The Economist

JANUARY 12TH–18TH 2008

www.economist.com

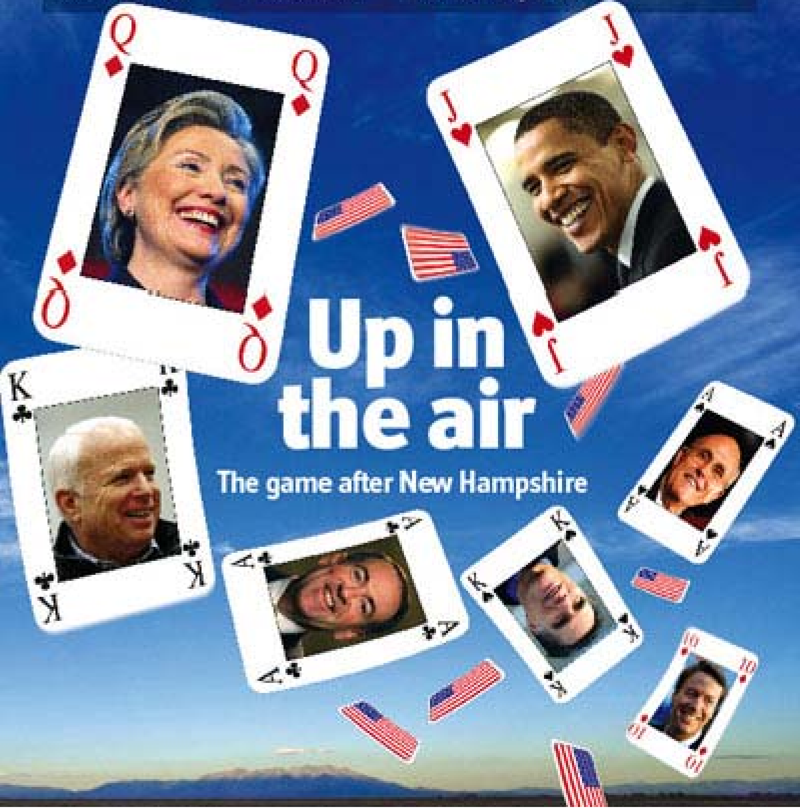
The music industry goes flat

Battling to be London's mayor

The sadness of the Arabs

Emerging multinationals

The chemistry of addiction



Up in the air

The game after New Hampshire

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go
SPECIAL REPORTS
BUSINESS
Management
Business Education
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
BOOKS & ARTS
Style Guide
PEOPLE
Obituary
MARKETS & DATA
Weekly Indicators
Currencies
Rankings
Big Mac Index
Chart Gallery
DIVERSIONS
Correspondent's Diary
RESEARCH TOOLS
AUDIO AND VIDEO
DELIVERY OPTIONS
E-mail Newsletters
Audio edition
Mobile Edition
RSS Feeds
Screensaver
CLASSIFIED ADS
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance
Economist Diaries and Business Gifts
Reprints and Permissions
EIU onlinestore

Print Edition January 12th 2008

On the cover
America wants change; it just can't work out what sort of change: leader

The world this week

Politics this week
Business this week
KAL's cartoon

Leaders

America's election
Up in the air

Colour revolutions in the former Soviet Union
A bit faded but still bright enough

Emerging-market multinationals
Wind of change

America's economy
A long slog

America in the Middle East
George Bush drinks in the last-chance casbah

Letters

On Kenya, beauty, Canadian workers, Muslims, words, shopping malls

United States

The Democrats
The Comeback Kid, part two

The Republicans
The Mac is back

Primary colour
On the campaign trail

Obamamania
Has the magical mystery tour hit the buffers?

Kenya
Saving the world in his spare time

Nevada and California
Into the West

Bipartisanship
Squeezed out?

Lexington
The Republican crack-up

The Americas

Venezuela
Chávez slows to a trot

Chile
The centre cannot hold

Peru
Suffer the children

Canada
Islam and phobias

Brazil
The granny from Ipanema

Correction: Mexico's oil industry

Asia

Islam in Indonesia
Where "soft Islam" is on the march

Executions in China
The bullet or the needle

Marshall Islands
Home on the range

Censorship in China
Caution: lust

Previous print editions

Jan 5th 2008
Dec 22nd 2007
Dec 15th 2007
Dec 8th 2007
Dec 1st 2007

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Advertisement

Business

The music industry
From major to minor

Consumer electronics
Everything's gone Blu

Chinese toys
No fun and games

The Volkswagen trial
What did he know?

Starbucks v McDonald's
Coffee wars

Chrysler
Reality bites

The one-lakh car
No lakh of daring

Face value
Totally different

Briefing

Emerging-market multinationals
The challengers

Finance & Economics

Banks and the credit crunch
Stepping beyond subprime

R-word index
Warning lights

German banks
Slow motion

Buttonwood
Riding the cycle

Health-care economics
Comparison shopping

The Chinese yuan
Revaluation by stealth

Economics focus
Same as it ever was

Science & Technology

Drug addiction
Going by the book

Astronomy
Where the shadows lie

Co-operative breeding
The perils of togetherness

How to find a mate
The scent of a woman (and a man)

Correction: British physics

Books & Arts

New fiction
Searching for truth, whatever that is

American history 1
Durably democratic

American history 2
Towards perfect freedom

The Mafia in Naples
Gangsters go global

eBook More ebooks visit: http://www.ccebook.cn ccebook-orginal english ebooks
This file was collected by ccebook.cn form the internet, the author keeps the copyright.

Advertisement

Nepal
The tumbrel rolls

Middle East & Africa

Kenya
Kibaki v Odinga: no compromise yet

The Arabs
Between fitna, fawda and the deep blue sea

Israel
Where do we go from here?

Advertisement

Europe

Georgia
Misha bounces back

Rubbish in Naples
See it and die

French politics
L'hyperprésident

German media
The mirror crack'd

Spain and the Catholic church
The bishops' revolt

Turkey and tolerance
Deviating from the path

Charlemagne
Those naive American voters

Britain

The London mayoral race
Political capital

Energy prices
Higher still and higher

Nuclear power
The wind, the sun—and the atom

Bad women
Ma's behind bars

Interest rates
The central bank's dilemma

Health-care charges
Please, sir, can I have some more?

Racing changes
Turf wars

Bagehot
The decider

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

International

Charles Taylor in the dock
Bringing bigwigs to justice

Islam and democracy
The practice—and the theory

Avoidable deaths
Where do all the dollars go?

American kids
In praise of nerds

Medieval ivories
Pause as you pass

Obituary

George MacDonald Fraser

Economic and Financial Indicators

Overview

Output, prices and jobs

The Economist commodity-price index

The Economist poll of forecasters, January averages

Trade, exchange rates, budget balances and interest rates

Markets

Mergers and acquisitions

Advertisement

Advertisement

Classified ads

Jobs	Business / Consumer	Tenders	Property	Jobs	Business / Consumer
Protocol Expert for Middle Eastern Democracy Protocol Expert Leading Middle Eastern Monarchy One of the Middle Ea....	A Franchise to be proud of - WSI. Own the #1 Internet Marketing Franchise for $49,700 US. Full Training and Support. Apply Today.	Tender Notice COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA MARCHE COMMUN DE	Exclusive NYC condo for sale Exclusive New York City condo Luxury Time Warner Center, midtown Manhattan 2 bed, ...	Director, Internal Oversight Service - IOS-001 (D-2) UNESCO promotes international co-operation among its 193	#1 Career Opportunity. World's top Internet Franchise is currently looking to expand their franchise. Become an Internet Consultant Today. Apply Here.

Sponsors' feature   About sponsorship »

An Economist Group business Copyright © The Economist Newspaper Limited 2008. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

eBook More ebooks visit: http://www.ccebook.cn ccebook-orginal english ebooks
This file was collected by ccebook.cn form the internet, the author keeps the copyright.

Politics this week

Jan 10th 2008
From The Economist print edition

Reuters

The nominating process to choose America's presidential candidates got under way, producing some dramatic results. **Hillary Clinton** confounded the pundits by winning the New Hampshire Democratic primary, squeezing past **Barack Obama**, her main rival. Opinion polls had put Mr Obama on course for a big victory after his earlier triumph in the Iowa caucuses, which had instigated a wave of media “Obamamania”. See article

John McCain's victory in New Hampshire's Republican primary was more in line with recent polling. However, with Mike Huckabee coming first in Iowa, Mitt Romney taking top spot in Wyoming's (mostly ignored) Republican contest and Rudy Giuliani saying he will make an impact in the Florida primary, the party's race is still wide open. See article

Venturing forth

Arriving in Israel at the start of a nine-day tour of the Middle East, George Bush said there was a “new opportunity” for peace between **Israelis** and **Palestinians**, whose would-be state he also visited. He is expected to go on to Kuwait, Bahrain, the United Arab Emirates, Saudi Arabia and Egypt. See article

Suicide-bombers in **Iraq** killed two Sunnis prominent in the so-called “awakening” against al-Qaeda-linked insurgents. The Americans say they have launched a big push against insurgents north of Baghdad.

Ghana's president, John Kufuor, who chairs the African Union, held talks with **Kenya's** president, Mwai Kibaki, and its opposition leader, Raila Odinga, in an effort to end the crisis following flawed elections in December. Earlier, Mr Kibaki made some appointments to his cabinet, causing more protests and violence. Over 500 people have been killed since the poll. See article

A supply convoy for the new UN-AU peacekeeping force in **Darfur** was attacked by what the UN says were Sudanese troops. About 9,000 of the hoped-for 26,000 peacekeepers are already in Darfur.

Gerrie Nel, who heads an investigation into alleged corruption by **South Africa's** police chief, Jackie Selebi, an ally of President Thabo Mbeki, was himself arrested for alleged corruption. Such accusations are part of a power struggle pitting Mr Mbeki against his rival, Jacob Zuma, who recently ousted Mr Mbeki as leader of the ruling African National Congress—and who was recently also charged with corruption.

The trial proper of **Liberia's** former president, Charles Taylor, began at the international court at The Hague. He faces 11 counts of war crimes, crimes against humanity and other atrocities. See article

Slow road to socialism

Hugo Chávez, **Venezuela's** president, said he would slow the pace of his drive for socialism in the wake of his defeat last month in a referendum on constitutional change. He said his government would now concentrate on fighting crime and corruption. See article

In talks with opposition regional governors, **Bolivia's** socialist president, Evo Morales, agreed to review a draft new constitution that was approved without the participation of the opposition, as well as to discuss the share-out of revenues from natural gas.

Mexican police arrested three American citizens and seven others after a half-hour gun battle between police and a drug gang in Rio Bravo, near the border with Texas, in which three people died.

A violent state of affairs

A government minister in **Sri Lanka** was killed in a roadside bombing near Colombo. The attack was blamed on the Liberation Tigers of Tamil Eelam. A few days earlier, the government abrogated a 2002 ceasefire agreement with the Tigers.

AFP

There was alarm at shortages of affordable rice and wheat in **Afghanistan, Bangladesh** and **Pakistan**. Afghanistan appealed for foreign help to withstand a wheat shortage. Bangladesh's army chief said the country faced “catastrophe” because of the high international price of rice. And long queues formed outside shops in Pakistan as flour prices soared.

Just before the anniversary of the seizure of power by an army-backed interim government in **Bangladesh**, four of its “advisers”, ie, ministers, resigned, ostensibly for “personal” reasons. However, it is thought they may have been sacked in response to the government's waning popularity.

The tour of Australia by **India's cricket team** became mired in controversy. India threatened to pull out when one of its players was suspended for having allegedly used a racist slur against a black Australian.

The Election Commission in **Thailand** announced that it was investigating voting irregularities in 83 of the 480 parliamentary seats contested in last month's election. Of these, 65 had been won by the People's Power Party (PPP), loyal to Thaksin Shinawatra, the prime minister deposed in a coup in 2006. The PPP won 233 seats and seemed close to forging a ruling coalition.

Acknowledging concerns about the environment, **China's** government announced that from June shops would be banned from handing out free plastic bags.

Mikheil's moment

Mikheil Saakashvili narrowly won re-election as president of **Georgia**. Mr Saakashvili called the election early in response to street demonstrations that were violently put down by police last November. The opposition said the election was fraudulent, but international observers said it was broadly fair. See article

Gordon Brown's government unveiled its much-delayed energy policy for **Britain**, the centrepiece of which was a controversial decision to support the building of new nuclear-powered stations. It was explained, in part, as a way of helping Britain to reduce its carbon emissions. See article

The Italian government appointed a “rubbish tsar” to sort out the garbage that has engulfed **Naples** and its surrounding region, Campania. Campania has become notorious for its garbage mountain, which seems to benefit nobody but the local organised-crime group, the Camorra. See article

EPA

In his first big press conference as **French president**, Nicolas Sarkozy announced a raft of new policies. The media were more interested in his plans for Carla Bruni, a Franco-Italian former supermodel. Mr Sarkozy admitted to a serious relationship but was cagey about early marriage plans. See article

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Jan 10th 2008
From The Economist print edition

Sony's **Blu-ray** DVD format chalked up an important victory in the race to become the dominant technology in high-definition video discs when Warner Bros, a big Hollywood studio, dropped its support for Toshiba's rival **HD DVD** standard. Other companies in the HD DVD camp may now switch sides. See article

CNBC signed a reciprocal content-sharing deal with the **New York Times.** The cable business channel will contribute videos to the newspaper's website and in return the *Times* will provide CNBC with its business and technology reporting. The companies are uniting now to fight future competition from Rupert Murdoch's News Corporation, which launched the Fox Business channel and bought the *Wall Street Journal* last year.

Grin and Bear it

Bear Stearns shook up its senior management, with Alan Schwartz, the financial company's president, replacing Jimmy Cayne as chief executive. The troubles of two hedge funds at Bear Stearns acted as the catalyst for the unravelling of confidence in credit markets last summer. Bear's share price has fallen sharply since then, and fell again when it emerged that Mr Cayne will stay on as chairman. See article

Countrywide Financial issued yet another statement denying it is insolvent amid speculation that caused its share price to slide by some 28% in one day's trading. The rumours that America's biggest private mortgage-lender is facing bankruptcy were further fuelled when it revealed a big increase in foreclosures and late payments to its business in December.

Silver Lake Partners, which specialises in technology investments, sold a 9.9% stake, worth about $275m, to **CalPERS**, the largest state pension fund in California. Since the squeeze in credit markets, private-equity firms have turned to “outside” investors, such as sovereign-wealth funds and pension funds, that can provide money separate from their investment funds to boost their cash position.

After receiving a capital infusion of $1 billion in December, **MBIA** announced extra measures to prevent its top-notch credit rating from being downgraded. The bond insurer, an important actor in greasing the wheels of the world's debt markets, will slash its annual dividend and sell $1 billion in debt to strengthen its position.

In need of a shot

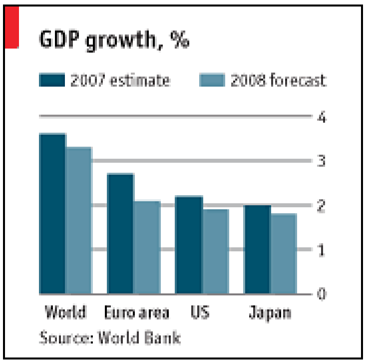
Starbucks chose a new chief executive following a comparatively poor year during which it reported its first-ever drop in customer transactions and saw its share price fall by 42%. Howard Schultz returns to the job he left in 2000 after 13 years during which he built the Starbucks brand. He promised to provide a jolt to the company and refocus its expansion strategy towards international markets. See article

Ferdinand Piëch, the chairman of **Volkswagen** and one of corporate Germany's most venerable figures, gave evidence at the corruption trial of two former VW insiders. Mr Piëch, who is not a suspect in the trial, told the court that he knew nothing about the perks and prostitutes allegedly provided to worker representatives during his tenure as the carmaker's chief executive. A verdict is expected in March. See article

India's **Tata Motors** unveiled its new “people's car”. The NANO costs $2,500, a price that the company thinks will appeal to India's burgeoning middle class. With other carmakers, including Ford, also announcing plans to build small cars in India, some environmentalists griped that it was the wrong step forward. See article

Sirtris Pharmaceuticals, based in Massachusetts, announced the results of early trials of an **“anti-ageing”** drug intended to combat diabetes. The drug, which is based on a chemical found in red wine that is thought to mimic the life-prolonging effects of a very low-calorie diet, proved safe.

Singapore Airlines said it still wanted to pursue an alliance with **China Eastern Airlines** after its proposal to buy a 24% stake in the Shanghai-based carrier was rejected by China Eastern's minority shareholders. In a rare tussle in corporate China, investors in China Eastern were swayed by the promise of a higher offer from **AirChina**, its bigger rival. China Eastern's management favours a partnership with SA because of its expertise on international routes.



Less expansive

The World Bank published its annual report on economic prospects for the **world economy** and forecast that global GDP growth would slow, for the second consecutive year, to 3.3% in 2008. The organisation said that “resilience in developing economies” would compensate for an expected downturn in the United States. Nevertheless, the bank forecast that China's growth rate would fall to 10.8% this year, and India's to 8.4%.

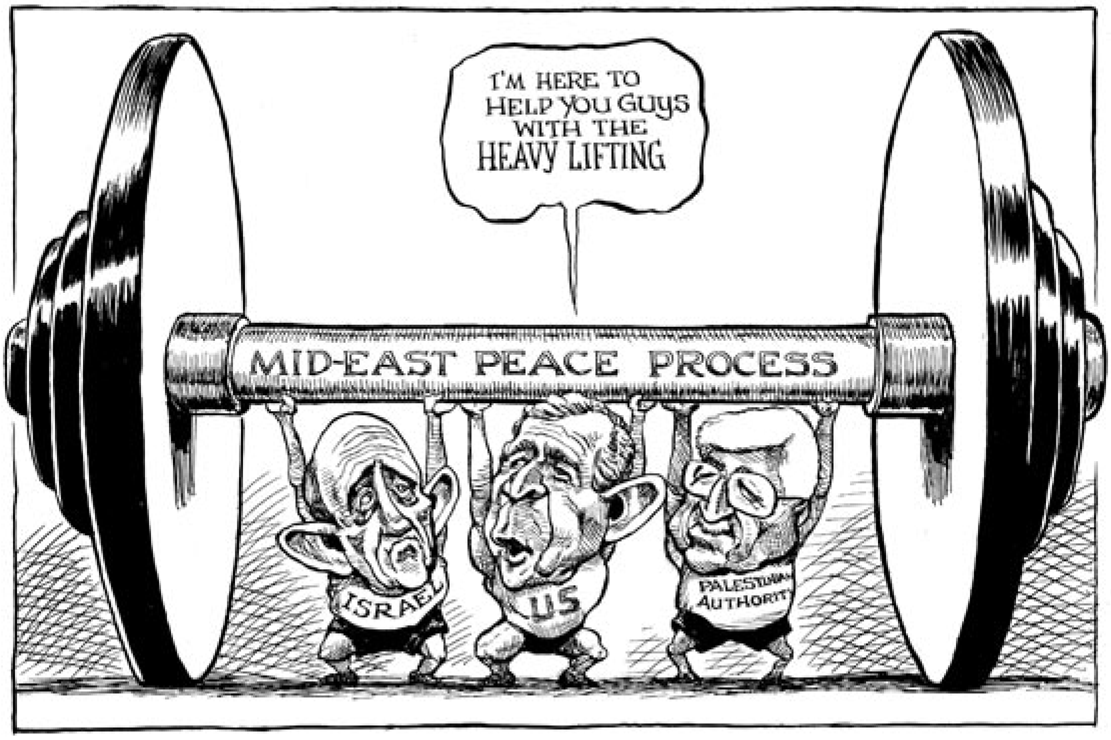
Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com AT A GLANCE

KAL's cartoon

Jan 10th 2008
From The Economist print edition

Illustration by Kevin Kallaugher



Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LEADERS

America's election

Up in the air

Jan 10th 2008
From The Economist print edition

America wants change; it just can't work out what sort of change

Get article background

IF A week is famously a long time in British politics, five days can be an eternity in America. On January 3rd Barack Obama defeated Hillary Clinton by roughly 17,000 votes, out of around 220,000 cast, in Iowa's Democratic caucus at the start of the presidential nominating season. It was the vote that launched a thousand editorials: the charismatic young black senator was compared to Jack Kennedy, Martin Luther King and even Ronald Reagan. France's *Libération* hailed the man who “will restore America's image in the world”. The nomination, not to mention the presidency, seemed Mr Obama's not by election but by global acclamation.

On January 8th Mrs Clinton staged her comeback, winning in New Hampshire by an even tinier margin (some 7,500 votes), to the surprise of pollsters who had been predicting a trouncing for her. Now, suddenly, the talk is of the triumph of experience over hope, of the crushing power of the Clinton machine, of the next chapter in the remarkable story of the Comeback Kids. Meanwhile, the Republicans seem to be see-sawing even more dramatically—with the Bible-wielding Mike Huckabee winning Iowa (cue, a lot of guff about a fresh face and the power of the religious right) then John McCain winning New Hampshire (all hail now to experience and the virtue of independence) and Rudy Giuliani still ahead in the large states that vote on Super Tuesday on February 5th.

From Obamamania to Obam...err

In fact, the only safe lesson to draw is that the battle for the White House is an extraordinarily fluid affair. Everything is up in the air. That is not just because this is the most open election in America since 1928 (the last time that no incumbent president or vice-president was in the race); it is because Americans don't really know what they want. Sure, they are desperate for “change”: with the economy reeling, politics gridlocked, young people dying in Iraq and the Bush administration a global byword for callous incompetence, huge numbers of Americans have long believed their country is on the wrong track. But what sort of change? And who can deliver it?

It is a measure of how far Mr Obama has come that he is the person who has seemed closest (albeit only for a few days) to satisfying this need. More than Mrs Clinton's, his appeal rests on an attractive optimism. He calls himself a “hope-monger”; he argues—not without reason—that change cannot come if the country is mired in the old “Bush-Clinton” partisan politics. And in many ways, a divided, grouchy America's hopes do indeed seem to rest with Mr Obama—personable, consensus-seeking and capable of delivering oratory of some brilliance, in defeat as well as victory.

Yet the Democrats of New Hampshire were probably right to ask for a bit more (had Mr Obama won, he would surely have been unstoppable). Yes, an Obama presidency would close up two of America's deepest wounds: as a black man, especially one who does not run as a black politician, he would draw the sting of race from its politics; as a young man, he would step beyond the poisonous legacy of the 1960s division Vietnam wrought between liberals and conservatives.

Other areas, though, have always looked knottier. Could Mr Obama, simply by dint of being black and having lived in Muslim Indonesia for six years as a boy, really change America's international image so easily? He would get a hero's welcome, of course—but the next president will get that whoever he or she is, simply for not being George Bush and not having made such a hash of Iraq. Thereafter, America will be judged on its actions, not its words. For instance, Mr Obama shows no particular sign of being able to reconcile the need to end the occupation of Iraq with the need to avoid the disaster that a power vacuum in the heart of the Middle East would cause. Tell us more, said many voters in New Hampshire: to that extent, they were right to deny him certain nomination.

Mrs Clinton, however, also has work to do—much more work than simply mentioning “change” a lot. New Hampshire, after all, is a bedrock of Clintonism: had she lost there, she would have been in dire straits in Nevada, which votes on January 19th, and especially in South Carolina, which votes on January 26th, and where around half the Democratic primary electorate is black. Super Tuesday, when 22 states are to vote, might have been her last stand. Now, after this political near-death, she is back where she started—in the lead. One has to hope, however, that she has learnt a few lessons.

These begin with the idea that it is not enough to exude competence and reel off endless policy proposals. She must learn poetry from Mr Obama, just as he needs to learn prose from her. She needs to listen to voters, not talk at them. Above all, she has to shed that sense of wounded entitlement that has bedevilled her campaign; she has to show that the Clintons are not yesterday's people. Her problem is not just that Mr Obama could still catch her; she has reminded many Americans how divisive a politician she is. If she wins the primaries, it may be only because core Democratic groups (trade unions, the uneducated, the poor, the old) rallied to her side. And a nomination does not a president make.

Say what you think

The Republicans should be in much worse shape. They have a wider field (four possibles, if you include Mitt Romney, who finished second in both Iowa and New Hampshire). Whereas the Democrats are agonising about what sort of change they represent, the Republicans are the party of incumbency. On the face of it, they would be mad to ditch Mr McCain. A man who outdoes Mrs Clinton for experience and sometimes matches Mr Obama for charm, he has shown more political courage than either Democrat has yet displayed and he beats both of them in hypothetical “head to head” polls. Against this, the 71-year-old senator is a mercurial cove; and many of his boldest traits, such as his keenness for immigration reform, irritate his deeply dysfunctional party.

Yet there is a lesson for the other candidates in Mr McCain's bravery. When voters don't quite know their own minds, they turn to those who do: 2008 is a year for courage.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Colour revolutions in the former Soviet Union

A bit faded but still bright enough

Jan 10th 2008
From The Economist print edition

In places where vibrant hues brought down bad rulers, the future still looks good

AP

Get article background

FOR Georgia's exuberant opposition, this month's election has shown up their president, Mikheil Saakashvili, as an arrogant despot—hardly better, they say with hyperbole, than Russia's Vladimir Putin. Having clipped their president's wings, Mr Saakashvili's foes hope to take control of parliament in another ballot later this year. They may succeed.

In Ukraine, meanwhile, another flamboyant friend of the West, Yulia Tymoshenko, has just convinced a finely balanced legislature to make her prime minister again. Her ousted rival, the pro-Russian Viktor Yanukovich, made a bitter forecast of “trials...crisis and scandal”. He might well make a comeback.

The news, in other words, is pretty good. Democracy, hard argument and open contest are alive, kicking and reasonably well in at least two countries where street protest prevailed against post-Soviet misrule in a spectacular way.

In both countries “colour revolutions” (Georgia's, in November 2003, was rose-tinted, and Ukraine's, a year later, was of an orange hue) have had confusing consequences. This confusion has exasperated both the Utopians who saw the street dramas as a contest between Western light and Soviet dark, and also cynics who insisted that wherever abuse of power is an ingrained habit, nothing can ever change. But Georgia and Ukraine are still, on balance, better places than they would have been if their revolutions had not happened.

Admirers of the brave people who crammed the freezing streets of Kiev were baffled by what happened a few months later: the heads of the pro-Western camp (Ms Tymoshenko and President Viktor Yushchenko) had a public quarrel, allowing Mr Yanukovich—who had been cast as villain-in-chief during the revolution's headiest moments—to march temporarily back into government. A setback, it turned out, but no tragedy.

Georgia's let-down was slower to come, but the disappointment even sharper. Last November Mr Saakashvili's well-wishers were horrified when he used tear-gas and truncheons against a long-running street protest. But in recent days he has gone quite a long way towards redeeming his good name by holding an election which, though clearly not perfect, was certainly keenly contested (see article).

Only compare

For anyone who still asks whether the rose and orange uprisings brought any lasting gain, it is worth comparing the atmosphere in Ukraine and Georgia with that of other ex-Soviet places where the old guard has dug in or clawed its way back. (One recent piece of bad news is that Kyrgyzstan, whose "tulip revolution" in 2005 was really a coup, will now have a one-party parliament, after a poorly run election.)

At very first glance, there are similarities between Moscow and Kiev, where Soviet monuments share the skyline with the signs of rapid, if uneven, economic growth. But spend a day or two in each place, and the contrast becomes palpable. An undercurrent of fear in Moscow reflects the unpleasant things that can befall anyone who really challenges Mr Putin; there is no such climate in Kiev. The streets of Tbilisi, it is true, have seen fearful moments since November when Mr Saakashvili made his over-hasty crackdown. But Georgia remains a paradise for dissident politicians and journalists when compared with neighbouring Azerbaijan.

As Russia grows defiant in the face of world opinion, there is a tendency in Western circles to write off democracy and human rights—not only in Russia but also in other parts of its former dominions—as a lost cause. But for all its confusion, the aftermath of the rose and orange revolutions still offers plenty of evidence to counter such defeatism.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LEADERS

Emerging-market multinationals

Wind of change

Jan 10th 2008
From The Economist print edition

Globalisation is creating a new class of companies; they should fight harder for it

Illustration by Bill Butcher

LAST month Hansen Transmissions International, a maker of gearboxes for wind turbines, was listed on the London Stock Exchange. Nothing noteworthy about that, you might say, despite the jump in the share price on the first day of trading and the handsome gain since: green technology is all the rage, is it not? But Hansen exemplifies another trend too, which should prove every bit as durable: the rise of multinational companies from emerging economies. Its parent is Suzlon, an Indian firm that began life as a textile manufacturer but is now among the world's five leading makers of wind turbines. Along the way, Suzlon has acquired not only Hansen, originally Belgian, but also REpower, a German wind-energy firm, spending over $2 billion on the pair.

The world is now replete with Suzlons: global companies from emerging economies buying businesses in rich countries as well as in poorer places (see article). Another Indian company, Tata Motors, looks likely to add to the list soon, by buying two grand old names of British carmaking, Jaguar and Land Rover, from America's enfeebled Ford. As a symbol of a shift in economic power, this is hard to match.

Economic theory says that this should not happen. Richer countries should export capital to poorer ones, not the other way round. Economists have had to get used to seeing this turned on its head in recent years, as rich countries have run large current-account deficits and borrowed from China and other emerging economies (notably oil exporters) with huge surpluses. Similarly, foreign direct investment (FDI)—the buying of companies and the building of factories and offices abroad—should also flow from rich to poor, and with it managerial and entrepreneurial prowess.

It is not yet time to tear up the textbook on FDI. According to the UN Conference on Trade and Development (UNCTAD), in 2006 the flow of FDI into developing economies exceeded the outflow by more than $200 billion. But the transfer of finance and expertise is by no means all in one direction. Developing economies accounted for one-seventh of FDI outflows in 2006, most of it in the form of takeovers. Indian companies have done most to catch the eye, but firms from Brazil, China and Mexico, in industries from cement to consumer electronics and aircraft manufacture, have also gone global. Up to a point, emerging-market multinationals have been buying Western know-how. But they have been bringing managerial and entrepreneurial skill, as well as just money, to the companies they buy: British managers bear grudging witness to the financial flair of Mexican cement bosses; Boeing and Airbus may have learnt a thing or two from the global supply chains of Brazil's Embraer.

Perhaps no one should be surprised. Half a century ago, Japan was a poor country: today Sony and Toyota are among the best-known and mightiest companies on the planet. South Korea and Taiwan are still listed as developing countries in UNCTAD's tables, but that seems bizarrely outdated for the homes of Samsung and Taiwan Semiconductor. Now another generation is forming. To its critics, globalisation may be little more than a licence for giant Western companies to colonise the emerging world, yet more and more firms from poorer economies are planting their flags in rich ground.

Time to stand up and be counted

Alas, further liberalisation is not certain. The Doha round of global trade talks has been bogged down, partly in squabbles about farm trade but also over industrial tariffs in the emerging world. The services negotiations are half-hearted and direct talks on FDI were ruled out long ago, largely because of developing countries' fears about rich invaders. And the gains forgone are considerable: a new book by the World Bank estimates that reforming services in developing countries could raise their growth rates by a percentage point. Were OECD countries to allow temporary immigration of skilled workers in service industries, the global gains might exceed $45 billion.

A few emerging-market giants—notably India's software firms—have been prepared to stand up for liberalisation. But most have not made their voices heard. How sad for free trade: such companies would provide much better illustrations of the success of globalisation than the familiar Western names do (unless you think Coca-colonisation sounds really cool). And how short-sighted of them. Even if some of these adolescents grew up behind tariff barriers, that represents their past: their future will surely lie in global markets. If the Doha round fails, the next opportunity may be a long time coming.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

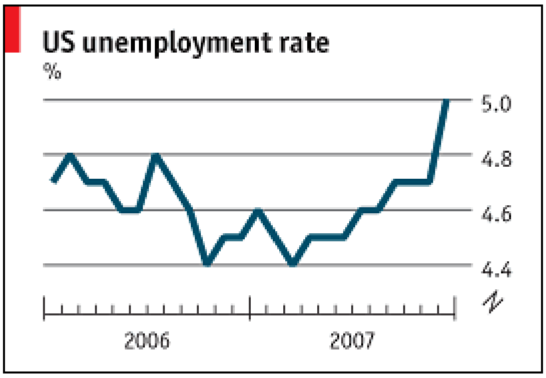
America's economy

A long slog

Jan 10th 2008
From The Economist print edition

The severity of America's downturn may matter less than its length

Get article background



AMERICA'S monthly employment numbers are perhaps the most glamorous economic statistics. Though fickle and much revised, they have an outsized effect on the financial markets and policymakers. On January 4th dismal jobs figures seemed to confirm what many feared: a downturn is at hand.

Stockmarkets shuddered on news that the jobless rate had jumped to 5% in December, and that the private sector had shed workers for the first time since 2003. Talk of recession has soared (see article). Even George Bush has admitted the economy faces “challenges”. If not actually shrinking, America's economy is weak. The real question is not the technical issue of whether the downturn will qualify as a recession, but how long it will last.

Many Wall Street seers expect any downturn to be mild and short-lived, thanks to the adrenaline shot of lower interest rates (financial markets expect the federal-funds rate to fall by more than a percentage point this year, to below 3%) and the cushion of export growth. The housing malaise, they think, will linger, but less maliciously. And the panic in credit markets will ease, as losses are tallied and banks recapitalised.

Even the Fed's most hawkish governors are now hinting at more cuts in interest rates. The weak dollar and strength in emerging economies will indeed boost exports, although—if a recent slowing of foreign manufacturing orders is a guide—by less than in 2007. Buoyed by central-bank liquidity and sovereign-wealth funds' readiness to pour capital into American banks, some tensions are easing. The spreads between interbank rates and safe government bonds have fallen, though they remain above historical norms.

That is all good news. Even so, powerful signals point to a long period of sub-par growth. The huge backlog of unsold homes suggests house prices have further to fall—by around 20% going by housing futures. Lower house prices will force Americans to spend less and save more—a process that has hardly started. They will also spread the mortgage mess well beyond subprime borrowers, which would lead to greater financial losses. Hank Paulson, Mr Bush's treasury secretary, this week suggested his scheme for assisting troubled home-owners should extend beyond subprime borrowers.

The grim arithmetic

In addition, the weak economy will raise credit concerns well beyond residential mortgages (see article). Commercial property looks ever more vulnerable. Corporate default rates, stunningly low in recent years, are sure to rise. One recent estimate expects default rates on high-yield debt to quintuple from 0.9% in 2007 to 4.8% this year. If the downturn endures, even that could prove optimistic. Rapidly rising defaults and losses could yet trigger another financial-market panic.

Even if the economy is spared that fate, many effects of the credit mess have yet to materialise. Lending standards have tightened, but surely have further to go. America's banks are in worse shape than anyone predicted in August. The business of extracting fat fees from creating complex debt structures is in tatters. Banks' balance sheets are at once weakened by large losses on subprime-related products and swollen with unwanted assets from defunct structured-investment vehicles. For all the ease with which banks have tapped new capital in the past few weeks, they will be more cautious lenders now.

Put together falling asset prices, rising defaults and tighter credit and it is hard to see how the economy will bounce back quickly. History, too, suggests the hangover will last. A new study finds that, on measures from capital inflows to asset-price rises, the build-up to America's mortgage crisis looks eerily like earlier financial crises in rich countries. In the average rich-country banking crisis, it took two years for growth to return to trend; at worst it took more than three (see article).

The parallels are not perfect, but their message is that whether or not the economy falls into an official recession, it will probably stay weak for longer than many now expect. Prudently looser monetary policy will help, but cannot reverse the credit cycle or the bursting of the housing bubble. Nor will modest fiscal stimulus of the sort Congress is talking about. As Mr Paulson admitted this week “there is not a single or simple solution that will undo the excesses of the last few years.” America faces a long, hard slog.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LEADERS

America in the Middle East

George Bush drinks in the last-chance casbah

Jan 10th 2008
From The Economist print edition

There are still some things America's president can do to help the cause of peace in Palestine

AFP

Get article background

GEORGE BUSH flew in to a fanfare of bugles and cynicism at the start of his tour of the Middle East this week. The cynicism, it must be said, is not misplaced. Although he said in Jerusalem that he detected “a new opportunity for peace”, he has waited too long to make his first visit as president to Israel and the Palestinian territories. Even if he did everything right in his final year, he does not have time to realise his “vision” of a free Palestine alongside an Israel at peace with its neighbours.

Two things make that task look impossible. The first is the gap, no less wide for being so familiar, on the core issues. Ehud Olmert and Mahmoud Abbas are “moderates”. But although Mr Bush has persuaded them to talk about the ownership of Jerusalem, the borders of the putative Palestine and the fate of the Palestinian refugees, they remain far apart. Mr Olmert expects Israel to keep much of the dense band of settlements it has planted on the Arab side of the pre-1967 armistice line. He also insists that the logic of two states rules out any right which the Palestinian refugees of many decades ago claim to return to former homes in what has long been Israel. Mr Abbas will accept only tiny modifications to the pre-1967 border and still upholds the refugees' demand to go back.

The second, newer, obstacle to peace is that the Palestinian movement has split in half. With the Gaza Strip and its 1.5m inhabitants now under the control of Hamas, which is in turn under international siege, Mr Abbas can speak only for the West Bank, where more Palestinians live but over which his ramshackle Palestinian Authority exercises only the feeblest control. He, the Israelis and Mr Bush all know that until Hamas comes to accept the permanence of Israel and is somehow brought into the negotiations, no two-state solution can be made to stick. Indeed, much more likely than peace in Mr Bush's final year is an ugly new war, if the Palestinian rockets fired every day from Gaza eventually goad Mr Olmert into sending Israel's army to re-occupy some or all of the strip.

But if Mr Bush cannot achieve a breakthrough on his watch he can still do some things, at both a grand level and in detail, to bring peace closer and so make it less difficult for whoever takes his place in the White House to clinch the final deal.

The grand thing Mr Bush can do is to stop saying, as he did in Annapolis last November, that it is for Messrs Olmert and Abbas and nobody else to hammer out a two-state deal. On their own, with ideologues breathing down their respective necks, they do not and probably dare not agree. So America needs to promote a plan of its own. This does not require much effort. As it happens, most governments, as well as most ordinary Palestinians and Israelis, have a shrewd idea of the needed compromises: land swaps to make up for the few bits of the West Bank Israel will be allowed to keep, a shared Jerusalem, compensation but no general return for the refugees, except to the new state in the West Bank and Gaza. Mr Bush's refusal to say all this loud and clear is odd. For example, Mr Olmert is willing to enrage Israel's right by talking about the need to share Jerusalem. Why can't Mr Bush? His answer is that an imposed plan wouldn't stick. But the moderates in Israel can get nowhere if the superpower won't take their side.

Please try to focus

To counter the cynics, Mr Bush will need to show sustained attention to the details as well. This does not guarantee success, as Bill Clinton discovered at Camp David in his last, frenetic peacemaking months as president. But without close attention, the conflict in Palestine has a habit of either stagnating or getting worse. To date, Mr Bush has always seemed distracted: first by Iraq and now by a desire to build a regional alliance against Iran. It is time for him to roll up his sleeves and concentrate. In the coming months, for example, he should insist on Israel implementing its long-promised West Bank settlement freeze, not just shrug helplessly when it doesn't.

Neither grand plans nor vigilant policing of interim agreements will end this tangle at a stroke. But only genuine, robust American engagement will revive some hope and steer Palestinians and Israelis alike towards the hard choices they need to make. Like Moses, Mr Bush can still point the way towards the Promised Land, even if it falls to another to finish the job.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LETTERS

On Kenya, beauty, Canadian workers, Muslims, words, shopping malls

Jan 10th 2008
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Helping Kenya

SIR – The humanitarian crisis in Kenya understandably requires a rapid British and international humanitarian response ("A very African coup", January 5th). But it is important not to neglect a more difficult duty to help resolve two underlying problems. First, there has undoubtedly been a serious breach of Kenya's electoral law. A result arrived at illegally is itself illegal. Second, the poorest, whether in the slums of Nairobi or in the rural areas, had all too little to lose in the recent violence.

Most people living in the slums are inhabitants of shanties erected at the whim of rapacious landlords, who are themselves part of the political class. Some of these residents have now had their votes stolen as well. Kenya requires a solution that restores social harmony and cohesion. A political understanding between party leaders is necessary, but not sufficient. Without wider social harmony, life for most of Kenya's people will become even more intolerable. The poorest attack their equally poor neighbours and set fire to the little they have in common not because they hate these targets in themselves but because they see no other adequate way to express their grievance.

A useful British contribution would be to use our influence to press for a proper repair of the damage done by the presidential election as a basis for moving forward in helping Kenya's severe social problems. But we cannot effectively tackle injustice if we try to ignore illegality.

Sir Edward Clay
British high commissioner to Kenya, 2001 to 2005
Epsom, Surrey

A beautiful mind

SIR – You discussed the relationship between beauty and financial success ("To those that have, shall be given", December 22nd). Before some of your not-so-beautiful readers rush to have their faces surgically fixed, they should know that three large-scale meta-analytic studies (ie, statistical integration of the results of independent studies) failed to support the conclusion that attractive people are actually more intelligent.

John Antonakis
Professor of organisational behaviour
University of Lausanne
Lausanne, Switzerland

SIR – Beauty is not randomly assigned across occupations. If an exceptionally beautiful person became a computer programmer she or he would forgo a higher salary that could be had from modelling. Such a person would likely become a programmer only if especially gifted at writing code. As beauty does not generally correlate with programming skills, if you happen to find a programmer with model good looks, expect her to be rich.

Emir Kamenica
Assistant professor of economics
University of Chicago
Chicago

Canadian labour standards

SIR – Your article on Canada's foreign workers created a false impression about our project, which will link Vancouver's international airport by light rail to downtown Vancouver and the suburb of Richmond ("Not such a warm welcome", November 24th). Approximately 1,600 workers are employed on the scheme, with only about 50 being foreign workers. These workers carry out specialised tasks on our tunnel-boring operation and travel around the world as employees of the Italian company that is doing the work.

Our first choice was to hire local workers, but no Canadians applied due to both the massive construction boom under way in preparation for the Winter Olympics and demand for workers in the oil and gas industry. Once we had demonstrated the need for foreign workers the contractor had to prove that all federal and provincial employment standards, including wage standards, would be complied with before the workers entered Canada.

All those conditions have been met. A campaign might get more support if it claims that workers are being paid as little as C$3.56 an hour and have it reprinted as fact in *The Economist*, but that claim has been rejected by the British Columbia Labour Relations Board. Re-stating an untruth only helps to perpetuate the wrong notion about worker exploitation.

