. Indonesia lifted import controls on soyabeans in January after the biggest food protests there for years.

Selling subsidised bread to the poor requires more administrative competence. Pakistan recently announced that it was reviving an old system of ration cards for cheap wheat. Yemen supplies subsidised wheat at selected markets and Egypt provides it to millers to bring down bread prices. Such measures can easily become entrenched—Egypt's has been operating for years—and costs can spiral. Egypt budgeted $1.7 billion for wheat subsidies this year; the estimated cost is now $2.2 billion and rising.

Bob Zoellick, the head of the World Bank, argues that the best way to protect the poor without harming farmers is through conditional cash transfers. Mexico, for example, runs a programme called PROCAMPO which transfers cash to poor farmers. But such schemes ideally need to be up and running already (PROCAMPO was set up to compensate farmers before NAFTA came into force in 1994). And they usually work best in middle-income developing countries because they make considerable administrative demands on the bureaucracy. Countries without social-protection systems, argues Simon Maxwell of Britain's Overseas Development Institute, will depend on food aid, food-for-work and cash-for-work programmes—and it is not clear how quickly these can be scaled up. Ethiopia's various emergency programmes will probably cost well over 1% of national income this year. The World Bank is almost doubling lending to Africa, to help foot bills like this.

Inner-city crime

Back from the brink

Apr 17th 2008 | BALTIMORE
From The Economist print edition

One of America's most violent cities has suddenly become less so—thanks to smarter policing

Getty Images

FEW places are gloomier than a ghetto on a cold, wet night. Boarded-up houses back onto rubbish-strewn alleys. Shopkeepers shelter behind bullet-proof glass. Doubled up on the pavement, a young woman sobs uncontrollably, because she has just blown a week's wages in a bar. Passing police officers establish that she has a home and advise her to go there before she freezes.

Outside a liquor store, a policeman pats down a suspect. The suspect's trousers are halfway down his thighs. You might think this an impractical fashion for someone who often needs to run away from the police. But the suspect insists he is no longer a criminal. He has a good reason for loitering for hours in the rain on a nearly derelict street notorious for drug-dealing. He is waiting for someone, he says.

The policeman laughs. His partner jokes that God should send a meteor to destroy the whole street; being careful, of course, not to hurt anyone.

Baltimore's police chief, Frederick Bealefeld, prefers not to rely on divine intervention. With 282 murders last year among a population of 630,000, Baltimore was one of the most violent cities in America. But since last summer, the killing has slowed. The six months to March this year saw an impressive 28% fewer murders than the same period a year earlier. Mr Bealefeld credits smarter policing, and says he is cautiously optimistic that the trend will continue.

Television dramas such as “The Wire” may give the impression that Baltimore is a hellhole. It is not. Most of the city is calm and pleasant. Only a couple of areas are crime-ridden. And even in these areas, relatively few young men commit—and are the victims of—the most serious crimes. Last year, 89% of those murdered in Baltimore had a criminal record.

Mr Bealefeld thinks the murder rate has fallen because the police are paying more attention to the most violent offenders. One helpful new tool is a registry for gun offenders which the mayor, Sheila Dixon, announced last year. Like sex criminals, anyone who commits a crime using a gun must register his whereabouts with the police as soon as he is convicted or once released from jail. Failure to do so can get him imprisoned again for up to a year.

The logic is simple. Of the 135 people arrested for murder in Baltimore last year, nearly half had a prior conviction for a gun offence. So it makes sense for police and parole officers to keep close tabs on former gun criminals.

Like nearly every other large city, Baltimore has learnt from New York's example in the 1990s and now uses computers to create up-to-date maps of where crimes are being committed, so that officers can be sent where they are most needed. Mr Bealefeld is also making more officers patrol on foot. That way, they get to know the people they protect, who may in turn supply them with information. That is crucial in a city where thugs have mounted a “Stop Snitching” campaign, complete with T-shirts and a DVD, to intimidate potential or actual informants.

Baltimore's eastern district is virtually all black and poor. The police officers who patrol it may be of any race, but none is poor and nearly all live in nicer neighbourhoods. Their relations with the locals can therefore be tricky.

The ghetto is not homogeneous. Many residents welcome the police. The elderly, many of whom cannot move out because they cannot sell their homes, often call the police if they see drug-dealing through their curtains. But younger residents, whom the police constantly stop and search, often resent it.

Your correspondent watched a white policewoman frisk a black female suspect for drugs. The suspect hollered that she was being raped. Several witnesses could see this was nonsense, but the policewoman blushed anyway. “She was mighty talkative,” said the policewoman, after finding nothing and letting her go.

One way the city tries to improve ties with troubled neighbourhoods is by hiring mediators. These are typically people who grew up locally and know when, for example, a young hothead is furious because another has stolen his girlfriend. The mediators try to settle spats before they turn violent.

A big problem for the police (and more so for respectable ghetto residents) is the unfortunate truth that for many young men, gangster culture is alluring. Apart from the low pay and the high risk of getting murdered, drug-dealing is not a bad job, says Peter Moskos, a sociologist who spent a year as a policeman in Baltimore's eastern district. You hang out with your friends. People “respect” (ie, fear) you. You project glamour. You get laid.

You also become otherwise unemployable, says Mr Moskos. To survive on the street, you learn to react violently and pre-emptively to the slightest challenge. This is a useful trait for a drug-dealer, but, oddly, managers at Starbucks do not value it.

The police devote a lot of time and effort to stamping out the drug trade. Nationwide, the war on drugs costs tens of billions of dollars each year, but illegal drugs remain cheap and easy to buy. Catching addicts is easy: if the police frisk enough people in druggy areas, they are sure to find a crack vial or two.

Snaring dealers is harder. On several street corners in east Baltimore, an approaching patrol car will prompt several young men to start walking slowly away. The police may be sure that they are dealing, but their wares will be hidden under a rock. The man (or boy) who handles the drugs will not also handle the money, making it hard to prove that a sale has taken place. The boss will not have anything incriminating on him at all.

Civil libertarians argue that America punishes non-violent drug offenders far too harshly. Mr Moskos reckons that, at least in Baltimore, the people jailed for drug possession are usually violent dealers whose more serious crimes cannot be proven or whose plea bargains have been accepted by an over-burdened judicial system. He thinks drugs should be legalised, though, because their prohibition fuels a criminal economy where disputes are settled violently.

Ms Dixon, the mayor of Baltimore, dismisses this idea. She pins her hopes on development. The ghetto is shrinking. The city's largest private employer, the Johns Hopkins hospital and university, is expanding into the eastern district, bulldozing derelict blocks to build nice homes for biomedical researchers. It will be an economic engine for the area, Ms Dixon says.

Crime and exoneration

In the DNA

Apr 17th 2008 | AUSTIN AND LITTLE ROCK
From The Economist print edition

Advances in forensics mean that more Americans are being proved innocent

AP

Echols may walk

IN 1993, three eight-year-olds disappeared in West Memphis, a poor town in Arkansas. They were found in a ditch the next day. Their bodies were bound with shoelaces and covered with wounds; one had been partially castrated. Anxious to solve this horrific crime, the police soon focused on three local teenagers.

Damien Echols, Jessie Misskelley and Jason Baldwin were oddities in this conservative town. Mr Echols wore black clothing, listened to Metallica and carried a cat's skull to school—perhaps, locals thought, as part of some satanic ritual. Mr Misskelley, who is slightly mentally retarded, actually confessed to the murder.

His confession, though, was full of factual errors. He said that he and his friends had committed the murders in the morning, but the boys were in school all day. And no physical evidence linked the three teenagers to the crime. They were just a bit weird. It was a weak case, but the boys were convicted. Mr Misskelley and Mr Baldwin received life sentences. Mr Echols was sentenced to death.

Over the past 15 years there have been mounting calls to free the West Memphis Three, or at least give them a fair trial. There have been dozens of benefit concerts for their legal-defence fund, and HBO has aired two documentaries about them. Now advances in forensic testing are helping their cause. DNA tests show that a hair from the crime scene could not have belonged to any of the three—but may belong to one of the victims' stepfathers.

On April 15th David Burnett, the original judge in the case, agreed to a new evidentiary hearing in September. The hearing will give pathologists a chance to explain the new forensic evidence. If their convictions are overturned, the West Memphis Three will become America's most famous beneficiaries of DNA testing. But they will not be alone. Across the country, 216 people have been freed after new DNA evidence was produced. More might have been, if some courts were not reluctant to revisit old cases.

Consider Texas. In 2001 Governor Rick Perry declared a legislative emergency. He had just pardoned a man who had served 15 years after being wrongfully convicted of rape. So he fast-tracked a bill that allowed convicts to get state-funded DNA tests, if biological evidence was available and if they could show that there was a reasonable chance of exoneration.

Prosecutors agreed with the idea in principle. But dredging up old cases was not a priority in most of their offices. In Dallas county, for example, 350 convicts requested DNA testing between 2001 and 2007. They were lucky that the county had held on to most of the old evidence. That is in contrast to Harris county, which encompasses Houston and hands down more death sentences than any other place in America. There boxes of evidence have been destroyed by leaky roofs and rats.

Bill Hill, who was district attorney of Dallas county until 2006, granted DNA tests to only 32 convicts. Twelve were exonerated. Then the county elected a new district attorney, Craig Watkins, who had promised to be “smart on crime”. Mr Watkins wanted prevention and rehabilitation, but exonerations came first. “Any injustice of this nature,” he says, “creates a sickening of a person's stomach.”

Within weeks of taking office, Mr Watkins announced that he would allow the Innocence Project of Texas, an organisation of law students, to review all 350 claims. On April 15th Dallas county announced its 16th exoneration. No other county has cleared so many. Examination of the claims is still under way, and Mr

Watkins admits it will be tedious and expensive. But he sees it as an important step in restoring the credibility of the office.

Dallas county's new approach has changed opinions in Texas. A year ago the editorial board of the *Dallas Morning News*, a supporter of the death penalty for a century, declared that it now doubted that Texas could guarantee “that every inmate it executes is truly guilty of murder.” Prosecutors in Arkansas say they still believe the West Memphis Three are guilty. But if they want to keep Mr Echols on death row and his friends in prison, they will have to make a better case for it.

John McCain's economics

The man with half a plan

Apr 17th 2008 | WASHINGTON, DC
From The Economist print edition

The presumptive Republican nominee offers a sketchy economic vision

AP

JOHN MCCAIN'S economic instincts may be sound—he is, after all, the only solid free-trader in the race, and a genuine hater of government waste—but on present form he is not turning out to be much of a salesman. In two recent speeches, he has laid out his economic vision. He addressed America's biggest short-term economic problem (the credit crunch) and its most important one—the looming bankruptcy of Social Security (public pensions) and Medicare (public health care for the old). For the former, he proposed a more cautious fix than his Democratic rivals. On the latter, he hinted at fundamental reform. But in neither case has he offered nearly enough detail.

For “deserving” homeowners caught out by the credit crunch, Mr McCain offers a lifeline. If you took out a subprime mortgage after 2005 to buy a house to live in, and can show that you were creditworthy when you took out the loan but unable to service it now because it reset to a higher rate, he would let you switch to a cheaper loan guaranteed by the government. His advisers say this would help between 200,000 and 400,000 borrowers. Democrats scoff that they would help far more people. Mr McCain says that he, unlike them, will not use taxpayers' money to bail out rash borrowers and speculators.

Commendably, Mr McCain has also stressed the need to fix Medicare and Social Security. Unless fixed, these programmes will bust the budget as the baby-boomers retire in ever-growing numbers. Congress consistently ducks the issue. Mr McCain pledges to work with both parties to fix it. But how? He does not say, other than by squeezing costs.

The president who fixes Medicare would have to be a deficit hawk who can work with the other side. Mr McCain has a better record than Mrs Clinton on both counts, and a much better one than Mr Obama, whose bipartisan achievements are negligible. But both Democrats palpably know more about the subject, and can easily out-debate him.

Mr McCain's approach to economics is moralistic. He thinks it wrong for Congress to waste other people's money, and wrong for chief executives to trouser huge pay packets when they mismanage. He has a tendency, though, to focus on the wrongs that are simplest to understand. Mrs Clinton's proposal to spend $1m of taxpayers' cash on a Woodstock museum was indeed egregious, but even scrapping all such pork-barrel projects, as Mr McCain promises, will have only a modest effect on the budget—since “earmarks” total only about $18 billion, 0.5% of the budget.

Mr McCain knows this, and promises some quite drastic changes. He would freeze discretionary spending for a year (exempting only funds for the military and veterans) and conduct a “top to bottom review” of the budget. He would end the “assumption that [government programmes] should go on for ever”. He would give taxpayers the option of switching to a simpler, flatter tax code. He would make private health insurance portable, so workers can keep it when they change jobs. But even so, none of this adds up to the savings he would require.

He is asking voters to trust him. He has been a fiscally conservative senator, so he will be a fiscally conservative president. Never mind that, as a candidate, he offers few examples of programmes he would axe. He says he would lower the corporate tax from 35% to 25% and keep the Bush tax cuts, which he once opposed. He says he can do this while still closing the budget deficit within eight years. But because he has so far been afraid to list the deductions he will axe and the loopholes he will close, his plans amount, at best, to half a fiscal policy, and the easy half at that.

In selling himself as the best man to lead America out of recession, Mr McCain faces two huge challenges. He is less adept than his opponents at oozing empathy. And the recession itself will hobble him, because he is a Republican. Ray Fair, a Yale economist, predicts election results using a measure of inflation and growth in average incomes. If incomes are flat this year (probably an optimistic assumption), his model predicts that Mr McCain will be flattened in November.

On the campaign trail

Primary colour

Apr 17th 2008
From The Economist print edition

Speak no evil

"I have nothing but contempt for Mr Penn, and for those of us who wanted to see him out from the beginning it became almost a Rumsfeldian thing. And he is not even fired. He has been demoted. How could this be?"
Paul Begala, pundit and Clinton adviser reveals a small split within the campaign. HuffingtonPost.com, April 11th

Jobseeker
"I got that impression from him watching his interview last night. I got that impression."
John McCain on whether Mitt Romney is pitching seriously for the vice-presidential slot. NYmag.com, April 10th

Legal immigrant
"I expect that this will be a unanimous resolution of the Senate."
Senator Patrick Leahy has introduced a resolution declaring Mr McCain a natural-born citizen, as is required of presidents. Mr McCain was born on a naval base in Panama. Both Democratic candidates are co-sponsors. The Hill, *April 10th*

Kill Hill
"She's talking like she's Annie Oakley...She's packing a six-shooter."
Barack Obama mocks Hillary Clinton's hunting stories. AP, April 13th

Obfuscating
"We can answer that some other time. This is about what people feel is being said about them. I went to church on Easter. I mean, so?"
Mrs Clinton, after spending the weekend attacking Mr Obama for his comments on churchgoers, is asked when she last went to church. CNN.com, April 13th

Senior moment
"And you woulda thought, you know, that she'd robbed a bank the way they carried on about this. And some of them, when they're 60, they'll forget something when they're tired at 11 at night, too."
Bill Clinton tries and fails to defend his wife's mis-description of her trip to Bosnia. CNN.com, April 11th

Word of the week
"It makes me bitter."
Harry Reid, Democratic leader in the senate, on the ongoing Democratic campaign. Politico.com, April 14th

Ever hopeful
"That's my phone buzzing there. I don't want you to think I'm getting fresh or anything."
Mr Obama, during a photo-op with some waitresses in Indiana. Associated Press, April 10th

Climate change

Lukewarm

Apr 17th 2008
From The Economist print edition

The “toxic Texan” discovers a belated resolve on global warming

EVER since the Democrats took control of Congress last year, environmentalists have been wondering whether George Bush might drop his dogged opposition to limiting America's emissions of greenhouse gases. After all, Mr Bush had supported the idea before he became president. The Democrats are keen on it, as are all the remaining presidential candidates, so change seems inevitable. Businesses, too, may prefer that Mr Bush, rather than a greener successor, take charge of the issue. Sure enough, on April 16th Mr Bush announced that he wants America's emissions to peak by 2025. But his change of heart seems intended less to stem global warming than to head off measures that would do so in ways he dislikes.

Previously, Mr Bush had only supported steps to decrease emissions per unit of output, rather than imposing an absolute cap. He still rejects sharp cuts in America's emissions, arguing that they would hurt the economy too much. He also disapproves of the idea that the government should simply regulate emissions like any other pollutant, despite a Supreme Court ruling last year that it could. He is still keener on incentives to develop and adopt new technology than he is on penalties for polluting, although he has not ruled out a cap-and-trade scheme of the sort that several bills in Congress propose.

In theory, the president timed these pronouncements to inspire negotiators who gathered in Paris the following day to discuss a global agreement to slow climate change. But his proposals are impossibly woolly and fall far short of the goals that all rich countries except America have already accepted under the United Nations' treaty on climate change, the Kyoto protocol. They also fall short of the cuts in emissions envisaged by all three presidential candidates. No wonder, then, that many countries feel there is little point discussing the issue with America until a new administration takes office.

Mr Bush's initiative will, however, have an impact on Congress, where the Democratic leadership hopes to pass a bill on climate change before the election. Some global-warming sceptics in the Republican ranks are complaining that the president's apparent conversion will make it harder for them to nip this in the bud. Senators Joe Lieberman and John Warner, for example, claim to have lined up almost 60 votes in the Senate for their bill, which seeks to cut America's greenhouse gas emissions by about 20% by 2020, and over 60% by 2050.

Those cuts still sound far too deep to be palatable to the president, who might veto them if they ever got through Congress. That is unlikely anyway, given slow progress in the House of Representatives in particular. But the Democrats can live with failure. It allows them to denounce Republican prevarication on global warming during the election campaign while waiting for a more pliable new president.

The Virginia Tech massacre

Curbing guns, but not too much

Apr 17th 2008 | RICHMOND, VIRGINIA
From The Economist print edition

One year on from the worst mass-shooting in American history

ON APRIL 16th last year a deranged student, Cho Seung-hui, killed 32 people before shooting himself at Virginia Tech university. He had legally acquired the two handguns he used that morning. Before his rampage on the campus, which spreads over the rolling hills of Blacksburg, teachers and university police were already worried about his volatile behaviour and violent writings. He was recommended for psychiatric treatment but, because of cracks in the state mental-health system, never received it.

Virginia's rush to reform has been dramatic but incomplete. At the urging of the state's governor, Timothy Kaine, the legislature has funnelled an extra $42m into mental-health treatment and staff. Virginia has also rewritten its laws for identifying and monitoring the mentally ill. One new law requires colleges to alert the parents of students who may be a danger to themselves or to others. And the state now requires mental-health questions on the instant-background checks for gun-buyers. These might have kept firearms out of Cho's hands.

Yet Virginia, though heavily suburban, is attached to its guns and the state can go only so far down this road. The legislature refused Mr Kaine's request to close a loophole in the firearms laws that allows purchases from unlicensed dealers at gun shows without an on-the-spot background investigation. This would have made no difference in Cho's case. But the proposed tightening was intended, at a minimum, to symbolise a strong response to the Virginia Tech tragedy.

The shootings, followed by the killing of five more students in February at Northern Illinois University, serve as a backdrop to the renewed debate over gun rights that is roiling the courts and the presidential campaign. The Supreme Court this year may strike down the handgun ban in Washington, DC, just across the Potomac river from Virginia. And in the run-up to the crucial Pennsylvania primary Barack Obama, the Democratic front-runner, has been pilloried for saying that small-town voters embrace guns (and God) because of their frustration over the economy.

Virginia has reached a legal settlement with most of the Virginia Tech survivors and the relatives of the dead. In return for promising not to sue the state, they will share $11m in compensation. Families of the victims will each be limited to $100,000, Virginia's statutory cap on damage claims against the state. Legislators are now wondering whether that ceiling, one of the lowest in the country, should be raised for the first time since 1993.

Although it remains difficult to sue the state to much effect, it is still easy for Virginians to carry guns. In fact, the Virginia Tech shootings have increased their popularity. In 2007 there was a 73% increase in concealed-handgun permit applications, according to the Virginia Supreme Court. That rise of more than 44,000 applications over the previous year was, gun-rights activists believe, a direct result of the bloodshed in Blacksburg.

Drinking

Too young to have fun

Apr 17th 2008
From The Economist print edition

Is it time to lower America's drinking age?

AT THE height of the Vietnam war, many Americans asked why an 18-year-old could die for his country but not drink a beer. Now the same question, given edge by Iraq, is part of a renewed effort to lower the drinking age across the country.

In the early 1980s more than half the states had drinking ages lower than 21. Some let the boozing start at 18; some allowed 19-year-olds to buy beer and wine. Spurred by Mothers Against Drunk Driving (MADD), the Reagan administration in 1984 ordered states to raise their drinking age back to 21 or lose 10% of their federal highway funds. The states buckled under this fiscal blackmail but—surprise!—under-age drinking did not disappear. In some ways, the problem got worse.

Besides making criminals of millions of young people, the “21” law encourages the young to binge in secret. And one new and dangerous fad is for young folk to go to a bar on the eve of their 21st birthday and, after midnight, attempt to down 21 drinks before closing time.

John McCardle, the former president of Middlebury College in Vermont, is leading a national effort to lower the drinking age to 18. The relaxation would be combined with mandatory alcohol education. His group, Choose Responsibility, argues that the 21 law has done little to stop drunk-driving and, because it is largely unenforceable, breeds contempt for law in general.

In Missouri signatures are being collected to put the question of lowering the drinking age on the ballot. If it passes, the state will lose $50m in federal highway funds. Legislatures in Wisconsin and South Carolina are considering making an exception for military personnel, and South Dakota is mulling a measure to allow 19-year-olds to buy low-alcohol beer. The question is being raised in other states as well.

MADD is heading the opposition, parading posters of victims of drunk drivers and arguing that the 21 law has saved more than 20,000 lives. Choose Responsibility disputes that figure. Other factors, it says, have also contributed to the decline in deaths, and fatalities among under-age drunk drivers have fallen by only 13%. But MADD's emotion, coupled with the prospect of states losing their road money, mean that a lower drinking age remains as dim a prospect as a cold Bud in Utah.

University admissions

Accepted

Apr 17th 2008 | WASHINGTON, DC
From The Economist print edition

A rarer word, these days

ON APRIL 21st 1,000 high-school students will flock to Yale's Old Campus to be greeted by a three-storey, inflated statue of the university's bulldog mascot, Handsome Dan. With their admission to the university just secured, it is their turn to be feted during Yale's “Bulldog Days”, with everything from meetings with famous professors to pizza parties and, yes, the handsome hound in the flesh.

Admissions season has just concluded, and it has been another record year. The big four—Harvard, Princeton, Stanford and Yale—all took less than 10% of their applicants for the first time ever. Harvard accepted just 7.1% of those who applied.

Explaining the absurd competition at the top is easy. A (peaking) population bump has increased the college-aged cohort for the past 15 years just as higher percentages of students have decided to enter university. Add to that two other factors: an intensifying obsession with big-name colleges rather than the ones that are cheapest or nearest to home, and the rollout of big new financial-aid packages at the best universities.

These trends have profoundly altered the selection process in lower ranks. So-called “almost-Ivies” such as Bowdoin and Middlebury also saw record low admission rates this year (18% each). It is now as hard to get into Bowdoin, says the college's admissions director, as it was to get into Princeton in the 1970s. That has boosted the cachet of what used to be “safety schools” for Ivy-league rejects and the selectivity of universities even lower down the pecking-order—which, after all, educate most American undergraduates.

Rarer in lower tiers, though, are good financial-aid programmes. Fees will be an even bigger worry this year as the subprime mess savages family finances. And lenders are now unable to raise cash in uneasy debt markets. Even federally guaranteed student loans may become less accessible: Sallie Mae, the largest lender, has just announced that it will charge fees for loan applications.

Some congressmen want the government to buy up securities backed by student debt, and the federal education department may step in as a lender of last resort. Even so, outside the top tiers, the big winners in this year's competition for applicants will be the ones who cause students least anxiety about how they are going to pay for all that learning.

Lexington

A bitter pill

Apr 17th 2008
From The Economist print edition

Barack Obama has ignited a fiery debate about class

Illustration by Kevin Kallaugher

BARACK OBAMA has a magic way with words; but when the magic deserts him it deserts him big time. April 6th saw Mr Obama making the worst verbal gaffe of this seemingly endless campaign. He told a group of fat cats in San Francisco that the reason why he is finding it hard to appeal to blue-collar voters in Pennsylvania is because they are “bitter”. They have suffered from so many broken promises that they prefer to “cling” to God, guns and xenophobia rather than reaching out for a helping hand from the government.

The resulting cacophony has drowned out everything else. (Did anybody notice that the Democratic candidates engaged in a substantive debate on religion on April 13th?) “Elitist, out of touch and, frankly, patronising,” says Hillary Clinton. “Out of touch with average Americans,” echoes the McCain campaign. Conservative radio hosts have been bellowing 24/7 about how Mr Snooty knows nothing about the real America.

And no wonder! Mr Obama has always been in danger of coming across as an elitist. He was educated at Columbia University and Harvard Law School. He not only reads books but writes them. He once urged a group of Iowa farmers to check out the price of arugula (rocket) in Whole Foods—an upmarket store that has no branch in the entire state. His Ivy League-educated wife—who is paid nearly $300,000 a year for providing “community outreach”—is in the habit of telling audiences how difficult it is to afford ballet classes for their daughters.

The war between “ordinary people” and “condescending elites” is one of the great themes of American politics. “Ordinary people” are real Americans: they worship God, revere America and love their families. “Condescending elites” are crypto-Europeans—the sort of people who eat arugula, do sissified jobs in offices and universities, and scheme to ban guns and legalise gay marriage. Mr Obama not only put himself firmly on the “wrong” side of this great cultural divide; he implied that “ordinary Americans” are the victims of “false consciousness” for not falling in love with him.

But this pandering to “ordinary Americans” is annoying in all sorts of ways. Isn't America supposed to be a meritocracy? Two-thirds of Americans reject the idea that people's chances in life are determined by circumstances that are beyond their control, a far higher proportion than in Europe. Almost 90% say that they admire people who have got rich through hard work. Yet whenever elections come around politicians treat the people at the bottom of the heap as the embodiment of American values. And aren't Americans supposed to believe in self-reliance? America's farms are some of the country's biggest subsidy hogs. Many small towns—Congressman Jack Murtha's Johnstown in central Pennsylvania is an egregious example—are kept alive only by federal pork. As for family values, America's small towns and rural havens suffer from higher rates of marital breakdown and illegitimate births than the degenerate big cities.

But pander the politicians feel they must. This week Mrs Clinton downed a shot of Crown Royal whisky in Bronko's Restaurant and Lounge in Crown Point, Indiana. She also entertained America with stories about how her father taught her to shoot. But does anybody believe that Mrs Clinton spends her days shooting and her evenings throwing back the whisky? Mrs Clinton is a graduate of Wellesley College and Yale Law School. The Clintons' joint income since 2000 was $109m. Mrs Clinton joined the million-mom march against gun violence. Back in the mid-1990s the Clintons both went on a Wyoming rafting holiday because Dick Morris, their pollster, told them that it would go down well with “the folks”. They were soon enough back at Martha's Vineyard.

The same is true, perhaps even truer, on the conservative side of the aisle. John McCain—son and grandson of four-star admirals, husband of a woman who is worth $100m and owner of several houses—follows in a long tradition. George Bush senior mocked Michael Dukakis for his Harvard Yard liberalism. But “Poppy” went to Yale (where his father was on the board of directors) and was once nonplussed by a supermarket scanner. Bob Dole, who liked to boast that his father wore overalls for 42 years, made millions and married a fellow all-star politician. And as for George Bush junior...

The hypocrisy extends to the commentariat who have been busting their cheeks blowing their populist trumpets. Rush Limbaugh and Bill O'Reilly make millions out of championing “the folks” against “the elites”. Bill Kristol and John Podhoretz are the Ivy-educated sons of famous parents who are based, respectively, in Washington, DC, and New York City.

How bad for Barack?

The big question, of course, is how much this will hurt Mr Obama's election hopes. However hypocritical it may be, this style of elite-bashing politics has had a remarkable track record since at least the Vietnam war. The Nixon campaign eviscerated George McGovern as the candidate of “amnesty, abortion and acid”. Mr Bush senior reduced Mr Dukakis to the candidate of card-carrying liberal elitists. Mr Bush junior pulverised John Kerry as a French-speaking windsurfer.

But whether it will continue to be so potent is less clear. Mr Obama is a more skilful politician than most of his predecessors. Mrs Clinton's “We're not bitter” populism is already beginning to grate (when she told a crowd in Pittsburgh that she found his comments condescending, there were loud cries of “No”). And polls suggest that people are much more interested in addressing issues such as economic insecurity and inequality than refighting old battles against the liberal elites. Perhaps this election is not just about who wins the White House, but about whether an entire political era is drawing to a close.

Colombia's president

The Uribe temptation

Apr 17th 2008 | BOGOTÁ
From The Economist print edition

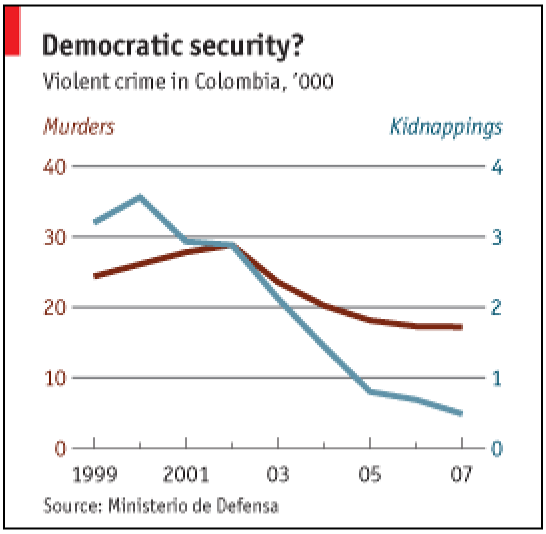
NOTIMEX

America stiffs its best friend in Latin America. How much will he really care?

ALVARO URIBE is slight, bespectacled—and after nearly six years in office still in a hurry. Meet him in the presidential palace and he springs out of his chair, leads visitors to a map and with a plastic ruler explains the malevolent geography that for centuries has made this mountain-blocked and valley-scored Andean country of 44m people so hard to govern. Here is jungle, here savannah, there the 2,200km (1,400-mile) border with Venezuela. Where are the FARC guerrillas? Not long ago they used to be everywhere. Now—he waves his ruler—they have been driven into the remotest jungle, or across the border, and are harried even there.

Mr Uribe is that rarest of beasts: a democratic, pro-American president winning an anti-terrorist war. On the day of his inauguration, in 2002, guerrilla units lurked not only in the lush peaks that tower over Bogotá but sometimes inside the capital itself. During his swearing-in, rockets aimed at the palace landed in a working-class district, killing 19 people and wounding 60. Six years on, however, it is not only Bogotá but Colombia as a whole that has been transformed. This is still a violent country, but the long epidemic of murder and kidnapping, spread in ascending order by class hatred, ideology and drug money, is at last being tamed (see chart). The economy is growing at a lusty 7% a year.

It is good news all round—not least, you might think, for the United States. Colombia provides much of the cocaine snorted up American noses. In Mr Uribe, however, the Americans have an ally who has worked hard, through the American-financed Plan Colombia, to eradicate coca and disrupt the traffickers. More than this, he has made Colombia the odd-man-out in the Andes. Venezuela, Ecuador and Bolivia are run by anti-American leftists. Mr Uribe believes in free markets and has hitched Colombia's star to the United States. He even backed the war in Iraq.



Such an ally should be nurtured. Or so says George Bush, who appealed to Congress this week to ratify a long-promised Free-Trade Agreement (FTA) with Colombia so as not to “stiff” an ally. Stiffed, however, Colombia will probably be. The Democrats on Capitol Hill refuse to be bounced. Nancy Pelosi, speaker of the House, responded to Mr Bush by accusing him of “stiffing” the American people via seven years of lousy economic policies.

Ms Pelosi's view of Mr Bush is no surprise. But what do the Democrats have against Colombia? Its hopes for an FTA have been caught in a pincer, with protectionists on one side and human-rights activists on the other. The Democrats hope to protect American jobs (or, at least, win votes in the forthcoming elections). Groups such as Amnesty and Human Rights Watch say America should withhold the plum of free trade until Colombia cleans up its human rights. Faced by such an alliance it seems safe to predict that Colombia will not win its FTA any time soon.

The quarrel in Washington highlights the difficulty Americans have in resolving the puzzle of Colombia's leader. Is Mr Uribe to be taken at his own estimation, as the man who is uprooting terrorism not just by employing a bigger and better army but also by strengthening democracy? Or is he, as some on the left say, a militaristic right-winger who behind the scenes is in league with the paramilitaries, the vigilantes who came into being to fight the FARC but turned out to be vicious killers and narco-traffickers in their own right?

If Americans are confused, most Colombians have made up their minds. For bringing order, Mr Uribe was hugely popular even before the boost he enjoyed after last month's cross-border raid into Ecuador. That attack killed Raúl Reyes, a top member of the FARC's elusive seven-man secretariat. Better still, the Colombians grabbed several laptops said to contain (Interpol is now examining their authenticity) juicy evidence of the help the FARC receives from Venezuela, whose oil-fired socialist president, Hugo Chávez, is Latin America's loudest foe of the United States. In the edgy face-off against Mr Chávez, Colombians feel it was their man who kept his cool and emerged the winner.

American labour unions and international human-rights groups make much of the fact that trade unionists are murdered in Colombia, and that few of the assassins are investigated and brought to trial. Human Rights Watch says that 17 unionists were killed in first three months of 2008 alone, and more than 400 during the six years of Mr Uribe's administration. No doubt, there is a problem. Photos of assassinated unionists are posted outside the thick glass security door of the CUT trade-union federation in Bogotá. Police with automatic rifles patrol outside. Carlos Rodríguez, the federation's head, claims that the killers include right-wing paramilitary groups and “agents of the state”.

Yet these murders, however grotesque, should be seen in the context of a society still emerging from extreme violence. It is not only success against the FARC that has brought about the startling reduction of killing. Between 2004 and 2006 Mr Uribe persuaded the right-wing paramilitaries to give up their weapons. If they gave an account of their crimes, they would be treated more leniently. As a result, the justice system is swamped. Mario Iguarán, the attorney-general, says that in spite of being voted extra resources from Congress, his investigators are overwhelmed by the numbers. Some 4,000 people are being investigated for crimes against humanity; 800 new murders have come to light as a result of confessions alone.

In response to foreign pressure, the government has also set up a special unit to investigate the murder of unionists. But the government points out that union members are less likely to be murder victims than members of the population at large. Some of those killed, it says, may have been victims of common crimes, not singled out as unionists. Besides, says Mr Uribe, the unions have other reasons for opposing him. They do not like his liberal economic reforms. And although Colombians should be, and are, free to join unions, Mr Uribe says, there are historical reasons for distrust. In the 1960s unions were penetrated by Marxists who espoused all forms of struggle, including violence.

Reuters

In appealing to the American Congress to ratify the FTA, Mr Uribe ticks off his achievements: the protection of journalists and unionists, the squashing of terrorism and the extradition during his term of more than 600 drug traffickers to the United States. “We have more to do,” he admits: “But we request that we receive recognition of the progress we have made.”

If he is refused, the economic damage to Colombia would not be immediate. A trade-preferences agreement already gives it access to the American market. This can be renewed if the FTA fails. But withholding an FTA after granting such agreements to other countries in the region may knock investors' confidence. And that, says Mr Uribe, would make it harder to create the jobs needed to wean Colombians from terrorism and narco-trafficking.

The political impact on Mr Uribe himself is a different matter. Some foreign diplomats in Bogotá say the FTA's failure would land a heavy political blow on a leader who has paid a high price in the neighbourhood for aligning himself with the United States. And yet this danger can be overstated. There is little evidence that Colombians would blame their president rather than the United States. Mr Uribe is still seen by millions of Colombians as their saviour. If anything, indeed, he may be too popular for Colombia's good.

All the way with Uribe

Just one more push

Having already served two terms, he cannot have a third. But the constitution can be changed, just as it was to allow him a second term in a row. His soaring popularity and confidence may tempt Mr Uribe to see himself as man of destiny, selected by providence to inflict a final defeat on the guerrillas of right and left, uproot the narco-traffickers and turn Colombia into a fully fledged democracy. He has come closer to this goal than any predecessor, but his term ends in 2010. Is it not his duty to seek a third term and finish the job?

The temptation must be strong. If you believe General Freddy Padilla de León, head of the armed forces, the long and bloody war against the FARC is not just beginning to end: this is “the end of the end”.

The general makes no secret of the debt the army feels to Colombia's present political leadership. For the first time, he claims, the soldiers do not feel they are on their own. Mr Uribe's programme of “democratic security” has laid down a co-ordinated strategy that combines politics, social intervention and military force. The army has been modernised and provided with “extraordinary” resources. General Padilla says his forces can reach any part of the country's territory “with precision, surprise and a minimum of collateral damage”. Central to its planning is the notion of legitimacy. With the people's support, he says, victory is at hand.

