The Economist

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Politics this week

May 1st 2008
From The Economist print edition

Reuters

An army parade in Kabul attended by **Afghanistan's** president, Hamid Karzai, and foreign ambassadors was disrupted by Taliban gunmen. Three people were killed. After a long gun-battle two days later the government claimed that the Taliban network involved had been wiped out. See article

Despite continuing vilification in China's official press of the Dalai Lama, the Chinese government announced it would reopen talks with representatives of **Tibet's** exiled spiritual leader.

More than 70 people were killed in **China's** deadliest train crash in more than a decade. The accident happened on the line linking Beijing with the coastal city of Qingdao, which will host the sailing competition during the forthcoming Olympics.

Talks were held in Dubai between Nawaz Sharif and Asif Zardari, leaders of the two largest parties in **Pakistan's** ruling coalition. The coalition is under strain because of disagreement about the future of judges sacked by President Pervez Musharraf.

The rebel soldiers who attacked **Timor-Leste's** prime minister and president in February surrendered. The government denied that it had given them any promise of lenient treatment.

In **Japan**, the ruling Liberal Democratic Party was defeated in an important by-election, which the main opposition Democratic Party of Japan won. Nevertheless, the prime minister, Yasuo Fukuda, carried out his promise to reinstate an unpopular petrol tax. See article

Preparing a stitch-up

Government sources in **Zimbabwe** said that the result of the presidential poll on March 29th would at last be released, but that all sides would have to “verify” it before it was deemed official. Morgan Tsvangirai may be declared the winner of the first round over the incumbent Robert Mugabe but with less than 50% of the vote, thus necessitating a run-off. See article

American forces said they had killed at least 79 **Iraqi** gunmen loyal to a firebrand Shia cleric, Muqtada al-Sadr, for the loss of half a dozen Americans in four days of fighting in eastern Baghdad. Mr Sadr had called for a truce, which many of his fighters plainly ignored.

The leader of al-Qaeda in **Somalia**, Aden Hashi Ayro, was reported to have been killed by an American air raid in a town in the middle of the country.

EPA

Conservatives consolidated their majority in **Iran's** parliament after run-offs for a quarter of the seats. The first round of the election was held in mid-March.

The International Criminal Court at The Hague made public a warrant for the arrest of Bosco Ntaganda, the alleged leader of a rebel group in eastern **Congo**, who is one of four people indicted for war crimes there by the court. The trial of another Congolese rebel leader, Thomas Lubanga Dyilo, is due to start next month.

Castro's agenda

Cuba's president, Raúl Castro, announced that a long-overdue Communist Party congress will be held at the end of next year. He also set up a new executive committee of the party's Politburo, consisting mainly of veteran officials.

Haiti's president, René Préval, named a development banker, Ericq Pierre, as his new prime minister. The previous prime minister was sacked by the parliament last month after food riots that left seven people dead.

In a fierce gun-battle between rival **drug gangs**, 17 people were killed in Tijuana, on Mexico's border with the United States. In a jail in Honduras nine prisoners were hacked to death during a riot by imprisoned gang members. In Colombia police shot dead Victor Manuel Mejía, a suspected drug lord and one of two twin brothers on a list of alleged criminals most wanted by the United States.

Getting clubby

The European Union offered to sign an association agreement with **Serbia**, which is normally a prelude to membership negotiations. The offer came 12 days before a general election in which it is feared that anti-EU nationalists in Serbia will do well.

Austria's government said it would launch a campaign to improve the country's image after it emerged that a 73-year-old man had kept his daughter locked in a basement for 24 years, fathering seven children by her. This horrific tale followed an earlier case, in which a man abducted and held a young girl in a cellar for several years.

Rome elected a former neo-fascist, Gianni Alemanno, as its mayor. His easy defeat of the centre-left candidate led some of his supporters to cry “*Duce! Duce!*” and raise their arms in salute. The right in **Italy** now controls the central government and the two biggest cities, Rome and Milan. See article

Britain's voters went to the polls in local elections, with most interest centred on the race to be mayor of London, between Labour's Ken Livingstone and the Tories' Boris Johnson.

Turkey's parliament voted to soften Article 301 of the penal code, which makes “insulting Turkishness” a crime. Article 301 has been used against hundreds of authors and journalists. The EU praised the vote as “a welcome step forward”.

With friends like these

AP

Barack Obama tried to put more distance between himself and **Jeremiah Wright**, after his former pastor made a series of public remarks in which he stirred up more controversy on race. Mr Obama said he was “outraged” by Mr Wright's views. See article

Howard Dean, the chairman of the Democratic Party, reiterated his call for either Barack Obama or Hillary Clinton to pull out of the **presidential race** in June after the states have held their last primaries. Mr Dean said that carrying the nomination battle to the party's convention in August would cause long-lasting damage.

The Supreme Court upheld Indiana's requirement that voters produce **photo identification** at polling booths. More than 20 states require some form of ID; this is said to deter poor and elderly people, who may not have the right sort of documents, from voting. See article

The Census Bureau estimated that **Hispanics** now make up more than 15% of America's total population.

Business this week

May 1st 2008
From The Economist print edition

The **Federal Reserve** reduced the federal funds rate by one-quarter of a percentage point, to 2%. To help ease the economic pain wrought by the credit crisis, the Fed has brought its key interest rate down from 5.25% in September. It indicated that this cut may be the last in that cycle. See article

Big financial institutions took more measures to replenish their coffers. After a recent $6 billion issue in preferred shares, **Citigroup** launched a $4.5 billion offering of common stock. It has now raised some $40 billion over the past few months. **HBOS**, a British bank, announced a £4 billion ($8 billion) rights issue. Meanwhile, **Deutsche Bank** posted its first quarterly loss in five years, as it took writedowns of *euro*2.7 billion ($4.2 billion), and **Allianz**, a German insurer, said it expects to report a much-reduced profit for the first quarter partly because of credit woes at its Dresdner Bank division.

The candy man

Wrigley, a maker of chewing-gum and mints, accepted a $23 billion takeover from **Mars**, which includes Snickers, M&M's and Uncle Ben's rice among its brands. The combined company will overtake Cadbury Schweppes to become the world's biggest confectioner. The deal was made possible by funding from Warren Buffett. See article

The surge in commodity costs hurt some food companies. **Kraft Foods** said its quarterly net income dropped by 13% compared with a year ago; **Kellogg's** saw its profit dip by 1.9%. But higher grain prices boosted **Archer Daniels Midland**. The agricultural processor's quarterly profit rose by 42% and its revenue increased by 64%.

Kirk Kerkorian revealed that he holds a 4.7% stake in **Ford**, which he wants to increase. The veteran investor is no stranger to America's car-industry boardrooms; he used his (now divested) 10% stake in GM to push for a merger with Renault-Nissan, and tried to buy Chrysler in the 1990s. Both efforts failed. However, Mr Kerkorian is apparently impressed with Ford's restructuring programme. The carmaker made a quarterly profit of $100m and says it should turn an annual profit in 2009.

General Motors reported a net loss of $3.25 billion for the first quarter because of charges that stem in part from its remaining equity in GMAC, a financial-services company. Without the charges the adjusted loss was $350m, but since sales are rising in Asia and Latin America, this was smaller than expected and GM's share price soared.

Continental Airlines decided not to seek a merger with another carrier “at this time”: it had been talking to **United Airlines** about the possibility. Further consolidation in the industry is the subject of much speculation, after the proposed combination of Delta and Northwest.

In a long-awaited decision **Time Warner** said it would spin off its cable-system business. The company is the second-largest cable operator in America but is under pressure to revive its sluggish share price by focusing on its film and television units, such as HBO. It is also pondering options for AOL, its struggling internet division.

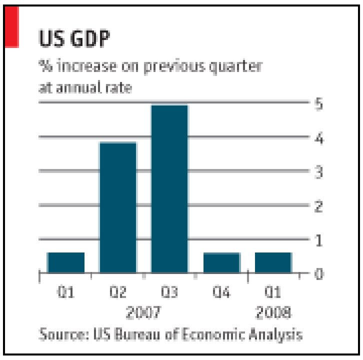
Fuel protests

The **price of oil** touched almost $120 a barrel. This caused anxiety in the United States, where the presidential candidates are debating the merits of suspending the federal tax on petrol over the summer. Meanwhile, OPEC's president forecast that oil prices would reach $200 a barrel if the dollar continued to slide. Chakib Khelil said that “each time the dollar falls 1%, the price of the barrel rises by $4, and of course vice versa”.

BG Group, an energy company that stems from the old British Gas, made a A$12.9 billion ($12.2 billion) bid for **Origin Energy**, an Australian utility with assets in oil and gas exploration.

São Paulo's Bovespa stockmarket jumped by 6.3% to close at a record high after Standard & Poor's unexpectedly upgraded **Brazil's** foreign debt, which is likely to spur investment.

Stalled



America's economy grew by a tepid 0.6% at an annual rate in the first quarter. An increase in business inventories offset a slowdown in consumer spending, which rose by 1%, its lowest rate of growth since the second quarter of 2001.

Home foreclosures in America were up by 112% in the first quarter compared with a year ago, according to RealtyTrac, a property firm. Lenders are foreclosing on one in every 194 American households. The rates were higher in the sunbelt; in Nevada it was one in every 54 households and in California one in every 78. In Riverside and San Bernardino, California's Inland Empire, the foreclosure rate was one in every 38 homes.

KAL's cartoon

May 1st 2008
From The Economist print edition

Illustration by Kevin Kallaugher

China

Angry China

May 1st 2008
From The Economist print edition

The recent glimpses of a snarling China should scare the country's government as much as the world

CHINA is in a frightening mood. The sight of thousands of Chinese people waving xenophobic fists suggests that a country on its way to becoming a superpower may turn out to be a more dangerous force than optimists had hoped. But it isn't just foreigners who should be worried by these scenes: the Chinese government, which has encouraged this outburst of nationalism, should also be afraid.

For three decades, having shed communism in all but the name of its ruling party, China's government has justified its monopolistic hold on power through economic advance. Many Chinese enjoy a prosperity undreamt of by their forefathers. For them, though, it is no longer enough to be reminded of the grim austerity of their parents' childhoods. They need new aspirations.

The government's solution is to promise them that China will be restored to its rightful place at the centre of world affairs. Hence the pride at winning the Olympics, and the fury at the embarrassing protests during the torch relay. But the appeal to nationalism is a double-edged sword: while it provides a useful outlet for domestic discontents (see article), it could easily turn on the government itself.

A million mutinies

The torch relay has galvanised protests about all manner of alleged Chinese crimes: in Tibet, in China's broader human-rights record, in its cosy relations with repellent regimes. And these in turn have drawn counter-protests from thousands of expatriate Chinese, from Chinese within the country and on the internet.

Chinese rage has focused on the alleged “anti-China” bias of the Western press, which is accused of ignoring violence by Tibetans in the unrest in March. From this starting-point China's defenders have gone on to denounce the entire edifice of Western liberal democracy as a sham. Using its tenets to criticise China is, they claim, sheer hypocrisy. They cite further evidence of double standards: having exported its dirtiest industries to China, the West wants the country to curb its carbon emissions, potentially impeding its growth and depriving newly well-off Chinese of their right to a motor car. And as the presidential election campaign in America progresses, more China-bashing can be expected, with protectionism disguised as noble fury at “coddling dictators”.

China's rage is out of all proportion to the alleged offences. It reflects a fear that a resentful, threatened West is determined to thwart China's rise. The Olympics have become a symbol of China's right to the respect it is due. Protests, criticism and boycott threats are seen as part of a broader refusal to accept and accommodate China.

There is no doubt genuine fury in China at these offences; yet the impression the response gives of a people united behind the government is an illusion. China, like India, is a land of a million mutinies now. Legions of farmers are angry that their land has been swallowed up for building by greedy local officials. People everywhere are aghast at the poisoning of China's air, rivers and lakes in the race for growth. Hardworking, honest citizens chafe at corrupt officials who treat them with contempt and get rich quick. And the party still makes an ass of the law and a mockery of justice.

Herein lies the danger for the government. Popular anger, once roused, can easily switch targets. This weekend China will be commemorating an event seen as pivotal in its long revolution—the protests on May 4th 1919 against the humiliation of China by the Versailles treaty (which bequeathed German “concessions” in China to Japan). The Communist Party had roots in that movement. Now, as then, protests at perceived slights against China's dignity could turn against a government accused of not doing enough to safeguard it.

Remember the ides of May

Western businessmen and policymakers are pulled in opposite directions by Chinese anger. As the sponsors of the Olympics have learned to their cost, while consumer- and shareholder-activists in the West demand they take a stand against perceived Chinese abuses, in China itself firms' partners and customers are all too ready to take offence. Western policymakers also face a difficult balancing act. They need to recognise that China has come a long way very quickly, and offers its citizens new opportunities and even new freedoms, though these are still far short of what would constitute democracy. Yet that does not mean they should pander to China's pride. Western leaders have a duty to raise concerns about human rights, Tibet and other “sensitive” subjects. They do not need to resign themselves to ineffectiveness: up to a point, pressure works: China has been modestly helpful over Myanmar, North Korea and Sudan. It has even agreed to reopen talks with the Dalai Lama's representatives. This has happened because of, not despite, criticism from abroad.

Pessimists fear that if China faces too much such pressure, hardliners within the ruling elite will triumph over the “moderates” in charge now. But even if they did, it is hard to see how they could end the 30-year-old process of opening up and turn China in on itself. This unprecedented phenomenon, of the rapid integration into the world of its most populous country, seems irreversible. There are things that could be done to make it easier to manage—including reform of the architecture of the global institutions that reflect a 60-year-old world order. But the world and China have to learn to live with each other.

For China, that means learning to respect foreigners' rights to engage it even on its “internal affairs”. A more measured response to such criticism is necessary not only to China's great-power ambitions, but also to its internal stability; for while the government may distract Chinese people from their domestic discontents by breathing fire at foreigners, such anger, once roused, can run out of control. In the end, China's leaders will have to deal with those frustrations head-on, by tackling the pollution, the corruption and the human-rights abuses that contribute to the country's dangerous mood. The Chinese people will demand it.

Economist.com OPINION LEADERS

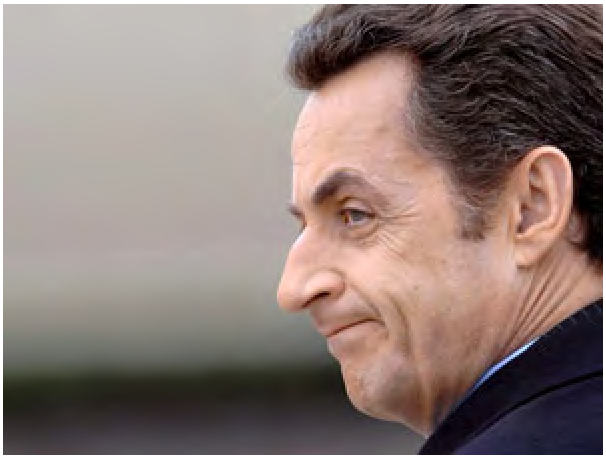
France

Sarkozy's difficult year

May 1st 2008
From The Economist print edition

The French are right to be disappointed in their president

EPA



A YEAR is a short time to achieve much in politics, but Nicolas Sarkozy, who was elected president of France 12 months ago, led the world to expect quick results. He set ambitious goals for how fast he would put France back to work. Writing before the election, he said that economic reforms should be enacted all at once, not sequentially; and that most of them should be pushed through in the first year, so that their benefits would come through before he had to face voters again.

Judged by his own standards, Mr Sarkozy's first year has been disappointing. After winning a strong mandate for change and a big majority in parliament, he started at the Elysée with characteristic fizz. But after a few symbolic battles, it all went flat. His reform agenda lost its focus, his fondness for compromise began to look like weakness, his highly publicised dalliance with (and later marriage to) Carla Bruni became a huge distraction—and his popularity slumped.

The story of the past year looks better abroad than it does at home. Mr Sarkozy promised to restore France to a central role in Europe and to mend its broken fences with America. Although his relationship with Germany's Angela Merkel has often been testy, he played a crucial part in helping her to resurrect the dead European Union constitution in the guise of the new Lisbon treaty. He has big plans for France's six-month stint in the EU presidency, which begins on July 1st, notably to press for a more potent European defence policy—though hopes that he might promote reform of the notorious common agricultural policy are fading (see article).

Across the Atlantic, France's image has been transformed from the bad old days of Mr Sarkozy's predecessor, Jacques Chirac. The new president has won kudos both for his decision to dispatch an extra battalion to Afghanistan and for his determination to overturn the legacy of another right-wing predecessor, Charles de Gaulle, by returning France to NATO's integrated military command. He has talked tough over Iran and been friendlier to Israel. And he has dropped Mr Chirac's kid-glove treatment of Russia and China. His foreign minister, Bernard Kouchner, a socialist who co-founded the charity Médecins Sans Frontières, has added a human-rights edge to a foreign policy too often blunted by commercial concerns.