Alan Dever
Vice-president
Canada Line Rapid Transit
Vancouver

Religious meetings

SIR – It is true that the annual coming together in India and Pakistan of Tablighi Jamaat, a global network of Muslim preachers, attracts "hundreds of thousands" ("The battle of the books", December 22nd). But their biggest yearly gathering is held in Tongi, just north of Bangladesh's capital, Dhaka. Attracting millions, it is the second biggest congregation of Muslims after the *haj* pilgrimage to Mecca.

Ekram Kabir
Dhaka

SIR – Bibles in China are published by the Amity Foundation, not the American Bible Society. Although it has received some funding from the ABS, the printing and publication of Bibles for China are under the ownership and management of the Amity Foundation.

Gary MacDonald
Zhangye, China

Problematic words

SIR – I was intrigued to learn that a delegate from Papua New Guinea, who saved the day at the recent Bali conference on climate change, had a face "taught with emotion" as he delivered his stirring speech ("Some like it cool", December 22nd). He must have been taut well by his rhetoric teachers. The error appeared in the same issue that you published a letter from Masha Bell on the underperformance of English-speaking countries in education tests (December 22nd). She attributed this to the complexity of English spelling.

Animesh Ghoshal
Des Plaines, Illinois

The Italian fashion

SIR – The shopping mall you visited in central Minnesota may well stake a claim to be the world's first ("Birth, death and shopping", December 22nd). But its creator, Victor Gruen, a refugee from Nazi-occupied Vienna, must surely have drawn inspiration for his "brainchild" from the great shopping arcades of Europe. I recently travelled to Italy and went to the Galleria Vittorio Emanuele II in Milan and Galleria Umberto I in Naples, both of which were built in the second half of the 19th century. For the life of me, they sure appeared to be "shopping malls" to my American eye. The only differences were the absence of a huge car park and lack of refrigerated air-conditioning.

Frederick Dennstedt
Flagstaff, Arizona

SIR – With all due respect to the citizens and merchants of Glendale, I would be surprised if Frank Zappa's daughter, Moon Unit, ever set foot in its shopping mall, or city limits for that matter. The home base of those who inspired the 1980s hit single “Valley Girl” was the Sherman Oaks Galleria located in The (San Fernando) Valley. Fer shure.

Suzanne Sharp
Santa Monica, California

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
WORLD
UNITED STATES

The Democrats

The Comeback Kid, part two

Jan 10th 2008 | SALEM
From The Economist print edition

Getty Images

Hillary Clinton's triumph in New Hampshire portends a thrilling race

Get article background

LAST May, the *Onion* ran a picture of Barack Obama standing behind the junior senator from New York with the headline: “Hillary Clinton Threatened by Black Man”. The spoof newspaper was prescient. On January 3rd in Iowa, Mr Obama walloped Mrs Clinton by eight percentage points. John Edwards, a former senator who blames greedy corporations for most of the world's troubles, nudged her into third place. The polls, which only last month put Mrs Clinton 30 points ahead nationally, suddenly showed her crashing towards oblivion. Mr Obama looked set to romp to the Democratic nomination.

Hostile pundits waltzed on Mrs Clinton's political grave. “Thank you, Senator Obama,” wrote Bill Kristol, a conservative columnist. “There will be no Clinton Restoration. A nation turns its grateful eyes to you.” He danced too soon. Though the polls said she would lose heavily in New Hampshire on January 8th, she won, by 39% to 36%. “Together, let's give America the kind of comeback that New Hampshire has just given me,” she beamed.

The policy differences between the two leading Democrats are slight. Neither of them is George Bush. Both would pull American forces out of Iraq as soon as circumstances allow. Both would fight climate change. Mrs Clinton promises universal health insurance; Mr Obama would make it nearly universal. But this is not what excites their supporters.

As the *Onion* suggested, the contest is flavoured by race and sex. Democrats would love to pick America's first black president. They would also love to pick its first female one. But they cannot do both; at least not this year. So they must choose. If women, who are a majority of the electorate, want first and foremost to put one of their own in the Oval Office, that obviously favours Mrs Clinton. There are not nearly as many black voters as female ones, but there are plenty of whites who yearn to prove that they are not racist. Mr Obama makes such people feel good about themselves.

Mrs Clinton does not have the same soothing effect on male voters; for some, quite the opposite. But she is more experienced than her rival, having advised a president (her husband) for eight years. She also has awesome stamina, an orderly mind, a terrific organisation and a will to power that would make Nietzsche sit up and take notice.

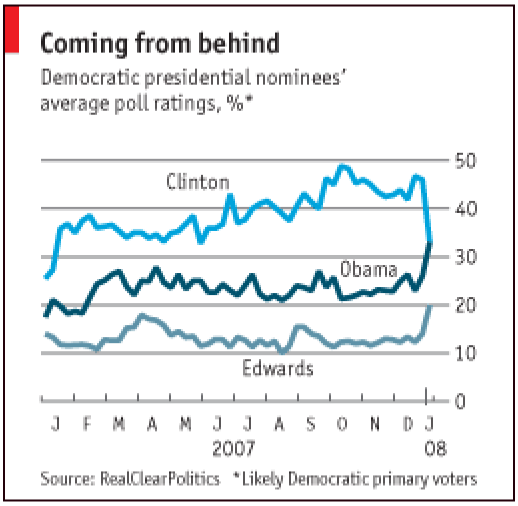
She met her loss in Iowa with her customary steel. She modified her stump speech, trying to sound more empathetic by talking softly and taking more questions from the audience. And she stepped up what she once called “the fun part” of the campaign—attacking her opponent.

She poured scorn on his inexperience. It is not enough to hope for change, she said; you have to work for it. The idea that Mr Obama can live up to expectations is “the biggest fairy tale I have ever seen,” said her husband. Mrs Clinton zapped Mr Obama for flip-flopping. He used to favour universal health insurance, she said; now he doesn't. He opposed the Iraq war but voted to pay for its continuation.

Mrs Clinton's speeches still include a long and slightly tedious list of micro-policies. She cannot whip up ecstasy the way Mr Obama does. But governing is not about making pretty speeches, say her supporters. It is about getting things done. That, of course, is what Republicans said when a certain slick young governor of Arkansas ran against George Bush senior, a sitting president, war hero, former ambassador and former head of the CIA.

The day before the New Hampshire vote, Mrs Clinton looked sad and vulnerable. Someone asked how she coped. “It's not easy,” she said, growing teary-eyed. “I couldn't do it if I just didn't passionately believe it was the right thing to do.” Of possible defeat she said: “I just don't want to see [America] fall backwards.”

Victory in New Hampshire tossed her a lifeline when she was expecting a whack on the head with a boathook. Many people support her because they think she is the best woman for the job. But some do so only because they think she is the Democrat most likely to beat the Republican nominee in November. Many of her donors, too, open their wallets in the hope of future access to power. Had she lost two states in a row, those wallets would have started snapping shut.



Mrs Clinton's remarkable comeback took place in the same state where her husband labelled himself “the Comeback Kid” after coming second in 1992. As a candidate, the brilliant but disorganised Bill Clinton benefited hugely from his wife's complementary talents: her discipline helped keep him focused. With roles reversed, it ought to be harder. Bill cannot easily lend Hillary his charisma. But the political machine the two Clintons built together can work for either of them.

And that machine does seem to have made the difference. If the exit polls are right, there was no late surge of people suddenly deciding to support Mrs Clinton. Her real advantage was among those who made up their mind more than a month ago, a group she won by 48% to 31%. So the pre-election polls were wrong, not because people changed their minds at the last moment, but because telephone pollsters underestimated Mrs Clinton's ability to drive and drag her supporters to the polling stations, argues Jay Cost of RealClearPolitics.com, a political website.

The exit polls also suggest that Mrs Clinton won New Hampshire by winning over traditional types of Democrat. She beat Mr Obama among registered Democrats, people over 40, union families, voters without college degrees and families making less than $50,000 a year. Mr Obama won the independents who voted in the Democratic primary, the first-time voters, the young, the college-educated and the well-off. Voters who said they were falling behind economically opted for Mrs Clinton; those who feel they are getting ahead preferred Mr Obama's more upbeat message.

And the biggest change since Iowa was that Mrs Clinton, who lost the female vote to Mr Obama there, won it back convincingly in New Hampshire, by 46% to 34%. Mr Obama won the male vote by 40% to 29%, but more women than men showed up to vote (57% to 43%).

The polls suggest that Mrs Clinton could win the next race, in Nevada, and Mr Obama will win South Carolina, which has a large black population. Anything might then happen on February 5th, when more than 20 states vote. Both candidates have the cash and the fame to compete. But the momentum is back with Mrs Clinton. The dynasty is not dead, at least not yet.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Republicans

The Mac is back

Jan 10th 2008 | MANCHESTER, NEW HAMPSHIRE
From The Economist print edition

AFP


The comeback senior

After John McCain's triumph in New Hampshire, the Republican race is as predictable as the weather

Get article background

THE candidate stood at a busy intersection and shouted: “Vote for me or something nasty will happen to your children in the night!” Vermin Supreme, who campaigns with a boot on his head and a chicken necklace (it is not hard to get on the ballot in New Hampshire), is trying to make a satirical point. Politicians court support by fear-mongering, he says. He takes it one step further: he wants America to be prepared for a zombie attack.

Mr Supreme's jokes are funnier than John McCain's. The senator from Arizona told the same old chestnut about two drunken Irishmen to several crowds in New Hampshire this week, most of whom had doubtless heard it before. But he won a thumping victory in the Republican primary, beating Mitt Romney by 37% to 32%, because Mr Supreme is wrong about the dangers facing America. Some of them are real. And many voters think Mr McCain is the man to confront them.

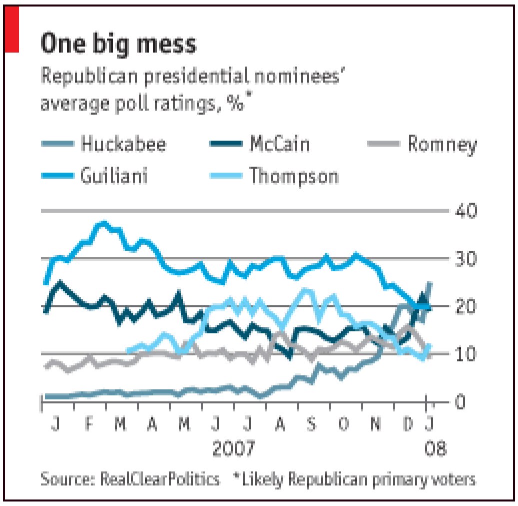
He correctly predicted that invading Iraq with too few troops would lead to chaos. He urged George Bush to send more (and sack Donald Rumsfeld) while other Republicans stayed mute. Now that the president has belatedly followed his advice and the “surge” appears to be working, Mr McCain looks both bold and prescient. And though he is not the most electric of speakers, crowds listen to him because of who he is. No other candidate was tortured for years by the Vietcong, or refused to be freed unless his fellow prisoners were freed too. When Mr McCain says he will win in Iraq and pursue Osama bin Laden to the gates of Hell, many voters believe him.

He also promises to restore trust in government. He says he will veto pork-barrel spending, a threat his Senate record makes credible. He says he will tackle climate change, a topic his Republican rivals have neglected. He also runs the most accessible campaign of any candidate.

At town-hall meetings, he does not fob voters off with a single sound-bite; he lets them ask follow-up questions. And between campaign stops, he sits with reporters on his bus, the Straight Talk Express, and shoots the breeze. This not only makes him popular with hacks; it helps them understand him. He knows a lot about national security; less about economics. He argues, preposterously, that climate change can be curbed without spending much money. But his unknowns are known unknowns, to borrow a phrase from his enemy, Mr Rumsfeld.

Mr McCain's resurgence is extraordinary. Six months ago, his campaign was broke and its obituary was in every paper, including this one. Brooke Buchanan, his spokeswoman, recalls trips in Iowa when she was the only other person on the bus. Now the Straight Talk Express is packed.

The most disappointed Republican this week is Mr Romney, a former governor of Massachusetts and squillionaire businessman. Not long ago, he was tipped to win both Iowa and New Hampshire, where he outspent his rivals by huge multiples. But Mike Huckabee, an ex-governor of Arkansas and Baptist preacher, surged from nowhere to beat him by nine points in Iowa on January 3rd. Mr Romney then won Wyoming two days later, but since the other candidates barely contested that state, his victory generated little buzz.



The Republican race is now wide open, with at least four contenders: Mr McCain, Mr Huckabee, Mr Romney and Rudy Giuliani, a former mayor of New York. Each has at least one handicap that, in any other year, would make it impossible for him to win the nomination. But someone has to.

Mr Huckabee, who came third in New Hampshire, leads narrowly in national opinion polls. He is the most gifted campaigner in the Republican field. His speeches are folksy and witty. The son of a fireman, he oozes empathy for the have-nots. His support is strongest among evangelicals. “He's one of us,” says Clarice Roseland, a born-again-Christian farmer's wife, adding that he is “down to earth” and knows what it is like to struggle. Asked about Mr Huckabee's plan to replace all income taxes with a national sales tax, which would benefit the rich and squeeze people like herself, Mrs Roseland says she supposes she had better read about it.

The sweet-talking preacherman

Mr Huckabee's weakness is that his protectionist and anti-corporate rhetoric appals economic conservatives. Dick Armey, a former House majority leader, accuses him of “feel-good conservatism”, with policies that provide “emotional gratification” rather than results. Others find his religious fervour off-putting. “He thinks he is destined by God to be president, and I find that blasphemous,” says Cliff Newman, a Romney supporter.

Mr McCain's main handicap is his liberal record on immigration. Another problem is his age. Were he to win, he would be the oldest new president ever.

Nearly all Mr Romney's policies fit with Republican orthodoxy, but many voters doubt his sincerity. When he ran for office in Massachusetts, his views on abortion and immigration were far more liberal than he says they are now. His rivals often mock him for flip-flopping. “You are the candidate of change,” deadpanned Mr McCain during a debate.

Mr Romney performs well on television, but stiffly on the stump. (“Robots are people, too,” reads a hostile badge, across a picture of him in a suit.) Able and intelligent, he struggles to connect with those less blessed. He has a tendency to spout too many numbers, and he slips too often into consultant-speak.

Mr Huckabee stabs this weak spot with a smile. Americans would rather their president reminded them of someone they work with, he says, not the guy who laid them off. This is unfair. As a venture capitalist, Mr Romney created jobs as well as destroying them. Staples, one of several firms he helped set up, now employs 74,000 people. But he has already been amply rewarded for this success. Voters seem reluctant to reward him further.

Mr Romney's fans are typically people who did not flunk algebra. Jean Esslinger, a financial adviser, says she thinks his résumé is “very, very impressive”. As a divorced mother of three, she admires his devotion to his family. Andrew Fales, an accountant and campaign volunteer, was once a Mormon missionary in the Philippines. He says knocking on doors for Mr Romney is easier than winning converts for his church. But that is not saying much.

Mr Giuliani has done woefully in the early states. In some precincts in Iowa, where voters heard short speeches in favour of each candidate before they voted, no one could be found to make the case for him. Though many Republicans admire him for curbing crime in New York and keeping cool on September 11th 2001, they are less impressed by his tolerance for legal abortion and dodgy henchmen.

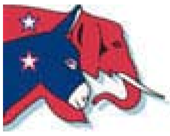
So what happens next? Mr Romney aims to win Michigan, where his father was governor, next week. But Mr McCain might frustrate him again. Mr Huckabee expects to win South Carolina, where there are a lot of evangelicals, on January 19th. Mr Giuliani hopes to capture Florida on January 29th, but his utter lack of momentum will make this tricky. Then, on February 5th, comes Super Tuesday. The way things are going, even that may not settle it.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Primary colour

On the campaign trail

Jan 10th 2008
From The Economist print edition



Gloating too soon
"Panic: Down by 13 points, Hill goes ballistic."

Front-page headline of the New York Post*, above unflattering photo of Hillary Clinton, January 7th.*

It takes a village idiot
"Iron my shirt! Iron my shirt!"

Two men in the audience offer Mrs Clinton some policy advice, January 7th.

Poor thing
"Well, that hurts my feelings...I don't think I'm that bad."

Hillary Clinton, asked why people don't think her likeable. ABC, January 5th.

Faint praise
"You're likeable enough, Hillary."

Barack Obama offering comfort to his rival. ABC, January 5th.

But his teeth are perfect, too
"The chairman of Governor Huckabee's campaign said he'd like to knock my teeth out. My only comment on that is: Don't touch the hair."

Mitt Romney, addressing the "too-pretty-to-be-president" question, CNN.com, January 3rd.

It's the other man from Hope
"We don't have men calling for our daughter."

Connie Davis, a Christian whose 15-year-old daughter asked her family to donate to Mike Huckabee's campaign instead of giving her Christmas presents. Mr Huckabee tried to thank her, and her father answered the phone. New Hampshire Union-Leader*, January 7th.*

Going negative
"Ronald Reagan did amnesty [for illegal immigrants]. I think he'd be in one of Mitt's negative commercials."

Rudy Giuliani, joining the Romney-bashing at the Republican debate, January 5th.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Obamamania

Has the magical mystery tour hit the buffers?

Jan 10th 2008 | IOWA AND NEW HAMPSHIRE
From The Economist print edition

Not yet: the Obama spell is stronger than that

Get article background

ONE certainty emerges from the confusion of Iowa and New Hampshire: Barack Obama is still the shiniest star in the political firmament. The citizens of Iowa and New Hampshire are not a particularly demonstrative bunch. In Iowa they pride themselves on their Midwestern common sense; New Hampshirites on their ornery independence. But Mr Obama has stirred them as they have seldom been stirred before.

People turned up in their thousands to listen to his speeches. They lined up for hours. They filled his every venue to the rafters. They high-fived and chanted ("fired up, ready to go"). They thrilled to his rhetoric. Mouldering old political hacks declared that they had not seen anything like this since JFK.

The magic worked well in Iowa. Mr Obama rode a wave of young voters and independents to a smashing victory. Then, in New Hampshire, it did not work quite so well. Mr Obama's loss to Hillary Clinton was all the more painful because almost everybody (including the Clintons themselves) expected him to win handsomely. However this setback, dramatic though it is, should not be allowed to obscure his achievements.

Mr Obama is a first-term senator—a man who was so unknown eight years ago that he could not even get a floor pass to the 2000 Democratic convention—who has fought the formidable Clinton machine to a draw. What had looked for months like Hillary's coronation will now be a real fight for the crown.

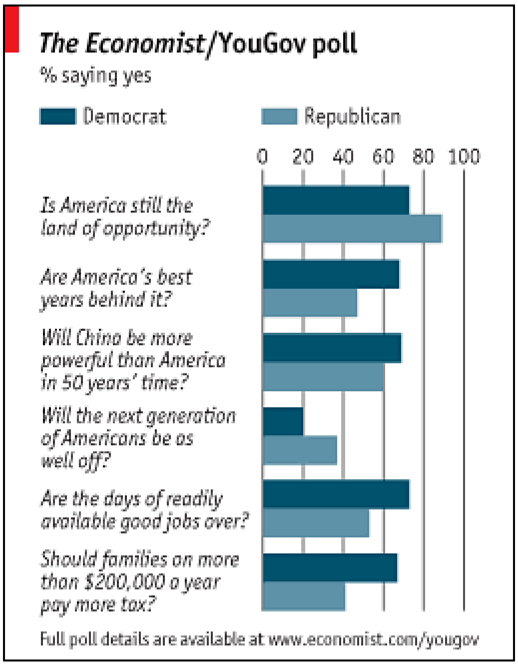
But he has done more than this: he has rewritten the terms of the 2008 race. Mr Obama was the first person to put "change" at the heart of his campaign. Now everybody—Republican as well as Democrat—has leapt on to the change bandwagon. Mrs Clinton promises "smart change". John Edwards promises "real change". John McCain touts his record of changing Washington from within. In the twinned Republican and Democratic debates on January 5th the presidential candidates used the word "change" 120 times.

His achievements are undoubted. But how lethal is the "reality check" of New Hampshire? Is the magic Obama train about to hit the buffers, or is the candidate tough enough to keep it steaming ahead through what now promises to be a long hard contest?

Mr Obama has demonstrated a unique ability to invoke passion among his supporters. This is partly because at his best he may be the finest public speaker of his generation: a man who echoes John Kennedy and Martin Luther King but nevertheless speaks in a voice that is all his own. It is not just that he says it well: it is also what he says.

Mr Obama has three great themes—change, reconciliation and hope. America is broken, he argues, ruled by lobbyists and hated around the world. The polls show that many Americans agree (see chart and full poll details). The way to fix this is not by fighting the partisan political wars even harder but by creating a national movement for reform that embraces independents and disillusioned Republicans. The force that will bring about this change is hope: the very same force that has brought about all the great changes in American history, from the emancipation of the slaves to the civil-rights movement. Or so the devotees say.

Mr Obama's supporters regard him as a transforming figure. He can, they claim, cure America's partisan divisions with the help of the fact that he is a newcomer to Washington who reaches out to independents and Republicans (Mr Obama himself says that he is running for the presidency now because he did not want to stay in Congress for so long that "all the hope was boiled out of him"). He can repair America's image in the world, they believe, because he is himself a global citizen who spent some of his childhood in Indonesia and is the son of an African father and grandson of a Muslim.



Deeper than all this is the question of race. Mr Obama never dwells on racial reconciliation. When he mentions emancipation and civil rights, it is alongside women's and workers' rights. He does not need to speak about black-white reconciliation because he embodies it. The largely white crowds who have been flocking to him over the past few weeks—Iowa and New Hampshire are only about 2% black—see him as a way of making amends for America's racist past. The gangly man on the stage has the power to forgive past sins and unite a house that has been divided.

But the promise of "transformation" that so excited the voters in Iowa was clearly not enough in New Hampshire. The Clintons threw everything that they could at the "hope" machine. Mrs Clinton demanded a "reality check". What, she asked, is the point of high hopes if you do not have the experience to deliver them? Bill Clinton talked about "fairy tales". Various critics argued that a great orator can still emit nothing but hot air. Probably the setback was inevitable: election campaigns cannot be conducted in terms of pure poetry for ever.

An end to poetry

Mr Obama now faces two big problems. The first is that his rhetoric is a waning asset. Everyone now knows that he is a wonderful speaker. But can he produce anything but golden words? He needs to show that he can excel at prose as well as poetry. It is striking how many people turned up to his meetings in New Hampshire and came away moved but not converted. They admired his talent but did not think that he addressed their problems.

His second trouble is that important groups of Democratic voters are immune to Obamamania. His message goes down fine with the college-educated crowd: young and liberal professionals who want to hear a statement about what sort of country they live in. It goes down less well with blue-collar workers and older people who want somebody who can solve meat-and-potatoes problems. For them Mr Obama is too young and too inexperienced: a pretty talker rather than a problem solver.

Democratic primaries have traditionally been unkind to inspirational liberals. The likes of Eugene McCarthy and Howard Dean were carried forward on a wave of hope for a while before they collapsed in confusion.

Yet there are a few reasons for thinking that Mr Obama may prove a more enduring candidate. The vote in New Hampshire was too close to qualify as a rejection. Voters want a proper contest in which they can consider their options; they do not want a coronation either of Mrs Clinton or of Mr Obama. And Mr Obama is a more appealing, and better organised, character than those "inspirational" predecessors.

The vote for the president is the most personal vote that Americans cast: a vote for a person rather than a party or ideology. Mr Obama's personal story speaks directly to America's sense of itself as a land of opportunity and upward mobility. His father abandoned him when he was two. He was partly brought up by his grandparents. He drifted for a while and experimented with drugs. But then he pulled himself together. He was the first black president of the *Harvard Law Review*. He wrote two best-selling books. He rejected black-identity politics for the richer theme of multiculturalism and racial reconciliation. He has risen to the summit of American politics by his mid-40s without the help of family connections.

Mr Obama is also the ideal anti-Bush candidate. Americans tend to look for a president who is different from his immediate predecessor—they chose Ronald Reagan after Jimmy Carter and Bill Clinton after George Bush senior—and Mr Obama is as different from George Bush as you can get. For a start, he is an outsider who didn't inherit power. Mrs Clinton, by contrast, is half of a political dynasty that has been at the heart of America's partisan wars for as long as many people can remember.

Mr Obama is tough. He thrived in the world of Illinois politics, one that is dominated by entrenched political machines that pride themselves on their bare-knuckle tactics. His first bid for the House of Representatives collapsed in disaster but four years later he was running for the Senate. His chief political adviser, David Axelrod, is one of the best in the business.

He came out against the “dumb” war in Iraq at a time when Mr Bush's approval ratings were sky-high and leading Democrats such as Mrs Clinton and John Kerry were voting for it. In the Senate he concentrated on building political capital for a presidential run rather than on accumulating a legislative record (which frankly looks a little thin). He had the audacity to go ahead even though the establishment was telling him to wait his turn.

Perhaps the most striking thing that he has going for him is that the Republicans seem more frightened of his message of “hope” than of Mrs Clinton's message of “experience”. They are well geared up for adding a few more points to Mrs Clinton's already lengthy list of political negatives. Mr Obama is an unknown quantity. His race makes him difficult for the Republicans to attack, and he is better than she is at wooing wavering Republicans. Despite New Hampshire, the battle between hope and experience has only just begun.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Kenya

Saving the world in his spare time

Jan 10th 2008 | MANCHESTER, NEW HAMPSHIRE
From The Economist print edition

An early foray into telephone diplomacy

Get article background

HE IS a busy man, what with the White House to win, but Barack Obama can still make time to lend his niceness to places that need it. Kenya, the home of his late father, is in turmoil. The president, Mwai Kibaki, says he won a surprise re-election last month. The opposition leader, Raila Odinga, says Mr Kibaki cheated.

There is ample evidence of foul play. In several places, on-the-spot counts showed Mr Odinga winning, but the results were changed before being announced nationally. Mr Odinga's tribe, the Luo, are furious. Many have taken up arms. At least 500 people have been killed, some of them while seeking shelter in churches, and 200,000-plus have fled their homes.

In between campaign stops, Mr Obama is trying to help. He broadcast an appeal for calm on Voice of America. “Despite irregularities in the vote tabulation, now is not the time to throw [Kenya's] strong democracy away,” he said. “Now is the time for this terrible violence to end.” He spoke with Mr Odinga by telephone, urging him to meet Mr Kibaki without preconditions to effect a reconciliation. He has apparently tried to get in touch with Mr Kibaki, too, but without success.

Mr Obama's father was of the same tribe as the opposition leader. Mr Odinga even claims to be related to the Obamas, though Mr Obama has not confirmed this. Mr Obama's loyalties, however, are post-tribal: he wants, characteristically, both sides to sit down and talk about it. Kenyans will at least listen to him. They usually prefer their leaders somewhat older than Mr Obama, but they will make an exception for someone who still has a chance of soon becoming the most powerful man in the world. Whether he can bring peace in his spare time is another question, though. Luos joke bitterly that America will have a Luo president before Kenya does.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Nevada and California

Into the West

Jan 10th 2008 | LOS ANGELES
From The Economist print edition

Attention shifts to two states that are unused to it

THE West usually comes late to the primary season, by which point the excitement is over. This year it is crashing the party. Of the region's 11 states, seven will select their Republican and Democratic candidates by February 5th. This week prospective nominees turned their attention to two states that are unaccustomed to it. One is Nevada, which will hold caucuses on January 19th. The other is California, the greatest prize in the race. Although polling booths in California do not open until February 5th, half of the votes there are expected to be sent in early by post. The first ballots landed on doormats this week.

In 2004 fewer than 10,000 people turned up to the Democratic caucuses in Nevada. The American media have largely overlooked the state, as have the Republicans. They are more focused on South Carolina, which will pick a Republican candidate on the same day. But the Democrats see Nevada as a gateway to the West and a crucial source of momentum. Barack Obama dropped two references to the state into his concession speech in New Hampshire.

Until recently Nevada seemed to be in the bag for Hillary Clinton, who led in polls and had picked up endorsements from prominent Democrats. But this week Nevada's two most powerful unions threw their weight behind Mr Obama. The Culinary Workers Union has some 60,000 members, most of whom work in casinos, where, handily, some of the caucuses will be held. The Service Employees International Union is smaller but can draw organisers from neighbouring California. Since turnout is expected to be fairly low, the outcome of the caucuses is likely to turn on a contest between two get-out-the-vote operations—the unions' versus the Democratic establishment's.

In Iowa and New Hampshire Mr Obama did especially well among independent voters, well-off urbanites and the young. The first group is much prized game in the West. Democratic officials in California and Nevada have made it easy for independents to vote in their contests. The Republicans have not, so independents are forced into the Democratic race.

Mr Obama will need their support, because he faces a big disadvantage. California and Nevada are heavily Hispanic—in California there are as many Latinos aged 18 to 29 as whites and blacks put together. Not all can vote, and relatively few of those who can, will. But those who do are likely to support Mrs Clinton. California's leading Latino politicians have rallied to her, and polls put her lead among Hispanic voters somewhere between strong and overwhelming. Bill Richardson dropped out of the race on January 9th, so now there is no actual Hispanic to vote for.

Some of this has to do with the fact that many Latinos are working-class and thus attracted to Mrs Clinton's talk of economic problem-solving. But Mr Obama's race matters too. California's Latinos are frequently pitted against blacks in the zero-sum game of urban politics, which generates broader resentments.

Postal voters are Mrs Clinton's other strength. They are older than average, and she has done well among the old so far. They are enthusiastic: more than three-quarters returned their ballots in the 2006 mid-term elections. Like Rudy Giuliani, the Republican candidate with the strongest California operation, she will target them relentlessly. Both hope to win the big race before it has begun.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Bipartisanship

Squeezed out?

Jan 10th 2008 | NORMAN, OKLAHOMA
From The Economist print edition

An idea revered in theory, not in practice

BARACK OBAMA won the Iowa caucus on January 3rd with a message that emphasised hope, unity and working together across party lines. By doing so he may have dispatched a formidable foe: not Hillary Clinton, who fought back and won the New Hampshire primary, but Michael Bloomberg. For several years there have been rumours that the mayor of New York is considering an independent run for the presidency. These gained credence following his decision to speak at the University of Oklahoma's conference on bipartisanship, on January 7th.

The point of the event, as David Boren, the university's president and a former senator, explained, was to “resurrect that kind of bipartisan statesmanship that united us as Americans to win the cold war.” Some observers took this as a sign that the conference would be a sort of coming-out party for a Bloomberg campaign. And Mr Boren admitted that he would be tempted to support an independent candidate “if the two parties do not rise to the occasion.”

But after Iowa and New Hampshire there may be less space for a bipartisan candidate. Mr Obama is not soon going to be knocked out by Mrs Clinton, and John McCain, for the Republicans, has staged a remarkable resurrection: both men specialise in appealing across party boundaries. Mr Bloomberg, for his part, has repeated that he is not in the running, and said that he hoped the conference could serve as a “catalyst” for a more harmonious discourse.

Bipartisanship is a popular cause. All the serious presidential candidates say they are for it. Republicans Mitt Romney and Rudy Giuliani were elected in the Democratic strongholds of Massachusetts and New York City respectively. Mrs Clinton, one of the most polarising women in politics, has a reputation for working well with her Republican colleagues in the Senate.

This big talk may prove empty, as so often before. Faced with the choice between reaching across the aisle and ginning up turnout by appeals to the base, parties often yield to temptation. And politicians seldom police themselves. Even so, the spectre of a third-party candidacy is encouraging the Democrats and Republicans to behave a little better. Mr Bloomberg cannot afford to wait too long for the mask to crack.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The Republican crack-up

Jan 10th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

The Republican Party is in a mess. The answer is surprisingly simple

BACK in July 2007, John Heilemann, a writer for *New York* magazine and an alumnus of this newspaper, argued that it was possible to imagine John McCain winning the Republican nomination—but only if you had been fortified by “half a bottle of Maker's Mark, followed by a nitrous-oxide chaser”. Mr McCain is now back. But a bigger question remains. Do you need to partake of Mr Heilemann's chemical cocktail to believe that the Republican nomination is worth having?

The Republicans look like dead men walking. Almost two-thirds of Americans regard the Iraq war as a mistake. A similar proportion think that the country is on the wrong track. Americans regard the Democrats as more competent than Republicans by a margin of five to three and more ethical by a margin of two to one. They prefer Democratic policies on everything from health care to taxes.

These figures have come to life in Iowa and New Hampshire. Twice as many Democrats turned out to caucus in Iowa as Republicans. The Democrats are fired up with Bush-hatred and ready to take the White House. The Republicans are despondent and defensive. “I'd rather vote for a dead dog than a Democrat”, one New Hampshirite told this columnist. “But the way things are going it might have to be the dead dog.”

The party has flailed around for a champion without success. Rudy Giuliani led the national polls for months only to implode. Fred Thompson sped to the front for a while only to fall asleep at the wheel. The party is divided into warring factions. Mitt Romney and Mike Huckabee have as much in common as their respective alma maters—Harvard Business School and Ouachita Baptist University. The party is also in danger of going off the deep end. Mr Huckabee denies that man is descended from the apes. Everyone except Mr McCain seems to think that it's a good plan to send 12m illegal immigrants back home.

The party's travails are producing a fierce argument on the right. Are the Republicans' problems just part of the normal political cycle? Or do they portend the end of an era? The pragmatists argue that the problems are just a matter of competence and happenstance. The war in Iraq was badly managed until Bob Gates and General David Petraeus took over. The White House's response to Hurricane Katrina was dismal. The Republican majority in Congress fell victim to the normal foibles of greed and lust. Voters always grow tired of incumbents.

The fundamentalists think that there is something much deeper going on. Ed Rollins, a former Reagan aide who is now Mr Huckabee's campaign chairman, argues that the machine that Ronald Reagan built is now finished. The coalition of social conservatives, defence conservatives and anti-tax conservatives “doesn't mean a whole lot to people anymore”. Mr Huckabee is openly critical of George Bush's foreign policy.

The truth is more nuanced. There is more than happenstance at work, but less than the break-up of the Republican coalition. Mr Bush's people pursued a self-defeating political strategy. They fired up the Republican base, ignoring the centre and rewarding their loyalists with government largesse. But Mr Bush's serial incompetence destroyed his narrow majority. And his addiction to government spending alienated fiscal conservatives.

Mr Bush's Republicans also made serious policy errors. They stuck their head in the sand over global warming. They ignored rising anxiety about stagnating middle-class incomes. They turned the war on terrorism into a defining issue and then messed it up. Mr Reagan had a lasting influence not just because he forged a coalition but also because he was right on the biggest issues of his time—the importance of shrinking government and facing down communism. The Republicans are now in danger of being either wrong or half wrong on two of the defining issues of our time—global warming and radical Islam.

This suggests that the Republicans need to engage in some vigorous rethinking, and fast. But it does not add up to a case for taking a jack-hammer to the Reagan coalition. The coalition has served the Republicans handsomely in the past—they will have held the White House for 20 of the past 28 years and controlled the House for 12 years from 1995. Jackhammering the coalition would almost certainly be a disaster. Do the Republicans really want to abandon a chunk of their core voters when they are already behind in the polls? And do they want to engage in a civil war in the middle of a tight election?

The value of values

Business conservatives can never win a majority without the support of “values voters” (there just are not enough people around who look like Mr Romney). “Values voters” can never produce a viable governing coalition without the help of the business elite. The Republicans have seen revolts against their ruling coalition before—remember Pat Buchanan's pitchfork rebellion against George Bush senior—and they have always succeeded in putting it back together again. They need to do the same now. Enough Republicans believe enough of the Reagan mantra—less government, traditional values and strong defence—to make it a workable philosophy.

The doomsters draw the wrong lesson from the Bush years. The lesson of the Bush presidency is not that the Republican coalition is exhausted but that it has been badly managed. Mr Bush has failed to keep the coalition in balance—he tilted too far towards his party's moralistic southern wing and too far away from its libertarian western wing. He has allowed public spending to balloon and pork-barrel politicians to run wild. And he has ignored big changes in public opinion about climate change. The Republican Party certainly needs to update its agenda to deal with problems Reagan never grappled with. But this is no time to go breaking the mould and starting again.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuela

Chávez slows to a trot

Jan 10th 2008 | CARACAS
From The Economist print edition

Socialism, but for a while only at the speed of a donkey

Illustration by Peter Schrank

Get article background

SMARTING from his first-ever electoral defeat last month, Hugo Chávez has begun the year by shifting his leftist revolution into lower gear. "The main motor seized up, so we'll have to go by donkey instead," he said on his weekly television show, "Aló Presidente" ("Hello President"), on January 6th. The "motor" was a reform of the constitution aimed at turning Venezuela into a socialist state and giving the president the chance to stay in power indefinitely. By a narrow margin voters rejected this in a referendum on December 2nd, leaving the revolution coasting in neutral.

"I'm obliged to apply the brakes," said the president, admitting that his mistake had been to get too far ahead of what Venezuelans were prepared to accept. With five years of his presidential term still left, he has the luxury of reconsidering the method while retaining the same goals. So he has announced a period of what he calls "the three Rs"— the "revision, rectification and relaunching" of the revolution.

He might have added another requirement: rapid results. In October the country will vote again, this time for mayors and governors. With 22 out of the 24 states currently in *chavista* hands, the president has a lot to lose. To avoid another reverse he needs to address the problems that, by common consent, lay behind his defeat.

The first is governmental incompetence. The revolution has failed to tackle a long list of problems, from crime to the cost of living. Mr Chávez's response was to make a dozen ministerial changes in early January. Out went the vice-president, Jorge Rodríguez, an outspoken radical, who was in charge of the referendum campaign. His replacement, Ramón Carrizales, is a retired colonel who quietly ran the housing ministry. Unlike Mr Rodríguez, who was also overseeing the creation of Mr Chávez's new political party, the Unified Socialist Party of Venezuela (PSUV), Mr Carrizales will focus "exclusively on government", the president said.

Another big problem is the demoralisation of Mr Chávez's own movement. Last year the president abruptly announced that he was creating the PSUV as the "sole party" of the revolution. But three allied parties refused to join; one of them has moved into opposition. The PSUV is due to be formally launched on January 12th. But squabbling between its factions is intensifying in the run-up to the local elections. Those with ambitions to succeed Mr Chávez after the next presidential election in 2012 know that the best launch pad is to become governor of an important state. Here, too, the president has chosen to ease up. He has acknowledged what was previously anathema: the existence of legitimate internal “currents” within the movement. And he has dropped his insistence that only those prepared to join the party can be part of the revolution.

The third pressing issue is the economy. Inflation soared to 22.5% last year, almost double the government's target. Staples such as milk, cooking oil and flour are in short supply. On January 1st the government launched a new currency, the “strong bolívar”, cutting three zeroes from its predecessor. Officials presented this as part of a plan to tame inflation. But since it has not been backed by policy changes, its main effect is just to simplify accounting.

The new finance minister, Rafael Isea, admits that the government needs to stimulate food production, which has failed to match growing demand prompted by an oil-fuelled economic boom. After the referendum his predecessor promised a more “flexible” approach to price controls, which the private sector sees as the main cause of the shortages. What this means in practice has yet to be spelled out.

A big shift towards more market-friendly policies is unlikely. Mr Isea is a former army lieutenant, with a limited background in economics. The new planning minister, Haiman El Troudi, is a youngish ideologue, as committed to central planning as his predecessor, the president's elderly economic guru, Jorge Giordani. Mr Chávez's call for alliances with the private sector and the middle class on “Aló Presidente” was broadcast from a newly inaugurated “socialist training school”, against a backdrop featuring a portrait of Fidel Castro, Cuba's communist president.

Indeed, Mr Chávez announced that he was launching a fresh “socialist offensive”. He promised that applying the brakes to the revolution in no way implied “surrender, moderation or conservatism”. He even announced the creation of a food production and distribution division of the state oil company, Petróleos de Venezuela. Mr Chávez acknowledges going too fast—but not in the wrong direction.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Chile

The centre cannot hold

Jan 10th 2008 | SANTIAGO
From The Economist print edition

Bachelet picks a new strongman

Get article background

WHEN she took office as Chile's president almost two years ago, Michelle Bachelet promised to be a different kind of politician, one who would lead a “citizens' democracy”. Her first cabinet contained only two members with previous ministerial experience; half of its members were women and several were independents. Three reshuffles later, on January 8th, Ms Bachelet unveiled her latest team, one stuffed with seasoned party figures.

That smacks of near-desperation. Broadly speaking, Chile remains a success story. Ms Bachelet has some achievements, such as an agreement on education reform, new child-care centres and wider health care. But she is much less popular than she was, and her government has found it hard to shake off a sense of drift.

The economy no longer outperforms its neighbours, despite record copper revenues. High energy prices—Chile imports almost all its oil and gas—have contributed to a blip in inflation. A new transport scheme in Santiago, designed under her predecessor, has brought misery for commuters. Not all of this is the president's fault. But she has been both hesitant and meddling, and has often allowed a small cabal of personal advisers to overrule and undermine ministers.

The reshuffle is a fresh start, she said. But it was a clumsy one. After weeks of delay, her hand was forced by the sudden resignation of her interior minister. His replacement, Edmundo Pérez Yoma, is a plain-speaking and experienced Christian Democrat who as defence minister in the 1990s oversaw the departure as army commander of General Augusto Pinochet, the former dictator. He is expected to act as a de facto prime minister—if the president lets him. The changes weaken the position of Andrés Velasco, the ultra-orthodox finance minister, several of whose protégés have lost their jobs. Mr Pérez Yoma criticised him last year for lacking “imagination and boldness”.

The reshuffle is in part an attempt to shore up Soledad Alvear, the leader of the Christian Democrats (DC), one of three main parties in the centre-left Concertación coalition, which has ruled Chile since the return of democracy in 1990. The DC suffered a serious split last month, when supporters of Ms Alvear, who is a potential presidential candidate, expelled Adolfo Zaldívar, a senator who led the party's right wing. Several of his senior followers departed too. As a result, the Concertación has lost its majority in Congress.

It has also lost much of its discipline and energy. Municipal elections are due in October, which in turn will mark the start of campaigning for the next presidential election in December 2009. Although the right has not won a presidential vote in Chile for half a century, many in the Concertación fear that after almost two decades in power their time is nearly up. The risk for Ms Bachelet and Mr Pérez Yoma is that this defeatism could become self-fulfilling. They have their work cut out.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Peru

Suffer the children

Jan 10th 2008 | LLIUPAPUQUIO
From The Economist print edition

Malnutrition amid growing plenty

Get article background

KICKING a football around a dusty lot, Judin Quicaño looks like any other boy of four. But stand him against a standard growth chart and he is almost a head shorter than he should be at his age. His mother says that is just his natural build. Health officials say he is among nearly 30% of Peruvian children in his age group who suffer from chronic malnutrition. The figure rises to 90% in places such as Lliupapuquio, a village in Apurímac department in Peru's heavily Indian southern Andes where Judin lives.