Generals exaggerate. The army is still accused of abuses. But the FARC is plainly losing ground and its men are deserting. Though it holds hostages, such as Ingrid Betancourt, it is failing to extract concessions from this tough-minded government. The guerrillas may hope for a softening under a new president. But that is why Mr Uribe may be tempted to stand again.

When asked if he will, he laughs off the question. Until a couple of months ago, the betting was that he would not. The legalities are complex and Congress is rich in rivals who fancy the top job themselves. But since the success of the Ecuador raid and his *mano a mano* against President Chávez the odds have shortened. His supporters have quietly taken the first step of organising a petition for a third term. One European ambassador says Mr Uribe has started to behave more like a candidate than a president nearing the end of his term. He has groomed no successor.

Mr Uribe might win a third popular mandate. But elite opinion, even among admirers, is mixed. That is because his record is mixed. For example, although the president takes credit for the prosecution of the demobilised paramilitaries, his original plan was to grant them an amnesty; it was Congress and the constitutional court that insisted on tougher terms (and some are still running their rackets). His supporters give Mr Uribe credit for the “parapolitics” affair, under which almost a fifth of Colombia's Congress members are being investigated for secret links to the paramilitaries. But here it was the Supreme Court that made the running, not the president.

For all its sorry history of violence, says Rafael Pardo, a former defence minister (and possible presidential candidate), Colombia has had some strong and independent state institutions. In Mr Uribe it has a formidably strong president, who has already concentrated a good deal of power in his hands. Whether the independence of the institutions could survive the re-election of the man is, at the least, an open question. And the answer to the question could matter, in the long run, rather more to Colombia than the fate of the FTA.

Paraguay's elections

Liberation politics

Apr 17th 2008 | ASUNCIÓN
From The Economist print edition

The Colorado Party's 61-year grip on power may be at an end

EPA

Lugo: embracing a new heaven

IF THE poll numbers hold, the world's longest-ruling political party will be dismissed by Paraguay's voters on April 20th. The Colorado Party, which came to power two years before China's Communist Party, has governed for so long that Paraguay sometimes feels like a run-down country club that exists purely for the benefit of party members. Yet despite fielding a good candidate, the Colorados could well lose to a complete political novice.

Their main opponent is Fernando Lugo, a Catholic bishop who gave up his job preaching liberation theology to the poor in order to stand for office. In person, he is rather less charismatic than his story suggests. But since being chosen as the figurehead for a coalition of the biggest opposition parties, he has turned into a formidable candidate. Those close to him say he has struggled to switch from officiating at mass to talking confidently about fixing Paraguay. But he has cut his hair, had his teeth polished and embodies a fresh start—unlike his two main rivals.

For in addition to the Colorado candidate, Mr Lugo faces Lino Oviedo, a former general accused of planning a coup in 1996 and of being involved in the assassination of Paraguay's vice-president in 1999. After two spells in jail and five years in exile (in Argentina and Brazil), Mr Oviedo, a Colorado presidential candidate in 1998, re-emerged last September as another champion of the poor. Now candidate of the National Union of Ethical Citizens, he looks set to do well, though the presidency is probably beyond his grasp.

Meanwhile, the Colorados are wondering where they went wrong. Their candidate, Blanca Ovelar, a former teacher, education minister and basketball player, is reckoned to be the best they have produced for a long time. She has a powerful party machine behind her. And Paraguay's economy grew by 5.5% last year, its best rate for over a decade. Yet the party has not capitalised on its good fortune. This is partly due to the strange behaviour of the outgoing president, Nicanor Duarte Frutos. His attacks on the press for perceived bias, and on agri-business for making too much money, have sounded bitter. Some of his outbursts have just been plain odd: at one recent event, he mentioned the word “masturbation” seven times.

As the election draws closer, worries about fraud are increasing. Juan Carlos Cabezudo, a Patria Querida Party candidate for Congress, says his party has so far identified 25,000 people on the electoral register who are either dead, in jail, in the army or living abroad, and who therefore should be disqualified from voting. The electoral tribunal that oversees elections is dominated by the Colorado Party.

If Mr Lugo does win, he will seek to renegotiate the revenues Paraguay receives from Itaipu, a big hydro-electric dam built jointly with Brazil. Under the terms of the contract, Paraguay has to sell any unused electricity to Brazil at a fraction of the current market price. Unsurprisingly, Brazil has no plans to renegotiate it. Behind the scenes, Mr Lugo's team are therefore working on a subtler approach that involves presenting their man as a disciple of Brazil's president, Luiz Inácio Lula da Silva, who would spend increased revenues from the dam on the kind of social measures that Brazil has already implemented.

A President Lugo would find himself pulled in different directions by ruthless political operators on the one hand and small far-left parties on the other. When combined with his lack of experience, this could be a disastrous mixture. The Liberal Party, the dominant partner in his coalition, hopes to save him from doing anything too rash. But perhaps a little rashness is just what Paraguay needs if it is ever to get rid of the Colorados.

Canada's seal hunt

Who's the pirate?

Apr 17th 2008 | OTTAWA
From The Economist print edition

A public-relations coup for animal-rights activists

HIS ship flies a flag that looks suspiciously like the skull and crossbones. But Paul Watson of the Sea Shepherd Conservation Society, an animal-welfare group known for its aggressive tactics, says it's the Canadian government that is guilty of piracy after a unit of the national police boarded and seized one of the society's ships off Canada's east coast on April 12th.

Just where the *Farley Mowat*, a Dutch-registered yacht being used by the society to protest against Canada's annual seal hunt, was at the time is in dispute. Mr Watson, who was not on board, claims the skirmish happened in international waters, making it an act of piracy. To make his point, he paid half the C$10,000 ($10,000) bail for its captain and first officer in C$2 coins, calling them dubloons. Loyola Hearn, the federal fisheries minister, insists that it was in Canadian waters, claiming that the “money-sucking manipulators” were endangering seal hunters on the ice floes.

The ship's GPS navigation unit, now in police hands, will eventually yield the truth. But Mr Watson and his group have already scored their public-relations coup. Videos of the seizure and arrests, interspersed with gory scenes of hunters clubbing seals to death, flooded television newscasts and sprouted on the internet. Many featured close-ups of cuddly, white-coated pups, although their killing has been banned since 1987.

This year's hunt for 275,000 harp seals and 8,200 hooded seals was supposed to be conducted under new, more humane rules aimed at making it more palatable to tender-hearted Europeans. That, however, now seems to be a lost cause; the EU is already considering a ban on all seal products from Canada.

Mr Watson, whose group helped disrupt the Japanese whaling fleet in the Antarctic earlier this year, co-founded Greenpeace but left because he disagreed with its policy of non-violence. He now wants to hold a public debate with the fisheries minister together with the premier of Newfoundland and Labrador, where many sealers live. “Hey, it could be fun and the public can judge the merits of our arguments much better,” he says.

The Canadian government is likely to have the last laugh. It is holding the *Farley Mowat* in an east coast port while fisheries officials investigate, after which a separate team from the transport department will start inspecting it for safety deficiencies. It may be some time before the yacht sails the high seas again.

Economist.com WORLD ASIA

Nepal's election

The Maoists triumph

Apr 17th 2008 | KATHMANDU
From The Economist print edition

The former rebels surprise everyone with a stunning electoral success. That may prove to have been the easy part

AFP

THE red flags and Maoist slogans on pavements and office blocks in Kathmandu, Nepal's pleasant, down-at-heel capital, were daubed in protest. But this week, as results came in from an election held on April 10th, they assumed a radical new meaning: ownership. Defying every prediction but its own, the Communist Party of Nepal (Maoist), until two years ago a feared rebel army, won handsomely.

A complicated electoral system, in which around 40% of seats are directly elected and 60% through proportional representation, has held up final results. But the Maoists, proscribed by America as terrorists, were on course for a clear majority in the first tranche, with 119 seats out of 224. And they had 33% of the vote in the second. They will certainly be the biggest party, but without a majority, in a 601-seat assembly, which will have a 30-month term limit and will be charged with drafting a new constitution.

The Maoists ended a decade-long armed struggle in 2006, after Nepal's King Gyanendra, who the previous year had seized absolute power, was compelled by street protests to hand it back. Entering a coalition government with six political parties, the scrubbed-up insurgents committed themselves to the democratic process. To many, this looked like either a tactical ploy or noble folly. Led by a charismatic guerrilla, Pushpa Kamal Dahal, or Prachanda (“awesome”, pictured above), the Maoists held sway in much of Nepal. But they were thought to be loathed for their part in a nasty war that left more than 10,000 dead. Most pundits expected them to be trounced at the polls.

They reckoned without three factors. First was the Maoists' manipulation of the result. Thugs from several parties terrorised voters. European Union observers of the election concluded it was held in a “general atmosphere of fear and intimidation”. But the Maoists' thugs were chiefly to blame. The party's candidates also hinted that if it lost, they might resume the war. And no doubt, in the country's many remote and lawless places, some voters wanted the Maoists in faraway Kathmandu—not their forests, stealing their food and pressganging their children.

Yet even near Kathmandu, where some 2,000 foreign election observers were clustered and there were few reports of malpractice, the Maoists won seven of 15 directly elected seats. In the eastern Terai area, next to India, the Maoists had been supplanted by local nationalist groups, both armed and democratic. Yet they have so far won ten out of 27 seats there.

A second explanation for the results is more convincing: that Nepalis were sick of the alternatives. These were chiefly the Nepali Congress (NC) party, which dominates the ruling coalition, and its traditional rival, a mainstream leftist party known as the UML (for “Unified Marxist-Leninist”). Both were tarnished by spells of corrupt and ineffective rule during the 1990s. As for King Gyanendra, he can also take his cue from the electorate. At the Maoists' insistence, the 240-year-old monarchy was provisionally abolished in December—a sentence that the next assembly is due to confirm. This seemed undemocratic at the time; it doesn't now. Nepal's three small royalist parties won no directly elected seat: ie, one fewer than the tiny Nepal Workers' and Peasants' Party, which supports North Korea's Kim Jong Il.

With only 31 directly elected seats, the UML vowed to quit the government. Its leader, Madhav Kumar Nepal, has resigned. The NC, with 34 directly elected seats, is shocked, feuding and outraged by an attack this week by Maoist thugs on a senior member, Ram Sharan Mahat, the finance minister. Many in the NC also want to quit the government, leaving the Maoists with a lonely and difficult command. Apparently as stunned as anyone by the scale of their success, the Maoists prefer to keep the coalition. But they will have the top jobs, including those of the prime, home and foreign ministers.

Under an interim constitution, the seven-party coalition is in fact supposed to stick together until the new constitution is written. Before the election, the NC prime minister, Girija Prasad Koirala, an octogenarian four-time premier, expressed his wish that it last for another decade. Any party that abandons the government may therefore risk being seen as a spoiler of the peace process. For their part, the Maoists want to make the coalition bigger, not smaller, by taking in at least one of several Terai nationalist parties, which won 34 directly elected seats in the south-east.

Managing a fractious coalition is just the start of the Maoists' troubles. The drafting of the new constitution will be a dreadful business. The Terai parties, for example, want extreme provincial autonomy, even the right to self-determination. The Maoists are partly to blame for this, having ostensibly fought for a vaguely defined decentralisation of power. But they are above all nationalists, not leftists, and will certainly disappoint the south-easterners.

And then there is a peace process to salvage. The new government will inherit a huge backlog of peacemaking provisions neglected by its predecessor—including the matter of what to do with the Maoists' 23,000-strong army, which stands armed and organised, under UN surveillance, and the 90,000-strong royalist army. The Maoists say the two forces must be combined. The army, partly at the urging of India, which has unruly Maoist insurgents of its own to worry about, says it will accept no indoctrinated guerrilla into its ranks. As the biggest party of government, the Maoists may now be in a position to insist. However, their deputy leader, Baburam Bhattarai, implies that they will test their new strength carefully. “Before, we were in a stage of making demands; now we are in a stage of implementation,” he said, seated beneath a poster exhorting workers everywhere to unite behind “Marxism, Leninism, Maoism, Prachandaism!!”

This last “ism”, which describes the Maoists' struggle as a “bourgeois peasant revolution”, is tricky to pin down. Their economic policies, which include seeking foreign investment for Nepal's hydropower industry, seem quite liberal. Many of their social policies, which the Maoists describe as a war against “feudalism”, are also laudable. Besides scrapping a discredited monarchy, they would fight caste-based discrimination, the deprivation of tribal groups and the exploitation of landless labourers. For poor Nepalis, all this makes a popular message. That is the third—weirdly overlooked—reason for the peasant revolutionaries' great victory. Of course, making big promises is easier than keeping them, and the Maoists will disappoint. The question is: how badly?

Bangladesh

A different sort of emergency

Apr 17th 2008 | DHAKA
From The Economist print edition

A food crisis further complicates the army's exit strategy

AFP

Bags to fill before they eat

Get article background

“OUR politicians were corrupt, but we had enough money to buy food,” says Shah Alam, a day labourer in Rangpur, one of Bangladesh's poorest districts, nostalgic for the days before the state of emergency imposed in January last year. He has been queuing all day for government-subsidised rice. Two floods and a devastating cyclone last year, combined with a sharp rise in global rice prices, have left some 60m of Bangladesh's poor, who spend about 40% of their skimpy income on rice, struggling to feed themselves.

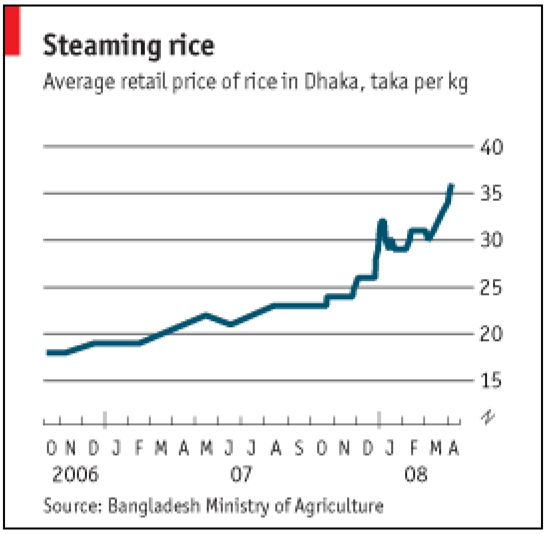
In the capital, Dhaka, a debate is raging about whether this is a famine or “hidden hunger”. The crisis is not of the army-backed interim government's own making. But it is struggling to convince people that the politicians it locked up as part of an anti-corruption drive would have been equally helpless. They include the feuding leaders of the two big political parties, the former prime ministers Khaleda Zia of the Bangladesh Nationalist Party and Sheikh Hasina Wajed of the Awami League.

The state of emergency, imposed to silence riotous politicians and repair corrupted institutions, can barely contain the growing discontent. This week thousands of garment workers went on strike for higher pay to cope with soaring food prices. The crisis has emboldened the political parties, which have been calling more loudly for the release of their leaders.

The army's main headache is Sheikh Hasina, whose party is widely expected to win the election. Her detention on corruption charges has made her more popular than ever. Senior leaders of the League say it will boycott the election if the courts convict her. The threat might be empty. But it is a risk the army cannot afford to take. The patience of Western governments, which backed the state of emergency, is wearing thin. Human-rights abuses continue unabated. And they fear the political vacuum might be filled by an Islamist fringe, whose members this week went on a rampage to protest against a draft law giving equal inheritance rights to men and women.

The election will almost certainly take place. And, unlike in the past, rigging it will be hard. Bangladesh has its first proper voters' list. Criminals will be banned from running. But to hold truly free and fair elections, the army will need to reach an accommodation with the parties. There is talk of a face-saving deal allowing Sheikh Hasina to go abroad for medical treatment, in return for a promise that the League will not boycott the election. Hardliners in the army will not like it. But they have largely been sidelined. With food prices likely to remain high and rice yields half those of India, Bangladesh desperately needs to secure food aid, investment and trade.

It also badly needs to sustain the rising flow of billions of dollars in remittances, which have lifted millions of Bangladeshis out of poverty. This complicates the government's stated plan of considering prosecution of those who assisted the Pakistani army in a campaign that left 3m Bengalis dead in the country's liberation war in 1971. Saudi Arabia, which accounts for 40% of total remittances, objects to an international war-crimes tribunal. If the two big political parties had their way, a large number of leaders of Jamaat-e-Islami, Bangladesh's largest Islamist party, would stand trial.



It appears unlikely that the army will walk off the pitch and let the politicians run the country without altering the rules of the game. The interim government has already approved, in principle, the creation of a National Security Council, which would institutionalise the army's role in politics. Last month the army chief, General Moeen U Ahmed, extended his term by one year in the “public interest”. His term now runs out in June 2009. But many Bangladeshis still doubt that he will go down in history as that rare general who gave up power voluntarily.

Baluchistan

Let them eat mud

Apr 17th 2008 | QUETTA
From The Economist print edition

No end in sight to the rebellion

PERVEZ MUSHARRAF, Pakistan's president, has expressed regret at bombing ethnic-Pushtun tribal areas to attack armed extremists. He has shown no such remorse for doing the same in Baluchistan. And few Baluchis expect their new government to end the army's campaign against a nationalist insurgency.

Mohammed Hussain, a 70-year-old Marri tribesman, has lived with his family in a straw hut outside Dera Murad Jamali for two years, since the Pakistani army killed his livestock and looted and destroyed his house. He is one of 50,000-60,000 refugees from the Bugti and Marri tribes who have fled the bombardment of their mountain homes and scattered.

A low-intensity conflict with secular Baluchi nationalists flared in 2000 over the government's attempts to extend its writ in the sparsely populated, poor, but mineral-rich province. The government has halted deliveries of aid to the refugees and tried to impose an information blackout on the area. Mr Hussain is angry: “We are not snakes that can eat mud.”

National and provincial elections in Pakistan in February led to the weakening of Mr Musharraf and the formation of a new coalition federal government. Led by the Pakistan's People's Party (PPP) of Benazir Bhutto, an assassinated former prime minister, it has promised to halt the army's campaign in Baluchistan, free some 4,000 “disappeared” Baluchis and discuss demands for greater provincial autonomy.

The province is believed by NATO commanders to be a sanctuary for the Taliban leadership. Military-intelligence officers call the shots and few expect the new government to keep its promises. It includes many of those who supported the army operation. And there is only one person sitting on the opposition benches of the provincial assembly. The majority of Baluchi- and Pushtun-nationalist parties boycotted the poll, fearing rigging. Turnout was as low as 2.8% in some districts of Makran. In Dera Bugti the official turnout was 40%. Observers and the one opposition candidate were barred from the area. Mr Musharraf's political ally, the Pakistan's Muslim League-Q (PML-Q) won the most seats, 20, compared with the PPP's 11 in the 65-seat assembly. However, with the PPP in power at the centre, the entire provincial PML-Q stampeded to a broad-based PPP-led coalition. The solitary opposition member is Yar Mohammed Rind, a tribal chief who has a blood feud dating back to the 1980s with the PPP's chief minister, Nawab Aslam Raisani, which has claimed over 200 lives.

Prospects for peace are further dimmed by the intransigence of some of the Baluchi tribal leaders. And the Baluch Liberation Army, a shadowy terrorist group, said by the army to be financed by India, may refuse to negotiate. It has murdered political opponents, policemen, journalists and Punjabis. Mr Musharraf's high-handedness has won radical separatists more sympathy. “Death to Pakistan” graffiti has appeared on Quetta's walls.

Nawab Khair Baksh Marri, an 80-year-old tribal leader, describes Mr Musharraf as a “gangster with an ego”. And he dismisses the apology Bhutto's widower, Asif Zardari, offered for the way Baluchis have been treated, calling the PPP “machiavellian”. One of his sons, who led fighters in the hills, was killed last year by Pakistani forces. Another has been arrested on terrorism charges in London, part of a secretive deal in which Britain hoped to win the extradition of a terrorist suspect, Rashid Rauf. (Mr Rauf miraculously escaped from Pakistani custody.)

General Abdul Qadir Baloch, a former provincial governor and army commander in Quetta, believes reports that hundreds of Baluchis have been stripped naked, hung upside down, electrocuted, dunked in wells or killed. The army's campaign, he says, is “unwarranted”. Mr Raisani has asked for an end to “meddling” by military intelligence in Baluchistan. The habit will be hard to kick.

Western Australia

Diggers for China

Apr 17th 2008 | PERTH
From The Economist print edition

The global reach of China's boom

TRY hailing a taxi or ordering a meal in a restaurant in Perth these days and you may be in for a long wait. The capital of Western Australia (WA) is suffering a labour shortage, as young people head north to make real money from a mining boom. China's insatiable demand for WA's minerals is driving it, and helping China displace Japan as Australia's biggest trading partner. But Australia has also to balance its mining windfalls against clashes with China over human rights.

The Pilbara, a desert region about 1,300km (800 miles) north of Perth, is the main focus. BHP Billiton and Rio Tinto, two of the world's biggest resource companies, roughly share the Pilbara's iron-ore deposits that feed China's flourishing steel industry. China takes about half their exports. They can barely dig it out fast enough to meet demand.

Rio Tinto plans to double its 2007 iron-ore production (160m tonnes) in four years. Last year iron ore earned the company $8.8 billion, mostly from the Pilbara. The region is rich in more than minerals. Archaeologists have reportedly found ancient aboriginal tools at Hope Downs. Rio Tinto jointly controls this iron-ore mine with Gina Rinehart, daughter of the late Lang Hancock, a pioneer Pilbara tycoon.

The West is Australia's largest state, with just one-tenth of the country's population. Thanks to the mining boom, it now underwrites much of the country's economic growth. Last year the state's economy grew by 6.3%, almost double the national rate. Eric Ripper, WA's treasurer (finance minister), says his state “struggled” to post an A$9m ($8.3m) surplus seven years ago, before China's boom took off; the surplus last year was A$2 billion.

The “wild west”, as WA is sometimes known, has seen other booms end in tears. Alan Birchmore, a veteran of some, and on the board of United Minerals, a company with a Pilbara iron-ore lease, reckons this one is different: it has “depth”. “China”, he says, “is showing that it takes some stopping once people get a taste for consumption.” Some forecasts back him up. In a report for Rio Tinto and the Australian National University, Ross Garnaut and Ligang Song, two economists, argue that by 2020 China's demand for metals may increase by the equivalent of the industrial world's annual total demand now.

Meanwhile, the Pilbara's miners are wrangling with their biggest customer. After three years of successive price rises, BHP Billiton and Rio Tinto are reported to be seeking a 70% increase in contract prices this year. Chinese buyers are unhappy that both companies have made a killing selling some iron ore on the spot market; they are demanding that more be sold under lower-priced, long-term contracts. The Australian companies believe they have an advantage: their costs of shipping iron ore to China are about one-third those of Brazil, their main competitor.

Rather than jeopardise a huge trading relationship, Australian governments have tended to tread softly in their dealings with China over human rights. After nearly five months as Labor prime minister, Kevin Rudd was less constrained in a speech in Beijing on April 9th, referring to problems in Tibet. And he has banned Chinese security guards from accompanying the Olympic torch on its scheduled run through Canberra on April 24th.

China's bottomless need for Australia's resources is likely to override any political offence it may take from this. The boom's conflicts are closer to home. Mr Ripper says 500 people are arriving in WA each week to fill jobs for a bonanza whose scale took everyone by surprise. Rio Tinto's answer is a plan to move ore from mines to ports on a fleet of driverless trucks and trains, starting in 2010. But jobs will not disappear completely. People in Perth will give the “intelligent” vehicles their instructions by remote control.

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China's grain supply

The ravening hoards

Apr 17th 2008 | BEIJING
From The Economist print edition

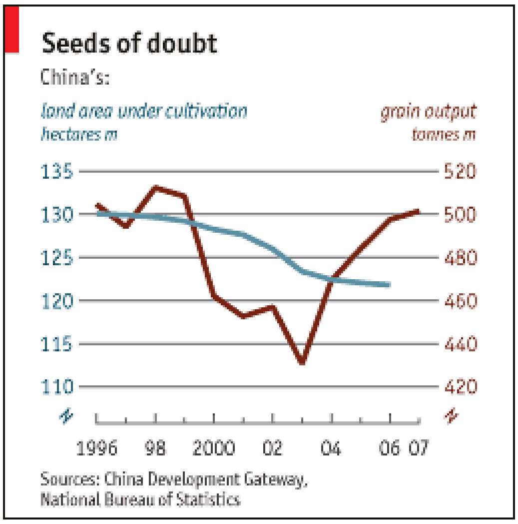
No need for alarm; but some Chinese ring bells anyway

“WITH grain in our hands there is no need to panic,” according to China's prime minister, Wen Jiabao. But officials worry about how to keep China near self-sufficiency in grain and sheltered from rising world prices. Mr Wen's remarks during a farm tour in Hebei in the north were meant to calm public anxieties about food-price inflation elsewhere in the world. Chinese food prices have been rising fast too in recent months, but the main impact has been on meat. Rice- and wheat-price increases have been modest, except for high-quality imports, a small share of domestic consumption. China produces more than 90% of the grain it consumes.

With global grain markets so jittery, officials are rather smug about having so long stressed the need for self-sufficiency. It has enabled the government to keep the domestic market relatively calm. Early this year, to control demand, it began curbing grain exports through quotas and taxes. It promised continuing supplies to Hong Kong. But now grain importers there have had to pledge that they will not re-export. Diplomats say that China's caution has even affected the flow of food to North Korea, an old ally heavily reliant on shipments from abroad. Aid workers say North Korea is facing its worst food-supply crisis since a famine in the late 1990s.

Mr Wen offered reassurances that China has no shortage. When output fell in 2003, the government renewed efforts to encourage grain production (see chart). They entailed big increases in subsidies for grain farmers and in the state's guaranteed minimum purchase price for grain. Much else has also been done to raise farmers' living standards, from tax exemption to free education. This year's central-government spending on rural development including education, welfare and subsidies is due to grow by 30% to nearly $80 billion.

Last month Mr Wen even revealed what had been a state secret: that China had grain reserves of 150m-200m tonnes, equal to 30-40% of annual production. Officials note that China's ratio of reserves to consumption is much higher than the 17-18% level regarded by the United Nations' Food and Agriculture Organisation as a safe minimum for global stocks.



But not everyone is convinced. Reports in the state-controlled press say that some people in Guangdong province, next to Hong Kong, have been stockpiling grain. In March a senior agriculturalist, Yuan Longping, accused officials in some areas of exaggerating the size of grain reserves in order to get more subsidies for storing them. A commentator in the *China Daily* said export curbs would encourage smuggling. Others worry that the harsh winter in the south and spring drought in the north might dent output growth this year; and rising prices of fertiliser and other inputs could deter farmers from growing grain.

Officials acknowledge that maintaining near self-sufficiency in grain will become harder as the population grows and arable land shrinks. In 2006 the government said that the minimum amount of arable land needed to protect “grain security” was 120m hectares. At that time it was already giving warning that China was approaching the “red line”, with about 121.8m hectares available. For local governments building on arable land is often a money-spinner. Central-government efforts to curb this have not worked. Some Chinese commentators say the line has already been crossed: some land registered as arable is in fact being used for non-agricultural purposes.

There has long been debate in China over whether the country's grain policy, which calls for 95% self-sufficiency, is too conservative given the potential for imports. On grain, however, conservative thinking is now back in vogue.

The Thai police

A law unto themselves

Apr 17th 2008 | BANGKOK
From The Economist print edition

Reforming a corrupt and politicised police force will be tough

IN THAILAND'S most sensational crimes, the prime suspects are often the police. Among current cases are a group of border police accused of abducting innocent people and extorting money from them, and a huge car-theft ring thought to have been run by bent coppers. The prime minister, Samak Sundaravej, this month sacked the national police chief, Sereepisut Taemeeyaves, for alleged corruption. Mr Sereepisut insists he is the victim of a conspiracy by crooked subordinates.

Earlier this month the justice minister visited Chalor Kerdthes, a former police general serving life in jail, belatedly seeking progress on the “blue diamond” affair of the early 1990s, which wrecked Thailand's relations with Saudi Arabia. After the priceless gem and other jewels were stolen from a Saudi royal palace by a Thai worker, three Saudi diplomats seeking their return were murdered in Bangkok. The Thai police supposedly solved the case but the jewels they sent back to Riyadh were fake. Mr Chalor arranged the murders of the family of a gem dealer involved in the case. It is suspected he can dish the dirt on other former police chiefs.

Cases of police graft and abuse of power are legion. In 2003 Thailand's then prime minister, Thaksin Shinawatra—a former mid-ranking policeman and businessman—told police to wage “war on drugs”, resulting in at least 1,300 extra-judicial killings. The army removed Mr Thaksin in a coup in 2006, promising a thorough investigation of the deaths. It had made little progress by last December's election, won by allies of Mr Thaksin.

In March the American government's annual human-rights report on Thailand criticised the widespread torture of suspects. Last year 751 people died in prison or police custody. Abuses by police (and soldiers) have worsened an insurgency in Thailand's mainly Muslim southern provinces, in which 3,000 people have died since 2004. Predictably, opinion polls show the police are widely mistrusted.

Experts say Thailand's force is not the world's worst: it does have some honest, capable investigators. However, for a country of a fairly high state of development, its record is abysmal. After decades of failed attempts at police reform, a panel set up after the 2006 coup proposed sweeping changes, including creating an independent police-complaints body. Some of the panel's reformists may be sincere. But this looked suspiciously like an attempt to curb Mr Thaksin's power base in the police. Now Mr Samak, although a supposed ally of Mr Thaksin, seems to be building bridges with army chiefs to bolster his own power. So his motives in sacking the police chief and talking of continuing the military government's reforms are also bound to be questioned.

Thai governments tend to rely on the army or the police (or both) to remain in power. So their commands have always been deeply politicised. Like other public institutions they are dominated by a narrow elite of families with tentacles everywhere. “You find the same few surnames wherever you look,” notes Michael Nelson, a political scientist in Bangkok. Indeed, Mr Sereepisut's replacement as police chief has the same surname as a former army chief—his brother.

Thai public servants are less loyal to the institutions that employ them than to their loose network of connections—relatives, ex-classmates from military training or old university chums. The 2006 coup pitted Mr Thaksin's schoolmates against those of General Sonthi Boonyaratglin, the then army chief. Police reforms elsewhere have generally succeeded only where a public-spirited and untainted political leadership forced them through. When will Thailand get that sort of leadership?

India's Parsees

Slow breeders

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Adherents of an ancient faith worry about its disappearance

TWO of India's biggest business clans—Tata and Godrej—are Parsees, descendants of Zoroastrians, who fled the Muslim invasion of Persia for India more than 1,000 years ago. But well though some of its members have done, the Parsee community is dwindling. At the time of the 2001 census India had fewer than 70,000 Parsees, a 40% drop since 1941. Since then, the decline has accelerated. A survey suggests that only 99 Parsees were born in the year to August 2007, compared with 223 in 2001.

The community's very success has played a part in its shrinkage. Young Parsees tend to put off marriage until they have established careers, "leaving time for two children only, if that," says Mehroo Bengalee, a Parsee member of the government's National Commission for Minorities. Emigration is another factor: like many prosperous Indians, Parsees tend to go to university overseas, and stay there. But most important is the large number of women who marry non-Parsees. Their children are not recognised as Parsees.

The Parsee community, concentrated around Mumbai, is trying to push up the birth rate. New Parsee-only fertility centres are being built. Young Parsees are given lectures about the benefits of early breeding. Girls and boys are brought together at youth camps, in an effort to encourage inter-Parsee marriage.

Many Parsee women, meanwhile, complain that the one change that could stem the decline will never come. They would like the concession that allows men in mixed marriages to bring their children up as Parsees to be extended to them. "My brother's children are recognised as Parsees; mine are not," says Shireen Vakil-Miller who, like her brother, married "outside". The effect on the Parsee population of her hometown, Delhi, is dramatic. When she arrived in 1991, there were thought to be 800 Parsees in the capital. Today, that number has fallen by half.

Zimbabwe

Crisis? What crisis?

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The country is frozen in a frightening post-election limbo, while regional leaders are still failing to shove Robert Mugabe into retirement

Illustration by David Simonds

ACCORDING to Thabo Mbeki, South Africa's president, there is no crisis in Zimbabwe, though its electoral commission has refused to publish the results of a presidential election nearly three weeks after the people voted. Instead, after meeting his counterpart, Robert Mugabe, for a cosy chat in Harare, Zimbabwe's capital, he emerged holding hands and smiling benignly before flying to the capital of next-door Zambia. Zambia's president, Levy Mwanawasa, dissenting from Mr Mbeki's bizarre assessment, had called a special meeting of the Southern African Development Community (SADC), a club of 14 countries in the region, to discuss Zimbabwe's predicament. But with Africa's most powerful leader still refusing to condemn him, Mr Mugabe seemed determined, by any means possible, to hang on to power. The enthusiasm and hope that were palpable after the election on March 29th are giving way to fear and despair.

Even leaders of Mr Mbeki's own party, the African National Congress (ANC), disagreed with him. They described Zimbabwe's state as “dire” and called for the results to be published at once. Jacob Zuma, who ousted Mr Mbeki as the ANC's leader last year, said the situation was “worrying”. At a meeting at the UN in New York Western diplomats tried to make Mr Mbeki budge; Britain's Gordon Brown declared that “No one thinks...President Mugabe has won.”

Mr Mugabe had earlier snubbed the SADC gathering in Zambia, while the opposition Movement for Democratic Change (MDC), plausibly insisting it had won the presidential vote, called on the region's leaders to persuade Mr Mugabe to step down, and urged Mr Mbeki to abandon his “quiet diplomacy”. The MDC's leader, Morgan Tsvangirai, had accepted SADC's invitation to the get-together.

But the club was once again split between those fed up with Mr Mugabe's antics, such as Botswana, Tanzania and Zambia, and those loth to see an opposition party dethrone a liberation movement, such as Angola, Namibia and South Africa. After 12 hours of discussion behind closed doors, the meeting concluded at dawn with a muted statement asking Zimbabwe to release the results of the presidential election “expeditiously”. Mr Mbeki, who mediated talks last year between representatives of Messrs Mugabe and Tsvangirai, was asked to resume his efforts.

Though there were contacts between the opposition and the ruling party immediately after the election of March 29th, there may be less appetite for talks now. The MDC questions Mr Mbeki's impartiality. Progovernment militias have started to terrorise the countryside, hunting down opposition people and telling voters to back Mr Mugabe in a second round—or else. Political rallies have been banned and security forces deployed across the country. The MDC says two of its people have been murdered, dozens arrested and hundreds beaten up. Plainly, though there was less violence in the first round than there had been in previous elections, with results openly posted at polling stations, the government is reverting to dirty tricks and intimidation.

Basing its calculations on those public local tallies, the MDC says it won over 50% of the vote, enough to give Mr Tsvangirai the presidency. It petitioned the High Court to force an announcement of the results but was turned down. But the MDC's call for people to stay at home on April 15th and until results were announced was generally ignored; banks, shops and markets in Harare stayed open, and traffic was normal. With 80% of Zimbabweans jobless in the midst of an economic catastrophe, few can afford a strike. Fear of repression also deterred mass action; all general strikes in the past few years have flopped.

Instead, the electoral commission said it would start recounting votes in 23 constituencies on April 19th. Even though ZANU-PF's own electoral agents endorsed the counts in polling stations, it is disputing results in 22 of the 210 parliamentary constituencies. As the combined opposition won 109 seats against 97 for ZANU-PF, the MDC's victory would be snatched away if results are reversed in just nine constituencies. The MDC launched court challenges to block the recount as illegal and to contest 60 seats won by the ruling party. But the electoral command centre, where all results were being totted up, has been dismantled and ballot boxes taken away. The MDC says it can no longer verify procedures and that the ruling party is stuffing ballot boxes before the recount.

After declaring it would boycott a second round, the MDC now says it would take part in a run-off only if international observers are allowed in. This is unlikely. Yet a boycott would hand Mr Mugabe victory unopposed, in a silent coup.

Kenya

More nice jobs for the boys

Apr 17th 2008 | NAIROBI
From The Economist print edition

It's even better than business as usual for the country's politicians

THREE-AND-A-HALF months after a disputed election, the politicians at last agreed on a coalition cabinet. Everyone gets a slice of the cake; everyone, that is, except the average Kenyan voter, who may wonder how his paltry income can go towards paying for 40 ministers, 50-odd assistant ministers, a new prime minister's post for the opposition leader, Raila Odinga, and a second term in the ever plush presidency for Mwai Kibaki. Almost half of Parliament's members now have some ministerial position. Many will get extra salaries, security and cars. The cabinet may now cost $1 billion a year, about one-eighth of expected government revenue.

Corruption looks sure to persist. Mismanagement is an even bigger concern. The new government will have two godfathers. The Orange Democratic Movement will look to Mr Odinga for direction and favours. The Party of National Unity and its allies will seek Mr Kibaki's patronage. The inevitable crowding of anterooms with petitioners scurrying between the two big men and their friends will clog government business further.