Home is where their heart is

Yet it is what happens at home that matters most to France's voters. They picked Mr Sarkozy as their president because they realised that France needed a break with its past (in his word, a *rupture*). During the quarter-century of Presidents Mitterrand and Chirac, economic growth was mostly slower than Europe's average, unemployment (especially among the young) was consistently higher, public spending grew to over half of French GDP and the national debt rose faster than in any other big European country. Attempts at reform were stymied by trade unions and other vested interests, usually following the hallowed French tradition of taking to the streets.

Mr Sarkozy brought in some early reforms, including to universities and special pension regimes for public-sector workers. But as he acknowledged on television recently, he also made mistakes, and his reforms lost momentum (see article). Now he has embarked on a new round of changes, starting with the “economic modernisation” measures introduced this week by his finance minister, Christine Lagarde. The avowed aim is to increase competition and encourage entrepreneurship. Perhaps a fresh start will mean that Mr Sarkozy belatedly delivers the *rupture* that he once promised. But there are three reasons to doubt it.

The first is his loss of popularity. The polls released in the run-up to the anniversary were damning. He is the most unpopular first-year president in the history of the Fifth Republic, and his time in office so far is widely deemed to have been wasted. Presidential popularity matters, for in the French system an emasculated parliament has usually counted for less than the power of the street. If Mr Sarkozy sticks, as he must, to his more controversial reforms—to ports, schools, the labour market or the length of service needed for pensions, say—he is likely to have to face down strikes. Hostility towards him, which has increased not because of his reforms but thanks to his turbulent private life, will make that harder.

C'est l'économie, idiot

The second reason for concern is the economic outlook. So far Europe's economies have proved surprisingly resilient in the face of the credit crunch and an American recession. But the latest European Commission forecasts suggest growth is slowing sharply. The commission is also uttering dire threats about the resultant rise in France's budget deficit, so Mr Sarkozy will have little room for fiscal measures to sugar the pill of his more unpalatable reforms.

A skilful politician might exploit a slowing economy to give his reforms new wind, pointing out that hard times and a rising cost of living for ordinary folk strengthen the case for change. This is what Britain's Margaret Thatcher said in the early 1980s, when she insisted that the lady was not for turning. But nobody doubted the liberalising, free-market direction in which she wanted to push Britain, even if it took longer to get there than some now recall. This is not true of Mr Sarkozy—and here is the third reason for doubt.

The French president embodies a contradictory economic philosophy. In preaching reform and openly admiring the Anglo-American system, he seems to embrace liberalisation and more competition. But at the same time, he speaks loudly about protecting companies and jobs, and about the value of national champions. He may talk about intervention more often than he practises it, but his message is hardly likely to persuade France's hard-pressed (and cynical) voters of the merits of free markets.

One year on, in short, Mr Sarkozy has delivered less than he promised. There is little time for him to make up lost ground. Success is not impossible. But another bad year and he risks being written off as little better than Mr Chirac.

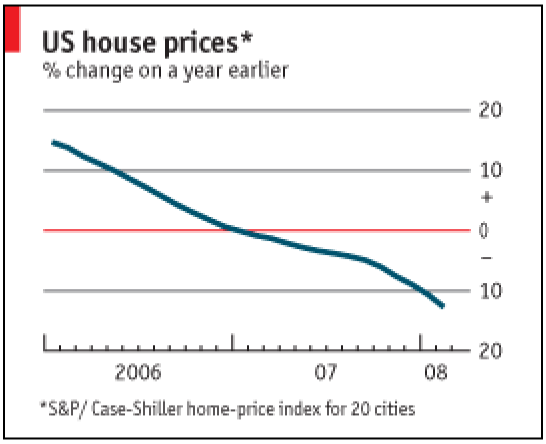
Economist.com OPINION LEADERS

Credit crunch

Too soon to relax

May 1st 2008
From The Economist print edition

Sentiment has improved, but lots of financial problems remain



IS IT really over? In the middle of March investors were worried that the financial system was going to hell in a handcart. Analysts competed to produce the highest possible forecast for losses from the credit crunch. Just six weeks later, everything seems a lot calmer. Stockmarkets have stabilised and corporate credit spreads (the excess interest rates paid by risky borrowers) have come down sharply. Gold is cheaper. Bankers talk about having put the worst behind them. This week the Bank of England's twice-yearly *Financial Stability Report* was cautiously optimistic (see article) and America's Federal Reserve was relaxed enough to cut the pace of its monetary easing (see article). Rates may even have reached the bottom.

Optimists can point to one big relief. When the Fed helped JPMorgan Chase to rescue Bear Stearns, it sent a signal to the markets—a kind of “No Bank Left Behind” Act. If the Fed was willing to save an investment bank, without any retail depositors, then the system would not be brought down by a “plumbing problem”, such as the collapse of a counterparty in the derivatives market. The boost to confidence has helped banks to repair their balance sheets by raising large sums from both shareholders and the bond markets. Maybe financial Armageddon had been avoided.

A sea of troubles

Maybe. But the fight ahead still looks bloody. Although the system as a whole is safer, plenty of problems remain for particular banks. In the money markets, the banks are still having to pay a high margin over official rates to borrow short-term money, despite the ingenious efforts of the Bank of England, European Central Bank and America's Fed. Investors are still worried that banks could get into trouble. There is probably more troubling news to come on write-offs; declared losses so far are well short of the $945 billion that the IMF estimated were the global losses from the crisis, much of it outside the banking system.

The malaise that started the crisis—the American housing market—is still getting worse. The month-on-month decline in the Case-Shiller index of house prices in 20 large cities is accelerating; on the latest reckoning, it was down by 12.7% over the 12 months to February 29th. As the decline continues, more homeowners will default on their loans.

And losses are now emerging in areas other than housing. After a long period with scarcely any bond defaults by companies, there have been 21 failures this year, according to Standard & Poor's, a rating agency; some 122 issuers, with debt of around $102 billion, are deemed vulnerable to default. Ominously, corporate debt is the shaky foundation for trillions of dollars of derivative contracts.

Consumers round the world are grappling with higher food and fuel prices. British house prices are now showing annual declines. Europe's economies seem to be deteriorating. In April the Belgian business confidence indicator, a good gauge of the continent's conditions, suffered the biggest decline in its 28-year history. Commercial property looks vulnerable, as do some emerging markets, especially in central and eastern Europe. And things are shaky in Japan, where industrial production declined more than 3% in the latest month.

Imagine that you had fallen asleep last July and that you had been spared the dread words “credit crunch” and “Bear Stearns”. On waking today, you would be astonished at how low American interest rates had fallen (especially in the light of headline inflation). But you would still be alarmed at the state of housing markets, the prospects for consumer spending and the trend in forecasts of economic growth. You would not assume that the worst was over. Nor should investors, just because they have had to live through it all.

Economist.com OPINION LEADERS

Farm subsidies

The right time to chop

May 1st 2008
From The Economist print edition

Rich-country governments must ignore special pleading to restrict farm trade

Reuters

WHO says farmers are inflexible? In rich countries, they have long justified farm hand-outs by pointing to low world prices for food (never mind that low prices were partly caused by their own subsidised overproduction). Without public cash, they said, farmers would desert the land, leaving meadows to brambly ruin. Now that the world is running short of food, the farm lobby has deftly changed tack. Prices for many crops are at record highs, the new line goes, and rich countries need to protect their farmers in order to ensure that their people get fed.

This mindless self-sufficiency is trotted out even in America, which is preparing a new farm bill. And it has been backed by the United Nations rapporteur on the “right to food”, Jean Ziegler, a Swiss professor who once applauded Cuba's agricultural policies.

But it is in Europe, with its notorious common agricultural policy (CAP), that farmers are bleating especially loudly. France, which has long scooped up more CAP money than any other country, leads the way. Not long ago, President Nicolas Sarkozy seemed to support CAP reform, asserting that farmers should live off their earnings, not from subsidies. But the French, who take over the EU presidency in July, are now pushing “community preference”—jargon for blocking food imports. To get round world trade rules, they are suggesting that imports satisfy EU environmental, hygiene or animal-welfare rules—which give ample scope to rig markets.

Michel Barnier, the French farm minister, wants joint European action on “food security”, and insists that feeding people is too important a task to be left to the market. Pledging “complete agreement” with French plans to recast the CAP, his German counterpart, Horst Seehofer, pours scorn on the idea that the developing world would be helped by reducing European farm protection. He says he does “not see how you can help the weak by hurting the strong.” Mr Seehofer thinks “food conflicts” lurk around the corner.

This is bad news for European consumers and taxpayers, who were promised a proper debate on CAP reform later this year. They will have to continue paying (€55 billion last year) for this wasteful and wicked system. It is terrible for poor-country farmers, who have long suffered from being shut out of rich-world markets, and having rich-world products dumped on them. Now they can hear the gates of fortress Europe clanging shut just when world prices should be triggering an export boom. And it is dreadful news for the hungry poor, because restricting trade in food exacerbates shortages.

The Europeans have made progress in reducing export subsidies and liberalising some markets; next year, for example, the EU should become a net importer of sugar for the first time. But reformers need to continue slashing import tariffs, which still average 23%. Now that European farmers are earning good money from what they do best—farming—there has never been a better time to reduce support. If the

EU sticks to its offer in the Doha trade round, its farm-import tariffs would drop by just over half. Cutting them further would do more to ease hunger in poor countries than any foreign aid.

Fruit of the gloom

Defenders of the CAP and other rich-country farm policies cannot have it both ways. They cannot demand more money when prices are low, and then ask for extra protection when they rise. High food prices further undermine their already rotten arguments for support, and offer a golden opportunity to dismantle rich-country farm protection. Governments would be mad as a British cow not to take it.

Economist.com OPINION LEADERS

Competition law

The American way of trustbusting

May 1st 2008
From The Economist print edition

Rooting out price-fixing benefits sound businesses as well as consumers

Illustration by Phil Disley

IN 1970s America five executives convicted of fixing the price of sticky labels ended up having to give lectures about their misdeeds in after-dinner speeches—cruel and unusual punishment for the audience, if not the culprits. Today there is a growing awareness that cartels not only raise prices, but also blunt other benefits of robust competition, from innovation to higher productivity. Accordingly, America's trustbusters prefer to punish market riggers with fines and prison than with black ties and brandy. Their tactics—which combine criminal punishment with the promise of immunity for whistle-blowers—are increasingly being followed across the world. And just as well, because cartels look as if they are more sophisticated and commoner than anyone thought.

That, at least, may be what emerges from raids Britain's antitrust enforcer, the Office of Fair Trading (OFT), conducted towards the end of last month on the country's four large supermarkets. The investigation has only just begun, but one possibility is that supermarket buyers used some of the world's largest consumer-goods companies as a switchboard to swap information that would help them co-ordinate the prices of thousands of products, from soap to cola. Multinational companies including Britvic, Coca-Cola, Mars, Nestlé, Procter & Gamble, Reckitt Benckiser and Unilever have been asked to hand over data to the OFT (see article).

The supermarkets deny any wrongdoing. They complain that trustbusters have become too big for their boots and that they are on a “fishing expedition” designed to assuage populist dislike for big business—especially for powerful retailers. In fact, the grocers do have some grounds for feeling put upon. This week, Britain's Competition Commission, the OFT's sister organisation, published the findings of a probe lasting almost two years into the supermarkets, the third in-depth inquiry in less than a decade. The industry was again judged to be broadly competitive: market shares among the four biggest grocers have shifted, suggesting keen rivalry for customers rather than collusion.

The OFT's raids point to two different lessons. Far from staging a broad anti-business trawl, the OFT seemed to know exactly what it was searching for. It looks as if the regulator had been told what to ask for by a whistle-blower, which suggests the American approach could turn up wrongdoing that investigators would never have spotted before. Indeed so many cartels have been confessed to in Europe that trustbusters, grappling with a huge backlog of cases, are having to ignore some to concentrate on the biggest ones.

A stitch-up in time

Equally alarming is the suggestion that cartels are not just more prevalent, but also more sophisticated than anyone thought. Classic cartels are in dull, mature segments like glass and cardboard, where market shares are stable, brands cannot differentiate products and the cartel's members can easily check for anyone breaking ranks. The startling thing about the OFT's investigation is that it is in branded goods, where co-ordinating a cartel should be hard.

Governments waste a lot of breath on their plans to make the economy more competitive. Helping competition by busting cartels gets you a long way. What will count now is the spine to see through controversial investigations, however much fuss the grocers and the rest of them kick up.

On capital inflows, Barack Obama, Tony Blair, Turkey, medals, Silvio Berlusconi, Heathrow

May 1st 2008
From The Economist print edition

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The flow of money

SIR – You should have been bolder in your claim that "over time capital inflows are becoming less risky and the collateral benefits more tangible" (Economics focus, April 12th). An IMF study last year found that foreign direct investment and other non-debt capital flows boost economic growth without adverse side effects on economic volatility.

These flows grant collateral benefits of raising economic efficiency, developing the domestic financial sector, and disciplining macroeconomic policies. The IMF study found also that a cautious opening-up can spur the very institutional development needed to benefit from foreign capital. This worldwide experience may explain why, despite the advice of some academics that countries stay out of the waters of foreign capital, many are choosing to learn how to swim.

Simon Johnson
Director
Jonathan Ostry
Deputy director
Research department
International Monetary Fund
Washington, DC

A bitter moment of truth

SIR – Lexington missed the point about Barack Obama's remarks that working-class whites "cling" to guns and religion because they are "bitter" (April 19th). Constitutional gun rights and religious fervour aren't just the province of the working class in America. They are valued by everyone, except the far left. Of course the left is entitled to believe whatever it wants, such as thinking that religious people who hunt or own firearms are rubes. But don't expect those "enlightened" views to get you elected to the White House.

In America, you are not a hypocrite if you are rich, like Bill O'Reilly or Rush Limbaugh, and stand up for "the folks". Being rich is not hypocritical. What is hypocritical is pretending to stand up for the same folks in public but calling them hicks in private. That is Mr Obama's real problem.

Laura Brickman
Minneapolis

SIR – The true reason why people are so upset with Mr Obama is that not only does he think God, guns, and being against illegal immigration are mere crutches for those poor folk who do not know any better, he arrogantly blames their beliefs for his own failure to capture their vote.

Stephen Kendrex
Hamilton, New York

The wrong man for Europe

SIR – *The Economist*'s naked boosterism in support of Tony Blair's ambition to become president of the European Union (Charlemagne, April 19th) is as disappointing as Mr Blair's own past delivery on

European policies. I think your real agenda is to promote the interests of Britain by saddling Europe with a charismatic but divisive president of the European Council, Mr Blair, and reselecting the ineffectual José Manuel Barroso for a second term as president of the European Commission. In his first term Mr Barroso has proven to be slavishly beholden to French and German interests rather than the common good.

It would make far more sense to find unifying figures for both positions who embody, not just in words but also in the actions they have taken in government, the ideals of the EU: thinking beyond national borders about the greater good of all Europe's peoples and the bigger role that Europe could play on the world stage.

Brandon Mitchener
Brussels

SIR – Charlemagne thinks that electing President Blair would prove there is no nasty bias against those EU countries that haven't adopted the euro as their currency or signed up to a border-free Europe. Charlemagne states that those countries account for “more than half” of the EU. Yet most new member states from the recent enlargement are in a border-free EU already and are on track to join the euro (as Cyprus and Malta did earlier this year). Britain's position as an opted-out, slow-lane member really is a solitary status.

Kirsty Hughes
London

Turkey's secular state

SIR – You pinpointed how damaging it would be to Turkish democracy if the ruling Justice and Development (AK) Party were to be shut down for being a force of anti-secularism (“Courtroom drama”, April 5th). However, your assertion that democracy matters more than secularism is wrongheaded. All modern democracies also have some kind of consolidated secular system.

You presented a false dichotomy between democracy and secularism, underlining how confused the world is about what constitutes “secularism”. This same dichotomy accounts for the current polarisation in Turkish society. The challenge for Turkey is to protect secularism by means of liberal democracy, not to underestimate its importance or fragility.

Murat Somer
Associate professor of international relations
Koc University
Istanbul

Precious medals

SIR – Your article about the German army's quest to restore a military medal for gallantry should have mentioned that the award most coveted by Manfred von Richthofen, more popularly known as the Red Baron, was the *Pour le Mérite* (“Guts, but no iron”, April 12th). This was Prussia's highest military decoration, founded in 1740 by Frederick the Great.

It is this medal that the German government should consider reintroducing. Its French appellation would lend it a more European flavour without stirring up fears of a revival of Prussian militarism, even though ardent particularists from such places as Bavaria, Württemberg and Saxony might raise their voices in protest.