The picture is similar in neighbouring Bolivia and Ecuador. What makes the stunting of children's lives and bodies more shocking in Peru's case is that the country is enjoying a boom. The GDP expanded by 8.3% last year alone, and is some 45% bigger today than it was in 2001. Many of the poor benefit from social programmes. The government spends around $250m a year on food-aid schemes alone, which reach three-quarters of families in poor rural areas.

So why does malnutrition remain so prevalent? One reason is that in the Andes it generally manifests itself as stunted growth. Many Peruvians, often including the parents of the children concerned, believe that people of Andean Indian descent are naturally short. Malnutrition is thus “invisible” because the children are not “super-thin or dehydrated”, says Ian Walker, a social-protection specialist at the World Bank. But children who do not eat well in their first two years will face learning difficulties.

Although governments have increased spending on social programmes, they have done little to improve their effectiveness. In Apurímac, mayors complain of duplication, corruption and lack of local control. But the biggest problem is that economic growth is not reaching many parts of the Andes. Official figures put poverty in Apurímac at 74.8% in 2006, having increased slightly since 2004. In such places, a lack of transport, education and health care all conspire against progress.

When he took office in July 2006, President Alan García pledged to cut the incidence of child malnutrition by eight percentage points by the end of his term in 2011. The World Bank and other development agencies are trying to help. Last year the World Bank approved a $150m loan for streamlining social programmes and to enhance their impact on malnutrition, health and schooling, especially in Andean Indian villages.

There are reasons for hope. In Santa María de Chicmo, a district in Apurímac, the incidence of malnourishment in children has been cut from 80% to 30% since 2000. Most of the credit belongs to a scheme pioneered by Kusi Warma, an NGO whose name means “Happy Child” in Quechua, and whose work is backed by the municipal council and Unicef, the United Nations' children fund. It revolves around a small centre where new mothers bring their children for pre-school education and information about nutrition and health. The task facing Peru is to replicate this success, and go beyond it.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Canada

Islam and phobias

Jan 10th 2008 | MONTREAL
From The Economist print edition

Mark Steyn and the thought police

FOR much of the past century *Maclean's*, Canada's main newsweekly, has been as colourless as its name. But since early 2005, when slumping sales prompted a management overhaul, it has become livelier and more provocative. Too provocative, it seems, for some Canadians.

One of its star attractions is Mark Steyn, a columnist who is a sparkling, often side-splittingly funny writer and, by his own admission, “a Zionist neocon Bush shill”. Some readers added “Islamophobe” after *Maclean's* published an alarmist screed by Mr Steyn in October 2006 predicting, among other things, that Europe was becoming a “Eurabia” overrun by Muslim hordes, intent on *jihad* and *sharia*.

The piece, an excerpt from Mr Steyn's book “America Alone: The End Of The World As We Know It”, was notable for its simplistic demographic projections—Yemen (population 22m) will outnumber Russia (141m) by mid-century, he wrote confidently—and for the reaction it generated. *Maclean's* published 27 letters, many of complaint. That was not enough for some offended Muslims. Last spring a group of Toronto law students marched into the magazine's offices demanding equal space for a rebuttal by an author of their choosing. Ken Whyte, the editor and publisher, told the group he would rather see *Maclean's* go bankrupt.

Last month the students and the Canadian Islamic Congress (CIC), a lobby group, filed complaints against *Maclean's* at the Canadian Human Rights Commission, as well as those of Ontario and British Columbia. The article, the CIC claimed, harmed Muslims' “sense of dignity and self-worth”.

Their choice of forum has brought protests. The criminal code has hate-propaganda provisions, but using these requires convincing a prosecutor. The bar is much lower for Human Rights Commissions and their tribunals. These were set up to deal with discrimination on grounds such as race or sex in jobs, housing or services. Even the man who inspired them, Alan Borovoy, a civil-liberties lawyer, is dismayed at their misuse to limit free speech. The tribunals can only levy small fines and give an order to desist. But the proceedings involve steep costs for defendants, whereas plaintiffs pay nothing if the commission decides there are grounds to proceed.

Much of Canada's press and many broadcasters are already noted for politically correct blandness. Some fear that the case can only make that worse. Mr Steyn and others hope it will prompt a narrower brief for the commissions, or even their abolition. As he put it in his blog, “I don't want to get off the hook. I want to take the hook and stick it up the collective butt of these thought police.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil

The granny from Ipanema

Jan 10th 2008 | RIO DE JANEIRO
From The Economist print edition

So many more women on the beach than men

AS ONE observes the economical use of fabric to contain flesh as it wiggles from one *posto* to the next on Rio de Janeiro's Ipanema beach, thoughts turn immediately to demography. Like other countries where the population is ageing, Brazil has more women than men. But in Rio the imbalance is particularly marked: for every 100 females in the city there are only 86.4 males, according to IBGE, the national statistics agency. That is far lower than the 95 males per 100 females that is the average for Brazil's big cities. What is going on? And does this explain the size of the bikinis?

The answer lies partly in three forces that have shaped Brazil over the past few decades. First, like the rest of the country, Rio has undergone an extraordinary transition in its birthrate. Although the Catholic church and the government discouraged contraception for decades, Brazilian women decided to have fewer babies. Many opted for sterilisation. One study suggests up to 40% of women aged 15-49 have been sterilised. “You find some families where three generations of women have been sterilised after childbirth,” says José de Carvalho, a demographer at the Federal University of Minas Gerais.

As a result the fertility rate dropped from 6.2 live births per woman in 1960 to around two today, while people are living longer. In the past ten years, life expectancy has risen from 68.9 years to 72.4 years. An older population means more women in relation to men, because women tend to live longer.

Second, during the past 50 years millions of women have moved away from rural areas and towards cities, where they often find jobs in domestic service. This has further skewed the sex ratio in cities compared with the countryside. Copacabana, just down the beach from Ipanema, is one of the most imbalanced places in the whole of the country, thanks to a heavy concentration of the (disproportionately female) over-65s and their maids. The third factor is violence. Rio's murder rate, at 40 per 100,000 people, is shockingly high, and most of the victims are young men.

Evolutionary biologists would draw a straight line between the declining number of potential mates, the need for female *cariocas* to go to greater lengths to win them, and those small bikinis. But that seems far-fetched, given that much of the imbalance is down to simple ageing. Rio's grannies, who are the most affected, are—by and large—a demure lot. The problem of the bikini is going to require some further study.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: Mexico's oil industry

Jan 10th 2008
From The Economist print edition

In a chart accompanying our story on Mexico's oil industry ("Running just to stand still", December 22nd), we mistakenly measured oil reserves in trillions, instead of billions, of barrels. Sorry. This error has been corrected online.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Islam in Indonesia

Where “soft Islam” is on the march

Jan 10th 2008 | JAKARTA
From The Economist print edition

Indonesia has some worrying radicals but it seems to be following Turkey, with Islamists moderating as they get closer to power

Magnum

Get article background

IS INDONESIA, the most populous Muslim-majority country, undergoing creeping Islamisation? It is not hard to assemble enough recent evidence to give Western Islamophobes goosebumps. In late December a mob attacked and burned a prayer house in West Java belonging to Ahmadiyah, a sect deemed heretical by some mainstream Islamic scholars. Earlier in the month the country's Christian leaders complained that Muslim radicals, helped by local officials, had carried out a string of attacks on churches. Ten Muslim militants were jailed for attacks on Christians on Sulawesi island, including the beheading of three schoolgirls. In late November the religious-affairs ministry barred a liberal Egyptian scholar, Nasr Hamid Abu Zayd (who calls the Koran a “cultural product”), from public speaking in Indonesia.

Behind many recent incidents is a vigilante group, the Islam Defenders' Front (FPI), which in September assaulted bars, cafés and hotels in Bogor, near Jakarta, accusing them of violating Ramadan. Another rising radical force is the Indonesian chapter of Hizb-ut-Tahrir, which wants a caliphate to rule the whole Muslim world. Last August it gathered perhaps 90,000 supporters in a Jakarta stadium. Its leaders condemned democracy on the basis that sovereignty lies in God's hands, not the people's. A not dissimilar attack on pluralism was made in a hardline *fatwa* issued in 2005 by the Indonesian Ulemas Council (MUI). This same semi-official body recently demanded the banning of the liberal Egyptian scholar.

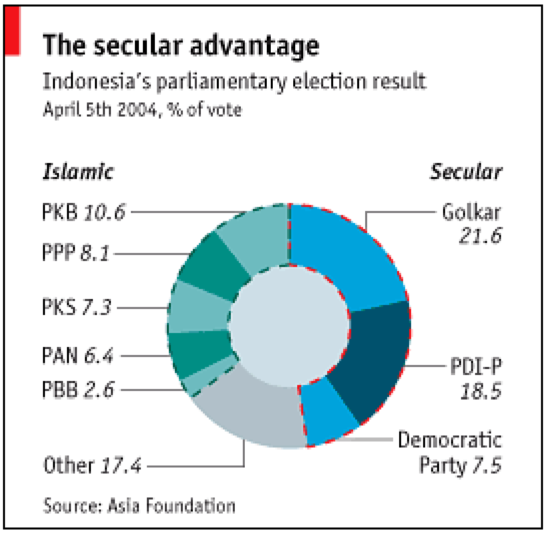
In 2006 a poll found that one in ten Indonesians supported terrorist attacks like the 2002 Bali bombings if intended to “protect the faith”. Jemaah Islamiah (JI), the terror group behind the Bali attacks, is still running several dozen *pesantren* (boarding schools), putting who knows what into impressionable teenage heads. The Bali bombers are due to be executed in the next few weeks, possibly triggering a backlash by radicals.

This all sounds worrying. But Indonesia is a huge, varied and complex place, and the radicals—even though some have a semi-official platform—are a small and not very influential minority. Contrary evidence abounds: liberals as well as radicals are making inroads. They have won a big battle over a “pornography” law that Islamists proposed in 2006. It would have banned bikinis and short skirts, for non-Muslim women too, and prohibited the Hindu minority's traditional dances. But a public outcry forced lawmakers to strike out all the controversial bits—and it still has not passed in parliament. Two new anti-terrorist police squads have made much progress in arresting and breaking up JI's leadership. There have been no attacks on foreign targets for two years.

As Indonesia democratised after the fall of the (secular) Suharto regime in 1998, local authorities gained autonomy and became directly elected. Many seized the opportunity to pass *sharia*-based laws, stoking fears of Islamisation. However, Greg Fealy, an Australian expert on Indonesian Islam, says these laws, though successful in winning votes for the local politicians pushing them, have usually had little practical impact. He recently revisited one such district, Tasikmalaya, where he found “there were more schoolgirls wearing the headscarf but just as much gambling, prostitution and drinking as before.”

The formerly separatist region of Aceh was allowed, under a peace pact with the rebels, to introduce strict *sharia*. The move was popular at first, says Sidney Jones of the International Crisis Group, a think-tank, but there was widespread revulsion when the authorities started publicly whipping miscreants. As a result the religious police were drastically reined in. Overall, Indonesians seem to prefer the idea of living under “God's law” to the practice of it. Indonesian Islam has always been distinct from the Middle Eastern kind, infusing influences from Hinduism and other religions. This will make it hard for fundamentalists to get far, says Muhammad Hikam, a political consultant.

Whereas a relatively small number of fiery militants and fundamentalists get most attention, Mr Hikam says that liberal Islamic scholars have successfully broken the link between religious piety and political Islam. Indonesians seeking a more overt expression of their faith, as many do nowadays, can still believe in separation of mosque and state. As the 2009 presidential and parliamentary elections approach, secular parties have been attracting voters by creating Islamic—but not Islamist—wings. The in-phrase, says Mr Fealy, is *Islam Lunak*, “soft Islam”. Pollsters are telling politicians that it helps to add a mild religious tinge to speeches about social justice and anti-corruption. But radical stuff, like preaching an Islamic state, is a turn-off.



Indonesia's two biggest Muslim organisations are Nahdlatul Ulama (NU)—whose long-time leader, Abdurrahman Wahid was president of Indonesia in 1999-2001—and Muhammadiyah, which together claim around 70m members. They indeed used to call for an Islamic state. Nowadays Masdar Farid Mas'udi, a senior NU figure, says all they mean by an “Islamic” state is a just and prosperous one. In some ways the two bodies have come to resemble Europe's mainstream Christian churches: “Catholic” NU stresses traditional rites and the authority of religious leaders, whereas “Protestant” Muhammadiyah stresses the primacy of scripture. As with Catholics and Protestants it is family tradition, rather than theology, that usually determines which group one belongs to. Both now accept Indonesia's secular founding creed, *pancasila*, which preaches religious tolerance (though you are supposed to believe in God).

Moderate success

Several of the country's political parties began life as the political wings of religious movements such as NU and Muhammidiyah. But the parties and their parent bodies have drifted apart, even as all have mellowed. In recent elections a more religiously conservative group, Prosperous Justice (PKS), has gained votes—but polls now show its support slumping. One reason is that it backed the pornography law and has suffered in the backlash against it.

Another, admits Zulkieflimansyah, a senior PKS parliamentarian, is that it has joined the (secular) coalition of President Susilo Bambang Yudhoyono. Its popularity has suffered because of tough policies such as cutting fuel subsidies. Mr Zulkieflimansyah sees his party as undergoing a desirable process of moderation as it “encounters reality”. PKS—like longer-established Muslim parties before it—is now having to ditch the fire and brimstone to transcend minority appeal. Rising younger figures in the party, like him, are more comfortable with this than its older generation, who studied in the Middle East. In general, the country's larger Muslim parties are echoing Turkey's ruling AK party—ditching Islamism while still appealing to the pious. Smaller ones still holding to a hard line may fare badly in 2009: Mr Fealy reckons that in 200 regional elections in the past two-and-a-half years not a single “sectarian” Muslim candidate has won.

Indonesia is, overall, edging away from radical Islamism. But the trend is not irreversible, and the authorities must avoid fostering fundamentalists by pandering to them. The MUI (the council of mullahs) and the FPI (the vigilantes) provide a lesson: both were created, for temporary reasons of expediency, by the Suharto regime but both have lingered to haunt its democratic successors. Mr Yudhoyono now seems to be trying to channel the MUI's radical enthusiasm into issuing *fatwas* against “deviant” Islamic sects like Ahmadiyah. But this only encourages the FPI to take up its cudgels.

Other, more important ways to make sure Indonesia stays on the path to democratic pluralism are to keep the economy growing and to boost sluggish efforts at reforming graft-ridden public institutions. High unemployment provides recruits for communal violence like that in Sulawesi—whether or not religion is the spark that ignites the tinder. Poverty, combined with disgust at corrupt officialdom, push some people towards the Utopian promises of groups such as Hizb-ut-Tahrir. In Indonesia, unlike most Muslim countries, the ideological struggle between various forms of Islam is being fought largely by democratic means. The violent and the intolerant are still at the margins and, while the country's steady progress persists, look likely to stay there.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Executions in China

The bullet or the needle

Jan 10th 2008 | BEIJING
From The Economist print edition

A change in technique for the world's busiest executioners?

CHINA'S leaders love talking about all the indicators that show China leading the world. Whether it is growth rates, production figures or trade volumes, officials relish any chance to unleash a barrage of dazzling statistics. They are less gung-ho about another category where China leaves the world trailing: use of the death penalty. Indeed, the number of Chinese criminal executions remains a state secret.

Foreign human-rights groups make valiant efforts to scour local press reports and tally the sums, but reckon they hear about only a fraction of the cases. In 2006 Amnesty International, a human-rights lobbying group, counted 2,790 people sentenced to death in China and 1,010 executed. Other groups put annual executions at 7,500 or more. Even per head, using low estimates, China probably outstrips every country but Singapore. It also has a greater number of capital offences than anywhere else: more than 60. These include murder and other violent crimes, but also smuggling, drug trafficking and many “economic crimes” such as bribe-taking, embezzlement and even tax evasion.

AFP

The old-fashioned way

This month it was revealed that China is planning a big change. The traditional method of execution—a single bullet to the back of the convict's head—is to be replaced by a lethal injection. Jiang Xingchang, of the Supreme People's Court, told the press this is because injections are considered “more humane”. The option was first authorised experimentally in China in 1997 and has since been used in many cities, including Kunming, Wuhan, Chengdu and Shanghai. Mr Jiang did not provide a timetable for an end to death by gunshot, but said the newer method has been favourably received by “all quarters of society, including those sentenced to death and their families.”

Some foreign critics disapprove. A statement from Amnesty said China's expanded use of lethal injections “flies in the face” of international trends away from capital punishment—which this year have seen even dictatorial Uzbekistan abandon the death penalty. The statement also cited the well-documented flaws in China's shoddy legal system and argued that a switch to lethal injection would do nothing to solve such problems as the arbitrary enforcement of the law or the execution of innocents. Recent years have seen a handful of cases in which Chinese defendants who had been sentenced to death, or even executed, were later found innocent. Chinese and foreign legal experts agree that an important cause of this, which China could do much more to eradicate, is the common police practice of extracting confessions through torture.

There is also cause to challenge claims that lethal injections are more humane. This week America's Supreme Court began hearing a case, brought by two condemned inmates in Kentucky, alleging that injections can cause agonising pain, and thereby violate a constitutional bar on “cruel and unusual” punishment.

In any event, China's interest in treating criminals more humanely has limits. This month the chief justice, Xiao Yang, said China might one day like to abolish capital punishment altogether. But that day would not dawn soon, because Chinese people believe strongly in the notion of an “eye for an eye and a life for a life”. Not to mention tax evasion, of course.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

Marshall Islands

Home on the range

Jan 10th 2008 | MAJURO
From The Economist print edition

A new government in the Marshall Islands may spell trouble for America

FIFTY years have passed since America ended nuclear testing in the Marshall Islands. But its 52,500 people are still wrestling with the legacy. On January 7th they ditched the pro-American administration led by Kessai Note and elected instead a government backed by disgruntled chiefs and senators from the nuclear-affected atolls. The new leaders are unhappy with their nation's "Compact of Free Association" (CFA) with the United States. They want to press the claims of nuclear victims on the islands of Bikini, Rongelap, Utrik and Enewetak. They are also considering opening diplomatic relations with China.

America has reason to worry. It retains important strategic interests on Kwajalein, the country's largest atoll. Test missiles fired from California as part of the "Star Wars II" missile-defence programme regularly plunge spectacularly onto the lagoon floor, to be retrieved for scientific analysis. When the CFA was renegotiated in 2003, America insisted on a separate agreement giving it continued access to its $4 billion missile-defence test site on Kwajalein until at least 2066. For this, it agreed to pay $15m a year, rising to $18m after 2014. It rejected pleas from local landowners for direct negotiations, insisting on talks only with Mr Note's government. The new compact is worth about $3.5 billion over its 20 years, and gives Marshall Islanders rights to work and live in America.

The Kwajalein chiefs responded by forming their own political party, the Aelon Kein Ad (AKA), which this week defeated Mr Note's party. After a chaotic election, which the AKA claims was marked by severe irregularities, it gained 18 seats in the 33-member *Nitijela* (parliament), just enough to secure the presidency.

The new president, Litokwa Tomeing, has said his country's links with Taiwan are not paying off and that he wants to switch diplomatic recognition to China. If he does—and Taiwan is lobbying hard and expensively to dissuade him—that may further unsettle America. When Kiribati, another country of sunbaked atolls and lagoons just to the south, had links with Beijing, it allowed the Chinese to build a satellite-tracking station on the island of Tarawa. When it switched to Taipei in 2003, the station was hastily removed, to American relief. America would be unlikely to tolerate a similar facility in a Chinese-allied Marshall Islands.

America paid $270m in compensation to nuclear victims under the first phase of the CFA (1986-2001), insisting that was a full and final arrangement. The new government claims this was far too little to compensate for the ill-health, birth defects and deaths suffered, or to cover the costs of cleaning up the damaged islands. The 67 tests conducted in the northern Marshalls between 1946 and 1958 released radioactive iodine said to be 150 times worse than the contamination from the nuclear disaster at Chernobyl in 1986. The new foreign minister claims that rising temperatures have caused irradiated bunkers once thought safe to leak, and that impoverished islanders are exporting toxic metals from their poisoned atolls.

The AKA-dominated government's position is nevertheless precarious. Unless it can force big concessions from the Americans, several wavering senators could well switch sides. But America may find it in its interests to show some flexibility. It might be much costlier to stand firm than to bend a little to the prevailing political winds.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

Censorship in China

Caution: lust

Jan 10th 2008 | BEIJING
From The Economist print edition

More sex please, we're Chinese cinema-goers

ImageNet

IN A country awash with pirated films featuring explicit sex and violence, China's prudish censors risk irrelevance. Their heavy-handed treatment of two recent films has sparked a lively debate about whether cinemas should at last be allowed to show something racier.

At present, films deemed unsuitable for children may not be shown to adults either. But the censors are under attack. Critics include Gong Li, a famous actress and government adviser, who last March appealed for a rating system that would give adults more choice. Complaints have mounted following the removal of sex scenes from “Lust, Caution”, a spy thriller by a Taiwan-born Oscar-winning director, Ang Lee, and the outright banning this month of “Lost in Beijing”, a sexually explicit drama by a Chinese director, Li Yu.

The internet and rampant film piracy mean censors' cuts do not go unnoticed. Chinese internet users can readily find websites showing the expurgated parts of “Lust, Caution”. Uncensored bootleg copies are peddled on the streets. The rapid growth of overseas tourism frustrates the censors too. The press reports that some Chinese travel agents have been offering trips to the cinema to see “Lust, Caution” uncut as part of their Hong Kong tour packages.

The censors initially approved the showing of “Lost in Beijing”, albeit in a heavily censored form. But just over a month after the film's debut in China, officials changed their minds. They accused the film company of circulating the censored sex scenes on the internet (the filmmakers blamed pirates) and banned the Beijing-based company from making films for the next two years.

Officials have mentioned the possibility of eventually introducing a film-rating system, but they appear in no hurry. Communist Party conservatives abhor the idea of condoning explicit sex. One Beijing newspaper reported last year that officials were worried that a rating system would make it more difficult to curb the distribution in China of foreign films, many of which fail to meet current censorship standards.

A quixotic attempt by a graduate student in Beijing, Dong Yanbin, to sue the censors for cutting the sex scenes out of “Lust, Caution” resulted in a predictable brush-off by a low-level court in the city. It said that the case could not be accepted unless the student could submit an uncensored version for comparison. Mr Dong prudently refrained from offering the court a pirated copy.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Nepal

The tumbrel rolls

Jan 10th 2008 | KATHMANDU
From The Economist print edition

A vote to abolish the monarchy gives Nepal a better, but not certain, hope of peace

IN CLEAR wintry light, shining on the snowy tops of the distant Himalayas, a few hundred Hindu ascetics and others gathered in a Kathmandu park on January 7th to protest against the impending abolition of Nepal's 240-year-old monarchy. It was consigned to oblivion on December 23rd, in an almost unanimous vote of the country's parliament. This was momentous—even if the vote left it for the next assembly, due to be elected in April, to confirm the sentence. Yet, apart from the one small protest, which ended after some gentle placard-waving, there has been no whisper of public demurral.

One explanation for this docility is that most Nepalis agree with parliament. Few modern monarchs have blundered so royally as Nepal's incumbent, King Gyanendra, who seized absolute power in 2005 and was forced by mass protests to return it the following year. He is also popularly believed—without evidence—to have been involved in the murder of his brother, the previous king, in 2001. Many Nepalis seem ambivalent about kings in general; but almost all want to see the back of this one.

There is, however, another, less positive, explanation for the public apathy about the monarchy's future. After a year of quarrelsome and ineffective government—including two cancelled elections—many Nepalis doubt that their leaders will deliver what they promise. The government of Girija Prasad Koirala, an octogenarian four-time prime minister, is charged above all with bringing a lasting end to a nasty decade-long civil war, for which elections are considered crucial.

The looming poll, to produce an assembly that will rewrite Nepal's constitution, was last due in November. It was postponed when Maoists, one side in the inconclusive civil war, withdrew from the government. They reasonably feared electoral defeat. That would have been a demoralising blow for their cadres, including some 23,000 former combatants, languishing in makeshift camps under UN supervision. Late last year the Maoists rejoined the government. The abolition of the monarchy was part of their price. All eight political parties that form the interim government promised to begin campaigning for the election. According to Baburam Bhattarai, the Maoists' deputy leader, there is “no question” of another delay.

Leaders of the other parties agree that further delay would be disastrous. Yet, in private, almost all expect it. First, they say, the Maoists are sure to back out again. They also point to insecurity in the southern Terai region, home to around 40% of Nepalis. In the past year, 130 people have been killed there in complicated and worsening ethnic and caste-based violence.

Meanwhile, Nepalis—who are among Asia's poorest—are having a miserable time. Annual economic growth, of about 2%, is barely keeping pace with the population. In a war-enfeebled state, crime is everywhere on the rise. In Kathmandu, a haven from much of the misery, people feel especially disgruntled, because their protests brought this government to power. Further stagnation, many feel, could lead to another sudden change: an army takeover—perhaps disguised behind a civilian façade—may be the likeliest sort.

Indeed, the monarchist army chief, General Rookmangud Katwal, this week struck a jarring note. Egged on by India, which fears a Maoist takeover above all, he declared that no former Maoist fighter would be allowed to join the army. Rather feebly, Mr Koirala seconded him—to the irritation of the Maoists, who want all of their cadres inducted into a new national army. They have a point: they voluntarily ended the war, while in control of much of Nepal. But, loth to return to the jungle, the Maoists might settle for much less: army posts for a few hundred former insurgents, perhaps, and jobs for the rest.

In fact, there may be no big problem that the government could not settle. Tribal militiamen in the Terai might accept a more modest bribe. But to offer such compromises, strong leadership is needed. Mr Koirala, as he inhales from the oxygen tank that is keeping his ailing body alive, needs to ponder that.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

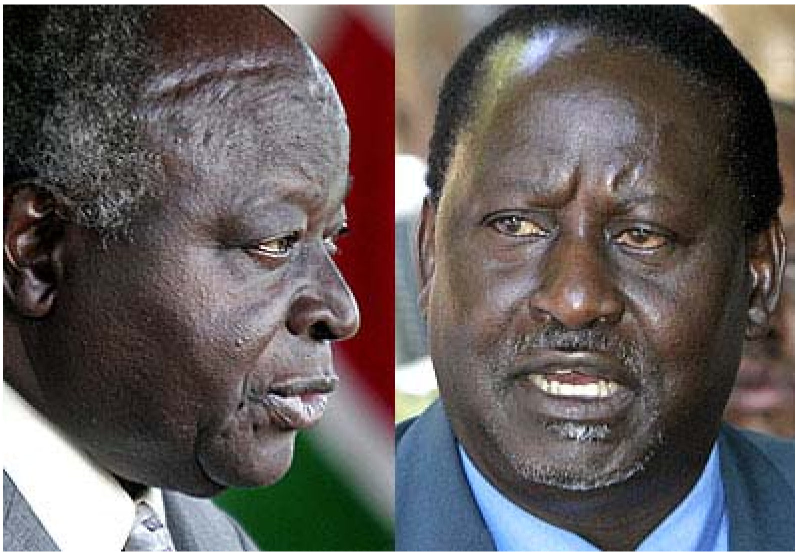
Kenya

Kibaki v Odinga: no compromise yet

Jan 10th 2008 | NAIROBI AND THIKA
From The Economist print edition

President Mwai Kibaki is loth to back down after his fraudulent election victory

AP/Reuters



Get article background

IT SEEMED that Kenya had pulled out of its nosedive into violence earlier this week—until the “big man” complex pulled the country back towards disaster. Now the recalcitrance of its disputed president, Mwai Kibaki, egged on by his bloody-minded backers, threatens to wreck east Africa's most prosperous economy and increases the chance of a drawn-out civil conflict. Ghana's president, John Kufuor, who currently chairs the African Union, is still trying to mediate, but so far in vain. Despite a concerted call for peace by Kenya's leading editors, businessmen and bishops, the prospect of an early compromise looks dim.

Earlier, the opposition leader, Raila Odinga, who claims he was cheated of victory by Mr Kibaki thanks to a false count after the presidential poll on December 27th, told his Orange Democratic Movement supporters to put off planned demonstrations in order to give international mediation a chance to work. Mr Odinga continued to insist that Mr Kibaki was an “illegal” president but his agreement to avoid the possibility of a lethal street clash between the Oranges and security forces was seen as a breakthrough. The next day, however, Mr Kibaki responded with apparent contempt to Mr Odinga's climbdown by unilaterally appointing 17 cabinet ministers. That was also a slap in the face of foreign diplomats who thought they had a deal with Mr Kibaki not to make any appointments until the business of mediation had run its course.

So more riots broke out—and more deaths look certain. At least 500 Kenyans have so far been killed. Thousands more have been wounded by gunfire, hacked by machetes, beaten with sticks, or scorched in fires. Most of the victims have been Kikuyus, from Mr Kibaki's tribe, the country's largest and richest, making up some 22%. The local Red Cross estimates that 200,000 Kenyans have been displaced, nearly all of them for ethnic reasons. The worry is that reprisals by Kikuyu gangs in areas where Kikuyus predominate, particularly against Mr Odinga's fellow Luos, may feed a fresh cycle of bloodshed. “If the reprisals start,” says a senior civil servant, “I fear you could see the armed forces breaking into tribal factions.”

Mr Kibaki's choice of cabinet ministers does not suggest he is reaching out to those who opposed him. In the parliamentary poll, held at the same time as the presidential one, Kenyans sent a clear message of disgust with corruption and cronyism. Oranges won 95 of the 210 contested seats, more than twice as many as Mr Kibaki's Party of National Unity; half of Mr Kibaki's cabinet lost their seats. Yet several of his new ministers are widely regarded as some of the most venal of the old guard; several have been threatened with travel bans to the European Union, including Britain, because of corruption allegations.

Among those thought to be encouraging Mr Kibaki to give no ground are John Michuki, who previously ran internal security and is now in charge of roads, and George Saitoti, who goes from education to handle internal security. Mr Michuki was involved in attempts during Mr Kibaki's first term to use foreign mercenaries to stop local media from publishing some stories to do with organised crime. This pair's prominence suggests that Mr Kibaki is ready to use repression to stay in power.

Mr Kibaki has also failed to break with his discredited predecessor, Daniel arap Moi, three of whose sons lost their seats in parliament: Mr Kibaki has put several of Mr Moi's favourites into the cabinet, including Uhuru Kenyatta, a son of Kenya's founding president. He has also named Kalonzo Musyoka, a Kamba, who came a distant third in the presidential race, as vice-president, in the hope of winning his party's much-needed votes in parliament.

The *Daily Nation*, Kenya's biggest newspaper, reckons that it has been the country's darkest period since independence in 1963. The violence has not ceased since the election result. The tension has been worsened by incendiary text messages, such as one that falsely said a busload of Luo women and children had been blown up by Kikuyus in western Kenya.

The security forces can barely cope without resorting to violence. There were too few to contain opposition protesters peacefully in Nairobi in the days after the poll—but enough to gun them down. “No Raila, no peace,” went the standard chant that has landed a number of Orange supporters in prison. Protesters near the smart Yaya shopping mall, a mile or so from central Nairobi, seemed poised to loot the building. A few started throwing stones at its windows, while others pulled petrol bombs out of sisal sacks. Hot-heads spoke of taking their fight against Mr Kibaki to the bush in a war of liberation. “Have you ever seen someone cut up, the legs here, the head over there?” asked a youth brandishing a rusty spanner. “That's what we'll do to the Kikuyus.” Just as gunfire threatened to break out, William Ruto, an Orange leader, persuaded the mob to back down.

The violence spreads

For days, Nairobi's slums were sealed off by security forces, causing widespread hunger. In Kibera, on the city's south side, what little food there was reached prices the poor could not possibly afford. Children collapsed under barrages of tear-gas. There was not enough water to wash their eyes. Corpses lay unclaimed in the fetid dust, some shot, others slashed. Ethnic cleansing went on despite the siege. Thousands of Kikuyus fled their tiny shacks, escaping through the nearby Ngong forest with dirty bundles of meagre possessions to take refuge in Nairobi's showground beyond. Kikuyus trying to enter Kibera were dragged out and beaten up by Luos.

The violence was, if anything, worse upcountry, where gangs of young men from the Kalenjin group turned on their Kikuyu neighbours in the Rift Valley. Many of the deaths there, including the burning to death of Kikuyus in a church, occurred in and around the town of Eldoret, whose Kikuyus fled, taking buses or lorries south to Nakuru, under government protection.

The conspicuously quietest bit of the country has been the Kikuyu highlands stretching up north of Nairobi to the slopes of Mount Kenya. About 97% of Central Province's voters were officially said to have plumped for Mr Kibaki. In mainly Kikuyu towns such as Thika, Luos working in government offices have fled. “We are not sure if they will come back,” says the district commissioner. “The situation is worst in the coffee estates and isolated farms. We can't offer protection there.”

Poorer Luos still working in Thika live harmoniously with other tribes in makeshift settlements on the edge of the town. “We don't say anything too loud,” says a young Luo. “The problem is the Kikuyus are too arrogant. They feel they have a right to rule.” Unsurprisingly, the Kikuyu view is different. “We're civilised and they are not,” says a Kikuyu mini-bus driver in the market-place, to applause from his friends.

So far the instability has cost the country $1 billion, says the finance ministry. The cost of borrowing abroad is likely to rise, the overvalued Kenyan shilling will fall, tourism has already been badly hit and foreign aid may be cut back. Planned privatisations will get greater scrutiny; some may falter. There may not be enough money to keep Mr Kibaki's promise of free secondary education for all. But breaking it would sorely undermine him.

Kenya's neighbours are being hurt too. Several, such as south Sudan and Uganda are landlocked, so rely on Kenya's roads and its port of Mombasa for their trade to the outside world. Uganda is particularly jittery. Its president, Yoweri Museveni, wants Kenyan troops to protect oil en route to the Ugandan border and says Uganda must build its own oil terminal to lessen its dependency on Mombasa. While Kenya's big men refuse to compromise, the country's reputation as a beacon of stability in a sea of regional turbulence is in tatters.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD MIDDLE EAST & AFRICA

The Arabs

Between fitna, fawda and the deep blue sea

Jan 10th 2008 | CAIRO
From The Economist print edition

Why George Bush, touring the Middle East this week, is finding the Arabs in a gloomy mood

IT IS not easy to be an Arab these days. If you are old, the place where you live is likely to have changed so much that little seems friendly and familiar. If you are young, years of rote learning in dreary state schools did not prepare you well for this new world. In your own country you have few rights. Travel abroad and they take you for a terrorist. Even your leaders don't count for much in the wider world. Some are big on money, others on bombast, but few are inspiring or visionary.

Reuters

These are gross generalisations, of course. Huge differences persist among 300m-odd Arabic speakers and 22 countries of the Arab League. With oil prices touching record highs, some Arab economies are booming. The gulf between a Darfuri refugee and a Porsche-driving financier in Dubai is as great as between any two people on earth. Yet to travel through the Arab world right now is to experience a peculiar sameness of spirit. Particularly among people under 30, who make up the vast majority of Arabs, the mood is one of disgruntlement and doubt.

Factors that contribute to the gloom include the discombobulating impact of one of the world's fastest population growth rates, failing public-education systems and the resilience of social traditions often ill-suited to the urban lifestyle that is now the Arab norm. But it is politics above all that shapes this generation's discontent.

In the world at large, things have not looked good for the Arabs for a long time. The generation that emerged after the second world war came to believe in the inevitability of an Arab renaissance after centuries of domination by Ottoman Turks and European imperialists. Within this scheme of Arab progress, the problem of Palestine stuck out like a troublesome nail. Defeat in the 1967 war with Israel shattered many dreams. Yet even after Israel's victory Palestine remained a touchstone for Arabs everywhere. Sooner or later, it was felt, justice would be done.

That confidence has taken a beating of late. Few Arabs expect the peace initiative George Bush launched in Annapolis last November to achieve anything. And the schism between Hamas and Fatah has shaken underlying assumptions. If the Palestinians cannot unite in their own cause, why should other Arabs help them? And which side to support? For fellow Arabs, as for Palestinians themselves, the clash between a heart that cries “resist” and a head that counsels compromise has seldom been more perplexing.

As in Palestine, so in Iraq. In 2003 America's invasion produced all but universal Arab outrage. From afar, Iraqi “resistance” looked both natural and noble. But as Iraq has grown messier, the rights and wrongs have grown harder for Arabs to disentangle. There are few heroes in a cast that includes mass killers from al-Qaeda, brutal Shia militias, criminal gangs, Kurdish separatists and corrupt politicians as well as the American occupiers.

Elsewhere in the region, it has become harder for thoughtful Arabs to blame the government-inspired slaughter in the Darfur region of Sudan or the stalemate between Lebanon's religious sects on a nefarious American foreign policy. Many Arabs still see Mr Bush's “war on terrorism” as a crusade against Islam. But many also note that al-Qaeda-style jihadism has killed more Muslims, from Morocco to Saudi Arabia to the squalid Palestinian refugee camps of Lebanon, than “infidels”.

In past decades, Arabs looked to leaders for guidance. Egypt's Gamal Abdel Nasser and Anwar Sadat, Tunisia's modernising secularist, Habib Bourguiba, and Kings Hussein of Jordan, Hassan II of Morocco and Faisal of Saudi Arabia were all flawed men. Yet they, and even monsters such as Saddam Hussein and Hafez Assad, enjoyed some popular appeal as nation-builders. Most of today's leaders, by contrast, lack an inspirational project. Nor is any single country a natural leader of the Arabs. Egypt under the 26-year-long rule of Hosni Mubarak is no longer the champion of “Arabism”. Saudi Arabia has vast oil wealth but a mixed record in diplomacy: its attempt last year to reconcile Fatah and Hamas unravelled with humiliating speed.

It may be a good thing that the personality-based leadership of the 1960s and 1970s has fallen out of fashion. Unfortunately, it has not been replaced by more institutionally-based systems of rule, let alone—for all the aid and speechifying of Western do-gooders—by democracy. Elections are more frequent and opposition parties and the press somewhat freer. But this is often a case of adopting the outward shape of reform without the substance. Regimes point to the existence of parliaments, while hiding the tricks used to pack them with friends and exclude real opposition. They can trumpet privatisation programmes that reduce the role of the state, while obscuring the fact that many of the beneficiaries are regime cronies.

The marginally freer press makes for more colourful news-stands. But some opening was probably inescapable, due to the impact of hard-to-block new media, via satellites and the internet. Governments have simply switched from absolute control of information, for example through state television monopolies, to enacting laws that criminalise “spreading false information” or “disrespecting state institutions”. The supposedly liberalising, pro-Western governments of Morocco, Jordan, Tunisia and Egypt have all used such means to stifle dissent. Syria under Hafez Assad used to hurl dissidents into prison without much ado. His “modernising” son Bashar has them tried first. But they still end up in the slammer.

Stratagems such as these suck the vitality out of politics. Morocco is one of the bolder Arab reformers. Yet despite rising prosperity, a relatively free press and multi-party elections, Moroccans have grown increasingly sceptical of a political process that remains tightly, if elegantly, circumscribed. As a result, voter turnout has steadily declined over the past two decades. In Egypt, fewer than one in ten voters bothered to turn out for recent polls.

Political scientists have long blamed oil wealth—and the *rentier* economy that so often goes along with it—for the survival of Arab authoritarianism. No taxation without representation, said America's revolutionaries. Arab governments have inverted this refrain: by appropriating national energy resources and other rents, they neatly absolve themselves of the need to levy heavy taxes and therefore to win the consent of the governed.

The devil you know

A less obvious source of state power is a pervasive fear of what might happen in its absence. In many Arab countries loyalty to the state is weaker than loyalty to a sub-grouping based on kinship, ethnicity, religion or region. This is hardly a unique problem; many successful democracies still struggle with it. But Muslims have, in addition, yet to resolve the essential question of whether laws should emanate from the people or from God (see article).

Such points may seem abstract but they have practical consequences. In most Arab countries, regimes hold power by virtue of tradition or through military-backed movements that claim to represent the will of the masses. Where top-down authority collapses, as it did in post-Saddam Iraq or in the Palestinian territories after Arafat, it has been very hard for bottom-up politics to repair the damage.

In such circumstances, it is not surprising that people prefer the devil they know to the *fitna* (communal strife) or *fawda* (chaos) that seem all too likely to replace it. This makes Arabs suspicious not just of Western advocates of democracy but also of parties such as the Muslim Brotherhood, which advocate change in the name of Islam. It is instructive to note that when such movements are confronted with bread-and-butter issues they tend to split between pragmatists and ideologues, leaving supporters befuddled. Even Egypt's highly disciplined Muslim Brothers, for example, are riven by tensions between older hardliners and younger liberals.

The bleakness of political prospects is only one aspect of the current Arab malaise. The rigid social structures and strong family ties that form part of the cohesive strength of Arab societies have negative consequences too. Sex out of wedlock remains taboo, yet the cost of lavish weddings, hefty dowry payments and the bridal requirement of a furnished, paid-for home have pushed the average age of marriage in many Arab countries into the 30s. The resulting frustration is an underlying cause of troubles from youth delinquency to religious extremism. Paternalistic social norms hold women back, even though their legal status is improving.

Let them learn about the world

Much fanfare has surrounded the release, over the past few years, of a series of UN-sponsored reports on human development painting a picture of Arab shortcomings that range from women's treatment to the feeble trickle of translation into Arabic of new knowledge. An oft-quoted statistic from the reports is that the amount of literature translated into Spanish in a single year exceeds the entire corpus of what has been translated into Arabic in 1,000 years.

If there is a common thread in many of these failings, it is poor education. Studies show a strong link between levels of schooling and attitudes to women's rights. Harder to prove, but equally valid by anecdotal evidence, is a link between breadth of reading and tolerance of diversity. Religious texts still out-sell every other form of literature in most Arab countries. This may promote punctilious practice of the faith, but hardly equips people for a bewildering world of ever-increasing choice.

Although the proportion of Arabs with university degrees is growing rapidly, quality lags far behind. An annual ranking of the world's top 500 universities, compiled by Shanghai's Jiao Tong University, includes only one Arab institution compared with seven universities in tiny Israel.