Many of the same people, notably Messrs Odinga and Kibaki, were involved after elections in 2002 in a similarly catholic arrangement that soon collapsed in acrimony. Since Parliament has been bought off, even more depends on the ministers' personal performance. But expectations are lower than in 2002, whereas business and the media are stronger and savvier. Most businessmen have applauded the reappointment of Amos Kimunya as finance minister. By applying their ruthlessness to government business, some of the coalition's most disliked hardliners, including Martha Karua at justice and William Ruto in agriculture, may yet win grudging respect for competence.

How hard it will be to run Kenya was shown by this week's deadly riots by the Mungiki, a criminal Kikuyu movement that mixes Mau Mau revanchism and old Kikuyu rites with Jamaican and American “gangsta” culture. They said they were protesting against the murder of the wife of their imprisoned leader; her head had been sawn off. Scores of people were killed in Mungiki attacks in the capital and elsewhere. The police arrested hundreds of young men. Some may disappear. Human-rights groups say the government executed hundreds of suspected Mungiki in extra-judicial killings last year.

Somalia

A hint of hope for a broken country

Apr 17th 2008 | NAIROBI
From The Economist print edition

The Islamist insurgency persists but al-Qaeda makes little headway

[Get article background](#)

A NEW government in Kenya has let east Africa turn its attention back to the region's original sick man. Ignored and disparaged, Somalia's internationally recognised transitional government has all but collapsed. As an Islamist insurgency continues, the government spends much of the scarce money it has on the personal protection of the president, Abdullahi Yusuf, the prime minister, Nur Adde Hussein, and the defence and intelligence chiefs. The parliament in the town of Baidoa, in the dusty interior, is empty; its members have drifted away.

In the capital, Mogadishu, security is still provided mainly by Ethiopian soldiers who, at the end of 2006, helped the Somali government topple a short-lived Islamist regime known as the Islamic Courts Union. The Ethiopians are helped by a small force from the African Union. Many Somalis have fled the capital: 250,000 former residents now live in tents along the road to Afgooye, the largest camp of displaced people in the world, according to the UN. By some estimates, 1m out of about 8m Somalis are close to starvation—and food prices are rising. Conditions in the middle of Somalia, normally stable, have worsened this year. Widespread famine is feared both there and in the south if the rains usually awaited at this time of the year fail, as weather forecasters predict.

Insecurity across the country persists, with jihadists fighting on. This week they killed two Kenyan and two British teachers in the central town of Beledweyne. One of them, a Briton of Somali origin, may have been targeted for being a Christian convert. Another Briton and Kenyan were kidnapped earlier this month in the trackless bush of the south; a jihadist demanded a ransom of $4m, ten times more than usual. In an unrelated incident, pirates who had hijacked a French yacht off northern Somalia's coast were captured by French commandos and may face trial in France. A jihadist grenade attack on a cinema in the port city of Merka killed about four people—for watching a Bollywood film.

This apparent increase in the brutality of attacks may be caused partly by a recent American decision to classify the Shabab (youth), the Islamic Courts Union's former military wing, as a terrorist group. Battered by Ethiopian attacks and by infighting between sub-clans engaged in the insurgency, Shabab fighters now probably number fewer than 400. But America's decision to demonise them has boosted jihadist commanders such as Aden Hashi Ayro, strengthening his reputation for piety and anti-Americanism, which has itself been boosted by recent missile attacks that have accidentally killed civilians.

But it is not all gloom. Al-Qaeda's bid to make Somalia a base for its global franchise has so far failed. There are probably no more than a few dozen foreign fighters left in the country. Of the three al-Qaeda men believed to have been involved in bombing the American embassies in Kenya and Tanzania in 1998, one, Abu Talha al-Sudani, has been killed; another, Saleh Ali Nabhan, is said to be isolated and close to being captured or killed. A more formidable al-Qaeda man, Fazul Muhammad, may have been in Kenya several times in the past year but is no longer thought to command Somali jihadist fighters. Informants say he is on the run and that, when he has the time, he likes to watch classic Disney films.

So Somalia is not yet a lost cause. After 17 years of anarchy and bloodshed, its GDP per person is still higher than Ethiopia's or Eritrea's. Somali traders still influence the price of commodities across the region. The country limps on, even without much aid; the trade in livestock to Saudi Arabia during the *haj* is worth a lot more than foreign assistance.

Moreover, there has been progress on the political front. Moderate Islamists and elders from the disaffected Hawiye clan, which provides the secular nationalist bit of the insurgency with most of its fighters, say they are ready to strike a deal with President Yusuf. The price of a unity government would be the departure of the hated Ethiopian troops but it is no longer a precondition. A deal must offer the Hawiye enough to keep them on board, but not so much that it alienates other clans. Finding the balance in a maelstrom of hunger and killing will be hard, but not impossible.

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Iraq and the United Nations

A Kurdish conundrum

Apr 17th 2008 | KIRKUK
From The Economist print edition

Can the United Nations help solve a perennially bitter territorial dispute?

AFTER Saddam Hussein's fall five years ago, there were high hopes for the northern city of Kirkuk. It is surrounded by some of Iraq's most fertile land—and lies above a huge underground lake of oil. Its ethnic and religious mélange of Sunni and Shia Arabs, Christians, Kurds and Turkomans seemed fairly harmonious. Yet the future status of both the city and the province around it remains hotly and sometimes violently disputed. In the past two years, the level of violence in the city has sometimes been higher even than in Baghdad. Reconstruction has stalled. Now, however, there is a glimmer—if only a glimmer—of hope that the United Nations may persuade enough of its inhabitants to forge a compromise.

Broadly speaking, there are four choices. If a promised referendum is held at the end of June and the majority of voters so wish, the province of Kirkuk could join the self-ruling block of three northern provinces already run by the Kurdistan Regional Government. Or it could become a self-ruling entity of its own, as some Turkoman groups propose. Or it could remain under the administration of the central government in Baghdad, as many Arabs prefer. Or the province could be divided, so that those districts voting to stay under Baghdad's control would be able to do so, while those that want to be run by Kurds join the Kurdish region.

But if the various groups refuse to compromise, Kirkuk is a powder-keg that could blow up. If wholesale violence broke out between the main groups (Kurds, Arabs and Turkomans), then Iraq's neighbours, in particular Turkey, could be drawn in.

Article 140 of Iraq's constitution provides a clear road map for settling the issue of Kirkuk and other disputed territories in the north, all of which were affected by a ruthless campaign of gerrymandering and ethnic cleansing under Mr Hussein and his Baathists, in order to Arabise the region. Kurds want to right what they see as historic wrongs—and take Kirkuk into their region. Arabs and Turkomans vehemently disagree, fearing they would be marginalised under Kurdish rule. So far, nobody has found a workable compromise—and the problem has festered. “The trouble is,” says a Western diplomat, “doing nothing in Kirkuk is almost as bad as doing something.”

So the UN is having a go. At the end of last year its special representative in Iraq, Staffan de Mistura, helped persuade the Kurds to accept a six-month delay in holding a controversial referendum on whether people in Kirkuk and other areas wanted to join the Kurdistan region. Now he is trying to find a formula to settle boundary disputes in other slightly less tricky areas in the north, in the hope of creating a model for a future deal for Kirkuk itself—without having a referendum that many analysts think would certainly cause bloodshed. Mr de Mistura admits that Kirkuk is “the mother of all issues”.

The city is just one of the disputed areas addressed by Article 140 that form an arc running about 450km (280 miles) from Sinjar in Iraq's north-west corner to the province of Diyala in the east. So far, the officially demarcated Kurdish region covers only the three northern provinces: Dohuk, Erbil and Sulaymaniyah. But the de facto Kurdish region, which the Kurdish government claims and currently controls, spills over into parts of the provinces of Nineveh, Saladin, Kirkuk (also called Tamim by the Arabs) and Diyala.

Mr de Mistura says he will table a clutch of suggestions by May 15th for Iraqi leaders to decide under which authority to put four or five disputed areas as the first of three phases for settling the status of areas on the edge of the officially recognised Kurdish region. He has not publicly identified these areas but Kurdish officials say they may include Makhmour, south-west of Erbil; Qaraqosh, east of Mosul; an area near Akre populated largely by members of the Yazidi sect; and Barderash, north-west of Erbil. These all have mainly Kurdish populations that could join the Kurdish region immediately without too much fuss. A second phase could include territorial adjustments near Sinjar in the north-west; Altun Kupri, south-east of Erbil on the road to Kirkuk; and Khanaquin and even Mandali, near the border with Iran. Some areas could peel away from de facto Kurdish control. For instance, the Sunni stronghold of Hawija, where al-Qaeda has been active, could be taken out of Kirkuk province and transferred to Saladin.

The stage would then be set for dealing with Kirkuk itself, though nobody has suggested a timetable. The idea, says Mr de Mistura, is to consider “objective criteria”, such as the results of the elections in December 2005, the gerrymandering of provincial boundaries under Mr Hussein, and how well minority rights and the sharing of resources in the disputed areas are respected. A referendum could perhaps eventually be held at the end of the process, with luck merely confirming territorial deals previously struck.

Last week the UN man took his proposals, which are still being honed, to EU and NATO leaders in Brussels. Before he left Iraq he stopped off to talk to Kurdish leaders in Erbil, who have angrily accused Nuri al-Maliki's government in Baghdad of dithering over Article 140. But the Kurds have themselves so far failed to persuade Arabs and Turkomans in the disputed areas that they would be better off in a Kurdish-ruled region. The Turkomans would, for instance, have a much larger proportion of seats in a Kurdish regional assembly than they now do in the federal parliament in Baghdad.

Publicly, the Kurdish leaders still insist on a referendum by the end of June, as promised by the Iraqi government. Privately, however, they have given Mr de Mistura's ideas a cautious welcome. Apart from a referendum, he says, his is “the only plan on the table”. If it worked, it would be a huge breakthrough towards a stable, federal Iraq. But it is a long shot.

Iran

Spinning out nuclear talks

Apr 17th 2008
From The Economist print edition

Is there still time for a miracle?

MAHMOUD AHMADINEJAD, Iran's ebullient president, enjoys a boast. He particularly likes to crow on what he calls national nuclear day: the anniversary of the first production two years ago of low-enriched uranium to fuel yet-to-be-built civilian nuclear reactors. (That is Iran's description; others suspect weapons intent.) So last week Mr Ahmadinejad trumpeted that work had started on 6,000 new fast-spinning centrifuge machines, beyond the 3,000 already up and running, at Iran's uranium-enrichment plant at Natanz. Shortly, says his foreign minister, there will be new diplomatic proposals to mollify critics of these nuclear plans. Yet the gambit may be a sign that not all things nuclear are going Iran's way.

So far it has brushed off three sets of UN Security Council sanctions, imposed for its refusal to suspend enrichment. The publication in December of parts of a National Intelligence Estimate (NIE) from America's spies, which said Iran ended its weapons programme in 2004, left Iran jubilant, while still denying wrongdoing.

It also complicated efforts by six countries (America, Britain, France, Germany, Russia and China) to keep Iran in the nuclear dock. Yet the hardest part of weapons-making—getting enough highly enriched uranium, spun in centrifuges just like those at Natanz, or plutonium—goes on regardless, in plain sight.

A defiant Mr Ahmadinejad rules out further talks with the Europeans who had been leading diplomacy for the six. He says he will pay the UN no heed either, but deal only with the International Atomic Energy Agency, the UN's nuclear guardian.

But earlier this year the IAEA received a pile of intelligence from America and others. This and its own snooping suggest military links to the nuclear programme, secretive procurement efforts, high-explosive testing useful in triggers for nuclear bombs, and design work on a missile cone able to carry a nuclear warhead.

Much is yet to be authenticated, but last month the IAEA's chief inspector took the unusual step of briefing members of its 35-nation board, including Iran, on the detailed allegations. Iran dismisses these as “baseless”. Yet this week it called off a meeting with the head of the IAEA, Mohamed ElBaradei, who was set to press for answers. Iran may hope a new diplomatic initiative will distract attention from a shady past. Unless co-operation is forthcoming, however, the next IAEA report, due for publication next month, will be sharply critical.

Meanwhile, Iran hopes to convince the world that pressing for suspension of enrichment is pointless. Two retired American diplomats, William Luers and Thomas Pickering, agree. They propose instead helping Iran's enrichment effort, in a sort of joint venture, in the hope that inspectors may keep better track of the uranium that way. But teaching Iran the (militarily useful) enrichment skills it still lacks hardly seems the way to build confidence that its nuclear work is peaceful.

In any case, though Iran suggests it is racing ahead, the first 3,000 centrifuges at Natanz have not worked that well. The new ones can spin up to three times faster but will be tricky to operate. Between the NIE report, which reduced any temptation by America to bomb Iran's nuclear facilities, and these technical problems, may there be time for diplomacy?

For two years Mr Ahmadinejad has turned down a raft of incentives from the six in return for suspension: advanced civilian nuclear technology (including reactors, but not technologies that can be easily abused for weapons-making); Russian enrichment of Iran's uranium; buffer stocks of safeguarded nuclear fuel to guard against supply disruptions; support for Iran to join the World Trade Organisation, and for a conference on regional security. Even the enrichment suspension need not be for ever. This week officials from the six were huddled in Shanghai, thinking of ways to embellish their offer before putting it to Iran again soon.

Meanwhile Israel, most threatened by Iran's rockets and claimed nuclear prowess, has just had its first “strategic dialogue” with Britain; talks with America have intensified. Despite the diplomatic activity, for Israel the clock still ticks.

The Palestinian territories

On a wheel and a prayer

Apr 17th 2008 | HEBRON
From The Economist print edition

Palestinian motor racing gets a turbo charge

AS HOT-RODS go, these aren't exactly the stuff of legend. The car Biha Atmeh races in is a 25-year-old BMW with a 2.5-litre engine and a fire-engine-red paint job. Some drivers have modest hatchbacks donated by car-rental firms. But the one ingredient in plentiful supply at the latest Palestinian race-meet in the West Bank town of Hebron earlier this month was enthusiasm.

Palestinian motor racing is hampered by some elementary shortages. There are no race tracks, for a start. Rallies have to be held in open spaces, such as the desert plains near Jericho. The Hebron event was a time trial around an obstacle course made of traffic cones in one of the few places with a big enough expanse of flat concrete: a vast hangar that normally houses a traders' market and is empty only on Fridays, the Muslim day of rest. Between first and second heats everyone trooped off to the mosque.

But none of this has prevented a diehard band of devotees from spending all their spare cash on souping up old cars and racing them whenever they get the chance. Mr Atmeh, a 29-year-old mechanic at a garage in Nablus, a big West Bank town, says he has spent $5,000 on his car since he started in 2005, an impressive sum given that the Palestinian economy has been shrinking since then, and the average daily wage is some $20.

And the big money—relatively big—is beginning to come their way. Wataniya, a new Palestinian mobile-phone company that hopes to start service later this year, is building up its brand by sponsoring various causes, including the whole of the 2008 motor-racing season, while Israel, which controls the Palestinian radio spectrum, drags its feet about approving frequencies for it to use. Other local firms have started backing individual drivers. The Palestinian motor sports federation is in talks with sponsors about getting a patch of land near Jericho for a permanent track for kart racing.

Last year the federation joined the global body, the Fédération Internationale de l'Automobile. The following month Palestinian drivers took part in an international karting championship at the Egyptian resort of Sharm el-Sheikh. They won first and second place. Adversity, it seems, breeds success.

Italy's election

Italy embraces Silvio, again and again

Apr 17th 2008 | ROME
From The Economist print edition

AP

Il Cavaliere gets a third term as prime minister. But he is unlikely to change his ways, or bring Italy out of economic decline

SILVIO BERLUSCONI is the great Jack-in-the-box of European politics. In a general election on April 13th and 14th, Italian voters released the catch and his ever-grinning figure has sprung out once more. Given to buffoonery, surrounded for years by questions about his probity and the conflict of interests between his media empire and his political office, Mr Berlusconi has nevertheless been chosen to become prime minister for the third time.

If he sees out his new mandate—and his resounding majorities in both houses of parliament should ensure that he does—Mr Berlusconi will have governed the country for 11 out of 19 years. Indeed, Mr Berlusconi has already done much to remake Italy in his own image. It is more glittery, perhaps, but also less respectful of the rule of law, stubbornly unreformed economically and more distant from European correctness in its public discourse, for instance on issues of sex and race. How many aspiring prime ministers could get away with describing older female supporters as their “menopause section”?

More than other politicians, the television and publishing mogul likes to communicate through the media. It made for an eerily remote election night. When the results were announced, there was no victory speech by Mr Berlusconi to jubilant supporters. Instead he took a call at home from his defeated opponent, then telephoned a television programme to say he was deeply touched by the trust voters had placed in him.

In a country used to weak coalitions (the outgoing centre-left government led by Romano Prodi lasted less than two years) voters have given Mr Berlusconi's People of Freedom movement and its allies an unusually solid majority. In the ballot for the Chamber of Deputies—the best indication of the overall mood—it won about 9% more votes than the centre-left alliance led by Walter Veltroni. This was as big a victory as anything predicted by the last opinion polls before the ballot.

With the help of a bonus given to the winning party, the pro-Berlusconi camp has a 98-seat majority in the 630-member lower chamber, with all but a few thousand votes counted. The centre-right Union of Christian and Centre Democrats (UDC), which refused to join Mr Berlusconi's new movement, won 36 seats.

In the upper house, the Senate, where the premiums are handed out on a regional basis, Mr Berlusconi might have faced problems. But the swing in his favour was strong enough to deliver 174 of the 315 elected seats (seven more are filled by life senators). Mr Veltroni and an allied party won 132. The UDC's leader, Pier Ferdinando Casini, who had dreamt of holding the balance, will dream on. His party was left with just three seats.

What accounts for Mr Berlusconi's thumping victory? In part the fact that Mr Veltroni, a former mayor of Rome, was unconvincing in his claim to represent a new kind of politics.

Though 19 years younger than the prime minister-elect, who is now 71, Mr Veltroni was already a seasoned politician when Mr Berlusconi entered political life in 1994. He began his career as a young communist and, for many Italians, remains tainted by his Marxist past. Though he openly modelled himself on America's Barack Obama, his oratory never reached the same inspiring heights.

Nevertheless, says Massimo Franco, a *Corriere della Sera* columnist, Mr Veltroni “was more victim than culprit”. He did not have time to erase from voters' minds their often painful memories of Mr Prodi's tenure. Wracked by internal dissent, the outgoing government limped from crisis to crisis, the last and most toxically symbolic of which was last December's refuse-collection crisis in Naples and the region of Campania. Unsurprisingly, the People of Freedom scored particularly well there, and Mr Berlusconi has promised to deal with the rubbish issue as his first priority.

Mr Prodi's principal success had been to get the budget deficit back under 3% of GDP, as required by European Union rules. But it came at a cost. The outgoing finance minister, Tommaso Padoa-Schioppa, put up tax rates while cracking down on tax evasion—a combination that made the government hugely unpopular, and damaged Mr Veltroni's campaign.

The outcome of the election offers Italy the prospect of political stability for the next five years, and perhaps beyond. Paradoxically, an electoral system based on proportional representation, which led to Mr Prodi's unwieldy nine-party coalition, has produced something resembling a two-party legislature familiar in America or Britain. The next parliament will comprise, in essence, two opposing blocks.

Several of the tiny parties and personalities that were able to hold to ransom successive governments, and block their attempts at reform, have been swept out of the legislature. The radical left, represented by an alliance of greens and communists, was crushed. Its leader, Fausto Bertinotti, promptly resigned.

Mr Berlusconi has a more cohesive coalition than in the past. Gianfranco Fini and his “post-fascists” had already signed up for the People of Freedom. The departure of the UDC rids Mr Berlusconi of his most awkward bedfellow. Of his party's two external allies, the Northern League and a smaller group demanding greater autonomy for Sicily, the most unpredictable is the former.

Led by the eccentric and raucous Umberto Bossi, the xenophobic Northern League did outstandingly well. The party almost doubled its share of the vote. It will have the third-biggest presence in parliament and holds the balance of power in the Senate. Soon after the polls closed, Mr Berlusconi echoed some of their agenda, proposing a bizarre scheme to close Italy's frontiers and open camps for the identification of jobless foreigners.

Italians awoke on April 15th to find themselves in a country once again dominated by conservatives. But of what sort? The progress of the Northern League, a natural recipient of protest votes, suggests that large numbers of voters were seeking refuge from the terrors of globalisation. Mr Bossi's party is both anti-immigrant and protectionist.

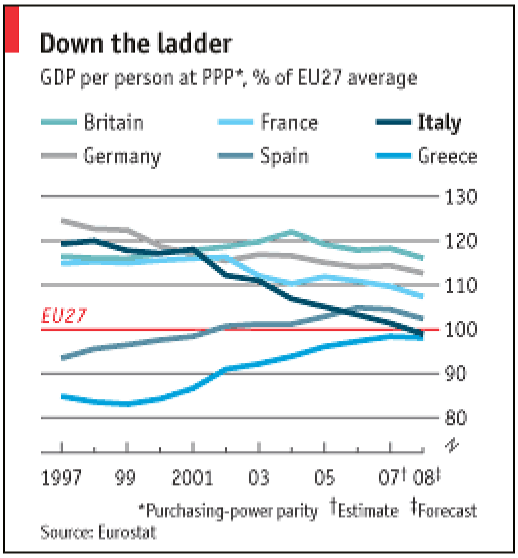
But in the campaign Mr Berlusconi gave out contradictory signals. Some of his rhetoric was liberal on economic issues. He promised spending cuts, lower taxes and public asset sales. But he also spoke as a nationalist. In particular, he dismissed plans to sell Alitalia, Italy's stricken national airline, to Air France-KLM and talked up a home-grown alternative that has yet to materialise.

Much hangs on Mr Berlusconi's economic direction. The extent of Italy's malaise was made clear only a week before the ballot, when the IMF cut its growth forecast for the country to 0.3% for both 2008 and 2009. That would make Italy's the slowest-growing economy in Europe and among the G8 rich countries.

In the euro zone, Italy is the country most likely to tip into recession in the next 12 months. In the mid-1990s its GDP per head, at purchasing-power parity, was 20% above the average for the 27 countries in today's European Union. It was richer than Britain and France, and second to Germany among big EU states. Twelve years on, it has fallen below the EU 27 average for the first time.

In 2006 it was overtaken by Spain; next year it may fall behind Greece (see chart). Francesco Grillo, at the London School of Economics, suggests that, if current trends remain unchanged, Romania will overtake Italy in 2020. That may be fanciful, but it confirms that slow growth has become Italy's worst failing. It has persisted under governments of left and right alike. None has been bold enough to push through liberalising structural reforms to raise growth and productivity.

Italy remains one of the most regulated economies in western Europe. It is also stuck with higher inflation and lower productivity growth than other euro-zone countries and has, as a result, steadily lost competitiveness. The impact of slow growth feeds on itself. Had Italy grown by the EU average over the past decade, its public debt would have fallen from over 100% of GDP to around 80%; and it would not have had to raise the tax burden to 43.5% of GDP to meet the goals set by the EU's stability pact.



Faster growth would have lured in more foreign direct investment: Italy now gets half as much as Spain as a share of GDP. And it would have attracted more investment in Italy's lousy infrastructure, which has become a serious drag on business. The economy is over-reliant on small and medium-sized enterprises in such traditional industries as textiles, shoes, white goods and furniture. These industries are the most exposed to lower-cost competition from China and the rest of Asia.

Services are under-developed. Even in tourism, where Italy has a natural advantage, it has fallen from first- to fifth-most popular destination over the past 30 years. Education is a mess. Italy does worse than anywhere else in western Europe in the OECD's PISA tests. Universities seem to be run for the benefit of academics. Italy has no universities in the world's top 100. In 1970 30% of university teachers were over 45; today that figure is 70%.

And then there is the legal system. Luigi Spaventa, a former financial regulator who chairs the Sator financial group in Rome, argues that long delays in civil-justice proceedings deter investment.

There are some reasons for hope, though. Italy's employment performance is good: joblessness is at a 30-year low. Exports have been booming, despite the strong euro, as companies move up the value-added chain. The country's biggest private company, Fiat, has been turned around. Italy's banks have improved under the spur of competition, and they have mostly avoided the sub-prime debt that is dragging down rivals in Europe.

If the new government were to unleash Italian entrepreneurs, they would surely respond. Will it? At times Mr Berlusconi has appeared to grasp the seriousness of Italy's condition. But what remains in doubt is whether he is truly committed to liberal reform, or even understands that it is incompatible with economic nationalism.

His past record in office is not encouraging. Nothing was done to shake up Italy's myriad protected businesses, from taxi drivers and notaries to pharmacies and small shopkeepers. Schools and universities went mostly unreformed; the public administration was barely touched. Privatisation has been pursued more vigorously by centre-left governments.

There are other reasons to worry about economic management under Mr Berlusconi. One is public finance. During his previous stint in office, Giulio Tremonti, whom Mr Berlusconi intends to re-appoint as finance minister, showed remarkable complacency. A surplus (before interest payments) was turned into a deficit. If the downturn in Europe is deeper and longer than expected, the budget deficit could quickly get out of hand again.

The second worry is Mr Tremonti's belief that globalisation has made Italy's problems worse. He has just published an anti-globalisation tract, “Fear and Hope”. He dismisses accusations of protectionism as infantile. But experience suggests that neither he nor Mr Berlusconi is a true believer in free markets.

On April 16th Mr Berlusconi said Europe needed to regain influence in the world, but he dislikes the economic strictures that the EU seeks to impose, whether on euro-zone interest rates, fiscal policy or competition.

Alitalia looks as if it will be a test case of Mr Berlusconi's intentions. The European Commission will try to stop the government keeping the national carrier airborne with fresh subsidies. It may be the first of many confrontations between Rome and Brussels.

Family policy in France

Baby about-face

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From The Economist print edition

The French government succumbs to the power of the big family

COME this weekend, Paris railway stations will be jam-packed with small children and large suitcases, heading off on their school holidays aboard France's high-speed trains. Many will be travelling cheaply thanks to the *carte famille nombreuse*, a discount card for families with three or more children. As the government has now discovered, thanks to the outcry provoked by its clumsy attempt to abolish it, the French regard this card not just as an ordinary concession: it is a passport to a way of life, validating the virtue of a big family.

The fuss started earlier this month, when President Nicolas Sarkozy announced a list of cuts to curb the budget deficit. Among them was the €70m ($111m) yearly subsidy to the SNCF, the state railway, to finance the card. The idea was that the SNCF, which made a record net profit in 2007 of €1 billion, should pay for such discounts itself.

The family lobby, however, was livid. It feared the move presaged the loss of privileges; a worry only heightened by rising food and energy prices. The annual inflation rate reached 3.2% in March, its highest level for 17 years. Faced with a potential uproar, Mr Sarkozy decided to keep the card after all.

Pro-breeding policy in France carries particular symbolic value. The *carte famille nombreuse* was created in 1921, after the heavy population losses of the first world war. In 1920 the “Medal of the French Family” was devised—and still exists today—with a special gold medal to honour women who had eight or more children. In more recent times, France has put in place a generous system of crèche places, all-day nursery schools, family allowances and income-tax deductions for big families. Produce six offspring nowadays, and the SNCF discount reaches 75%.

All this has bred results. France now has the highest fertility rate in the European Union, rising from 1.66 to 2.0 babies per woman between 1993 and 2007—beating even Ireland. Taken with the inflow of migrants, this means that France's population will rise to 70m by 2050, up from 60.7m today. High fertility is not just due, as some argue, to big immigrant families: a recent demographic study shows that the overall fertility rate would be 1.9 even without them. Is it any coincidence that a French carmaker, Renault, pioneered the people-carrier?

Spanish economy

In a slump

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From The Economist print edition

AP

The Spanish prime minister has recently won re-election, but his economic problems are just starting

THE higher they climb, the harder they fall. Spain, one of Europe's economic star performers for more than a decade, is tumbling from its pedestal just as José Luis Rodríguez Zapatero, the Socialist prime minister, begins his second term.

Mr Zapatero has burnished his credentials as a social reformer, with a fresh cabinet dominated by women, including the new defence minister, Carme Chancón. But the need for economic reforms is becoming ever more urgent.

The global credit crunch has come with an extra twist in Spain, where it coincides with the bursting of the housing bubble. An expected soft landing has suddenly become hard and painful. Underlying (and untended) economic weaknesses that were hidden by the construction boom are being painfully exposed, among them low productivity growth.

Things have become considerably worse since the March 9th elections. The IMF estimates that last year's growth of 3.8% will fall to 1.8% this year, and get worse in 2009. These would be the slowest growth levels in Spain since 1993.

House prices are predicted to fall by up to 15% over three years. Negative equity threatens some home-owners. But as a member of the euro zone, Spain has no control over interest rates or the value of the currency. Builders are struggling to find buyers for homes and, worse, cannot borrow to get through hard times. Some have already gone bankrupt. The construction sector—which accounts for 60% of all bank loans—is set to shed some 400,000 jobs over the next two years.

The most worrying factor, however, is the disappearing budget surplus. Before the elections, Mr Zapatero boasted that he had ample funds to respond to the downturn. Last year's surplus was a healthy 2.2% of GDP, or €23 billion ($36 billion). “The comfortable state of public finances provides margin for manoeuvre,” says the veteran finance minister, Pedro Solbes. A report from the BBVA bank, however, suggests the surplus will turn to deficit next year. Receipts from value-added tax have already dropped in the first two months of 2008.

Nevertheless, at the first cabinet meeting of the new government due to be held on April 18th, ministers were expected to approve a fiscal stimulus worth €10 billion ($16 billion), including a €400 annual rebate to every taxpayer (worth €6 billion) and several other measures, such as infrastructure and public-housing contracts.

Fiscal expansion may not be enough, however. A strengthening euro will hinder export-led growth. Productivity and competitiveness remain Spain's greatest challenges. These need reforms to the labour market, the education system and Spain's research and development infrastructure that may take years to produce results.

Mr Zapatero is lucky, for the moment at least. The opposition People's Party is immersed in internal squabbling, and is waiting to see whether its leader, Mariano Rajoy, who has lost two consecutive elections, will face a challenge from Madrid's ambitious regional premier, Esperanza Aguirre, at its convention in June.

The prime minister is fortunate, too, in that he went to the polls before the worst of the economic news emerged. His minority government is just seven seats short of a parliamentary majority, although it should get support from Catalan or Basque regional parties.

Mr Zapatero claims the downturn is temporary and promises that Spain will soon return to high growth. That will be a taller order than he may imagine.

Russia's leadership

A double-headed eagle

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Vladimir Putin and Dmitry Medvedev plan to rule jointly. It may not work

PITY Dmitry Medvedev. He is just three weeks from becoming president, and the man he is meant to replace keeps stealing his limelight—and his power. Vladimir Putin formally steps down on May 7th. But he has already ensured that he will stay on as prime minister, and on April 15th he accepted the "invitation" to become leader of the ruling United Russia party, a political movement created by the Kremlin. "I am ready to take on the additional responsibility," he told a specially-convened party congress.

Mr Putin spent the eight years since he was first elected president building up the powers of the office. He neutered the once-combative legislature and appointed prime ministers distinguished only by their loyalty: Mikhail Fradkov and, since last year, the even duller Viktor Zubkov.

Now Mr Putin is reversing the process, robbing the presidency of its omnipotence. As prime minister and party leader, he will have a tight grip on the country's finances and its regional elites. In theory, Mr Medvedev retains the constitutional right to sack him. But Mr Putin could change the constitution, given that he now leads a party that commands more than two-thirds of the seats in the Duma.

An optimistic view is that Russia could develop a better balance between the legislative and executive branches. "This is another step in the development of democracy, a wholly natural step," says the chief of Russia's electoral commission, Vladimir Churov. Another charitable assessment is that Mr Putin is seeking to defend his protégé from the powerful security service clans who distrust Mr Medvedev's liberal-sounding speeches on personal freedoms and corruption. Certainly Mr Medvedev shows no sign of complaining about his lot. Indeed, he added his voice to calls for Mr Putin to accept the party leadership, saying this was "logical and timely".

The simplest explanation is that Mr Putin wants to retain power. One scenario is that Mr Medvedev will keep the seat warm for Mr Putin, who could legally seek a third, non-consecutive presidential term in 2012. Another possibility is that Mr Putin wants to revive something akin to the Soviet system, with Mr Medvedev playing the lesser role of chairman of the Supreme Soviet and Mr Putin embodying the more powerful general secretary of the Communist Party.

However, Russia's weak government might not survive living with two leaders, one in the Kremlin and one outside, like Russia's double-headed eagle. If it ever came to a contest, the seemingly invincible Mr Putin might even be the one to crumble. As prime minister he would find himself on the sharp end of many problems, not least rising inflation. And Mr Medvedev, despite his affable image, might be no pushover: by virtue of occupying the Kremlin, he would inevitably gather greater authority.

"Putin is trying desperately to bolster his position, but he himself did everything to strengthen the presidency at the expense of all others," says Yury Korgunyuk of Indem, a think-tank in Moscow. "It is sure that the president will win this fight."

Whatever the intrigues, democracy will be the loser, says Mark Urnov, of the Expertise Foundation, another Moscow outfit. "This is a victory for the political elite that did not want, and feared, the departure of Putin," he says. "It's a group that does not want change. There will be no separation of the state and the economy, and no real fight against corruption."

Bulgaria

Dirty politics

Apr 17th 2008 | SOFIA
From The Economist print edition

One resignation is not enough to clean up Bulgaria

AFP

Georgy Stoyev: his books displeased

RUMEN PETKOV admits that as the then Bulgarian interior minister he met the country's top gangsters in 2006. He claims it was in a good cause: to ask them to stop shooting each other in the crucial weeks ahead of the country's accession to the European Union.

Bulgaria's woes with crime and corruption needed more than a temporary ceasefire. Gangland shootings, never resolved, have resumed: last week gunmen killed Bulgaria's best-known author of books on the mafia, Georgy Stoyev, and the manager of an energy firm with a controversial history.

Under pressure from the European Union, Mr Petkov resigned this week after a leaked intelligence report said a drug gang had received top-secret internal documents from officials in his ministry, while illegal booze producers gave money to a senior crime-fighter in return for information and the destruction of incriminating evidence.

EU officials have long worried that anything they shared with Bulgarian counterparts would be leaked to gangsters. Eurocrats say they objected to Mr Petkov's bullying attitude; an EU source says he enjoyed “rubbing our nose into the fact that Bulgaria is now a member state”. That is not a unanimous view. The European Commission's vice-president, Franco Frattini, went skiing with Mr Petkov last year and has praised him. But the EU has already suspended some programmes because of corruption. In July, it will assess Bulgaria's overall progress and may suspend the validity of its court decisions elsewhere in the EU.

It was a parliamentary investigation that made Mr Petkov's position impossible. But the real story is Bulgaria's political weakness. The ruling ex-communists are split between a supposedly modernising faction lead by the prime minister, Sergey Stanishev, and the old guard around Mr Petkov. A coalition party that represents the Turkish ethnic minority controls the agriculture and environment ministries, the main conduits for EU money. It has been heavily criticised for land deals, arbitrary treatment of mining licences and vote-buying.

Mr Stanishev was recently forced to bring back into government a deputy environment minister from this party, fired last year for alleged corruption (and then cleared). While out of office he caused surprise by acquiring two newspapers (from his savings, he said). The economy minister, Rumen Ovcharov, another old guard ex-communist, resigned last year under a cloud, but protested his innocence. Criticism from Brussels and elsewhere about Bulgaria's murk has continued. One more resignation is unlikely to make a difference.

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Charlemagne

The other presidential race

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Illustration by Peter Schrank

If the European Union wants a big hitter as president, it should go for Tony Blair

EUROPEANS are as fascinated as the rest of the world by this year's American presidential election. Rather fewer are aware that this autumn the European Union will choose a president of its own. The job being created by the new Lisbon treaty is that of the first permanent president of the European Council, the body that brings together all 27 heads of EU governments. The president may well turn into the EU's public face in dealing with, among others, his American counterpart.

Unfortunately, the EU has a history of dreadful rows over top jobs. Remember Britain's veto in 1994 of Jean-Luc Dehaene as president of the European Commission (the EU's executive branch), or the failed Franco-German attempt to squeeze a later Belgian prime minister, Guy Verhofstadt, into the job in 2004? Worst was the summit to launch the euro in May 1998, which degenerated into a 12-hour squabble over who should run the European Central Bank. It was settled by a dubious deal to split the eight-year term between a Dutchman, Wim Duisenberg, and a Frenchman, Jean-Claude Trichet.

Such a record fills one with foreboding over the choice of the first EU president. And this is not the only top job in play. Under Lisbon, there will also be a quasi-foreign minister who will double up as the external-affairs commissioner. In 2009 there will be new presidents of the European Commission and of the European Parliament. The task of negotiating over these posts will fall to President Nicolas Sarkozy, since France holds the rotating EU presidency in the second half of 2008.