Marc Cannizzo
Bucharest

Impersonating the president

SIR – Reading your article about Silvio Berlusconi (“Italy embraces Silvio, again and again”, April 19th), I was struck by hauntingly familiar phrases such as: “his ever-grinning figure...given to buffoonery, surrounded for years by questions about his probity and the conflict of interests... less respectful of the rule of law, stubbornly unreformed economically...promised spending cuts, lower taxes...a surplus...was turned into a deficit.” Which leads me to ask whether “Berlusconi” might be Italian for “Bush”?

Frank Kenter
Menlo Park, California

Off its trolley

SIR – Regarding the batch of letters from your readers on Heathrow (April 19th), most passengers arriving at the airport find their irritation with the place begins the moment they place their luggage on a trolley. These trolleys have minds of their own, refusing to be steered, rolling off the pavement, barging into old ladies, and requiring much effort to control. The simple idea of fixing the rear two of the four swivel wheels would solve the problem. Would someone please tell BAA that every other airport in the world has already done this.

Michael Moore
Greensboro, Georgia

Sarkozy's France

The presidency as theatre

May 1st 2008 | PARIS
From The Economist print edition

AFP

Mr Sarkozy's first year in the office has brought only limited change to France. Even if he grows less distracted, he may find reform harder to achieve

THE year since Nicolas Sarkozy was elected president of France, on May 6th 2007, has resembled a play in three strangely disconnected acts. In Act One, he was electrifying. The hyperactive new president pulled on his jogging shorts, threw out the dusty old presidential ways, recruited a broad-based multi-ethnic cabinet and set about dazzling the French with his pragmatic determination to talk straight and get things done.

In Act Two of "The Hyperpresident", he was mortifying. Mr Sarkozy, Ray-Ban shades glued to his nose, squandered his popularity by turning his private life into an exhibitionist soap opera, earning the nickname President Bling-Bling. Seeming more concerned with his personal problems—a divorce, a new romance, a remarriage—than with those of France, he saw his ratings fall lower than any recorded in the first 12 months of a presidency during the 50-year-old Fifth Republic.

In Act Three, which has just begun, he is dissatisfying. He has adopted a more sober presidential style, admitted to mistakes and promised a fresh round of reforms. Yet the man who was elected to shake up France is now trying to do so without the broad consensus he enjoyed a year ago, with an increasingly restless majority in parliament and against a worsening economic backdrop.

One year in office is not enough to evaluate a leader definitively. Some of the boldest reformers did little in their first 12 months; Margaret Thatcher neither began privatisation in Britain nor confronted the unions until her second term. By many measures, Mr Sarkozy has achieved more in his first year than Jacques Chirac, his predecessor, did in 12. Yet Mr Sarkozy himself set the high standards by which he should now be judged.

In the course of his election campaign Mr Sarkozy promised a veritable *rupture* with the way France had been governed for the previous 25 years. During that time France's GDP per person was overtaken by Britain's and Ireland's, among others; unemployment was consistently higher than the European Union average; and France ran up a public debt amounting by 2007 to 66% of GDP. The son of a Hungarian father, not educated in the traditions of the elite Ecole Nationale d'Administration, Mr Sarkozy vowed to do things differently. "We must face up to the truth," he wrote in "Témoignage", his pre-election book. "For 30 years our country has weakened its capacity to create wealth."

The French needed to work harder, he told the country that invented the 35-hour working week. They needed to invest more in brainpower; and the state needed to tax and spend less. A range of detailed pledges, from the reduction by four percentage points of the overall tax take over ten years to the abolition of special public-pension rights for railway workers, were spelled out. “I want to be the president who keeps his commitments,” he vowed. So it is against those promises that Mr Sarkozy should be measured.

Train more brains

Lunch-time in a busy left-bank restaurant, and one of the world's foremost economic theorists has just driven from the airport. But Jean Tirole, professor at the University of Toulouse I, has not come to Paris to discuss corporate-finance theory over the *plat du jour*. He is there on a fund-raising mission: touring the city's banks, hoping to secure cash for the new private foundation behind his Toulouse School of Economics, a faculty at the university to be launched on June 2nd. In a country where all university lecturers are civil servants and all degree courses are free, to find university bosses on non-stop fund-raising tours is quite a radical change.

Reform of higher education was among the first, and most urgent, of Mr Sarkozy's reforms. Only one of France's 82 universities makes it into Shanghai University's top-50 ranking. Most research is done off campus, in separate state-sponsored bodies. Auditoriums are overcrowded, campuses drab and deserted at weekends. Some 46% of all first-year undergraduates drop out. The brightest students do their best to avoid universities altogether, and instead fight to get into one of France's excellent *grandes écoles* (exclusive institutions outside the main system).

Last summer Mr Sarkozy granted the universities autonomy from central state control. This has freed them to recruit the lecturers they want, at salaries they negotiate, and to set up private foundations—with tax breaks for donors—to complement public finance. The idea, says one government adviser, is to encourage a dozen of the most go-ahead universities, such as Toulouse I, to transform themselves into centres of excellence, even if the rest carry on churning out unemployable sociology graduates as before.

As well as giving universities autonomy, Mr Sarkozy has boosted their budget by 43% over five years; required research and teaching staff to collaborate; sold state-held electricity shares to pay for proper campuses *à l'américaine*; and opened up enrolment to enable universities to “orient” students to appropriate courses. Valérie Pécresse, the universities minister, says she hopes these measures will halve the drop-out rate in five years.

Limits to radicalism

In time these changes could supply France with perhaps a dozen high-quality campuses. Yet the university reform also illustrates the limits to Mr Sarkozy's efforts, as he has left untouched two elements without which it will be hard to sustain financing and improve quality: the selection of students (anybody with the baccalauréat can enrol) and tuition fees (there are none). Mr Sarkozy did originally plan to allow the selection of students, but only for master's degrees. Even this was quickly shelved after student unions squealed.

As with universities, so with many other reforms. To be fair, Mr Sarkozy has achieved some clear, if controversial, successes. By appointing a Muslim woman as justice minister, he has sent a clear message of inclusion to the heavily Islamic *banlieues* (suburbs) that rioted so violently in 2005. He has extinguished the National Front as a political force, without pushing his hardline immigration policy unacceptably far. Abroad, he has mended Franco-American relations, sent troops to Afghanistan and helped to secure a simplified version of the EU constitution rejected by the French voters two years earlier. Yet his record on domestic reform is less radical than had been expected.

Consider, for instance, the abolition of the “special regimes” for public-sector pensions, which enabled 1.6m railway workers and others to retire early, often in practice at the age of 55. As a symbol of his determination not to cede to the street, it was a triumph. Nobody had touched the rules for over 50 years. Mr Chirac tried once, in 1995, but backed off after crippling strikes. Mr Sarkozy, by contrast, who had courted union leaders over lunch at smart Paris restaurants, withstood a nine-day strike and commuter chaos, to end the special regimes. Yet the price was a parallel promise by the railway bosses to boost final salaries on which pensions are based. As Guillaume Pépy, head of the national rail company, SNCF, concedes: “The figures on savings are not spectacular.”

Or take the promised overhaul of the country's rigid labour law. Under François Fillon, the prime minister, the government plans changes based on a deal reached after months of talks between unions and bosses. The main novelty is that employers will be able to end a contract “by mutual consent”, after which workers cannot go to court for further recompense. At present some 30% of layoffs, even consensual ones, are contested by employees and go before an employment tribunal; 70% of these go against the employers, according to MEDEF, their federation. Yet the reform leaves aside two far more constraining features of French labour law: the rules limiting the ability to shed workers if a firm is in profit and the 35-hour working week.

The president's team argues that the results so far are as much as you can expect, given the confrontational history of change in France. “We can't win all battles,” says one minister. “If we get 60% of what we try for, that's good enough; and it puts in place a structure for further reform.” Which may be true, up to a point. When a previous government tried to increase youth employment by making it easier for employers to lay off the under-26s if they needed to, it gave up after protesting students closed down campuses. Now fresh proposals for university reform, by contrast, are already on the table. Christine Lagarde, the finance minister, argues that each step forward is precisely due to the co-operative approach. “We're not pushing reforms down people's throats,” she says.

The trouble is that consensus-based incremental reform supposes that Mr Sarkozy will be able to build on the first round. Yet Act Two of “The Hyperpresident”, in which his popularity evaporates, suggests that this is far from guaranteed.

Sobriety yields to celebrity

Disneyland, the Pyramids, Petra. The scenery changed, but the theme was constant: a new presidential romance. The period between December, when Mr Sarkozy was photographed with Carla Bruni at the Disney princess parade, until the royal pageantry of a different sort during the state visit to Britain in March, after they married, felt like a bizarre interlude in French political life. Reforms went on hold. Strange presidential proposals emerged from nowhere. If previous presidents considered that the public interest stopped at the bedroom door, Mr Sarkozy decided to allow the cameras in—literally, for one *Paris Match* photo shoot in his Elysée Palace bedroom. The French press splashed the celebrity president and the former supermodel, week after week, across the front pages.

AP

Manifestly more fun than studying

The exhibitionism took its toll, though. The ruling centre-right party was swept out of town halls across the country in the municipal elections in March. From a high of 65% last July, Mr Sarkozy's popularity stood at 37% in April, according to TNS-Sofres, a polling company, while that of his prime minister, an unexciting, managerial sort, climbed. In one poll to mark the president's first year, 59% of respondents said it had been a failure. “The difficulties in his personal life gave the French the impression he was looking after his own problems more than theirs,” says one insider.

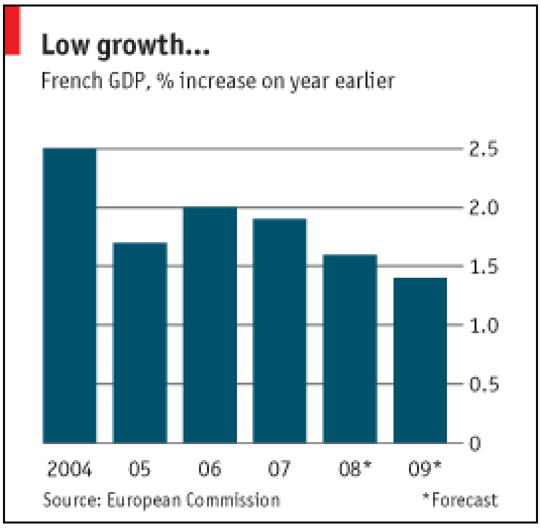
The problem now seems to have been taken in hand. Mr Sarkozy is to appear more presidential, and less interfering. He is now photographed in sober suits rather than jogging gear. Emotionally, he has been, says one aide, “restabilised”.

Part of this new phase is a revival of the reform programme. In a televised appearance last week, Mr Sarkozy promised to “carry out all the reforms head on” and not to let up. The mighty civil service is to be trimmed and streamlined, to cut the government's groaning budget deficit. Hospitals are to be reorganised. Ports, currently in the grip of unions, are to be deregulated. Union representation on company works councils is to be more democratic. The rules for unemployment benefits are to be tightened. The contributions period for public pensions is to be lengthened.

Compete and prosper?

The centrepiece is Ms Lagarde's "modernisation of the economy" bill, designed to encourage a more entrepreneurial society by cutting red tape and putting the consumer, not the producer, first. It will, she argues, "blow a wind of liberty through the economy". Retailers will be allowed to negotiate prices with suppliers (they are currently forbidden from selling at below cost). There will be a reinforced competition authority, with real powers to investigate and punish anti-competitive behaviour. All charges and taxes on start-ups will be abolished until such firms turn a profit. Rules that hit companies as they grow beyond ten or 20 employees will be phased in to encourage job-creation.

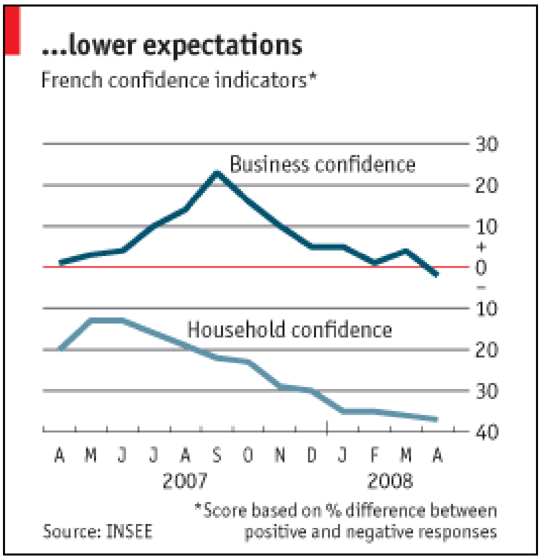
The trouble is, however, that the circumstances have changed. Mr Sarkozy can no longer lean on his popularity to take on vested interests. Worse still, the economic outlook has turned against him.



Although the French economy has held up reasonably well so far, the global credit crunch is beginning to bite. Eric Chaney, chief economist for Europe at Morgan Stanley, reckons that "some sort of credit crunch is unfolding in the funding of French companies". The IMF recently cut its forecast for GDP growth in France to just 1.4% for 2008. As companies scale back and growth slows, Mr Chaney is forecasting unemployment, which has dropped to 7.5%, to rise to 8.3% next year.

This will make it far harder for Mr Sarkozy to rally public opinion. The French already feel their pockets squeezed: rising food and fuel prices helped push annual inflation to 3.2% in the year to March, the biggest rise for 11 years. Business confidence has fallen, and consumers are more pessimistic than for 21 years (see charts).

Yet the government has little room for manoeuvre. It has been inexcusably slow to repair the public finances. The budget deficit in 2007 reached 2.7% of GDP, against 2.4% forecast; the European Commission says it will hit 3% next year. Spending cuts—through, for instance, eliminating teaching posts—have already drawn protests on the streets. And the government played its fiscal-stimulus card last year with €13.5 billion-worth of tax cuts on overtime pay, mortgage interest and inheritance. Mr Sarkozy's campaign promise to reduce the overall tax take from its current 43.5% of GDP (Germany's is 34.7%) seems to have died a quiet death.



The president's camp insists that he will not use harsher economic times as an excuse for inaction. Indeed, some argue that fiscal constraints may even force the government to stick to certain reforms, particularly cuts in the civil service. Yet there is a more worrying alternative: that the president, shorn of his good poll ratings, will be tempted to pacify resistance with crowd-pleasing gestures. In the past Mr Sarkozy has sometimes tried to win peace by making simplistic promises or by giving ground. He has yielded to fishermen, taxi-drivers, the family lobby and others. When ArcelorMittal, a steel giant, recently announced the closure of a factory in eastern France, with the loss of 595 jobs, Mr Sarkozy rushed to the plant and promised workers state aid to save it.

For at the heart of Sarkonomics is a contradiction: Mr Sarkozy promises both to create an entrepreneurial, risk-taking society and to protect workers, factories and jobs. When he was running for president, his campaign stop of preference was the factory floor, where he would surround himself with industrious-looking men in hard hats and promise never to let France lose its factories, because, "Once the factories go, everything goes." He may call himself a liberal but he also believes in national champions, and in a strong industrial policy to defend them.

Mr Sarkozy's supporters argue that his tirades against the outsourcing of jobs are distractions, since there is not much he can do about it. So far, ArcelorMittal appears to be going ahead with its factory closure regardless. But his message is worrying because the French, despite having plenty of first-rate global companies—Michelin, L'Oréal, Renault, Carrefour—are particularly fearful of globalisation. A recent Globescan poll showed that only 41% of them believe that the market economy is the best system (compared with 59% of the British). They need to hear that France is a beneficiary of global capitalism, not simply a victim.

Mr Sarkozy himself has argued that the French are not as conservative as they like to think. Despite the constant theatre of protest, they are often ready to change. They no longer drive at reckless speeds on the roads (thanks to speed cameras), nor smoke in bars or cafés (a cigarette ban). Resistance to change, rather, is concentrated in France's producer lobbies: taxi-drivers, pharmacists, notaries, retailers, teachers.

The coming months will test whether Mr Sarkozy is willing to take on such groups. It would be easier with high poll ratings. But the prime minister's popularity suggests the French may be fed up with their president's behaviour rather than with his reforms, and he may sense this. "I am sure that Nicolas Sarkozy doesn't want to end up like Chirac," comments Philippe Manière, director of the Institut Montaigne, a reformist think-tank. "People would laugh at him, saying Sarkozy is like Chirac with new batteries."

In this regard his friend, Tony Blair, has a telling piece of advice. In 2005, after eight years in Downing Street, the then British prime minister reflected on his experience of implementing change. "Every time I've ever introduced a reform in government," he said, "I wish in retrospect I had gone further." Words for Mr Sarkozy, the architect of *rupture*-lite, to reflect on.