Some Arab governments are at last responding. Qatar and Saudi Arabia have hired well-known consulting firms to revamp public-school systems designed in the 1950s. Even Syria has relaxed the state monopoly of higher education. Private universities are flourishing everywhere, sometimes with generous state aid. Dubai's Sheikh Muhammad Maktoum has pledged $10 billion to create a foundation to advance knowledge. Saudi Arabia has committed some $3 billion to build what officials promise will be a world-class postgraduate institute that will be beyond the supervision of the religiously conservative education ministry, and where men and women will be allowed to mingle.

Another cause for hope, just now, is the rapid growth of most Arab economies. For each of the past six years the Arab world has, by some estimates, grown faster by at least a percentage point than the world as a whole. Record oil prices have helped a lot. So has demography: birth-rates are falling after a period of high growth, increasing the proportion of wage earners to dependants. This has boosted consumer industries, as have reforms to ease investment and trade. Give me five more years of 7% growth, one Egyptian minister is fond of saying, and many of our other problems will fade. Maybe.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
WORLD
MIDDLE EAST & AFRICA

Israel

Where do we go from here?

Jan 10th 2008 | JERUSALEM
From The Economist print edition

Israelis are enjoying calm and prosperity but worried about the future

THIS May, Israelis will look back over their country's 60 years of history with mixed feelings. To be sure, they (or their parents and grandparents) built a state from scratch, and it has prospered relative to its neighbours. Israel's GDP per head is around four times bigger, at purchasing-power parity, than the Arab world's, even including the oil-rich Gulf states, and the country has changed a lot more too. Almost gone are national stereotypes like the sunburned, sandalled kibbutznik and the family at Tel Aviv's airport arguing with a customs official over a mountain of foreign-bought gadgets and gifts; they can now buy most of the same stuff at home, even if it still costs a bit more.

Israel has also bounced back from the Palestinians' second *intifada*, which began in 2000 and has gradually died down. The barrier being built in the West Bank and an aggressive strategy against Palestinian militants have helped, along with a truce, to make suicide bombings a rarity. Though a constant drizzle of home-made rockets fired from Gaza keeps the residents of nearby Israeli towns living in fear, most other Israelis just shrug.

But although they find the present quite comfortable, it is a long time since they felt so unsure about the future. Few expect peace with the Palestinians. Tough security measures may keep the human cost to Israel down, but more Israelis now realise that their mighty army, so good at fighting conventional battles, has no answer to the rockets from Gaza or to Hizbullah's well-equipped guerrillas across the border in Lebanon, should another war break out like the one in 2006. Security hawks alarm Israelis with the prospect of an Iranian nuclear bomb as the first real existential threat in Israel's history. Israelis with a European parent or grandparent who never thought of leaving before have been taking out second passports—just in case.

They also disagree more and more about what kind of country they want to live in. Arab Israelis, a fifth of the citizenry, are reacting to decades of discrimination by demanding more rights and recognition as a minority. Few feel that the 60th anniversary of the state whose birth marked their separation from other Palestinians will be anything to celebrate.

But divisions are widening among Jews too. As the religious population expands and a younger, more fundamentalist religious generation comes of age, secular and religious Jews are becoming more segregated in some areas. Some secular Jews fear becoming a minority. And secular-religious conflicts over what the Jewish nature of the state should be, as well as what to do with the territories occupied since 1967, have become ever fiercer.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Georgia

Misha bounces back

Jan 10th 2008 | TBILISI
From The Economist print edition

EPA

Mikheil Saakashvili is duly re-elected as Georgia's president, but he is a somewhat chastened man

Get article background

ON THE night of January 5th, as Georgians voted in a presidential election, men in uniform were throwing snowballs. A Christmas fair cheered up Rustaveli Avenue, Tbilisi's main street. Anything that could be illuminated was. All normal in some places—but a novelty in Georgia.

Four years ago, when Mikheil Saakashvili and his supporters, armed with roses, stormed parliament and seized power, Georgia was in freefall and Rustaveli Avenue was barely lit. It had been the scene of violence by Soviet troops, and then of civil war. Since Mr Saakashvili came to office, Tbilisi has been transformed. The economy is booming and foreigners are flocking to invest. This is more impressive since Georgia has almost no mineral resources and is under Russian embargo.

Merab Kuchukhidze, selling toys at the Christmas fair, voted for Mr Saakashvili because "I want this to continue." That is why Mr Saakashvili got 52% of the vote in a country he has subjected to radical reform. But still last November 50,000 Georgians came out on the streets to protest against poverty, rising prices and injustice. The protest ended in violence and a state of emergency. Even when Georgia seems normal, a crisis is not far off.

In November Mr Saakashvili, the darling of the West, sent riot police with truncheons, water cannons and tear-gas to disperse the crowds. Special forces shut down and vandalised the Imedi television station, the main news outlet for the opposition. The disproportionate use of force shocked Mr Saakashvili's Western friends and repulsed most Georgians.

Yet Mr Saakashvili is unrepentant. He says the use of force was justified by the threat of a coup. Opposition leaders, he claims, were planning to storm parliament and overthrow the government. Imedi, owned by a tycoon, Badri Patarkatsishvili, was spreading provocative disinformation. (A few weeks later Georgia's security services taped Mr Patarkatsishvili in London offering $100m to a state official to precipitate a coup. This information was embarrassing enough for Imedi journalists to stage a strike against their owner.)

At the time Mr Saakashvili implied that Russia, Georgia's main adversary, was behind the instability. "Stop blaming Russia for your domestic problems," the opposition said. They had a point. The crisis, unnoticed by the West, had been building for some time and was largely brought on by the president himself. His reforms have cut deep into Georgia's way of life. To fight corruption, he fired 30,000 policemen and slashed the bureaucracy. He liberalised the economy more than most European countries: anything that could be privatised was. Unlike his predecessor, Mr Saakashvili showed no reverence for the old intelligentsia and little respect for seniority. He brought in a new Western-educated elite that was aloof and efficient. If you are over 40 and don't speak English, you are a nobody, some Georgians complain.

A backlash was inevitable. “If, after all this, we got 80% of the votes, it would have meant we had done something wrong,” Mr Saakashvili says in an interview. But it was his style that infuriated even some supporters. He spared no time burnishing his credentials abroad, but did not explain his policies to the voters. He bragged about his reforms but showed little compassion for those they left behind. He admits he was insensitive and that some of his liberal policies were inflexible and too harsh. His election message, devised by American advisers, was: “I listened, I heard, I understand.” Billboards showing Mr Saakashvili looking after the old and frail advertised “Georgia without poverty”.

The opposition says this was cynical. “As if he did not know about the social problems in the country,” says Salome Zourabichvili, a former foreign minister who is now in opposition. Besides, she adds, the demonstrations were about the principles of democracy and justice. She accuses Mr Saakashvili of usurping power and undermining the legal system and property rights. For David Usupashvili, the most moderate of the opposition leaders, the question is “whether we have a government working within a rule of law or do we have a team of ‘good guys' who cut corners in the name of reform.”

The protesters first demanded that Mr Saakashvili hold a parliamentary election next spring. But its call for Mr Saakashvili to resign backfired when he called an early presidential election for which the opposition was unprepared. Levan Gachechiladze, the candidate it put up against him, was no match for Mr Saakashvili's political experience or charisma. Being nondescript was not enough. “He talks little and does not promise anything,” one of his own supporters said approvingly.

Yet the protest vote against Mr Saakashvili, particularly in Tbilisi, was big enough to give Mr Gachechiladze 26% of the vote. The election itself was imperfect. Mr Saakashvili exploited his presidential position during the campaign, and the media were biased. There were incidents of intimidation and pressure. But international observers said it had passed the test of a democratic election. It was certainly the most competitive one in Georgia's history. Until now, says Ghia Nodia, a political analyst, “power in Georgia had always been contested on the streets, while elections were simply a way of endorsing it.”

Contesting political power in an election still seems unorthodox to many Georgians. Georgi Khaindrava, a former minister, predicted fatalistically that if Mr Saakashvili won more than 50% of votes, it would mean the election had been rigged. When the election commission said Mr Saakashvili had scored enough votes to avoid a second round, the opposition cried foul, staged a protest and later burst into its offices. Tolerance is a rare commodity in Georgian politics on either side. “If you compare Mr Saakashvili with the opposition, he is still more democratic,” says Mr Nodia.

However imperfect, the election has delivered some good results. First, it has left Mr Saakashvili in power. Georgia's problem was not lack of pluralism but a malfunctioning state, which Mr Saakashvili is still the best man to fix. Second, the election gave him only a thin majority, which has had a sobering effect on him. “I am used to winning elections with percentages in the high 70s,” he says. Many Georgians want him to stay but with reduced support; they may vote against his party in the parliamentary election.

Mr Saakashvili appears to have learnt his lesson. “It is much better to have a mainstream opposition in parliament, than a marginalised opposition on the streets,” he concedes. He has promised to offer the opposition jobs in the government, and called for a truce with Russia. Mr Saakashvili has also revealed that Georgian officials have recently had informal discussions with Russian officials, who have hinted that Russia may soon lift its embargo.

The election also taught a lesson to Georgia's Western friends: that unqualified support for one man may not always be in Georgia's best interest. Like many modernisers (his role-model is Ataturk), Mr Saakashvili has autocratic instincts. The problem is that when democratic institutions are weak, a benevolent autocrat can turn into a malign one. So the best thing the West can do is to provide some checks and balances. A chastened President Saakashvili may just be a better leader for Georgia.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Rubbish in Naples

See it and die

Jan 10th 2008 | ROME
From The Economist print edition

The real crisis in Naples is about governance as much as rubbish

AP

Waste not, want not

GARBAGE littered on city streets can be not only unhealthy, but also politically hazardous. It reminds voters of the fragility of civilisation—and can prompt them to turn on their elected representatives. Uncollected rubbish helped to undermine the Labour government of James Callaghan in Britain's “winter of discontent” in 1978-79.

So it is at first sight surprising that Romano Prodi's centre-left government should have let the situation in Campania, the region round Naples, get so smelly. By January 8th some 60,000 tonnes of garbage were piled up in the streets, roughly 5,000 tonnes of it in Naples itself. At a rubbish dump outside the city, residents opposed to its reopening were fighting nightly battles with the police.

This crisis is as much about governance as about garbage. It did not blow up overnight. Campania has been plagued by refuse trouble for 14 years. Almost €8 billion ($11 billion) has been spent on it. The region's garbage collectors stopped their rounds on December 21st, because the dumps in and around Naples were full, and an incinerator that should have been ready was not. Both developments were wholly foreseeable. The centre-left mayor of Naples, Rosa Russo Jervolino, warned Mr Prodi of the looming crisis a year ago. Yet nothing was done.

The underlying problem is that Campania has no modern incinerators. This is because plans to build them have met determined, and often aggressive, opposition from local people. Their protests are frequently backed, if not orchestrated, by Campania's powerful organised-crime group, the Camorra, which makes succulent profits from disposing of waste in illegal dumps (see article). But many Neapolitans are genuinely concerned about emissions from the proposed incinerators. There has been criticism of their design; and, since barely one-eighth of the city's garbage is separated before it is collected, there are fears that toxic waste could be burnt along with harmless stuff.

Mr Prodi first sent in the army to clear the garbage from outside schools, so that they could reopen after the holiday. Then on January 8th he announced a set of new measures. He appointed a special commissioner, a former national police chief, Gianni De Gennaro, with sweeping powers to tackle the garbage mountain. He was given a 120-day mandate and guaranteed continued help from the army. Mr Prodi also promised three new incinerators and “enough” new landfill sites. He gave local authorities four months to bring in segregated collection. Otherwise, they will be put under special administration.

Mr Prodi had earlier said that he intended to solve the Naples garbage problem permanently. His plan could do this—if it is carried out. But some scepticism is surely in order. Mr De Gennaro is at least the seventh Campanian “refuse tsar”. The prime minister offered no deadline for completing the incinerators, which take some three years to build. Nor did he say how he proposed to overcome local opposition to the creation of dumps, which can be fiercer even than resistance to the building of incinerators.

At least one measure announced by Mr Prodi will have an immediate impact. Other Italian regions are to be allowed to take some of Campania's waste. But this is at odds with both Italian and European Union legislation (the European Commission is already threatening legal proceedings against Italy over Naples's garbage). Mr Prodi called it a short-term expedient to allow longer-term measures to be enacted. But nothing has proved more elusive in Campania's protracted waste crisis than long-term solutions.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE

French politics

L'hyperprésident

Jan 10th 2008 | PARIS
From The Economist print edition

The dangers for a president of trying to do too much

Get article background

DURING his election campaign, Nicolas Sarkozy promised a *rupture* with the past. But who could have predicted how fast he would junk the well-worn traditions of the presidency? On January 8th, in his first full press conference, Mr Sarkozy answered a question about his love life (his romance with Carla Bruni was “serious”, though he would not specify wedding plans). By listing a raft of projects—the abolition of advertising on state television, an end to the 35-hour week, an obligation on companies to boost profit-sharing—he also displayed his micro-management style, without raising an eyebrow. Like it or not, *hyperprésidentialisation* is here to stay.

In the past, a French president would shape the contours of policy and take care of diplomacy and defence, leaving the prime minister to toil away at details. The rarity of presidential appearances under François Mitterrand and Jacques Chirac dignified the office and sanctified the message. Not in Sarkoland. The prime minister, François Fillon, is as invisible as his boss is omnipresent—Mr Sarkozy once reportedly called him his “assistant”. Cabinet ministers are closely supervised by advisers at the Elysée. Indeed, Mr Sarkozy sometimes does their job: he took over negotiations with the unions on university reform, he travelled to Brussels to plead France's case at a finance ministers' meeting. Ministers can even be caught short by presidential announcements. When Mr Sarkozy said the state would sell another 3% of the electricity giant EDF, he took the finance ministry by surprise. “Only a very few ministers have real autonomy,” says one top official. “I've never worked under such a centralised presidency.”

Mr Sarkozy has a taste for plain-talking confrontation and a forceful character that may enable him to get deals that others cannot. His hyperactive style also fits a strategy to reinvent the presidency and break with the stuffy past. “He wants to change the conception of the presidency,” says an adviser. “To be every day in contact with people and their concerns, not just shut up in the palace.” Hence a dizzying stream of trips, speeches, photo opportunities and meetings with ordinary folk.

Hyperprésidentialisation has its critics. Some fret that Mr Sarkozy is undermining the dignity of his office. Even as he has jetted about with Ms Bruni, earning from one newspaper the nickname “President bling-bling”, his ratings have slid. Others complain about the concentration of powers. The president, as head of the armed forces and with the power to dissolve parliament and change ministers at will, is already hugely powerful. Now Mr Sarkozy wants to change the constitution to allow the president to address parliament. Laurent Joffrin, editor of the left-leaning *Libération*, this week accused Mr Sarkozy of installing “an elective monarchy”.

Yet Mr Sarkozy's planned constitutional reforms include others to make parliament a stronger counterweight: rights to oversee presidential nominations and authorise long-term military engagements abroad, as well as limits on the use of decrees. Nor is Mr Sarkozy the first president of the Fifth Republic to treat the office as an executive job. Charles de Gaulle, architect of the directly elected presidency, once admonished a minister: “Don't refer to the prime minister as the head of government. The head of government is me.”

Even so, Mr Sarkozy's approach carries risks. He wants to end the “deplorable tradition of...hypocrisy and lies” of past presidents about their private lives, but how keen will he be on American-style transparency if his romance chills? More important, previous presidents have found it handy to dump their prime minister when things go wrong. By casting himself in the starring role, Mr Sarkozy will have nobody to blame but himself.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

German media

The mirror crack'd

Jan 10th 2008 | BERLIN
From The Economist print edition

A brave tale of journalists who sacked their editor

IF THE editor mangles this article, his correspondent can do little but fume. That would not be true at *Der Spiegel* ("The Mirror"), Germany's leading newsweekly, where the staff are in control. They have just abruptly dethroned their long-serving editor, Stefan Aust.

Editors in danger too

Mr Aust had made *Spiegel* shine. He was hired in 1994 to strike back against *Focus*, a colourful upstart, which he managed by livening up the magazine's appearance, grooming its prose and publishing more provocative covers. *Spiegel* now leads the newsweekly pack, selling 1m copies and having lost fewer readers than either *Focus* or *Stern*. *Spiegel* television, which Mr Aust once ran, is thriving; the *Spiegel* website (which is not his patch) has crushed all rivals. The magazine has lost political clout, but it still reaches the elite, says Henning Kornfeld of the *Kress Report*, which studies the media. Financially, 2007 was the *Spiegel* group's best year ever.

Founded in 1947, even before the Federal Republic of Germany's official birth, *Der Spiegel* made its name by tormenting the Adenauer government, promoting dialogue with the communist east and dredging up scandals. In 1950 the Bundestag even convened a special committee to deal with its allegations that parliamentarians were bribed to choose Bonn as Germany's capital. Rudolf Augstein, the founding editor, gave *Spiegel*'s staff half the company's shares in 1974.

Mr Aust's detractors think he has betrayed the Augstein legacy. To fight off *Focus*, they say, he made *Spiegel* less political and more superficial. Rather than crusading from the left, *Spiegel* launched tirades from the right, especially against the Social Democrat-led government of Gerhard Schröder in 1998-2005. "The fish rots from the head," complained Augstein's daughter, Franziska, in 2005. Worse, Mr Aust was rude to his staff. They have retaliated by ending his tenure early, in 2008 rather than 2010. One insider sees this as a last spasm of rebellion by ageing "'68ers".

With Mr Aust gone, *Spiegel* can mesh its print and online personalities and launch more products bearing its brand, believe his executioners, who were joined by the publisher, Gruner+Jahr, owner of a 25% stake. But will any forceful personality be ready to put himself at the mercy of colleagues who have just turfed out an editor as successful as Mr Aust? The answer may become clear only when a new editor is picked, perhaps later this month.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE

Spain and the Catholic church

The bishops' revolt

Jan 10th 2008 | MADRID
From The Economist print edition

The church's attacks on the Socialist government may just backfire

Get article background

IT MUST have turned the bosses of Spain's main political parties green with envy. Less than three months before a general election, more than 150,000 people packed into Madrid for what may turn out to have been the biggest rally held during the campaign, in what looks like an increasingly close electoral race.

Those calling the people onto the streets on December 30th, billed as “Christian Family Day”, were not professional politicians, but Spain's Catholic bishops. The demonstration added up to an impressive display of strength. As the bishops were quick to point out, the church is Spain's biggest social movement. But they did not limit themselves to spiritual matters. Their words were full of raw politics, and their target was clear. The Socialist prime minister, José Luis Rodríguez Zapatero, they averred, was leading the country towards moral and democratic ruin.

“We are heading towards the end of democracy,” said one bishop. Spain was “going backwards” on human rights, claimed another. The family was under “serious attack”, said a third. Lay speakers piled on the anti-government rhetoric. “Don't leave the hearts and minds of your children in the hands of anyone, and especially not of the state,” said one. But the Socialists have hit back. Some bishops are “archaic andultra-conservative”, said the party's president, Manuel Chaves. Mr Zapatero said they were trying to sell a false apocalypse.

Conservative Catholics have disliked Mr Zapatero from the moment he won election on March 14th 2004, just three days after Islamist bombers killed 191 people on Madrid trains. The church has noisily opposed laws to make divorce easier, allow gay marriage and take religion out of the obligatory school curriculum. Not that there is there anything new about Spain's left clashing with the Catholic church. Their battles long predate the civil war of the 1930s, when radicals killed more than 6,000 priests, nuns and monks. The church hierarchy at the time backed the nationalist rebel general, Francisco Franco. Some bishops even publicly raised stiff arms in fascist salutes.

This historical confrontation was meant to have ended with the rediscovery of democracy in the 1970s. But church conservatives now seem inspired by America's powerful religious right and by Italy's Roman Catholic bishops, who have never been scared of politics. In Spain, where three-quarters of people define themselves as Roman Catholic but fewer than one-fifth regularly attend church, some bishops clearly believe it is time to convert faith into political clout.

Yet Christian Family Day may have done little to dent Mr Zapatero's chances of winning re-election on March 9th. Indeed, it could help them. Even observant Spaniards are relatively relaxed about their Catholicism. They are not as conservative as Poles or Italians. Some bishops were upset by the tone of the rally. Those willing to endure long coach trips to Madrid for the rally were never likely to vote Socialist. Their natural home is the opposition People's Party (PP), which trails the Socialists by 2.5-4.5 points in most polls.

The Socialists' main electoral problem is to get their supporters into the polling booths. One of the best ways to solve it is to scare them. That is what the 2004 train bombings, with their messy political aftermath and claims by the PP of involvement by the Basque terrorist group, ETA, did. Mr Zapatero won a surprise victory. Some Socialist strategists believe that the sight of a loud political church, bringing with it bad memories of Francoism, may have a similar effect. “They have lent us a hand,” claims one Socialist campaign organiser, Antonio Hernando.

The PP, tellingly, has not jumped on the church bandwagon this time. It prefers to focus on an increasingly fragile economy. Spain's bishops may have discovered their political muscle, but that does not mean they know how, or when, to use it.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey and tolerance

Deviating from the path

Jan 10th 2008 | ISTANBUL
From The Economist print edition

A cross-dresser's troubles with a resurgent Islam

Get article background

Tempo

Razor-sharp and petulant

FOR more than 30 years a cross-dresser with a razor-sharp wit and a merciless tongue has won the affection of millions of Turks. And his success on television has been vaunted as evidence of the tolerance of Turkey's unique mix of Islam and secularism.

But for the past year Huysuz Virjin (the Petulant Virgin) has been replaced by his less exotic self, Seyfi Dursunoglu, in a show aired on a private television channel. The 76-year-old entertainer claims to have been forced to trade in his trademark blonde wig, silk stockings and sexy gowns for more conventional male garb after Turkey's broadcasting watchdog, the RTUK, put pressure on television stations to ban cross-dressing.

RTUK denies such censorship. But Mr Dursunoglu insists that he is the victim of a creeping conservatism that he believes has infected the country ever since the mildly Islamist Justice and Development (AK) party came to power five years ago. Although he was allowed to appear in drag for a special new-year programme, he says that “as a performer, I am no longer as free”. Similar concerns about artistic freedom and secularism were aired last month by Fazil Say, a Turkish pianist, who accused the AK party of being unfriendly.

Debate over whether Turkey is veering off the determinedly secular course laid down by Ataturk has intensified ever since AK was returned to power for a second five-year term in last July's parliamentary election, when it took 47% of the vote. Most Turks are plainly unfazed by such fears. Recent opinion polls suggest that support for AK has risen to a record 52%. “There is no evidence of a systematic plan by the government to make Turkey more Islamic,” concedes Nilufer Narli, an Istanbul-based sociologist. Yet she adds that “expressions of Islamic piety are becoming increasingly overt, indeed a vehicle for networking and social mobility.”

Awkwardly for AK, an openly gay fashion designer has emerged as its most passionate defender. Cemil Ipekci has declared that AK is the best government to have ruled the country in the history of the republic and that, had he been born a woman, “I would have covered my head [ie, Islamic-style].” Pressed to explain, a demure Mr Ipekci says “I am a conservative homosexual.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Those naive American voters

Jan 10th 2008
From The Economist print edition

Illustration by Peter Schrank

What Europeans make of Iowa and New Hampshire

VOTERS of America, well done: you are less racist (or sexist) than Europeans had feared. Remember, though, that you are rather naive: please try to pick a competent president this time. This dismissive summary, combining condescension with distrust, captures all too many European reactions to the duel between Barack Obama and Hillary Clinton for the Democratic nomination in this year's presidential election (and, given the gulf between most Europeans and the Republicans, this is the contest to be Europe's preferred candidate as well—although a few Europeans retain a soft spot for John McCain).

A French newspaper, *Libération*, said that the arrival in the White House of “a black man, married to a black woman, [with] a black family” would be an act of “atonement” that would restore the image of an America “shunned in every corner of the planet”. A German tabloid, *Bild*, offered praise for Mr Obama's “sexy” charms, under the headline: “This Black American Will Become the New Kennedy!” In Spain *El País* trumped all others, telling readers: “The question is whether the United States is ready for a president who is black, a woman, an evangelical minister, a Mormon or a Catholic.”

You might expect even cynical Europeans to be impressed by the sight of ordinary Americans tramping through the snow in Iowa and New Hampshire to hear politicians speak. Not the writers at a German newspaper, *Süddeutsche Zeitung*. The duel in New Hampshire, it grumbled, had degenerated into an apolitical beauty contest. Mr Obama's appeal to voters was based on sentiment without substance: if only Americans would heed the lessons of the Bush years and choose the experienced Mrs Clinton. A Belgian newspaper, *Le Soir*, struck a kinder note. Writing after Mr Obama's win in Iowa, it argued that the signs were that “this time, Americans will not be duped” by calculating politicians, but were seeking leaders with convictions. Their optimism is not without naivety, *Le Soir* cautioned, “but who is going to complain after the dark years of Bush junior?”

In a random sampling in the streets of Nuremberg, in Bavaria, ordinary Germans seemed impressed by the two things they knew about Mr Obama: he is not George Bush, and he is the son of an African. Dirk Hellwig, a graphic designer, said he would feel more “positive” about America if Mr Obama won the presidency. “I don't know what he wants to do,” Mr Hellwig admitted. “But I think Germans will think Obama is a sign that something is changing.” A win by Mrs Clinton would also send a signal of American change, Mr Hellwig said. “But the signal would be bigger from Obama, because he is black.”

It is striking that many Europeans skate over the political views of Mrs Clinton and Mr Obama and instead treat their fight as a simple Rorschach test of the health of the American dream. In fact, both Democratic frontrunners' policy platforms answer (at least superficially) some of the biggest European gripes about Mr Bush over the past eight years. Mr Obama, unlike Mrs Clinton, consistently opposed the Iraq war—

although changes of government in France and Germany have largely healed transatlantic wounds over Iraq. Both candidates take positions on climate change that are far closer to Europe than anything Mr Bush has offered. Both have called for the closure of the Guantánamo detention camp. Both have echoed the outrage of many Europeans at the feeble federal response to Hurricane Katrina.

In the first Democratic debate in April, Mr Obama even hailed the European Union as among America's most important allies. Recently he refuted charges that he had never actually been to Europe. Telling an Iowan reporter he had been to Europe “multiple times”, Mr Obama recalled meeting Britain's then prime minister, Tony Blair, in Downing Street, during a stopover in London. He has also spoken proudly of a 2006 meeting in Washington with Nicolas Sarkozy, now the French president.

Allies or rivals?

This may turn out to be the high point of European infatuation with the leading Democratic candidates, at least if previous campaigns are any guide. Presidential candidates routinely pledge to reach out to allies and to improve America's image abroad. Before the 2000 election a French newspaper, *Le Figaro*, was impressed by the foreign-policy experts recruited by one George Bush. (A Bush presidency offers America's allies the promise of “partnership with an administration skilled in foreign affairs,” cooed *Le Figaro*.)

A former Irish prime minister, John Bruton, who now heads the European Commission's delegation in America, warns Europeans against imagining that any president will bow to calls to surrender American sovereignty, or make concessions on trade, in the global interest. “It's clear that any US president will pursue the interests of the electorate that has elected him or her,” he says. It is also worth noting, he adds, that Mr Bush's second term has seen smoother relations with the EU, amid “a general willingness to approach things multilaterally”.

Alas, Mr Bush's first term left many Europeans past caring. His re-election in 2004 was a shock that in part explains the snippiness of much European coverage now. To some Europeans, Mr Bush's election in 2000 seemed no more than an unhappy accident: in their telling, he ran (falsely) as a centrist and compassionate conservative and then stole the presidency in Florida. But his re-election could not be explained away so easily. Ultimately, it reflected the choice of American voters, which some Europeans still cannot forgive.

Nor is European enthusiasm for either candidate likely to survive the election of Mrs Clinton, Mr Obama, or whoever else becomes president. The person who gets voters' nod will rule as an American, promoting American interests around the world—and no doubt disappointing many watchers from abroad. For Europeans to imagine anything else would be naive indeed.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN

The London mayoral race

Political capital

Jan 10th 2008
From The Economist print edition

Illustration by David Simonds

The contest to run Europe's biggest city is taking shape

Get article background

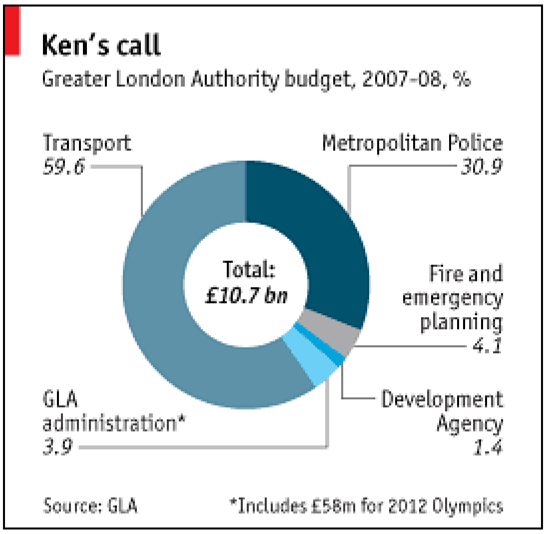
LONDONERS eager to prove that their metropolis really is, in Disraeli's words, “a roost for every bird” usually cite ordinary life at ground level: the diversity of races and languages, the yuppies, artists and immigrants juxtaposed in the same east London postcodes. They can now point to their aspiring rulers, too.

The third election for the mayor of London, an office created in 2000 for a city that had lacked its own administration since 1986, comes in May. The principal candidates are as curious as the population they hope to govern: a left-wing iconoclast who often favours globalisation (the Labour incumbent, Ken Livingstone), a shock-headed Old Etonian eccentric (the Conservative Boris Johnson) and a libertarian gay ex-policeman (the Liberal Democrat Brian Paddick), who made his name with a tolerant line on cannabis when he commanded a south London borough.

Many Londoners are indifferent as to who their mayor is (voting turnout was only 37% in 2004). Yet the office has come to matter. The mayor controls a budget of £10.6 billion ($20.9 billion)—up from £3.8 billion in 2001-02, and divided mostly between transport and policing (see chart). He also has powers over cultural matters and economic development; in 2006 he acquired more clout over housing, planning, the environment, and learning and skills. The biggest directly elected office in the country is also a bully pulpit.

It is true, says Tony Travers of the London School of Economics, that London's mayor is weaker than his counterparts in New York and Tokyo, and that much power, particularly over schools, remains with the city's 32 boroughs. But he is also relatively unconstrained by his municipal council. The London Assembly does little more than vote on the mayor's annual budget—a pygmy next to the mighty New York City Council.

Mr Livingstone, who won office as an independent in 2000 and retained it for Labour in 2004, has done better than many expected. He introduced a congestion charge in the centre of town (piquing the interest of other cities) and a more efficient ticketing system for public transport, expanding the bus service. He has enjoyed good relations with city financiers while redistributing wealth through planning decisions: developers are allowed to build in return for including affordable housing and other goodies for the poor. He also helped secure the 2012 Olympics for London and cash from the central government for a new cross-city train service.



The mayor has his critics, however. Some attack his policies. The council-tax precept which helps fund the Greater London Authority (GLA), along with central-government grants and public-transport ticket revenues, has risen. Congestion has not dropped hugely. The mayor's enthusiasm for development (he wants a big increase in housebuilding, and a new generation of skyscrapers) alarms many, and he is thought indifferent to the suburbs.

Mr Livingstone's style also draws ire. He is truculent, calling the American ambassador to London a “chiselling little crook” for not making embassy officials pay the congestion charge. He compared a Jewish journalist to a concentration-camp guard, and shared a platform with Yusuf al-Qaradawi, a controversial Muslim cleric. Some resent his grandstanding (he signed a deal to get oil from Venezuela's Hugo Chávez last year) and the public money he spends promoting the GLA and its works. There are also allegations that his London Development Agency made grants to dubious businesses linked to Lee Jasper, a close adviser, a charge that Mr Livingstone dismisses as a smear.

Yet he remains a formidable politician, and the Tories' choice of candidate to run against him is a risky one. Mr Johnson's journalistic career was stellar (he was editor of the *Spectator*, among other jobs) but punctuated by controversy. He became an MP, but concealing an affair led to his removal from the Tory front bench in 2004 by Michael Howard, the party's leader; David Cameron, Mr Howard's successor, restored him. His sense of fun knows few bounds (Mr Paddick calls him a “clown”), which critics say equips him ill to run a city with dire social problems.

Some Tories fear privately that a heavy defeat would reflect badly on Mr Cameron, who backed his schoolfellow's candidacy; others think a shambolic performance as mayor might be even more damaging. The former, at least, were heartened by a YouGov poll on January 3rd that put support for Mr Livingstone, at 45%, only one percentage point ahead of that for Mr Johnson (Mr Paddick lagged some way behind). Mr Johnson's own polling suggests that Londoners are now less willing to distinguish the mayor from the unpopular national Labour government. Mr Johnson kept a low public profile until the new year but visited every borough and recruited new staff in the meantime.

What would a win by either main candidate mean for London? Transport defined the previous two elections but is declining as a concern among Londoners. The manifesto that Mr Johnson launched on January 7th focuses on violent crime and the housing shortage; he will keep the congestion charge, but tinker with its enforcement. Mr Livingstone emphasises the environment, noting Mr Johnson's lack of greenery. He also wants to consolidate London's 32 boroughs into five but is unlikely to achieve this even if he wins.

A contest between two strong and controversial personalities could, for the first time since the office of mayor was created, make for a gripping election. Whoever Londoners choose to rule their roost will be a curious bird indeed.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Energy prices

Higher still and higher

Jan 10th 2008
From The Economist print edition

Big price rises raise questions about how the market works

HANGOVER at new year is in the grand tradition, but this year consumers' heads (and wallets) are hurting more than normal. On January 4th npower, a British electricity and gas firm owned by Germany's RWE, announced big increases in its household-energy tariffs. Electricity prices for its customers rose by an average of 12.7%; natural-gas prices by 17.2%. The averages disguised a much wider range—rises for some customers were as high as 27%, supposedly because it costs more to transport gas to some parts of the country. Other suppliers are now muttering about price hikes of their own.

Npower (and other energy firms) offer a simple explanation: gas is expensive because oil is expensive, driven by production difficulties, dwindling reserves and insatiable demand from the rapidly growing economies of India and China. Electricity prices, in turn, follow gas prices, because about 40% of Britain's power plants are gas-fired. Add in the rising cost of meeting energy-efficiency targets, and the increasing proportion of energy that must by law come from expensive renewable sources, and price rises are inevitable.

But high oil prices may not be the whole story. Allan Asher, the head of Energywatch, a consumer watchdog, argues that the real problem is the malfunctioning of Britain's vaunted liberalised energy markets. He points out that the number of suppliers has dwindled from more than 20 a decade to ago to just six now, and that today's firms are vertically integrated to a great degree. Opaque markets and jealous incumbents make entering the domestic energy business difficult, and continental Europe's fondness for long-term contracts makes it hard for suppliers there to respond to price signals elsewhere. The result is volatility: even when British prices reach eye-watering levels (as happened in each of the previous two winters), gas imports do not increase to match, leading to factory closures and, in 2006, fears that residential customers might be cut off too.

For many years ministers have assured the public that Britain's markets are working well, pointing to high levels of switching by customers and arguing that price is not the only measure of competitive performance. But on January 7th Alistair Darling, the chancellor, asked for a meeting with Ofgem, the energy regulator, to discuss whether consumer energy prices (which have risen steadily since 2003) have been responding properly to wholesale prices.

Regardless of Mr Darling's concern, other official policies mean that energy prices are likely to remain high. The government is keen on expanding renewable energy and on building a new generation of nuclear-power plants to cut carbon emissions (see article). But windmills and atomic reactors are expensive, and the only way they can compete with fossil fuels is through subsidies or higher energy prices that reflect the full cost of emitting carbon. Either way, consumers will foot the bills.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Nuclear power

The wind, the sun—and the atom

Jan 10th 2008 | DUNGENESS, KENT
From The Economist print edition

A boost for renewables, but nuclear power takes centre stage

Get article background

“I THINK there'd be plenty of support round here for a new nuclear plant,” says Colonel George Smythe, chairman of a nuclear-power discussion group at Dungeness in Kent. Two giant atomic power plants dominate the flat shingle shoreline of this blustery bit of the Channel coast. Although the older Dungeness A was shut down for decommissioning in 2006, the plants provide hundreds of jobs in an area without many other big employers. When Mr Smythe asked residents what should replace the closed power station, the most popular answer was a new one (although a nature reserve came a close second).

Such enthusiasm will be welcomed by Gordon Brown. On January 10th his government unveiled its much-delayed new energy policy, the centrepiece of which was a decision to support the building of new nuclear-power stations.

Energy policy in Britain is under pressure from the imminent closure of many coal- and nuclear-fired power stations, increasing dependence on foreign suppliers (as North Sea oil and gas reserves dwindle) and worries about climate change. For Mr Brown, nuclear power ticks all the right boxes. It produces little carbon dioxide, the technology is well-developed and the uranium fuel can be obtained from stable, friendly countries such as Canada or Australia. Although ministers refuse to say how many new plants they want, most observers reckon that they hope existing stations will at least be replaced. Nuclear power now provides about 20% of Britain's electricity, and all but one of the ten remaining stations will be shut by 2023.

The pro-nuclear decision was both widely trailed and controversial. Ministers planned to publish the bill last year, but when an environmental pressure group won a court case arguing that the government's consultation on nuclear power had been misleading, the bill was shelved and the consultation re-run. Polls show a modest rise in public support for nuclear power in recent years, but there is still anxious uncertainty over where to bury the waste.

Economics may prove even trickier than politics. Formally, there is no need for the government to give its blessing to new nuclear stations: there is no law banning companies from building them now. But nuclear power has a troubled history in Britain. Thanks to planning delays, Sizewell B, Britain's newest nuclear plant, took 12 years to build. The finances of nuclear stations—with their huge upfront capital costs—make such delays very costly, and leave plants vulnerable to fluctuations in power prices. In 2003 low prices meant that British Energy, which operates Britain's more modern reactors, had to be rescued with £3 billion of public money.

Ministers are keen to avoid further bailouts, and want new nuclear plants to be privately financed. State help will be limited to reforming the lengthy licensing process, streamlining the planning system and levying a charge on nuclear operators to pay for decommissioning and waste storage. But despite encouraging noises from power firms such as EDF, a French company, and E.ON, a German one, not everyone is convinced the sums add up. Some note that assurances about fully private funding have been replaced by statements that nuclear operators will pay their “full share” of costs—hardly the same.

Not all the news was nuclear. The bill also sets rules for building more natural-gas storage (as imports replace dwindling domestic supplies) and for developing technology to capture and sequester carbon emissions from fossil-fuel plants. Britain has much potential: natural salt caverns and depleted gas fields could store decades of emissions from Europe.

There was some good news for renewable fans, too, with the reform of the government's main subsidy for electricity from renewable sources. The existing scheme awards the same payments to all technologies. As a result, virtually all the money has flowed into onshore wind power, which, as the cheapest renewable technology, offers the biggest profits. But onshore wind has run into political difficulties of its own. Windy spots tend to be beauty spots, and complaints from residents have made it difficult to build turbines. That is one reason why renewables account for just 3% of British electricity-generating capacity, compared with 28% in Germany and 16% in Spain. Under the new plan, developing more expensive technologies (such as offshore wind or tidal power) will attract more money.

Some greens argue that building new nuclear stations means scaling back the government's renewable-energy goals. Documents leaked last year suggested that Mr Brown wanted to water down Britain's commitment to a European target that 20% of all energy used must come from renewables by 2020. But others are keen to extend an olive branch to the nuclear industry. Gordon Edge, an economist at the British Wind Energy Association, dismisses talk of crowding out. “Building nuclear power plants doesn't have to mean less money for renewables,” he says. “After all, we have a common enemy.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
WORLD
BRITAIN

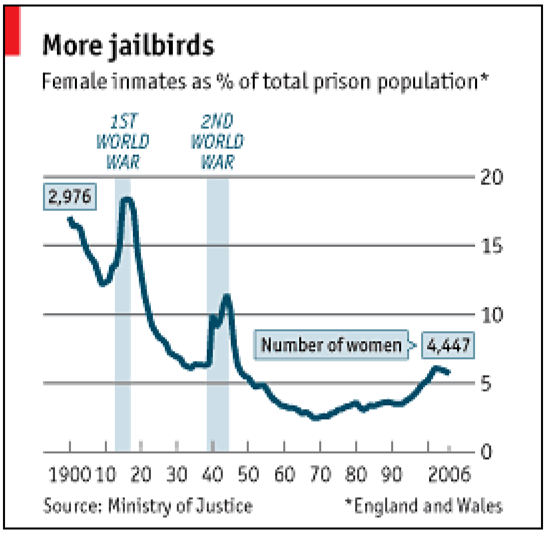
Bad women

Ma's behind bars

Jan 10th 2008
From The Economist print edition

Women's share of the prison population is creeping up

Get article background



CRIME is mostly men's work, and prison a man's world. But in Britain's heaving jails, the fastest-growing group is women. Male inmates have almost doubled in the past 30 years and females have nearly quadrupled. In 1970 one in 40 prisoners was a woman. Today it is one in 18.

Before the steep rise came a long fall (see chart). Bar a couple of spikes during wartime (when male potential offenders were away fighting), women's share of jail places shrank steadily. That is partly because they were being locked up elsewhere. New reformatories for alcoholics and asylums for the feeble-minded catered mainly for women, “seeking to cure them, or where this proved impossible, to restrain them for so long as they were able to bear children,” according to Lucia Zedner of Oxford University. Psychiatrists began diagnosing women as mad, not bad, and female inmates became guinea pigs for new treatments outside the penal system.

How different are today's inmates? “Women are imprisoned for much the same reasons as they were in the time of Elizabeth Fry,” a 19th-century prison reformer still pictured on £5 notes, says Juliet Lyon of the Prison Reform Trust, a campaigning organisation. Theft is still the most common offence, accounting for a third of the women put away. Addiction is still rife: 30% are inside for drugs offences, and 58% are daily users. Debt and poverty continue to inspire crime.

So do mental problems: eight out of ten female prisoners suffer from them, and they are twice as likely as men to be treated on arrival. But just as changes in mental-health policy helped to drive down the number of female prisoners at the start of the 20th century, they may now be driving them up. Places in mental hospitals have fallen from 150,000 in 1950 to 30,000 now, as more patients are treated in the community. A side-effect is that those who go off the rails may go to jail instead of hospital.

Female offenders, who tend to have committed only minor offences, have been hit again by a crackdown on nuisance crime. In 1992 those convicted of theft had a 2% chance of being sentenced to custody in the lower courts. By 2000 the odds were 14%. Tough regimes tend to go hand in hand with higher proportions of female inmates: in America, which imposes long sentences for mild crimes, women make up 9.1% of prisoners; in Germany, which has one-eighth as many prisoners per person, they make up 5.3%. France's jails, with fewer prisoners still, are only 3.6% female.