Circling around these plums has begun. There are delicacies of timing and consultation: the foreign minister will replace an existing commissioner, and the European Parliament, to be re-elected in June 2009, will want a say in at least three of the jobs. Most of the choices will be made by majority vote and not, as in the past, by unanimity, ending the right of veto—though nobody would want to be picked over the objections of a big EU country.

Speculation over candidates to be European Council president is rife even though the functions of the job remain fuzzy, as does its relationship to governments that still hold the rotating EU presidency. But that uncertainty may mean the role is determined by the personality of its first holder. Last year Mr Sarkozy hinted that he would back Britain's Tony Blair for the job. Since Mr Blair pushed for the post's creation in the first place, he might seem suitable. But like all front-runners, he has met opposition: because he joined America in Iraq, because he comes from a big EU country, because he is not pro-European enough, because Britain is not in the euro or the Schengen passport-free zone.

Hence a trickle of other names: Luxembourg's Jean-Claude Juncker, Austria's Wolfgang Schüssel, Denmark's Anders Fogh Rasmussen, Ireland's Bertie Ahern. Some are tarred by scandal (Mr Ahern); others routinely deny any interest in the job (Mr Fogh Rasmussen). As in the Eurovision song contest, neighbours often back each other: the Germans lean towards Mr Schüssel, the Belgians like Mr Juncker and Scandinavians favour Mr Fogh Rasmussen. Because a majority of EU governments are from the centre-right (now including Italy's), the first president may be too. But if José Manuel Barroso of Portugal is reselected as president of the European Commission, which looks likely, a centre-left European Council president might be a good balance.

As for the putative foreign minister, the incumbent, Javier Solana of Spain, could continue in the job, certainly for the first year or so. But he is not universally approved of, so other names are also in the frame. They include Carl Bildt of Sweden, Michel Barnier of France, Belgium's Mr Verhofstadt and even Joschka Fischer, a former German foreign minister.

In the past the choices might have been made by Mr Sarkozy and Germany's Angela Merkel, maybe in cahoots with Britain's Gordon Brown. The views of this trio, especially Ms Merkel, still matter. But the EU now has 27 members, including ten east European countries. That makes agreeing on one job, let alone four, harder. It may favour a conventional presidential pick: Mr Juncker or, if he is cancelled out by Mr Blair, Mr Schüssel.

Treading the world stage

Yet this is not a time for the usual Brussels name game. The idea of a permanent president of the European Council was resisted by many smaller countries. But now it is being created, it would be ludicrous to fill it with a minor figure; a Juncker or a Schüssel. To the outside world—India or China, say—the president will speak for Europe. If the EU wants to be a serious global actor, that points to a world figure. Unless Ms Merkel steps forward, which is improbable, the only such person in the running is Mr Blair.

And there are two other arguments for him. First, he would disprove the notion that senior EU people must come from countries that join in all EU policies, including the euro, defence and justice and home affairs. This line was used to block Chris Patten as a commission president in 2004. But in an increasingly multispeed Europe, it would rule out nominees from more than half the EU countries. The EU president will not represent his government—indeed, though Mr Brown says he backs Mr Blair, few believe he is wholly sincere. If the criterion is “Europeanness”, France, Italy and Germany should be disqualified as they are the worst offenders when it comes to breaching EU rules or promoting national champions. Europe might end up being run only by Belgians and Luxembourgeois.

Mr Blair has a second advantage: he would remind the notoriously sceptical British that they are important players. This worked only up to a point with Roy Jenkins as commission president in the late 1970s. Three decades on, a British EU president would give pause to those who maintain that Britain never has any influence in Brussels. As one top Eurocrat sums it up, “the boldest choice for Europe would be the three Bs: Blair, Barroso and Bildt.” If it works in classical music, why not for Europe?

The internet and politics

Semi-connected

Apr 17th 2008
From The Economist print edition

Illustration by David Simonds

British politics is missing out on the potential of new media

EVEN the least fogeyish of politicians have been flummoxed by the internet. Tony Blair, champion of all things modern, paid no end of lip service to the potential of new media as prime minister but was comically technophobic himself. Still, the internet plays a role in huge areas of British public life: party politics, punditry and government itself. But web aficionados lament a yawning gap with America, and with the most go-ahead corners of Europe.

The official websites of the main political parties—Labour, the Conservatives and the Liberal Democrats—get less web traffic than the most popular political blogs, and much less than even the far-right British National Party. No surprise, say cyber enthusiasts; they do a passable job as repositories of information but offer little scope for users to get involved beyond signing up for e-mail distribution lists.

The Tories want to transform their online presence, and Gordon Brown, the prime minister, has recruited new staff to overhaul Labour's. Both parties have wised up, it seems, to foreign examples of what new media can do for fund-raising and campaigning. Ron Paul, a former candidate for this year's Republican presidential nomination in America, raised a record of nearly $6m online in one day in December—recalling Howard Dean's spectacular efforts in the 2004 Democratic race. NSTV, the video website run by Nicolas Sarkozy, France's president, proved hugely popular during his campaign for the Elysée Palace last year. By contrast, Webcameron, a video blog starring the Tory leader, David Cameron, has run out of steam since it was launched in 2006.

More vitality can be found in the British blogosphere, which has changed how many people tap in to punditry. But shortcomings remain. Whereas there is broad parity between right and left in the American blogosphere, in Britain the left has yet really to get going. There is no agreement on the best way of measuring web traffic but few dispute that right-wing websites such as Conservative Home, Guido Fawkes and Iain Dale's Diary are more popular than left-wing rivals such as Liberal Conspiracy, Labour Home and Bloggers4Labour (see table). Some say this is because the party in opposition can usually count on more motivated activists than the party in power. Others contend that right-wing politics are more suited to the punchy, pithy medium of blogging.

And true “civilian journalism” has been slower to emerge in Britain than in America: Britain's main political blogs are mostly written by insiders, such as former party staffers and established journalists. Blogs also seem to scrutinise politicians and the mainstream media less fiercely in Britain than in

America, where senior politicians and big newspapers sense the blogosphere's watchful eye on their every remark and news report. Guido Fawkes, roughly speaking the British equivalent of America's Drudge Report, boasts of breaking stories and is certainly resented by some mainstream journalists. But few major scalps have been claimed.

Order, order

Website ranking by unique users and page views within Britain, April 2008*

Right-wing blogs	Ranking
Guido Fawkes	6,449th
Iain Dale's Diary	10,006th
Conservative Home	10,156th
Left-wing blogs	**Ranking**
Liberal Conspiracy	19,614th
Labour Home	79,279th
Bloggers4Labour	218,133rd
Party websites	**Ranking**
British National Party	4,062nd
Conservatives	13,109th
Liberal Democrats	15,737th
Labour	16,018th

Source: Alexa *Rolling 3-month period

One area where Britain is showing tentative signs of stealing a march is in the use of the internet by government to involve citizens and improve policy-making. Since 2006 the Downing Street website has allowed the public to create and sign online petitions. In amongst the calls for the drummer from The Stranglers to be honoured, Jeremy Clarkson (a mouthy motoring journalist) to become prime minister and Arsenal football club to be “closed down” have been some serious and hugely popular petitions. One in 2006 calling for the government's road-pricing policy to be scrapped ended up attracting 1.8m signatures.

Mr Brown is not much more web-savvy than his predecessor but some of Westminster's rising stars are evangelical about the internet's potential for government. In a speech to the Google Zeitgeist conference in London last year, David Miliband, the blogging foreign secretary, looked forward to the internet allowing people control over public services, not merely access to them. Policy wonks talk excitedly of “Public Services 2.0”.

George Osborne, the shadow chancellor, is another who is thought to “get it”. He wants much more information put online, including American-style crime maps and every item of government spending over £25,000 ($49,000). More radically, he is flirting with “open-sourcing” policy: some companies now go online to solicit solutions to stubborn problems, so why not the public sector?

Of course, there are caveats to all this fervour. One reason why American political parties have snazzy websites is that they can afford to; there is far less money sloshing around in British politics, and few regret that. America's vibrant blogosphere has emerged partly in response to relatively staid mainstream media, whereas Britons seeking partisanship and wit can get it from a host of newspapers. Some also say that the publicly funded BBC's well-nourished website crowds out other potential players. And online consultation still leaves the structural political problem of how to respond. A million people moderately interested in a particular issue may have less influence on the government than a smaller but more passionate bunch willing to lobby in the old way.

Yet web gurus insist that British politics could be doing much more with the internet, and the idea of open-sourcing policy particularly intrigues them. Government efforts to solicit the public's ideas are often clunkingly non-specific: asking people what they think should be done about, say, crime is unlikely to result in much new thinking. Narrowing the question to particular problems, often in particular locations, is cannier. “You may only get one truly workable idea out of a thousand,” says Tom Steinberg, a former government-policy adviser who set up the e-petitions website and now runs mySociety, a charity operating websites designed to foster civic engagement. “But that one idea makes it worthwhile.”

Construction cartels

Crooked builders

Apr 17th 2008
From The Economist print edition

The OFT finds the building business riddled with price-fixing

Construction Photography

Competitors too close for comfort

“DIM or devious?” may well be a sensible question to ask oneself of the builder peering thoughtfully about and scratching his head before producing a quote to repair the roof. It is also a question one can fairly ask of an entire industry.

The Office of Fair Trading (OFT), Britain's main competition regulator, said on April 17th that it had found widespread evidence of bid-rigging in the construction business. After one of its largest-ever investigations, in which it scrutinised thousands of contracts and seized documents from 57 firms, the OFT named 112 companies that it alleged had been involved in manipulating the bidding process.

If true, the extent of the collaboration is staggering. It is not only back-street firms that seem shifty. Among those accused of price-fixing is Balfour Beatty, Britain's biggest builder. The second-largest construction firm, Carillion, is also named, along with a host of much-smaller enterprises.

Victims of the alleged scams include schools, universities and hospitals. Fines are expected to run to hundreds of millions of pounds, far exceeding the OFT's previous record—a £121.5m ($243.8m) penalty imposed on British Airways in 2007 for setting fuel surcharges in cahoots with Virgin Atlantic, which squealed first. Supermarkets charged with fixing milk prices also paid fines totalling £116m last year.

The OFT's recent run of heavy-duty cartel-breaking reflects two changes. The first is that it has moved from investigating lots of little cases to pouring its resources into fewer high-profile cases that will serve as examples. The second is that the watchdog is beginning to benefit from the American-style trust-busting powers it was given in 2003: these allow it to bring criminal charges against price-fixers while offering amnesty to whistleblowers. “Deterrence is the key,” says John Fingleton, the head of the OFT. “People only go for leniency if they think there is a chance of them being caught and if the penalty is severe.”

In investigating the building business, the OFT suffered not from a paucity of evidence but from a surplus. Thousands of dodgy contracts worth at least £3 billion were handed in, yet to keep the case manageable investigators relied on only 240 of them. No fewer than 37 firms applied for leniency in exchange for helping the OFT, and another 40 admitted guilt in the hope of receiving a reduced sentence.

The main violation was “cover pricing”—firms discussing with competitors the bids they planned to submit. After deciding which firm ought to win a particular contract, other members of the cartel would pitch artificially high bids. In return they would either get a share of the spoils or simply have the favour returned.

Spokesmen for the construction industry say that their members were merely a bit dim and trying to be polite by bidding. “Companies involved in cover pricing may have been too busy to want to win a contract or have lacked the capacity to tender on it, but still wanted to keep a foot in the door to get work in future from the client,” says Kurt Calder of the Construction Confederation. “In the vast bulk of cases it was benign. A lot of companies did it purely so they would not upset the client.”

As excuses go, niceness is hardly compelling. But perhaps no better could be expected from an industry that has proved singularly dim in its deviousness.

BAE and its critics

An inconvenient past

Apr 17th 2008
From The Economist print edition

The firm must take bolder action if it is to lose the whiff of corruption

LIKE the jet fighters it builds—wraithlike in the air yet with a surprising ability to shrug off battle damage—BAE Systems has proved adept at surviving hostile fire. The most recent test for Britain's biggest defence firm came on April 10th, when a high court lambasted the government and the Serious Fraud Office (SFO) for dropping in December 2006 an investigation into alleged bribes relating to the company's longstanding £43 billion ($85 billion at today's rates) arms deal with Saudi Arabia.

As Britain's gumshoes circled their Swiss bank accounts that year, Saudi officials had threatened to stop sharing anti-terrorist intelligence and to cancel another pending contract. Citing the danger to national security, the authorities had meekly succumbed to blackmail, rather than trying to roll it back, the judges said. It was a dark day for British justice. The court is due to hold a second hearing, probably in the week beginning on April 20th, when it may order the probe to be reopened.

The SFO will wait until then before deciding whether to appeal against the ruling, but it seems likely to do so. The government, for its part, has proposed a bill tinkering with constitutional arrangements that, while curtailing many of the powers of the politically appointed attorney-general, would also give him statutory power to stop prosecutions if national security dictated it.

BAE itself insists that it did nothing wrong, and business has been booming. Its order book grew by more than a fifth last year. But the firm is not yet out of the woods. The SFO, anxious not to give the impression that BAE is too big to jail, is examining its dealings in six other countries. And governments in America, South Africa, Sweden, Switzerland and Tanzania are investigating possible bribery by the firm or its close associates.

Since June 2007 America's justice department has been looking into whether payments allegedly made by BAE to senior Saudi officials were channelled through an American bank, and thus potentially in breach of American laws against bribery and money laundering. Britain has yet to provide the information requested of it, so American investigators are bypassing it, reportedly collecting documents directly and flying key witnesses to America.

Last month South Africa re-opened a probe into a massive arms deal with BAE it signed in 1999. Investigators are looking at allegations that BAE paid some £75m in “commissions” to sell jet fighters and trainers. If the deal—for which the British government and Tony Blair, then prime minister, lobbied actively—proves to be corrupt, it will have damaged the country's fledgling democracy, says Andrew Feinstein, a former South African MP who was involved in earlier probes of the matter.

BAE is trying to burnish its reputation, but it is all a bit languid. In June it set up a committee under Lord Woolf, a former chief justice, to examine its current conduct but not its past dealings. A more useful (if painful) approach might be to copy Siemens, a German firm which faced similar allegations of bribery and investigation in America. Siemens has brought in dozens of investigators and given them free rein to interview employees and search for documents. So far BAE has convinced the British government that looking closely at its affairs might imperil the public interest. America will be a tougher sell.

The Gurkhas

Trouble in the rear

Apr 17th 2008 | KATHMANDU
From The Economist print edition

Nepal's newly-elected Maoists want to stop their compatriots serving abroad

TO SENTIMENTAL Britons, the protest waged outside an asylum and immigration tribunal building in London on April 15th was affecting. A dozen retired Gurkhas—natives of Nepal with an historic dispensation to serve in Britain's army—silently saluted a portrait of Queen Elizabeth II.

Inside the building, an appeal was being heard on behalf of a former comrade who wanted permission to reside in Britain. It is one of many recent test cases for those who seek the same rights for former Gurkhas that other old soldiers enjoy. Meanwhile, back in Nepal, the Gurkhas face trouble from the rear.

If Nepal's rulers-elect, the Communist Party of Nepal (Maoist), saw the old Gurkhas' stand, they must have shivered in their revolutionary socks. A former guerrilla army, which surprisingly won an election on April 10th, the Maoists want to ban Nepalis from soldiering for foreign powers. “Having the citizenship of Nepal and serving in a foreign army is totally unacceptable,” says the party's deputy leader, Baburam Bhattarai. “They are mercenaries.”

They are not. The Gurkhas, of whom 3,500 currently serve Britain, have a special legal status in an army in which they have fought for 200 years. A legacy of an imperial past, another 50,000 serve in India's army and 2,000 in Singapore's police. Tens of thousands of former Gurkhas work for private security firms. Imbued with the motto “Better to die than be a coward”, British Gurkhas especially are considered superb infantrymen.

None of this would trouble the Maoists, who are already abolishing Nepal's monarchy. But opposition from central Nepalis probably will deter them. In a poor region of South Asia's poorest country, Gurkha service is hugely popular. Last year the British army recruited just 230 Gurkhas from 17,500 applicants. The squaddies begin their service on £14,000 ($28,000) a year, on the same pay scale and with the same pension as any British soldier. After they retire, the longer-serving will also receive a British old-age pension—payable in Britain, where they may settle, or in Nepal. The chief of Nepal's army, by contrast, earns 275,000 rupees (£2,200) a year.

Over the past decade, Britain's Gurkhas have been transformed. Formerly a light-infantry force based in Hong Kong, the regiment was disjointed from the rest of the army. Now based in Britain, it is an integral part of a more mobile force—indeed, as the only infantry regiment that is always fully manned, the Gurkhas often make up the numbers for others, in Bosnia, Afghanistan and Iraq.

The standard rights and pay that British Gurkhas now enjoy—as a result of a creeping upgrade, culminating in final equalisation in 2006—partly reflects this change. It is also a reward for the zealous campaigning of many retired Gurkhas, like those in London this week. That may encourage them in their efforts to win British visas for about 2,000 former comrades deemed to have retired too long ago to warrant them. But they should consider ditching the queen's picture—lest it make Maoists mad.

Schools strike

Truanting teachers

Apr 17th 2008
From The Economist print edition

The first national walk-out in 21 years threatens schools and students

THE last time teachers around the country downed chalk, Wham! and Boy George topped the charts, shoulder-pads and bubble perms were the height of chic and Margaret Thatcher was heading towards her third election victory. Then, as now, the teachers' complaint was pay, and a war of attrition ended in 1987 after two years of intermittent strikes. Today's beleaguered government will be hoping that the April 24th walk-out planned by one of the two biggest teaching unions, the National Union of Teachers (NUT), is not the start of a similarly protracted row.

The NUT's strike ballot went three-to-one in favour, on a turnout of 32%. So some proportion between the 11% of English and Welsh state-school teachers who voted for action and the 45% who are members of the NUT are likely to heed the call. Support is hard to gauge, but it may be hardened by the sudden death of Steve Sinnott, the NUT's general secretary and the strike's main architect, a few days after the vote's result was announced. Some see the strike as a fitting memorial. “The best way to mark our respect would be to maximise the effect of the campaigns to which he was so committed,” says Christine Blower, the union's acting general secretary.

Other teachers' unions are advising members not to cover for strikers, and supply agencies are refusing to step in. And health and safety “risk assessments”—a post-1980s innovation—will make it hard for abandoned heads to take the traditional route of gathering pupils in the hall for a day of quizzes or papier-mâché modelling. As many as half of all schools may close for the day, according to a poll of teachers by the *Times Educational Supplement*, although the head-teachers' union says that many schools will try to stay open for at least some year-groups.

The strike is, in some respects, rank ingratitude. The 2.45% offer the teachers are spurning busts the government's 2% target for public-sector pay rises. It was more than was offered to the police, who can't strike, or to nurses, who usually won't. The other big teaching union said its members felt they had fared “relatively well” and were more concerned about workload than pay. And although pay rises for teachers were also modest in the previous two years, median teachers' pay has risen by a fifth in real terms in the decade since Labour came to power.

But it also reflects many teachers' sense of betrayal by a government they initially welcomed as their own. A whopping 30% of all Labour candidates in the election that brought the party to power were, or had been, schoolteachers or lecturers. Before that election, surveys suggested that 60% of teachers planned to vote Labour, compared with 15% for the Tories then in government. And their support was swiftly rewarded. Of teachers' top six concerns in 1997, Labour went on to deal, wholly or in part, with five (the schools inspectorate, which teachers wanted abolished, still remains to torment them).

Nowadays, though, teachers feel themselves the whipping boys for a government that sees education as the solution to inequality. No one supports them as they deal with the consequences of social fracture in the classroom, they say. But the action is also part of a general disenchantment across the public sector. On April 11th the Public and Commercial Services Union called on its members to strike on the same day as teachers, also over pay. That could mean 100,000 workers at ten Whitehall departments and benefit offices all around the country walking out. Three days later the University and College Union, which represents further-education lecturers, called a strike for April 24th too. (Its longstanding grievance, as it happens, is that its members are paid less than teachers in schools.) And Unison, the biggest public-sector union, is balloting the 500,000 health-care workers it represents on whether to reject their pay deal and call a strike as well.

The NUT complains that teaching has become unattractive compared with other graduate jobs. Rather than striking, the solution might be to sit tight and let events move teachers' way: a cosy berth looks more appealing in stormy economic times. On April 15th figures from an analyst at JPMorgan, a bank, came to light, suggesting that as many as 40,000 City jobs might be at risk; high-street banks and estate agents have already started to lay off staff. And falling house prices will help soothe another of the union's grumbles: that few new teachers can afford to buy near the school where they teach. In a credit crunch, teachers will still get mortgages when private-sector workers struggle.

Alternative medicine

Trust me, I've got a licence

Apr 17th 2008
From The Economist print edition

Regulating the quacks

IN THE 20th century medicine became a science; in the 21st it has become an industry. High demand and punishing performance targets mean that the modern GP spends fewer than 12 minutes with a patient. So it is no surprise that alternative medicine, which offers valuable support and sympathy along with treatments of less obvious efficacy, is big business. Britons spend £4.5 billion a year on it, up 50% on a decade ago. One in five adults are estimated to be regular users. But the market is fragmented and unregulated. Dozens of therapies—from *reiki* to reflexology—are sold by thousands of practitioners represented by a dizzying array of trade associations (homeopaths, for instance, have a choice of four groups to join).

Such chaos worries the government. Inspired by a report from the House of Lords Science and Technology Committee published in 2000, ministers are busily imposing order. Therapies reckoned particularly likely to injure patients are either already regulated by law (chiropractic and osteopathy) or soon will be (acupuncture, herbalism and Chinese medicine). For everything else, there will be a new Complementary and Natural Healthcare Council (CNHC), an independent regulator that is due to start work in the summer.

Instantly dubbed “Ofquack” by its critics, the CNHC has scrupulously avoided discussing whether the treatments it regulates actually work. Instead, says Maggie Dunn, one of the CNHC's two co-chairs, it will concern itself purely with public safety. “If there are quacks out there, all the more reason to regulate them,” she says. Those who want to join will have to show that they have insurance and proper training. A code of conduct will encourage them to be honest with patients and up to date with developments in their field. Only those therapies popular enough to have professional associations will be considered. Homeopaths and aromatherapists will be eligible; Hopi ear-candlers and Shamballa Multi-Dimensional Healing masters will not be, for now.

Not everyone is convinced that the CNHC is a good idea. Membership will be voluntary. Bristling at this invasion of their turf, several homeopathy organisations, for example, have said they will not co-operate, although Ms Dunn hopes that the allure of a trustworthy brand will bring the recalcitrant around. Others complain that much of the preparatory work for the new regulatory body was done by the Prince's Foundation for Integrated Health (with £900,000 of public money), a group that lobbies for alternative medicine. David Colquhoun, a professor of pharmacology at University College London, says that ignoring evidence (large-scale studies have shown homeopathy, for example, to be no more effective than a placebo) is ridiculous. “What can the idea of proper training in homeopathy actually mean?” he asks.

But the biggest worry is that what is supposed to be a simple certificate of safety will be interpreted as an official endorsement of efficacy. “When chiropractic was regulated, the amount of research activity trying to demonstrate that it worked actually decreased,” notes Edzard Ernst, a professor of complementary medicine at the Peninsular Medical School. “Nowadays, many call themselves doctors.” This may encourage people to seek ineffective treatments for serious illnesses. He points to a recent row in which a BBC reporter accused Neal's Yard, a high-street shop, of claiming that its homeopathic remedies could prevent malaria (Neal's Yard says the story was misleadingly edited).

Happily for sceptics, there is a countervailing trend. The NHS has paid for alternative treatments for years. No detailed figures are available, but there are a handful of publicly funded homeopathic hospitals and many doctors refer patients to alternative practitioners. But driven by hard-nosed considerations of cost-effectiveness, the NHS seems to be cooling on the idea. A survey published in January by *Pulse*, a magazine for doctors, found that over a quarter of health trusts had cut homeopathy funding over the past two years.

Crime and immigration

Not guilty

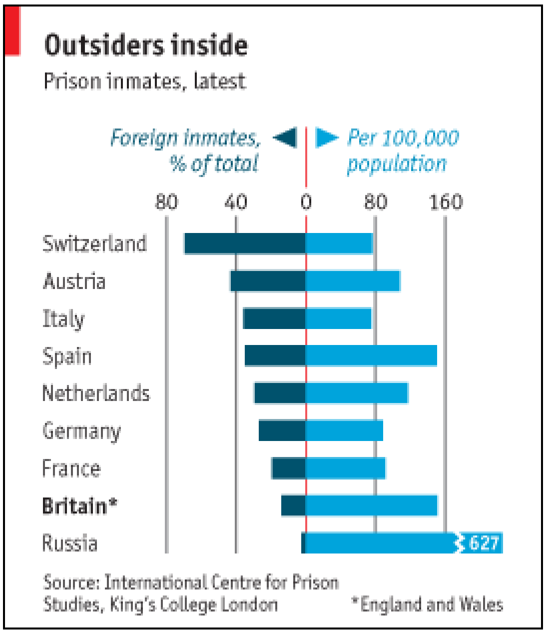
Apr 17th 2008
From The Economist print edition

Migrants are mostly law-abiding, but the police need more cash to do their job

IMMIGRANTS, long the focus of much excitement in Britain, are turning out to be a reassuringly boring bunch. Wild theories about their economic impact (miraculous, according to the government; disastrous, according to detractors) were flattened earlier this month by a sober report from the House of Lords, which found that high levels of net migration over the past decade have had “very small impacts” on Britons' personal incomes. On April 16th some equally outlandish theories about immigrants and crime bit the dust when a leaked police report concluded that the 800,000 or so east Europeans who have arrived since 2004 are neither more nor less likely to commit crimes than the rest of the population, as some had claimed.

All those extra people mean that total crime is higher than it would otherwise be, but the increase in crime per capita is negligible. (Mischievously, the government likes to tell this story the other way around when it promotes the economic benefits of immigration.) In the case of crimes that are disproportionately committed by migrants, the impact on everyone else is often slight because they share the burden of victimhood as well. Take homicide: in the year to April 2007, a third of those charged with the offence in London were foreigners—but a third of identified victims were foreign, too.

The police report unearthed some interesting trends among the newest arrivals. Poles are bad about driving under the influence of drink, for instance. More seriously, it linked east Europeans to people-trafficking. And some other cases stick in the mind: on April 1st two young children opened a plastic bag on a Scottish beach to discover the severed head of a Lithuanian woman. Two Lithuanian men have since been charged with her murder. Police would rather not see any more of the criminal gangs that blight the Balkans (see article).



It could be much worse. In Britain's prisons, just 14% of inmates are foreign nationals—low compared with most big European countries (see chart). Foreigners take up less than half as much of Britain's jail space as they do of Italy's, for example, despite making up a bigger share of the general population. Are Britain's immigrants a better behaved crowd? Are the police less racist? Perhaps neither: a third explanation is that countries with a big share of foreign prisoners tend to be those with low overall levels of imprisonment—so it may be more accurate to say that Britain locks up a lot of natives than to assert that it imprisons few foreigners.

Either way, immigration means that the police need more money, like any other public service. This should not be a problem: because they tend to be employed, east Europeans pay their way in taxes. Maddeningly, however, some towns do not get the money they need because Britain's centralised government sucks up most tax revenues and doesn't always distribute them fairly. One consequence is strained policing, and an easier ride for criminals. Crime might be up in some areas because of immigration—but the migrants themselves have been framed.

Bagehot

Send out the clowns

Apr 17th 2008
From The Economist print edition

Illustration by Steve O'Brien

The lesson of London's funny but sad mayoral election

IN POLITICS, jokes can be serious. A skilful rhetorician—such as William Hague, the shadow foreign secretary—can use humour collusively, recruiting his audience via their laughter. Boris Johnson MP makes lots of jokes; many are funny, and such is his aura of shambolic wit that audiences titter even at the duds. But they are not really purposeful. They are just jokes.

Mr Johnson is the Conservatives' candidate in London's tight mayoral election on May 1st. Along with the gags, his oratorical style combines arcane vocabulary and distracted amateurism ("he's fumbling all over the place," Arnold Schwarzenegger once commented). The whimsy is coherent enough, however, to have repeatedly if inadvertently caused offence—to London's ethnic minorities, among others; they have been only partly comforted by Mr Johnson's apologies and advertisement of his cosmopolitan descent, from a Turk and (reputedly) a Circassian slave.

But those indiscretions are not the main reason to doubt that he is the right man to run London. The main reason is that before deciding, after much equivocation, to stand, Mr Johnson had neither evinced much interest in London nor properly run anything. True, he was editor of the *Spectator*, a weekly magazine; but rigorous administration is not the trait for which his tenure is most remembered. He is propounding some sensible policies on crime, but for much of the campaign he has been aloof, relying on his already high profile to work for him by proxy: "Boris" was the candidate rather than the actual Boris. His Tory handlers say that, if he is elected, a team of crack managers will help to govern London and govern him: a dubious reassurance, especially since no one knows who they would be.

So the incumbent, Ken Livingstone, ought to clean up. On his watch London has become an even more diverse and magnificent city. That has little to do with Mr Livingstone, but he has made some useful marginal contributions. He bravely introduced a charge to drive into central London; he has improved the city's buses; he oversaw a revamp of Trafalgar Square. Following a similar ideological trajectory to Labour, the party that he nominally represents, despite his professed socialism "Red Ken" has, as mayor, encouraged developers and championed the City.

Weighing against this record is the mayor's own problematic personality. The problem is not his taste for mid-morning whisky, his complicated personal life (Mr Johnson's is also colourful) or his enthusiasm for newts. It is that Mr Livingstone is a megalomaniac. For all his long involvement in local government—he was leader of the Greater London Council until, not unrelatedly, Margaret Thatcher abolished it—ruling

London was never Mr Livingstone's main ambition either. He wanted to be prime minister (at least), and it shows. He has used his consolation job to cultivate Latin American autocrats and fanatical Islamists; when the conversation turns to global affairs, he can sound like one of those sane-seeming people who suddenly claim to have been abducted by aliens. His apologists say these pseudo-radical antics don't matter: forget the agitprop, they say; focus on the buses. But they do matter, and the symbolism will be even more important in the run-up to the London Olympics.

The absurd freelance diplomacy is not the only hint of megalomania that makes a third Livingstone term look undesirable (he originally said he would seek only one). What often happens to long-serving incumbents, even those who are not confirmed megalomaniacs, has happened to him. His administration has become opaque and detached. He has tolerated and defended dodgy practices among his acolytes, and seems to have used city resources for his own political ends. He is vindictive and insulting to anyone who disagrees with him.

Democracy usually involves choosing the lesser of two disappointments. But in this case the choice is especially disappointing. (The third main candidate is Brian Paddick, a sometime Liberal Democrat and gay former policeman who made his name with an experimental approach to drugs policing. He is earnest and personable but has no chance of winning.) Alongside the headline quandary—Ken or Boris?—Londoners are pondering another: why are the candidates so badly flawed?

Reductio ad absurdum

One answer—the wrong one—is that they are the candidates the job deserves. The role is weaker than, say, that of the mayor of New York; but it is still the most important directly elected office in Britain. The mayor is compensated for the narrow range of his powers by having few checks on those he does wield (mostly over transport and planning, and to a lesser extent policing). The real explanation is an historical quirk. When the post was established in 2000, irreverent Londoners used the inaugural vote to cock a snook at Tony Blair, then in his imperial pomp. They elected Mr Livingstone, whose cheeky petulance and nasal whine appeal to some voters as ugly men appeal to some women, and who was loathed by most of the Labour Party even before he stood against its official candidate. To dislodge him, the Tories felt they had to field another first-name-only politician. Even more than most mayoralties, London's has thus become reserved for mavericks and celebrities.

Therein lies the real lesson of the mayoral circus. So exotic is the race that extrapolating predictions about the next general election from the result will probably be unwise (though if Mr Johnson wins, and then gaffes or flops, the Tories will certainly be wounded, which is why, until recently at least, some of them thought a noble defeat might be preferable). The lesson instead concerns the direction in which all the parties are collectively travelling. In a post-ideological era, everyone now agrees, politics is dominated by personality. In London that proposition has been tested—to destruction. It has been a joke, in other words, with a serious point.

Missing persons

What the dead have to say

Apr 17th 2008 | NICOSIA AND SARAJEVO
From The Economist print edition

The grim skills of identifying and analysing human remains are being transferred from one benighted place to another

AP

AT THE new "family viewing facility" in the divided capital of Cyprus, human bones extracted from mass graves across the island are laid out on a long table covered with white cloth. Greek- and Turkish-Cypriots come to grieve for long-lost relatives, and to collect the bones for reburial.

Elias Georgiades, a Greek-Cypriot ex-police officer, says the first reaction is rage: "Family members have lived without someone for 30, maybe 40 years. They demand to know exactly what happened." Then comes grief, mixed with gratitude for the identification.

It has taken a long time to get to this point. The last real fighting on Cyprus took place in 1974, when a coup, fomented by the dictators who held sway in Athens, triggered a Turkish invasion. Many of the bodies that now lie in mass graves date from earlier rounds of fighting. Until recently the fate of missing persons—almost 1,500 Greek-Cypriots and about 500 Turkish-Cypriots—was mainly treated as a propaganda point in inter-communal bickering, not as a human problem that cried out for a solution.

The fact that (so far) about 100 Cypriot families have been able to bury a loved one is also a by-product of the vast amount of experience in the identification of human remains that has been built up in other places blighted by war or tyranny.

At a technical level, the biggest "school" for the genetic identification of human bodies is undoubtedly Bosnia, where an International Commission on Missing Persons was set up in 1996 at the behest of President Bill Clinton. By matching DNA from exhumed bones—ideally from a femur or tooth—with blood samples offered by relatives, the ICMP's three laboratories have identified the bodies of 14,000 people who went missing in the wars that ravaged Bosnia, Croatia and Kosovo. These include more than 5,000 of the 8,000 or so Bosnian Muslim men and boys who are thought to have died at Srebrenica in 1995.

As Kathryne Bomberger, the ICMP's director-general, points out, the speed and value for money of identification by DNA has risen sharply in recent years. It now takes only a few weeks to train a police officer to use a "bone sample collection kit" which costs just a few dollars.

AP

Iraqi forensic specialists have been trained in Bosnia to investigate the 270 mass graves that have been identified in their country. Although some Iraqi graves, containing victims of Saddam Hussein, have been studied by high-ranking American experts, the country will need a lot of local expertise in forensic anthropology for years to come.

For some Cypriots, an end to searching

The ICMP has been asked to help with investigations into the murder of the former Lebanese prime minister, Rafik Hariri; and Ms Bomberger recently went to Colombia to offer advice on how that country's past might be probed. The Sarajevo agency also helps after natural disasters: when the 2004 tsunami hit Thailand, some 1,700 bone samples were sent to Bosnia in German diplomatic bags; 900 DNA matches were wired back to Bangkok.

An important supporter of the cause of identifying missing persons is the International Committee of the Red Cross, the Swiss-based humanitarian body. Its officials helped to draft a UN convention on “protection from enforced disappearance”, adopted by the General Assembly in 2006. This affirms the right of families whose relatives are missing to know the truth, and to get compensation; it also describes as a “crime against humanity” the systematic practice of abduction without trace. With its 140-year-old experience of working on both sides of every battle-line, the ICRC can reassure the families of prisoners who are still alive, and it can lobby governments and warring parties to observe the law. But it has no mandate to engage in post-conflict exhumations.

The greatest fund of knowledge about the political and moral dilemmas of forensic anthropology is surely in Argentina, where at least 9,000 people disappeared during the 1976-83 military dictatorship, and efforts to ascertain their fate have been spearheaded by non-government organisations rather than by state authorities.

The mentor of Argentina's forensic anthropologists was Clyde Snow, an American who is still active in the field at the age of 80; he has analysed remains ranging from Egypt's Tutankhamun to the Nazi war criminal Josef Mengele. Mr Snow is famous for propagating the idea that every skeleton tells a life-story.

Five of Mr Snow's pupils formed the Argentine Forensic Anthropology Team, known by its Spanish initials as EAAF, which has provided its well-honed skills in more than 40 countries, including Cyprus. According to Mimi Doretti, an EAAF co-founder who is now based in New York, the organisation tries to work closely with victims' families, not just to take genetic samples, but to get a full picture of how and why people died. It has huge expertise in traditional forensics.

In the EAAF's home base of Argentina, the identification of human remains has been slow, in part because bodies were so widely dispersed. Only 300 victims have been recognised, but the process should now accelerate, thanks to genetic skills that were refined in Bosnia—and to new insights from America, where highly degraded fragments of human material were found in the wreckage of the terrorist attacks of 2001, and successfully analysed.

Armed with a $1.5m grant from the United States Congress, the Argentine NGO has just launched an initiative, along with counterparts in Peru and Guatemala, to speed up the identification of human remains, both by encouraging relatives to offer blood samples and by taking advantage of the latest American technology.