Economist.com
WORLD
UNITED STATES

Illegal drugs

Speedy decline

May 1st 2008 | TACOMA, WASHINGTON
From The Economist print edition

AP

Success in the war against methamphetamines—at a certain price

A FEW years ago Pierce county, in Washington state, was in the grip of a methamphetamine epidemic. Toothless addicts roamed quiet rural roads, stealing everything that was not nailed down, as well as a few things (such as a garage) that were. The child of a meth cook fell into a bucket of chemicals and was severely burned. Barb Dolan, who set up a neighbourhood watch group, points out a cul-de-sac near her bungalow where a sheriff's deputy walked into a methamphetamine laboratory and was met with gunfire. “It was behind every bush,” she says.

No longer. The drug is disappearing. In 2001 no fewer than 589 methamphetamine labs and dump sites were discovered in Pierce county. Last year just 76 were. Washington's police stopped 39% fewer meth-addled drivers in the first three months of this year, compared with the same period last year. Fewer addicts are turning up in local hospitals. This is not just a local trend: across America, workplace drug tests suggest methamphetamine use has been falling since 2005.

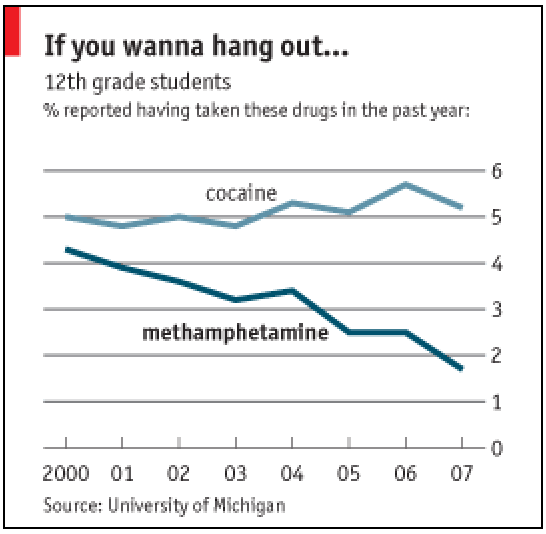
It is a rare success in the war on drugs, and an oddly unheralded one. Particularly in the West, televisions flicker with alarming documentaries such as “Montana Meth” and “Crystal Darkness”, which chronicle addiction and rising crime in rural districts. Almost 95% of Western police forces polled last year by the National Drug Intelligence Centre cited methamphetamine as the most serious drug problem in their area. It will not be so for long.

The methamphetamine story in Pierce county has two acts. The first, which began in the late 1990s and ended last year, was largely domestic. Local people made the drug by cooking anhydrous ammonia, decongestant tablets and other ingredients, using what is known as the “Nazi method”. They sold it, mostly to other rural whites, for up to $70 a gram. Gradually, tighter restrictions on cold medicines shut down this trade. At which point, as Paul Pastor, the county sheriff, puts it, methamphetamine ceased to be a cottage industry and became a professional business.

In act two, nearly all meth is made in large Mexican labs and smuggled up Interstate 5, which runs through Pierce county. The imported product is crystalline, purer than the local powder, and more expensive: between $100 and $120 a gram, according to Dave Dewey, a local drug cop. For a while it seemed as though crystal meth would simply take the place of powder meth, and use of the drug would hold steady. That has not happened, partly because Mexico, too, has begun to restrict sales of decongestant, and partly because demand has dropped.

The decline is especially clear among teenagers, who lead drug trends. According to the University of

Michigan, which conducts a large survey, the proportion of 18-year-olds who report using methamphetamine in the past year has fallen by almost two-thirds since 1999 (see chart). Their use of crystal meth, or "ice", has halved since peaking in 2002. The reason is education, say those who work with school pupils—and they seem to be right.



The history of drug education programmes in America is largely dismal. Prodded by the federal government, teachers stress the dangers of marijuana, which are occasionally (and implausibly) compared to those of cocaine and heroin. Teenagers are told that crack cocaine is highly addictive, which sounds to some like a challenge. When it comes to methamphetamine, though, out come pictures of "meth mouth"—the rotten teeth caused by heavy use. This message gets teenagers. When Safe Streets, a community group, asked pupils to design their own anti-drug posters, many emphasised cosmetic hazards over chemical ones.

According to the Michigan study, the share of 18-year-olds who believe that using crystal meth even once or twice carries a great risk has risen every year since 2003. Unfortunately, perceptions of crack cocaine appear to be moving in the opposite direction. The proportion of 17-18-year-olds who believe regular crack use is very risky has fallen from almost 90% in the early 1990s to just under 83%. Powder cocaine meets with about as much disapproval as steroids. It is as though teenagers have a fixed quota of worry, which merely moves from drug to drug.

The same drug-trafficking outfits that now supply crystal meth to the north-west can easily accommodate this shift in consumer demand. Mr Dewey is seeing more crack cocaine around Tacoma. Rob Bovett, who helped write Oregon's methamphetamine laws, points to a rise in cocaine, heroin and Oxycontin, a painkiller that can be abused. Cocaine is on the rise in Utah. Because cocaine and heroin are derived from plants, they will prove harder to stamp out. Sudden drops in production, of the kind that drove meth purities down in 2006 and again in 2007, are unlikely to occur.

This does not mean the campaign against meth has been pointless. Far from it. The shift from a cottage industry to a well-run international business was good, because it meant amateur meth cooks were no longer setting fire to their children. Moving people onto other, slightly less harmful drugs is no bad thing, either. So grim was the methamphetamine experience in Pierce county that some view the rise of crack cocaine with relief.

The Montana Meth Project

Shock tactics

May 1st 2008 | HELENA
From The Economist print edition

Graphic ads have reversed a trend

THE most famous American anti-drug advert of the 1980s starred an egg. It was first displayed in pristine condition: “This is your brain.” The egg was then cracked open and fried in a pan. A sombre warning accompanied the sizzling: “This is your brain on drugs.” Some egg producers objected, but no one else was too upset.

Compare that with an advert from the Montana Meth Project. A billboard shows a young girl with vacant eyes and waxy skin, pinned to the ground by a faceless man in a dirty shirt: “15 bucks for sex isn't normal. But on meth it is.” On April 30th the state agreed to take that billboard down, after complaints. But other ads suggest that meth users can expect to contract HIV, beat their mothers and end up in prison.

The ads are apparently effective. In 2005 Montana had one of the highest rates of methamphetamine use in the country, and all the trouble that goes with it. Half of all children in the state's foster-care system, for example, were there because their parents had abused or neglected them while high. But Mike McGrath, the attorney-general, says the state was then “in denial”.

An aggressive public-awareness campaign was the answer. The Montana Meth Project was privately funded at first, and the state took advantage of this arrangement to experiment with its message. Its radio, television and print ads are aimed at children aged 12-17 and vetted with focus groups. A close-up picture of rotting teeth was the most successful.

The prevention campaign was backed by better enforcement and treatment. Montana put the cold medicine used in meth production behind pharmacy counters in 2005, and is giving more money to treatment centres. The state now ranks 39th for meth use. According to a report from its attorney-general published last month, the number of teenagers trying the drug dropped by 45% between 2005 and 2007, and Montana's teenagers are now much warier of the drug than their peers nationwide.

Mr McGrath admits that some experimenters may have turned to other drugs, particularly cocaine. “Nevertheless,” he says, “I'll take that trade, because the impacts are not as devastating.” Arizona, Idaho, Illinois and Wyoming have all introduced meth projects, and hope to see the same results.

The Indiana primary

More workaday than thou

May 1st 2008 | SOUTH BEND
From The Economist print edition

A battle to appeal in the make-or-break state

IN 1840 William Henry Harrison, the former governor of the Indiana Territory, won the presidency by boasting of his fondness for hard cider and log cabins. His opponent (his backers said) preferred to sip champagne in a palace. Hillary Clinton's strategy for winning the Indiana primary on May 6th is not all that different.

To most Americans Indiana is the heart of the heartland, notable for its cornfields, its love of basketball and the Indianapolis 500, a huge car race. It claims to be the "crossroads of America", sandwiched between mid-western Ohio and Illinois and abutting the old southern state of Kentucky. It is also deeply conservative. Ironic, then, that its primary could determine the Democrats' presidential nominee.

At least that is how Mrs Clinton would have it. Her supporters are calling the state's primary "a tiebreaker". James Carville, Clintonista extraordinaire, predicts that whoever wins Indiana will win the Democratic nomination. That is because Mrs Clinton, behind in delegates and votes, probably will not win North Carolina's primary on the same day. Indiana is her better hope.

Indiana seems a good fit for her. It is whiter, less educated and poorer than the country at large—characteristics of her keenest supporters in previous contests. According to stereotype, Indianans are wary of change—Barack Obama's signature word—particularly when it comes from Washington; for decades they resisted moving onto daylight saving time. Mrs Clinton's familiar face and recycled populism appeals to the state's conservative Democrats, including Senator Evan Bayh, one of her most ardent backers.

It was in Crown Point, Indiana, that she drank beer and a whisky shot for the cameras some weeks ago. Now she favours sports metaphors of varying quality—"We're going to knock balls out of the country's park," she says, standing in a minor-league baseball stadium, "for the home team, which is America"—and speaks about working in her father's fabric-printing shop as a child.

Despite Indiana's pastoral reputation, the areas north of Indianapolis, the capital, are dotted with factory towns and steel mills. The state is the leading steel producer and one of the biggest car manufacturers in the country, and the job-losing manufacturing sector accounts for almost a third of its output.

Accordingly, Mrs Clinton has focused on gritty economic matters, insisting her campaign is about "jobs, jobs, jobs, jobs". In a union hall in Gary she took her protectionist rhetoric to a new pitch, claiming that America was the only free, open market in a world of free-riders. Shamelessly, she reworked Martin Niemöller's poem about the Holocaust to lament jobs lost to trade: "They came for the steel companies and nobody said anything. They came for the auto companies and nobody said anything." Questions of taste aside, many of those jobs have been lost not to offshoring, but to improved efficiency.

For all that pandering, the polls show the race is tied. The state has some of the most blighted urban areas in the country in its north-west, which contains large black populations and gets Chicago television—from Mr Obama's home turf. Independents, whom he has attracted in droves, can vote in Indiana's Democratic primary. Mr Obama has more money, and his campaign has been registering new voters aggressively.

But he admits he needs to do more to attract working-class whites, Indiana's Democratic core. He recently railed against high petrol prices at a pump in Indianapolis, and eagerly discussed subprime mortgages at a town-hall meeting in Marion. He also talks more about his white mother, who once received food stamps, than he has done elsewhere.

Detractors still classify Mr Obama an armchair liberal. They question his relationship with Jeremiah

Wright, his inflammatory former pastor (see article), who seems to be doing all he can to antagonise struggling white voters. Both criticisms make Mr Obama seem detached from the very Indianans he wants to court.

He might have an easier time if he were still the underdog, a role Mrs Clinton has firmly claimed, and which resonates in Indiana. This is the state in which “Hoosiers” was set, a film about a scrappy small-town high-school basketball team that wins the state championship. Whether Indianans see enough of themselves, and that resilience, in Hillary will determine how much longer she goes on.

On the campaign trail

Primary colour

May 1st 2008
From The Economist print edition

Lonesome tonight
"Senator McCain's not here. He probably wanted to distance himself from me a little bit. You know, he's not alone. Jenna's moving out, too."
President Bush makes fun of the presidential candidates at the White House Correspondents' Association dinner. April 26th

Illustration by Claudio Munoz

Slam dunk
"I've already said we're taking out the bowling alley at the White House and putting in a basketball court."
Barack Obama opts for the sport he may be better at. Associated Press, April 26th

Bucket of spit
"That's not in the cards...that's not what I want...The presidency is the only job in town that's worth going through what you've got to go through to get it."
Former candidate Fred Thompson has no interest in the vice-presidency. Fox News, April 24th

That's deep, man
"The way the loser loses will determine whether the winner wins."
Congressman Rahm Emanuel has not endorsed either Democratic candidate. New York Times*, April 26th*

Metrosexual
"I basically buy five of the same suit, and then I patch them up...I have four pairs of shoes. Recently I've taken to getting a haircut more frequently...because my mother-in-law makes fun of me."
Barack Obama denies he dresses like a GQ model. CNN.com, April 25th

Run, fatboy, run
"You gotta help me out here because my husband loves North Carolina and he loves BBQ and he's been eating a lot of it across the state and I know how much fun he's having but... "
Hillary Clinton worries about her husband's diet. ABCNews.com, April 25th

Party pooper
"What's the sense of having a convention if everything is decided?"
Congressman Ron Paul continues to run for the Republican nomination with his 21 delegates. CNN, April 28th

Recyclables
"It may end up at the city dump."
Keith Shirey, who sold Edwards and Kucinich merchandise, prepares to offload. Wall Street Journal*, April 28th*

Voting rules

Prove who you are

May 1st 2008 | WASHINGTON, DC
From The Economist print edition

A ruling that targets the disorganised, rather than Democrats

HOWARD DEAN calls it an affront. The *Nation*, a lefty organ, says it is a fraud. Republicans are cheering. No, not John McCain's latest health-care plan, but a law in Indiana that requires voters to present state-issued photo identification before entering the ballot booth, as many will do next week. The Supreme Court upheld it on April 28th.

Detractors insist that this is a backdoor poll tax designed to suppress turnout among certain (Democratic-leaning) voting groups, such as the poor, minorities and the elderly. That, indeed, may be the not-so-blameless goal of some of the legislators who voted for the restrictions, all of whom were Republicans. Indiana's voter ID cards, of course, are free. But critics say the time and expense of gathering certain required documents—a birth certificate or a passport, for example—are too great for some Indianans to bear, particularly those born out of state or those with no cars of their own.

That may well be true, the court said. But Indiana also has an interest in maintaining a well functioning electoral system, and that includes stopping voting fraud and ensuring the public has confidence in the integrity of the ballot box. Estimates are fuzzy, but it seems that only about 1% of Indiana's voting-age citizens, about 43,000 people, lack a government-issued photo ID. And most of those, surely, should not find the ID law impossible to satisfy.

Neither side has much evidence. The critics point out that there has never been a documented case of voter impersonation in Indiana, and that mail-in voting is more prone to fraud. The court argues that those wishing for the law's demise had found no compelling instance of anyone unfairly burdened by having to acquire voter ID since the law passed in 2005. And if any such unfortunate existed, he or she could cast a provisional ballot and settle the problem later. The extra bit of rigamarole might indeed repel some would-be voters. But in the absence of real evidence of disenfranchisement—not simply voters' unwillingness to spend time getting an ID—there was little reason to throw out the legislature's work.

John Fund, a columnist for the *Wall Street Journal*, argues that the law will also encourage the small fraction of Indianans without government-issued photo identification—which is used to fly, cash cheques and enter federal buildings—to get around to getting it at last. Even so, the court left open the possibility of further challenges if opponents uncovered real, substantial evidence that the law would severely or unfairly burden certain voters.

The critics are right about one thing: many states face far more pressing problems than voter impersonation, particularly when it comes to mismanaged or outdated voting systems of the sort that led to the Florida “hanging chad” recount debacle in the election of 2000. Indiana, for one, has voter rolls filled with the names of the dead, those who have moved out of state and felons ineligible to vote. This inflates their size by almost half, according to one estimate. The state legislature might have been advised to fix the faulty record-keeping that led to lists like that, before inviting controversy over voter IDs.

Campaign promises

Priming the pump

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From The Economist print edition

All three candidates promise to lower petrol prices

ACCORDING to a new poll by Public Agenda and *Foreign Affairs*, six out of ten Americans think reducing energy dependence will help national security "a great deal". They worry about global warming, too. But most of all they care about putting cheap petrol in their cars. So while all three presidential candidates talk a green streak about climate change, new fuels, cleaner vehicles and cap-and-trade, the immediate political imperative is to get the petrol price down.

The biggest promises so far came from Hillary Clinton in a speech on April 28th. She wants to suspend the federal petrol tax of 18.4 cents a gallon (3.8 litres) for the summer driving season, paying for it with a windfall tax on oil companies. She also wants to ban petrol-price "gouging" and go after "speculators" who, she says, are driving prices up. And she promises to haul OPEC before the WTO, and even before the American courts, for anti-competitive behaviour.

Some of her ideas would make a slight difference, such as pledging to stop adding oil to America's nearly full strategic petroleum reserve. Others will have almost no effect. Hitting oil companies with windfall taxes may generate revenue (to be used, Mrs Clinton says, for green technologies). But taxing oil companies could discourage exploration and investment, curtailing supply and driving oil prices up. As for gouging and speculation, those useful villains, it is unclear whether much of that is going on anyway; and, if it is, what effect it is having on the oil price.

The most obvious thing the government could do is to cut petrol taxes. Mr McCain promised a tax cut for the summer season even before Mrs Clinton thought of it. But this, of course, will encourage driving and send more profits to the oil companies and more fumes into the sky. Barack Obama opposes suspending the tax (though he joins Mrs Clinton in wanting a windfall tax on oil companies), saying it would save drivers only $30 over the summer and would deplete the highway trust fund.