A country's treatment of women therefore reflects its approach to offenders generally. But women raise extra concerns. Two-thirds of British women prisoners have children under 18, and 95% of them have to move house while their mother is banged up. And there are subtler cruelties: women are visited less than men, since their jails are fewer and farther between and their partners less conscientious. A third try to kill themselves each year.

Their misery has swayed a sceptical public. Three-quarters believe that mothers should be spared jail unless they are violent, according to SmartJustice, a charity. Last year an official review suggested replacing women's jails with small, local units. The government endorsed much of the plan in December and is due to report back with firmer plans by April. The slow pace is maddening, says Ms Lyon, but the direction is right, if funding materialises.

That still leaves the remaining 94% of prisoners—men—whose swelling ranks the government plans to hold in huge new “titan” jails. Many, like most women, are petty criminals spending just weeks inside and learning little. A century ago women were the guinea pigs for new thinking in penal reform. Could it happen again?

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Interest rates

The central bank's dilemma

Jan 10th 2008
From The Economist print edition

Rates stay on hold, but not for long

Get article background

BUSINESS lobbies cajoled, politicians hinted. It was to no avail. The response from the Bank of England this week was as stony as its façade in Threadneedle Street. The central bank resisted the pleas to cut interest rates for a second month running.

As in December, when the bank lowered the base rate from 5.75% to 5.5%, its monetary-policy committee (MPC) faced a quandary. On the one hand, the exhibits pointing to a sharp slowdown caused by the credit crunch are piling up ominously. On the other hand, the menace of a renewed bout of inflation is looming larger.

There was a strong case for repeating the prescription of lower interest rates this month. Business volumes in the big financial-services sector have recently been dropping at the fastest pace since the depths of the recession of the early 1990s, according to a report this week from the CBI, an employers' organisation. This chimed with the Bank of England's own findings on the credit market, published on January 3rd. The survey showed steep declines in the availability of credit in the last three months of 2007 compared with the previous quarter. Lenders said that they were expecting further sharp falls in the first three months of 2008.

Tighter credit is already constricting the housing market. In November only 83,000 mortgage loans to buy homes were approved, compared with an average monthly total of 110,000 over the previous five years. The annual rate of house-price inflation has halved since last autumn, falling from 10.7% in September to 5.2% in December, according to HBOS, a bank.

With consumer confidence at a low ebb, shops are feeling the pinch. The British Retail Consortium reported the weakest sales in December for three years. Retailers' share prices have been wilting further on fears of a consumer slowdown this year (see chart). Marks & Spencer's price nosedived on January 9th after Britain's biggest clothing retailer reported tough trading conditions.

As household spending sags, exports are unlikely to provide much offsetting support for economic growth because the international outlook has darkened again. Following very weak employment and manufacturing figures, some economists are now arguing that America may already have slipped into recession. The euro area is in better shape, but its economy is set to slow appreciably in 2008.

The deterioration in Britain's outlook for growth might have pointed to a rate cut this month but the central bank also had to take into account worsening inflation prospects. Consumer-price inflation is only just above the government's 2.0% target, but the recent surge in world oil and gas prices will feed through to higher domestic inflation in the months ahead. Petrol prices have continued to rise and home-energy costs are now on the way up.

Weakness in the pound, reflecting worries about a slowing British economy, is also likely to push up inflation. Sterling's trade-weighted value has slipped by 4% since the MPC met in December and is now 9% lower than in July 2007. Putting it all together, consumer-price inflation will rise to 2.4% in January and to 2.9% in September, according to new forecasts from Barclays Capital, an investment bank.

The resurgence in inflationary pressures in early 2008 will coincide with the peak period for negotiating new pay deals. At such a sensitive time, the Bank of England needed to demonstrate its commitment to keeping inflation under control, in order to avoid a destabilising wage-price spiral. A sharp reduction since mid-December in the spread of interbank lending rates over the base rate gave the MPC room for manoeuvre. Provided the committee feels that inflationary expectations remain in check, it will cut rates again soon in order to fend off a severe downturn.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN

Health-care charges

Please, sir, can I have some more?

Jan 10th 2008
From The Economist print edition

The gap between high-flown rhetoric and painful reality on the cancer ward

Get article background

“IF YOU were diagnosed with kidney cancer tomorrow, after you had stopped crying the first thing you'd do is type ‘kidney cancer’ into Google,” says Nick James, an oncologist who specialises in the disease. “The first thing you'd discover on your computer is that there are new drugs that could help. The second thing is that the NHS won't pay for them.”

Rationing in the National Health Service is nothing new, but those making the hard choices used to do so behind the scenes. The internet has now made clear what they are passing up, and at an awkward time. A tidal wave of costly new drugs is about to break: around 40 will be licensed to treat just cancer in the next few years, says Karol Sikora, a cancer specialist at Imperial College London. The National Institute for Health and Clinical Excellence (NICE), which decides whether treatments are sufficiently cost-effective for the NHS, will, he thinks, reject most or all of them.

Patients can understand that some drugs cost too much for the taxpayer to finance. What they cannot understand is being discouraged from paying for those drugs themselves. Yet this is becoming commonplace. The Department of Health has decided that a patient who pays for part of his treatment thereby chooses to become a private patient for all of it. It quotes one of the NHS's founding principles—that care is “free at the point of use”—to support a ban on patients topping up their treatment, which would mean cash changing hands.

Some patients are refusing to take no for an answer. Halliwells, a Manchester law firm, is representing Colette Mills and Debbie Hirst, two cancer patients who are demanding the right to remain NHS patients while buying better medicine than the NHS provides. Both want to take Avastin, an expensive new anti-cancer drug that is not sanctioned by NICE, as well as their NHS chemotherapy. But they have not been allowed to pay the £4,000-a-month marginal cost of doing so. Paying privately for all their treatment would cost each around £10,000 a month.

Savvy patients will seek out consultants willing to co-operate in sidestepping the ban on co-payments. One specialist, who does not want to be named for fear of causing trouble for his hospital's managers, describes how he does it. If he thinks a patient would benefit from a drug the NHS will not provide and the patient wants to pay, he gets a colleague to write a private prescription for it. While he continues to administer the NHS-approved treatment, the extra drug is dispensed by a private company and administered at home.

Even if Ms Mills and Ms Hirst do not succeed, there will be other challenges. Pressure will also come from plans in the pipeline to allow EU citizens to seek treatment abroad, paid for by their own country's health-care system. These could allow patients to receive the full treatment they desire in a foreign hospital and be reimbursed by the NHS for that portion it would have provided. One private health insurer, Western Provident Association, is so confident that topping up NHS cancer care will become commonplace that it has launched a policy covering cancer drugs the NHS will not pay for.

Some say that, by allowing wealth to buy health, patient top-ups threaten the founding principles of the NHS. That is overblown: a report published in 2007 by Doctors for Reform, a pressure group, detailed how co-payment is already commonplace, with patients paying or part-paying for prescriptions, hearing aids and spectacles, or to avoid lengthy waits for consultations or scans, among other things. More substantive is the charge that co-payment threatens the cross-subsidies inherent in a taxpayer-funded service: if the working well know that, should the worst happen, they can top up their NHS care, they will be less willing to pay high taxes to fund the best care for everyone.

The controversy is bubbling up at an awkward time for the prime minister, Gordon Brown. He is attempting to regain political momentum by painting a compelling picture of the future of the NHS. A new constitution will set out patients' rights and responsibilities—but talk of responsibilities (exercising, giving up smoking and the like) will flop if patients think their rights are at the whim of health-care managers. And a pledge by Mr Brown on January 7th that new screening programmes will mean earlier detection of illnesses sits oddly alongside denying treatment for illnesses already diagnosed.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Racing changes

Turf wars

Jan 10th 2008
From The Economist print edition

Toffs and spivs are quarrelling over the sport of kings

FEW British institutions have proved as steadfast as racing, the sport of kings. Whereas the Royal Navy stopped handing out rum rations in 1970, and the younger royals have moved away from family values and good taste, racing still clings to its oldest traditions.

At Royal Ascot, Britain's most famous race meeting, men entering the royal enclosure wear full morning dress and ladies cover their shoulders and midriffs. Kate Fox, a social anthropologist, calls racing the “last bastion of old-fashioned chivalry”, where women are treated with courtesy and even sozzled crowds have “exceptionally good manners”.

Away from the track, however, the relationship between the toffs who run racing and the bookmakers who pay its bills has taken a turn for the worse. They are at each others' throats over the question of how much bookies should pay to keep the horses in oats. Negotiations broke down late last year, forcing them to ask the government to decide, something that happens from time to time. This year the talks have become uncommonly uncivil because of a new twist: half the country's racecourses (including some of its biggest) have backed a new television service, Turf TV, set up to compete with the existing one owned by bookmakers. Its footage of lather-necked horses racing towards the finish line may cost bookmakers £50m a year more.

Wrangling between the toffs and spivs dates back to at least the 1930s, when gamblers first started to subsidise the track. Racing has always been unprofitable for most of its participants, not least owners and trainers, who are mainly in it for love, not money. Because the betting industry relies on the sport for its profits, the government has long forced bookies to cough up to subsidise racetracks and the racehorse owners.

At first it did so by allowing bookies to take bets only at the track, where they were charged an entrance fee five times higher than the public one. And since 1961, when gambling away from the course was legalised, it has forced betting shops to pay a levy which currently stands at about a tenth of their gross profits from horseracing. This now yields a bit less than £100m a year, according to Deloitte, an accounting firm—or almost a quarter of racing's total revenues and most of its prize money. Even so, horse owners recoup less than a quarter of their operating costs, far less than in France, Japan and America, reckons Wray Vamplew, of Stirling University. About a tenth of British owners and trainers drop out of the sport each year.

The current squabble is one in a series but it signals the possibility of far-reaching change. The government has long wanted to get rid of the levy, fretting that, were the matter taken to court, the transfer could be deemed illegal state aid. So spivs and toffs have been encouraged to find a commercial arrangement that doesn't involve state mediation. Letting racecourses charge for their own television feeds is not without problems: it introduces uncertainty and less popular racecourses may fail. Yet allowing the market to decide the sport's worth is a punt racecourses may have to take.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

The decider

Jan 10th 2008
From The Economist print edition

Illustration by Steve OBrien

Gordon Brown has identified the quality he most needs to project. Can he do it?

Gordon Brown

PATRICK STEWART, once of Star Trek, was a petrifying Macbeth, and Sir Ian McKellen a monumental King Lear. Ewan McGregor is a slimy Iago. There has been a lot of top-notch Shakespeare on the London stage recently—and quite a lot of him in political commentary. "Shakespearean"—usually combined with "tragedy"—is one of the adjectives sometimes applied to Gordon Brown's premiership, the office for which he waited so long, but which so quickly came to seem ill-starred. There is some competition from Cassius in "Julius Caesar" (who "thinks too much" and "seldom smiles"); but the flawed Shakespearean hero whom Mr Brown has most seemed to resemble is Hamlet, with his "craven scruple/ Of thinking too precisely on th'event". Chiefly but not only because of last autumn's non-election fiasco, Mr Brown has begun to appear perilously indecisive—and he knows it.

It is plain that he knows it because countering that perception is Mr Brown's priority for 2008. Just as he tried, and for a while last summer managed, to quash the idea that he is uncollegial and tribal, the prime minister is striving now to project decisiveness at every turn and in every sentence. In one of the interviews he gave as part of his new-year fight-back, Mr Brown vowed to make "big decisions...the right decisions...difficult long-term decisions...long-term and difficult decisions...long-term decisions...big long-term decisions"—you get the picture. He dropped in "fiscal arithmetic" a few times for variety, but the headline message is clear: this is to be the "decisive year".

His calculation is that the old-fashioned virtues of strength and judgment are still more important than beer-buddy likeability. In Britain at least (and maybe not only in Britain), that calculation may be correct. With his occasional Timon of Athens-esque grumps, Mr Brown is thrashed by David Cameron, the Tory leader, when pollsters ask voters about the two men's charisma. But their overall ratings are close, which suggests other factors weigh as heavily. And Mr Brown's bid to cast Mr Cameron as a flip-flopping flibbertigibbet—part flashy Mark Antony, part toffy Andrew Aguecheek—may ring true enough to hurt. Mid-way through an electoral term, an opposition leader can afford some creative ambiguity; even so, Mr Cameron's stance on some issues, such as the new European treaty or real-world solutions to the Northern Rock crisis, is vulnerably flimsy.

So Mr Brown could be right that decisiveness is the quality he most needs to project. Unfortunately, claiming to be decisive and actually being so are not the same. Moreover, in politics some decisions count for much more than others.

Feel the future in the instant

To get anything done, leaders need to make decisions. But certain decisions have a telling demonstration effect beyond their actual content. Decisiveness on big issues, or in the teeth of opposition, makes a leader seem resolute, far-sighted and above the narrow world of party politics, as Margaret Thatcher showed; so, to a lesser extent, did Tony Blair. The most effective decisions are often taken after deep but private consultation—with no-men as well as time-servers—so they manage to look bold while still being carefully considered.

On the other hand, wilfully unpopular decisions can make a leader appear deranged, like some of those taken by Lady Thatcher in her late, Coriolanus phase ("Alone I did it!"). Then there are prevaricating pseudo-decisions, like Mr Brown's establishment of umpteen policy reviews. These at first looked clever and circumspect, but have cumulatively come to seem, as Hamlet puts it, "one part wisdom" and "three parts coward". Decisions forced on leaders by events—like Mr Brown's hasty emulation of the Tories' ideas for cutting inheritance tax—make them look weak or confused.

Is Mr Brown starting to make more impressive calls? The long-term, difficult (and so on) decisions that he is touting mostly involve the economy, and specifically the tough line the government has taken with some public-sector unions over pay. On January 8th the chancellor offered, or threatened, to conclude three-year pay deals with some of them. By dwelling on this stringency, Mr Brown hopes to guard against both inflation and the political fallout of an economic downturn; also, less sensibly (because it makes him look desperate), to contrast his own record with the inflationary but long-ago early 1990s.

Unfortunately, public-sector pay restraint may be a little too arcane, and bust-ups with unions too familiar, to work as reputation-forming decisions. But the announcement on January 9th that the government is to encourage the building of nuclear-power stations is more electric: overdue, perhaps, but important and controversial (as well as right). To persuade voters that Mr Brown really is The Decider, he ought to follow that up with, for example, decisions to put Northern Rock out of its misery, to scrap ID cards (which almost no one would mourn) and to do something genuinely radical with the National Health Service. Maybe Stephen Carter, his new right-hand man at Number 10, will help: Mr Carter is reputedly the man to provide the grip and focus that Mr Brown lost when he gave his erstwhile top aides their own cabinet jobs.

In a recent documentary, Mr Blair said something interesting about decision-making. To do the prime minister's job properly, he reflected, "you need to be able to separate yourself somewhat from the magnitude of the consequences of the decisions you are taking." That ability to dissociate may not be an entirely appealing trait, but it is probably a necessary one for leaders, and is a very necessary one for Mr Brown. He has made a start, but in his "decisive year" he needs to seem much less Hamletic and more like his fellow Scot, Macbeth—for whom "the very firstlings of my heart [were]/ The firstlings of my hand."

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD INTERNATIONAL

Charles Taylor in the dock

Bringing bigwigs to justice

Jan 10th 2008
From The Economist print edition

Heads of state, past and present, are increasingly being brought to book for crimes committed while in office

AP

WHEN Charles Taylor, then president of Liberia, was charged with 11 counts of war crimes, crimes against humanity and other atrocities in June 2003, few thought he would be captured, let alone ever brought to justice. But this week, four and a half years after his indictment, his trial proper at last began in The Hague. Mr Taylor, now aged 59, is the first former African head of state to face an international war-crimes court.

Just a few years ago, such an event would have been almost inconceivable. However brutal or corrupt, Africa's leaders used to shield one another from justice for fear that their turn could come next. But the remarkable spread of international justice over the past decade has brought about an equally remarkable change in attitudes towards prosecuting former heads of state, not just in Africa but throughout the world. No fewer than ten former presidents and military dictators are facing legal proceedings for human-rights offences and/or corruption, some in international tribunals, others in their own domestic courts, a few in other countries' courts.

In Peru, ex-President Alberto Fujimori is on trial for human-rights violations and fraud. He has already been sentenced to six years in jail for abuse of power. In Cambodia, Khieu Samphan, president from 1976 to 1979, is in jail awaiting his turn before a new UN-backed tribunal set up to try Khmer Rouge leaders. And in Senegal, Hissène Habré, ex-president of Chad, is awaiting trial for crimes against humanity before a special court being set up in Dakar.

Meanwhile, General Suharto, Indonesia's former dictator, aged 86, has once again been rushed to hospital in the midst of legal proceedings for graft. Previous moves to prosecute him—he is alleged to have embezzled $1.54 billion during his 32-year reign—have failed on grounds of ill health. But he may have cried wolf too often. Despite the general's reported “critical” condition, Indonesia's attorney-general vowed to press ahead regardless with civil proceedings against him.

Until recently, heads of state and government, past or present, were commonly seen as immune from prosecution for acts, however vile, performed as part of their official functions. But in a landmark decision in 1999 involving Augusto Pinochet, Chile's ex-dictator, Britain's law lords ruled that there could be no immunity for certain international crimes such as torture, and that Pinochet could therefore be extradited to Spain.

The fact that the octogenarian was never extradited, being allowed to return to Chile instead because of ill health, did not matter. A taboo had been broken. A previously hesitant Chile then brought its own charges against the ex-president. Although Pinochet died (in December 2006) before his trial began, the floodgates had been opened. Others now felt free to pursue their own tyrants.

In Latin America, home to many odious military regimes in the 1970s and 1980s, charges have been brought—mostly for crimes against humanity—against half a dozen former rulers. In Suriname, the trial is about to begin of ex-dictator Desi Bouterse, for his role in the summary execution of 15 political opponents in 1982. In Uruguay, another former ruler, Juan María Bordaberry, is about to be tried on charges relating to murders and "disappearances" in the 1970s.

Meanwhile, in Spain, María Estela Perón, who succeeded her husband as Argentina's president in 1974, is awaiting the outcome of two extradition requests from Argentina on charges relating to the killing of hundreds of left-wing militants by government-backed execution squads.

AP

Wanted back home: Mrs Perón

She hopes the Spanish courts will adopt the same position as Guatemala's Constitutional Court, which last month ruled against the extradition to Spain of Efraín Ríos Montt, a former Guatemalan dictator, on charges of genocide. Mexico's ex-president, Luis Echeverría, may also have been let off the hook after charges relating to the killing of student protesters, in 1968 and thereafter, were dismissed in July by a Mexican court for falling outside a statute of limitations. For most international crimes, there is no time limit.

Manuel Noriega, a former Panamanian despot, is likely to be less lucky. After completing a 17-year sentence in America for drug-smuggling in September, he began fighting an extradition request by France, where he has already been sentenced *in absentia* to ten years in prison for money-laundering. On January 9th a Florida judge rejected his appeal against extradition. He will now probably face a retrial.

Sometimes a country may, of course, be unwilling or unable to prosecute its own leaders. In such cases, an international tribunal, like the UN-backed Special Court for Sierra Leone, which is trying Charles Taylor (in a courtroom loaned from the International Criminal Court in The Hague), may step in. All five international tribunals set up over the past 15 years explicitly exclude immunity (or amnesty) for heads of state charged with war crimes or other atrocities. Mr Taylor is only the second serving head of state to be charged with war crimes after Slobodan Milosevic. Like Pinochet, the Serb tyrant escaped jail by death—in 2006.

If no competent international tribunal can be found, a country unconnected with the case may decide to bring a prosecution in its national courts under the principle of "universal jurisdiction". This allows a country to try the perpetrator of a serious international crime even if neither he nor his victims are nationals and the crime has not been committed on its soil. At least eight European countries have adopted the principle. It was invoked by Britain in the Pinochet case, and also by Belgium to prosecute Mr Habré—until the African Union was shamed into asking Senegal, his country of exile, to try him instead.

Exile, once the choice of many a deposed tyrant, no longer seems so safe. When Mr Taylor was handed over in 2006 to Sierra Leone's Special Court by Nigeria, where he had taken refuge in 2003, Libya's president, Muammar Qaddafi, noted nervously that a precedent had been set. "This means that every head of state could meet a similar fate," he said. Quite so.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Islam and democracy

The practice—and the theory

Jan 10th 2008 | BOSTON AND ISTANBUL
From The Economist print edition

Can rule by the people be reconciled with the sovereignty of Allah?

Get article background

“TURKEY sets a fantastic example for nations around the world to see where it's possible to have a democracy coexist with a great religion like Islam.” Those were George Bush's words of welcome, this week, to Turkey's President Abdullah Gul.

AP

In the name of God, let's throw the rascals out

In decades past, a Turkish leader might have been received at the White House with cordial remarks about his country's growing prosperity or its contribution to NATO. But it would have been strange, perhaps, not to mention religion when hosting a head of state who had just set a precedent that was watched with fascination by politically active Muslims in many parts of the world. When he became president, Mr Gul proved that it was possible for a pious Muslim with a headscarved wife to be made head of state, by a perfectly democratic procedure, in a country where the army is an ever-vigilant guardian against theocracy. For those who insist (whether their arguments are theological, or empirical, or both) that Islam and liberal democracy are quite compatible, Mr Gul's election (and Mr Bush's exuberant reaction to it) was a badly needed nugget of hope in a year when that cause has seen quite a lot of setbacks.

Among American officialdom, confidence in the prospects for democracy in Muslim (and in particular, Arab) lands has fluctuated under the Bush administration. It reached a high point, arguably, in mid-2005, when Condoleezza Rice, the secretary of state, declared in Cairo that the bad old days of favouring stability over democracy were over—and then it plunged again the following January when the Islamist Hamas movement swept to victory in Palestine.

For political scientists, especially those who have studied the phenomenon of “Muslim Democracy” in the belief that the Turkish case could be a precedent for others, the recent turmoil in Pakistan and the assassination of Benazir Bhutto have been a great tragedy in a pivotal country that had the potential to develop a new concordat between Islam and open politics.

Vali Nasr, a professor at America's Tufts University, terms “Muslim Democracy” a newish and potentially decisive force in the non-Arab parts of the Muslim world. In his view, the recent experience of Turkey, Pakistan, Bangladesh, Malaysia and Indonesia all points to a single truth: wherever they are given the chance, Muslim Democratic parties (which are responsive to public opinion and thrive in an open political contest) can prevail over harder-line and more violent varieties of political Islam.

Among the parties Mr Nasr identifies as Muslim Democratic are the faction of the Pakistani Muslim League that held sway until the military takeover in 1999; the Bangladesh Nationalist Party (in power till last year's coup); Malaysia's ruling UMNO party; and a cluster of mildly Islamic parties that share power in Indonesia (see article). Exhibit A for Muslim Democracy is Turkey's Justice and Development (AK) party, which won its democratic spurs after several decades of sparring between generals and pious politicians. As with several other Muslim Democratic parties, the AK's rise reflected economic growth and the advent of a devout but non-fanatical middle class which resents the older elites of bureaucrats and generals.

But what if any is the intellectual ground for Muslim Democracy? Roman Catholic thinking had to tread a long path before it reconciled its belief in human sinfulness with popular sovereignty; Christian Democracy, an important force in post-1945 Europe, was the result.

Abdal-Hakim Murad, a British Muslim scholar, argues that Muslim Democrats have an easier road to travel because Islam's view of human nature is a less pessimistic one. But several factors have helped to make the Muslim debate about democracy difficult and inconclusive. Most of the schools of Muslim thought that have emerged over the past century have been intensely interested in political theory, and also intensely concerned with precedents set at the dawn of the Muslim era. But the precedents are not clear: some caliphs took power by inheritance, others through consensus, others by force.

Khaled Abou El Fadl, an Egyptian-born law professor, has pointed to a passage from the Koran which seems to endow human beings with a special mandate to look after their own affairs.

> When your Lord said to the angels: “I have to place a vice-regent on earth,” they said: “Will you place one there who will create disorder and shed blood, while we intone Your litanies and sanctify Your name?” And God said: “I know what you do not know.”

That verse, Mr Fadl has argued, seems to imply that far from sitting back and letting God do everything, human beings must organise their own society.

Another relevant text is the story of Ali, the fourth Muslim caliph, whose leadership was challenged by a rival. To the fury of his zealous supporters, Ali agreed that conflicting claims should be submitted to arbitration. Posterity found Ali right and his critics wrong: human institutions do have a place in settling issues of state.

From Cairo to California

For anyone who looks to Islam's foundational texts as the ultimate arbiter of truth, these are resonant allusions. But arguments in favour of Islam's compatibility with democracy are in perpetual danger of being drowned out by a mixture of depressing news from Muslim lands and zealous ideologues on both sides of a looming civilisational divide.

Whether or not they condone violence, many of the most strident advocates of “political Islam” still take their cue from Sayyid Qutb, an Egyptian thinker, executed in 1966, who regarded secular democracy (and all other secular forms of government, including socialism) as blasphemy pure and simple. In places ranging from British campuses to the jails and torture chambers of Uzbekistan, there are zealous ideologues who follow the Qutbist line that all human agencies of power are a violation of the sovereignty of God. Neatly converging with the anti-democratic zeal of these malcontents is an increasingly respectable argument, among sceptical Western observers of Islam, which holds that the Muslim faith, by its very nature, cannot be other than theocratic. If that is true, then encouraging moderate—in the sense of apolitical—versions of Islam can only be a waste of time.

In the United States, in particular, an“essentialist” mistrust of Islam in all its forms has been gaining ground. One recent sign of this mood: when Keith Ellison from Minnesota became the first Muslim congressman, he was challenged, during his first television interview, to prove that he was not “working for our enemies”.

But in America's free-ranging debates, where the spectrum of views on Islam is probably wider than in any Muslim land or even in Europe, there are also many voices on the other side. Mr Fadl makes his case for the compatibility of democracy and Islam from the University of California at Los Angeles, probably a more secure setting than his native Cairo.

Meanwhile Firas Ahmad, a columnist who co-edits a glossy Muslim monthly from his home in Boston, maintains that a lot of Islamic history—as well as the dilemmas of modern times—should be reconsidered in the light of the robust separation between religion and state which (on his reading, at least), Muslims have quite frequently, and cheerfully, maintained. In modern America, Muslims can make a big contribution to debates about greed and social justice, while fully respecting the country's secular constitution. And his favourite passages in history are the bits where believers (often courageous Sufi mystics) spoke truth to power, not the instances when pliant greybeards did favours to the sultan.

There are, in short, many interesting things to say about Islam and democracy. The pity is that they are mostly being said in the West, not in Islam's heartland.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD INTERNATIONAL

Avoidable deaths

Where do all the dollars go?

Jan 10th 2008 | NEW YORK
From The Economist print edition

America lags behind its peers in preventing avoidable deaths

COMPARING the health systems of different countries is a tricky business. Even if you look at countries in the same income bracket, there are plenty of factors, from demography to culture, that confuse the picture. But a new study of data from 19 prosperous nations draws one firm conclusion: despite being the top spender per head on health, the United States lags painfully, and increasingly, behind other wealthy countries in the overall performance of its medical system.

That harsh judgment is made by Ellen Nolte and Martin McKee, researchers at the London School of Hygiene and Tropical Medicine. They looked at deaths that should have been preventable by proper health care in people under the age of 75. These include deaths resulting from bacterial infections, treatable cancers, diabetes and surgical complications; over a fifth of male deaths and nearly a third of female deaths result from such causes.

They found that the group as a whole did well in tackling this problem: the decline in what they call “amenable mortality” averaged 16% across these countries from 1997 to 2003: the decline was 17% for men and 14% for women. But the news was not so good in the United States; it had the worst record of the countries studied. America cut “amenable” deaths by only 4% during that period; it fell to bottom of the table.

The study makes two sharp observations. First, countries that started off with low levels of avoidable deaths (like France) and those with higher levels (like Britain) saw big improvements, even as America lagged. Second, merely by lifting its performance to the level of the average rich country, America could avoid perhaps 75,000 “excess deaths” per year; if it matched the top three, it could save 100,000 lives a year. There are things to be said in the American system's defence; for example, it has an impressive history of medical innovation. But for Americans wondering what their country's big spending on health care really buys, the conclusions are sobering.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

The music industry

From major to minor

Jan 10th 2008
From The Economist print edition

Last year was terrible for the recorded-music majors. The next few years are likely to be even worse

Illustration by Claudio Munoz

Get article background

IN 2006 EMI, the world's fourth-biggest recorded-music company, invited some teenagers into its headquarters in London to talk to its top managers about their listening habits. At the end of the session the EMI bosses thanked them for their comments and told them to help themselves to a big pile of CDs sitting on a table. But none of the teens took any of the CDs, even though they were free. “That was the moment we realised the game was completely up,” says a person who was there.

In public, of course, music executives continued to talk a good game: recovery was just around the corner, they argued, and digital downloads would rescue the music business. But the results from 2007 confirm what EMI's focus group showed: that the record industry's main product, the CD, which in 2006 accounted for over 80% of total global sales, is rapidly fading away. In America, according to Nielsen SoundScan, the volume of physical albums sold dropped by 19% in 2007 from the year before—faster than anyone had expected. For the first half of 2007, sales of music on CD and other physical formats fell by 6% in Britain, by 9% in Japan, France and Spain, by 12% in Italy, 14% in Australia and 21% in Canada. (Sales were flat in Germany.) Paid digital downloads grew rapidly, but did not begin to make up for the loss of revenue from CDs. More worryingly for the industry, the growth of digital downloads appears to be slowing.

“In 2007 it became clear that the recorded-music industry is contracting and that it will be a very different beast from what it was in the 20th century,” says Mark Mulligan, an analyst at JupiterResearch. Last year several big-name artists bypassed the record labels altogether. Madonna left Warner Music to strike a deal with Live Nation, a concert promoter, and the Eagles distributed a bestselling album in America without any help from a record label. Radiohead, a British band, deserted EMI to release an album over the internet. These were isolated, unusual deals, by artists whose careers had already brought years of profits to the big music companies. But they made the labels look irrelevant and will no doubt prompt other artists to think about leaving them too.

The smallest major labels, EMI and Warner Music, are struggling most visibly. Warner Music's share price has fallen to $4.75, 72% lower than its IPO price in 2005, and it is weighed down by debt. EMI's new private-equity owner, Terra Firma, paid a high price for the business in August 2007. Now, having got rid of most of EMI's senior managers and revealed embarrassing details of their spending habits (£200,000 a year went on sundries euphemistically referred to in the music business as “fruit and flowers”), Terra Firma is due to produce a new strategy later this month. But many observers reckon the private-equity men are out of their depth.

The two biggest majors—Universal, which is owned by Vivendi, a French conglomerate, and Sony BMG, a joint venture between Sony and Bertelsmann, a German media firm—derive some protection from their parent companies. Universal is the strongest and is gaining market share. But people speculate that Bertelsmann may want to sell out to Sony next year.

Three vicious circles have now set in for the recorded-music firms. First, because sales of CDs are tumbling, big retailers such as Wal-Mart are cutting the amount of shelf-space they give to music, which in turn accelerates the decline. Richard Greenfield of Pali Research, an independent research firm, reckons that retail floor-space devoted to CDs in America will be cut by 30% or more in 2008. The pattern is likely to repeat itself elsewhere as sales fall.

Circular arguments

Second, because the majors are cutting costs severely, particularly at EMI and Warner Music, artists are receiving far less marketing and promotional support than before, which could prompt them to seek alternatives. “They've cut out the guts of middle managers and there are fewer people on the ground to promote records,” says Peter Mensch, manager of the Red Hot Chili Peppers and Shania Twain.

Third, record companies face such hostile conditions that their backers, whether private equity or corporations, are loth to spend the sums required to move into the bits of the music industry that are thriving, such as touring and merchandising. The majors are trying to strike “360-degree” deals with artists that grant them a share of these earnings. But even if artists agree to such deals, they will not hand over new rights unless they get better terms on recorded music, so the majors may not see much benefit overall. Tim Renner, a former boss of Universal Music in Germany, says the majors should have acted years ago. “Then they had the money and could have built the competence by buying concert agencies and merchandise companies,” he says. Now it may be too late.

By mid-2007, when the majors realised that digital downloads were not growing as quickly as they had hoped, they landed on a more adventurous digital strategy. They now want to move beyond Apple's iTunes and its paid-for downloads. The direction of most of their recent digital deals, such as with Imeem, a social network that offers advertising-supported streamed music, is to offer music free at the point of delivery to consumers. Perhaps the most important experiment of all is a deal Universal struck in December with Nokia, the biggest mobile-phone maker, to supply its music for new handsets that will go on sale later this year. These “Comes With Music” phones will allow customers to download all the music they want to their phones and PCs and keep it—even if they change handsets when their year's subscription ends. Instead of charging consumers directly, Universal will take a cut of the price of each phone. The other majors are expected to strike similar deals.

“‘Comes with Music' is a recognition that music has to be given away for free, or close to free, on the internet,” says Mr Mulligan. Paid-for download services will continue and ad-supported music will become more widespread, but subsidised services where people do not pay directly for music will become by far the most popular, he says. For the recorded-music industry this is a leap into the unknown. Universal and its fellow majors may never earn anything like as much from partnership with device-makers as they did from physical formats. Some among their number, indeed, may not survive.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

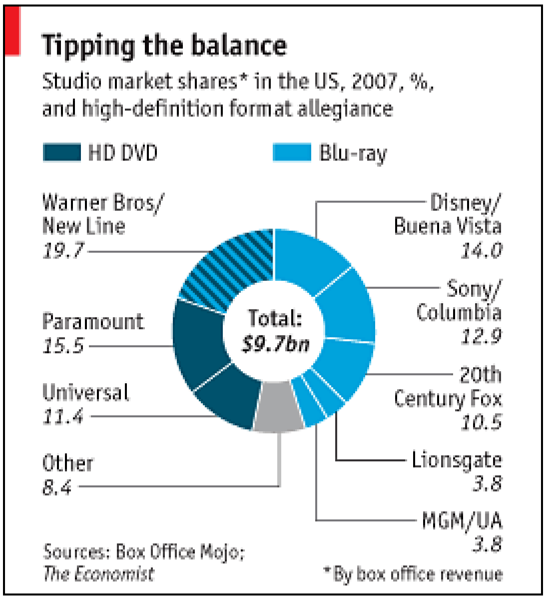
Consumer electronics

Everything's gone Blu

Jan 10th 2008
From The Economist print edition

Warner casts the swing vote in the high-definition format war

Get article background



IT HAD a green ogre and gang of huge shape-shifting robots on its side—but that was not enough to ensure victory for HD DVD, one of two rival high-definition video-disc formats fighting to become the successor to the DVD. On January 4th Warner Bros, a big Hollywood studio that had backed both HD DVD and the rival standard, Blu-ray, said it would drop its support for HD DVD from June 1st. This tips the balance decisively in favour of the Blu-ray camp (see chart). “Game over,” said one analyst; HD DVD would now “die a quick death”, predicted another. Blu-ray's triumph seems almost inevitable.

For Sony, the leader of the Blu-ray camp, victory would be sweet indeed. Sony famously lost a similar format war in the 1980s, when its Betamax video-cassette standard was defeated by VHS, which won Hollywood's backing. This time around Sony had two advantages: it now owns one of Hollywood's biggest studios, and it built a Blu-ray drive into its PlayStation 3 games console, thus seeding the market with millions of players. Despite HD DVD exclusives such as “Transformers” and “Shrek 3”, sales of Blu-ray discs outpaced those of HD DVDs by two to one in 2007.

Warner's announcement came on the eve of the Consumer Electronics Show, a huge technology fair that took place this week in Las Vegas. It threw the HD DVD camp, led by Toshiba and Microsoft, into disarray, prompting it to cancel promotional events and issue a statement saying it was “evaluating next steps”. Only two of the biggest studios, Universal and Paramount, remain committed to HD DVD. Paramount, which had supported both formats, abandoned Blu-ray last year after Toshiba offered it tens of millions of dollars in marketing incentives. But under the terms of its deal with Toshiba, it can resume support for Blu-ray in 2009—and may be able to do so sooner if the deal has an escape clause. On January 8th Paramount said its “current plan” was to stick with HD DVD.

Blu-ray's victory would be good news for the industry, allowing it to unite to promote a single next-generation format as sales of DVDs start to decline (they fell by nearly 5% in America last year, the first ever year-on-year decline, and by around 3% worldwide). For consumers, most of whom have chosen to steer clear of both formats until a winner emerges, it would also be good news—except, that is, for those who have already bought HD DVD players. It is possible that HD DVD will live on as a data-storage technology for computers, suggests Eiichi Katayama of Nomura, an investment bank. But as far as the living room is concerned, HD DVD now looks like the new Betamax.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Chinese toys

No fun and games

Jan 10th 2008 | HONG KONG
From The Economist print edition

Hard times loom for the world's biggest toymaking centre

THE annual Hong Kong toy fair is one of the shop windows in which China has displayed its growing industrial prowess over the years. Starting from almost nothing 30 years ago, an expanding array of anonymous factories across southern China has used the show to display inexpensive (if not particularly innovative) toys to buyers more interested in low cost than high quality. The result has been a steadily expanding global market-share, now over 60%. But at this year's fair, which opened on January 7th, there were signs that the fun is over. Costs are rising fast and a series of product recalls, one of which prompted the boss of a toymaking firm to commit suicide, meant the mood at this year's show was very different.

The first question from every buyer, and the first pitch from every seller, concerned product safety. By far the happiest stands at the show were those of companies known by abbreviated names such as CTI (Centre Testing International), MTS (Modern Testing Services), STR (Specialized Technology Resources) and SGS (Société Générale de Surveillance) which provide various forms of safety certification. All the big importing countries have instituted strict standards, and they are being taken seriously. But the standards vary from one country to another, forcing toymakers to deal with a patchwork of regulations. All of this adds costs and delays to the manufacturing process.

AFP

Everything else is going up

Costs are rising in other areas, too. The high oil price makes rubber and plastic more expensive. The commodities boom has increased the prices of wood and metals. But by far the greatest worry is China's tightening labour market. Labour costs are up 30-35% since last year, according to Jeffrey Lam, a member of Hong Kong's legislature who runs a toymaking company and is an adviser to the territory's local trade group. Wages are up by 10-15%, he says, and a new labour-protection law that came into effect on January 1st increases costs by the same amount again. The yuan, China's currency, is appreciating. Even with higher pay, factories are short of workers, so costs seem likely to rise further. “Everyone should be aware”, says Mr Lam, “that China has changed.”

His words match the experience of another buyer passing through Hong Kong this month who exports women's shoes—an industry that, alongside toymaking, has been critical to the economic growth of southern China. When a large American retail chain recently sought to order some shoes for April it was asked to pay 20% more than the quote it received in October for delivery next month. Conditions, the buyer concluded, are “ugly”.

The possibility that China might be vulnerable to competitive pressure seems far-fetched while you are strolling down the packed aisles of the toy fair. For less than $1 there are abundant balls, planes and art supplies. But there are murmurings that many factories in southern China will have to close this year. Manufacturers are looking for alternative locations. Moving inland is possible, but infrastructure is a concern; Vietnam is another possibility, but land and labour costs are rising there as well. The only price that is falling, and so far only to a few locations, is for shipping. In part that is because there are more ships, but it may also suggest that demand is softening, which is hardly encouraging. The only thing worse for a business than rising costs is falling sales.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Volkswagen trial

What did he know?

Jan 10th 2008 | BRAUNSCHWEIG
From The Economist print edition

The carmaker's chairman and former boss makes a star appearance

KLAUS VOLKERT and Klaus-Joachim Gebauer, the two defendants in Germany's biggest corporate trial in years, are no longer its focus. They have already admitted their part in a scandal that provided leisure travel, prostitutes, jobs for girlfriends and other perks at the expense of Volkswagen (VW), where they were employed respectively as head of the workers' council and a personnel manager.

The true focus of the trial, since it began on November 15th, has been Ferdinand Piëch, chief executive of VW from 1993 until 2002 and now its chairman. How much did he know of the goings on, which were being funded from an account run by Peter Hartz, his fellow board member for personnel, before they hit the headlines in 2005? Mr Piëch has always professed ignorance. Mr Hartz, in his own snappy trial a year ago, said the buck stopped with him, and took the rap accordingly: two years' suspended sentence and a fine of €576,000 ($750,000). Two witnesses so far have supported his account. But others insist that Mr Piëch knew about, and discussed, how to keep the workforce on-side by giving special treatment to workers'-council members, especially Mr Volkert.

Mr Piëch had his day in court on January 9th. He painted himself as a man concerned with the big picture, busy trying to protect jobs and control the cost of developing new cars. How could he have the time to keep track of an obscure social-affairs account run by Mr Hartz? Lawyers seeking to get Mr Piëch to admit the slightest knowledge of the shenanigans were disappointed. Evidence that he did might mitigate the sentences of Mr Volkert and Mr Gebauer, but so far nothing conclusive has turned up. Mr Piëch questioned the authenticity of a potentially damning letter supposedly sent to him in 2003 by a disgruntled employee in order to alert him to money lavished on supervisory-board and workers'-council members.

Why is this trial important? Because it calls to account an opaque system of corporate governance—known as the System-VW—which should have been dismantled years ago. VW was long protected from private shareholders by a special law, passed in 1960, which the European Court ordered Germany to abolish last October. For years VW prided itself on excellent industrial relations. But the scandal suggests that those depended on a secret entente between management and a handful of workers' representatives. Shareholders and the workforce were being hoodwinked, or at best denied their full rights. The unreconstructed Mr Hartz even argued in court on December 20th that Mr Volkert, by interceding with the workforce on behalf of management, had “saved the firm billions”.

A VW spokesman concedes that “something clearly went off the rails”. But he is surprised that the VW trial has aroused so much indignation compared with corporate Germany's other big corruption scandal, at Siemens, which seems likely to keep the courts busy for a while yet. Peter Löscher, the head of Siemens, put managers and former managers on notice in a Christmas letter that corruption would be pursued exhaustively, and compensation sought. Claims of ignorance or altruism, he said, would be no excuse.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Starbucks v McDonald's

Coffee wars

Jan 10th 2008
From The Economist print edition

Starbucks ousts its boss and brings back its founder as a new threat emerges

HOWARD SCHULTZ once said that he finds it painful when people compare his firm, Starbucks, to McDonald's. The founder of the world's biggest chain of coffee shops thinks a visit to Starbucks should involve “romance and theatre”, a far cry from the pit-stop-like experience of eating a meal at the world's biggest fast-food chain. Yet in its efforts to expand and attract less affluent customers over the past couple of years, Starbucks has started to become more like McDonald's—even as McDonald's, for its part, has been moving upmarket to become more like Starbucks.