In Bosnia and Argentina, the results of exhumation and forensic analysis have been put at the disposal of prosecutors. The war-crimes court in The Hague, which is supposed to mete out justice to the worst offenders in the post-Yugoslav mayhem, is grateful for the ICMP's help.

In Cyprus, the identification effort is taking place under a UN mandate, with help from the ICRC, and it rests on a delicate Greek-Turkish consensus which could be blown sky-high, in the view of local observers, by any talk of judicial procedures. Even 40 years on, it seems, people's desire to face up to the past has its limits.

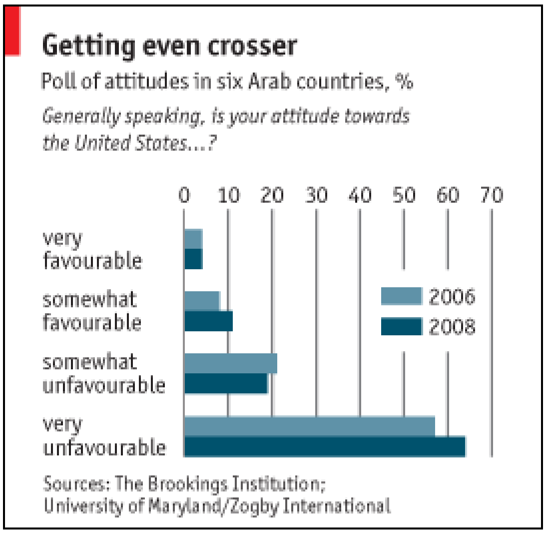
Economist.com WORLD INTERNATIONAL

Muslim opinion

Just what do they dislike, and why?

Apr 17th 2008
From The Economist print edition

Debates on Muslim grievance are generating more heat than light



THE question of what exactly inspires ultra-militant Muslims to hate America has been a contentious one, to put it mildly, ever since George Bush gave his own sonorous explanation, in an address to Congress after the 2001 terrorist attacks. What enraged America's foes, Mr Bush said, was its tradition of liberty: its freedom of religion, assembly, election and open disagreement.

Mr Bush was careful, in that speech, to insist that "they" referred to terrorists, not to all Muslims. Of Islam, he said: "Its teachings are good and peaceful..." But since then, American debates about Islam have blurred the distinction that he made. It has become much more respectable to assert that the Muslim faith turns people violent.

There are political as well as theological reasons why Western debates on the nature of Islam are so charged. If it can be shown that Islam itself is anti-freedom and pro-violence, then it makes less sense to take Muslim opinion into account when deciding policy. If you can prove that "they hate us whatever we do", all efforts to assuage Islamic sentiment are futile. But the opposite case can also be made.

It is into this minefield that Gallup, a polling organisation based in Washington, DC, has entered by making the analysis of Muslim opinion a flagship activity. Its latest offering, presented in London earlier this month, is a slim volume entitled "Who Speaks For Islam?" written by John Esposito and Dalia Mogahed, respectively a senior adviser to and executive director of the Gallup Centre for Muslim Studies. Gallup has described the study as an exercise in "data-driven" analysis of a topic where prejudice can easily prevail.

The authors rehearse several arguments that make sense to anybody who knows the Muslim world. Rather than despising Western freedom, many Muslims admire it, but they scoff at Western claims to be promoting democracy. Muslim women want greater equality, but they are attached to their faith and culture, and hackles can rise when Westerners set out to "liberate" them. The minority of Muslims (7%) who fully approve the September 2001 attacks are not much more pious than average; so religiosity doesn't seem to be what makes them violent. In one survey, over two-thirds of Muslim respondents called America aggressive, while the proportion who took a similar view of France or Germany was under 10%. So democracy as such isn't a Muslim bugbear.

One problem with Gallup's "fact-based" approach is that it has not, as yet, offered the public the full array of facts to chew over. Its Centre for Muslim Studies regularly issues press releases that cast tantalising rays of light on Islamic opinion. These insights are gleaned from the annual Gallup World Poll, which poses a vast array of questions to respondents in over 140 countries; the new book reflects Gallup's own surveys over the past seven years, plus other organisations' polls. But the full results of the World Poll are available only at a price—it starts at $28,500, according to the Gallup website—so it's hard for ordinary folk to judge exactly how fair the authors have been in mining their own data.

The results of a more narrowly focused survey, by another American pollster, were released this week. They are a troubling read for the Bush administration. A poll by Zogby International of 4,000 people in six Arab countries—Egypt, Jordan, Lebanon, Morocco, Saudi Arabia and the United Arab Emirates—found rising numbers had a "very unfavourable" view of America. And compared with a similar poll in 2006, an increasing number (67% versus 61%) thought Iran had every right to pursue its nuclear activities. Whatever one believes about the Muslim soul, Mr Bush's efforts to court the Sunni world, ahead of a possible showdown with Iran, seem not to have impressed the Arab street.

Disney

Magic restored

Apr 17th 2008
From The Economist print edition

Under its new boss Disney has staged an impressive creative turnaround—and is making synergy work

IN “RATATOUILLE”, the most recent animated film from Pixar, a film studio owned by Disney, a talented cook named Remy, who happens to be a rat, finds his way into the kitchen of a once-great restaurant. Its head chef has given up on creativity and instead plans to churn out ready meals branded with the name of the restaurant's revered founder, Auguste Gusteau. Eventually the chef loses control of the restaurant, the frozen meals are tossed out and Remy's cooking helps it regain its reputation and inventive flair.

Something similar appears to have happened at Disney. Four years ago it was in turmoil, with its then chief executive, Michael Eisner, under siege from shareholders who accused him of stifling the firm's creative culture. Today under Bob Iger, who took over as chief executive in 2005, Disney is enjoying a remarkable and profitable run of hit TV programmes and films. “Disney's creative momentum is so strong now that there's no comparison between it and other big media companies,” says Lawrence Haverty, a fund manager at Gabelli Asset Management.

In the past Disney concentrated mainly on the very young, but in recent years it has found a new audience among “tweens”, or nine- to 14-year-olds. In 2006 the Disney Channel in America started showing “Hannah Montana”, a TV series about an ordinary girl with a double life as a rock star, and broadcast “High School Musical”, a television film about a romance between two pupils from different cliques at school. Both turned into huge hits with staying power: in fiscal 2006 and 2007 combined, Disney made over $100m of operating profit from “High School Musical” and various spin-off products. Coming soon is “Camp Rock” a Disney Channel film starring the Jonas Brothers, a wholesome boy-band which has already sold over a million CDs for Hollywood Records, Disney's recorded-music label.

At the same time Disney's broadcast-TV network, ABC, is benefiting from a number of hits, such as “Desperate Housewives”, “Lost” and “Ugly Betty”. Disney has also improved the fortunes of its film business, which earned $1.2 billion in operating profit last year, up from $200m in 2005. Some of the increase came from the firm's acquisition of Pixar for $7.4 billion in 2006, but the performance of Disney's live-action films, such as “Enchanted”, drove most of the improvement. On April 8th Disney laid out ambitious plans for ten new animated films in the next four years.

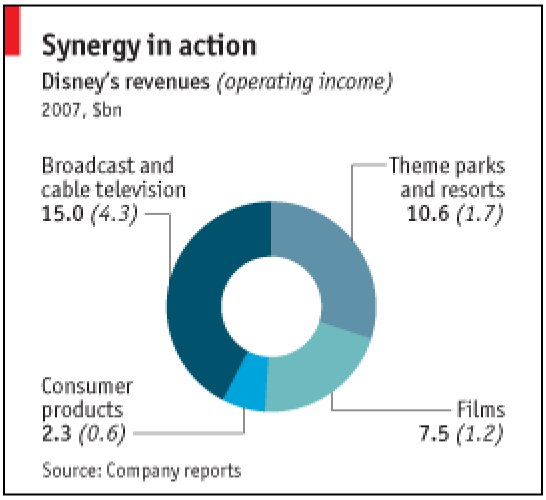
What accounts for this renaissance? Mr Iger's management style is said by many to have unlocked Disney's creativity. “There was already creativity inside Disney, but Bob removed the barriers to it,” says Peter Chernin, chief operating officer of News Corporation, a rival media group. “Michael Eisner was all about his own creativity,” says Stanley Gold, a former Disney board director who led a campaign to oust Mr Eisner in 2004, referring to the way in which the former boss meddled in the detail of Disney's parks and movies. In contrast, he says, “Bob pushes creative decisions to the people below him.”

In addition, Mr Iger's acquisition of Pixar, a studio that insists on creative originality, has sent a signal to people inside and outside Disney. “A few years ago we weren't necessarily seen by the creative community as the place to be,” says Tom Staggs, Disney's chief financial officer, “but now that has changed and people want to work here.” Mr Iger immediately put Pixar's top people in charge of Disney's animation business, and last year he put an end to the practice of making cheap direct-to-video sequels of old favourites, such as “Cinderella II: Dreams Come True”—Disney's equivalent of frozen food.

Before Mr Iger took over, says Mr Staggs, Disney had a factory-like process for animation in which a business-development team came up with ideas and allocated directors to them. “With the arrival of the Pixar leadership, Disney has adopted the director-driven development and production approach that Pixar has used so successfully,” he says. The full proof of Pixar's impact on Disney's animation will be seen in November when the firm releases “Bolt”, the first film developed entirely under the new bosses. To be sure, Mr Iger paid a high price for Pixar, and box-office revenue in America for the studio's films has declined with each release since “Finding Nemo” in 2003, points out Ben Swinburne of Morgan Stanley. Pixar's next film is “WALL-E”, about the adventures of a robot in the year 2700, which will open in American cinemas in July.

One former Mouseketeer argues that Mr Iger cannot take much credit for Disney's recent string of hits. “All the great new shows from Disney were developed, and many of them launched, when Michael Eisner was leading the company,” says David Hulbert, a former president of Walt Disney Television International. “The TV and studio creative cycle lasts several years, so we will have to wait some time yet to see what Bob Iger's cautious, centralised and consensual management style produces,” he adds. Disney executives counter that Mr Eisner had made Mr Iger responsible for ABC, the Disney Channel and ESPN, its sports network.

What is certain is that under Mr Iger, Disney has perfected the art of media synergy. The firm has turned “High School Musical”, for instance, into a live concert tour, a stage musical, a show on ice, and a series of books and video games. Pixar's “Cars” may have slightly disappointed at the box office, but Disney sold 100m model vehicles on the back of it, plans to build a “Cars Land” attraction in its California Adventure theme park and is developing an online virtual world tie-in.



Disney now has ten “franchises” that it treats in this way, from Mickey Mouse to Disney Fairies. Every media conglomerate pursued synergy some years ago, but Disney is the only one to have made it work consistently across the whole company. It helps, of course, that so many of its customers are children, who tend to be more receptive to spin-off products than adults.

Mr Eisner certainly pushed synergy hard, but Mr Iger's collaborative management style is better suited to it, insiders say. In Britain, says a Disney executive based in London, the firm's programme-sales group worked hard to sell “High School Musical” to the BBC, even though it contributed relatively little to their own division's bottom line, because exposure on free-to-air TV then bolstered sales of “High School Musical” DVDs, pencil cases and other products. “A few years ago they wouldn't have bothered,” says the executive, “but now the key properties are so drummed into us that everyone is behind them.”

Not everything is perfect in the Magic Kingdom. Investors worry about the impact of a recession on Disney's theme parks, which accounted for just over a quarter of the firm's revenues in the first fiscal quarter of this year. Mainly for that reason, the firm's share price has fallen by 14% in the past year. Disney says that its American parks are more resilient during slowdowns than those of its rivals. Like its peers, Disney still earns most money from traditional media, and needs to expand its businesses online. But its creative momentum and proven ability to extract value from its hits means it can afford to feel more optimistic about the future than most big media firms.

General Electric

Immeltdown

Apr 17th 2008 | NEW YORK
From The Economist print edition

As GE stumbles, how should Jeff Immelt respond?

LOSING $47 billion in a day is quite an achievement, by any standard. Indeed, it is one of the biggest ever one-day falls in a firm's stockmarket value, though short of Intel's $91 billion plunge in September 2000. The only consolation is that General Electric, which saw its shares fall by 13% on April 11th after it revealed that it had missed its profit target by a country mile, still ended the day worth $320 billion.

This is not what investors expect from one of the few remaining triple-A-rated companies, famed for hitting its targets. Questions are now being asked about the future of GE's boss, Jeff Immelt, who did himself no favours by saying as recently as March 13th that the firm was still on course for a profit target that in December he had described as “in the bag”.

GE's shares have performed disappointingly during Mr Immelt's tenure, and are now 20% below their price when he succeeded the giant conglomerate's legendary boss, Jack Welch, in 2001. On April 16th, in an apparent bid to wrest the title of “least helpful predecessor” from Alan Greenspan, the suddenly outspoken former Federal Reserve chairman, Mr Welch informed viewers of GE's business channel, CNBC, that “Jeff has a credibility issue. He's getting his ass kicked,” before promising to “get a gun out and shoot him if he doesn't make what he promised now.”

Though it probably did not seem that way, this was intended as a vote of confidence in Mr Immelt, and has a precedent: in 1994, after the GE Plastics unit, then run by Mr Immelt, fell short of expected profits by $50m, Mr Welch threatened to fire him if it missed its results again. It did not. Mr Welch never missed his profit targets; indeed, on his watch GE's profits grew with the sort of predictable consistency that was made possible by laxer accounting standards and a talent for making good any unexpected shortfall with last-minute sales of assets held by the firm's notoriously opaque finance arm, GE Capital.

Although today's accounting rules are somewhat tougher, it seems that the main cause of GE's last-minute failure to hit its latest target was that the seizure of the capital markets prevented several asset sales from being completed in time. Despite its image as an industrial company—making wind turbines, lightbulbs and so on—40% of GE's revenue now comes from GE Capital, so these incomplete deals made a big difference to the overall results.

Behind the headlines, GE provides some comfort to those who hope that the rest of the global economy is decoupling from America's. GE's industrial portfolio, especially its infrastructure units (transport, oil, gas, energy and aerospace), is increasingly international and is still growing solidly. The weakness is at GE Capital. As well as its recent inability to sell assets, it has been hit by a deterioration in its consumer-credit portfolio.

The disappointing results have prompted some investors to call for GE to break itself up. They argue that GE is now suffering from the traditional conglomerate discount that, under Mr Welch, it somehow avoided. Yet if Mr Immelt is tempted to do something dramatic to save his skin, it could hardly be at a worse time. With private-equity firms unable to raise debt, and strategic buyers not exactly flush with cash, getting a good price for bits of GE's industrial portfolio would be hard—and selling chunks of GE Capital in today's market could happen only at distressed prices.

What about spinning off GE Capital as a separate public company? Richard Hoffman of CreditSights, a research firm, notes that GE Capital's model relies on being able to borrow cheaply thanks to its triple-A rating, which it has only because of GE's industrial units. He notes that CIT, a much smaller firm that is similar to GE Capital in some respects, is now practically frozen out of the capital markets.

GE does not need to sell. Despite its shortfall, it made a profit of $4.4 billion in the first quarter of this year. The best strategy for Mr Immelt is to continue shuffling GE's portfolio to raise profit margins, while pursuing his ambitious green “ecomagination” policy. Will shareholders let him?

Airline mergers

Trouble in the air

Apr 17th 2008
From The Economist print edition

The merger of Delta and Northwest is driven by fear as much as hope

DARKENING economic clouds, oil at $114 a barrel, cut-throat competition and disappearing credit lines are confronting airlines with their biggest crisis since the dark days after September 11th 2001. It is a measure of the panic sweeping the industry that Delta and Northwest said this week they would push ahead with their $3.6 billion merger to create the world's biggest airline by traffic. Previously both firms had said that gaining agreement with their 11,000 unionised pilots over pay and conditions was an essential pre-condition to the deal. Yet even though Northwest's pilots remain bitterly opposed, due mainly to unresolved seniority issues, the two airlines have decided to take the risk of a potentially long-drawn-out and fractious integration of their operations because they calculate that a merger is their best chance of survival as the industry's woes deepen.

AP

Something's got to give

In the past few weeks, four smaller airlines in America—Aloha, Skybus, ATA and Frontier—have filed for bankruptcy. Maxjet, an all business-class transatlantic airline, went bust in December; its rival Silverjet is desperately looking for a buyer. Oasis Hong Kong, a pioneer of low-cost long-haul services, abruptly collapsed on April 9th. Alitalia may experience a similar fate unless a takeover by Air France-KLM, sabotaged by unions and Italy's newly elected prime minister, Silvio Berlusconi, can be revived. Nothing links these airlines, which span every conceivable business model in aviation, other than their inability to cope with the brutal economics of the business, especially the near-doubling of fuel prices in the past 18 months.

Delta and Northwest are not yet in such a hole, but having only recently emerged from Chapter 11 bankruptcy protection themselves, they know that time is not on their side. After a strong recovery by America's airlines in the past few years, profitability has fallen fast this year. And balance sheets are still weak, even at the big network carriers. IATA, the international organisation that represents the industry, observed last September that American carriers were “vulnerable to shocks”—and that was when oil was at $67 a barrel and the credit crunch had yet to bite. Adding to that vulnerability is the realisation by America's airlines that there is little, if any, fat left to trim if they stay as they are. The industry has reduced its workforce by 39%, cut wages by 30% and defaulted on pensions to the tune of $20 billion.

To make matters still worse, as carriers elsewhere in the world ordered around 7,000 new, fuel-efficient aircraft in recent years, those fragile balance sheets meant that American airlines sat on their hands. Delta has 117 McDonnell Douglas MD-88s with an average age of 18 years; Northwest soldiers on with more than 90 DC-9s with an average age nudging 40 years. These planes are up to 40% thirstier than their more modern counterparts, a crippling burden given the price of fuel. They are also more difficult to maintain—as last week's grounding of American Airlines' similarly elderly MD-80s highlighted.

Delta and Northwest have little scope to cut front-line staff or replace their ageing fleets any time soon—production lines at Boeing and Airbus are fully booked until 2012. But they think they can secure cost reductions of about $1 billion a year by centralising their back-office operations and cutting management jobs. They also hope to boost revenue by combining route networks and strengthening their appeal to lucrative corporate customers.

Other American network carriers are watching closely. A similar tie-up between United and Continental, the second- and fourth-biggest, is under discussion, and American, the largest carrier, waits menacingly on the sidelines. Northwest's attempt to merge with Continental was blocked in 1998, but regulatory approval is more likely this time, given the lack of route overlap between Delta and Northwest. The prospect of a union-friendly Democrat in the White House next year is a further spur to getting deals done quickly.

The assumption in the industry is that consolidation will result in stronger airlines. That is probably true, but difficulties remain. As long as the barriers to new entrants remain absurdly low, intense—even suicidal—competition will persist at home. On international routes, “open skies” liberalisation is an opportunity, but the superior financial clout and modern planes of the big European network carriers, such as Air France-KLM and Lufthansa, are a threat. For hard-pressed airline managers with the urge to merge, relief is more likely to be fleeting than permanent.

China's unhappy pilots

Trapped in the cockpit

Apr 17th 2008 | SHANGHAI
From The Economist print edition

The reasons behind an unusual display of defiance

DESPITE the aviation industry's woes, pilots remain in short supply around the world, so most are pampered. But not in China, where pilots are poorly paid and are often chained to their cockpits for life. For months relations between China's pilots and their employers have been in an uneasy holding pattern. In recent weeks, however, things have taken a nosedive.

On March 14th 40 pilots from Shanghai Airlines simultaneously reported sick. Two weeks later 11 pilots with East Star Air also requested sick-leave, resulting in long delays and several flight cancellations out of Wuhan. A few days later 21 pilots with China Eastern Airlines (CEA) in Yunnan province flew 1,000 passengers back to where they had started. Some planes turned around in mid-air; others reportedly reached their destinations, trundled down the runway and then took off again. Industrial action like this is very rare in China.

The main problem is pay. There are 12,000 civilian pilots in the country, most of them employed by state-owned airlines. Some earn as little as 10,000 yuan ($1,430) a month, though the average is around 35,000 yuan. But local private airlines pay almost double, and more experienced pilots on long-haul international flights earn twice as much again. Low-paid pilots who try to earn more through overtime face heavy taxes.

The CEA pilots in Yunnan have further problems. Those who took action have been suspended, along with two of their bosses, and the Civil Aviation Administration of China (CAAC) has threatened them with a lifetime ban. Meanwhile the provincial government, having been spurned in a takeover bid for the local arm of CEA, has retaliated by removing preferential tax breaks. Most Chinese pilots pay an 8% tax; those working in Yunnan must now pay 20%.

The state is being so heavy-handed because it fears a mass walkout. It maintains an iron grip on pilots through lifetime contracts, enshrined in state law, which they must sign in return for receiving pilot training. With growing demand from the 20 private airlines that have started up in the past four years, these contracts seem like handcuffs. The CAAC requires pilots to pay 700,000-2.1m yuan to break their contracts. This week Shanghai Airlines filed a lawsuit against nine of its pilots demanding even more (35m yuan) if they continue with their plans to leave the company.

The CAAC's figures show a shortage of 5,000 pilots and predict that 6,500 more will be needed by 2010. The lack of local facilities is prompting Chinese airlines to send groups of students to Canada, Australia and Spain for training. The shortage will only strengthen the pilots' hand. Indeed, this week there were rumours that pilots at Shanghai Airlines will soon receive a pay rise—though any connection to their recent protest will no doubt be strenuously denied.

Economist.com BUSINESS

European energy

Power plays

Apr 17th 2008 | LONDON AND MADRID
From The Economist print edition

More cross-border energy deals are in the pipeline

THE energy map of Europe seems likely to be redrawn again this summer. At the centre of all the manoeuvres is France's EDF, the biggest European energy group by stockmarket value, and Europe's leading nuclear generator—a great advantage in an industry facing future constraints on carbon-dioxide emissions. EDF's size and financial strength is all the greater because, with 85% of its shares held by the French government, it is immune to takeover. So it is free to flex its muscles all over the continent. Having been frustrated in the recent past in Italy, EDF has turned its attention to Spain and Britain to bolster its already dominant position.

On April 9th Spain's prime minister, José Luis Rodríguez Zapatero, said he wanted two Spanish firms, Iberdrola and Gas Natural, to merge and then protect themselves with a solid block of loyal shareholders in order to fend off EDF, which has Iberdrola in its sights. Iberdrola, which is attractive because it is the world leader in wind-power generation, appealed to EDF on April 15th to “put up or shut up”, and has sought help from the Spanish courts to block any French bid. For its part, EDF has been trying to enlist ACS, a Spanish construction group, to give its bid a more local flavour.


Well positioned

In Britain, meanwhile, EDF is just one of a crowd of suitors for British Energy, which owns eight nuclear-power stations (and one coal-fired plant) that produce around one-sixth of Britain's electricity. It has been in play since last month, when the British government said it wanted to sell its 35.2% stake. Potential buyers include EDF, Germany's RWE (both already present in the British market) and Centrica, a British firm that owns gas fields, power stations and an energy-retail business. Bids may also come from Scottish and Southern (another British firm), Sweden's Vattenfall and Iberdrola itself. RWE and EDF are each thought to have made opening bids of around £11 billion ($22 billion).

The government is likely to encourage a consortium of bidders for British Energy, to avoid putting too much of its nuclear-energy production into the hands of one foreign firm. Centrica, for instance, has no nuclear expertise but a big British client base, so it would make sense for the company to team up with an experienced nuclear operator such as RWE or EDF.

Bidders are less interested in British Energy's ageing existing plants than in potential new ones. The government wants more nuclear plants because it is worried about climate change and energy security, and domestic oil and gas production is in decline. British Energy does not have the funds to invest in new nuclear plants, which cost around £2 billion each, but cash-rich foreign energy giants do.

Any new reactors are most likely to be built on British Energy's existing sites, says Andrew Moulder, an analyst at CreditSights, a research company. Such sites have the advantages that locals have come to accept nuclear plants, trained staff are available and grid connections already exist. The Nuclear Decommissioning Authority (NDA) also has some sites that could be redeveloped, but they are smaller. The trouble is that the government has not said whether it will allow new nuclear plants to be built on sites other than those belonging to British Energy—and there is speculation that it may grant one or more of them to the NDA, which would reduce British Energy's appeal.

If the government is prepared to allow other new plants to be built elsewhere, foreign energy firms might be better off applying for planning permission for new sites rather than paying a hefty price for British Energy. The firm's debt is rated as “junk” because of its financial woes and poor operational record.

Britain's new nuclear programme will be an experiment. Previous nuclear plants were built with government backing or with guaranteed revenue from regulated electricity prices. The British government wants the developer of the new plants to take the electricity-price risk and will not provide any subsidy. Considering the uncertainty over what is on offer, and the financial risks involved, potential bidders for British Energy are wisely keeping their cards close to their chests.

Economist.com BUSINESS

Coffee in Ethiopia

Direct from the source

Apr 17th 2008 | ADDIS ABABA
From The Economist print edition

The increasing sophistication of coffee drinkers is good for producers

Get article background

COFFEE prices are the highest they have been for a decade. As consumers in India and China develop a taste for the drink, prices are likely to keep rising. Meanwhile something new is happening in developed markets. Europeans, Americans and Japanese are switching to higher-quality coffee. Discerning consumers now demand authenticity: they want stories about where their coffee beans come from. So the best coffees will increasingly be differentiated, like fine wines and spirits, and sold at previously unthinkable prices.

The move from instant-coffee powder to luxury beans is in some ways reminiscent of what happened when the Scotch-whisky industry shifted from cheap blends to expensive single malts, each with its own story. But where the whisky revolution was masterminded by distillers, the coffee revolution is a messier insurgency. Gourmets and specialist roasters have pushed up expectations. Governments, activists and “ethical” coffee suppliers have worked to get higher prices.

All this is good news for coffee farmers in east Africa. Altitude, climate, soil and genetic diversity give the region an inherent advantage in quality. With lower-grade Latin American coffee dominating the market, there is scope for the best coffees from Ethiopia, Kenya, Tanzania and Rwanda to establish themselves.

Ethiopia is the largest African producer. Its coffee sales last year were $425m, representing 36% of export earnings. It has a story to tell: an Ethiopian goatherd, Kaldi, is said to have discovered coffee's stimulating properties in the 9th century. Already, 40% of its production is premium coffee. Until recently, however, that did not yield higher prices for farmers. When the commodity price was low, villages starved.

An agreement signed last year between Starbucks, the world's biggest coffee chain, and the Ethiopian government has been touted as a big step forward. Starbucks had objected to the government's plan to trademark the names of three local coffee varieties. The firm worried that having to license these trademarks would introduce legal complexities that might deter it and others from buying trademarked beans, thereby hurting farmers. Critics think the numbers used by activists to shame Starbucks were shaky. Others argue that farmers would gain a lot more if African governments were bullied into cutting bureaucracy and building infrastructure.

What is beyond doubt is that the three varieties in question—Harar, Yegarcheffe, and Sidamo—are among the finest beans in the world. The hope is that trademarking these regional varieties will establish them as brand names and enable farmers to demand higher prices. Might geographical indicators, like the *appellation contrôlée* system in French wine, have been a better option? The head of the Ethiopian Intellectual Property Office, Getachew Mengistie, thinks not. The coffee varieties were not strictly regional, he explains, so a wine-style designation would have made no sense. Nor was the money or time available to pursue a complicated certification process. Instead, Ethiopia has quickly licensed its brands to 70 suppliers worldwide, including Starbucks.

Licensees agree to use the brand names and to educate consumers about the characteristics of the different varieties. By allowing licensees to use the trademarks without paying royalties, Ethiopia is, in effect, trading their use for free marketing. (Colombia, for example, runs advertisements in rich countries to promote its coffees, which Ethiopia cannot afford.)

Rick Peyser of Green Mountain Coffee Roasters, an American supplier which counts Yegarcheffe among its premium coffees, thinks it will be only a matter of time before the trademarks start to improve the lives of farmers. Ethiopia is now planning to extend the trademark approach into new areas, such as traditional medicines and certain types of teff, the country's usefully gluten-free staple cereal crop. But coffee, an unparalleled genetic resource, with over 5,000 varieties, will remain the biggest earner.

Technology start-ups

Chocolate.com

Apr 17th 2008 | SAN FRANCISCO
From The Economist print edition

A start-up innovates in an unexpected field

TCHO, a small company based in a warehouse in San Francisco, sounds like a typical high-tech start-up. The brainchild of an engineer who previously worked on computer-vision systems for the space shuttle, the firm is developing “beta” versions of its new product. Volunteer testers are invited to submit feedback via the web. Louis Rossetto, the co-founder of *Wired*, a technology magazine, is on board as chief executive. All the employees have stock options. But Tcho is not about to launch a new website or mobile device; it is a technology firm that makes chocolate.

Its founders believe there is vast scope for innovation in the way chocolate is made and sold. Most cocoa farmers have never tasted chocolate, and produce cocoa beans without any idea of how they will be used, says Timothy Childs, Tcho's founder. The resulting chocolate is classified and sold in a very unsophisticated way, labelled at best by country of origin and percentage cocoa solids. (It is rather like labelling a wine “France, 13% alcohol”.) So Mr Childs wants to put things on a more technical footing—just as Americans formalised techniques for winemaking in the 1970s. He has developed ways to analyse and grade beans, and a six-segment “flavour wheel” to map out their natural aromas. Using a variety of jury-rigged spice grinders, heaters and temperature sensors, he has worked out how to get cocoa beans to reveal their complex flavours and to get chocolate to solidify evenly.

Tcho is also working with cocoa growers, in conjunction with two research groups it has equipped with satellite-internet connections, to help them improve the quality and consistency of their beans. Tcho hopes that the most effective techniques will then spread in an “open source” fashion to other growers. Beans will be turned into chocolate on Tcho's elaborate production line, which is being used as a test-bed for remote video-monitoring of industrial processes by researchers at Fuji Xerox in Palo Alto.

The firm will sell much of its chocolate to other food companies, for use in other products. Such customers, says Mr Rossetto, like the idea of buying chocolate based on a consistent flavour profile; Tcho's flavour wheel could become a de facto industry standard, he suggests, as IBM's PC did in the computer industry. Tcho will also sell chocolate using its website, and through a shop and visitors' centre due to open in the summer.

San Francisco, a capital of food culture as well as technology, is the logical place to produce a high-tech chocolate. John Kehoe, Tcho's sourcing director, says chocolate is going down the trail blazed by speciality coffee, as consumers become more discerning. Chocolate today, he says, is where coffee was five years ago. Having been ahead of the curve with *Wired*, which launched just as the web was emerging, Mr Rossetto seems to have spotted another trend.

Face value

Jolly gold giant

Apr 17th 2008
From The Economist print edition

Reuters

How Peter Munk built the world's biggest gold miner from scratch in just 25 years

PETER MUNK is as sprightly an 80-year-old as you are likely to meet. That is just as well. On March 27th Barrick Gold, the world's biggest gold-mining firm, announced that its chairman would temporarily take over as chief executive, a role Mr Munk relinquished in 1999, while Greg Wilkins, the company's current boss, undergoes medical treatment. Barrick's shareholders were unperturbed; its share price hardly flinched. And with good reason. Mr Munk, who founded Barrick in 1983, is mainly responsible for what he calls the “happy miracle” that has propelled the Canadian mining firm from its beginnings as a small oil and gas company to a golden giant. And Mr Munk's enthusiasm for the business appears undimmed.

An open-necked polo shirt and genial demeanour lend Mr Munk the air of a retired professor, rather than the architect of a company now worth $38 billion, with 27 mines on five continents. His informality extends to a faint amusement that anyone would deem it necessary to wear a tie in his presence. And he cheerfully acknowledges the role of fate, saying that success comes through being “lucky, smart and getting the timing right—the stars have to cross”. But he also admits to a driving ambition, which an early setback did little to dent. Clairtone, an upmarket television and hi-fi manufacturer which he founded in 1958, competed with the big Western brands before collapsing under the onslaught of Japanese electronics firms. Undeterred, Mr Munk went on to build the biggest hotel-chain in Australasia, despite a lack of previous experience in the industry. He also amassed a substantial American commercial-property company, Trizec, which he sold for $4.8 billion in 2006, just before property shares took a beating. But it is his gold business that continues to prosper.

The decision to shift Barrick from oil and gas into gold mining looks canny now. In 1983, however, the prospects for oil and gas were good, while the gold price was falling from a peak it hit in 1980. But Canada, where Mr Munk had settled after fleeing his native Hungary in 1944 to escape the Nazis, had much to offer: a pool of mineral deposits, readily available capital and talented engineers from the country's two big mining schools. Mr Munk had another big advantage: a willingness to modernise the way miners did business. At the time, mining firms were staffed by tough, hearty men who wanted to dig big holes in the ground; the interests of shareholders came a distant second. Mr Munk looks rueful when describing this “cultural divide” and the synergies that a merger between two of Canada's biggest miners, INCO and Falconbridge, could have brought. The thought of a good deal left undone clearly pains him. He blames the “fraternity” that existed between Canada's miners for deadening competitive instincts. His regret turns to irritation that both Canadian firms have since fallen to foreign mining firms. Despite his Hungarian roots, Mr Munk is a proud Canadian.

Mr Munk had little experience of mining when Barrick started out, but he knew how “Wall Street paper shufflers” operated, and shuffled some paper himself. Barrick was a firm that “lived by acquisition”, expanding first in Canada and then in 1994 venturing abroad for Lac Minerals, with mines in America and Chile. The last big buy, of Canada's Placer Dome for $10 billion in 2006, made Barrick the world's biggest gold miner. Takeovers require steady cashflows, which in turn depend on the gold price. So Barrick introduced a hedging scheme, novel to gold mining, that involved selling future production at a fixed price. Mr Munk was thus able to neutralise the risk of a falling gold price to fund acquisitions and capital-intensive projects. These hedges were largely unwound before the gold price began its rapid ascent, causing Barrick's share price to rise sharply in the past year along with the gold price.

Barrick may yet consider more big acquisitions—though with gold hovering just below $1,000 an ounce, potential targets are off-puttingly expensive. Mr Munk is reluctant to forecast where the gold price might go, but is confident that the prices will stay high. Turmoil in the financial system, and a worrying lack of new discoveries of large deposits, should see to that. In the meantime Barrick is sitting on the biggest reserves of gold of any mining firm—125m ounces—and has a substantial pipeline of exploratory projects. But this comes at a price too. New ore bodies are of poorer quality than yesteryear and sit deeper underground, so costs are rising. Five years ago Barrick produced an ounce of gold for $174, but that figure has more than doubled since then. And new mines require bigger investments, taking up to a decade to reach full production. Might Barrick come to regret relying so heavily on a single commodity? Not necessarily. Through acquisitions it has picked up sizeable silver, copper and nickel businesses. And newer deposits tend to mix gold with other ores, so diversification will continue.

Searching for the next gold mine

Mr Munk established a charitable foundation in 1992 and says he intends to leave his entire estate to charity. In recent years his foundation has granted $33m to Toronto General Hospital and $16m to the Technion, an engineering school in Israel. Mr Munk is keen to keep expanding his legacy where he can. An interest in sailing has led him into a scheme to help with Montenegro's plan to become a second Monte Carlo. By chance he noticed that the pocket-sized country's government owned an old Warsaw Pact naval dockyard in a prime location, and spotted the potential at once. With little investment it can be converted into a huge marina, he says, with berths for the Mediterranean's growing flotilla of luxury yachts. He hopes it will attract the super-rich with the hefty disposable incomes that Montenegro needs. Big boats also command hefty mooring fees—so Mr Munk believes he has struck gold once again.

Brazil

The delights of dullness

Apr 17th 2008 | SÃO PAULO
From The Economist print edition

AFP

Brazilians are waiting nervously to see what the world has in store for their fragile economy, but have already done a lot to make their country stronger

VIEWED from a height of 600 metres, it is hard to see how Brazil could ever be poor. Flying in a small plane from São Paulo in the south to Bahia in the north, black clouds thick with rain give way to a hot sun, revealing hundreds of green rectangles of sugar cane and circles of coffee below. Further west lie giant areas of pasture for cattle and plains of soyabeans. To the other side, out to sea, a vast oilfield was recently discovered (see article). Beneath the earth lie large deposits of minerals. Yet from the middle of the past decade to the beginning of this, Brazil's economy grew more slowly than that of Haiti.