The nettlesome fact at the heart of the matter is that expensive petrol is not the problem. Historically cheap petrol is; it has encouraged what even George Bush has called an American addiction to oil. Until that addiction is cured, expect more unrealistic and inconsistent promises from every stripe of politician.

Genetics and privacy

Hands off, maybe

May 1st 2008 | NEW YORK
From The Economist print edition

Congress bans certain abuses of genetic information

Illustration by Claudio Munoz

LOUISE SLAUGHTER is a woman ahead of her time. Informed by her university studies in microbiology decades ago, this congresswoman from New York decided early on that the much-trumpeted genetics revolution would also bring risks. Over the past 13 years she has repeatedly tried to get Congress to adopt legislation to prevent the abuse of an individual's genetic information by insurers or other third parties. Her efforts have had popular support and bipartisan appeal, but have faltered in the teeth of business opposition.

Now her wait appears to be over. On April 24th the Genetic Information Non-discrimination Act (GINA) unanimously passed the Senate. And this week it was also expected to sail through the House of Representatives, which last year passed a similar bill by a vote of 420 to three. President George Bush has promised to sign it, and may do so within days.

Why does this legislation, which Senator Edward Kennedy hails as “the first civil-rights bill of the new century”, seem to be succeeding now? One reason, hinted at by Mr Kennedy's proclamation, is Democratic support. Business worries about the lawsuits which GINA would supposedly unleash won more sympathy when Republicans controlled Congress. Once Democratic leaders agreed to tweak it this year to make it more palatable to big business, the bill sailed through the Senate.

Another reason, explains Kathy Hudson of the Genetics and Public Policy Centre (GPPC), is the advance of technology: “The bill was a little early a few years ago, but genetic medicine is here and now.” In just the past year or so scientists have discovered tantalising leads about the genetic causes of diseases, and various firms now offer direct-to-consumer genetic tests. But the problem holding back personalised medicine is that people are convinced that insurance companies and employers will use genetic information against them.

The good news is that GINA will help protect health data from prying eyes. The bill will prevent companies from using genetic information in deciding whether to employ someone. It will also forbid insurers from discriminating against individuals because of genetic proclivities.

The bad news is that GINA does not go nearly far enough. Conventional health insurance is covered by the bill, for example, but not life insurance or “long-term care” insurance. And health is not the only area where genetic privacy is under assault. The more interesting side of the story, insists Hank Greely of Stanford University, involves not insurers but policemen.

Californian officials have just announced a dramatic expansion of the state's use of “familial searching”. This controversial practice, pioneered by Britain, allows officials to pursue a suspect by examining any DNA of his relatives already found on official databases, even if those relatives are not suspected of the crime in question. The American Civil Liberties Union calls this a “dramatic expansion of police power” that will unfairly target minority groups for surveillance, since blacks are already grossly over-represented on the criminal database.

Ms Hudson points to another potential pitfall. Studies show that many mothers lie to their partners about the paternity of their children. She worries that the inspector's knock on the door could reveal secrets that may tear families needlessly apart. GINA may have arrived, but the battle for genetic privacy goes on.

Police tactics

A deadly force

May 1st 2008 | NEW YORK
From The Economist print edition

A shooting reveals how much, and how little, policing has changed

Reuters

Holding the boys in blue accountable

HE WAS unarmed and out on his stag night. But Sean Bell was killed, and two other men seriously wounded, by undercover police officers in November 2006. Bell was shot outside the club where he was celebrating, just hours before his wedding. Fifty bullets were fired. On April 25th the officers were acquitted.

At first sight the story seems familiar. It recalls the Rodney King case of 1992, when the acquittal of police officers who had beaten a black man triggered the Los Angeles riots. But it is also different from past instances of police use of deadly force.

When Patrick Dorismond, an unarmed man, was fatally shot by a police officer in 2000, Rudy Giuliani, then New York's mayor, implied the shooting was justified by describing Dorismond as “no altar boy”. In the Bell case Michael Bloomberg, the current mayor, arranged a meeting with Al Sharpton and other community leaders. Mr Bloomberg called the shooting “unacceptable” and “inexplicable”.

Panic shooting possibly played a part in the killing, but Eugene O'Donnell, a former policeman and a professor at John Jay College of Criminal Justice, thinks officers need better instruction in tactics, as well as more sensitivity training. “There's no substitute”, he says, “for every cop to be able to walk through every scenario.” The police department has recognised this. Since Bell's death, police academy recruits routinely spend four days in Harlem's Apollo theatre listening to community leaders such as Mr Sharpton.

Surprisingly, New York's police department (NYPD) is the most restrained large force in the country, with a very low ratio of fatal shootings involving the police: 0.36 per 1,000 officers in 2006, compared with 3.79 in Phoenix and 3.34 in Philadelphia. Last year's ratio was 0.28—lower than in 31 of the past 35 years. In 1973 the NYPD, with a 30,000-member force, shot and killed 54 New Yorkers. Last year, with 36,000 officers, it shot and killed ten.

Craig Futterman, a professor at the University of Chicago's law school, thinks that is still too many. There is a “take the streets by storm” attitude in big-city police forces, he says, that can result in bad decisions. He thinks race cannot be ignored, pointing out that in Chicago 80% of police shootings were aimed at minorities. But Chicago's trigger-happy officers were sometimes black themselves.

Since the Rodney King case, civilian oversight has increased substantially all over the country. Auditing and civilian review boards, as well as increased press scrutiny, have helped to change police culture. But some things have stayed the same. Merrick Bobb of the Police Assessment Resource Centre, which aims to strengthen police accountability, points out that the numbers of officers prosecuted and convicted is still very small. He notes that a number of civil suits are settled by police departments, who do not always discipline the offending officers. But the federal government now tends to get more involved in police shooting cases.

The acquitted detectives, Michael Oliver, Marc Cooper and Gescard Isnora, could still face federal charges. The Justice Department is investigating whether the civil rights of Bell and the others were violated. Some voices are calling for the creation of an independent state prosecutor to investigate and prosecute police brutality. The policemen also face disciplinary action from the NYPD and civil suits. They are unlikely to get off altogether.

Lexington

Wright's wrongs

May 1st 2008
From The Economist print edition

Illustration by Kevin Kallaugher

Will no one rid the airwaves of this turbulent priest?

AFTER he became notorious as the man who urged God to damn America, Jeremiah Wright claims he wrestled with two impulses. The first was to heed the proverb: “It is better to be quiet and be thought a fool than to open your mouth and remove all doubt.” The second was to “come across the room” and fight back. Mr Wright's decision to come across the room with his mouth wide open is proving a disaster for all concerned.

Mr Wright, who was Barack Obama's pastor for 20 years, has reason to be angry about the way he has been caricatured. The video clips that made him famous represent mere seconds of the thousands of hours he has spent preaching (207,792 minutes on Sunday mornings alone, according to his church, the Trinity United Church of Christ). Mr Wright volunteered to serve in Vietnam and spent six years in the armed forces. That, as he pointed out, is six years longer than Dick Cheney.

Mr Wright's appearance at the National Press Club on April 28th before a massed throng of reporters provided him with the perfect opportunity to set those seconds in context. But he chose to do exactly the opposite. He surrounded himself with some of the most divisive figures in black America: Marion Barry, Washington's disgraced former mayor, Malik Zulu Shabazz of the New Black Panther Party, Cornel West of Princeton University and a posse of security guards supplied by the Nation of Islam. And he hurled a succession of rhetorical bombs.

He defended his remark about “chickens coming home to roost”. He called Louis Farrakhan “one of the most important voices in the 20th and 21st century”. He talked about whites worshipping in church in the morning and putting on white Klan sheets at night. He defended his assertion that the American government invented the HIV virus to decimate blacks (“Our government is capable of doing anything.”). He even argued that blacks and whites have different learning styles, further proof that he endorses the racist theory that blacks and white have differently wired brains.

This is both a personal and a political tragedy for Mr Obama. Mr Wright was clearly a father-figure to a fatherless man who was confused about his identity. He introduced him to Christianity, and later conducted his wedding and baptised his children. In his speech on race relations in Philadelphia Mr Obama resisted incredible pressure to throw Mr Wright under a bus.

Mr Wright responded by throwing Mr Obama under the bus instead. He dismissed Mr Obama's attempt to distance himself from his former pastor as a politician doing what he had to do. He announced that, if Mr Obama becomes president, he will be “coming after him” because he will represent a government “whose policies grind under people". Mr Obama was said to be "deeply, visibly angry" when he was shown transcripts of these remarks. He responded with a press conference, in which his tone was alternately hard-hitting and elegiac, to make it clear that "whatever relationship I had with Rev Wright has changed". Whether that will reassure nervous white voters, time will tell.

This was also a tragedy for Mr Wright. He is far more than the blustering buffoon who was on the stage on Monday. He has presided over an increase in the size of his congregation from 87 when he arrived in 1972 to 8,000 today. Trinity is a welfare state in its own right, providing more than 70 welfare programmes for the poor, the unemployed, prisoners and HIV patients.

He is one of the most liberal members of the black church, happy to question Scripture when he thinks that it forsakes common sense and unusually tolerant of gay couples, who can be seen holding hands in his pews. No less a figure than Martin Marty, who is probably America's most distinguished historian of religion and who happens to be white, has defended Mr Wright and said how welcome he and his family feel in his congregation. But Mr Wright could well be remembered as a race-baiter who helped to prevent one of his parishioners from becoming the first black president of the United States.

And finally this is a tragedy for race relations in general. Mr Wright had a chance to explain how blacks can feel ambivalent about America—how they can volunteer to fight in a war, as he did, but also feel furious about slavery and segregation. But he furnished the anger without the explanation.

No quiet exit

He also had a chance to explain how blacks are über-Americans when it comes to religion. They are the most religious people in the country, and black churches are among America's greatest self-help organisations: they provided slaves with a social framework when they were denied even the right to form families, and they continue to provide support and welfare services. There were hopes that Mr Wright might have done this; he was in Washington for a conference on the black church. But he ended up doing the opposite, arguing that any criticism of him was a criticism of the black church in general.

What inspired this calamitous performance? Egomania was clearly part of it. Mr Wright responded to the applause of the amen corner in his audience with ever more outrageous assertions. There was probably a touch of jealousy too. Mr Wright has seen his former protégé rise to heights he himself could never have dreamed of, and he has been caught up in the tailwinds.

But there is also something deeper here: a generational struggle for control of black politics. Mr Wright belongs to a generation of activists—Jesse Jackson and Al Sharpton are other prominent members—who thrived in part by playing to the resentments of their black supporters. Mr Obama belongs to a much more pragmatic generation, people who want to get beyond racial polarisation and enter the political mainstream. Mr Wright's generation is not about to leave the stage quietly. So much the worse for America.

Argentina

Cristina in the land of make-believe

May 1st 2008 | BUENOS AIRES
From The Economist print edition

Dashing hopes of change, Argentina's new president is leading her country into economic peril and social conflict

EPA

SHE romped to an easy victory in last year's presidential election by promising to maintain Argentina's impressive economic performance while easing its social tensions and rebuilding its foreign relations. Yet just five months after Cristina Fernández succeeded her husband, Néstor Kirchner, in the Casa Rosada, Argentina is worse off on all three counts. Already, her government looks in disarray. It has provoked a tax revolt by farmers. On April 24th, it lost its most important new face when Martín Lousteau resigned as economy minister over a policy disagreement. The price of Argentina's bonds has plunged as investors show little confidence in the government.

With the economy having grown at over 8% a year since 2003, when it began a vigorous recovery from an earlier financial collapse, Mr Kirchner basked in popularity. He was helped by record prices for Argentina's farm exports but pumped up the economy further, with dollops of public spending and an undervalued currency. He brushed off worries about inflation, strong-arming businesses into freezing prices and ordering an underling to doctor the consumer-price index.

During her campaign, Ms Fernández led some analysts to believe that she would be more moderate than her combative husband. But any such hopes have been quickly dashed. She has kept most of his ministers, his policies and his rhetoric. According to unofficial calculations, inflation has reached 25% (officially, it is 9%).

Ms Fernández shows little sign of curtailing the dash for growth at any price. Mr Lousteau's mistake seems to have been his intention to act on her campaign promise to restore credibility to official statistics. His replacement, Carlos Fernández, is a non-entity. In practice, Mr Kirchner himself seems still to be in charge of economic policy. “We don't want a cooling of the economy because that always brought us unemployment, poverty, exclusion and economic concentration,” he told a recent rally of the ruling Peronist movement.

But overheating and inflation are already bringing Argentines some of these woes—and if unchecked will in time bring all of them. The statistics agency has stopped releasing poverty figures. Using an independent estimate of inflation, the poverty rate has risen from 27% in 2006 to 30%, with 1.3m Argentines descending into poverty last year, according to calculations by Ernesto Kritz, a labour economist in Buenos Aires.

To tame inflation and stabilise the economy, the government needs to allow the peso to appreciate, curb spending growth and energy subsidies, and raise interest rates. The longer such measures are postponed, the more painful and unpopular they will be.

Ms Fernández is already in a weaker position than her husband was. Several recent opinion polls give her an approval rating of only 35%. Mr Kirchner used lavish fiscal transfers to buy the support of provincial governors and mayors. But it is getting harder for his wife to match that.

To compensate for Mr Kirchner's pre-election spending binge, in March she raised taxes on agricultural exports. Buoyed by record world commodity prices and a favourable exchange rate, farmers had hitherto grudgingly accepted the levies. But the tax increase, together with rising inflation, cut the profit margin on soyabeans to just 6%, for example. The farmers launched an unprecedented campaign of strikes, roadblocks and pot-banging protests in city centres.

Taken aback, Ms Fernández's response was tellingly authoritarian and unstatesmanlike. She accused the farmers of greed and, improbably, of seeking a military coup. Government rent-a-mobs of *piqueteros* (unemployed protesters receiving state welfare payments) were unleashed against the farmers and their supporters. That backfired. “Cristina managed to do in three weeks what Argentina's farmers couldn't over 50 years: unite them,” says Gustavo Martínez of Salvador University in Buenos Aires. The farmers suspended their protests to allow talks to take place. The government seems to be seeking a way to back down.

Even in foreign policy, in which Mr Kirchner showed no interest, Ms Fernández has had little success. Her expressed desire to improve relations with the United States foundered on a complicated campaign-finance imbroglio. Last year customs officers at a Buenos Aires airport impounded $800,000 in cash being brought in by Guido Antonini Wilson, a Venezuelan-American who had arrived on a private plane rented by the Argentine government. Two days after Ms Fernández's inauguration, American prosecutors charged five men who they said threatened Mr Antonini, who lives in Miami, and claimed to have evidence that the money was for her presidential campaign.

The president seemed to blame the United States government, rather than its courts, for what she called “a garbage operation” against her. A planned visit to Europe last month was curtailed because of the farmers' protests. While foreign investment pours into neighbouring Brazil, Ms Fernández has done nothing to assure investors that they will enjoy predictable policies while she is in power. The government signed a contract this week for a $3.7 billion high-speed train from Buenos Aires to Córdoba, the first of its kind in Latin America, but it will be paid for with debt.

Ms Fernández still has plenty of time to correct her mistakes. She is blessed with a weak and divided opposition. Her husband has installed himself as president of the Peronist party, still Argentina's most formidable political machine. But the first couple's support is narrowing to not much more than the urban underclass organised by that machine.

After her bumpy start, Ms Fernández is being compared to Michelle Bachelet, the similarly hapless president of neighbouring Chile, with whom she is friendly. But at least Ms Bachelet is making her own mistakes. The suspicion in Buenos Aires is that Cristina is paying the price for her husband's pigheadedness, even if that is something she shares. “The Kirchners' golden age is over,” says Sergio Berensztein, a political consultant. “Now they'll have to get used to it.”

Canada

Not on our roads

May 1st 2008 | MONTREAL
From The Economist print edition

Bureaucrats against electric cars, and progress

IN THESE times of high petrol prices and worries about climate change, you might think that any country would be proud to enjoy a lead in manufacturing electric cars. Not Canada, it seems. Two Canadian companies, ZENN Motor Company and Dynasty Electric Car, make small electric cars designed for city use; a third, which will use new battery technology developed by Exxon Mobil, plans to launch a model later this year.

But almost all these “low-speed vehicles” (or LSVs) are exported to the United States because Canada refuses to allow their use on public roads. Transport Canada, the regulatory agency, questions their safety. It doubts they would stand up in a collision with a delivery truck or a sport utility vehicle. Officials say they crash-tested one which didn't fare well, though they refuse to release the data. The agency wants LSVs confined to “controlled areas”, such as university campuses, military bases, parks and Canada's few gated communities. Its advice has carried weight with the provinces, which make the rules of the road.