AP

Going head to head

Starbucks is now struggling with the most serious crisis in its history—much as McDonald's did at the beginning of the decade. Last year Starbucks' share-price fell by 42%, making it one of the worst performers on the NASDAQ exchange. In the last quarter of 2007 Starbucks recorded its first ever year-on-year decline in customer visits in America, easily its biggest market. When analysts at Bear Stearns, an investment bank, downgraded the firm's shares on January 2nd, they plunged by another 12%. This sealed the fate of Jim Donald, the chief executive since 2005. On January 7th the company said it would replace him with Mr Schultz, who stepped aside in 2000 to become chairman.

Mr Schultz is not trying to pass the buck. His company is in trouble, and much of it is self-inflicted. “I'm here to tell you that just as we created this problem, we will fix it,” he promised. He wants to slow down the pace of expansion and improve the “customer experience” in America, while accelerating expansion overseas. But he says there is no “silver bullet”.

Analysts agree that Starbucks' main problem is overexpansion—as it was at McDonald's in 2001, when the chain crossed the 30,000-store mark and struggled with a dearth of innovation, market saturation and poor control over restaurants. Howard Penney, an analyst at Friedman, Billings, Ramsey in New York, thinks Starbucks needs to cut its rate of expansion in America by half. “They are growing too fast in a mature market,” he says. The firm has more than 10,600 coffee shops in its homeland, and another five or so open every day. Starbucks had been aiming for 20,000 shops in America and 20,000 abroad, but that goal is now in doubt.

Not all of Starbucks' poor performance is of its own making. Prices for food commodities are at all-time highs, prompting the firm to increase prices twice in the past year. This has scared off customers, who have been defecting to fast-food chains such as Dunkin' Donuts or Panera Bread, which sell reasonable coffee for as little as a quarter of the price of a fancy Starbucks brew. In November Starbucks launched its first national television-advertising campaign in an effort to win them back.

Adding to Starbucks' woes, and further emphasising its similarity with McDonald's, the burger chain is about to launch a direct attack of its own. This year McDonald's plans to add Starbucks-style coffee bars to nearly 14,000 of its American restaurants—the biggest diversification ever attempted by the company. McDonald's has already made smaller forays into the coffee market, and with some success. Last year *Consumer Reports*, a trade magazine, rated its filter coffee more highly than that offered by Starbucks.

Starbucks should be worried, says Mr Penney, though he thinks McDonald's is taking a big risk. About 65% of its sales in America are made in drive-through restaurants where customers stay in their cars, placing their orders and then receiving their food through a window. It is impossible to make a Starbucks-style “double-tall decaf hazelnut latte”, which takes time, when impatient motorists are queuing. In Germany, a test market, some 300 McCafés are doing well, but they are not attached to drive-throughs.

Mr Schultz saw his firm's crisis coming. In February 2007 he warned of the “commoditisation” of the brand in an internal memo to senior executives that found its way onto the internet. “Over the past ten years...we have had to make a series of decisions that, in retrospect, have led to the watering down of the Starbucks experience,” he admitted. He cited the switch from hand-pulled espresso machines to the automatic variety, which helped to speed up service but diminished the spectacle of coffee-making. The result, he conceded, was that some customers found Starbucks coffee shops sterile places that no longer reflected a passion for coffee.

Analysts and investors welcome Mr Schultz's return because it shows the company is taking action to correct its drift. The main architect of Starbucks' expansion is seen as the best person to lead a return to the firm's roots as a specialist coffee shop with a local touch. McDonald's, by contrast, having just recovered from its own overexpansion, is venturing into a whole new market. May the best latte win.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Chrysler

Reality bites

Jan 10th 2008 | DETROIT
From The Economist print edition

Hopes that the carmaker would flourish on its own now look misplaced

Get article background

A MORE fearful background to the annual Detroit motor show, which opens on January 13th, would be hard to imagine. Last year was one Detroit's “Big Three” would like to forget. Sales of cars and light trucks in America fell by 2.5%, to 16.1m, foreign brands grabbed more than half the home market for the first time in the second half of the year and Ford was overtaken by Toyota. Few doubt, however, that 2008 will be worse. With high oil prices and no end in sight to America's housing crisis, the consensus is that sales will fall to 15.5m. Both General Motors (GM) and Ford will struggle to keep their halting recoveries on track. And for Chrysler, the smallest of the Big Three, the next year could well determine whether it survives in its current form at all.

Five months after Cerberus Capital Management was handed the company (for nothing, in effect) by Chrysler's former parent, Daimler, there are growing fears that the acquisitive private-equity group may have bitten off more than it can chew. At a closed meeting with some Chrysler engineers last month, Bob Nardelli, the controversial former boss of Home Depot who has been appointed by Cerberus to turn the carmaker around, asked rhetorically whether the firm was bankrupt. The answer, he said, was “technically, no, but operationally, yes.” He added: “The only thing that keeps us from going into bankruptcy is the $10 billion investors have entrusted us with.”

When Mr Nardelli's remarks leaked out, he rushed to explain that what he had been trying to convey was a “tremendous sense of urgency” now that Chrysler was an independent company again. It lost $1.6 billion in 2007, but Mr Nardelli said he had Cerberus's full backing for a plan to return Chrysler to long-term profitability. And despite the difficult trading conditions, he said there could be a “significant improvement” in 2008.

The first part of that plan is to reduce capacity, given that sales and production have been inflated by supplying vehicles to daily-rental firms on ruinous terms, something both GM and Ford retreated from last year. This helped Chrysler sell 2.6m cars in 2007. But when Mr Nardelli arrived he discovered that the firm was basing its capacity on a sales target of 2.8m cars a year. So he set about cutting a further 10,000 jobs (beyond the 13,000 already shed under an earlier recovery plan), mainly by eliminating shifts and killing off four unprofitable models. He also hopes to generate some cash by selling off land, old factories and other assets.

That may improve financial performance in the short term. But insiders say things are far worse than they appeared when Cerberus took over. The new owners were surprised at the extent to which Chrysler's once-deep bench of managers, engineers and designers had been weakened by nearly a decade of German ownership. They have been working hard to put that right by hiring stars such as Jim Press, Toyota's former boss in North America, and senior engineers from Ford. Yet it should have been obvious that Chrysler's problems ran much deeper than those of its Detroit rivals.

So much to do, so little time

The new management team faces three main problems. First, as Mr Press (now Chrysler's vice-chairman) concedes, the firm is more exposed to the volatile and competitive domestic market than either Ford or GM. Only 9% of Chrysler's sales are outside North America, compared with over 50% at both GM and Ford. Mr Press says there are “a lot of opportunities for growth internationally”, but Chrysler's vehicles are designed for America; a tie-up with China's Chery has stalled.

Second, around two-thirds of Chrysler's sales are of trucks—the category hit hardest by high fuel prices.

The third problem, and perhaps the most serious, is the lack of hot new product. Though the new Town & Country minivan has been warmly received, many of Chrysler's recent models have left customers cold. Two of its newest cars, the Dodge Caliber and the Chrysler Sebring, are let down by crude underpinnings and conspicuously cheap interiors. Ford and GM are closing the gap with European and Japanese models for sophistication and perceived quality. Chrysler has been going backwards.

Chrysler's new management knows that it urgently needs to fix these problems and make its Dodge and Chrysler brands more distinctive (Jeep is less of a problem). But it also needs new powertrain technology to meet tightening emissions and fuel-economy standards both at home and abroad. All this will cost money. Cerberus has approved a $3 billion capital budget, but given the pressures facing Chrysler, will that be enough? “We have to prioritise. You can't focus on everything,” says Mr Press. By 2010, under a deal struck in October with the United Auto Workers to cut hourly labour costs, Chrysler must also find $8.8 billion to set up a health-care trust for its present and former employees.

In the past, Chrysler has temporarily restored its fortunes by conjuring up a sizzling new model just when it most needed one. It more or less invented the minivan in the 1980s, and the “gangsta”-style 300, launched in 2004, restored America's appetite for big saloons. There is buzz around the new Dodge Challenger, but the tyre-burning coupé will not generate enough sales on its own to make a difference.

With Cerberus under pressure from its ill-timed purchase of a 51% stake in GM's financial-services arm and its apparent overpayment for United Rentals (a deal it is trying to unwind), it is unlikely, and possibly unable, to put in extra money. So Mr Nardelli will have to find another way to compete. Rumours abound of something dramatic in the works. One idea, a merger with Ford, is improbable. But Mr Press hints at various possible partnerships. Might membership of the Renault-Nissan alliance, rejected by GM just over a year ago, be a way out of Chrysler's jam?

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The one-lakh car

No lakh of daring

Jan 10th 2008 | DELHI
From The Economist print edition

Tata unveils its 21st-century Indian version of the “people's car”

RATAN TATA, chairman of the Tata group of companies, has a cerebral and cordial manner. But the “one-lakh car”, which Tata Motors unveiled in Delhi to a rapt public on January 10th, is a product of impatience and chutzpah. Instead of waiting for the great swell of prosperity in India and elsewhere to create millions of customers for his company's products, Mr Tata has decided to wade out—further than any one has gone before—to bring a car to them.

AP

Small is beautiful

In India one lakh means 100,000, and Tata will sell the most basic version of its new car at 100,000 rupees, or $2,500 (not including taxes and the cost of transporting it to the showrooms). This is roughly half the price of its nearest rival, and little more than the cost of a three-wheeled auto-rickshaw. But the “NANO”, as the car is called, is no rickshaw. Apart from the fourth wheel and the doors, it has a 623cc engine that will muster 33 brake horsepower. The car should eke out 50 miles to the gallon, Mr Tata says. It complies with the “Euro III” pollution standards that prevail in India and should meet the tougher Euro IV standards with a bit of tweaking.

Tata Motors is best known for its trucks, lovingly decorated and recklessly driven, that clatter along India's highways. It started making small passenger cars only a decade ago. Its low-cost car project has set a trend. Mr Tata says he is “quite gratified” that other firms are following suit. Bajaj Auto, which is known for its two- and three-wheelers, said on January 8th that it hoped to team up with Renault and Nissan to produce its own low-cost car. Fiat, Ford, Honda and Toyota also have cheap models in the works. Tata may discover a market, only for others to crowd into it. “It's not our God-given domain,” says Mr Tata.

Cheap cars can be expensive to invent. Tata experimented with a smaller engine, but was dissatisfied with its performance. It hoped to use continuous-variable transmission, but had to make do, for now, with manual. Tata's rivals may be able to free-ride on its efforts, copying the cost-cutting tricks it had to discover through painstaking trial and error. “It will be an easier task for them than it was for us,” Mr Tata admits.

Competitors will, for example, notice how Tata shrank the car into what its chairman calls a “concise package”, with the engine at the back and the wheels at the “extremities”. The result is 21% more space inside than the Maruti 800, says Ravi Kant, the managing director of Tata Motors, but it is 8% shorter. Not that that will make much difference to the traffic jams which the NANO will worsen.

Commuting in India's cities can be both cosy and deadly. Children squeeze snugly between father at the handlebars of a motorcycle, while mother rides side-saddle at the back. This precarious balancing act, says Mr Tata was the “visual target” he had in mind when he first conceived of the need “to create another form of transport”. About 1,800 people die on Delhi's roads each year, perhaps one-third of them on two-wheelers. Only 5% die in cars. Tata's project may pose risks for investors, but it promises unaccustomed safety for its customers.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Totally different

Jan 10th 2008
From The Economist print edition

Christophe de Margerie, the boss of Total, thinks that the world's oil production may be nearing its peak

AFP

CHRISTOPHE DE MARGERIE is not exactly a conformist. His family is in the champagne business, but he deals in a much less exalted liquid: oil. Despite his heritage, his favourite tipple is single-malt whisky from Islay, which, a colleague confides, he often requests specially at posh corporate events where champagne is *de rigueur*. His starburst moustache would look right at home on the face of a British cavalry officer, but is an unusual choice for the chief executive of Total, the most valuable company in France (and, indeed, in the whole of the euro zone). And unlike many French bosses, who shuffle from ministry to moneymaking, he has spent his working life in business.

Mr de Margerie's opinions also stand out, at least within the ranks of senior oilmen. Last year he declared that the world would never be able to increase its output of oil from the current level of 85m barrels per day (b/d) to 100m b/d, let alone the 120m b/d that energy analysts predict will be needed by 2030. That is in stark contrast with the view of Rex Tillerson, the chief executive of Total's larger American rival, Exxon Mobil, who argues that the world is neither short of oil, nor likely to be any time soon. It also contradicts the line of the Organisation of the Petroleum Exporting Countries (OPEC), which claims that the only thing that prevents its members from producing more oil is the fear that no one will buy it.

Many bigwigs in the industry have complained that their firms are excluded from the most promising territory for exploration by prickly governments that would prefer to go it alone. Some have concluded that this fad for “resource nationalism” will help to keep the oil price high for some time to come. But none have gone as far as Mr de Margerie in asserting that the oil industry is nearing a peak in production.

Mr de Margerie is careful to point out that he is not predicting “peak oil” in a geological sense. His definition of peak oil is “when supply cannot meet demand”. He believes that the fuel that the world needs to keep its cars and factories running may well be out there, somewhere. It is just getting harder and harder to extract, for technical as well as political reasons. For one thing, he points out, the output of existing fields is declining by 5m-6m b/d every year. That means that oil firms have to find lots of new fields just to keep production at today's levels. Moreover, the sorts of fields that Western oil firms are starting to develop, in very deep water, or of nearly solid, tar-like oil, are ever more technically challenging. There is not enough skilled labour and fancy equipment in the world, he believes, to ramp up production as quickly as people hope.

Oil might be a little easier to get at in places like the Middle East or Russia. “But we can't just say we'd like it, we want it, we'll take it,” says Mr de Margerie. Oil-soaked countries, he believes, will not open up their reserves for exploitation just to make life easier for companies like his. All of which leaves Western oil giants in something of a pickle. “We all think the same,” he says of other oil bosses, “it's just a question of whether we say it.”

Arguably, Total's problems in this respect are more severe than those of most of its rivals, since it derives a relatively high part of its output from geologically promising but politically inauspicious spots. That is a plus, insofar as it brings more opportunity for growth. In the third quarter of last year Total was the only one of the “majors” that saw its output rise. It was recently picked to help Gazprom, Russia's state-controlled gas giant, develop Shtokman, a massive offshore gasfield. Total is also involved in big projects in Iran, Kazakhstan and Venezuela. Thanks to such investments, the firm expects its output to grow by 4% a year for the next three years.

But doing business in such places has its drawbacks. Total risked American sanctions when it invested in Iran in the 1990s; further investment is being held up in part by an argument with the government over the division of the proceeds. Kazakhstan is demanding a speedier payout than planned from a huge oilfield that Total is helping to develop. In Venezuela the authorities first raised the royalties on Total's output, and then demanded that the state-owned oil company be granted a majority stake in several fields operated by Total. When the two sides could not agree terms on one such project, the government simply expropriated the field. Meanwhile, French magistrates have questioned Mr de Margerie several times over suspected bribery of both Iranian and Iraqi officials.

The nuclear option

Even without such troubles, says Fadel Gheit of Oppenheimer, a financial-services firm, oil from such places tends to be less profitable than that produced in North America, since the American and Canadian governments take only a relatively small share of the revenues. But Total, Mr de Margerie argues, has no choice. It has invested in friendly spots, including Britain and Norway, when the opportunity has arisen. But unlike most other big oil companies, it has no backyard, since France has no oil of its own. Since its inception it has been forced to look for oil overseas, often in less than ideal circumstances. It would be wonderful if the world's oil happened to lie under Club Med holiday resorts, Mr de Margerie says, but sadly it does not. The firm's relationship with leaders like Hugo Chávez of Venezuela “is not a love affair”. But political obstacles are just as much a part of the oil business as tricky geology is.

Perhaps the best measure of Mr de Margerie's gloomy outlook for the oil industry is his eagerness to get Total into nuclear power. Though he says he is not about to increase Total's token 1% stake in Areva, France's nuclear-engineering giant, he clearly sees nuclear energy as part of Total's future. Why would an oil firm want to enter such a controversial field, unless it feels that it is already out on a limb?

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION

Emerging-market multinationals

The challengers

Jan 10th 2008
From The Economist print edition

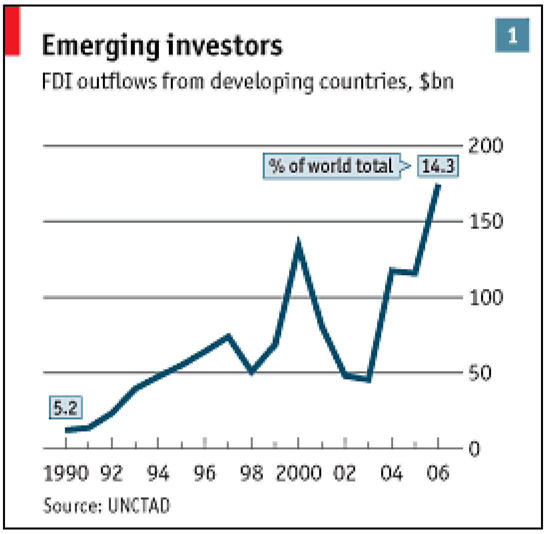
A new breed of multinational company has emerged

Illustration by Bill Butcher

WHEN Ford Motor Company bought Jaguar in 1989 and Land Rover 11 years later, it marked a low point for Britain's ailing industrial heritage. Last year Ford concluded that it could not make money from the illustrious British marques—equally a sign of its waning fortunes. The two firms shortlisted to take the prize come from India. Their ambition and confidence is a sign of something new in global business: the arrival in force of emerging-market multinationals.

Tata Motors, the carmaking bit of Tata Group, India's biggest industrial conglomerate, has edged ahead of Mahindra & Mahindra, a sprawling group that makes tractors and off-road vehicles, to become the preferred bidder. Ford told Jaguar workers this month that it was “in substantive discussions” with Tata. The future of these two grand old badges will be shaped not in Coventry, cradle of the British motor industry, but in Pune, home of Tata Motors.

Another indication of this newcomer's growing strength was the unveiling this week of the revolutionary, cheap “one lakh” car, which will sell in India and South-East Asia for the equivalent of $2,500. Thus the Indian company, which launched its first saloon car barely ten years ago, is beating the industry's established giants in a new market segment in which sales will surely grow fast.



Tata is certainly not the only company from an emerging economy striding onto the global stage. A study by Boston Consulting Group (BCG) found 100 companies from emerging markets with total assets in 2006 of $520 billion, more than the world's top 20 car companies. By 2004 the UN Conference on Trade and Development (UNCTAD) even noted that five companies from emerging Asia had made it into the list of the world's 100 biggest multinationals measured by overseas assets; ten more emerging-economy firms made it into the top 200.

By 2006 foreign direct investment (including mergers and acquisitions) from developing economies had reached $174 billion, 14% of the world's total, giving such countries a 13% share (worth $1.6 trillion) of the stock of global FDI. In 1990 emerging economies accounted for just 5% of the flow (see chart 1) and 8% of the stock. Their slice of global cross-border

M&A has been climbing. It reached 14% in value terms in 2006 (chart 2). That year they spent $123 billion in more than 1,000 cross-border deals.

Since UNCTAD's first analysis in the early 1970s there has been concern about the power wielded by companies from rich countries in poorer ones. Developed countries have had their bouts of anxiety too. In the 1960s the French fretted about *le défi américain*, as IBM, Ford, General Motors, Dow Chemical and ITT spread their tentacles across Europe; in the 1980s it was America's turn to squirm as Japanese firms bought up Hollywood and Manhattan.

The latest trend reflects a new, fundamental shift. In a more open world, emerging economies are spawning their own giants. UNCTAD is turning its attention to the new shape of global business: investment now flows increasingly from south to north and south to south, as emerging economies invest both in the rich world and in less developed countries.

Meet the new boys

The rest of the world has woken up to the newcomers in the past couple of years thanks to some huge cross-border deals. In early 2006 Arcelor, a steelmaker of French, Luxembourgeois and Spanish extraction and Europe's biggest, faced a bid from Mittal, an international steel group largely owned by the family of Lakshmi Mittal, an expatriate Indian based in London. Mr Mittal and his son, Aditya, had cooked up the deal two days before Christmas 2005, during their annual skiing holiday in St Moritz. When the French government heard about the deal in January, recalls Mr Mittal, ministers wondered whether his company was Indian or American. Arcelor turned to another emerging-economy steelmaker, Russia's Severstal, as a possible white knight, before eventually succumbing to Mittal six months later. Thus was born Arcelor Mittal, the first steel company with an annual output of more than 100m tonnes.

The confusion over Mittal's origins among French government ministers reflects the novelty of the group. Unable to expand the family's steel business in stuffy, over-regulated India, Mr Mittal took off to lead an international wing, with a steel mill in Indonesia, which soon prospered “under the noses of the Japanese” as he gleefully recalls. His reputation there led to a contract to turn around the state-owned steel industry in Trinidad, which he later acquired. Next was Mexico, where he bought steel plants in the country's 1990s privatisation wave, before buying Inland Steel and International Steel in America, as traditional steelmakers there wilted in the rust-belt meltdown. Then he snapped up old state steel firms in eastern Europe.

Even before Mr Mittal bought Arcelor, Corus, an Anglo-Dutch steel firm, had approached Ratan Tata, head of Tata Group, about joining forces with Tata Steel, which owned plants in Singapore and elsewhere in South-East Asia as well as in India. Months of discussion led to the conclusion that the only efficient way to combine would be for the Indian firm to take over Corus (most Tata group companies are separately quoted, with the holding company having about 20% of the shares). This agreement led to another dramatic demonstration of power: a bidding war for Corus between Tata Steel and Brazil's CSN group, which broke out in late 2006. Tata eventually secured its prize in an all-night auction organised by the takeover panel in London a year ago.

Besides the companies making such big deals, a whole squad of well-known new multinationals from developing countries have been growing organically and through smaller deals. The Indian trio of Wipro, Infosys and Tata Consulting Services (TCS) have built an IT outsourcing industry that has moved upmarket, has gone global and is chasing rich-country leaders such as Accenture and IBM. China has Lenovo, which bought IBM's PC business, the Haier and Hisense groups in domestic appliances and consumer electronics, and BYD, the world's largest maker of nickel-cadmium batteries.

Others now being watched by western analysts include Chery Automobile, China's leading car exporter, which aims to build plants in eastern Europe, the Middle East and South America. Johnson Electric, of Hong Kong, has cornered half the world's market for tiny electric motors. Cemex, a Mexican cement company, has already taken over a big British group, RMC. Embraer of Brazil has become the world's third-largest aircraft company, specialising in regional jets. Half the sales of Sadia and Perdigão, two Brazilian food companies, which amount to around $6 billion combined, are exports.

India's Bharat Forge, now the world's second-largest forging company and a leading supplier to the motor industry around the world, recently tied up with a French company to get close to PSA Peugeot Citroën. Indian private-equity groups have been eyeing this tactic and aim to take over small European car-parts companies. Their motivation is not to own assets in France or Germany, but to acquire relationships with manufacturers. “We are not really buying factories,” says such an investor. “We are buying orders, which we can eventually fulfil with cheaper supplies from India.”

The rationale

According to BCG, thousands of companies like these are expanding sales and production internationally. Their home markets offer several advantages. Rapid growth gives companies scale and spare cash to invest abroad. Costs are low. The difficulties of operating in an emerging market may make managers adaptable and resilient. Finally, gradual liberalisation in their home markets—as in India since the early 1990s—has exposed them to competition from multinationals. The threat to their domestic dominance has encouraged their managers to hone their skills, exposed them to best international practice and spurred them to seek growth abroad to compensate for lost market share at home.

Ratan Tata spent his first ten years at the helm of the family company tidying up its rambling and often decrepit Indian businesses before turning his attention to foreign markets in the late 1990s. When the Indian market opened up, he recalls, Indian companies thought they would all have to merge with each other, because years of protection had made them too weak to face the new foreign competition. That soon passed as other industries saw the success of Indian IT and outsourcing, textile and pharmaceutical companies; Ranbaxy was on the way to becoming one of the world's leading makers of generic drugs, just as the boom in such products was taking off in the mid-1990s.

While Tata's IT business, TCS, was cutting a swathe through North America, Mr Tata was planning other international moves. He bought Tetley Tea, an English brand, and NatSteel Asia, based in Singapore, whose rolling mills could use the slab steel produced in Tata's Indian plants. He also bought Daewoo trucks, after the stricken South Korean *chaebol* had to be broken up. Mr Tata says that he looks beyond sheer size in search of a strategic fit when he acquires companies.

The new brigades are fanning out around the world using a selection of five strategies, according to BCG. The first is taking brands from local to global. China's Hisense, a $3.3 billion consumer-electronics group, is a prime example. With over 10% of the market for TV sets at home, it has turned its attention to the wider world with a product range that includes air conditioners, PCs and telecoms equipment. It manufactures in Algeria, Hungary, Iran, Pakistan and South Africa. It now sells over 10m TVs and 3m air conditioners a year in more than 40 countries. Hisense owns the best-selling brand of flat-screen TVs in France. The home Chinese market gives the company a vast, cheap manufacturing base, to which it adds other advantages such as stylish design and a world-class R&D centre.

Bajaj Auto, based like Tata Motors in Pune, is another developing-country brand going global. It is India's biggest maker of two- and three-wheeled vehicles. Its sales have more than doubled since 2000, to $2.3 billion. Under the former boss, Rahul Bajaj, the company was typical of a stratum of Indian entrepreneurs, known as the Bombay club, who wanted to keep foreign competition at bay with tariff walls and domestic mergers. Now, under Rahul's son, Rajiv, Bajaj has taken its own first steps onto the global stage with organic growth of exports, mostly to South-East Asia.

A second strategy is to turn local engineering excellence into innovation on a global scale, as Embraer has done. Supported by the Brazilian government and later largely privatised, Embraer has overtaken Canada's Bombardier to become the world's leading maker of regional jets. It has timed its push to take advantage of regional airlines' desire to replace traditional, noisy turbo-prop aircraft with sleeker, faster small jets. By 2006 over 95% of its $3.8 billion sales were outside Brazil. It is one of Brazil's biggest exporters, combining low-cost manufacturing with advanced R&D. In addition, Embraer has a joint venture with China Aviation Industry Corporation II. In this it was even ahead of Boeing and Airbus, both now scrambling to transform themselves from rich-world exporters into global producers, with long, difficult-to-manage supply chains spanning the world.

The third path to international success is going for global leadership in a narrow product category. Two Chinese companies are notable for taking this route. One is BYD, the battery-maker. It uses a more labour-intensive production system than the Japanese firms it competes with to take advantage of low labour costs. The other is Johnson Electric, which though based in Hong Kong now produces chiefly in mainland China. It makes tiny electric motors for products such as cameras or cars. A BMW 5 series, for instance, has over 100 tiny motors (of less than one horsepower) to move the wing mirrors, adjust the seats, open the sun roof and so on. Johnson churns out 3m a day, most of them for export. Manufacturers prefer to have them designed to their specifications than to buy them off the shelf. Johnson has landed its half-share of the market by catering to these requirements.

In this way an industry that used to be in the hands of American or European companies, with factories in the Midwest, the English Midlands or Germany's industrial heartland, has moved to China. That said, Johnson has built its strength partly through well-timed acquisitions (including parts of America's Lear and ArvinMeritor) in target markets to get closer to customers. It now has plants in America and western Europe and R&D centres in Israel, Italy, Japan and America.

Brazil's Sadia and Perdigão exemplify the fourth strategy: taking advantage of natural resources at home, and boosting them with first-class marketing and distribution. They have built sales organisations around the world to make the most of the abundant resources for producing pork, poultry and grain in Brazil, complemented by ideal growing conditions and low labour costs. Another Brazilian firm, Vale, has exploited its home country's huge, cheap sources of iron ore to become one of the world's leading suppliers.

The fifth strategy is to have a new or better business model to roll out to many different markets. This is the approach of Mexico's Cemex, one of the world's biggest suppliers of ready-mixed concrete. Its annual sales topped $18 billion in 2006.

Industries such as cement and other building materials are usually considered “territorial goods”, meaning they are bulky, basic and too expensive to transport long distances. But now this wisdom is being stood on its head: though it may not be worth shipping cement from Mexico to Europe, know-how and investment can be swiftly poured into any market. Whereas rich-world companies, such as Lafarge and Saint-Gobain, are investing in developing countries to increase sales of their cement and building products, Cemex is showing that the same thing can flow in reverse.

Few in Europe had taken much note of Cemex until it swooped to buy RMC in 2005. But by that time four-fifths of its revenue was already coming from beyond Mexico's borders. It had bought or built businesses in Colombia, Panama, Venezuela, Indonesia, the Philippines, Thailand and the United States before it set its sights on Europe.

The secret of the company's success is the rigorous development of its own style of managing acquisitions, which it calls “the Cemex way”. A British manager who left RMC, somewhat discomfited, shortly after its purchase by the Mexicans nevertheless praises their approach. “They have their own systems, very heavily dependent on standardised procedures built around highly developed IT systems,” he concedes.

The new multinationals have some distinct advantages in their sprint to the fore of global business. They are often family-owned or family-controlled (even when they are public companies), which helps them to make decisions quickly. They often enjoy cheap finance from state banks. But they also face particular problems, because they are trying to break into a world economy in which globalisation is already well advanced.

When rich-world companies were going international, everything moved at a slower pace. Now, as Gordon Orr, who works in McKinsey's Shanghai office points out, the prizes go to the top few firms in any industry. Organic growth is generally too slow to turn companies into winners.

Tariffs and anti-dumping actions can also prevent developing-country companies from getting into the rich world. Firms may be ignorant of the markets they are entering. Their brands, though well established at home, are unknown in Europe or America. They may lack the necessary management talent. Pay structures are hard to devise when middle managers in rich-world subsidiaries expect to earn more than their seniors in head office.

The future is Mittalic

But the new boys have often leapt these hurdles impressively. TCL, a Chinese consumer-electronics company, broke into Europe by buying the French Thomson TV brand. Cemex started investing in America when its cement exports were hit by anti-dumping suits: it became the market leader. Lenovo bought IBM's PC business partly to acquire management talent, and went on to create a firm that blended the best of the two businesses. Sunil Kakkad of LG, a London-based business-law firm, says that Indian multinationals are reversing the usual brain-drain by sucking non-resident Indians back from branch offices in America and Europe, where they have gained experience that could be useful at the centre.

Possibly, more newcomers will not build out from home markets but will amass businesses in all parts of the world, as Mr Mittal's group has done. He likes to point out that having a strong base in both developing and rich countries gives his company a balanced portfolio. “I see plenty of scope for growth in developing countries and plenty of opportunities for consolidation in developed countries,” he beams in his office overlooking London's Berkeley Square.

Success in one developing country led Mr Mittal to opportunities on the other side of the world. Family ownership helped with quick decisions to outsmart competitors. There will be more Mittals: not just Tatas or Cherys, emerging from giant, booming domestic markets; but new creatures, bursting out of nowhere to take the world by storm.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Banks and the credit crunch

Stepping beyond subprime

Jan 10th 2008 | NEW YORK
From The Economist print edition

Only Panglossians think that the sector is over the worst

Illustration by Satoshi Kambayashi

THE dawning of a new year is supposed to be about hope, but fear remains the dominant emotion among bankers. This week saw another round of bloodletting as they grappled with the effects of the credit crunch. Barclays Capital and CIBC joined the long list of lenders to jettison senior investment bankers. And, to nobody's surprise, Jimmy Cayne stepped down as boss of Bear Stearns, the Wall Street bank with the hedge-fund problems that arguably marked the start of the crisis last June.

Mr Cayne had been under huge pressure to go, thanks to $1.9 billion of mortgage write-downs—leading to the bank's first-ever quarterly loss—and accusations that he had been more interested in improving his own performance at bridge and golf than shoring up his bank's standing in the markets. He will remain as non-executive chairman, continuing to command an eight-figure salary, after Alan Schwartz, a trusted lieutenant, takes over as chief executive. Mr Cayne's durability prompted one observer to dub him the “Harry Houdini of the boardroom”.

Bear's problems are not limited to one-off hits. Important parts of its franchise are either suffering client defections (prime brokerage) or disappearing altogether (structured-credit products). There is speculation about a merger—although it is unclear who, among Bear's Western peers at least, would dare to bid, given Bear's oversized exposure to America's slumping housing market and the welter of subprime-related lawsuits it faces. Its shares continued to fall after Mr Cayne's (partial) resignation was announced.

Depleted though bankers' confidence is, things could be worse. Lubricated by copious amounts of central-bank money, banks did at least make it through the year-end in one piece. Interbank lending rates, though still unusually high, are edging down, and the asset-backed commercial paper market ticked up on January 3rd after falling for 20 straight weeks. The risk of a big bank going under has receded as $27 billion (and counting) of capital has flowed into the sector from sovereign wealth funds. Recipients include Merrill Lynch, Citigroup, Morgan Stanley and Switzerland's UBS (or, as wags now call it, Union Bank of Singapore). These injections may have upset existing shareholders, who have seen their stakes diluted, but they have ensured that although big lenders have wobbled, none has toppled.

At least, not yet. The shares of Countrywide fell by another 28% on January 8th, as America's largest mortgage lender was again led to deny rumours of imminent bankruptcy. (It insists it has ample liquidity.) Far from bouncing back, banks have led the stockmarket down since the start of the year. Even Goldman Sachs, hitherto relatively unscathed, has suffered.

One reason for the gloom is that banks' residential-mortgage woes are far from over. Although banks have already written off whopping sums over subprime mortgages, they are vulnerable to yet more hits. Their worldwide remaining exposure to subprime loans (excluding off-balance-sheet vehicles) is put at $380 billion; analysts think they are still only roughly two-thirds of the way through tallying their mortgage losses. When the likes of Citigroup and Merrill Lynch confess their fourth-quarter sins on January 15th and 17th respectively, they are likely to be the most shocking yet: forecasts put the two banks' additional write-downs at $26 billion, on top of the $15 billion they have kissed goodbye so far. Market gossip points even higher.

JPMorgan Chase is expected to get away with a much smaller mortgage-related hit, probably below $2 billion. But it has other worries. It is a big holder of “hung” leveraged loans and bonds, mostly related to buy-outs agreed on in the credit bubble. The $250 billion in unsold debt on banks' books remains a big headache.

As the leading dealer in the market for credit-default swaps (CDS), contracts used to punt on a company's ability to repay its debt, JPMorgan Chase could find itself dragged into another maelstrom. These credit derivatives have exploded in recent years, to an outstanding notional amount of $43 trillion. So far the writers of these contracts have had little to pay out because corporate defaults have been at historic lows. But defaults are about to rise sharply, says Moody's, a rating agency. That raises the prospect of losses for banks that entered the market but failed to lay off their risks properly. If the mortgage market is a guide, there will be plenty in that camp.

CDS contracts allow investors to take on credit risk without buying the underlying bonds. But not everyone is convinced of their usefulness. Bill Gross, founder of PIMCO, a giant fund manager, thinks they may be banks' “most egregious” concoctions to date. If corporate-bond defaults were to climb back to historical averages, contracts worth $500 billion would become payable, he pointed out this month. John Mauldin, another influential investor, thinks counterparty risk in CDS will be one of the big stories in 2008, particularly as already-fragile bond insurers are big in that market. On January 9th MBIA, the largest such insurer, said it will raise new equity to stave off a ratings downgrade.

As fears of an American recession grow, so do worries about a general deterioration of credit. Commercial property looks more precarious by the day, as do car loans, student loans and credit-card debt (Capital One, a card issuer, cut its profit forecast on January 10th). All of these were, like residential mortgages, fed into Wall Street's stalled securitisation machine. Many now sit in complex products with the same questionable credit ratings.

Banks have to worry about more than just the fancy asset-backed stuff. Losses on unsecuritised loans are rising faster than expected. American banks' average net interest margin—the spread between what they pay depositors and charge borrowers—has fallen to its lowest level since 1991 as banks scramble to reduce their reliance on fickle wholesale markets by raising the rates they offer to depositors.

Investment banks, meanwhile, face a slowdown in a number of businesses, from advising on mergers to equity underwriting. Some areas remain vibrant—commodities, for example, and emerging markets—but much restructuring lies ahead. This week Citi folded several units into a new residential-mortgage business, and UBS was prompted to deny rumours that it will try to offload its investment bank.

The focus for many banks in coming months will be on conserving or bolstering capital—through share issues, dividend cuts and asset sales—as they reduce their leverage and take unwanted assets, such as those in structured investment vehicles (SIVs), back onto their books. That will enforce a more cautious attitude to lending, putting pressure on profits. Were European banks to bring their leverage back to the level of a decade ago, their return on equity would fall to 14%, compared with 21% now, reckons Citi's Simon Samuels.

Bank shares may have further to fall. As Betsy Graseck of Morgan Stanley points out, they are still higher, relative to tangible book value, than their lowest level in the credit crunch of 1989-91. With futures markets predicting property-price falls of up to 30% and the pain spreading beyond mortgages, the bottom may be months away. As one American banking regulator puts it: “There aren't many places to look now and feel happy.” Unless you are an escapologist of Mr Cayne's calibre.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

R-word index

Warning lights

Jan 10th 2008 | WASHINGTON, DC
From The Economist print edition

Recession talk is rising

Get article background

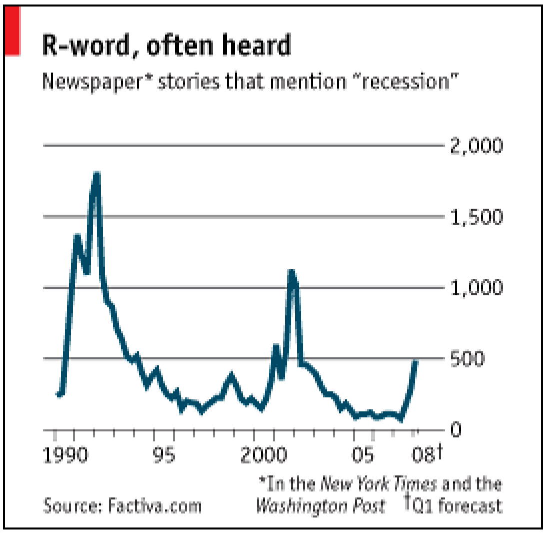
AMERICA'S 2008 recession, if it happens, will not catch anyone by surprise. Peddling gloom is the new parlour game on Wall Street and beyond. According to recent opinion polls, almost six out of ten Americans believe the country is already in a recession. On the campaign trail, Hillary Clinton claims the economy is “slipping” towards one.

Wall Street seers, perhaps stung by criticism that they missed the onset of previous downturns, are piling in too. Although most forecasters still expect a formal recession will be avoided (typically putting the odds at around 40%), not everyone agrees. Morgan Stanley expects a mild recession in the first half of 2008. On January 7th Merrill Lynch became the first big bank to declare recession a “present-day reality”. Two days later the economists at Goldman Sachs agreed that “recession has now arrived, or will very shortly.”

These assessments were driven largely by the dismal December jobs figures released on January 4th. America's jobless rate is now 0.6 percentage points above the cyclical trough reached in March 2007. At no point in the past 60 years, the Merrill economists point out, has the unemployment rate risen by more than half a percentage point from its trough without the economy slipping into recession.

The Economist's informal R-word index is also sounding alarms. Our gauge counts how many stories in the *Washington Post* and the *New York Times* use the word “recession” in a quarter. This simple formula pinpointed the start of recession in 1981 and 1990 and 2001. In the past few years the R-word index has been extremely low. It began to rise in the second half of 2007 and, measured at a quarterly rate, has soared in early 2008 (see chart). Although the number of stories is still lower than before previous recessions, the recent jump—if sustained for a quarter—is similar to that which preceded the 2001 downturn.

Other, more formal recession indicators are flashing, if not yet red. One of the most reliable gauges is the weekly leading index from the Economic Cycle Research Institute (ECRI). This index correctly forecast the past two recessions and is now showing its weakest performance since the 2001 recession. But ECRI is not quite ready to predict recession yet. According to Lakshman Achuthan, its managing director, exports and prompt policy stimulus could still avert a formal downturn.



Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

German banks

Slow motion

Jan 10th 2008 | FRANKFURT
From The Economist print edition

A shaking up is what Germany's banks need. Don't hold your breath

IT IS a sad fact that Germany's banks tend to consolidate only when they are in trouble. Glass-half-full types hoped that America's subprime crisis would lead to a shake-up, particularly among the Landesbanks, the publicly owned lenders that provide wholesale services to regional savings banks. But even when institutions need help the political obstacles to change remain formidable.

Merger talks between WestLB, in Dusseldorf, and Landesbank Hessen-Thüringen (Helaba), in Frankfurt, have been suspended until after January 27th, when Roland Koch, prime minister of Hesse, hopes to be re-elected. WestLB ran up losses of €604m ($888m) in a share-trading scandal last year, before revealing that it had funding obligations totalling $15.6 billion to two off-balance-sheet structured investment vehicles (SIVs). Any hint before the election that Helaba is buying a pig-in-a-poke—it is not yet clear just how much WestLB lost last year—could hurt Mr Koch's chances with the voters.

WestLB is not the only bank to have sought shelter in the storm. SachsenLB, a much smaller Landesbank with exposure to a lot of subprime-related assets, has taken refuge in the arms of the biggest Landesbank, LBBW in Stuttgart, but only after LBBW last month negotiated guarantees for the first €2.75 billion of losses from the government of Saxony, as well as pledges of support from public banks if losses go above a certain level.

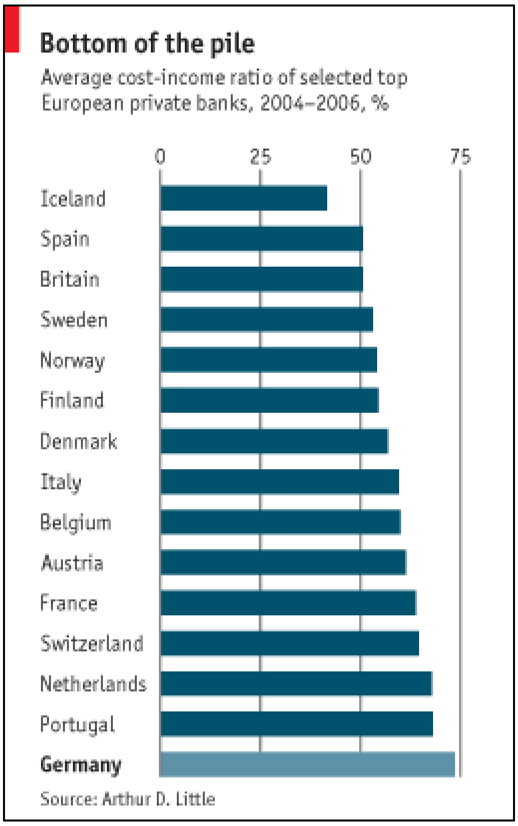
Other deals will be even harder to achieve. By rights, the country's seven independent Landesbanks ought to be whittled down to just two or three. Only three Landesbanks have a meaningful base of private customers. More mergers, for example between LBBW and its Bavarian neighbour, BayernLB, or in north Germany between HSH Nordbank, NordLB and Landesbank Berlin, would make perfect sense. But the politicians, some of whom sit on the banks' supervisory boards, are reluctant to give up power and prestige. (Putting merged Landesbanks under a common holding company would be one way to preserve regional identities.)