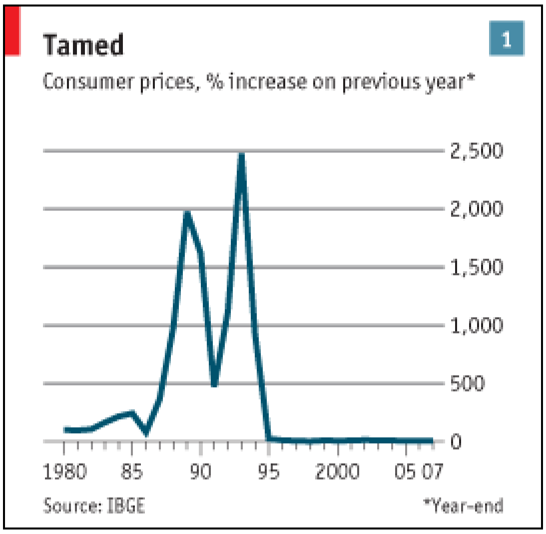
Things look different now. The economy has grown at an average of 4.5% since 2004, the fastest rate for 20 years. President Luiz Inácio Lula da Silva (pictured above, with Sérgio Cabral, governor of Rio de Janeiro, to the left, and Sérgio Gabrielli, president of the oil company, Petrobras) have reaped the political benefits of this change, which owes much to the efforts of the previous government. In fact, for those excited by economic meltdowns and political turmoil, the place has become rather dull. Last year the stockmarket surged by 44% in local-currency terms and saw a shower of listings. Growth for the economy as a whole sped up to 5.4%.

Compared with Russia, India or China (the three other big emerging economies that Goldman Sachs, an investment bank, grouped together six years ago into the BRICS), that still makes Brazil a deadbeat. Yet the comparison is misleading. Brazil is a much richer country than China or India. Its economy grew by an average of 7% a year from 1940 to 1980, the result of the meeting between capital and a vast labour force that sucked people into cities, where 83% of Brazilians now live.

Brazil enjoys several advantages over the other three. First, the divide between city and countryside is not as threatening as it is in India and China. Second, it has an entrenched multi-party democracy coupled with freedom of expression that helps it to negotiate social change, unlike China and Russia. Third, it exhibits none of the aggressive nationalism that grips the other three from time to time. “I can easily see Brazil's detractors looking back in 20 years' time and saying: 'we called that one wrong',” says John Briscoe of the World Bank in Brasilia.

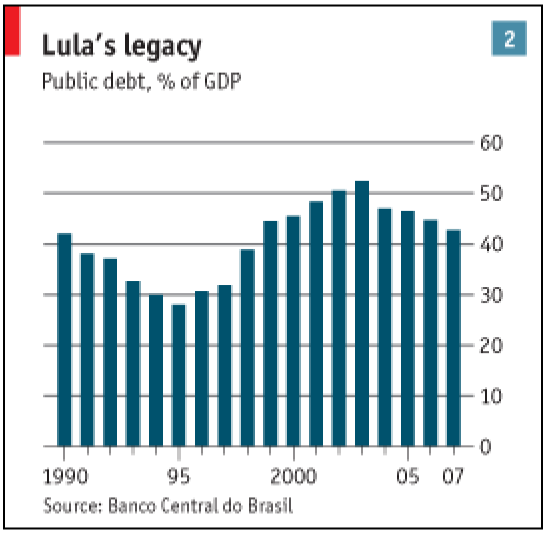
Brazil is well placed now, because it has dealt with the three main problems that have dogged it since it entered a 20-year slump in 1980. These are inflation, debt and democracy.

Inflation was conquered by the plan for the real in 1994. It has come down from 2,500% in 1993 to around 4.7% now and, apart from a blip in 2003, has been below 10% since 1996 (see chart 1). This week the central bank raised its benchmark rate by half a percentage point, to 11.75%. Yet that is low by Brazilian standards. Unlike central bankers in the other BRICS, its governor, Henrique Meirelles has an inflation target (set at 4.5%) and the minutes of his meetings are published on the bank's website. “This helps to bring stability, predictability and an extension of the planning environment,” he says.



Debt held by the government has fallen to 42.2% GDP (see chart 2). It should have fallen further, given the way tax receipts have been pouring in. But Brazil no longer suffers from the original sin of emerging markets: the inability to issue debt in the country's own currency. All of its government debt is now denominated in reais rather than dollars. In August, when the real depreciated a little, that debt became less onerous as exporters' extra earnings boosted tax revenues. In the past the opposite would have happened, as the government would have needed more reais to pay back a dollar of debt. And government paper should win an investment-grade rating some time in the next couple of years.

Democracy, which has a more interrupted history in Brazil than in India, was only really consolidated with the election of President Lula. Before he came to power, there was alarm among the maid-owning classes that Lula—who had learnt all about inequality as a child selling peanuts on the streets of São Paulo, and whose first wife died in childbirth in a shoddy hospital—would undo the privatisations carried out by his predecessor and zealously redistribute land and other property. “Before the Workers' Party came to power, people were afraid of us,” the president admitted in a recent speech. “And they were right.”



In power, President Lula has governed with moderation. He has kept most of the achievements of the previous government and added a few of his own. Chief among these is the increased scope of *Bolsa Familia*, a programme of cash transfers that benefits 11m poor families, rewarding them if their children go to school and get vaccinated. It is surprisingly well administered for a programme of its size and complexity. Brazil's government is advising India's on how to replace its rural food subsidies with something similar. As a reward, the government and its allies are attacked every day in the press for being useless or corrupt, which is encouraging too.

It is true that the pension entitlements, labour laws and taxes that handicap Brazil's economy have been left untouched. Public spending has also been growing faster than the economy, and the number of civil servants (whose jobs are protected in the constitution) has risen by a massive 70,000 since 2002. The number of ministers in President Lula's cabinet now stands at a world-class 35. Brazil's government sucks up almost twice the share of GDP that Mexico's does. Money is spent on pensions rather than building the roads and ports that would make it richer. Unfortunately the public sector is so large and the poorer states so over-represented in congress that trying to change any of this can appear impossible. And yet this profligacy has helped to entrench stability.

For while the government has been keeping the Workers' Party and its congressional allies happy by spraying money around, Brazil has been changing. In the past two years alone, according to a recent Observador Brasil/Ipsos survey, 23m Brazilians have left social classes D and E and joined class C, whose distinctive markings are a rented apartment, a car and some new gadgets. Employment in the formal sector is up and wages have risen too.

This, combined with *Bolsa Familia*, has made a dent on inequality, the most persistent symptom of Brazil's failure. The country has long been used as the example of where not to be on the Gini co-efficient—a scale for income inequality where one means one person has all the country's income and zero means everybody has an equal share. Between 1996 and 2006 Brazil's score has headed down from 0.6 to 0.56, even as much of the rest of the world was travelling the opposite way.

A sense that Brazil is becoming a little more equal makes for a healthier kind of capitalism, in which the people buzzing around above São Paulo in helicopters attract less opprobrium. Brazil's billionaires appear on magazine covers and are celebrated for their skill rather than lampooned for their greed, which is new. In turn, “young entrepreneurs are realising that you don't have to be born rich or have political connections to raise capital,” says Antonio Bonchristiano of GP Investments, a private-equity firm. “I do not see the same thing happening in Mexico, nor in Argentina,” he adds.

Some of these changes have been underpinned by real improvements in the economy. Productivity per industrial worker rose by 4.2% last year, which supports the idea that increased investment is paying off. And yet most of the change has been due to high prices for the raw materials that Brazil sells to the world. “Commodity prices pay for the party,” summarises Candido Bracher of Itaú BBA, an investment bank.

Brazil is to commodities what China is to manufactured goods. A large share of the world's beef, orange juice, soyabeans and iron ore comes from the great green elbow. This has been such a good business recently that those Brazilians who used to assert that supplying the world with raw materials would condemn the country to perennial poverty have changed their minds. Edmar Bacha, a distinguished Brazilian economist, reckons that the country has not enjoyed such favourable global conditions (including high commodity prices) since the mid-1960s, when it embarked on a decade as the world's second-fastest-growing large economy.

High commodity prices have given Brazil a large current-account surplus for the past few years. This has helped to push the real up to a value of 100 against the currencies of its trading partners, compared with 68 at a moment of exaggerated weakness back in 2001. A strong real buys more imports, which are now growing so fast that a trade deficit is expected this year, even as exports continue to grow.

Encouragingly, a big slice of these imports has been machinery and other capital goods. Brazil invests a measly 19% of GDP, according to Sergio Valé of MB Associados, but that number is growing fast. Once investment reaches around a quarter of GDP, Brazil should be able to grow consistently by at least 5% a year, rather than straining to get there at the top of a cycle. Mr Valé reckons this ought to happen in about 2015.

A strong real and lower interest rates have boosted the purchasing power of the middle class. Domestic demand was sleepy when consumer credit was unknown and a combination of a weaker currency and high barriers to trade made imports too expensive. All this is changing. In the past two years the stock of consumer credit increased by more than 25% each year. Most stores in shopping malls now offer credit to buy an even bigger TV.

The strong currency has helped the balance sheets of Brazilian companies with international aspirations. According to the Fundação Dom Cambral, a business school, and Columbia University in New York, Brazilian companies were the second-largest source of foreign direct investment among developing countries in 2006, after China. Brazilian executives tend to put their adventurousness down to an adaptability learnt during the wild inflationary days. “Back then I couldn't predict what the rent on my apartment would be that month,” says Alvaro Novis, finance director of Odebrecht, a construction and chemicals firm. “I couldn't even say what a haircut would cost.” Building roads in Angola can seem relaxing by comparison.

Taken together, these things have created a new enthusiasm for capitalism, a feeling that the stockmarket is not a casino and that being part of the world economy is a good thing, according to Arminio Fraga, now of Gávea Investimentos and formerly governor of the central bank. Brazil's economy is still relatively closed. But many more people now work for companies that import and export things. And those who work for foreign companies generally get better benefits and are paid more. In short, letting the world in has benefited Brazil.

Don't look now

Yet as the outlook for the world economy is threatened, so too are Brazil's recent accomplishments. So much so that there is a vigorous debate now about how real they actually are. The government believes that the economy is set to grow at today's pace for the next 15-20 years, irrespective of what happens elsewhere. Gloomier observers (and plenty of economists) tend to think that Brazil has just passed a cyclical peak and will shortly head back into its customary torpor.

Those who imagine that Brazil is insulated are wrong. Its economy has long been tied to the rest of the world, even when it was hiding behind high tariff barriers. Within a few years of the Wall Street crash of 1929 Brazil's democracy was replaced by a dictatorship (15 other countries in the region suffered takeovers by either the military or a strongman at that time). Its economy slumped in the 1950s with the price of coffee, then its main export. It was hit again in the 1970s, when the oil price shot up. Brazil suffered in the wake of the Asian financial crisis and then again when Argentina defaulted on its foreign debt.

Hence America's present malaise is worrying. Brazil still looks like a flop if you strip out the favourable conditions that held in the rest of the world until the end of last year, says Marcello Carvalho, an economist at Morgan Stanley investment bank. From 2004 to 2007 the price of goods it exports to the world increased by an average of 11.5% every year. And yet the economy still grew more slowly than the average in the rest of the world, more slowly than the rest of Latin America, more slowly than Eastern Europe. Mr Carvalho, who has a knack for getting out-of-consensus forecasts right, reckons that, as the skies darken, growth will slump to just 3% in 2009. That would put Brazil back in the category of perennial disappointments.

AFP

Bidding up Brazil

No big democracies find reform easy when times are good. But small things do change slowly. Both the government and the opposition are talking about the need for tax reform and some modest improvements will eventually come. In Minas Gerais Governor Aécio Neves has managed to make a “management shock” in the public services into his main political selling point. In São Paulo José Serra's administration is introducing a system in schools that would pay teachers according to the achievements of their pupils. In Rio Sérgio Cabral's administration has cut the time needed to register a business from 60 days to under 14. And so on.

Yet incremental change is frustrating. “In Brazil everything is promised and nothing is delivered,” laments a businessman who has recently set up an office for a foreign multinational in the south. A state governor promised to renovate the nearby airport if the firm came. Now he has been voted out and the airport is still crumbling. Every month he receives an internal company report sent from Europe and, for some bewildering reason, has to pay tax on it (and always for a different amount). When he complained, the report stopped coming—so he is back to paying every month. Such stories are typical. Yet this company has found a plentiful supply of talented workers and will expand from 20 people two years ago to 400 next year.

How Brazil looks depends on which countries it stands next to in the line-up. True, compared with parts of Latin America, let alone Asia, its economy still seems to be a machine for creating disappointment out of abundance. Its politics are frustrating: corruption is rife in public life, violence widespread, illiteracy normal, poverty stubborn. And yet compared with the Brazil of old, this has the feel of a golden age. That, surely, counts for a lot.

Oil

More bounty

Apr 17th 2008
From The Economist print edition

Could Brazil become as big an oil power as it is an agricultural one?

OF ALL the commodities Brazil exports, oil has long been an afterthought. Its oil reserves were reckoned to be relatively modest: about 12 billion barrels at the beginning of 2007, according to BP, or about 1% of the world's total. But last year, Petrobras, Brazil's partly state-owned oil firm, announced the world's biggest oil discovery since 2000: the Tupi field, which it hopes will produce between 5 billion and 8 billion barrels. Now the head of Brazil's National Petroleum Agency (ANP) says another nearby discovery might hold as much as 33 billion barrels, which would make it the third-largest field ever found. That alone would be enough to raise Brazil to eighth position in the global oil rankings—if these estimates are correct.

The ANP, which regulates Brazil's oil industry, was quick to distance itself from the remarks of its boss, Haroldo Lima. He spoke personally, not officially, it said, and reflected past reports in the media. Petrobras and its partners, BG of Britain and Repsol-YPF of Spain, said that they needed more tests to determine exactly how much oil it contained.

But no one dismissed the estimate as preposterous. That, plus the fact that a senior official had given credence to such a dramatic number caused the shares of the three firms to jump, despite the fact that Mr Lima claims he does not even know where the stockmarket is, and certainly did not intend to influence it. At one point, Repsol was up by 14%.

Both Tupi and the field mentioned by Mr Lima, Carioca-Sugar Loaf, lie beneath a thick layer of salt that is some 800km long and 200km wide. José Sérgio Gabrielli, Petrobras's boss, has hinted that there are vast reserves of oil to be found in this “pre-salt” formation. At any rate, Petrobras has struck oil every time it has drilled there. The firm's head of exploration says “there is practically no exploratory risk” in the area. Dilma Rousseff, its chairman, has breathlessly declared that Brazil will soon be on a par with Venezuela or Saudi Arabia.

The government must be thrilled at the prospect of the revenue from the new fields. But they will take many years and huge sums to develop (drilling a single well at Tupi cost $240m). And the extra income may also accentuate many of the weaknesses of the Brazilian economy—including a strong real and an overweening public sector.

Macquarie Group

For whom the tolls swell

Apr 17th 2008
From The Economist print edition

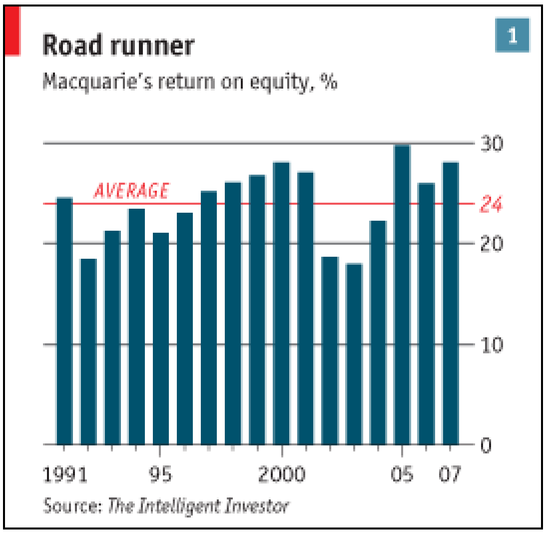
Alamy

A global bank that epitomised the era of easy credit confounds its critics—so far

WHEN the credit crunch hit last year, few outfits looked more vulnerable than Macquarie Group, an Australian bank that for the past 15 years has been accelerating up the fast lane of finance, led by its enterprising boss, Alan Moss.

The former three-man Sydney outpost of a British merchant bank named Hill Samuel, Macquarie now has over 13,000 direct employees and, indirectly, 65,000 people spread across 25 countries in firms owned by its managed funds. These firms run toll roads from Chicago to Seoul, airports in Sydney and Copenhagen, a water utility in London, wind farms in France; the list goes on. It also does more conventional buy-outs, though of unconventional assets—almond farms in Australia, tyre-inflation machines in Canada and beer-keg leasing in America.

There is nothing necessarily wrong with such investments—indeed, most are long-term, cash-generating assets that big pension funds such as those prominent in Australia ought to hold to match their liabilities. But one of the flashing lights that short-sellers saw as they circled Macquarie last year was that the returns from these schemes looked nothing like the safe but dull earnings normally associated with owning low-growth enterprises. Since going public in 1996, annual profit growth has averaged 28%. Since 1991 Macquarie's annual return on equity had fallen below 20% on only three occasions (see chart 1).

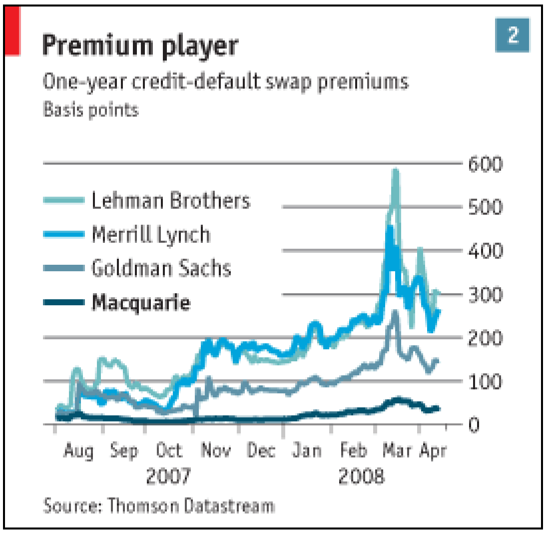


Part of the secret of that success was financial innovation—once thought of as a mark of brilliance, but a stigma since last year owing to the leverage it had concealed across the financial system. Macquarie's mix of businesses behaves a bit like overlapping shadows; it is hard to know where one begins and another ends. It is at once a private-equity firm, a retail fund manager, a quirky lending business specialising in law, accountancy and commodities, a high-end wealth manager and one of Asia's leading investment banks.

Many are unperturbed by these complexities. It has loyal shareholders, thanks to annual returns of 25% since going public; its signature funds have returned 17% a year. Governments like it; it is a welcome bidder in privatisations around the world. And employees like it; not only is it known in Australia as "the millionaire's factory", some people call it the "entrepreneur's factory" for letting its employees run with good ideas—backed by the money it raises.

Its critics have called Macquarie a giant house of cards, which is likely to topple in the gales blowing through the credit markets. They are troubled by the overlapping interests of the funds and the group, the use of borrowing to pay dividends, the way its entities are valued, and the high fees Macquarie earns from its funds. On top of this, Mr Moss is retiring in May, to be replaced by Nicholas Moore, head of investment banking, whom some credit with being the firm's main driving force in recent years—but who may not have his boss's sure touch. Macquarie's shares fell 9% on news of Mr Moss's departure. Since the crisis began, they are off 42%. Its large Australian-listed infrastructure funds, for example, are down by a third.

Three big Australian financial firms, Centro Properties, Allco Finance and Octaviar, have blown up recently, yet Macquarie itself is not only still standing, it pre-announced that earnings for the fiscal year ending March 31st would set a record—for the 16th year in a row. Few expect the record to continue, but even as many other global banks are retrenching, Macquarie is not. It continues to do deals. Last month, through its Korea Opportunity Fund, it became the joint owner of a South Korean cable-television company; it made its 12th global port investment; and its leisure fund bought ten health clubs in Australia. Meanwhile, all the analysts who cover Macquarie now have a buy recommendation on it. Credit-default swaps, measuring the likelihood of default within a year, have been far more sanguine about Macquarie than they have about Wall Street firms (see chart 2).



Hard shoulders, soft centres

For some, this optimism is based on an aspect of the Macquarie model that is hard to pin down: its people. Much of Mr Moss's 30-year experience has been on the trading floor, which has taught him to be adventurous—within limits. The trick, he says, is to encourage employees to come up with fresh ideas, back them if they are good, and award big bonuses if they are successful, and, importantly, contain losses. Some analysts believe this approach, similar to that of Goldman Sachs, is Macquarie's strong suit. "This ability to innovate and explore new opportunities, rather than grow by large, risky acquisitions, makes Macquarie remarkable," says Greg Hoffman of the *Intelligent Investor*, an Australian newsletter, who is a backer (and owner) of the shares. "Welcome to the 'soft side' of analysis."

There is a hard side, too, however, and it involves delving into Macquarie's $A228 billion ($211 billion) of assets, most of which are housed within 60 specialised funds that provide about a fifth of the group's profits. Twenty of those funds are publicly listed in any of half a dozen different countries. The rest are sold directly to institutions. It is here that short sellers such as James Chanos, an American investor, have focused. RiskMetrics, a risk-management firm, produced a report on April 3rd that revived enduring concerns about the funds' complexity, leverage, ability to cover dividends, and governance.

Macquarie's fund-management approach differs from that of many other global asset managers. It not only handles the funds, but operates the assets they own as well. It buys and sells them, allocates ownership rights to them, structures their finances and has substantial control over the access investors have to any return of their capital. So the funds are like mini-conglomerates run within a giant one. Macquarie can hold onto them for as long, or for as little time, as it likes.

The advantages of this structure for Macquarie are plain. Until last year, when it became a holding company, it was a bank, and it was not allowed to put roads and airports on its balance sheet, because they are not liquid enough. By holding these assets within funds, Macquarie insulates itself from the risk of a market panic.

By using separate funds, Macquarie can also spread its borrowing more broadly, rather than shouldering it at the holding-company level. Individual funds can overcome political hurdles (its business in South Korea is helped by having a special Seoul-listed fund, for instance), and investors can hold assets they want (eg, airports) and avoid others (eg, a bank).

Macquarie believes they are also a fairly stable source of capital for the operating companies. Typically, the unlisted funds are ten-year closed-end investments. Investors can sell, but through the tortuous process of a private sale, rather than through redemptions that would affect Macquarie's liquidity.

Nevertheless, the relationship between Macquarie and its funds is fraught with potential conflicts. As RiskMetrics points out, it could lead to overpayment for assets, fee structures that encourage big investments with lots of debt, and accounting policies that can exaggerate performance. On each count, Macquarie is vulnerable.

Since fees are tied to the size of assets, it makes sense to raise lots of money, pile debt on top of it, and make big acquisitions. The gearing on average is 58% across the funds and acquisitions have been done at far higher leverage. When assets are bought and sold, it often (but not always) receives investment-banking commissions. Management of the underlying assets—the airports and toll roads, for example—generates yet more fees for Macquarie. Payments can be huge. In the most egregious case, RiskMetrics estimates that the Macquarie Media Group, a fund, paid fees equivalent to 10.5% of its assets under management in 2006.

Running on empty?

Dividend payouts are another bone of contention. In most places, by law they must be drawn from profits. But many of Macquarie's funds are incorporated in Bermuda, where it is legal to distribute greater sums than profits alone. Last year the Macquarie Infrastructure Group fund covered only 68% of its payout to shareholders from the cash it received from underlying operations; the Macquarie Airports fund covered 75%. This strategy can persist only with a rising value of the assets, and the cashflows derived from them.

Macquarie says this has happened. But in yet another cause for concern, the entity valuing the assets is Macquarie itself. Some of the methods it has used for triggering a revaluation—such as reducing the rate used to discount cashflows because of a perceived reduction in risk, as it has on Britain's M6 motorway—might seem arbitrary. What if the valuation model is wrong?

A common check on management is shareholder action. But Macquarie has taken care of this pesky detail with a special class of shares that, in effect, ensures it has full control over its funds.

Macquarie is used to accusations that it overpays for assets. In its defence, it has been the underbidder on deals when others have clearly overpaid, sold assets at a profit and made clever acquisitions. A good example is Sydney Airport. In 2002 Macquarie spent $A5.6 billion (of which $A3.7 billion was borrowed) to buy the airport, a deal that produced a roar of disapproval. It came shortly after the World Trade Centre disaster, which battered air travel. Mr Moss was rumoured to be in the ejector seat.

Now Sydney Airport is seen as a coup and Mr Moss is going out on a high, rather than at high pressure. Dividends alone have repaid the equity investors, and earnings before interest, tax and depreciation have soared from $A316m to almost $A600m. The gains have largely stemmed from Macquarie's effectiveness as an operator, bringing in budget airlines, reconfiguring for the Airbus A380 (more traffic) and moving stores to behind the security barriers where (post-9/11) people can shop for longer because of early check-ins. (It has its critics; passengers, for example, hate the expensive luggage trolleys, provided by another Macquarie company.)

That said, credit conditions are now tougher and it has had at least one narrow escape. In May Macquarie led a consortium that failed in an $8.7 billion bid for Qantas, Australia's national airline. Had it won, it would have had to cope with rising fuel costs and falling load factors, not to mention huge debt. But even if conditions worsened, it could cut distributions from the funds (remember, shareholders are locked in). That is not on the horizon. Last year it restructured much of its debt, extending maturities at relatively low rates.

It is also possible that its infrastructure investment will not be dramatically affected by the credit crisis. Macquarie benefits from exposure to Australia and the rest of Asia, which continue to grow. And competitors are trying vigorously to get into the business, which shows that Macquarie is not the only bullish firm. Among the most enthusiastic are pension funds and sovereign-wealth funds, which have low-return expectations and should be formidable competitors. However, Macquarie believes it is a proven operator that has built up a good reputation among governments. It also hopes that tighter budgets may prompt governments to continue to flog assets.

Long-term concerns over Macquarie's model are bound to persist for as long as the world is worried about financing, accounting, disclosure and complex financial structures. Mr Moss's departure raises fears about the future—the price of five-year credit-default swaps has risen much higher than the one-year ones. Yet its investors have little choice but to trust the millionaires on the factory floor—they are tied in anyway. If Macquarie fails, many people will say that it should never have existed. But if it survives, it may say a lot about the value of locking up investors for the long term.

Buttonwood

Still vulnerable

Apr 17th 2008
From The Economist print edition

It looks too early to be buying financial stocks

WHEN a sector takes a battering, it is natural to wonder whether a buying opportunity has emerged. Financial stocks are seen by some investors as the bargain of the moment.

After all, the news has been so gloomy, what with the write-downs on mortgage-related bonds, the exposure to a slowing American economy and the crisis at Bear Stearns. Perhaps sentiment has become unduly pessimistic. Richard Cookson of HSBC points out that only three American banks have gone bust so far, compared with 534 in 1989, when the savings and loan crisis was in full swing.

Hopes for a turnaround were bolstered by the market's positive response to news of capital-raising efforts at UBS and Lehman Brothers, lower-than-expected first-quarter writedowns from JPMorgan Chase on April 16th, and by the Federal Reserve's willingness to help bail out Bear Stearns. Financial stocks outperformed global markets over the month to April 15th, ahead of results from Merrill Lynch and Citigroup which were due to be released after *The Economist* went to press.

Unfortunately for the optimists, despite the long sell-off, financial shares still do not look like bargains by historical standards. That is largely because the industry has done so well over the past 25 years. Back in 1989 financial stocks were just 8.8% of the S&P 500 by value; by the first quarter of last year, they were 22.3%. Figures from Smithers & Co, a consultancy, show that the average profit margin of American financial companies over the past 60 years has been just under 40%. In the last quarter of 2007, margins were still above 43%. That leaves plenty of scope for decline: the low was around 30%.

On several measures, bank shares still look unattractive. One is the price to tangible book value. According to Merrill Lynch, financial stocks in the S&P 500 were trading at 10% over book value in 1990. They peaked at around 350% in the early years of this decade and are still trading at a premium of 150%.

Another is the price earnings ratio, which relates market values to company profits. According to Gerard Cassidy of RBC Capital Markets, the prospective p/e of the leading 50 American banks at the start of April averaged 13.2, compared with a 25-year average of 10.2. In 1990 the ratio bottomed at 5.7. The past two buying opportunities for banks occurred when they traded at 40-45% of the market multiple, says Mr Cassidy; at the start of April they traded at 87% of the average rating.

More exotically, James Montier, a strategist at Société Générale, says that in the 1990-92 downturn, British bank valuations bottomed when market values were around 3-4% of deposits. Only Royal Bank of Scotland and Bradford & Bingley trade anywhere close to that level; American banks are priced at 15-30% of deposits.

Of course, it is not written in stone that the problems affecting the banking industry will be as bad as they were in the early 1990s. Optimists tend to assume that things will start to return to normal next year, when the subprime-related write-offs are finally out of the way.

The optimists may be proved right in one respect: complete apocalypse for banks may have been avoided. The cost of insuring against default on the debt of leading banks has fallen sharply since mid-March. Michael Hintze, who heads CQS, a hedge-fund group, believes the systemic risk has fallen, although risks to individual banks remain.

But it may be some time before the finance industry once again enjoys the benign conditions that existed earlier in this decade. Loan growth was strong and defaults were rare, thanks to booming economies and rising asset prices. Now credit growth is sluggish and defaults are set to rise. Securitisation, one of the banks' most profitable areas, is in the doldrums. And, in the wake of the crisis, it seems certain that finance will face a wave of new regulation. One likely option—a requirement to hold more capital—would reduce profit margins and dilute existing investors.

One sign that the credit crisis is far from over is that the gap between the rate paid by governments to borrow and that paid by banks is as wide as ever. A recent paper* by John Taylor and John Williams, two economists, suggests that the Fed's recently introduced Term-Auction Facility has not solved the money-market squeeze. With the American economy either in, or close to, recession, it looks too early to be buying financial stocks.

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* A Black Swan in the Money Market

Economist.com FINANCE & ECONOMICS

Derivatives

Clearing the fog

Apr 17th 2008 | NEW YORK AND VIENNA
From The Economist print edition

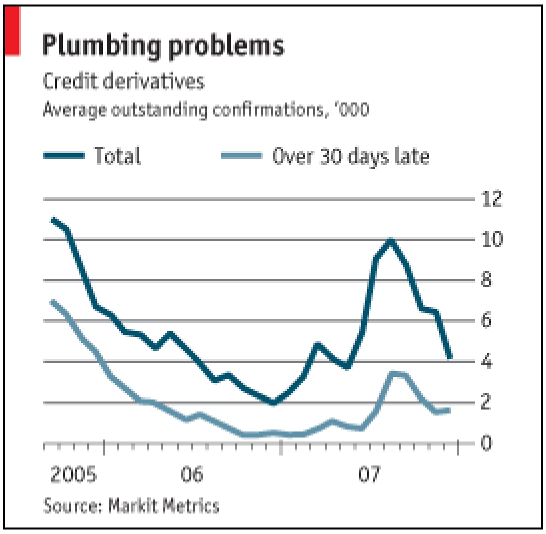
Credit derivatives continue to boom, but the old order is under threat

BANKERS gathering in Vienna this week for the annual bash of the International Swaps and Derivatives Association (ISDA) had some big numbers to celebrate. The overall market for over-the-counter derivatives shot up to $455 trillion at the end of 2007. Some $62 trillion of that were credit-default swaps (CDSs), whose supercharged growth continues in spite of the crunch. But the emphasis this year was as much on playing down dangers as playing up volumes. ISDA was quick to point out that actual credit exposure was a mere 2% of the notional value of all contracts.

This coyness is hardly surprising. Regulators have been fretting since 2005 that the market's infrastructure was not keeping up with its growth. Then, in March, came the sudden implosion of Bear Stearns, a top-ten actor in CDSs, rescued partly because of the fear of chaos if such a large counterparty were to fold. The market's overseers may not agree with Christopher Whalen of Institutional Risk Analytics, a consultancy, when he describes off-exchange derivatives as an "act of Satan". But they want to see more robustness, especially in credit derivatives, and have hinted that they will impose their own solution if the market does not.

Conceived in the 1990s as a hedging tool, CDSs soon took off as a way to speculate on the likelihood of a firm going bust without having to trade its underlying bonds. For much of this decade, they have been celebrated as a means of spreading risk around the financial system. However, their rampant success led to processing backlogs and errors. Under pressure from the Federal Reserve Bank of New York and others, the industry accelerated trade automation and clarified the rules of engagement (for instance, making sure banks were notified when the firm on the other side of the trade sold its interest to another party).

But problems remain. A rise in late confirmations accompanied the spike in trading last summer, suggesting that the plumbing still lacks scalability (see chart). As of December, 13% of outstanding CDS trades were unconfirmed. Technology vendors say solutions exist, but banks and supervisors have been slow to adopt a standard. "It's like the world is starving and we're just standing here with the rice," says the chief executive of one derivatives-software firm.



Regulators also want to see cash settlement, rather than physical delivery of bonds, built into standard documentation. Physical delivery could distort prices as defaults rise, because the value of derivative positions far exceeds the face value of the corporate debt they reference—by 30 times in the case of Delphi, a car-parts maker that filed for bankruptcy in 2005

Major dealers, responding to regulatory threats in March with a letter to the Fed, gave themselves an ambitious set of targets to be reached this year. They include reducing the backlog of contracts still unconfirmed after 30 days and increasingly "warehousing" data about trades with the Depository Trust Clearing Corporation (DTCC), for added safety.

Another goal is to move towards reducing counterparty credit risk by clearing deals though a central counterparty—the sort of job DTCC does in American cash markets. A group of large dealers plans to start offering such a service later this year through the Chicago-based Clearing Corporation. Kevin McClear, the firm's chief operating officer, points to several benefits: a credible counterparty, regulated by the Commodity Futures Trading Commission, at the heart of every trade; more scope to reduce the overall amount at risk by "netting" offsetting contracts; and greater capital efficiency, since if the exchange were the counterparty, the banks' exposure could have a zero risk weighting.

Exchanges, for whom this sort of thing is bread and butter, spy an opportunity too. NYSE Euronext and CME Group, which runs the biggest futures exchange, are among those working on plans to offer over-the-counter clearing for credit derivatives. The CME has already made modest headway in interest-rate swaps.

Ultimately, the bourses hope to turn credit derivatives into exchange-traded products. The potential benefits—including transparency and much lower transaction costs—are clear. But there are formidable obstacles: the big dealers will fight it, because it will rob them of the outsized fees they get from bespoke deals—over 90% of their total derivatives-trading revenue, by one estimate. Also, fixed-income derivatives tend to be more arcane than shares, are traded in larger sizes, and there are many more varieties of them. Thus, in many cases, they might be resistant to the sort of standardisation that is necessary for exchange trading. Past attempts to trade credit derivatives on bourses have flopped.

Still, that is the direction in which the market is inching, with a (for now) gentle helping hand from regulators. Mr Whalen thinks moneymen will get better at replicating complex CDSs using exchange-traded credit products combined with options. “It's no slam dunk,” says the CME's Kim Taylor. “But it looks like a great long-term opportunity.”

Canadian banks

Beware grannies on Facebook

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From The Economist print edition

Disgruntled small investors in Canada flex their muscles

IN A world where might often prevails, a group of Canadian grannies and other small investors has successfully forced a number of financial firms to repay the millions that they lost on ill-fated investments in asset-backed commercial paper (ABCP). Their victory increases the chances that a landmark proposal to restructure Canada's C$32 billion ($32 billion) non-bank ABCP market will be adopted this month. The market has been frozen since early in the credit crisis last August.

Although they hold only about 1% of the total amount of ABCP, the 1,800 small investors have disproportionate clout because a number of companies acting as ABCP conduits were put into bankruptcy protection until a deal could be worked out. Under Canadian bankruptcy law, each investor, regardless of size, has an equal vote on restructuring proposals. The small investors have taken the chance to air two main gripes.

One is that the restructuring proposal, which will be put to a vote on April 25th, is designed to help the biggest institutional investors by replacing the now illiquid investments with longer-term notes in the hope that a secondary market will eventually emerge. Although the money would meanwhile be locked away, those with a long enough time horizon could eventually get much, if not all, of it back. But that does not include many of the retired.

The small investors also bristle at having to give up their right to sue participants in the ABCP market as part of the deal. “This junk was marketed as a safe savings product,” complained Layne Arthur, a former farmer, in a letter to the governor of the Bank of Canada. He compared the proposal, which both the central-bank governor and the minister of finance praised, to the outright theft of his life savings.

Following the example of their children and grandchildren, some small investors formed a group on Facebook, a social-networking site, to trade information, provide mutual support and plot strategy. Brian Hunter, the group administrator, says the site turned out to be an “amazing tool”. People who would never have met in real life, from pig farmers and retired loggers to MBA students and pastors, created a formidable interest group.

Campaigners were able to ensure that investors armed with information attended cross-country meetings held in late March and early April by the backers of the restructuring deal. “We had 300 raging grannies show up in Vancouver,” says Mr Hunter. “[The backers] got their heads handed to them at that meeting.”

The efforts of the campaigners paid off on April 9th, when Canaccord Capital, the investment broker that sold the paper to just over 1,400 of the 1,800 small investors, reversed its previous decision and said it would fully reimburse clients holding C$1m or less as long as the broader deal wins acceptance. Other companies have made similar promises and more are expected to do so before the vote.

Purdy Crawford, a lawyer who heads the committee that developed the C$32 billion solution, says the Facebook group actually made his life easier, because it helped him understand the concerns of small investors and gave him a way to talk to them. “I also met quite a few of them on the cross-country tour,” he says. They would have had no trouble recognising his face: his photo is the image on their Facebook site.