It is true that the cars are made from lightweight metals and plastics. But the manufacturers allege political bias: Stephen Harper's conservative government has much support in oil-rich Alberta. Backed by thousands of would-be buyers, they are campaigning to reverse the agency's decision. “It's a ludicrous regulatory situation. All you can point to is oil and the big guys and think there's a conspiracy somewhere,” says Danny Epp of Dynasty.

Mr Epp reckons that his car should be allowed on urban streets with speed limits of around 50kph (30mph) or less. But Dynasty recently gave up the battle. In March it announced that it is being bought by a Pakistani firm, which will move production to Karachi and export to the United States from there.

ZENN—that stands for zero emission, no noise—promises to fight on. Ian Clifford, its boss, points out that there has not been a single death related to LSVs in the United States, where 44 states allow them and some 45,000 such cars are in use. And gas-guzzlers imperil public safety by polluting the air, he notes. But Mr Clifford is not expecting change soon. He claims that his campaign against Transport Canada has made him enemies. “Two senior, entrenched bureaucrats have told me personally that if it is the last thing they do, they'll keep LSVs off the road in Canada,” he says.

Cuba

Committee of elders

May 1st 2008 | HAVANA
From The Economist print edition

Raúl institutionalises a gerontocracy

EPA

No political relaxation from Raúl

WHEN Fidel Castro had an important announcement to make, it would typically come during an hours-long speech to a government-organised rally of hundreds of thousands of flag-waving Cubans. Raúl Castro, his younger brother and successor, prefers the neat and tidy habits of a bureaucrat. This week, three days before the traditional May Day demonstration that is one of the set pieces of the Cuban revolutionary calendar, Raúl quietly took several bureaucratic steps to institutionalise his rule.

At a meeting of the Central Committee of the ruling Communist Party he announced that a long-overdue party congress will take place at the end of next year. This will presumably see Raúl replace the ailing Fidel as first secretary of the party, just as he succeeded his brother as president of the Council of State in February. Until then, at least, Raúl seems to want to underline that he heads a collective leadership. He unveiled a new executive committee of the Politburo. These decisions, he said, mark the end of a period of “provisional” leadership which began when Fidel Castro turned over his powers and underwent abdominal surgery in July 2006.

Party congresses have normally been held every five years or so, and have often been used to signal important decisions. At the last one, held in 1997, Raúl was proclaimed as Fidel's successor. The next one, Raúl suggested, would be dedicated to ensuring that Cuban communism outlives its “historic leaders”.

But for now he is relying on them. The new seven-man executive committee has an average age of 70. It duplicates the senior leadership of the Council of State. The only younger member is Carlos Lage, who is in charge of the economy and who is aged 56. Raúl also recalled José Ramón Fernández, an 84-year-old, as a super-minister for the troubled education system.

Since becoming president, Raúl has taken cautious steps to allow more private farming and eased a few petty restrictions that burden Cubans' everyday life. These have included lifting the bans on ownership of some consumer purchases, such as mobile-phone connections.

There has been no relaxation of political control. The message from the party would seem to be that there is not likely to be any—at least before the congress. Raúl has avoided building up a younger leadership. Yet oddly, by freezing the gerontocracy in place, he has made his new regime look impermanent.

Drug trafficking

Waving, not drowning

May 1st 2008 | MIAMI
From The Economist print edition

Cocaine now moves by submarine

Reuters

Instead of torpedoes, coke

THE history of the cocaine trade between Andean countries and the United States over the past 30 years shows that no sooner have police and customs officials become adept at spotting one smuggling method than the drug-traffickers come up with a new one. Light planes and commercial flights gave way to shipping containers. Where once cocaine was hidden in shipments of fresh vegetables and flowers, more recently it has been found in specially moulded furniture and concrete fencing posts.

But the latest method is especially cunning: home-made submarines. These first appeared a decade ago, but were considered by officials to be an oddity. Now it seems the traffickers have perfected the design and manufacture of semi-submersible craft (although they look like submarines, they don't fully submerge). In 2006, American officials say they detected only three; now they are spotting an average of ten a month.

Of those, only one in ten is intercepted. Many sail up the Pacific coast, often far out to sea. With enough cargo space to carry two to five tonnes of cocaine, they also carry large fuel tanks, giving them a range of 2,000 miles (3,200km). They are typically made of fibreglass, powered by a 300/350hp diesel engine and manned by a crew of four. They normally unload their cargo onto fast power boats for the final leg to shore. None has been sighted unloading at ports or beaches.

One theory is that the switch to submarines is part of an effort by Colombian cocaine producers to win back from their Mexican rivals-cum-partners a bigger slice of the profits from drugs. In the 1990s most cocaine began to enter the United States across its southern land border, rather than across the Caribbean. That allowed Mexican gangs to oust Colombians from much of the lucrative retail-distribution business in American cities.

The latest innovation may mean that a claimed increase in the retail price of cocaine (up 44% between January and September according to the United States' Drug Enforcement Administration) could prove short-lived. The price rise may have stemmed from a crackdown by Mexico on its drug gangs, which has prompted murderous feuding between them. But many independent analysts reckon that cocaine consumption in the United States has remained more or less constant. John Walsh, of the Washington Office on Latin America, an NGO, says that four similar price increases in the 1980s and 1990s were quickly reversed.

Interdiction of cocaine shipments fell by 20% last year. Stopping the subs requires “wide-area surveillance systems, acoustics and better intelligence,” says Admiral James Stavridis, the head of the United States' Southern Command, based in Miami. Having shot drug planes out of the sky, and used army troops to destroy coca fields and laboratories, it seems that the drug warriors will have to move into anti-submarine warfare.

Venezuela

Unfraternal

May 1st 2008 | CARACAS
From The Economist print edition

Squabbles in the ruling party

Get article background

HUGO CHÁVEZ envisaged his Unified Socialist Party of Venezuela (PSUV) as a monolithic and obedient instrument of his socialist revolution. But it has not turned out that way. Weakened from its birth last year by defections (three allied parties refused to join, one of them moving into opposition), the party is now strained by squabbles that are partly about ambition and partly about ideology.

Mr Chávez promised that the party would be the “most democratic” in Venezuela's history. But there are complaints that power in the party is in the hands of 15 vice-presidents appointed directly by the president. The PSUV failed its first electoral test last December, when Mr Chávez's attempt to rewrite the constitution was defeated in a referendum. Many of the squabbles are over candidacies for local elections due in November. Some *chavistas* see the vice-presidents as Mr Chávez's choices for state governorships. Two outgoing *chavista* governors are being prosecuted on what they say are trumped-up charges aimed at curbing their influence.

Candidates are supposed to be chosen in mid-May. Few doubt that Mr Chávez will have the final say. “Rather than have an undisciplined governor in the future, I'd rather lose the governorship,” Mr Chávez declared recently. He has threatened anyone who launches a “premature” campaign with expulsion. But those orders are already being defied.

In Barinas, the president's home state where his father is the governor, Chávez family control is being challenged by Wilmer Azuaje, a member of the National Assembly. He accuses the first family of abusing its position to buy land in the state; he claims that two of his aides were murdered on April 27th on the orders of one of Mr Chávez's brothers. Mr Azuaje is one of half a dozen *chavista* legislators who have formed an autonomous group in the assembly. Luis Tascón, another member of this group, complains that the president has been “kidnapped” by reactionary, bureaucratic forces within the movement.

Direct criticism of the president remains muted. But he is less popular than he was. And the referendum defeat thwarted his plans to remain president indefinitely. “There are those who feel that Chávez's days are numbered, and that definitely weakens him” within his own movement, says Herbert Koeneke, a political scientist at Simón Bolívar University.

China

A lot to be angry about

May 1st 2008 | FENSHUI VILLAGE
From The Economist print edition

AP

Polluted, poisonous and immune to popular efforts to enforce a clean-up: Tai Lake is a metaphor for the state of China's politics

THE plain-clothes police are always there, watching Xu Jiehua. When she goes out, two of them follow by motorcycle. Sometimes an unmarked car joins them, tailing her closely on the narrow road winding past the factories and wheat fields around her village.

Ms Xu is used to the attention. Her husband, Wu Lihong, was arrested in April last year and sentenced four months later to three years in prison for fraud and blackmail. For her, the police harassment is proof that the charges were false, and that Mr Wu's only crime was to anger local officials with his tireless campaigning against pollution around nearby Tai Lake, China's third-biggest freshwater body. It is also a warning that she too should keep quiet.

Last year nature appeared to vindicate Mr Wu. Soon after his arrest, the lake was choked by toxic algae fed by the phosphates from the human and industrial waste that had been poured into the water and its tributaries. For more than a week, the stinking growth disrupted the water supply of 2m people living on its shores. It was one of China's biggest environmental scandals since the Communist Party came to power. In Wuxi, the city closest to Mr Wu's home in Fenshui village, residents queued to buy bottled water. The Yangzi River was diverted to flush the algae out.

Amid an internet-fuelled uproar, officials promised to close down polluting factories and clean up an area once legendary for its beauty. But in late March blue-green blooms were again found along the southern shore. Such growths are rare so early in the year. Officials admit that despite their clean-up efforts the water remains at the lowest grade in China's water-quality scale, unfit for human contact, and that another “big bloom” is possible this year.

A repeat of the algae catastrophe on Tai Lake would be a huge embarrassment to both local officials and the central government. As they look nervously at protests around the country fuelled by an upsurge of anti-Western nationalism, the authorities are ever mindful that the anger could readily turn upon them too. Nationalist fervour may be helping to divert public attention away from the party's mishandling of Tibet—a remote problem in the minds of many Chinese. But it will do little to pacify citizens angered by official corruption, incompetence and negligence.

There are many such people. Officials rarely give figures, but they have said that the number of “mass incidents”—an ill-defined term—rose from 10,000 in 1994 to 74,000 in 2004. Suspiciously, the government reported a 22% decrease in the first nine months of 2006, but from a much lower base than previously announced figures had suggested. This may reflect underreporting by officials under pressure to show that their departments are achieving the goal of establishing a “harmonious society”, which the party has vowed to build by 2020.

The same internet and mobile-telephone technology that is helping China's angry young nationalists organise protests and boycotts is also helping other aggrieved citizens to unite. The past year has seen the first large-scale, middle-class protests in China over environmental issues: in the southern coastal city of Xiamen in June over the construction of a chemical factory, and in January this year in Shanghai over plans to extend a magnetic levitation train line.

For all the central government's green talk, a complex web of local interests sometimes linked with powerful figures in Beijing often frustrates efforts to deal with the problems that lead to such unrest. Wu Lihong's campaigning around Tai Lake threatened factories, the governments that depend on them for revenues and the jobs the factories provide. The anger of laid-off workers has long been one of officialdom's biggest worries. A factory where Ms Xu worked was among those Mr Wu helped force to stop production.

In 2002, after peasants blocked a road in protest over pollution in their fields, Mr Wu was jailed for 15 days for allegedly inciting them. He tried to launch an environmental NGO but officials turned down his request to register it (Wuxi already had one, they said, and that was enough). The police summoned him several times to warn him to cease his activities. But Mr Wu, ignoring his wife's remonstrations, persisted. He spent the family's savings on work such as gathering pollution data and lobbying the domestic and foreign press.

The official press—at least organs beyond the control of the local bureaucracy—reported on his efforts glowingly. His living-room is adorned with tributes: an award in 2005 from the central government naming him one of the year's ten “outstanding environmental-protection personalities”; a photograph of him receiving an honour for his environmental work in 2006 from the Ford Motor company.

But local officials were not impressed. One evening in April last year, when Mr Wu and his wife were watching television in their bedroom upstairs, police climbed up a ladder, through a window and took him away. They then smashed into his study and seized papers. Ms Xu still has the pile of cigarette stubs they left on the floor.

Mr Wu, who is 40, was found guilty in August of extorting money from an environmental-equipment manufacturer by threatening to inform the authorities that products supplied to a steel company were substandard. The court also ruled that he had cheated the company by claiming to represent the equipment-maker and seeking payment for the sale. The amount involved was 45,000 yuan ($5,940). Mr Wu denied the charges and told the court that his confession had been extracted by torture. Ms Xu says journalists were barred from the proceedings and no witnesses were produced for cross-examination.

A higher municipal court rejected Mr Wu's appeal last November. Last month Ms Xu submitted an appeal to a court in Nanjing, the capital of their province, Jiangsu. But she says she has no hope of success. The polluting companies her husband campaigned against remain open and the authorities have closed only unprofitable ones, she says. She shows visitors one alleged offender, a new lakeside resort complex. Since last year's disaster, the then Jiangsu party chief, Li Yuanchao, has been promoted to the ruling Politburo.

Ms Xu believes the national media have been quietly ordered to avoid mention of her husband. The police stopped an attempt by relatives to circulate a petition for his release (more than 100 people signed it before the police seized it, she says). Officials have warned Ms Xu not to talk to the press. A senior environmental-protection official said this month that the battle against Tai Lake's algae problem would be a protracted one. So too will efforts to silence whistle-blowers.

Afghanistan

Fearful asymmetry

May 1st 2008
From The Economist print edition

A shift in Taliban tactics

Reuters

Panic on parade

THE Mujahideen Day parade in Kabul on April 27th was meant to show Afghanistan's new, Western-trained, armed forces coming of age. President Hamid Karzai, the country's political elite and a jumble of Western diplomats packed a podium to review the troops. Then, just as a 21-gun-salute began, three lightly armed Taliban fighters began to take pot-shots from a shabby hotel nearby. The dignitaries scrambled in panic for safety.

Casualties were not as serious as they might have been: the gunmen managed to kill three and wound 11 but missed their main target, Mr Karzai. Afghanistan's intelligence chief said there was evidence that the attackers had ties with militant groups linked to al-Qaeda and based in Pakistan (see article). For the Taliban the attack is a propaganda victory, showing that Afghanistan's capital is within their reach. This was the second big attack in Kabul this year. In January a four-man Taliban suicide-squad blasted its way into a luxury hotel, killing eight staff and guests.

This time, it could have been worse. Called in for a dressing-down by Afghan parliamentarians, the country's intelligence chief, Amrullah Saleh, claimed that security forces had foiled two further attacks that day. Other attacks have reportedly been foiled in Kabul in recent months.

Optimists point out that Afghanistan's government remains relatively stable and, despite the setbacks in Kabul, that there is no evidence of a jump in Taliban capability. Indeed, Western commanders say the younger Taliban leaders now emerging are more radical but less competent than their predecessors. It seems likely that in August, as scheduled, Afghan forces will take on responsibility for security around the capital. That would be a symbolic first step towards an eventual reduction in Western troop numbers. NATO's commander thinks this might be feasible from 2011.

However, recent hints by some Western officials that the Taliban are crumbling look premature. Overall, Taliban violence is in fact rising. Military deaths in the first three months of the year were one-third higher than a year ago, though there were far fewer injuries (99 compared with 187 last year). More casualties among Western forces are caused by tactics such as roadside bombs and suicide-attacks. This time last year such assaults caused 44% of casualties; now it is more like 80%. That suggests the Taliban are eschewing firefights, when body armour often saves soldiers' lives, in favour of lethal terrorist attacks.

A shift to “asymmetric” warfare would be understandable. The attack in Kabul fits in with that evolving strategy. Such “spectaculars” require little in the way of logistical support, but they mould public opinion.

In conventional battles the Taliban forces were estimated to be losing 15 fighters, at least, for every NATO soldier killed.

Outside Kabul, too, Taliban leaders may have decided to swap set-piece battles for hit-and-run attacks. This would still allow them to keep the war going long enough to capitalise on disenchantment with the present regime. Grievances about corruption, bad government, worsening local feuds and foreign soldiers could all fuel anger at rule from Kabul. The Taliban's best hope may be to outlast rather than outgun the West.

Pakistan's tribal areas

Dangerous deals

May 1st 2008 | PESHAWAR
From The Economist print edition

Worth the paper they're not written on?

AS THE snows melt in Afghanistan, the fighting season beckons; across the border in Pakistan, however, it is the season for making peace deals. After winning an election in February the coalition government, led by the Pakistan People's Party (PPP), announced plans to talk to militants. Talks have indeed taken place, to the chagrin of the American administration. But the civilians had little to do with them.

The PPP and its main coalition partner, Nawaz Sharif's Pakistan Muslim League, have been far too busy for duty in the "war on terror". They have been bickering instead over their unfulfilled pledge to reinstate judges sacked by President Pervez Musharraf. On the frontier, Mr Musharraf, army chief until November 2007, still calls the shots. It was he who signed a 15-point peace plan cobbled together by a military-intelligence agency and the governor of the North West Frontier Province (NWFP) before the election, and approved by the new civilian government last month.