A shortage of eligible buyers also gums up the system. Landesbanks and savings banks are generally protected from private ownership by regional laws. Only HSH Nordbank and Landesbank Berlin have private minority shareholders. WestLB sold its 26.6% stake in HSH Nordbank to a private-equity investor in 2006. Landesbank Berlin had been partly privatised but was bought at auction last year by the German Savings Bank Association precisely to prevent it, and its subsidiary, Berliner Sparkasse, from falling into private hands.

And even if would-be acquirers are able to bid, buying banks just now is only for the bold. KfW, a state-owned development bank, learned too late the consequences of having a 38% stake in IKB, a listed bank that ran into subprime problems last July. KfW bore the brunt of a €3.3 billion rescue operation (which had to be increased in November to €6.15 billion) that was co-ordinated by public and private banks. IKB's potential losses, still uncertain, are covered, but KfW is still having trouble finding a buyer for its stake, which is dwindling in value along with the share price.

The persistence of public ownership of 34% of the banking sector (by assets), and an absurd "regional principle" that discourages savings banks from competing on each other's turf—now the subject of a European Commission inquiry—dampens efficiency throughout the industry. German private banks' average cost-income ratios—the share of revenues eaten up by operating costs—are the worst in Europe, according to a recent study by Arthur D. Little, a consultancy (see chart).

The study concludes that the four biggest German banks would have to cut 20% of their workforce, or around 30,000 people, to make them cost-competitive with market leaders in places such as Spain and Britain. That is not going to happen. Slow-motion consolidation within the publicly owned, mutual and private sectors looks like the most that can be hoped for.



Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Buttonwood

Riding the cycle

Jan 10th 2008
From The Economist print edition

Why volatility will never go away

CAN it only be a year ago that volatility was so low in the financial markets? Traders must have found their lives awfully dull, without so much as a currency crisis to get the pulse racing.

Some began to argue that volatility had moved to a structurally lower level thanks to the activity of hedge funds and to the development of complex products and derivatives. A new, more sophisticated financial system had spread risk more efficiently, it was said.

But over the past 12 months, the standard measure of stockmarket volatility, the Vix (or volatility index), has roughly doubled. On top of that, there have been wild swings in government bond yields, a jump in debt spreads and the continuing decline of the dollar.

To grasp one reason why volatility has surged, you need to understand how the Vix is calculated. The measure is derived from the world of options, the instruments that allow investors to protect themselves against (or speculate on) future price movements. A call option, for example, gives the holder the right to buy an asset at a specified price within a specified period.

Say there are two shares, each trading at $80; one is a young technology company, the other a staid power generator. In each case, there is an option contract offering the chance to buy the shares at $100 at some point within the next three months. Logically, you would expect to have to shell out more for the option to buy the technology company's shares, since it is more likely suddenly to announce some whizzy breakthrough that causes its share price to shoot upwards. In other words, it costs more to purchase options on assets that are likely to be more volatile in price.

When one “reverse engineers” an option price (taking out factors such as the time value of money), the residual factor is known as implied volatility, which could be described as the uncertainty applying to the asset. The Vix represents this figure for the S&P 500 index.

The vast majority of options expire without being exercised; the asset price never moves sufficiently to make it worthwhile. To put this in technical terms, the implied volatility in the option price turns out to be higher than the *realised* volatility. So there are plenty of people who earn a decent income by selling options; just like insurers, they earn a premium every time they make a sale.

In quiet markets, the number of people who want to sell options increases, driving their prices, and thus the level of implied volatility, down. That was one reason why volatility was so low last year. But when the markets went into a tailspin in August, volatility suddenly surged; it became much more likely that those who had previously bought options would be able to exercise them (particularly put options, which grant the right to sell at a given price). Option-sellers suddenly faced losses; some, realising the risks, probably withdrew from the business. That forced implied volatility even higher.

There is thus a cyclical element to volatility, as investors move from complacency to alarm. That fits in with the work of Hyman Minsky, an economist who suggested that periods of stability may sow the seeds of future volatility. If economic growth and interest rates are stable, businesses and consumers will be encouraged to take more risks, and in particular to take on more debt. Eventually, small changes in interest rates will have a much greater impact on balance sheets and on consumer willingness to spend.

A long-term graph of the Vix hints at cyclicality, with periods of great choppiness in the early and late 1990s book-ending an era of relative calm in the middle of the decade. It is hard to say that any level is “normal”; volatility is in itself volatile.

It may be ever so. Another important factor behind market movements must be the difference in incentives between investing institutions, such as pension funds, and the intermediaries that work on their behalf. Pension funds would like nothing better than for asset markets to rise in a steady, predictable fashion, so it would be easy to work out how to meet their liabilities. But that would not be so great for traders. Steady markets would give investors fewer reasons to deal, and so traders would have less chance to earn the spread between sell and buy prices. And the more volatile markets are, the better the chance that a trader will be on the right side of some big price move, and win himself a fat bonus. So traders are tempted into making big bets, and in doing so also add to volatility.

It is small comfort for the rest of us, but every time the Vix jumps sharply, someone at a hedge fund has just earned himself a nice new yacht.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Health-care economics

Comparison shopping

Jan 10th 2008 | NEW YORK
From The Economist print edition

Could comparative-effectiveness studies rein in health-care costs?

MOST industries have grasped the idea that new products should be measured against rival offerings. From laptops to double-glazed windows, consumers have ready access to comparative studies from consumer magazines, independent testing bodies and the like.

When it comes to health care, however, comparative-effectiveness studies for new drugs, devices and procedures are rare. Drugs trials often compare new treatments with placebos, not rival pills. Device makers rush to get new gizmos into action before cost-benefit analyses can be done. In America the federal government's health programmes eschew comparative-effectiveness tests as a matter of policy.

Now moves are afoot in America's Congress to promote the use of such techniques to rein in rampant cost inflation. If so, America will be following some trailblazers. Britain's National Institute for Health and Clinical Excellence (NICE) uses comparative analysis in deciding whether to approve new pills, procedures and devices. In recent years regulators in continental Europe, Australia and parts of Canada have also embraced such tests.

This trend raises two questions. Can it help determine which treatments are most effective? And if it can, will it help governments and insurers contain health costs?

The answer to the first question seems to be a qualified “yes”. Past comparative-effectiveness trials have shown that older and cheaper anti-psychotic drugs are often just as good as expensive new ones, and that the costs of some pricey new procedures, such as spinal surgery, can outweigh their benefits.

One recent study even turned conventional medical practice on its head. Researchers assessed how patients with stable coronary-artery disease responded to two rival treatments: a traditional combination of angioplasty and drugs *versus* the drugs alone. The boffins found that, measured by heart attacks and survival rates, the cheaper option was just as good as the expensive and invasive one.

That all sounds promising, but snags abound. One is the difference between efficacy and effectiveness. Most studies of drug efficacy look at how the pills perform under ideal conditions with hand-picked patients. In the real world, though, the effectiveness of a new pill will vary greatly depending on whether patients take the pills correctly, what other medication they are on, and so forth. Running randomised controlled trials, which adjust for such variables, would help to address these concerns but are far more expensive.

Another set of problems lies in the interplay between comparative-effectiveness analysis and health-care innovation. Drugs firms are innovating at a fearsome pace. If governments demand that all new drugs and devices undergo rigorous studies to prove their effectiveness, the rate of medical breakthroughs could slow. Bio, a lobbying group representing the biotechnology industry, argues that comparative studies would risk penalising future patients in favour of today's by dampening the pace of innovation.

If studies are too time-consuming, they may also be rendered irrelevant by fast-moving markets. One comparative trial in the early 1990s laboriously compared balloon angioplasty and bypass surgery over the course of many years; but the widespread adoption of innovative heart stents in the meantime made the results of the study almost meaningless.

Despite such obstacles, comparative studies seem to help governments spend money more efficiently. Whether they will cut overall health-care costs is less certain. If patients, who are insulated from the true cost of health care, simply consume more and more of it (effective or otherwise), then even these common-sense tools of economics will not work miracles. And patients will kick up a fuss at anything that smacks of rationing. Just look at Britain. The unlucky few denied the latest treatments by NICE are already howling that the agency should be renamed NASTY: Not Available So Treat Yourself.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Chinese yuan

Revaluation by stealth

Jan 10th 2008 | HONG KONG
From The Economist print edition

China is allowing its currency to rise more rapidly. Why?

Get article background

IN 2005 two American senators introduced a bill into Congress that threatened to slap a tariff of 27.5% on all Chinese imports unless the yuan was revalued by the same amount (their estimate of how much the currency was undervalued). That legislation was dropped, but several other China-bashing bills are still working their way through Congress and accusations about “unfair” Chinese competition will surely play a big role in this year's presidential election. Many American politicians and economists talk as if the yuan was still fixed against the dollar. Yet on current trends, by the time the next president enters the White House the yuan could be within spitting distance of the magic figure demanded in 2005.

Since the beginning of October the yuan has climbed at an annual rate of 13% against the dollar—its fastest pace since China stopped pegging to the dollar in July 2005 (see chart). Since 2005 it has appreciated by a total of 14%. The offshore forward market is pricing in another 8% increase over the next 12 months; several economists are betting on a rise of 10% or more.

It may appear as if Beijing has caved in to Washington's demands. But the main reason why China is allowing the yuan to rise faster is because its policymakers believe the benefits to China from a rising currency now outweigh the costs. Beijing's top concern today is inflation, which rose to 6.9% in November. On January 9th the government announced tighter price controls on a range of products. The People's Bank of China (PBOC) increased interest rates six times in 2007, but this is unlikely to squeeze inflation, which has been driven largely by a jump in food prices caused by supply-side shocks. A faster pace of currency appreciation offers a more powerful weapon: it will help to reduce imported inflation, especially of food and raw materials. By reducing the need to intervene to hold down the currency, it will also curb the build-up of foreign-exchange reserves and hence monetary growth.

Another reason for the shift in policy is that the costs of holding down the yuan are rising. The PBOC has so far succeeded in “sterilising” most foreign-exchange inflows—printing yuan to buy incoming dollars and then selling bonds to banks in order to mop up the resulting excess liquidity. It has even made a profit on this activity, because the return on its dollar reserves exceeded the rate it paid out on sterilisation bonds. Now, however, the PBOC is losing money. Thanks to falling interest rates in America and rising rates in China, Chinese rates are now higher than those in America and the gap is likely to widen this year. Since the shrinking yuan value of China's dollar reserves also has to be reported as a loss, the cost of currency intervention is higher still.

Higher yields in China than in America are also likely to mean bigger inflows of foreign capital. The PBOC would then have to buy even more foreign exchange to hold down the yuan, increasing the required amount of sterilisation. On January 3rd the one-year dollar LIBOR rate (the cost of funding a carry trade using dollars) fell below the Chinese one-year deposit rate for the first time since China abandoned the dollar peg. Add in the expected appreciation over the next year, and investing in yuan is highly attractive.

China's capital controls give it some protection from speculative inflows, but they are leaky. Businesses can build up positions in yuan by over-invoicing exports and under-invoicing imports. Some economists argue that a big one-off revaluation would help to stem inflows by reducing the expected future appreciation of the yuan. But Chinese policymakers have stressed the need for gradual adjustment. To show that the currency is not just a one-way bet, the PBOC may try to nudge the yuan a bit lower in coming days.

The yuan's rise is unlikely to silence flag-waving American Congressmen or economists. The slide in the dollar since 2005 means the yuan has risen by only 5% in trade-weighted terms, according to the Bank for International Settlements. China's current-account surplus has risen from 4% of GDP in 2004 to 11% last year, so any gauge that defines the equilibrium exchange rate as the rate that would eliminate the surplus would suggest the yuan is now even more undervalued. In 2005 Morris Goldstein and Nicholas Lardy at the Peterson Institute for International Economics estimated the yuan was 20-25% undervalued. By late 2007 they thought it was at least 30-40% undervalued despite its gain over the previous two years.

But other economists say it is wrong to define the yuan's correct value by the size of the current-account surplus. In particular, it is unclear how a revaluation would correct China's savings-investment imbalance, which underlies that surplus. A recent report from the Conference Board, an American business-research organisation, argued that: “Although an undervalued currency contributes to China's trade surplus, it is not a primary cause of it and has very little to do with the bilateral United States-China trade deficit.”

Most Congressmen believe otherwise. The problem with China's appreciation by stealth is that it gets no credit from its critics for doing so. If China had delivered the past two years' currency appreciation in one go it might now be getting less flak from its detractors in America.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

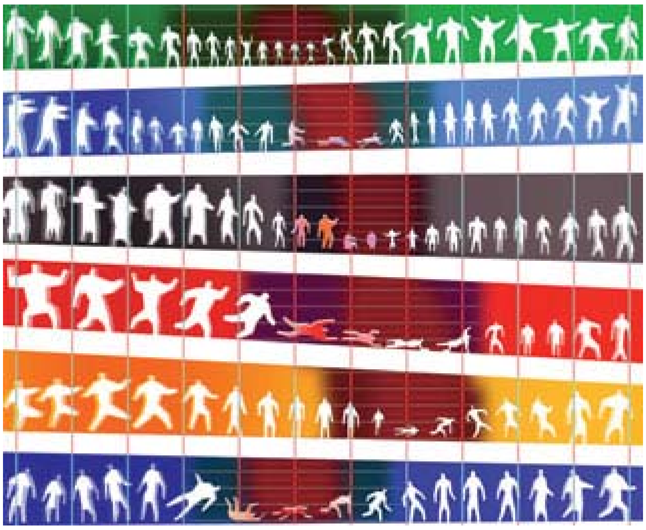
Economics focus

Same as it ever was

Jan 10th 2008
From The Economist print edition

What do earlier banking crises reveal about America's travails today?

Illustration by Jac



A DASH of otherworldliness is part of the charm of academic conferences. But this year's annual meeting of the American Economic Association (AEA) in New Orleans afforded little shelter. Reality gatecrashed the very first morning of the three-day meeting, the world's largest convention of dismal scientists, with the release of a report on January 4th showing that America's unemployment rate had spiked from 4.7% to 5% in December. The bad news made a presentation by Kenneth Rogoff, a professor at Harvard University, on the final day all the more timely. His paper*, written with Carmen Reinhart of the University of Maryland and part of a larger historical study, sets out some parallels between America's subprime mess and 18 previous banking crises in the rich world. For an audience recovering from a Saturday night on Bourbon Street, the conclusions were aptly sobering.

The authors show that, although details may vary, banking crises follow the same broad script. Each blow-up is preceded by rising home and equity prices; an acceleration in capital inflows driven by optimistic foreign investors; a rapid build-up of debt; and—immediately before the storm hits—an inverted V-shaped path for the economy, with growth first picking up and then faltering. The years just before the start of the subprime meltdown fit the Reinhart-Rogoff template remarkably well. Indeed on most criteria, the portents of trouble were more marked than in past crises. House prices rose more sharply in real terms. Equity-market gains were more persistent. Capital inflows picked up too, though they were already running at an alarmingly high level. America's current-account deficit was much larger, relative to GDP, than in a typical crisis candidate.

Given such ominous indications, what of the aftermath? Mr Rogoff was careful to say that the malign effects of the subprime mess might not be as great as those of previous crises. A great deal of uncertainty remains, not least about the scale of lending losses. Yet the precedents are worrying. In the 18 earlier crises, the average drop in output growth was two percentage points and it took two years for growth to return to normal. For the five worst crises, growth rates tumbled by five percentage points from their peak and recovery took more than three years. If America avoids a material slowdown, say the authors, “it should either be considered very lucky or even more ‘special' than most optimistic theories suggest.”

Financial-market lore has it that uttering “this time is different” is the easiest way to get laughed off a trading floor. When recession beckons, the statement invites still more ridicule. At the AEA conference, it fell to Alan Taylor of the University of California to make the case (in the spirit of debate as much as from heartfelt advocacy) that things might not turn out quite as badly as the Reinhart-Rogoff analysis suggests.

A crucial factor is the cost of the final bill. The average rich-world banking crisis in the Reinhart-Rogoff sample leads to recession. But this result is driven by the “big five” blow-ups (among them the implosion of Japan's banking system in the 1990s). Mr Taylor notes that the other 13 had little discernible effect on the wider economy. If all of America's subprime borrowers defaulted and only half of the $1.3 trillion lent to them was recovered, the losses of $650 billion would amount to around 5% of GDP—on a par with the smallest of the big five crises. If losses turned out to be lower, as most estimates suggest, America would probably get off lightly.

A problem shared

Another reason to be cheerful is that the subprime crisis does not strictly correspond to previous banking crises, where losses were concentrated on banks at the heart of the payments and lending systems. Although the banks are more exposed to losses than at first seemed likely, many distressed creditors are either overseas banks or hedge funds. That has costs of its own, not least damaging uncertainty about where exactly the subprime bodies are buried. But the scattering of losses outside America should export some of the economic harm.

And, of course, the Federal Reserve may yet save the day. Mr Taylor finds evidence from the paper's sample of crises to suggest that a swift policy response helps to limit the economic fall-out. In the worst cases, the average levels of interest rates were broadly the same in the years after the initial trauma as they had been before it. In countries that experienced only limited economic damage, policy rates were kept materially lower after the crisis struck.

These arguments offer hope that the worst effects of the subprime disaster may yet be contained. But the scale and scope of America's housing boom-and-bust suggest that problems will not be restricted to subprime lending. Falling house prices threaten the solvency of plenty of prime borrowers too. Many more mortgagees will be hurt by lost housing equity. The credit-market malaise is also likely to lift default rates in the corporate sector, causing additional bank losses.

And although the export of subprime exposure has helped preserve the capital of American banks, it has rocked banks abroad. The results are unlikely to be pretty. Mr Rogoff sought to stay close to home, as he was addressing the AEA. But, in an aside, he noted that some European countries—Spain, Britain and Ireland—fit just as snugly into the template of asset boom, indebtedness, capital inflows and economic woes to come. Given the reach of the housing boom and financial derivatives, he might also have noted that a pessimist would find it just as easy as an optimist to say that this time things are different.

---

* “Is the 2007 Sub-Prime Financial Crisis So Different? An International Historical Comparison”, by Carmen Reinhart and Kenneth Rogoff

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

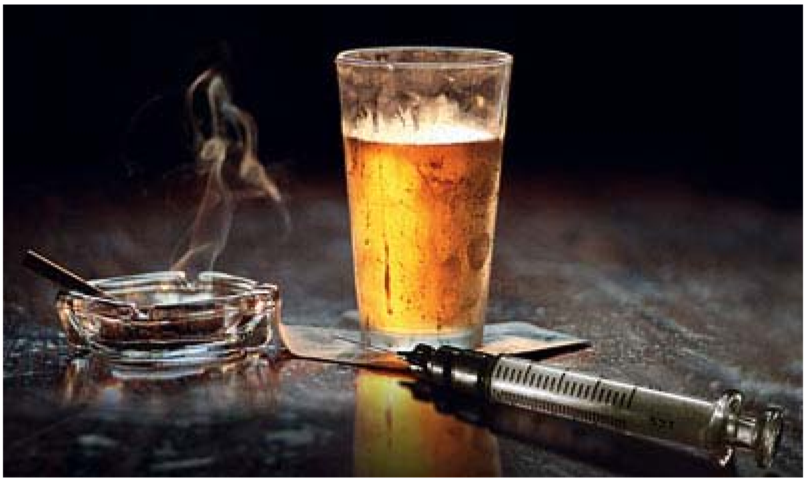
Economist.com SCIENCE & TECHNOLOGY

Drug addiction

Going by the book

Jan 10th 2008
From The Economist print edition

Alamy



A group of Chinese scientists has discovered the main biochemical pathways in drug addiction—and without having to do a single experiment

MODERN biology has a lot of “omes”. The genome—all the genes that go to make up an organism—is a familiar idea. The proteome—all the different proteins—is becoming so. But there are also the transcriptome (RNA), the glycome (sugars), the lipidome (fats) and the metabolome (all the miscellaneous odds and ends not covered by the others). And then there is the bibliome—all the mentions in research papers of known biomolecules. There are now so many of these papers, and the databases linking them are so good, that it is possible to use scientific methods to investigate the bibliome in its own right, just as any of the other, wetter “omes” may be investigated. Which is exactly what a group of researchers from Peking University, led by Wei Liping, have done to get at the biochemical heart of drug addiction.

Dr Wei and her colleagues wanted to answer three questions. First, what are the genes and biochemical pathways in addiction? Second, does addiction to different substances involve the same core biochemical mechanisms? Third, does anything in those mechanisms explain why addiction is so hard to shake off?

Many people, of course, have asked these questions before, and partial answers have emerged. What Dr Wei hoped to do was to take these fragmentary answers and patch them together to make something approaching the whole truth. And, in a paper just published in the *Public Library of Science*, she seems to have managed just that.

It looks good on paper

Dr Wei's group looked at more than 1,000 studies of the biochemistry and genetics of drug addiction. They were interested in the four sorts of drug reckoned most addictive: alcohol, cocaine, nicotine and opiates (heroin, methadone and so on). About 1,500 genes were implicated by one or more of the studies, but in only 396 cases was that implication backed by at least two independent lines of evidence. It was on these confirmed cases that Dr Wei concentrated her fire.

Biochemistry is about pathways and networks of pathways. A pathway is a series of enzymes (each of which is encoded in a gene) that perform a task in sequence, like workers on an assembly line. Dr Wei therefore ran her 396 genes through a database of all known pathways to see which involved several enzymes encoded by those genes.

She found 18 that were involved in addiction to at least one type of drug. Five, however, were common to all four types, and these five pathways therefore look as though they are at the core of the process of addiction. Three of the five were already under suspicion. Dr Wei's result provided strong statistical evidence to back up what had just been hunches. Two other pathways, however, had not previously been considered as being involved in addiction.

The existence of these five central pathways helps explain a lot about addiction. First, it gives weight to the belief that some people are more susceptible to all sorts of addiction than others are. That contrasts with the thought that addictions are substance-by-substance phenomena, though the two ideas are not mutually exclusive since changes in the 13 substance-specific pathways clearly also result in addiction.

Second, the particular pathways involved help to explain why addiction is so hard to reverse. Several of them take part in strengthening the connections between nerve cells, which is the underlying basis of learning. Unlearning something by breaking these connections is hard.

Third, Dr Wei was able to link the five central pathways together into a network, and show that this network has four positive-feedback loops in it. Work on other species in other contexts suggests that the mixture of loops she found was one that often results in rapid and irreversible biological processes—which is exactly what is seen in addiction.

None of this, of course, directly helps the addict, though it reinforces the message that it is better not to start taking these drugs in the first place. But working out how the addiction machine operates may point those looking for therapies in the right direction. And this study also shows that the old cry “more research is necessary” is not always true. Sometimes all you need to do is look at what you already have in a different way.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Astronomy

Where the shadows lie

Jan 10th 2008
From The Economist print edition

A rare double ring illuminates the dark matter of the early universe

EINSTEIN himself reckoned that, although they must exist, they would be impossible to spot. Yet the great man was mistaken. Astronomers have seen “Einstein rings”, formed when light from a distant galaxy is bent by the presence of a nearer massive object, usually another galaxy, that lies directly in its path to Earth. Now they have discovered something even rarer: a double Einstein ring formed by two such intervening objects. The resulting image casts light, as it were, on the question of how “dark matter” was distributed in the early universe. The exact nature of this type of matter is unknown, but it seems to make up a quarter of the contents of the universe. The latest result suggests it is more widely spread than the visible matter that is clumped together to form galaxies, with implications for how those galaxies formed.

In his general theory of relativity, Einstein proposed that space and time are distorted by the presence of massive objects. Light, which normally and famously travels in straight lines, thus appears to follow a curved path when it passes near a heavy thing such as a galaxy. This effect is known as gravitational lensing, and the heavy object that causes it as a gravitational lens. If source, lens and observer are exactly aligned, the result is a luminous ring that appears to surround the lens.

Einstein despaired of ever finding a source and a lens precisely aligned with an observer on Earth and thought that, even if they did exist, telescopes would never be powerful enough to see the resulting ring. Nevertheless, the first such ring was observed in 1987. Now, a group of astronomers led by Tommaso Treu of the University of California, Santa Barbara, have seen two concentric rings.

Dr Treu and his colleagues first identified the most promising places to look for Einstein rings—parts of the sky where two or more clusters of galaxies can be seen one behind the other. They then searched these areas for galaxies that appeared to have two different spectrums, suggesting that what looked like a single object actually had another one sitting behind it. Having found a promising one in the constellation Leo, they turned the *Hubble* space telescope on it.

As they hoped, the image of the first galaxy, which lies about 2 billion light years away, was surrounded by a ring of light from the second one, which lies 6 billion light years away. To their surprise, however, they spotted a second ring, formed by light from a third galaxy 11 billion light years away.

This discovery, which Dr Treu presented to a meeting of the American Astronomical Society held in Austin, Texas, on January 10th, represents more than an unusual and pretty stamp for the astronomers' collection. The diameter of the rings depends not only on the distance to the galaxies that caused them but also on the masses of those galaxies. The more massive they are, the more the light is bent.

Dr Treu and his colleagues compared the mass the rings suggested was present with what they could actually see. They were thus able to study the distribution of dark matter. Earlier work had suggested that dark matter seeded the early universe, acting as nuclei around which visible matter clumped into galaxies. But Dr Treu found that the dark matter extended further than the visible matter, forming a halo around it. If that turns out to be true elsewhere, it makes galaxy formation harder to explain.

Having a double ring could also help explain dark energy, a mysterious force that is thought to pervade the universe, causing its expansion to accelerate. The outer ring is created by a galaxy that is some 5 billion years older than the inner one. If further double rings are discovered, and Dr Treu is optimistic that they will be, it should be possible to tell whether the amount of dark energy around has remained constant, or has changed over the course of time.

Einstein proposed the existence of something he called the cosmological constant, to fulfil the role now assigned to dark energy. As its name suggests, it was not expected to vary as the universe aged. But if it did, it would not be the first time that Einstein erred.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Co-operative breeding

The perils of togetherness

Jan 10th 2008
From The Economist print edition

Family support is rare. That might be because its spreads diseases

ANYONE with children knows the benefits of sympathetic grandparents, aunts and cousins. From babysitting to emotional support when the kids set fire to the carpet, having family around is invaluable. Such co-operative breeding is common in birds as well as humans. It usually involves young adults delaying their own reproduction for a year or two to help their parents raise the helpers' younger siblings. In some species, grandparents also assist their offspring when their own breeding time is over. The nest is thus better defended, more food is gathered and the nestlings are better educated in the ways and wiles of their species. In fact, the benefits of co-operative breeding are so great that many researchers wonder why it is not more common.

A study just published in *Behavioral Ecology and Sociobiology*, by Claire Spottiswoode of Cambridge University, suggests the reason is that other organisms also benefit. Pathogens and parasites are able to take advantage of avian co-operation, imposing a price that is not always worth paying.

Dr Spottiswoode spent three years capturing and testing wild birds of many different species in South Africa and Malawi. She injected them with phytohaemagglutinin (PHA), a substance that induces an immune reaction. In particular, when PHA is inserted beneath the thin skin of a bird's wing, it causes a swelling a bit like a mosquito bite.

Dr Spottiswoode reasoned that the amount of swelling from a dose of PHA should reveal the activity of a bird's immune system. Individuals from species at risk of disease will respond swiftly and strongly. That response, however, comes at a price. The larger the swelling, the greater the immune stress on the bird and the more energy its immune system is consuming to fight off the effects of pathogens.

Measuring the swelling with pressure-sensitive callipers allowed Dr Spottiswoode to determine the strength of each bird's immune system. She found, as she had hypothesised, that co-operatively breeding birds routinely have stronger immune responses to PHA than closely related species that do not breed co-operatively. This suggests there is something about co-operative breeding that forces the immune system to work harder than it otherwise would. She argues that this something is the increased transmission of pathogens within family groups. Not only do co-operative breeders interact closely with many more individuals than non-co-operative birds, but these individuals are also usually close relatives. That means they share a genetic susceptibility to the same strains of disease.

Though Dr Spottiswoode's research focused on birds, the principle is likely to apply to other social species, people included. Indeed, the evidence is that many human infections—malaria, measles and influenza, for example—stem from the crowded living that came about when people settled down to farm. Moreover, studies of modern human evolution suggest that several recent genetic changes are responses to such diseases.

People and birds are similar in many ways. A lot of bird species form more-or-less exclusive, more-or-less long-term pair bonds in which both parents raise the offspring. That is a pattern rarely found in mammals. Co-operative breeding in both groups is, in some ways, an extension of this pattern. The benefits are the same. So are the costs that have to be overcome.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

How to find a mate

The scent of a woman (and a man)

Jan 10th 2008
From The Economist print edition

A new kind of dating agency relies on matching people by their body odour

ONE of life's little mysteries is why particular people fancy each other—or, rather, why they do not when on paper they ought to. One answer is that human consciousness, and thus human thought, is dominated by vision. Beauty is said to be in the eye of the beholder, regardless of the other senses. However, as the multi-billion-dollar perfume industry attests, beauty is in the nose of the beholder, too.

ScientificMatch.com, a Boston-based internet-dating site launched in December, was created to turn this insight into money. Its founder, an engineer (and self-confessed serial dater) called Eric Holzle is drawing on an observation made over a decade ago by Claus Wedekind, a researcher at the University of Bern, in Switzerland.

In his original study Dr Wedekind recruited female volunteers to sniff men's three-day-old T-shirts and rate them for attractiveness. He then analysed the men's and women's DNA, looking in particular at the genes that build a part of the immune system known as the major histocompatability complex (MHC). Dr Wedekind knew, from studies on mice, that besides fending off infection, the MHC has a role in sexual attractiveness. It changes odours in ways the mice can detect (with mice, the odours are in the urine), and that detection is translated into preferences for particular mates. What is true for mice is often true for men, so he had a punt on the idea that the MHC might affect the smell of human sweat, as well.

It did. Women preferred T-shirts from men whose MHC was most different from their own. What was more, women with similar MHCs favoured the use of similar commercial perfumes. This suggests that the role of such perfumes may be to flag up the underlying body scent rather than mask it, as a more traditional view of the aesthetics of body odour might suggest.

That makes evolutionary sense. The children of couples with a wide range of MHC genes, and thus of immune responses, will be better protected from disease. As the previous article suggests, that could be particularly important in a collaborative, group-living species such as humanity. Moreover, comparing MHCs could be a proxy for comparing kinship, and thus help to prevent inbreeding.

The promise of an MHC-based match is not only that your partner's old laundry will smell better but all sorts of other benefits too. The biological compatibility created by complementary immune systems apparently promises better orgasms, a lower likelihood of cuckoldry, more happiness and so on. Nor are heterosexuals the only ones who can benefit. Gay men and women respond as strongly to MHC-derived smells as straight people do—though, as might be expected, their response is to the smell of people of the same sex, rather than the opposite one.

Indeed, the only people for whom MHC matching might not be expected to work are women on the Pill. Chemical contraception, which mimics pregnancy, messes up the system because of an intriguing twist. When women are pregnant, they prefer the smell of MHCs that are similar to their own. This means they are happier in the company of their relatives, which may, as the previous article also suggests, bring evolutionary benefits of its own.

ScientificMatch.com does not rely entirely on the MHC. Besides sending off a swab taken from the inside of their cheek and a cheque for $1,995, hopeful singles have to answer the usual questionnaire about income, background and details such as whether they would prefer a skiing holiday to one spent sketching. They are not, however, asked whether they wear their T-shirts for three days on the trot.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: British physics

Jan 10th 2008
From The Economist print edition

In our article “Newton's law of funding”, published on December 22nd, we said that cuts to several physics projects financed by Britain's Science and Technology Facilities Council were because a particle accelerator called the Diamond Light Source was more expensive than expected. That was incorrect. Diamond was built within its budget. The actual reason for the cuts, and for their sudden and unexpected announcement, is now being investigated by the House of Commons select committee on innovation, universities and skills.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

New fiction

Searching for truth, whatever that is

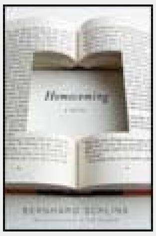
Jan 10th 2008
From The Economist print edition

Illustration by Daniel Pudles

A remarkable if elusive novel about Germany's attitude to its past

ALTHOUGH “Homecoming” might be described as a man's search for the father he never knew, its German author, Bernhard Schlink, does not reveal this popular if mundane premise until halfway through his beguilingly oblique novel. Similarly, its theme could be reduced to the protagonist's rather dreary discovery that in tracking down his father he is “really looking for himself”. Yet, in the meantime, the author is looking for the identity of modern Germany, and vivifying his generation's continuing difficulty in arriving at the truth about the second world war—whatever truth is, as Prince Charles once asked about love.

Homecoming: A Novel
By Bernhard Schlink. Translated by Michael Henry Heim



Pantheon; 272 pages; $24. Weidenfeld & Nicolson; £14.99

Buy it at
Amazon.com
Amazon.co.uk

Like Mr Schlink himself, the book's narrator, Peter Debauer, is half-German and half-Swiss, born during the war. His mother raised him to believe that she married his Swiss father after one whirlwind weekend, only for her husband to be cut down in the war. Before this story of his origins unravels, Peter spends halcyon boyhood holidays with his Swiss grandparents, who run a small publishing house.

There he comes upon a book from their series “Novels for Your Reading Pleasure and Entertainment”. He grows entranced by the story of Karl Hanke, a prisoner-of-war in the Soviet Union who escapes and makes his arduous way back to his home in Germany, only to confront his wife with two children and another man. When Peter gets older, he recognises the story as a recasting of “The Odyssey”, several analyses of which sprinkle “Homecoming”—which itself is in some respects a recasting of Homer.

A search for the last pages of the Karl Hanke novel (which Peter as a child had used for his homework) broadens into a search for the book's author, who—after some sleuthing whose modest implausibility never becomes distracting—turns out to be Peter's father. Leaving his lover behind in Germany, Peter flies to New York, where the septuagenarian “John de Bauer” has reinvented himself as a professor of political science at Columbia University. Peter assumes an alias and enrolls in his father's seminar. Planning to reveal their relationship when the time is right, he intends to confront the professor with the pro-Nazi articles he wrote in his youth.

We get summaries of the relativist legal philosophies that Peter's urbane, charismatic father promotes, which subtly expiate his shady past. In the novel's entertaining climax, Peter is invited on a “retreat” for special students: a manipulative exercise meant to illustrate the evil in us all, a variation of Stanley Milgram's famous experiment with sadism and obedience in the early 1960s. It is noteworthy that Peter, an infant during the war, is humiliated by being forced to apologise collectively for a misdeed at the retreat that he didn't personally play any part in.

Ten years ago Mr Schlink's celebrated bestselling novel “The Reader” took on kindred subject matter. Right after the war, a teenage boy has an affair with an older woman who disappears, only to crop up years later on trial for war crimes. The “truth” in that novel is as slippery as it is in this one. At one point Peter despairs: “Children hope against hope that what is good is true and beautiful and what is evil is false and ugly.” Such hopes are dashed for adults in both books.

Despite its intricate, maze-like progression, “Homecoming” has surprising narrative thrust. Mr Schlink manages to make engaging an uncommitted, indecisive protagonist, self-described as “a man in his mid-forties, an editor, mildly successful, mildly accomplished, boring car, tidy flat.” In passing, Mr Schlink chronicles the East-West culture-clash during German reunification. Listen, for instance, to this description of an East Berliner's academic lecture:

> The sentences followed one another logically enough. But there was no thesis, no idea behind what he said: it was neither approving nor critical. He assiduously avoided any statements, any pronouncements he might later be called to task for, he might later have to recant. It was a brand of speech obeying its own strict laws, which had evolved into an art form. A theatre of the absurd. I would not have shed a tear to see it go under with the world that gave it birth, yet I was sorry that art can go under like that.

The point of “Homecoming” is tricky to pin down. But a novel about history, truth and guilt in modern Germany may be elusive by design.

Homecoming: A Novel.
By Bernhard Schlink. Translated by Michael Henry Heim.
Pantheon; 272 pages; $24.
Weidenfeld & Nicolson; £14.99

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BOOKS & ARTS

American history 1

Durably democratic

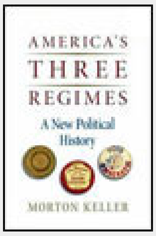
Jan 10th 2008
From The Economist print edition

THE American colonies were not like those in other parts of the world. Royal governors came to plunder but found that American planters and merchants could not easily be bossed around. Sir Danvers Osborn, a Briton who was made governor of New York in 1753, was so upset when the New York assembly refused to support him in the style he felt his rank deserved that he asked: “Then what am I come here for?” At which point he hanged himself.

Morton Keller, a history professor at Brandeis University, likes to take the long view. Other chroniclers of American history talk of “ages” (Reform, Gilded, Jazz etc) that lasted no more than a decade or so. Mr Keller sees continuity where others see helter-skelter change.

“Americans like to think of themselves as a people eternally young. But the reality of our public life is very different,” he writes. The constitution, rarely amended, is nearly a quarter of a millennium old. America's legal system and political parties are among the most durable anywhere. Even in the revolution against King George and his pesky emissaries, Mr Keller sees not a clear-cut break with the past but “the product of nearly two centuries of colonial experience”, in which the settlers took old-world ideas of liberty and expanded them.

America's Three Regimes: A New Political History
By Morton Keller



Oxford University Press; 384 pages; $27.95 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Keller has somehow crammed the entire political history of the United States, from the first colonists until nearly the end of George Bush's presidency, into a single slim volume. He is breezy without being glib, and original without being eccentric. He divides American history into three regimes (as in *ancien régime*): “Deferential-republican”, running from early colonial times until the 1820s; “Party-democratic”, from the 1830s to the 1930s; and “Populist-bureaucratic”, from the 1930s on.

In the first regime, Americans clung to European notions of hierarchy even as they created a new and—for the time—unusually democratic form of government. Ambitious young men during this period, such as George Washington and Alexander Hamilton, adopted the manners of the elite. Hamilton even fought a duel. This was an aristocratic pastime, but as Mr Keller observes, America democratised it somewhat—Hamilton's opponent came from snootier stock and would never have fought him had they both lived in Europe.

In the second regime, the franchise expanded and politicians started to boast of having been born in log cabins. Mr Keller marvels that the two-party system survived such upheavals as the civil war and the industrial revolution. The parties may have changed their names, policies and regional appeals, but somehow there have always been two big ones vying closely for votes. Regular elections for a great multitude of offices have bred politicians acutely sensitive to the things that people want—including the bad things, such as slavery and segregation.

America's decentralised system and multiple checks and balances have long ensured that no single faction can monopolise power. But since the Depression and Franklin Roosevelt's New Deal, the power of the federal government has expanded at a gallop. This is Mr Keller's third regime. Books have been written about the so-called imperial presidency, the imperial Congress and the imperial judiciary. Why, Mr Keller wonders, has none yet been written with the title “The Imperial Bureaucracy”?

Even if you don't find the idea of Mr Keller's three regimes illuminating, his book is. Never misty-eyed, he keeps finding the right anecdote to support his view of American exceptionalism. He quotes Napoleon's memoirs to show how deeply the Frenchman admired Washington and how utterly baffled he was by his voluntary relinquishment of power. “I could only be a crowned Washington,” mused Bonaparte. Another gem: the first British census, in 1801, was to find out how many men were available for conscription; the first American census, 11 years earlier, was to count people so that they could be more fairly represented in government.

His conclusion is that: “This is still a Republic worth keeping, with a polity capable of doing the job.” Despite the waste and folly of its bureaucracy, despite the slander and polarisation of its election campaigns, America's system of government is extraordinarily robust and flexible. Though everyone grumbles that politicians are out of touch, both Republicans and Democrats in fact respond swiftly to shifts in the national mood. Mr Keller reckons that the biggest challenge facing the two parties is that young voters no longer inherit their parents' political loyalties. In 1984 voters under 30 were the most Republican age group; in 2004 they were the most Democratic. This is surely good: each generation should decide for itself.

Mr Keller has a few annoying habits. He assumes his readers know more than perhaps they do. He often says “venerable” when he means “old”. But overall, his book is a feast to enjoy.

America's Three Regimes: A New Political History.
By Morton Keller.
Oxford University Press; 384 pages; $27.95 and £16.99

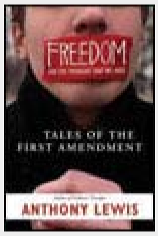
Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

American history 2

Towards perfect freedom

Jan 10th 2008
From The Economist print edition

Freedom for the Thought That We Hate: A Biography of the First Amendment
By Anthony Lewis



Basic Books; 224 pages; $25 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

POLITICAL or artistic expression—be it hateful, subversive or shocking—is almost unfettered in the American marketplace of ideas. This freedom is usually ascribed to the First Amendment to the constitution which commands Congress to "make no law...abridging the freedom of speech, or of the press." However, those 12 words are less than the entire explanation. The path from the amendment to the current situation, in which there is almost no legal restriction on speech, was far from straightforward.

Just seven years after the ratification of the First Amendment in 1791, Congress enacted the Sedition Act making it a crime to bring "into contempt or disrepute" the government, either House of Congress or the president, "or to excite against them...the hatred of the good people of the United States." Passed to defend America against the imagined threat of Jacobean terror and the guillotine, its true purpose was to suppress support for Thomas Jefferson in the run-up to the election of 1800. Trials presided over by Supreme Court justices ended with criminal sentences. One victim was a congressman.

James Madison, often considered the father of the constitution, presciently wrote: "Perhaps it is a universal truth that the loss of liberty at home is to be charged to provisions against danger, real or pretended, from abroad." Hundreds were prosecuted for criticising American participation in the first world war. After the second world war, left-wingers were jailed for conspiring to teach or advocate communism. More recently, in December 2001, the then attorney-general, John Ashcroft, testified before the Senate that those who scare "peace-loving" Americans with "phantoms of lost liberty" were only aiding terrorists.