Oil prices

Crude estimates

Apr 17th 2008
From The Economist print edition

The price of oil has soared to a new high, hasn't it?

A CASUAL observer might be forgiven for thinking that the oil price reached a new record, of $115.07 a barrel, on April 16th. And so it did, in nominal terms. But by other measures, oil is not quite as expensive as it seems. That, in turn, may go some way towards explaining why demand for oil continues to rise in many countries, despite prices that would have been unimaginable just a few years ago.

Michael Lewis of Deutsche Bank has come up with several different ways of comparing past and present oil prices. The first step is to account for inflation. But what measure of inflation is most suitable? If historic prices are inflated in line with America's producer-price index, the previous record, struck in the early 1980s, would be the equivalent of $94 in today's money—a level exceeded some months ago. But if the consumer-price index were used instead, oil would need to climb to $118 to hit a record.

But an adjustment for inflation, however it is measured, takes no account of the growth in Western consumers' incomes over the years. Back in 1981, the annual average income within the Group of Seven countries would have been enough to buy only 318 barrels of oil. To set back Western consumers by the equivalent today, Deutsche Bank calculates, the price of oil would have to rise to $134 a barrel.

By the same token, the American government reckons that energy ate up its biggest share of Americans' disposable income in 1980: 8% compared with about 6.6% now. To drive spending on energy to the same level again, says Deutsche, the price of crude would have to rise to $145.

Spending on oil as a share of global output, which is about 3.5%, also peaked in 1980, at 5.9%. Other things being equal, oil will not swallow as big a share of the world's GDP unless the price reaches $150 a barrel.

The disarmingly honest Deutsche analysts also looked at oil prices relative to one final measure: their peers' predictions. They compared the price bankers forecast for oil at the end of each year with the actual outcome over the past decade. Their biggest error was in 2000, when they undershot by 54%. Adding 54% to the consensus forecast at the beginning of the year would produce a price of $115.50. So if the oil price rises by less than 50 cents, oil analysts will prove themselves more misguided than ever before.

African economies

Lion cubs?

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An up-beat assessment of Africa

FOR those used to thinking of Africa as a fiscal bucket with a hole in it, a new IMF report on the continent makes for a heartening read. Although the fund is cautious about some of the effects a global economic slowdown might have on Africa, particularly if oil prices remain high and other commodity prices slide, it argues that, in macroeconomic terms at least, Africa has never had it so good.

Sub-Saharan Africa's GDP is expected to grow by 6.5% this year, thanks largely to oil-producing economies such as Nigeria and Angola. That compares with growth of 6.6% in 2007. Arguably more significant than the petroleum bonanza are the massive capital inflows Africa can continue to expect as the last frontier market. Foreign investment and loans have risen from $11 billion in 2000 to $53 billion in 2007, mainly but not wholly in extractive industries. Portfolio flows into high-interest African government bonds increased by 14 times between 2003 and 2006, to $23 billion. Just the beginning of a coming boom, reckon bouncy African financiers.

But what really sets 21st-century Africa apart from its moribund 20th-century self is its improved financial management. African central banks are better able to handle ups and downs. Many have strengthened their fiscal positions and built up foreign reserves, which should make them more nimble in handling the price shocks that characterise commodity-rich and isolated African economies. Corruption remains chronic, but the opportunities for politicians to enrich themselves are declining (Zimbabwe is an exception). “Institutional development is fencing in progress,” says Benedicte Christensen, the head of the IMF's Africa programme. “In the past you would have more backsliding.”

Some of the continent's bad boys have cleaned up their act. Nigeria, in particular, has improved its management of oil resources. And the IMF argues that cub-like countries such as Togo and Gabon are following the path the Asian tigers took in the 1980s, only much faster. The trick for them will be to handle the liberalisation of capital regimes without wrecking interest- and exchange-rate policy. That sounds like a much better problem to have than some of the old ones.

Economics focus

Krugman's conundrum

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From The Economist print edition

The elusive link between trade and wage inequality

Illustration by JAC

“THIS paper is the manifestation of a guilty conscience.” With those words, Paul Krugman began the recent presentation of his new study of trade and wages at the Brookings Institution. Mr Krugman, a leading trade economist (as well as a *New York Times* columnist), had concluded in a 1995 Brookings paper* that trade with poor countries played only a small role in America's rising wage inequality, explaining perhaps one-tenth of the widening income gap between skilled and unskilled workers during the 1980s. Together with several studies in the mid-1990s that had similar findings, Mr Krugman's paper convinced economists that trade was a bit-part player in causing inequality. Other factors, particularly technological innovation that favoured those with skills, were much more important.

At some level that was a surprise. In theory, although trade brings gains to the economy as a whole, it can have substantial effects on the distribution of income. When a country with relatively more high-skilled workers (such as America) trades with poorer countries that have relatively more low-skilled workers, America's low skilled will lose out. But when the effect appeared modest, economists heaved a sigh of relief and moved on.

In recent years, however, the issue has returned. Opinion polls suggest that Americans have become increasingly convinced that globalisation harms ordinary workers. As a commentator, Mr Krugman has become more sceptical. “It's no longer safe to assert that trade's impact on the income distribution in wealthy countries is fairly minor,” he wrote on the VoxEU blog last year. “There's a good case that it is big and getting bigger.” He offered two reasons why. First, more of America's trade is with poor countries, such as China. Second, the growing fragmentation of production means more tasks have become tradable, increasing the universe of labour-intensive jobs in which Chinese workers compete with Americans. His new paper set out to substantiate these assertions.

That proved hard. Certainly, America's trade patterns have changed. Poor countries' share of commerce in manufactured goods has doubled. In contrast to the 1980s, the average wage of America's top-ten trading partners has fallen since 1990. All of which, you might think, would increase the impact of trade on wage inequality.

But by how much? If you simply update the approach used in Mr Krugman's 1995 paper to take into account today's trade patterns, you find that the effect on wages has increased. Josh Bivens, of the

Economic Policy Institute, a Washington, DC, think-tank, did just that and found that trade widened wage inequality between skilled and unskilled workers by 6.9% in 2006 and 4.8% in 1995. But even with that increase, trade is still far from being the main cause of wage inequality. Lawrence Katz, a Harvard economist who discussed Mr Krugman's paper at Brookings, estimates that, using Mr Bivens's approach, trade with poor countries can account for about 15% of the growth in the wage gap between skilled and unskilled workers since 1979.

Even this is almost certainly an overstatement. Many imports from China have moved up-market from easy-to-produce products, such as footwear, to more sophisticated goods, such as computers and electronics. As a result, to use economists' jargon, the “factor content” of American imports—in effect, the amount of skilled labour they contain—has not shifted downwards. Mr Katz says factor-based models suggest trade with poor countries explains only 5% of rising income inequality.

Mr Krugman argues that the effect is bigger, but that import statistics are too coarse to capture it. Thanks to the fragmentation of production, Chinese workers are doing the low-skill parts of producing computers. Just because computers from China are classified as skill-intensive in America's imports does not prevent them from hurting less-skilled American workers. Mr Krugman may be right but, as he admits, it is hard to prove.

Blame it on the rich

Robert Lawrence, another Harvard economist, has looked at the same evidence and reached rather different conclusions. In a new book, “Blue Collar Blues”, he points out that the contours of American inequality sit ill with the idea that trade with poor countries is to blame. Once you measure income properly, the gap between white- and blue-collar workers has not risen that much since the late 1990s when China's global integration accelerated. The wages of the least skilled have improved relative to those in the middle. Some types of inequality have increased, notably the share of income going to the very richest. But there is little sign that wage inequality has behaved as traditional trade theory might suggest.

Mr Lawrence offers two reasons why. One possibility is that America no longer makes some of the low-skilled, labour-intensive goods that it imports. In those goods there are no domestic workers to lose out to foreign competition. Second, even when America does produce something that is imported from China, it may make it in a different way, with more machinery and only a few high-skilled workers. If imports from China and other poor countries compete with more-skilled American workers, they may displace workers but will not widen wage inequality.

Given the lack of fine-grained statistics, none of these studies settles the debate. It is possible that globalisation is becoming a bigger cause of American wage inequality. But contrary to the tone of the political debate, and the thrust of Mr Krugman's commentary, the evidence is inconclusive. “How can we quantify the actual effect of rising trade on wages?” Mr Krugman asked at the end of his paper. “The answer, given the current state of the data, is that we can't.”

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Cancer therapy

Stemming the tumorous tide

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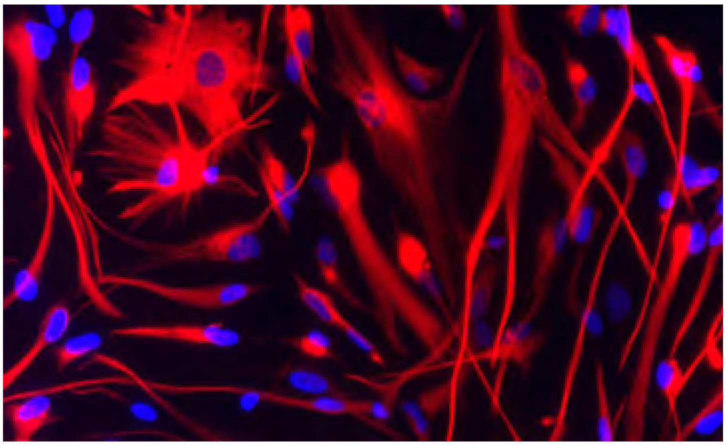
From The Economist print edition

Wellcome



Cancers grow from stem cells. That discovery should translate into better treatment for tumours of all types

STEM cells have a controversial reputation, but in truth they are what makes human life possible. Each tissue in the body grows from a particular sort of stem cell. When it divides, one of its daughters remains a stem cell while the other eventually turns into whatever tissue its mother was designed to produce—be it blood, muscle, nerve or whatever. That is how healthy tissues are renewed, and it is now looking likely that it is how unhealthy tissues are renewed, too. Indeed, many researchers think that the underlying cause of cancer is the brakes coming off the regulatory system that stops normal stem cells from reproducing too much. For one of the most important medical discoveries made in recent years is that cancers, too, have stem cells and that these appear to be the source of the rest of the tumour.

This helps to explain why cancers are so hard to deal with. Treatments that kill the bulk of a tumour, but leave the stem cells alive, are only buying time. On the other hand, if all of a tumour's stem cells could be killed then it would torpedo the old wisdom that no patient is ever cured of cancer, but merely goes into remission. True cures for cancer would be possible.

The cancer-stem-cell theory, though plausible, was based on animal experiments and its relevance to humans was untested. But a series of studies reported this week at a meeting of the American Association for Cancer Research, in San Diego, has changed that. They suggest both that cancer stem cells are very relevant indeed to survival, and that going after them is an excellent idea.

The relevance of cancer stem cells to survival was shown by William Matsui of the Johns Hopkins Sidney Kimmel Cancer Centre in Baltimore. He looked at samples from 268 people with pancreatic cancer and found that the pattern of stem cells in their tumours predicted how long they would live. Those whose tumours had stem cells at their edges (the “invasive margin” in the militaristic jargon of the cancer-warriors) lived on for an average of 14 months. Those who did not lived an average of 18 months. Not a huge difference, but confirmation that cancer stem cells have an impact on the outcome of disease.

Bombs away

Such stem cells, then, are as bad as theory suggests they should be. The question is, can they be eradicated?

Animal tests suggest this is hard. For reasons as yet unknown, stem cells are resistant to standard cancer chemotherapies. With this in mind, Jeffrey Rosen and his colleagues at Baylor College of Medicine in Houston, Texas, compared samples from breast-cancer patients taken before and after 12 weeks of chemotherapy. They reasoned that if stem cells were resistant in people as well as mice, then the proportion of stem cells within a tumour would increase as more vulnerable cells were killed off in disproportionate numbers.

And that is exactly what happened. Among women treated with old-fashioned chemotherapy, the share of stem cells within their tumours rose from 5% before treatment to 14% afterwards. Dr Rosen, however, went further. In a parallel experiment he looked at a group of women being treated with a new drug called lapatinib. In these people, the proportion of cancer stem cells decreased from 10% before therapy to 7.5% after they were treated.

Lapatinib is a product of the growing field of molecular medicine—the design of drugs to attack specific protein molecules associated with particular diseases. In this case the protein attacked is HER2, a molecule often found on the surface of breast-tumour cells. Ironically, however, it was not lapatinib's effect on HER2 that made it potent against stem cells. Lapatinib, it turns out, also inhibits the activity of a protein called the epidermal growth factor receptor, which has been found to be important for stem-cell proliferation. When its activity is blocked, a stem cell's daughters both lack stem-cell qualities and the chain of “stem-cellness” that the system depends on is broken. Hence the proportion of stem cells in the tumour falls.

It is too early to tell if Dr Rosen's discovery is a life-prolonging one. But Dr Matsui and his colleague, Carol Ann Huff, are thinking along similar lines.

Alongside Dr Matsui's pancreatic-cancer work, they have been looking at treating multiple myeloma, a type of blood cancer, with a combination of heavy artillery and guided missiles: high-dose cytotoxic chemotherapy to kill the bulk of the cancer cells and antibodies called rituximab. These bind to a protein called CD20 that sits on the surface of cancer stem cells. It was expected to kill them.

Not every experiment works, and this one did not. As expected, patients left with the fewest cancer stem cells after the therapy lived longest. But this was the luck of the draw, for the rituximab failed to kill the cancer stem cells. Indeed, Dr Huff and Dr Matsui could see stem cells coated with the antibodies alive and well in their samples.

The next step, Dr Huff and Dr Matsui agree, is to bring in even more powerful missiles. Another proprietary antibody that binds to CD20, called tositumomab, is radioactively labelled. If this coats the myeloma stem cells in the way that rituximab does, the radiation should kill them.

Researchers at the University of Michigan, where tositumomab was developed, have already begun such an experiment. Andrzej Jakubowiak, who is leading the trial, says four patients have been on the treatment long enough to be evaluated, and three of them have already been taken off other drugs and appear clinically stable—which for advanced myeloma is an unusually good success rate. The laboratory data also look promising. The radiological bombs seem to be destroying the cancerous stem cells in exactly the predicted manner—although Dr Jakubowiak rightly cautions that too few patients have been treated to allow firm conclusions.

The upshot of all this is that the stem-cell hypothesis of cancer growth looks a good one. It explains a lot of things, and allows biologists to look at tumours in a new way—almost akin to developing organs, albeit ones with no function and growth that is out of control. That insight, and a better understanding of stem-cell biology, may be the chink in cancer's armour that people have long been searching for. And that is a truly optimistic thought.

Alzheimer's disease

To have and have not

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Some people show the cellular signs of dementia without being demented

ALZHEIMER'S disease is one of the most puzzling around—and also one of the most important. The longer someone lives, the more likely he is to get it. As average life-expectancies rise, so will the incidence of the disease. And an Alzheimer's patient, alive but incapable, is expensive to look after. Thoughtful finance ministers, if such exist, should wonder whether their successors' budgets will stand the strain.

The puzzling medical aspect of Alzheimer's is that no one truly knows how it debilitates and kills. It can be diagnosed with certainty only *post mortem*, because its defining characteristics are microscopic plaques and tangles in the nerve cells of the brain. But large numbers of these are also found in the brains of a few people who have shown no slackening of the mental faculties when they were alive.

A paper presented at the American Academy of Neurology's Annual Meeting in Chicago this week may cast some light on this mystery—and perhaps how to slow down the disease's progress. Deniz Erten-Lyons, who works at Oregon Health and Science University, in Portland, and her colleagues think they have found a consistent feature of the brains of those who have the internal stigmata of Alzheimer's disease without suffering the outward manifestations: their brains are larger. In particular, their hippocampuses are about 10% bigger than average.

The hippocampuses (there are two, one in each hemisphere of the brain) play a central role in memory formation, and also in the ability to navigate. Serious hippocampal damage means the loss of the ability to form new long-term memories. And the hippocampuses are one part of the brain where the plaques and tangles of Alzheimer's disease are found.

The team looked at the brains of 12 people with enough damage discovered *post mortem* to have qualified as suffering from Alzheimer's, but who had scored zero on the Clinical Dementia Rating Scale within the year before they died. They compared them with those of 24 others diagnosed with Alzheimer's while still alive. Though the sample was small, the team found no significant difference between the two groups other than brain size.

How that protects people is unclear. It may simply be a matter of dilution, of course, with a greater number of healthy nerve cells covering for damaged ones. But if that were so, then at least some mild effect might be expected to show in the behaviour of those with larger hippocampuses. Instead, there is none.

This points to the idea that the tangles and plaques may not directly impair brain function after all. Something else may cause the mental decline. This idea has skulked in the dark corners of Alzheimer's research for a while. Work has concentrated on plaques and tangles because they are easy to see and measure, but it has not been clearly demonstrated that they actually kill brain cells, rather than being symptoms of some deeper cause.

In the light of all this, Dr Erten-Lyons and her team are already looking at the amounts of different proteins in both groups of brains from the study to see if there are systematic differences between them. They are also looking at the number of synaptic connections between nerve cells in the two groups, as this could also provide useful information. On this work, and work like it, could hang the fortunes and futures of entire countries.

Nanotechnology

Silver tongues

Apr 17th 2008 | NEW YORK
From The Economist print edition

Regulators are looking more closely at nanotechnology claims

ANCIENT Phoenicians stored their drinking water in silver vessels, but not for aesthetic reasons. They discovered that by doing so they remained healthier. The reason for that is now understood: silver has antimicrobial properties.

In the 21st century people have realised that if you fortify Phoenician wisdom with a dash of nanotechnology, silver can be made into a far more potent bactericide. Companies have quickly seized on this idea to produce a wide variety of products, from clothes to soap and even chopsticks, containing silver nanoparticles. The claim is that they destroy germs.

But silver can also accumulate in the environment and, at certain levels, prove toxic. Nor is the general safety of nanoparticles fully understood, not least because they can react in novel ways. Some scientists think more research is needed and perhaps more regulation too. A move in that direction now seems to be under way.

Silver's natural germ-killing ability stems from its extremely slow release of silver ions (electrically charged atoms, or groups of atoms). When made into particles only a few nanometres big—a nanometre is a billionth of a metre—they shed a lot more ions and so become more potent.

America's Environmental Protection Agency (EPA) is worried about a large number of products claiming antimicrobial abilities. One is “Silver Wash”, a washing machine made by Samsung, which claims to employ nanotechnology to release hundreds of billions of silver ions during a wash to sanitise fabrics.

The EPA has ruled that ion-generating devices that claim to kill germs must be registered as a pesticide and tested to show they pose no unreasonable risk. The EPA says its intention is to regulate ion-generating devices rather than nanotechnology itself. But it is hard to draw a distinction. Andrew Maynard, chief science adviser for the Project on Emerging Nanotechnologies at the Woodrow Wilson International Centre for Scholars in Washington, DC, says functionality is an important part of the definition. Turning silver into tiny particles that behave in new ways (for example, by shedding more ions) and putting those particles into new places (such as fabrics) qualifies—or so he thinks.

One consequence of dividing a substance into nanoparticles is that the surface area of the material greatly expands. “Nanosilver is so tiny it can go right to the surface of an organism and essentially shoot ions into the organism,” says Sam Luoma, a research scientist at the John Muir Institute of the Environment at the University of California, Davis. Although this makes silver nanoparticles an extremely effective antimicrobial agent, it also raises concerns about humans' ability to withstand relatively high exposures.

Despite the unknowns, Dr Luoma and others believe there is enormous potential for good from nanosilver. It can, for example, be used in small amounts to coat medical catheters to reduce the possibility of infection without causing environmental worries. “We need to separate out the truly beneficial uses,” he adds.

The EPA will not look at benefit or necessity, but is determined to make its registration stick. It has fined one company more than $200,000 for making unsubstantiated claims about unregistered nanosilver-coated computer mice and keyboards. Firms making claims about nanotechnology need to watch out.

Financial endocrinology

Bulls at work

Apr 17th 2008
From The Economist print edition

To avoid bad days, financial traders should watch their testosterone levels

THE relentless search for ways to beat the market is what, in the end, makes the market unbeatable. Yet traders looking for edges tend to seek them in the outside world, where they are visible to others. If a trader could wake up in the morning and predict whether he was going to have a profitable day or not from only what he knew about himself, it would be an interesting new way of making money.

It sounds implausible. Yet it is the logical conclusion of research carried out by John Coates and Joe Herbert, two neuroscientists at Cambridge University. Their study of traders in the City of London, just published in the *Proceedings of the National Academy of Sciences*, suggests that whether or not a trader will have a profitable day can be predicted by his testosterone level in the morning.

Dr Coates and Dr Herbert recruited 17 male volunteers from an un-named City institution. The researchers were interested in two hormones, testosterone and cortisol, which are both linked with mood and behaviour. Testosterone is associated with (among many other things) winning and losing, and cortisol with stress. The researchers predicted that a trader's testosterone levels would be high on days when he made above-average profits, and his cortisol levels would be high when he made an above-average loss. As it happened, neither prediction was quite on the money. Testosterone levels were, indeed, high, but they anticipated profit, rather than responding to it. And cortisol responded not to loss, but uncertainty.

To arrive at their conclusions, Dr Coates and Dr Herbert took swabs from the mouths of their volunteers at 11am and 4pm on eight consecutive trading days, and analysed the hormones they contained. The prediction that a trader enjoying higher-than-average profits (the average being his previous month's success) would have higher-than-average testosterone levels was, indeed, fulfilled. But a closer analysis showed something more subtle happening. The average level was the sum of 11am and 4pm, divided by two. However, the result also pertained to each individual measurement. That meant the morning level was predicting high performance, rather than being caused by it.

The researchers were also surprised to find that cortisol levels did not rise in those who had underperformed their average daily profit level. That, apparently, was not stressful. What was—at least if the hormones were to be believed—was risk.

Risk was measured in two ways. First, the two researchers looked at the variance of each trader's profits around his daily mean, on the assumption that a greater variance implied greater risk-taking. In this case their expectation was borne out: the greater the trader's profit variance, the greater his average cortisol level. Second, they looked at the overall riskiness of the market itself. Since all of their volunteers had high exposures to the German market, Dr Coates and Dr Herbert measured market volatility by looking at the price of ten-year bond-futures contracts one month from expiry. Such prices capture market estimates of future variance in the price of the underlying bonds, and are thus a good estimate of volatility. Again, as predicted, the daily group-average cortisol level correlated nicely with this measure of market volatility.

The upshot is that financial traders seem less stressed by failure than uncertainty. That is probably a realistic response to the nature of the job. But the study also suggests there may be days when a saliva sample might urge a trader to avoid his screen and go for a walk along the Thames instead. It suggests, too, that whoever came up with the phrase “bull market” had an insight that was physiologically as well as psychologically perceptive.

Correction: Palaeontology

Apr 17th 2008
From The Economist print edition

The photograph captioned “Plants, too”, accompanying our article “Seeing the light” on the second page of last week's Science and Technology section was, in fact, a picture of a fossil feather. (This photograph did not appear online.)

Steel industry battles

Forging a new world

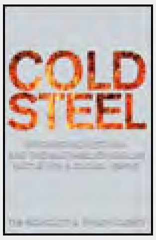
Apr 17th 2008
From The Economist print edition

AFP

How one man's dream succeeded in rebuilding a global industry

WHEN Lakshmi Mittal launched his 2006 bid for Arcelor, Europe's biggest steel company, spanning Luxembourg, France, Belgium and Spain, he was a mystery to continentals. The Indian expatriate was already known as the richest man in Britain, but French ministers, alarmed at this assault on a largely French bastion, were unsure whether the attack was coming from India or elsewhere.

Cold Steel: Britain's Richest Man and the Multi-Billion-Dollar Battle for a Global Empire
By Tim Bouquet and Byron Ousey



Little, Brown; 340 pages; £20

Buy it at
Amazon.co.uk

Yet a little over a year after swallowing Arcelor to form the world's leading steel company, Mr Mittal was nominated to the board of EADS, Europe's pre-eminent aerospace group, prompting, as he recalls, anxiety from its German shareholders that he was too close to the French side. President Nicolas Sarkozy, no less, went on to welcome him to France after one of the bitterest takeover battles Europe has seen.

More than anybody else, Mr Mittal transformed the steel industry from a collection of national and regional players into one of global giants. Steel companies needed to consolidate to match the power of the mining giants, which sold them iron ore and coal, and that of the car and construction behemoths which bought their rolls or girders. Others saw the need for consolidation; Mr Mittal made it happen.

With his father's backing, Mr Mittal first set up a steel business in Indonesia, and then expanded it to Trinidad, Mexico, Canada and Romania. His roving eye brought him mines and mills in Kazakhstan and Germany before he turned his attention to Arcelor, which was formed after the governments of France and Luxembourg privatised their national steel companies. Pitted against him was Guy Dollé, a mercurial son of Lorraine, born into the cradle of the French steel industry. Mr Dollé thought he was running Arcelor, but its veteran Luxembourg chairman, Joseph Kinsch, wielded the real power, and in the end had to deliver the painful surrender.

“Cold Steel” analyses how a once-poor boy from Rajasthan outwitted the industrial establishment in France and overcame the forces of “economic patriotism” that so often block foreigners from taking over continental European companies. Mr Mittal's bid was enough to make investment bankers and lawyers drool. Teams of consultants were hired on behalf of the bidder, while rival groups marshalled legal and financial arguments for the defence. One of the book's authors worked for the Luxembourg government, and both have interviewed most of the participants. The result is a rare, if slightly breathless, insider's account of lots of people making millions out of a deal that cost the Mittal group over €25 billion ($39.5

billion) to conclude: the defence team earned its keep by extracting a 50% price rise during the six-month battle.

Mr Mittal and his son Aditya thought up the deal at the family's Alpine ski lodge just before Christmas in 2005, and approached Arcelor a few weeks later. An early rejection led the group to seek clearance from regulators in Europe and America for a formal bid. Because the Mittals held four-fifths of the shares in the company that bears their name, they faced charges that theirs was more a family firm than the listed giant it had become. But one of Mr Dollé's biggest mistakes early on was to refer to bands of Indians descending on mills, which were being taken over by the Mittals with their “monkey money”, by which he meant Mittal shares rather than hard cash. Whether or not Mr Dollé intended it as a racist remark, the jibe rebounded badly on him.

The book reads like a thriller, with each side trying to rope in other steel companies on both sides of the Atlantic as allies. The bid teams met in secret locations and used code words and security sweeps for bugs, to try to prevent leaks. Mr Mittal at one point thought he had lost when Arcelor dragged in the Russian Severstal group to form a defensive merger to shut him out. But eventually the logic of putting together the global Mittal interests with the European assets of Arcelor won over politicians, regulators and investors.

Arcelor's bosses learnt that European protectionism had limited support, especially when Arcelor's foreign investors wanted its shareholders alone to decide. The Mittals scored a victory when they signed up François Pinault, a leading French businessman, who agreed to join the Mittal board. As this book shows, money and business logic prevailed in the end over politics and protection.

Cold Steel: Britain's Richest Man and the Multi-Billion-Dollar Battle for a Global Empire.
By Tim Bouquet and Byron Ousey.
Little, Brown; 340 pages; £20

The British in Iraq

Blood in Basra and beyond

Apr 17th 2008
From The Economist print edition

Three accounts of the war in Iraq are defined by anger and wry humour

AT ITS worst, Iraq's rhythm of violence was so predictable that Oliver Poole, the *Daily Telegraph*'s correspondent, reckoned he could tell the time in Baghdad by the nature of the explosions: mornings started with a “dull pop” as patrols were hit by roadside bombs planted overnight. Then came the suicide-bombers. Afternoons were the turn of the mortar teams who liked harassing the Americans in the protected Green Zone. Finally after sunset came the gunfire from military operations and extra-judicial killings.

Mr Poole's vivid “Red Zone” is one of several first-person British accounts that complement recent American books dissecting how the war went wrong. A fellow journalist, Jonathan Steele, has written a strong polemic against America's occupation of Iraq, while Britain's former man in the south, Sir Hilary Synnott, provides an insider's account of the hopelessness of trying to administer the country.

“Red Zone” is filled with details that are at once sad and wryly amusing. An American sniper wants a manicure to ensure the smoothness of his trigger finger, while a marine chaplain describes another experience: “I saw a dog comin' from the chest cavity of a man, its face drippin' with blood. That was pretty bad. I've got dogs and I don't think I'm quite goin' to look at them the same way again.”

Mr Poole's priority was not so much getting the story, as avoiding “becoming that figure in an orange jumpsuit being beheaded”. He peeks over the parapet of the Hamra hotel and through the bullet-proof glass of an American Humvee. Yet his sense of the absurd and his ear for a quote make for a memorable account.

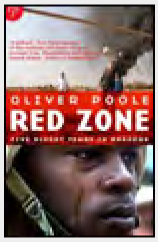
His book skims over history and war policy. For the latter some insight can be gained from Sir Hilary, a former British high commissioner to Pakistan, who was put in charge of southern Iraq in July 2003. Sir Hilary found the Coalition Provisional Authority (CPA), headed by Paul Bremer, both imperious and dithering—and he regarded it as almost as big a problem as Basra's militias.

Sir Hilary arrived in Basra shortly after Mr Bremer made two of his best-known blunders—dissolving the Iraqi army and banning former Baath party members from government jobs—but there were lots of other disputes. Among the most serious were the attempts to privatise state-owned industries and withdraw food subsidies. At one point Mr Bremer dismissed the British generals' qualms about the legality of detaining oil smugglers on the high seas, declaring: “I am the law.”

Despite Britain's history of empire, Sir Hilary says it was unprepared for colonial-style administration, lacking both people and funds. Just as the British civilian effort was belatedly stepped up in late 2003, it was quickly deflated by America's decision to wind up the CPA and hand power to an appointed government in June 2004.

Like Mr Poole, Sir Hilary reports being hopeful in the early days. A senior cleric in Basra told him he thought “every troubled country should have a period of British occupation.” Might better planning and decisions have resulted in success? It is impossible to tell, says Sir Hilary, but the many mistakes ensured that success

Red Zone: Five Bloody Years in Baghdad
By Oliver Poole

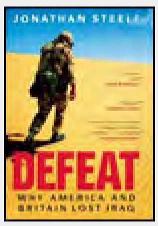


Reportage Press; 384 pages; £12.99

Bad Days in Basra: My Turbulent Time as Britain's Man in Southern Iraq
By Hilary Synnott

I.B. Tauris; 240 pages; $26.95 and £17.99

Defeat: Why America and Britain Lost Iraq
By Jonathan Steele



Counterpoint; 304 pages;

was "almost if not entirely impossible". His message is that Britain must learn from the mistakes: "Despite the unpopularity of the Iraq war, Britain and America seem likely to be involved in more, not fewer, nation-building efforts in the coming years."

$26. I.B. Tauris; £20

Buy it at
Amazon.com
Amazon.co.uk

For Mr Steele, who writes for the *Guardian*, this is a delusion. The whole idea of foreigners running an Arab country, particularly Iraq, was doomed, he argues, because it was an unbearable affront to Iraqis' national pride. Mr Steele regards the invasion as illegal. But he says that the precise moment of failure came on May 22nd 2003, when America and Britain secured Security Council resolution 1483 identifying them as the "occupying powers". Had they instead handed over responsibility to a United Nations peacekeeping force, says Mr Steele, "the insurgency could have been avoided."

It is an attractive argument, but the practical difficulties would probably have been insurmountable. It is a pity that Mr Steele makes so little of the reduction in violence achieved by America's "surge" of forces in the past year. Yet some of the usual villains of the Iraq story become unlikely heroes. Take Donald Rumsfeld, the defence secretary who was eventually fired. Mr Steele says he rightly believed that any occupation should be short-lived. His fault was not just that he supported the war but that he failed to press hard enough to bring the army home quickly.

Red Zone: Five Bloody Years in Baghdad.
By Oliver Poole.
Reportage Press; 384 pages; £12.99

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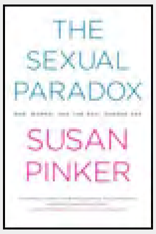
By Jonathan Steele.
Counterpoint; 304 pages; $26. I.B. Tauris; £20

Men, women and work

Vanilla is not the only flavour

Apr 17th 2008
From The Economist print edition

The Sexual Paradox: Men, Women, and the Real Gender Gap
By Susan Pinker



Scribner; 352 pages; $26. Atlantic Books; £12.99

Buy it at
Amazon.com
Amazon.co.uk

WHY can't a woman be more like a man, wondered Henry Higgins of his protégée Eliza Doolittle? Susan Pinker, a psychologist-turned-journalist, thinks the question is still being asked, *sotto voce*, by those who fret about the absence of women in boardrooms and laboratories.

Male, she says, is the “vanilla gender”; the norm from which female deviates. Now that women are free to work in any field, their choices are expected to mirror those of the men around them. So discrimination, albeit covert, is often held to be the cause when more women study biology and education than computing and physics, or take part-time and public-sector jobs rather than work the 80-hour weeks needed to get a seat on the board or a partnership in a law firm.

Ms Pinker sets out a different hypothesis: that the Western women who on average do different work from their brothers do so freely and with reason. The theory is attractive, given that the common alternative view is that women are all too often “either patsies or victims”. It is also controversial. Larry Summers resigned as president of Harvard University in 2006 because of the fuss caused by his suggestion that discrimination might not be the only reason so few women make it in science. But Ms Pinker marshals much evidence to back up her contention (some of it more contested than she acknowledges) of differing brain structures, hormones, motivation, empathy and risk-aversion.

Some of the material is familiar from such books as Simon Baron-Cohen's “The Essential Difference”, and there is the occasional sloppiness (she cites, for example, a correspondent with a degree from the “University of Oxbridge”). But the meat of the book is original: Ms Pinker finds out why men and women travelled along different career trajectories by the simple method of asking them. Able women who left academic science or stepped off the corporate ladder tell her they wanted something different from life, and insist discrimination had little to do with it. Successful men with learning difficulties such as dyslexia, autism and attention deficit disorders, including some she met as children, explain how an unpromising start can sometimes act as a springboard.

Ms Pinker is surely right that understanding the causes of workplace gender gaps, rather than mulishly insisting sex differences do not exist, will ultimately be better for both women and men. “Simply letting the chips fall where they may has a discriminatory effect,” she points out. Gender-blind parental-leave policies at universities often load the dice against women; many return to work with nothing more than a backlog, whereas men tend to advance their case for tenure by coming back with a book.

Ms Pinker's “vanilla male” hypothesis is supported by the shame felt by the women she interviewed about having made choices that differed from men's: those who decided against careers in mathematics or science, despite excelling in those fields, or who found themselves emotionally torn on becoming mothers, worried they were “letting the side down”. One interesting detail is that all the women she interviewed asked for their identities to be concealed; no man did.

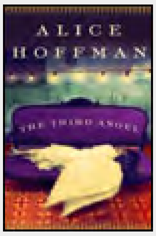
The Sexual Paradox: Men, Women, and the Real Gender Gap.
By Susan Pinker.
Scribner; 352 pages; $26. Atlantic Books; £12.99

New fiction

A tale of three women

Apr 17th 2008
From The Economist print edition

The Third Angel
By Alice Hoffman



Shaye Areheart Books; 278 pages; $25. Chatto & Windus; £11.99

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Amazon.co.uk

ANGELS, herons, a ghost and a down-at-heel hotel anchor Alice Hoffman's examination of human vulnerability, which she tells through the lives of three different women.

Ms Hoffman is renowned for her taste for folk tales and the lyricism of her fiction. Her 20th novel is told retrospectively in three parts over nearly half a century. It starts in London in 1999 when Madeline Heller, a self-absorbed lawyer, arrives from New York for her sister Allie's marriage. Madeline knows she should resist the attraction she feels for Paul, Allie's fiancé, yet the envy she feels for her sibling's “perfect” life leads her back into the role of “bad little sister who couldn't follow rules”.

The second part of the story takes the reader back in time to 1966 when 19-year-old Frieda, Paul's future mother, is working as a maid at the Lion Park Hotel in Knightsbridge having fled her father, who wanted her to become a doctor. Here she falls in love with a charismatic drug-addicted musician, for whom she writes a song about the ghost haunting one of the hotel's bedrooms.

The novel's final section is set in 1952, when 12-year-old Lucy Green, later to become Madeline's mother, is reluctantly brought to London for a wedding. To distract her mind from her own sadness Lucy allows herself to be drawn into a doomed love triangle and witnesses a tragic accident for which she holds herself responsible—until she is set free by a man trapped in his past.

“The Third Angel” is a grittier novel than “Skylight Confessions”, Ms Hoffman's previous and more whimsical work. Despite this, it still retains an element of her trademark fairytale style. Its realism, combined with a refreshing lightness and its success in portraying emotion with empathy, draws the reader into a deep involvement with the book's appealing yet flawed characters. Each woman faces up to her challenges in her own way, proving that everyone in the end is responsible for his or her own destiny.