The army and the militants, both badly bruised from vicious fighting, have observed an unofficial ceasefire for more than a month while officials attempt to string a series of "secret" deals together across the lawless tribal agencies. They are close to signing a deal with tribal elders acting for Baitullah Mehsud, the overall leader of the assorted Pakistani Taliban outfits. The CIA has named Mr Mehsud as the prime suspect in the murder last December of Benazir Bhutto, a former prime minister. It accuses him of training suicide-bombers. On April 25th he distributed fliers ordering supporters to end hostilities or be "hung upside down in public".

The deal stipulates an end to militant activity, the expulsion of foreign fighters, an exchange of prisoners and the gradual withdrawal of the army from South Waziristan. But similar deals have foundered in the past. In North Waziristan, for example, a 2006 agreement led to a tripling of cross-border infiltration. Officials say the new pact ties in more tribes. In South Waziristan the methods for dealing with "violations" have been tightened.

But the flaws are obvious: the draft is silent about militants' cross-border forays into Afghanistan; and it is not clear how ineffective tribal elders can wield influence over well-armed militants. Western diplomats say that infiltration has doubled over the past month compared with the same time last year, and is a particular problem from Bajaur.

According to a senior Western diplomat, there is a lingering attachment between elements of Pakistan's establishment and Mr Mehsud and other leading Islamist extremists. The militants holding Tariq Azizuddin, Pakistan's ambassador to Afghanistan, who was kidnapped in February in the Khyber Pass, say that in return for freeing him they want the release of three suspects accused of murdering Benazir Bhutto and a former Taliban defence minister, Mullah Obaidullah.

The secular party that governs the North-West Frontier Province, the Awami National Party (ANP), is trying to pacify its own area. It has released a senior pro-Taliban Pakistani militant, Sufi Mohammad, whose banned faction has pledged to renounce violence. Khalid Aziz, a retired senior bureaucrat, has helped draw up a plan that includes boosting the province's police force by 14,000 officers and rehabilitating 12,000 former militants. But he says NWFP's success is greatly dependent on the tribal areas. The ANP's Aftab Sherpao, a former interior minister who has survived two suicide-attacks, says that no plan can work unless it is linked to agreements in Afghanistan. To some observers, including the Americans, it all has an air of inevitable failure.

Japanese politics

Fukuda's botched repairs

May 1st 2008 | TOKYO
From The Economist print edition

Back from the brink, but still beleaguered

Illustration by David Simonds

WHENEVER Japan's next general election takes place, the odds of Yasuo Fukuda, the hapless prime minister, leading his party into it have dwindled. On April 27th, the 71-year-old was presented with a crushing by-election defeat for his Liberal Democratic Party (LDP) at the hands of the opposition Democratic Party of Japan (DPJ), for a vacant seat in the lower house of the Diet (parliament). Three days later, Mr Fukuda, using the ruling coalition's supermajority in the lower house, courted deeper unpopularity by reinstating a petrol tax that had lapsed a month earlier after the DPJ-controlled upper house opposed its renewal. Mr Fukuda's approval ratings are now even lower in some polls than the low point of his predecessor, Shinzo Abe.

The manner of defeat in Yamaguchi prefecture says much about the LDP's disarray. The party's first mistake was to create the vacancy, by pulling out the incumbent to run for mayor of Iwakuni, a small city hosting a controversial American base. Its second was to run a political novice against a strong candidate who had held the seat before. Third, the novice's chief credentials were that he had been a mandarin in the construction ministry. Yet Mr Fukuda's survival hangs on people taking seriously his promise to face down pork-barrel interests. Lastly, in a masterstroke of bad publicity and timing, pensioners had to start paying more for medical treatment two weeks before the by-election—even as government incompetence in the loss of 50m computerised pensions records has yet to be resolved.

The defeat undermined the prime minister's promises of reform. He argued for the reinstatement of the petrol levy, worth ¥2.6 trillion ($25 billion) a year, on the grounds that the country's finances are already shaky enough. Yet for the past three decades the proceeds from the levy have been earmarked for road construction. The DPJ's leader, Ichiro Ozawa, seized on this; modernisers within the ruling coalition also oppose earmarked taxes that benefit powerful construction lobbies. Some coalition politicians had even threatened to vote against the government over reinstating the petrol levy.

Mr Fukuda has promised both to transfer future road-related taxes to the general budget from next year and to hold a review of the government's long-term road-building plans. Until the upper house opposed these, too, they were set to cost Japan's taxpayers an astonishing ¥59 trillion over the next ten years. Yet a lot rests on the prime minister's word that these issues will be tackled in a special Diet session in the autumn. For Mr Fukuda proposes to use his supermajority again, probably on May 13th, in order to reinstate the original ten-year plan—in order, supposedly, to reform it. Letting it simply die, he says, would create havoc for localities.

For now, Mr Fukuda seems to have won the LDP's doubters round. Their leader, Taro Kono, says Mr Fukuda has satisfied their immediate demands by promising to get the stamp from both the ruling parties and the cabinet for his proposals. Both LDP reformists and pork-barrel-rollers will hesitate to plot against Mr Fukuda before Japan acts as host to the G8 summit in July, and will probably have to back him in the special autumn session.

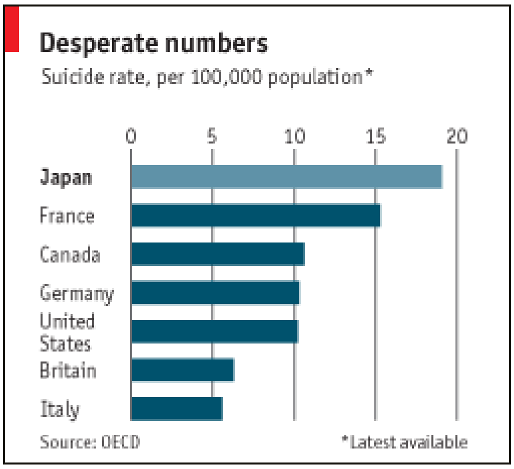
Because the DPJ won the by-election, more of its members think that not only can it bring the government down, it can even win a general election. Mr Ozawa has again proved himself a brilliant electoral tactician and his uncertain standing in the party has risen. Yet the DPJ has still to convince voters that it is as capable of ruling as it is of obstruction; or, indeed, that its private if autocratic leader even wants to lead the country. More than anything, there is still the small matter of the DPJ's approval ratings: lower, even, than the LDP's.

Suicide in Japan

Death be not proud

May 1st 2008 | TOKYO
From The Economist print edition

A rash of suicides horrifies Japan



“DO NOT open! Gas being created!” Written in red felt-tip pen and affixed to a door, they are among the last words of a 14-year-old Japanese schoolgirl, who took her life on April 23rd. The warning followed the advice of a website that also provided instructions for creating hydrogen-sulphide gas by mixing toilet-bowl cleaner with bath salts.

This simple method of suicide claimed some 60 lives in April—mainly of people in their teens or 20s—and around another 20 earlier this year. The colourless, pungent gas does not dissipate easily. So bystanders and would-be rescuers are put at risk. The girl's mother was hospitalised and around 100 neighbours had to evacuate their homes.

Yet this is only the latest, macabre, technique in a country that suffers an epidemic of suicides. Japan has one of the highest suicide rates among rich countries. Cultural factors are partly at play. Japanese society rarely lets people bounce back from the perceived shame of failure or bankruptcy. Suicide is sometimes even met with approval—as facing one's fate, not shirking it. The *samurai* tradition views suicide as noble (though perhaps out of self-interest, since captured warriors were treated gruesomely). Japan's main religions, Buddhism and Shintoism, are neutral on suicide, unlike Abrahamic faiths that explicitly prohibit it.

Yet economic woes play an even bigger role. Suicide rates increased sharply in the mid-1990s as the economy soured, and have remained high since (even as the economy has improved slightly). Financial concerns are cited in one-fifth of suicide notes; almost half of all suicides are unemployed. Some take their lives so that surviving family members can collect insurance, which has led insurance firms to defer payments for two or three years as a deterrent. For the same reason, Japan Railway charges suicide victims' families for the cost of the inconvenience and clean-up.

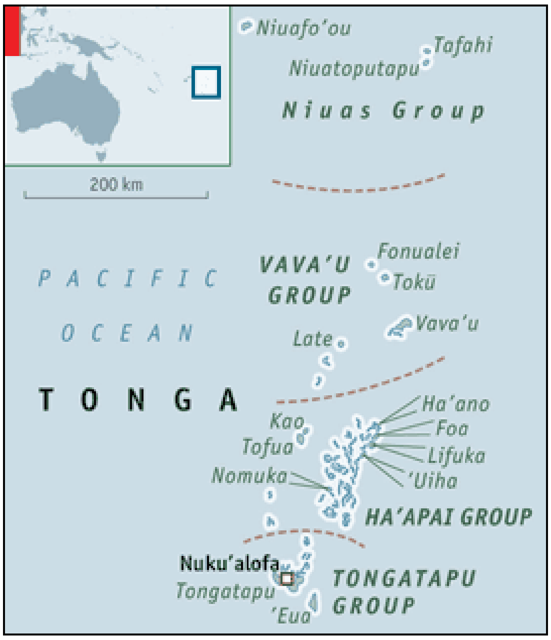
Last year the government instituted measures such as a counselling service and hotlines, with the aim of cutting the suicide rate by 20% in nine years. But these are palliatives. More important would be a change in social attitudes. Suicide might be less common if, rather than force people to endure lifelong shame, Japanese society began to allow its people second chances.

Tonga

Unsteady as she goes

May 1st 2008 | NUKUALOFA
From The Economist print edition

The “commoners” elect some combative democratic leaders



THE faltering transition in Tonga from monarchy to democracy took another step forward with an election on April 24th. This was the first poll in the islands, where 108,000 people live, since 2005, when popularly elected politicians for the first time joined the royal government. One, Feleti Sevele, later became prime minister. In November 2006, Tonga was rocked by pro-democracy protests and riots, leaving much of the capital, Nukualofa, in ashes. But the leading pro-democracy parliamentarians who were accused of orchestrating those riots swept back into office on the main island of Tongatapu and those nearby. Akilisi Pohiva was the top-scoring candidate on Tongatapu. He and several other pro-democracy leaders face sedition charges. If found guilty they will lose their seats.

Ministers in the royal government had hoped voters would punish the radicals for the destruction of Nukualofa, and back the cabinet's gradualist reform agenda. The new king, George Tupou V, who acceded to the throne in 2006, soon declared that he no longer wanted to appoint the ministers and predicted a popularly elected majority in parliament. Last year the government agreed to increase the number of people's representatives from nine to 17 at the next elections in 2010, while retaining nine seats for “nobles” and reducing the number of ministers nominated by the king from 15 to four.

Mr Pohiva says that the 2008 electoral results demonstrate support for a speedier transition to full democracy. He is right that ordinary Tongans are suspicious of the government's promises of reform and that expectations have been raised by the pro-democracy politicians, with hopes that reform could reverse economic decline; GDP shrank by 3.5% in 2007. Electoral loyalties on Tonga's scattered islands are largely determined by kinship as well as the education, wealth and community service of candidates. But ideology also matters, particularly on Tongatapu and neighbouring Eua. Tongans often praise the 177-year-old monarchy in public, but in the privacy of the polling booth plump for radical change.

Until now, “commoners” have in effect been allowed to pick only the opposition, while the king has retained ultimate, if declining, control of government. With reform now firmly on the agenda, they have chosen the most combative of leaders to press the traditionalist government into faster change. Yet the radicals' victory was not unequivocal. In traditionalist Vavau in the north, which has in the past threatened to secede should the democracy movement triumph on Tongatapu, those associated with the 2006 protests were rejected in favour of local conservative candidates. Still farther north, in the remote Niuas, another pro-democracy incumbent, Tonga's only female parliamentarian, lost.

Still, the pro-democracy politicians are flushed with victory. They want the king to sign a firm commitment to reform, and have threatened further protests if he refuses. In the event of renewed rioting, there is a danger that the 800-1,000 strong army, which has strong monarchist connections, might step in. In the interests of a smooth transition, it may not be such a bad thing that some conservative northerners hold the balance of power.

Malaysia

The winds of change

May 1st 2008 | BANGKOK
From The Economist print edition

Could the opposition take power after 51 years?

AFP

Prime minister in waiting again

AS MALAYSIA'S new parliament opened this week, a mood of change was in the air not felt since the country's independence from Britain in 1957. The governing coalition, led since then by the United Malays National Organisation (UMNO), is panicking after suffering its poorest-ever showing in the general election held in March. The knives are out for Abdullah Badawi, the prime minister. The opposition, newly assertive and, so far, united behind its leader, Anwar Ibrahim, claims that at least 30 MPs from the ruling coalition are preparing to defect, which would be enough for it to take power. A change of government in Malaysia—a fanciful notion until recently—now seems a real possibility.

To fend off calls for his resignation Mr Badawi has said that after UMNO's annual conference, which has been postponed until December, he will discuss handing the party leadership (and thus the prime ministership) to his deputy, Najib Razak. Not soon enough, say his internal critics, including Mahathir Mohamad, the prime minister's embittered predecessor, and Razaleigh Hamzah, a former finance minister and rival to Dr Mahathir, who intends to run for the leadership. Mr Badawi has pleaded with local party branches to stop calling emergency meetings to discuss the poor election result and question his leadership, so far to no avail.

In a bid to salvage his reputation, Mr Badawi has belatedly started keeping the bold promises of reform that he made on coming to office in 2003. Foremost among these was curbing corruption within the government. But the public thinks it has actually worsened under his administration. Last year, grave allegations against the then head of the Anti-Corruption Agency (ACA) and the national police chief were dismissed by the attorney-general's office for “lack of evidence”. The prime minister announced this month that the ACA, widely seen as subservient to the politicians it is supposed to supervise, would be replaced by a more independent body. Opposition leaders are pressing him to create an independent police-complaints body, a promise Mr Badawi had broken after meeting stiff resistance from police chiefs.

Another of Mr Badawi's pledges, unkept until now, was to reform the country's weak and mistrusted judiciary. The justice system was wrecked by Dr Mahathir in 1988, after the courts ordered UMNO's dissolution. Dr Mahathir had the constitution changed to strip the courts of their independence from government. He also sacked the head of the Supreme Court and five other senior judges. Last year the opposition highlighted the need for judicial reforms by releasing a video-clip of a top lawyer apparently boasting of his ability to fix judicial appointments. In his cabinet shuffle after the election Mr Badawi appointed a prominent legal reformer, Zaid Ibrahim, to shake up the justice system. Last month the prime minister announced that the changes would include a new, independent commission to recommend candidates for the judiciary. The six judges sacked in 1988 will be given compensation but no apology.

Other better-late-than-never measures from Mr Badawi include loosening the state's tight grip on the press. Mr Anwar's People's Justice Party is to be allowed to publish its own newspaper, a right it has been seeking for ten years. The government has also revoked its ban on *Makkal Osai*, a paper read by the country's ethnic-Indian minority, which had given ample coverage to the opposition's election campaign and to Hindraf, a radical protest group campaigning for the Indian minority's rights, which the government has accused of terrorist links. The government is also reconsidering some of its lavish public-works projects, which have a tendency to be awarded to UMNO-friendly firms. A high-speed “bullet” train link between Kuala Lumpur and Singapore, costing 10 billion Malaysian ringgit ($3.2 billion), was the first to come under review.

Welcome as they are, these moves seem unlikely to save Mr Badawi. Mr Anwar crows that his opposition coalition, the People's Alliance, will be in government by September. He says he is simply waiting until he has enough potential defections from the government benches to secure a comfortable majority before making his move. There have been a few defections at state level but, so far, no MPs have jumped. Mr Anwar has been courting support in the Malaysian part of Borneo, hoping that some of the gaggle of pro-government parties there—on which the ruling coalition now depends for its majority—might defect en masse.

Mr Anwar has been prime minister in waiting before. He was deputy to Dr Mahathir until 1998 but the two men fell out and the then prime minister had him jailed on dubious charges. A ban on Mr Anwar's taking political office expired last month. Rebranded as an anti-UMNO reformer, he can now stand for parliament again. His chances of success in his second shot at power hinge not just on whether he can attract enough government MPs—ideally principled ones, not just those available to the highest bidder—but on whether his opposition coalition, an uneasy mix of secularists, Islamists and ethnic-Chinese activists can hold together.

Economist.com WORLD MIDDLE EAST & AFRICA

Zimbabwe

The pressure on Robert Mugabe steadily mounts

May 1st 2008 | JOHANNESBURG
From The Economist print edition

AP

There is no sign of an early end to the crisis, but the beleaguered president is looking a bit more isolated

MORE than a month after the elections on March 29th, Zimbabwe remains in an agonising limbo. In the past week, however, international pressure on President Robert Mugabe has grown. For the first time, Zimbabwe's crisis was discussed in the UN's Security Council. Regional leaders in southern Africa are becoming more irritated, to say the least, both by Mr Mugabe's refusal to let his electoral commission announce the results of the presidential poll and by growing reports of government-sponsored violence against the opposition. Mr Mugabe has been further weakened by the commission's confirmation that his ZANU-PF party has lost control of Parliament for the first time since independence in 1980. Finally, there have been more mutterings, in ruling circles and elsewhere, that the impasse can be solved only by the formation of a government of national unity.