When the *New York Times* disclosed in 2005 that the president had, without a warrant, secretly ordered the wiretapping of Americans' international telephone calls (in violation of a criminal statute), the newspaper's journalists were threatened with prosecution for espionage. But by this time the national mood had moved on and the threats were never carried out.

How it all ballooned

As Anthony Lewis, who trained in law and is a veteran writer for the *New York Times*, demonstrates, the slowly expanding scope of the First Amendment was the result of the interaction of politicians' thoughts, judges' attitudes and public opinion. Although the Supreme Court first ruled that a state law violated the amendment in 1931, it was not until 1965 that a federal law was similarly overturned.

Until 1964, libel had been considered outside the protection of the constitution. But that year, in the case of *New York Times Co v Sullivan*, the Supreme Court issued a ruling that made it virtually impossible for a government official to prevail in a defamation action. Later the ruling was expanded to cover all public figures.

Mr Lewis does a remarkable job of presenting the history and scope of freedom of thought. He writes simply without oversimplifying. Unlike many journalists, he recognises that some press claims can be absurd and that the right to speak freely can be in conflict with equally basic rights, such as the right to privacy or to justice. For instance, he remains unpersuaded that there is any valid reason for requiring an actress to overcome the same obstacles as a politician if she sues for libel after having been subjected to a sensational and false newspaper report. What, asks Mr Lewis, do such obstacles placed in the path of a libelled actress have to do with the core value of the First Amendment: the right to criticise government officials?

He is unsympathetic to the position espoused by the *Washington Post*, which argued that a reporter who wrote about an eight-year-old heroin addict could withhold information from the police. And he argues that America should be able to punish speech that urges terrorist violence before an audience, some of whose members might act on the exhortation.

Mr Lewis has produced a concise and wise book. His conclusions are well worth pondering.

Freedom for the Thought That We Hate: A Biography of the First Amendment.
By Anthony Lewis.
Basic Books; 224 pages; $25 and £14.99

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BOOKS & ARTS

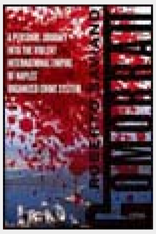
The Mafia in Naples

Gangsters go global

Jan 10th 2008
From The Economist print edition

CONVENTIONAL wisdom has it that Italy's economy is failing, in part because it cannot produce corporations big enough to compete internationally. “Gomorrah” is a useful corrective to that view.

Gomorrah: A Personal Journey into the Violent International Empire of Naples' Organized Crime System
By Roberto Saviano. Translated by Virginia Jewiss



Farrar, Straus and Giroux; 320 pages; $25. Macmillan; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Roberto Saviano demonstrates that the Camorra, the Naples Mafia which provides the word-play for his book's title, is doing just fine in the globalised economy. Once a web of mobsters whose most international activity was smuggling cigarettes, the Camorra eases uninspected Chinese goods into Europe and provides loans at usurious rates to the sweatshops that produce many of the elegant garments Italy sells abroad. It imports arms from eastern Europe and exports them to Basque guerrillas. Its various clans launder money through businesses scattered from Taiwan to Brno, from Miami Beach, Florida, to Five Dock, New South Wales.

Mr Saviano believes in smelling “the hot breath of reality”. By getting to the scene of killings before the police have a chance to clear away the gore, by riding his scooter for hours round the open-air drug supermarket in Secondigliano, even talking to young Camorra recruits, he has produced one of the most enthralling and disturbing books written on organised crime. He takes his readers to a world where teenage gangsters are inducted by being shot at in bulletproof vests; where the female bodyguards of a woman mobster wear sunglasses and T-shirts of the same yellow as Uma Thurman's outfit in the film “Kill Bill”. He describes the “submarines”—so-called because of their invisibility—who run the Camorra's extensive welfare system. And he records a telephone conversation in which two mobsters calmly discuss the date for a torture session.

It is as close to the Camorra as most readers will want to get. By going there himself, Mr Saviano has written a book that has so far sold 750,000 copies in Italy alone. He has also earned himself death threats and a round-the-clock police escort. Like a lot of young Italians (he is 28) brought up on an intellectual diet of Catholicism and Marxism, he sees liberalism as more of a threat than an opportunity. “The logic of criminal business coincides with the most aggressive neoliberalism,” he claims. But it doesn't. Liberalism aspires to free competition; gangsters build cartels.

Occasionally, too, Mr Saviano's passion can lead him to assertions that are more convenient than proven. He claims primacy for the Camorra among Italy's five Mafias. Few policemen or prosecutors would concur; most believe that the Calabrian version is even more dangerous. The author's style is a little rich for easy digestion and the translation is over-literal.

But the great value of “Gomorrah” is to highlight two points: the power and wealth that southern Italy's Mafias have accumulated in recent years, and the fact that their globalisation makes them an issue of concern for us all. His description of the effects of gang war on ordinary people (“Women stop wearing high heels—too hard to run in them”) is masterly. His final chapter, set in the apocalyptic wilderness of the Camorra's smouldering waste dumps, is inspired—and prescient, as the garbage crisis in Naples unfolds.

Gomorrah: A Personal Journey into the Violent International Empire of Naples' Organized Crime System.
By Roberto Saviano. Translated by Virginia Jewiss.
Farrar, Straus and Giroux; 320 pages; $25.
Macmillan; £16.99

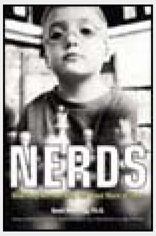
Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

American kids

In praise of nerds

Jan 10th 2008
From The Economist print edition

Nerds: Who They Are and Why We Need More of Them
By David Anderegg



Tarcher; 288 pages; $24.95 and £17.99

Buy it at
Amazon.com
Amazon.co.uk

“AND then, just to show them, I'll sail to Ka-Troo, and bring back an It-Kutch, a Preep, and a Proo, a Nerkle, a Nerd, and a Seersucker, too!” That typically nifty passage comes from Dr Seuss's “If I Ran the Zoo”. The book was published in 1950 and contains the first use of the word “nerd”. How very unfortunate that Dr Seuss, whose verbal pyrotechnics have given so much pleasure to so many children, should also have given them, however innocently, the ghastly label “nerd”.

The precise meaning of the word (in its post-Seuss sense) is hard to pin down, as David Anderegg, a child psychologist and academic, argues in this thoughtful and warmly sympathetic book. It denotes a bundle of different qualities: “some combination of school success, interest in precision, unselfconsciousness, closeness to adults and interest in fantasy.”

But the word is no less powerful for its vagueness. Children intuitively understand what a nerd is, with terrible clarity. The bottom line, Mr Anderegg reckons, is that American kids grow up knowing that “nerds are bad and jocks are good”. (His focus is exclusively American: in many other countries academically high-achieving children are revered by their peers.) And this matters because these stereotypes become the basis for choices that children make about their identity and future.

Striving to do badly

Mr Anderegg draws on scores of interviews with his young patients to show what being called a nerd can do to a child. Some are driven to despair or suicide. But most cope by bending to peer pressure. “The kids who will really be hurt by the nerd/geek stereotypes are the kids who will shut down parts of themselves in order to fit in.” When these bright children start switching off their own lights to avoid being branded nerds, it is bad news for everyone—and for the economy. Mr Anderegg points to declining school performance and college enrolment in science subjects in America, and to the fact that employers in certain fields are now having to look abroad to find the best graduates.

Parents are partly to blame. Jockish parents may teach their children jockish ways. But nerdish parents are often just as culpable. Their indifference or high-mindedness can inadvertently bring misery on their children. Mr Anderegg tells a funny and moving story of one of his patients, a 13-year-old boy whose head-in-the-clouds parents sent him off to school every day in tracksuit bottoms, even though all the other children wore jeans. As a result he was ridiculed as a nerd. Mr Anderegg recalls how difficult it was to persuade the parents to consider buying their son a pair of jeans. Why should we, they scoffed. We love him as he is. Do we want to teach him that if other kids make fun of your appearance, you should change it? In the end, they were glad to be proved wrong. The boy got his jeans and the bullying stopped.

Mr Anderegg concludes with some practical tips for parents. The best he can offer by way of consolation is to point out that things usually get easier for nerdish children as they get older. Eventually, most of us work out that nerdiness tends to go hand-in-hand with higher-than-average levels of curiosity, creativity and enthusiasm. As such, nerds are not merely admirable but attractive. Nerds are cool.

Nerds: Who They Are and Why We Need More of Them.
By David Anderegg.
Tarcher; 288 pages; $24.95 and £17.99

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Medieval ivories

Pause as you pass

Jan 10th 2008
From The Economist print edition

Ivories on show in London before they leave to live in Canada

IN THIS era of eye-blink attention spans, collecting medieval ivories—the passion for more than 40 years of the late Kenneth Thomson, the 2nd Baron Thomson of Fleet—seems contrarian. Yet industrialists and financiers have fancied such objects, many intended for religious contemplation, since J.P. Morgan and before.

Visitors to London's Courtauld Gallery, where 42 medieval ivories from Lord Thomson's collection of 75 are on view, will discover the allure of these often beautiful and always technically masterly works of art. Provided, that is, that the visitor stands still. These creamy white objects are relatively small: the usable material from African elephant tusks, of which most are made, is seldom much more than 15cm (six inches) in diameter.

The ivories arrived at the Courtauld last September to be catalogued by its outstanding medievalist, Professor John Lowden. This prompted the present show. It is a rare chance to see the carvings before they, along with the rest of Lord Thomson's 2,000-strong collection (including European and Canadian paintings, Inuit sculpture and medieval metalwork), enter the collection of the Art Gallery of Ontario when its new wing, designed by Frank Gehry, opens this autumn.

Mr Lowden has designed the Courtauld exhibition to encourage people to "look carefully and then think about why things are similar and why they are different." Instead of grouping these anonymous carvings by country of origin (which is difficult to determine with certainty because craftsmen and tusks travelled to wherever commissions were plentiful), or date of creation (everything on view was made between the 13th and 15th centuries), Mr Lowden has gathered together objects of the same kind. There are Virgin and Child altar-statues; such personal treasures as combs, caskets and mirror cases carved with themes related to courtly romances; memento mori skulls and heads; biblical narratives. In this last group are the show's two stars.

The Dormeuil diptych, not seen in public since 1913, and named for the three-generation collecting family that used to own it, sold in November at Sotheby's for more than €4m (just under $6m)—a world auction record for a medieval ivory. It was bought by David Thomson, who added it to his father's collection. At 24.75cm by 31.4cm overall, this Passion diptych, made in Paris circa 1350, is the largest known example of the genre. Each hinged leaf is divided into three tiers packed with carefully observed and finely carved figures, from the delicately treading donkey Christ rides towards Jerusalem to an unnervingly jaunty chap prodding Christ on the cross.

In Mr Lowden's opinion, the Nativity and Last Judgment diptych is even more exceptional though it was bought in October 2005 for a mere €6,000. The low price reflected the long-held view that it was an early 19th-century fake. (Fakes are not uncommon: demand for medieval ivories was so great in the 19th century that carvers augmented the supply.) But, says Mr Lowden, "There are two kinds of fakes: those not good enough to have been done by medieval carvers and those too good to be true." The Nativity and Last Judgment was in the second category. It was suspect because it was perfect technically and because it was unique. In the middle ages, tradition not originality was prized.

Mr Lowden had a hunch, however, and carbon-14 analysis supported it. The tusk dates from between 1030 and 1220. Next, his aesthetically acute forensic skills led him to works of undisputed authenticity with a number of similarities to this one, from the rolled cuffs on shepherds' sleeves to the positioning of Christ's hands. He has now dated it at 1300.

The study of the diptych was not undertaken with this aim but its conclusions vindicate Lord Thomson's approach. "Ken Thomson was unlikely to be swayed by the information offered either by art historians or dealers," says Sam Fogg, a London dealer. "He chose works of art on the basis of how he himself responded to the object...To build a collection like this is dangerous unless you have a good eye. He had a very good one.”

“Medieval Ivories from the Thomson Collection” is at the Courtauld Gallery, London, from January 10th until March 9th

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

George MacDonald Fraser

Jan 10th 2008
From The Economist print edition

Rex Features

George MacDonald Fraser, inventor of Flashman, died on January 2nd, aged 82

HARRY FLASHMAN never knew George MacDonald Fraser. That was a pity, because Mr Fraser knew every scrap about Flashman, from the points of his swaggering moustaches to the tips of his gleaming spurs. He knew him as a scoundrel, a liar, a cheat, a thief, a coward and, not least, a toady, ever able to make himself shine in the eyes of his braying superiors. And he revelled in him as perhaps the finest fictional rogue ever to grace the map of the British empire.

Mr Fraser had known him from the start of his career, when he was dragged bragging and hiccupping from the pages of "Tom Brown's Schooldays" and pitchforked out of Rugby; and he had followed him, like some devoted batman, through all his military campaigns, from Afghanistan to South Africa to the Indian wars. He had seen him frozen in a blanket in a corpse-strewn defile on the retreat from Kabul in 1842; almost split neatly in two by a grinning Chinaman in a top-knot while running guns down the Yangtse in 1860; struggling in an Indian swamp, after the great ghat massacre at Cawnpore, with what looked like man-eating crocodiles; and charging, by accident, for the Russian guns at Balaclava. As Flashman accumulated the tinware—the Victoria Cross, the Queen's Medal, the San Serafino Order of Purity and Truth ("richly deserved"), both he and Mr Fraser knew it was sheer terror that propelled him, *delirium funkens*, plus a large measure of luck. The great hero of Jallalabad was, in fact, "yellow as yesterday's custard". But he always emerged in splendour.

And with women. Every Flashman novel writhed with them, preferably all bum, belly and bust, giggling and bouncing at the prospect of an officer "who had raked and ridden harder than most". After the beauteous Fetnab (who "knew the ninety-seven ways of love...though...the seventy-fourth position turns out to be the same as the seventy-third, but with your fingers crossed"), came Lola Montez and Cassie and Susie the Bawd; and, finest of all, the Indian princess Lakshmibai, her "splendid golden nakedness" dressed in no more than bangles and a tiny veil. It was a serious disaster that could interrupt the tumbling for any long period of time.

Packed in a tea-chest

Mr Fraser had seen service too, far more soberly, with the Gordon Highlanders in Africa and the Fourteenth Army in Burma. He knew what it was like to be pinged by Japanese sniper fire, and had the medals to prove it. His own wartime adventures led him to write other stories about Private John McAuslan, "the dirtiest soldier in the world"—though his own particular cock-ups got him regularly demoted and not, like Flashman, moved smoothly from colonel to general. But, just like Flashman, he was sure there was little glory in war. Fighting was a job to be done, often reluctantly, with simple application and dogged common sense. As for the military virtues, “the best thing you can do with 'em is hang them on the wall in Bedlam.”

This was why there was no man better than Mr Fraser to stumble on the Flashman story. It began with his “discovery”, in 1965, of a batch of memoirs wrapped in oilskins and packed in a tea-chest in Ashby-de-la-Zouch, in Leicestershire. The first Flashman novel, written in a feverish 90 hours to get him out of a financial hole, was followed by 11 others and could have led to more, for Mr Fraser had never got started on the American Civil War. He brought his journalist's and historian's eye to bear on the “papers”, adding footnotes to correct Flashman's Arabic, adjust his dates and allow for possible unfairness to the fools and incompetents who commanded him. Generally, however, he found Flashman an impressively accurate observer. Between them they made the stories so good that some Americans thought they were real.

Would Flashman have liked him, had they met? Mr Fraser was a Scot, of course, solidly and loudly so, and Flashman had no love for Scotland. He found it (on his visits to Balmoral to the girlish Queen Victoria, all popeyes and buck teeth but “pretty enough beneath the neck”) a place of gloom and drizzle and long-faced holiness. He preferred Indian heat and sun. But Mr Fraser was a devoted son of the borders, born in Carlisle and writing both fact and fiction about the ruffian-reivers and cattle-stealers of the region: men who, in their shameless venturing and whoring and disrespect for law, were quite a lot like old Flashy, except that they were brave.

Flashman's more blatant chauvinism (“I pulled her across my knees and smartened her up with my riding switch”) and his racism (jabbering blacks and lounging sepoys would soon feel the smart of his rifle) were sometimes laid at Mr Fraser's door. But his own views were more moderately right-wing, extending to a liking for law and order and a horror of the metric system. And though he and Flashman between them seemed intent on savagely satirising the whole British imperial enterprise, the truth was more complicated. The novels illustrated both the folly of war and the unsung, unregarded heroism of the lower orders, the actual builders of the empire. In their sharp-sightedness, if not much else, here were two men who could clasp each other appreciatively by the hand.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jan 10th 2008
From The Economist print edition

The unemployment rate in **America** jumped from 4.7% to 5% in December. American employers, excluding farms, added just 18,000 workers to their payrolls in December, the smallest increase since August 2003. Government hiring more than accounted for the rise: private-sector payrolls fell by 13,000. Existing-home sales that are agreed on, but not yet completed, fell by 2.6% in November, after a 3.7% rise in October.

The **euro zone's** high inflation persisted at the end of last year. Consumer prices rose by 3.1% in the year to December, the same rate as in November, according to provisional figures. The average inflation in 2007 was 2.1%, just above the European Central Bank's desired 2% ceiling. The currency zone's unemployment rate was stable, at 7.2% in November. GDP rose by 0.8% in the third quarter, fractionally revised up.

In **Britain** the number of mortgages advanced for home purchases fell to 83,000 in November, the lowest total since January 2005 and more than a third below the level a year earlier.

Mexico's core measure of consumer prices, which excludes fresh-food and energy costs, rose by 4% in the year to December, the highest 12-month rise since May 2002.

The **outlook for 2008** is still darkening, according to *The Economist*'s monthly poll of economists (see article). Forecasts for GDP growth in America and the euro area were written back again this month. Worryingly, inflation forecasts are moving in the opposite direction.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Output, prices and jobs

Jan 10th 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	+2.8 Q3	+4.9	+1.8	+2.6	+2.1 Nov	+4.3 Nov	+2.0	+2.8	5.0 Dec
Japan	+1.9 Q3	+1.5	+1.4	+1.9	+2.9 Nov	+0.6 Nov	+0.3	+0.3	3.8 Nov
China	+11.5 Q3	na	+10.1	+9.6	+17.3 Nov	+6.9 Nov	+1.9	+3.5	9.5 2007
Britain	+3.3 Q3	+2.7	+1.9	+2.2	+1.0 Oct	+2.1 Nov§	+2.7	+2.1	5.3 Oct††
Canada	+2.9 Q3	+2.9	+1.9	+2.5	+0.8 Oct	+2.5 Nov	+1.4	+1.9	5.9 Nov
Euro area	+2.7 Q3	+2.8	+1.8	+2.0	+3.8 Oct	+3.1 Dec	+1.9	+2.3	7.2 Nov
Austria	+3.3 Q3	+3.0	+2.6	+2.6	−0.8 Oct	+3.1 Nov	+1.6	+2.1	4.3 Nov
Belgium	+2.6 Q3	+2.2	+2.0	+2.0	+0.6 Oct	+3.1 Dec	+1.6	+2.0	10.7 Nov‡‡
France	+2.2 Q3	+3.2	+1.8	+2.0	+2.5 Nov	+2.4 Nov	+1.4	+2.0	7.9 Q3§§
Germany	+2.5 Q3	+2.8	+1.9	+2.1	+3.5 Nov	+2.8 Dec	+1.4	+2.1	8.4 Dec
Greece	+3.8 Q3	+3.6	+2.9	+2.5	+3.6 Nov	+3.9 Nov	+2.9	+3.0	8.3 Sep
Italy	+1.9 Q3	+1.7	+1.3	+1.5	−1.5 Oct	+2.6 Dec	+1.9	+2.3	5.9 Q3
Netherlands	+4.2 Q3	+7.5	+2.1	+2.2	+2.3 Oct	+1.9 Dec	+1.3	+2.0	4.2 Nov††
Spain	+3.8 Q3	+2.9	+2.4	+2.3	−0.6 Nov	+4.3 Dec	+2.7	+3.1	8.2 Nov
Czech Republic	+6.0 Q3	+5.8	+4.8	+5.3	+8.4 Oct	+5.4 Dec	+1.7	+5.4	6.0 Dec
Denmark	+1.8 Q3	+5.3	+1.6	+1.7	−0.8 Oct	+2.3 Dec	+1.8	+2.0	2.8 Nov
Hungary	+1.0 Q3	+1.2	+3.0	+3.7	+5.5 Nov	+7.1 Nov	+6.4	+4.5	7.5 Nov††
Norway	+3.1 Q3	+5.6	+2.9	+2.6	+2.0 Nov	+2.8 Dec	+2.2	+2.2	2.5 Oct
Poland	+6.4 Q3	na	+5.2	+4.4	+8.3 Nov	+3.6 Nov	+1.4	+3.3	11.2 Nov‡‡
Russia	+7.6 Q3	na	+6.7	+5.7	+4.7 Nov	+11.9 Dec	+9.0	+11.5	5.8 Oct‡‡
Sweden	+2.5 Q3	+2.4	+2.7	+2.6	+4.2 Nov	+3.3 Nov	+1.7	+2.6	5.2 Nov‡‡
Switzerland	+2.9 Q3	+1.3	+2.0	+2.0	+10.7 Q3	+2.0 Dec	+0.6	+1.4	2.6 Dec
Turkey	+1.5 Q3	na	+3.8	+5.2	+7.7 Nov	+8.4 Dec	+9.7	+8.1	9.2 Q3‡‡
Australia	+4.3 Q3	+4.1	+3.6	+3.4	+4.6 Q2	+1.9 Q3	+3.9	+3.2	4.5 Nov
Hong Kong	+6.2 Q3	+7.0	+4.8	+5.7	−2.1 Q3	+3.4 Nov	+2.2	+3.6	3.6 Nov††
India	+8.9 Q3	na	+7.7	+7.2	+11.8 Oct	+5.5 Nov	+6.3	+6.1	7.2 2007
Indonesia	+6.5 Q3	na	+6.1	+5.7	+8.3 Oct	+6.6 Dec	+6.6	+6.2	9.8 Feb
Malaysia	+6.7 Q3	na	+5.7	+5.8	+2.7 Nov	+2.3 Nov	+3.0	+2.5	3.1 Q3
Pakistan	+7.0 2007**	na	+5.4	+5.5	+9.8 Oct	+8.7 Nov	+8.1	+7.9	6.2 2006††
Singapore	+6.0 Q4	−3.2	+4.8	+4.7	−1.5 Nov	+4.2 Nov	+0.5	+2.4	1.7 Q3
South Korea	+5.2 Q3	+5.4	+4.7	+4.7	+10.8 Nov	+3.6 Dec	+2.1	+2.5	3.2 Nov
Taiwan	+6.9 Q3	na	+4.6	+3.9	+11.1 Nov	+3.3 Dec	+0.7	+2.0	3.9 Nov
Thailand	+4.9 Q3	+6.3	+5.0	+4.5	+10.8 Oct	+3.2 Dec	+3.5	+3.0	1.2 Sep
Argentina	+8.7 Q3	+11.7	+6.0	+4.8	+8.3 Nov	+8.5 Dec	+9.8	+11.6	8.1 Q3‡‡
Brazil	+5.7 Q3	+6.9	+4.5	+4.1	+6.7 Nov	+4.2 Nov	+3.0	+4.0	8.2 Nov‡‡
Chile	+4.1 Q3	−2.5	+4.6	+5.1	+4.2 Nov	+7.8 Dec	+2.6	+4.3	7.3 Nov††‡‡
Colombia	+6.6 Q3	+6.9	+5.5	+4.4	+8.3 Oct	+5.7 Dec	+4.5	+4.7	9.4 Nov‡‡
Mexico	+3.7 Q3	+5.9	+2.8	+3.5	+3.0 Oct	+3.8 Dec	+4.1	+3.8	3.5 Nov‡‡
Venezuela	+8.7 Q3	na	+5.1	+3.9	+2.7 Sep	+22.5 Dec	+17.0	+19.8	8.5 Q3‡‡
Egypt	+6.9 Q3	na	+7.3	+6.6	+7.5 2007**	+6.9 Nov	+12.1	+7.5	8.8 Q3‡‡
Israel	+4.8 Q3	+6.1	+4.3	+4.6	+6.9 Oct	+2.8 Nov	−0.3	+2.4	7.3 Q3
Saudi Arabia	+4.3 2006	na	+6.0	+5.6	na	+5.4 Oct	+2.7	+4.2	na
South Africa	+5.1 Q3	+4.7	+5.1	+5.4	+5.2 Oct	+8.4 Nov	+5.4	+6.6	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+6.4 Q3	+7.4	+4.3	+4.7	+4.4 Nov	+9.6 Dec	+5.1	+8.2	5.4 Oct
Finland	+4.1 Q3	+3.0	+3.2	+2.8	−1.4 Nov	+2.9 Nov	+2.1	+2.2	6.8 Nov
Iceland	+4.3 Q3	+9.9	+2.3	+3.0	+7.6 2006	+5.9 Dec	+7.0	+4.6	0.8 Nov‡‡
Ireland	+4.1 Q3	+5.6	+3.5	+3.4	+10.2 Oct	+5.0 Nov	+4.4	+3.0	4.6 Nov
Latvia	+10.9 Q3	na	+7.5	+6.5	−1.6 Oct	+13.7 Nov	+6.4	+9.0	5.0 Oct
Lithuania	+10.8 Q3	+10.0	+7.4	+6.5	na	+8.1 Dec	+4.5	+6.4	4.3 Dec
Luxembourg	+5.3 Q2	+5.3	+4.3	+4.6	−1.3 Oct	+3.4 Dec	+2.3	+2.2	4.4 Nov‡‡
New Zealand	+3.4 Q3	+1.1	+2.3	+2.7	+0.5 Q2	+1.8 Q3	+3.5	+2.6	3.5 Q3
Peru	+10.4 Oct	na	+6.9	+7.0	+14.2 Oct	+3.9 Dec	+1.1	+2.4	8.0 Nov‡‡
Philippines	+6.6 Q3	+1.1	+5.0	+5.4	−1.7 Oct	+3.9 Dec	+4.3	+3.4	6.3 Q4‡‡
Portugal	+1.8 Q3	−0.1	+2.0	+2.2	−1.6 Nov	+2.8 Nov	+2.4	+2.0	7.9 Q3‡‡
Slovakia	+9.4 Q3	na	+7.0	+5.7	+13.2 Nov	+3.1 Nov	+4.3	+2.5	7.8 Nov‡‡
Slovenia	+6.3 Q3	na	+4.8	+4.0	+10.9 Oct	+5.6 Dec	+2.8	+3.4	7.4 Oct‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.3% in Nov. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity-price index

Jan 10th 2008
From The Economist print edition

The Economist commodity-price index
2000=100

	Jan 1st	Jan 8th*	% change on one month	% change on one year
Dollar index				
All items	218.4	227.2	+5.5	+28.4
Food	216.0	223.7	+6.1	+49.0
Industrials				
All	221.5	231.6	+4.7	+9.4
Nfa†	180.2	181.5	+2.9	+22.9
Metals	244.2	259.0	+5.5	+5.1
Sterling index				
All items	166.4	174.5	+9.0	+26.3
Euro index				
All items	138.2	142.8	+5.4	+13.5
Gold				
$ per oz	836.15	874.55	+8.1	+43.6
West Texas Intermediate				
$ per barrel	95.99	96.50	+8.0	+73.7

*Provisional †Non-food agriculturals.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist poll of forecasters, January averages

Jan 10th 2008
From The Economist print edition

The Economist poll of forecasters, January averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2008	2009	2008	2009	2008	2009	2008	2009
Australia	3.2/4.5	2.8/4.3	3.6 (3.5)	3.4	3.2 (3.0)	2.7	-5.4 (-5.6)	-5.3
Belgium	1.7/2.5	1.9/2.4	2.0	2.0	2.0	1.8	2.3	2.1
Britain	1.5/2.1	1.9/2.5	1.9 (2.0)	2.2	2.1 (2.0)	2.0	-3.4 (-3.2)	-3.1
Canada	0.4/2.5	2.2/2.9	1.9 (2.0)	2.5	1.9	2.0	0.4 (0.7)	0.1
France	1.3/2.3	1.5/2.2	1.8	2.0	2.0 (1.9)	1.8	-1.3	-1.5
Germany	1.5/2.5	1.8/2.4	1.9 (2.0)	2.1	2.1 (1.9)	1.7	5.6 (5.5)	5.6
Italy	0.8/1.8	1.3/2.1	1.3	1.5	2.3 (2.1)	2.0	-2.4 (-2.3)	-2.3
Japan	0.9/1.9	1.3/2.4	1.4 (1.7)	1.9	0.3 (0.4)	0.5	4.8	5.0
Netherlands	1.5/2.7	1.9/2.6	2.1 (2.2)	2.2	2.0 (2.1)	2.1	7.6 (7.3)	7.1
Spain	2.0/3.0	0.9/3.0	2.4 (2.5)	2.3	3.1 (3.0)	2.7	-8.9 (-8.8)	-8.1
Sweden	2.3/3.3	2.2/3.1	2.7 (2.9)	2.6	2.6 (2.2)	2.2	6.4 (6.7)	6.7
Switzerland	1.5/2.5	1.8/2.3	2.0	2.0	1.4 (1.3)	1.2	14.7 (15.1)	14.7
United States	0.8/2.3	1.9/3.1	1.8 (2.0)	2.6	2.8 (2.6)	2.2	-4.8 (-5.0)	-4.5
Euro area	1.3/2.4	1.7/2.3	1.8 (1.9)	2.0	2.3 (2.2)	1.9	0.2 (0.1)	0.2

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates, budget balances and interest rates

Jan 10th 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 $ Jan 9th	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	-806.4 Oct	-752.4 Q3	-4.8	-	-	-1.7	3.95	3.78
Japan	+107.6 Oct	+211.3 Oct	+4.8	110	120	-2.5	0.74	1.47
China	+259.8 Nov	+249.9 2006	+10.9	7.26	7.81	0.1	4.46	4.70
Britain	-168.2 Nov	-129.4 Q3	-3.4	0.51	0.52	-3.0	5.71	4.39
Canada	+49.0 Oct	+16.3 Q3	+0.4	1.01	1.18	0.8	3.74	3.88
Euro area	+51.7 Oct	+38.2 Oct	+0.2	0.68	0.77	-0.9	4.60	4.16
Austria	+1.0 Oct	+11.3 Q3	+2.7	0.68	0.77	-0.6	4.60	4.19
Belgium	+19.2 Oct	+13.3 Sep	+2.3	0.68	0.77	-0.4	4.66	4.24
France	-51.7 Nov	-28.3 Oct	-1.3	0.68	0.77	-2.6	4.60	4.19
Germany	+268.1 Nov	+218.0 Nov	+5.6	0.68	0.77	0.8	4.60	4.08
Greece	-52.1 Sep	-43.2 Oct	-12.9	0.68	0.77	-2.5	4.60	4.49
Italy	-12.0 Oct	-42.3 Oct	-2.4	0.68	0.77	-2.7	4.60	4.43
Netherlands	+54.4 Oct	+57.2 Q3	+7.6	0.68	0.77	0.4	4.60	4.17
Spain	-128.7 Oct	-126.1 Aug	-8.9	0.68	0.77	0.1	4.60	4.24
Czech Republic	+4.1 Nov	-5.4 Oct	-3.6	17.7	21.4	-2.6	3.96	4.53
Denmark	+4.2 Nov	+4.0 Nov	+1.4	5.08	5.76	2.8	4.90	4.18
Hungary	-0.5 Nov	-6.8 Q3	-6.2	174	198	-4.4	7.50	7.07
Norway	+56.3 Nov	+59.9 Q3	+15.3	5.38	6.44	18.0	5.87	4.57
Poland	-11.7 Oct	-16.2 Oct	-4.2	2.46	3.00	-1.9	5.65	5.84
Russia	+124.0 Oct	+73.5 Q3	+4.0	24.5	26.5	1.0	10.00	6.26
Sweden	+18.7 Nov	+29.4 Q3	+6.4	6.42	7.06	2.5	4.10	4.12
Switzerland	+11.8 Nov	+69.6 Q3	+14.7	1.11	1.25	0.6	2.75	2.95
Turkey	-60.8 Nov	-35.2 Oct	-7.1	1.16	1.45	-2.9	16.95	6.10‡
Australia	-17.6 Nov	-49.9 Q3	-5.4	1.13	1.29	1.4	7.14	6.11
Hong Kong	-22.7 Nov	+26.9 Q3	+8.9	7.81	7.80	2.3	3.43	3.16
India	-67.9 Nov	-10.9 Q3	-2.0	39.3	44.6	-3.3	7.00	7.92
Indonesia	+40.3 Nov	+10.3 Q3	+1.9	9,440	9,080	-1.8	8.29	6.81‡
Malaysia	+29.9 Nov	+28.7 Q3	+11.3	3.27	3.52	-3.0	3.62	4.16‡
Pakistan	-15.2 Nov	-7.3 Q3	-6.4	62.5	61.0	-5.0	9.90	10.77‡
Singapore	+35.8 Nov	+46.3 Q3	+21.2	1.43	1.54	0.1	1.81	2.41
South Korea	+15.3 Dec	+7.2 Nov	+0.6	937	938	0.3	5.85	5.94
Taiwan	+16.7 Dec	+28.4 Q3	+5.9	32.5	32.7	-2.0	2.60	2.64
Thailand	+11.0 Nov	+14.4 Nov	+1.3	33.2	36.0	-2.0	3.75	4.48
Argentina	+10.8 Nov	+6.8 Q3	+1.9	3.13	3.08	1.1	13.69	na
Brazil	+40.0 Dec	+4.7 Nov	+0.1	1.77	2.15	-2.5	11.17	6.16‡
Chile	+24.5 Dec	+6.7 Q3	+4.0	486	542	5.5	6.72	4.25‡
Colombia	-1.8 Sep	-5.2 Q3	-3.8	2,004	2,248	-1.3	8.95	5.87‡
Mexico	-11.2 Nov	-7.5 Q3	-1.8	10.9	11.0	nil	7.42	8.18
Venezuela	+23.4 Q3	+20.2 Q3	+6.9	6.65	3,700§	-2.6	12.88	6.55‡
Egypt	-15.8 Q2	+2.7 Q2	+0.7	5.48	5.70	-6.9	6.78	5.24‡
Israel	-9.7 Nov	+5.9 Q3	+3.1	3.79	4.25	-1.4	4.35	5.55
Saudi Arabia	+146.6 2006	+98.9 2006	+23.9	3.75	3.75	22.4	4.03	na
South Africa	-10.0 Nov	-19.9 Q3	-7.5	6.87	7.33	0.6	11.40	8.53
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	-4.2 Oct	-3.2 Oct	-13.7	10.7	12.1	1.3	7.23	na
Finland	+12.7 Oct	+14.2 Oct	+4.7	0.68	0.77	3.0	4.48	4.18
Iceland	-1.6 Dec	-3.0 Q3	-11.0	63.3	73.0	3.9	14.13	na
Ireland	+37.2 Oct	-11.1 Q3	-3.0	0.68	0.77	0.5	4.60	4.26
Latvia	-7.2 Oct	-6.5 Oct	-19.4	0.48	0.54	1.0	8.61	na
Lithuania	-6.9 Nov	-4.6 Oct	-14.2	2.35	2.67	-0.6	5.84	na
Luxembourg	-5.9 Oct	+4.7 Q3	na	0.68	0.77	0.7	4.60	na
New Zealand	-4.2 Nov	-10.2 Q3	-7.9	0.77	1.46	3.8	7.30	6.25
Peru	+8.6 Oct	+2.2 Q3	+1.3	0.34	3.19	0.5	5.00	na
Philippines	-4.3 Oct	+5.8 Sep	+6.0	40.6	48.9	-0.5	6.13	na
Portugal	-24.7 Oct	-18.6 Oct	-8.2	0.68	0.77	-2.6	4.60	4.35
Slovakia	-0.9 Oct	-3.5 Sep	-3.1	22.7	26.7	-2.5	4.10	4.56
Slovenia	-2.8 Nov	-1.8 Oct	-2.5	0.68	0.77	-0.8	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.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Markets

Jan 10th 2008
From The Economist print edition

Markets

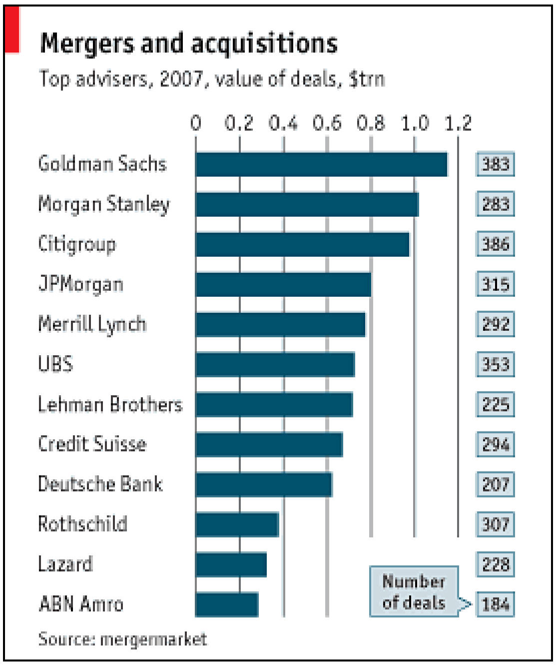
	Index Jan 9th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,735.3	-2.4	+2.2	+2.2
United States (S&P 500)	1,409.1	-2.6	-0.6	-0.6
United States (NAScomp)	2,474.6	-5.2	+2.5	+2.5
Japan (Nikkei 225)	14,599.2	-4.6	-15.2	-8.0
Japan (Topix)	1,424.3	-3.5	-15.3	-8.0
China (SSEA)	5,704.9	+3.1	+102.7	+116.9
China (SSEB, $ terms)	370.3	+0.9	+166.0	+184.6
Britain (FTSE 100)	6,272.7	-2.2	+0.8	+2.0
Canada (S&P TSX)	13,579.9	-2.5	+5.2	+23.0
Euro area (FTSE Euro 100)	1,326.1	-2.3	+3.7	+15.8
Euro area (DJ STOXX 50)	4,258.3	-1.9	+3.4	+15.4
Austria (ATX)	4,282.4	-5.0	-4.1	+7.1
Belgium (Bel 20)	4,065.3	-1.2	-7.4	+3.4
France (CAC 40)	5,435.4	-2.1	-1.9	+9.5
Germany (DAX)*	7,782.7	-2.1	+18.0	+31.7
Greece (Athex Comp)	5,072.7	-2.6	+15.4	+28.9
Italy (S&P/MIB)	37,321.0	-1.9	-9.9	+0.6
Netherlands (AEX)	491.7	-3.5	-0.7	+10.9
Spain (Madrid SE)	1,574.9	-3.1	+1.3	+13.1
Czech Republic (PX)	1,688.9	-6.6	+6.3	+24.0
Denmark (OMXCB)	422.4	-5.3	-0.4	+11.2
Hungary (BUX)	25,699.1	-0.7	+3.4	+14.4
Norway (OSEAX)	540.9	-5.1	+7.7	+23.8
Poland (WIG)	52,419.1	-5.6	+4.0	+23.0
Russia (RTS, $ terms)	2,296.6	+0.3	+11.0	+19.5
Sweden (Aff.Gen)	315.5	-5.8	-13.6	-7.7
Switzerland (SMI)	8,339.8	-1.7	-5.1	+3.6
Turkey (ISE)	52,730.7	-3.6	+34.8	+63.2
Australia (All Ord.)	6,159.5	-4.3	+9.1	+22.3
Hong Kong (Hang Seng)	27,615.9	+0.2	+38.3	+37.7
India (BSE)	20,869.8	+2.0	+51.4	+69.9
Indonesia (JSX)	2,830.3	+3.6	+56.8	+50.3
Malaysia (KLSE)	1,491.7	+3.9	+36.1	+45.0
Pakistan (KSE)	14,266.4	+6.8	+42.1	+39.8
Singapore (STI)	0.0	-100.0	-100.0	-100.0
South Korea (KOSPI)	1,844.5	-0.5	+28.6	+27.6
Taiwan (TWI)	8,085.1	-2.9	+3.3	+3.8
Thailand (SET)	820.5	-2.7	+20.7	+29.9
Argentina (MERV)	2,089.6	-2.9	nil	-2.6
Brazil (BVSP)	62,673.0	-0.2	+40.9	+70.1
Chile (IGPA)	12,922.1	-6.9	+4.4	+11.6
Colombia (IGBC)	10,360.8	-2.7	-7.2	+3.4
Mexico (IPC)	28,401.6	-1.0	+7.4	+6.7
Venezuela (IBC)	38,120.5	+0.6	-27.0	-63.3
Egypt (Hermes)	96,871.1	+2.8	+58.1	+63.9
Israel (TA-100)	1,113.4	-4.0	+20.8	+32.3
Saudi Arabia (Tadawul)	11,643.2	+6.9	+46.8	+46.7
South Africa (JSE AS)	28,400.8	-3.0	+14.0	+18.1
Europe (FTSEurofirst 300)	1,449.1	-2.6	-2.3	+9.1
World, dev'd (MSCI)	1,529.7	-3.1	+3.1	+3.1
Emerging markets (MSCI)	1,227.0	-0.7	+34.4	+34.4
World, all (MSCI)	389.3	-2.8	+5.8	+5.8
World bonds (Citigroup)	741.5	+0.3	+12.6	+12.6
EMBI+ (JPMorgan)	435.5	+0.3	+6.9	+6.9
Hedge funds (HFRX)	1,316.5	-1.0	+3.2	+3.2
Volatility, US (VIX)	24.1	23.2	11.6	(levels)
CDSs, Eur (iTRAXX)†	61.9	+16.4	+165.4	+196.4
CDSs, N Am (CDX)†	105.3	+15.3	+215.0	+215.0
Carbon trading (EU ETS) €‡	23.8	+3.7	+30.4	+45.6

*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. ‡New series.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Mergers and acquisitions

Jan 10th 2008
From The Economist print edition



Advice on mergers and acquisitions was dominated by American banks in 2007, according to league tables compiled by mergermarket, a research group. Ranked by the total value of deals, last year's five leading advisors included the usual suspects. Goldman Sachs, which advised on deals worth nearly $1.2 trillion, came top yet again. Morgan Stanley and Citigroup came second and third, just as in 2006. Citi advised on the most transactions, a total of 386 deals, and squeezed Goldman into second place, thanks to its lead in smaller but more numerous mergers in Asia. Citi and Morgan Stanley can claim to be the most global M&A outfits, as they are the only banks ranked in the top four in Europe, North America and Asia.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.