The Third Angel.
By Alice Hoffman.
Shaye Areheart Books; 278 pages; $25. Chatto & Windus; £11.99

Tony Judt

Appraiser appraised

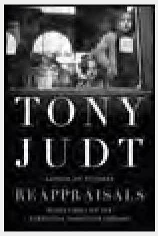
Apr 17th 2008
From The Economist print edition

TONY JUDT is a polymath. He was born in Britain into a family of Jewish refugees and now lives in America, where he teaches at New York University. He has an enviable grasp of European cultural history and a sharp and sometimes savage turn of phrase, both of which are well displayed in this collection of long essays and book reviews.

Mr Judt is at his best attacking those he believes mischaracterise or misunderstand intellectual giants like Arthur Koestler and Primo Levi. Myriam Anissimov's book on Levi, he says, is “uninspired and mechanical”; her narrative “a choppy mix of long excerpts” mixed up with “clunky and inadequate summaries of ‘context’.” Mr Judt sees Ms Anissimov's misunderstanding of Levi's significance as akin to describing Ulysses (Levi's literary hero) as being nothing more than “an old soldier on the way back from the wars who encounters a few problems en route. Not false, but hopelessly inadequate.”

Yet these demolition jobs just clear the stage for the main performance, which is Mr Judt's own shrewd and revealing thoughts on the subject in question. At the end, long after you have forgotten Koestler's “Darkness at Noon” and only dimly remember that Levi made chemistry interesting, you feel you have been eavesdropping on a sparkling conversation.

Reappraisals: Reflections on the Forgotten Twentieth Century
By Tony Judt



Penguin Press; 448 pages; $29.95. William Heinemann; £20

Mr Judt skewers two revered figures: Louis Althusser (a Marxist theorist and narcissist, madman and murderer) and Eric Hobsbawm, the grand old man of English left-wing history. He carefully dissects Mr Hobsbawm's evasions and euphemisms on the subject of the millions of murders committed in the name of the communist cause he still espouses: “Eric Hobsbawm is the most naturally gifted historian of our time; but rested and untroubled, he has somehow slept through the terror and shame of the age.” It is a performance worthy of George Orwell.

Mr Judt's sorties on religion, politics and economics are less judicious and drip with contempt for modern politicians. In the introduction he laments that the period between the collapse of communism and the Iraq war were locust years, a “decade and a half of wasted opportunity and political incompetence on both sides of the Atlantic.” Perhaps. But it is hard to find any age in recorded history in which politicians covered themselves in glory.

The authoritative tone which is so convincing when he is talking about the continental intellectuals of the last century works less well when it is peddling the conventional wisdom of the left. Mr Judt's attempt to explain Britain by discussing the decline of its trains, for example, verges on the ludicrous: Britain's privatised railways may have their problems but in 2007 they recorded the highest number of passenger-miles since 1946.

More controversial are his attacks on Israel and what he regards as the all-powerful Israel lobby in America, which, he says, squelches debate and is pulling both countries towards disaster. Mr Judt's opinions are well-known and widely debated, which undermines his argument that they are rarely heard. Many will find both judgments and facts awry. Does Israel really have “no” friends apart from America? He echoes, with apparent approval, the notion that the Jewish state “is widely regarded as a—*the*—leading threat to world peace”. The italics are his.

Mr Judt also often adds a pompous-sounding endnote to his essays, preening himself over the controversy while dismissing other voices. Energetic readers may enjoy looking up the references, but it would serve the cause of truth better if he had printed his assailants' remarks alongside his own. Mr Judt, it would seem, enjoys dishing out criticism, but is less willing to take it on the chin himself.

Reappraisals: Reflections on the Forgotten Twentieth Century.
By Tony Judt.
Penguin Press; 448 pages; $29.95. William Heinemann; £20

Japanese contemporary art

Infantile capitalism

Apr 17th 2008 | NEW YORK
From The Economist print edition

At the centre of Takashi Murakami's new exhibition is a shop. Even Andy Warhol never went that far

AMONG the many rooms that make up this grand retrospective of the work of Takashi Murakami, Japan's best-known contemporary artist, one is especially provocative. It is not the gallery with the wide-eyed cartoon-like figures in bizarrely erotic poses. Nor is it the atrium, with its towering sculpture of a colourfully grotesque, pointy-headed alien, surrounded by adorable marshmallow-like sentries. The biggest buzz is about the space right in the centre of the Brooklyn Museum's 18,500 square-foot (1,700 square-metre) show: a fully operational Louis Vuitton shop, where visitors can buy their very own luxury handbag covered in Mr Murakami's playful designs for upwards of $650.

“Being good in business is the most fascinating kind of art,” Andy Warhol once said. Mr Murakami, 46, who is often called the “Japanese Warhol” for his savvy publicity and branding, thoroughly muddles the difference between his art and commercial work. In addition to his Louis Vuitton collection (which he describes as “the heart of the exhibition”), his personal company churns out everything from paintings to keyrings. His promotional literature advertises his auction records and makes little distinction between artistic and financial success.

This approach to art is particularly Japanese, argues Mr Murakami. Discriminating between fine art and popular merchandise, or individual genius and learned craft, is a Western preoccupation. Trained in traditional Japanese art, Mr Murakami coined the term “Superflat” for his theory about the similarities between the formal, decorative flatness of Japanese painting and the shallow, glossed fantasies of popular Japanese cartoons. It also recognises the lack of distinction between high and low in Japanese art. To others his art is known as the school of “infantile capitalism”.

This 90-piece, multimedia show, originally curated for the Museum of Contemporary Art in Los Angeles, where it was on view until mid-February, is the most ambitious examination so far of the whole Murakami brand. Galleries feature his distinctive mix of sinister and innocent, otherwise known as “sado-cute”: enormous canvases of googly-eyed mushrooms (subtly evocative of mushroom clouds); walls of hysterically cheerful flowers; a sexually explicit female robot that turns into an aeroplane; a demonic character named Mr DOB who is clearly derived from Mickey Mouse; and an animated film of two weirdly cute, snaggle-toothed creatures, Kaikai and Kiki.

Kaikai Kiki is also the name of Mr Murakami's company, which employs more than 100 people in three offices in Tokyo and New York. Unlike Warhol's “Factory”, which was a stylish, party-ready conceit, Mr Murakami's operation oversees a sophisticated assembly-line. He designs and then delegates, and crafts the elegant theories that help sell his works for record prices. His solo show at the Larry Gagosian gallery in Manhattan last summer, where his works were priced at $100,000-$1.6m, sold out before it even opened.

Mr Murakami argues that the Japanese fixation with violent comic books, titillating plastic figurines and super-cute creatures, such as Hello Kitty, is a product of the country's sense of impotence following the second world war. The humiliation of Japan's military and the rise of the female corporate executive served to invert the traditional gender hierarchy; in his writing he refers to the “self-medicated denizens of a castrated nation-state”.

Yet Mr Murakami's art is less articulate than you would expect from this elaborate theorising. The colourful, slick canvases are technically impressive, but they have all the emotional weight of the “go-faster” stripes you see on cars. Even his largest and most dynamic works fail to move, largely owing to the sterile application of bright acrylic paint on canvas.

As for Mr Murakami's sexualised sculptures, with their oversized breasts and silly big eyes, like “Miss Ko2 at Wonder Festival 2000” (pictured left), here he is clearly celebrating the emotional regression and sexual perversion of Japanese *manga* comics, even as he claims to critique the genre.

Having it both ways is typical of Mr Murakami, who has managed to create an intellectual framework that lets him do and sell whatever he wants. Perhaps the best thing you can say about it is that his unbridled embrace of commercialism seems more honest than cynical.

To the plastic palace

“©Murakami” is at the Brooklyn Museum, New York, until July 13th

Correction: Crime fiction

Apr 17th 2008
From The Economist print edition

In our round-up of recent crime fiction ("Murky work", April 5th) we confused the titles of Frank Tallis's two latest novels. His most recent book, published in Britain by Century, is "Fatal Lies". It will be published by Arrow in America in August. Matt Rees's "The Saladin Murders" is titled "A Grave in Gaza" in America. Our apologies to both authors.

Economist.com
PEOPLE
OBITUARY

Pedro Zaragoza

Apr 17th 2008
From The Economist print edition

El País

Pedro Zaragoza Orts, mayor of Benidorm, died on April 1st, aged 85

ON THE Mediterranean coast of Spain there is a way of catching tuna called the *almadraba*. Instead of launching drift nets or putting out a rod and line, fishermen round up the tuna in a shallow pool. There, after much thrashing and splashing, the big pale fish lie still by the dozen, water and oil glistening on their blubbery flanks, some showing curiously crimson flesh, while the sun begins to bake them.

It may have been this sight, traditional to Benidorm until its young men started to opt for the merchant marine, that inspired Pedro Zaragoza Orts to turn his town into a mecca for tourists from northern Europe. As mayor from 1950 to 1967, he succeeded beyond even his grandiose expectations. At the foot of bare, brown mountains, on soil that was good for nothing but olive and almond trees, he planned and urged the building of a rough approximation of Hong Kong. Visitors flocked in, and still do: more than 4m a year packing scores of high-rise hotels, the biggest concentration of guest beds after London and Paris, accounting for 7% of tourism in Spain.

Belgians came, and Dutchmen; Danes and tall, blond Swedes; Irish, floating on a sea of Guinness and green shamrock motifs; and most of all the English, cramming into cheap jets to Alicante, easing their sore thighs onto plastic chairs, to eat Sunday roast and Yorkshire puddings at Blackpool Pier or steak pie and mushy peas at the Beer Barrel, where Dot and Jeff or Shirley and Brian or Del Boy and Gareth “from Bristol” would ensure them a warm welcome and a karaoke microphone under the Mediterranean stars.

Oddly enough, the Spanish too continued to come. The *pueblecito* they had known, a scattering of modest houses whose water came out of a barrel on a mule and whose sewage went by bucket into the sea, was now astonishing concrete and glass, but they enjoyed the evening *paseo* as before at the quieter end of town. Certainly Mr Zaragoza continued to like it there. Home, he would say with a comedian's twinkle, was where all your family lay in the cemetery. And he would proudly relate that several glass storeys under the office where he worked as a solicitor, once his stint as mayor was over, was the site of his mother's bedroom, where he was born and she, two weeks later, had died.

For a Falangist and a Francoist, as he was, Mr Zaragoza's love of progress was surprising. Nothing stood long in his way. (King Juan Carlos called him *El Tanque*; the mayor, returning the compliment in his later career as a provincial deputy, voted against the restoration of the monarchy.) Frustrated in Benidorm early in his career, he rode nine freezing hours on his Vespa to argue before Franco himself, in the Prado, that the best way forward for his rigid, war-ruined country was to open up to tourists. The dictator, amused by this small, round, moustachioed man with motor oil on his trousers, became a fan at once.

Sea views for everyone

Others took longer to persuade. Had he been elected, Mr Zaragoza often said, rather than appointed, he would have been turfed out smartly. But he could play the *caudillo* in his little patch, and had a good *grupo de locos* round him. From 1956, doubters about his ideas for Benidorm were handed copies of his General Plan for Urban Organisation, the first and now the most enduring such document in Spain, in which 40-metre-wide boulevards radiated from the tin-pot plaza and huge hotels loomed right by the empty beach. Skyscrapers made sense, he argued. They saved on piping for utilities, took up less land than chalets or villas, cut down the walking time to the sand, and gave everyone a sea view. Mr Zaragoza's model, for better and worse, was soon rising on all the other *costas* in the land.

It was not enough, however, just to let rip with the permits and the cement. Mr Zaragoza had to sell his town. And he stopped at nothing. The same resourcefulness that had made him try his youthful hand at railway portering and phosphorous-drilling, rather than going to sea, stood him in good stead as Benidorm's salesman. He scattered flowering almond branches from the town in wintry Stockholm department stores. “Bottled sunshine” Benidorm wine was sent to the Queen of England. At odd points on German autobahns hand-painted signposts to Benidorm appeared. Best of all, in 1952 Mr Zaragoza allowed newfangled bikinis everywhere in town, defying both the archbishop and the *Guardia Civil*. Let them wear what they like, he said, and our visitors will return.

He was not always entirely happy with what he had achieved. British lager louts pained him, and over-enthusiastic building meant that the “leisure space” he had ordered between hotels was sometimes pocket-handkerchiefed in size. Some high-rise plans began to fall foul of a new law to reverse the coastal citifying he had started. Indeed, in his last years, Benidorm was making energetic shifts to become something else, with the opening of a nature park and an upmarket golf resort on the hills behind the town. It would be good, the tourism manager remarked, to attract a better class of client. Not, of course, that there was much wrong with the sort Mr Zaragoza had managed to catch; or with the smell they had brought in, of gently frying fish and chips.

Overview

Apr 17th 2008
From The Economist print edition

China's economy is still growing rapidly, albeit at a less breakneck speed than it was last year. GDP rose by 10.6% in the year to the first quarter, according to a preliminary estimate, compared with a growth rate of 11.9% for 2007. Consumer-price inflation eased slightly to 8.3% in March, from an 11-year high of 8.7% in February. The central bank said it would raise the share of deposits that banks must keep as reserves from 15.5% to 16% from April 25th, to curb credit growth and help cool the economy.

In **America** consumer prices rose by 0.3% in March to leave them 4% higher than a year earlier. Excluding food and energy, prices rose by 0.2% in March and by 2.4% from a year earlier. The value of retail sales rose by 0.2% in March, following a 0.4% drop in February. Housing starts dropped by 11.9% in March to their lowest level for 17 years.

Consumer prices in **Britain** rose by 2.5% in the year to March, the same rate as in February and above the government's 2% target. The unemployment rate edged down to 5.2% in the three months to February; employment rose by 0.5% over the same period.

Consumer prices in the **euro area** rose by 3.6% in the year to March, revised up from a preliminary estimate of 3.5%. Industrial production rose for a second successive month in February, by 0.3%.

Brazil's central bank raised its benchmark interest rate by 0.5 percentage points, to 11.75%, on April 16th.

Output, prices and jobs

Apr 17th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.2	+1.7	+1.6 Mar	+4.0 Mar	+2.8	+3.3	5.1 Mar
Japan	+2.0 Q4	+3.5	+1.3	+1.5	+5.1 Feb	+1.0 Feb	−0.2	+0.7	3.9 Feb
China	+10.6 Q1	na	+9.6	+9.0	+17.8 Mar	+8.3 Mar	+3.3	+5.0	9.5 2007
Britain	+2.8 Q4	+2.5	+1.8	+1.8	+1.3 Feb	+2.5 Mar§	+3.1	+2.6	5.2 Feb††
Canada	+2.9 Q4	+0.8	+1.5	+2.1	−1.0 Jan	+1.8 Feb	+2.0	+1.7	6.0 Mar
Euro area	+2.2 Q4	+1.6	+1.6	+1.6	+3.1 Feb	+3.6 Mar	+1.9	+2.7	7.1 Feb
Austria	+3.0 Q4	+2.3	+2.6	+2.3	+7.9 Jan	+3.5 Mar	+1.8	+2.2	4.1 Feb
Belgium	+2.4 Q4	+2.0	+1.8	+1.8	−1.9 Dec	+4.4 Mar	+1.8	+2.6	10.7 Feb‡‡
France	+2.1 Q4	+1.5	+1.6	+1.6	+1.9 Feb	+3.2 Mar	+1.2	+2.4	7.5 Q4§§
Germany	+1.8 Q4	+1.1	+1.7	+1.7	+5.9 Feb	+3.1 Mar	+2.0	+2.3	7.8 Mar
Greece	+3.6 Q4	+2.8	+2.8	+3.3	−4.2 Feb	+4.4 Mar	+2.6	+3.9	8.0 Jan
Italy	+1.9 Q3	+1.7	+0.8	+1.1	−0.8 Feb	+3.3 Mar	+1.7	+2.6	6.0 Q4
Netherlands	+4.5 Q4	+4.8	+2.5	+1.9	+0.7 Feb	+2.2 Mar	+1.8	+2.0	4.0 Mar††
Spain	+3.5 Q4	+3.2	+2.4	+2.1	+3.9 Feb	+4.5 Mar	+2.5	+3.6	9.0 Feb
Czech Republic	+6.6 Q4	+7.0	+4.7	+5.4	+11.3 Feb	+7.1 Mar	+1.9	+6.5	5.6 Mar
Denmark	+1.9 Q4	+1.2	+1.5	+1.6	+1.9 Feb	+3.1 Mar	+2.0	+2.4	2.0 Feb
Hungary	+0.8 Q4	+0.5	+2.4	+3.6	+9.8 Feb	+6.7 Mar	+9.0	+5.9	8.0 Feb††
Norway	+4.7 Q4	+5.2	+2.9	+2.6	+0.3 Feb	+3.2 Mar	+1.1	+3.1	2.3 Jan***
Poland	+6.1 Q4	na	+5.1	+4.3	+14.9 Feb	+4.1 Mar	+2.5	+4.0	11.1 Mar‡‡
Russia	+9.5 Q4	na	+7.1	+6.2	+7.5 Feb	+13.3 Mar	+7.4	+12.5	6.6 Feb‡‡
Sweden	+2.8 Q4	+3.1	+2.4	+2.3	+1.9 Feb	+3.4 Mar	+1.9	+2.8	6.1 Feb‡‡
Switzerland	+3.6 Q4	+4.2	+2.1	+1.7	+9.1 Q4	+2.6 Mar	+0.2	+1.8	2.5 Mar
Turkey	+3.4 Q4	na	+4.1	+5.2	+7.5 Feb	+9.2 Mar	+10.9	+9.0	10.1 Q4‡‡
Australia	+3.9 Q4	+2.4	+3.0	+3.0	+0.1 Q4	+3.0 Q4	+3.3	+3.3	4.1 Mar
Hong Kong	+6.7 Q4	+6.6	+4.0	+4.6	−0.3 Q4	+6.3 Feb	+0.8	+4.0	3.3 Feb††
India	+8.4 Q4	na	+7.8	+7.2	+8.6 Feb	+5.5 Feb	+7.6	+5.8	7.2 2007
Indonesia	+6.3 Q4	na	+5.9	+6.3	+5.0 Jan	+8.2 Mar	+6.5	+6.8	9.8
01/02/2007									
Malaysia	+7.3 Q4	na	+5.8	+5.9	+6.6 Feb	+2.7 Feb	+3.1	+2.8	3.0 Q4
Pakistan	+7.0 2007**	na	+5.0	+5.3	+8.7 nil	+14.1 Mar	+7.7	+9.4	6.2 2006
Singapore	+7.2 Q1	+16.9	+4.4	+4.7	+10.0 Feb	+6.5 Feb	+0.6	+3.3	1.6 Q4
South Korea	+5.7 Q4	+6.4	+4.5	+4.4	+10.1 Feb	+3.9 Mar	+2.2	+2.9	3.1 Mar
Taiwan	+6.4 Q4	na	+4.3	+4.4	+15.2 Feb	+4.0 Mar	+0.9	+2.4	4.0 Feb
Thailand	+5.7 Q4	+7.3	+4.7	+4.3	+14.7 Feb	+5.3 Mar	+2.0	+5.0	0.8 Dec
Argentina	+9.1 Q4	+8.0	+6.2	+4.5	+9.3 Feb	+8.8 Mar	+9.1	+10.3	7.5 Q4‡‡
Brazil	+6.2 Q4	+6.4	+4.3	+4.1	+9.7 Feb	+4.7 Mar	+3.0	+4.7	8.7 Feb‡‡
Chile	+4.0 Q4	+3.7	+4.0	+4.6	+5.7 Feb	+8.5 Mar	+2.6	+5.9	7.3 Feb††‡‡
Colombia	+8.1 Q4	+6.8	+5.0	+4.3	+5.7 Jan	+5.9 Mar	+5.8	+5.7	12.0 Feb‡‡
Mexico	+3.8 Q4	+3.0	+1.9	+2.8	+3.1 Jan	+4.3 Mar	+4.2	+3.9	3.8 Feb‡‡
Venezuela	+8.5 Q4	na	+6.0	+4.5	+2.5 Jan	+29.1 Mar	+18.5	+28.2	6.7 Q4‡‡
Egypt	+8.1 Q4	na	+7.1	+6.8	+7.5 2007**	+14.4 Mar	+12.8	+10.6	9.0 Q4‡‡
Israel	+6.8 Q4	+6.4	+3.5	+4.1	+5.3 Jan	+3.7 Mar	−0.9	+2.9	6.8 Q4
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+8.7 Feb	+3.0	+8.5	na
South Africa	+4.6 Q4	+5.3	+4.1	+4.8	+3.5 Feb	+9.8 Feb	+5.7	+7.2	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+4.8 Q4	+3.2	+4.0	+4.3	+2.6 Feb	+10.9 Mar	+5.7	+9.0	5.6 Jan
Finland	+3.7 Q4	+3.8	+3.0	+3.0	+4.4 Feb	+3.9 Mar	+2.6	+3.0	6.2 Feb
Iceland	+4.6 Q4	+1.4	+1.4	+2.6	+0.4 2007	+8.7 Mar	+5.9	+7.5	1.0 Mar‡‡
Ireland	+3.5 Q4	−3.3	+2.4	+2.6	+1.0 Feb	+5.0 Mar	+5.1	+3.0	5.5 Mar
Latvia	+8.0 Q4	na	+5.8	+6.0	−4.7 Feb	+16.8 Mar	+8.5	+10.5	4.9 Mar
Lithuania	+7.9 Q4	−4.3	+7.2	+6.4	na	+11.3 Mar	+4.6	+8.8	4.7 Feb‡‡
Luxembourg	+5.6 Q3	+2.8	+4.9	+4.8	+5.2 Jan	+3.1 Feb	+2.0	+3.1	4.6 Feb‡‡
New Zealand	+2.8 Q4	+3.1	+1.8	+2.6	+1.3 Q3	+3.4 Q1	+2.5	+2.9	3.4 Q4
Peru	+11.9 Feb	na	+6.9	+6.6	+13.4 Feb	+5.5 Mar	+0.2	+4.2	10.5 Feb‡‡
Philippines	+7.3 Q4	+7.4	+5.4	+5.5	+0.5 Jan	+6.4 Mar	+2.2	+5.1	7.4 Q1‡‡
Portugal	+2.0 Q4	+3.0	+1.7	+1.9	+1.0 Feb	+3.1 Mar	+2.3	+2.4	7.8 Q4‡‡
Slovakia	+14.3 Q4	na	+7.5	+5.7	+11.5 Feb	+4.2 Mar	+2.7	+3.0	7.8 Feb‡‡
Slovenia	+4.7 Q4	na	+4.6	+4.0	+7.3 Feb	+6.9 Mar	+2.3	+4.4	7.4 Jan‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.1% in Feb. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Apr 17th 2008
From The Economist print edition

***The Economist* commodity-price index**
2000=100

	Apr 8th	Apr 15th*	% change on one month	% change on one year
Dollar index				
All items	256.9	262.6	+0.8	+31.1
Food	253.0	261.1	+0.0	+65.4
Industrials				
All	262.0	264.5	+1.7	+3.6
Nfa†	192.5	193.7	+1.5	+20.8
Metals	300.0	303.2	+1.8	-1.3
Sterling index				
All items	198.0	202.9	+3.8	+33.9
Euro index				
All items	151.3	153.6	+0.7	+12.6
Gold				
$ per oz	928.35	927.80	-7.7	+34.8
West Texas Intermediate				
$ per barrel	108.78	113.80	+4.2	+80.5

*Provisional †Non-food agriculturals.

Global business barometer

Apr 17th 2008
From The Economist print edition

Business confidence is ebbing fast, according to the latest global business barometer, a quarterly survey of more than 1,000 executives conducted for *The Economist* by the Economist Intelligence Unit, its sister company. The overall confidence index, which measures the balance of executives who think business will improve over those who expect it to worsen, has plunged deeper into the red. Those in construction and real-estate are slightly less miserable than three months ago. Executives in all other sectors feel much worse—they are gloomiest in financial services. Spirits are still lowest in North America. They are highest in the BRIC countries (Brazil, Russia, India and China), but even there have dropped sharply since the last survey.

Trade, exchange rates, budget balances and interest rates

Apr 17th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Apr 16th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−827.0 Feb	−738.6 Q4	−4.7	–	–	−2.4	2.07	3.69
Japan	+105.4 Feb	+216.0 Feb	+4.7	101	118	−2.9	0.75	1.35
China	+256.6 Mar	+249.9 2006	+10.6	6.99	7.72	0.5	4.50	4.20
Britain	−178.9 Feb	−115.4 Q4	−4.2	0.51	0.50	−3.3	5.89	4.53
Canada	+45.5 Feb	+12.5 Q4	nil	1.00	1.13	0.3	2.51	3.79
Euro area	+25.5 Jan	−1.2 Jan	+0.1	0.63	0.74	−0.9	4.77	4.02
Austria	+0.9 Jan	+12.2 Q4	+2.7	0.63	0.74	−0.4	4.77	4.23
Belgium	+15.4 Jan	+2.7 Dec	+1.8	0.63	0.74	−0.5	4.84	4.38
France	−56.3 Feb	−32.7 Feb	−1.6	0.63	0.74	−2.8	4.77	4.22
Germany	+271.5 Feb	+264.1 Feb	+6.2	0.63	0.74	1.0	4.77	4.04
Greece	−57.1 Dec	−48.3 Dec	−12.5	0.63	0.74	−2.7	4.77	4.57
Italy	−14.1 Jan	−51.1 Jan	−2.5	0.63	0.74	−2.8	4.77	4.57
Netherlands	+58.2 Feb	+50.7 Q4	+7.2	0.63	0.74	0.5	4.77	4.27
Spain	−139.6 Jan	−146.0 Dec	−9.2	0.63	0.74	nil	4.77	4.37
Czech Republic	+4.6 Feb	−3.9 Feb	−3.0	15.6	20.6	−2.6	4.09	4.56
Denmark	+4.1 Feb	+4.4 Feb	+1.2	4.68	5.49	3.6	5.25	4.30
Hungary	+0.1 Feb	−6.9 Q4	−5.9	159	181	−4.1	8.18	8.50
Norway	+63.1 Feb	+64.1 Q4	+15.8	4.96	5.97	17.9	6.28	4.47
Poland	−13.5 Feb	−17.2 Feb	−4.0	2.14	2.80	−1.8	6.28	5.99
Russia	+146.3 Feb	+92.4 Q1	+5.1	23.4	25.8	2.5	10.25	6.51
Sweden	+19.1 Feb	+38.1 Q4	+6.9	5.89	6.78	2.0	4.03	4.08
Switzerland	+11.9 Feb	+71.1 Q4	+15.1	1.00	1.21	0.9	2.81	3.05
Turkey	−65.7 Feb	−39.0 Feb	−6.1	1.32	1.35	−2.0	16.73	6.55‡
Australia	−21.8 Feb	−56.4 Q4	−6.1	1.06	1.20	1.5	7.84	6.13
Hong Kong	−24.9 Feb	+27.4 Q4	+8.8	7.79	7.81	3.1	1.85	2.48
India	−75.0 Feb	−12.8 Q4	−2.4	40.0	42.0	−3.1	7.21	8.53
Indonesia	+39.2 Feb	+11.0 Q4	+2.1	9,191	9,075	−1.8	8.17	6.66‡
Malaysia	+31.0 Feb	+28.9 Q4	+13.8	3.15	3.43	−3.2	3.62	3.67‡
Pakistan	−17.8 Mar	−8.4 Q4	−8.2	63.5	60.7	−5.2	10.17	9.44‡
Singapore	+32.0 Mar	+39.1 Q4	+23.5	1.35	1.51	1.0	1.31	2.36
South Korea	+6.5 Mar	+0.9 Feb	+0.5	989	929	0.2	5.35	5.06
Taiwan	+13.5 Mar	+31.7 Q4	+5.1	30.2	33.2	−1.8	2.70	2.31
Thailand	+10.5 Feb	+14.3 Feb	+2.1	31.5	34.8	−3.0	3.25	3.99
Argentina	+12.1 Feb	+7.3 Q4	+2.8	3.16	3.08	1.1	10.50	na
Brazil	+34.1 Mar	−4.9 Feb	−0.4	1.67	2.04	−1.8	11.18	6.16‡
Chile	+22.5 Mar	+7.2 Q4	+3.8	456	529	5.4	6.48	4.07‡
Colombia	+1.2 Jan	−5.9 Q4	−4.0	1,802	2,148	−1.6	9.80	5.40‡
Mexico	−13.3 Feb	−7.4 Q4	−1.4	10.5	11.0	nil	7.44	7.60
Venezuela	+23.7 Q4	+20.0 Q4	+7.0	3.70	4.23§	nil	14.00	6.55‡
Egypt	−20.5 Q4	+0.5 Q4	+0.4	5.42	5.69	−7.0	6.75	5.02‡
Israel	−11.9 Mar	+5.0 Q4	+2.2	3.47	4.07	−1.4	2.91	5.20
Saudi Arabia	+146.6 2006	+98.9 2006	+30.8	3.75	3.75	19.1	2.30	na
South Africa	−10.3 Feb	−20.6 Q4	−7.8	7.92	7.08	−1.2	11.75	9.22
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.4 Jan	−3.3 Jan	−13.1	9.81	11.5	0.6	6.32	na
Finland	+12.0 Jan	+12.4 Feb	+3.8	0.63	0.74	4.6	4.65	4.22
Iceland	−1.7 Mar	−3.2 Q4	−12.0	74.0	65.1	1.4	15.52	na
Ireland	+36.3 Jan	−12.7 Q4	−3.8	0.63	0.74	−0.5	4.77	4.43
Latvia	−7.3 Feb	−6.3 Feb	−18.2	0.44	0.52	1.0	5.47	na
Lithuania	−7.3 Feb	−5.4 Feb	−12.0	2.16	2.54	−0.6	5.02	na
Luxembourg	−6.2 Jan	+3.9 Q4	na	0.63	0.74	0.9	4.77	na
New Zealand	−3.3 Feb	−10.2 Q4	−7.5	1.27	1.35	3.0	7.30	6.41
Peru	+8.3 Feb	+1.5 Q4	+0.7	2.70	3.18	1.8	5.34	na
Philippines	−6.1 Jan	+6.4 Dec	+4.2	41.9	47.6	−0.2	6.31	na
Portugal	−27.4 Jan	−22.9 Jan	−8.8	0.63	0.74	−2.6	4.77	4.43
Slovakia	−0.5 Feb	−4.1 Dec	−2.8	20.3	24.6	−2.3	3.99	4.36
Slovenia	−3.2 Feb	−2.6 Jan	−2.8	0.63	0.74	−0.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

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Markets

	Index Apr 16th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	12,619.3	+0.7	−4.9	−4.9
United States (S&P 500)	1,364.7	+0.8	−7.1	−7.1
United States (NAScomp)	2,350.1	+1.2	−11.4	−11.4
Japan (Nikkei 225)	13,146.1	+0.3	−14.1	−5.3
Japan (Topix)	1,271.9	+0.7	−13.8	−5.0
China (SSEA)	3,453.9	−3.6	−37.4	−34.7
China (SSEB, $ terms)	233.8	−5.7	−38.8	−36.1
Britain (FTSE 100)	6,046.2	+1.0	−6.4	−7.1
Canada (S&P TSX)	14,099.5	+2.5	+1.9	+0.2
Euro area (FTSE Euro 100)	1,180.9	−0.6	−14.1	−6.3
Euro area (DJ STOXX 50)	3,748.6	−0.7	−14.8	−7.0
Austria (ATX)	3,981.4	+0.8	−11.8	−3.8
Belgium (Bel 20)	3,863.3	+0.6	−6.4	+2.1
France (CAC 40)	4,855.1	−0.4	−13.5	−5.7
Germany (DAX)*	6,702.8	−0.3	−16.9	−9.4
Greece (Athex Comp)	3,943.9	−4.7	−23.8	−16.9
Italy (S&P/MIB)	33,256.0	−1.1	−13.7	−5.9
Netherlands (AEX)	463.2	+0.4	−10.2	−2.0
Spain (Madrid SE)	1,467.7	nil	−10.6	−2.5
Czech Republic (PX)	1,537.7	−2.9	−15.3	−1.3
Denmark (OMXCB)	406.4	−0.7	−9.4	−1.3
Hungary (BUX)	21,888.2	−1.6	−16.6	−9.1
Norway (OSEAX)	510.0	+2.2	−10.5	−2.0
Poland (WIG)	47,125.1	−3.0	−15.3	−2.8
Russia (RTS, $ terms)	2,160.8	+2.1	−10.2	−5.7
Sweden (Aff.Gen)	307.2	−1.8	−9.8	−0.9
Switzerland (SMI)	7,250.7	−2.1	−14.5	−3.1
Turkey (ISE)	41,556.0	−3.1	−25.2	−33.8
Australia (All Ord.)	5,534.6	−0.9	−13.8	−7.5
Hong Kong (Hang Seng)	23,878.4	−0.4	−14.1	−14.1
India (BSE)	16,244.2	+2.9	−19.9	−21.0
Indonesia (JSX)	2,337.9	+7.2	−14.9	−13.0
Malaysia (KLSE)	1,253.6	+2.1	−13.2	−9.0
Pakistan (KSE)	15,540.4	+0.9	+10.4	+7.1
Singapore (STI)	3,087.5	−0.1	−10.9	−5.1
South Korea (KOSPI)	1,758.6	+0.2	−7.3	−12.3
Taiwan (TWI)	9,066.0	+4.6	+6.6	+14.3
Thailand (SET)	833.4	+0.9	−2.9	+3.9
Argentina (MERV)	2,161.5	+0.5	+0.5	+0.1
Brazil (BVSP)	64,151.0	+1.1	+0.4	+6.9
Chile (IGPA)	14,058.7	+2.9	−0.1	+9.0
Colombia (IGBC)	9,442.8	−0.2	−11.7	−1.2
Mexico (IPC)	31,910.2	+1.6	+8.0	+12.8
Venezuela (IBC)	40,492.7	−0.1	+6.8	−38.0
Egypt (Case 30)	11,318.8	−3.0	+8.1	+10.0
Israel (TA-100)	1,002.2	+0.9	−13.2	−3.7
Saudi Arabia (Tadawul)	9,630.4	+1.4	+21.4	+21.4
South Africa (JSE AS)	31,857.3	+1.6	+10.0	−5.0
Europe (FTSEurofirst 300)	1,302.8	−0.5	−13.5	−5.7
World, dev'd (MSCI)	1,491.4	+1.0	−6.1	−6.1
Emerging markets (MSCI)	1,165.0	+1.3	−6.5	−6.5
World, all (MSCI)	378.4	+1.0	−6.2	−6.2
World bonds (Citigroup)	793.9	+0.4	+8.7	+8.7
EMBI+ (JPMorgan)	442.6	+0.4	+2.1	+2.1
Hedge funds (HFRX)	1,300.9	−0.1	−2.2	−2.2
Volatility, US (VIX)	22.5	21.6	22.5	(levels)
CDSs, Eur (iTRAXX)†	89.8	−7.0	+77.3	+93.5
CDSs, N Am (CDX)†	119.6	−6.7	+36.5	+36.5
Carbon trading (EU ETS) €	24.8	+5.0	+11.6	+21.7

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

Regional income distribution

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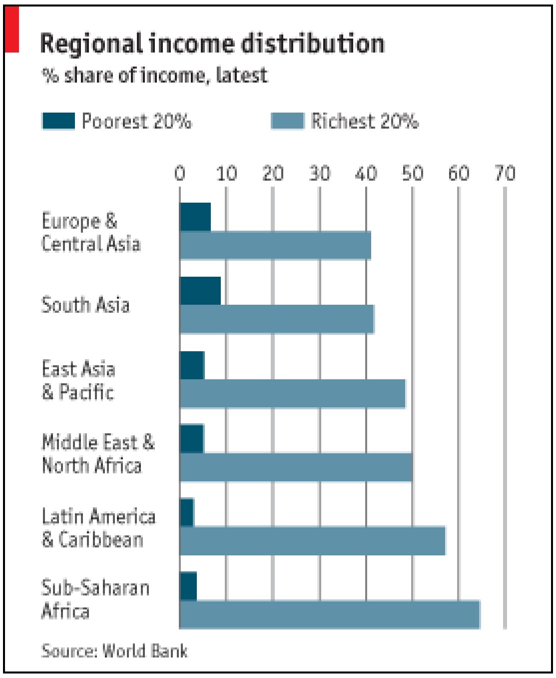

Latin America and the Caribbean have the most unequal income distribution, according to the 2008 World Development Indicators from the World Bank. Here, the share of income of the richest fifth of the population is almost 20 times bigger than that of the poorest fifth. In Sub-Saharan Africa, the rich absorb almost 65% of income, the highest share of all regions. The poor garner just 3.6% of income but that is still a larger share than in Latin America. Half of Africa's income gap is explained by differences between countries, reflecting the region's low integration. Elsewhere, inequality is mostly within countries. The world's most egalitarian region is South Asia. Here the poorest fifth receive 8.7% of the region's income.