Mr Mugabe, however, has given no hint whatever that he is ready to step down. Government sources leaked this week that the electoral commission was poised to start “verifying” the results of the presidential contest and admitted that the opposition leader, Morgan Tsvangirai, had won the first round—but only by 47% or so to Mr Mugabe's 43%, thus requiring a run-off. If this is the case, Mr Tsvangirai and his Movement for Democratic Change (MDC) will have to decide whether to compete again, amid rising government-sponsored violence, intimidation and preparations for more thorough rigging. If the MDC insists that it won outright and refuses to go into a second round, it will lose by default. If it does compete, it will try against the odds to ensure that there is a much more robust system of monitoring by a wider range of international watchers.

Mr Mugabe's acknowledged loss of Parliament was a big blow. Despite fears of rigging and manipulation, a recount of votes in 23 of the 210 constituencies failed to change the overall result. The two factions of the MDC, which together won 109 seats against ZANU-PF's 97, have promised to join forces in Parliament. If Mr Mugabe manages to stay on as president, his government will struggle to pass any law in the legislature. But the MDC would not be able to rule the roost either. It lacks the two-thirds majority needed to change the constitution. The president's wide powers could enable him to rule by decree. He can appoint a third of the senators, so his party would still outnumber the opposition in the combined Senate and assembly, which could elect a successor if Mr Mugabe were to retire before his term was up.

Meanwhile, as the country waits anxiously for the presidential election result, repression against the opposition has intensified sharply. On April 25th, armed riot police raided the MDC's office in Harare, the capital, arresting about 200 people, most of them supporters who had fled violence in the countryside and taken refuge in the opposition's headquarters. Pregnant women, children and people recovering from beatings were among those rounded up in lorries and taken away, along with computers and documents.

The authorities claimed they were looking for people responsible for arson attacks. But they were probably trying to intimidate opposition people and looking for documents backing the MDC's claims that Mr Tsvangirai had won the presidential poll outright.

The police also raided the offices of an organisation of independent electoral observers whose projections suggested that the MDC leader had won the most presidential votes. The dozens of people arrested at the headquarters were released a few days later, after the High Court ruled they should either be charged or freed.

An unfazed Mr Mugabe, speaking at a trade fair in Bulawayo, Zimbabwe's second city, thanked the African Union and the Southern African Development Community (SADC), a club of 14 countries that has led the international diplomacy, for its “support and solidarity”.

But international impatience is rising. Though SADC is still divided, several of its members have begun to express open criticism. Calls for the publication of the presidential result have multiplied. South Africa's ruling African National Congress and its president, Jacob Zuma, have spoken out against the delay and the mounting violence. So have its trade-union and communist allies, which have asked African governments to shun Mr Mugabe.

Trade unions across the region refused to unload a shipment of arms bound for Zimbabwe's army from a Chinese ship, now off the Angolan port of Luanda. European countries and America have called for an international arms moratorium against Zimbabwe, and have pressed the region to do more. The United States has called for general sanctions.

The key, according to Western diplomats, is to persuade a critical mass of SADC leaders to take the lead in diplomacy away from South Africa's president, Thabo Mbeki, who still seems loth to see Mr Mugabe fall, at any rate if he were to be replaced by Mr Tsvangirai; the MDC has accused Mr Mbeki of bias against it. Instead, the MDC wants the UN to intervene and to send a representative to Harare. The UN's secretary-general, Ban Ki-moon, says there is a humanitarian crisis and has offered his “good offices”; the UN's High Commissioner for Human Rights has condemned the violence. Though the UN Security Council, over which South Africa has been presiding, debated the crisis, it failed to agree on a collective response. But Zimbabwe is creeping on to the UN agenda. And on May 1st Britain took over the Security Council's monthly chair.

Presidential candidates or their representatives (Mr Tsvangirai has controversially been outside Zimbabwe for more than ten days) were due on May 1st to start verifying the results, comparing those they collected from polling stations with those collated by the electoral commission. But all sides must agree before the final results can be declared, which could take days—in fact, as long as Mr Mugabe and ZANU-PF want—or end in a stalemate. The MDC still says Mr Tsvangirai has won outright, but the ruling party claims that a run-off would be necessary. It is difficult, in any event, to imagine how that could take place amid the violence and intimidation already being perpetrated by pro-government militias, the army and police.

How to get out of the hole

SADC is said to be pushing for a government of national unity. But it is far from getting all parties to agree on who should lead it. ZANU-PF refuses to work with Mr Tsvangirai and says it is ready for a second presidential poll. The MDC stresses that a unity government would not mean power-sharing; as the biggest party in the assembly, it would lead a broad government including some members of ZANU-PF and other capable outsiders. But it is adamant that Mr Mugabe must step down and Mr Tsvangirai be declared president. Regional leaders have been keen to promote Simba Makoni, a former ZANU-PF finance minister who ran as an independent, but he appears to have won less than 10% of the votes, too few for a compromise president.

Moreover, if Mr Mugabe and his senior security men were to step down graciously, they would need to be guaranteed a peaceful retirement. The MDC has said it is not vengeful and would let Mr Mugabe stay in Zimbabwe. But security chiefs, especially those involved in gross human-rights abuses, no doubt fear an MDC-led government and are determined to hang on. Zimbabwean campaigners have created a Truth and Justice Coalition for Zimbabwe to prosecute those responsible for human-rights abuses. It says it has 200-plus names—from the ruling party, the armed forces, militias and war veterans' groups—of those responsible for harming civilians. It also promises to disclose these people's personal assets, illicit money-laundering and collusion with some Asian and other African states.

As the stalemate persists and violence increases, the MDC's supporters may be increasingly loth to obey their leaders' calls not to turn violent. But Mr Mugabe's people still have the guns.

African rock art

The continent's true history

May 1st 2008 | NAIROBI
From The Economist print edition

Protecting cave paintings can restore Africa's pride in its history

TARA

Africa, arise!

SO LATE to be “discovered” by the rest of the world—Henry Stanley made the continent's first crossing only in 1877—Africa, it can be forgotten, is probably the cradle of humanity. Palaeoanthropologists, archaeologists and, more recently, geneticists have all bolstered the “out of Africa” theory, which holds that early man wandered out of the Rift Valley. Yet little is known of pre-colonial African cultures. Some vanished out of history, along with their languages and beliefs, before they ever came to be named. That is one reason why Africa's rock art is so precious. The faintest ochre scratches of prehistoric antelope in a cave open a rare window into Africa's—and humanity's—distant past.

Africa may have 200,000 rock-art sites, more than any other continent. The oldest known site, in Namibia, is between 18,000 and 28,000 years old. Several African universities now have programmes to decipher the paintings and carvings. They are being helped by the Kenya-based Trust for African Rock Art (TARA), which seeks to discover and digitally archive as much of the art as it can for future scholars.

The best is in the Sahara desert, particularly in Niger's Air mountains, in the Tibesti mountains of northern Chad and southern Libya, and in south-east Algeria's Tassili n'Ajjer range. Such desert sites are too remote to be damaged by graffiti, though wars involving the local Tuareg have resulted in some being shot up or smashed apart for sale to foreign collectors. David Coulson, one of TARA's founders, raves about a recent find in the Tassili n'Ajjer range: an anatomically perfect four-metre-long carving of a hippo hunted by an Egyptian-looking figure with a superbly sinuous bow. This in a region that dried up several thousand years ago.

Elsewhere in Africa, rock art often chronicles the hunting magic of Bushmen and Pygmies. Not much rock art survives in western Africa, and in eastern and central parts of the continent more recent but still invaluable paintings have been poorly preserved.

But there is progress. Locals are being encouraged to see the value of showing off their sites to tourists. National museums are being overhauled, with new displays of lost peoples. New history textbooks may follow. New finds are being made. A sensational discovery in a cave in Kenya is being kept under wraps until it can be properly dated.

Some think African rock art should provide a pan-African rallying point, free of politics or religion. A rich rock-art heritage could connect Libya and South Africa, two of the African Union's biggest backers, which sometimes struggle to find anything in common. Kofi Annan, a former UN secretary-general, is a big rock-art fan. He reckons it represents nothing less than the earliest record of the human imagination.

Economist.com WORLD MIDDLE EAST & AFRICA

Malawi

Can it feed itself?

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From The Economist print edition

An expensive fertiliser subsidy delivers a bumper harvest—but at what cost?

WORRIES about food shortages are easily aroused in Malawi. In 2002 unripe cobs rotted in waterlogged fields while the national grain reserves were empty, prompting famine. A dry spell during three crucial weeks in 2005 kept female maize flowers closed until the males had sprinkled their pollen away. Again, a third of the population needed food handouts.

But in the past two seasons Malawi's smallholders have patted fuller bellies. Propitious weather helped the country produce a record maize harvest in 2006; the next year the harvest was even better, by nearly one-third. Official estimates put this year's output above average, despite months of lashing rain that swelled the Zambezi river and submerged farmland in much of the south of the country.

Politicians, foreign aid-givers and regularly famished farmers all attribute the bumper harvests to a massive government subsidy on fertiliser and a smaller one on maize seed. Andrew Dorward, a professor at London's School of Oriental and African Studies, who recently reviewed this scheme, reckons that a fifth of Malawi's harvest in 2007 can be attributed directly to farmers dressing their soils more handsomely and switching from local seed varieties, little altered from those first brought by the Portuguese centuries ago, to less water-sensitive hybrids.

Both bountiful seasons began with local officials providing wads of vouchers to village leaders, who distributed the discounts. Each farmer then took his coupons to a local shop where he exchanged them for reduced-price seed, 50 kilograms of urea and the same amount of a nitrogen-phosphorus mix, both used as fertilisers, for which he paid about a quarter of the normal sum. Because the government promised a minimum price for surplus maize at the end of the season, the whole enterprise was assuredly profitable for those smallholders who used their fertilisers and seeds well, and were lucky with the rain; nearly everybody was. As a result, President Bingu wa Mutharika's standing and his government's purse have grown.

It would be rash to label the policy a success, though. When the scheme started, the government, shell-shocked from the food crisis of 2005, its first year in power, did not trust private suppliers to procure or distribute subsidised fertiliser and seeds, so it did the task itself. But much of the government-procured fertiliser arrived too late to reach farmers during the first ten days of planting, when it does maize the most good. The agriculture ministry had to go begging at the warehouses of businessmen it had previously snubbed, who expressed their irritation by upping the price.

This weakened and annoyed the private sector. Even though the policy put fertiliser into the hands of farmers who could not previously afford the stuff (which it was supposed to do), it also made fertiliser cheaper for many who would have bought soil nutrients anyway (which was not the intention). At Farmers' World, one of Malawi's main agribusiness dealers, sales dropped by 70% and profits by 60%, so the company closed 30 of its 100 shops, says its boss, Dimitri Giannakis. Critics also lament the scheme's inefficiency, saying that it subsidised an imperfect type of fertiliser for the country's soils, that village headmen misunderstood or corruptly pocketed vouchers, and that landless Malawians peddled cheap fertiliser over the border in Mozambique and Tanzania.

The destruction of private distribution networks in the policy's first year led worried foreign donors to cajole the government into tinkering with the plan. The same donors had previously refused to get involved, saying that subsidies for African fertilisers had too often failed in the past. But they helped meet the policy's considerable costs during the second season in return for the government's improving its fertiliser tender and letting Farmer's World and companies like it accept vouchers in their shops and redeem them later. Such changes reawakened competition between those selling the seeds and fertilisers just in time to pull many back from the brink of bankruptcy.

Which is why experts promoting Malawi as an advertisement for a renewed effort to bring about an African green revolution should do so with care. To be sure, the subsidies have been a massive improvement on the panicky food buying of 2002 and 2005; they have enabled poor farmers to plant their crops more cheaply; they have given them more to eat; and they have avoided the perverse outcome, in some other African countries, where farmers are reducing the amount of land they are planting at a time of high food prices because they cannot afford fertilisers.

Yet more efficient, longer-term investments have worked elsewhere. Kenya stopped fertiliser donations in the early 1990s and binned its import licence and ceiling price on the commodity, yet private depots of it have grown and farmers have bought more fertiliser as transport has got cheaper. A season or two of bad weather could recast Malawi's policy as a heavy fiscal burden which the country has to carry because its farmers, who make up most of the country's voters, now view big subsidies as a right rather than a last resort.

Congo

Atrocities beyond words

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From The Economist print edition

A barbarous campaign of rape

EVERYTHING in the Democratic Republic of Congo, a country almost the size of western Europe, is on a scarcely imaginable scale—including the violence. Among the beautiful mountain vistas, terraced hillsides and lush tropical greens of eastern Congo, a bitter, decade-long civil war that officially ended in the rest of the country in 2003, and that has claimed several million lives as a result of fighting and disease, burns on in the eastern border provinces of Ituri, North Kivu and South Kivu. A ceasefire signed in the town of Goma in January between the government and more than a score of militias has so far done little to ease the plight of civilians in the east. All sides—government troops, says the United Nations, as well as the militias—continue to use rape as a weapon of war on a barbarous scale.

Most victims, as ever, are women and girls, some no more than toddlers, though men and boys have sometimes been targeted too. Local aid workers and UN reports tell of gang rapes, leaving victims with appalling physical and psychological injuries; rapes committed in front of families or whole communities; male relatives forced at gunpoint to rape their own daughters, mothers or sisters; women used as sex slaves forced to eat excrement or the flesh of murdered relatives. Some women victims have themselves been murdered by bullets fired from a gun barrel shoved into their vagina. Some men, says a worker for the UN's Children's Fund (Unicef), have been forced to simulate having sex in holes dug in the ground, with razor blades stuck inside.

Sometimes the motive is revenge for attacks by rival militias, sometimes it is ethnic cleansing and on other occasions an effort to undermine the morale of the enemy by spreading shame, injury and disease. The trauma and appalling injury suffered by women and men who survive such assaults cripple families and whole villages. In eastern Congo up to 80% of reported fistula cases in women are thought to result from rape attacks. The epidemic of violence also spreads HIV/AIDS.

According to a report published in October by the UN secretary-general in an effort to get governments to do more to protect civilians caught up in this and other conflicts, in the first six months of 2007 there were 4,500 cases of sexual violence reported in South Kivu alone. As a rule of thumb in such situations, says the UN, for every rape that is reported, as many as ten or 20 cases may go unreported.

Rape in warfare is nothing new. Congo has long had a culture of violence and an almost non-existent judicial system. Though rape is supposedly illegal, often it is the victim who is shunned. Neither army nor militia commanders seem to see rape as a serious offence and so take no action against their marauding soldiers. Some fighters are said to believe that the rape of a virgin bestows invincibility in combat. But these are not random acts by misguided or crazed individuals, says the UN; they are a “deliberate attempt to dehumanise and destroy entire communities.”

That process is proceeding apace. Since early last year an upsurge in violence has displaced some 550,000 people from their homes and villages in eastern Congo. The sprawling, hellish camps for displaced people that dot the road from Goma north to Rutshuru, their shelters made from branches lashed together, leaves and plastic sheeting, offer little protection. Not even the UN's more than 17,000 blue helmets and military observers, and close to 1,000 police (together its largest peacekeeping operation in the world), can hope to put an end to violence in so vast a region that is barely accessible by road or air.

Kate Eshelby

But the men with guns don't listen

And the Goma ceasefire? Pressure to observe it would be a start, even though not all armed groups signed up. Among those that did not are Hutu rebels from over the border in Rwanda who helped perpetrate the genocide there in 1994 and caused it to spill over the border into Congo. On April 23rd, 63 international and Congolese NGOs signed an appeal urging the UN to appoint a high-level special adviser on human rights for eastern Congo.

The idea is to help draw world attention to the plight of civilians, whose suffering is at least as extreme as anything witnessed in the better-publicised conflict in Sudan's western region of Darfur. The hope is that outside governments, the African Union, the European Union and the United States may offer political and financial support. Since all UN members have promised to observe a fundamental “responsibility to protect” their citizens from war crimes and crimes against humanity, focusing world attention on such crimes in eastern Congo is perhaps the least outsiders can do.

Lebanon

A president at last?

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From The Economist print edition

Just kidding

AFP

Sabah for president?

THE bold headline on flyers that appeared last month in the capital, Beirut, declared all of Lebanon's problems resolved. The country's myriad bickering sects, parties and warlords had called a truce, agreeing unanimously to elect a new president and join a broad coalition government with a sweeping mandate for reform. Parliament, reconvening for the first time in 17 months, had voted to abolish sectarian discord and to hold fresh elections under a new, fairer electoral law.

Needless to say, that was an April Fool's prank—and nothing has changed since. Lebanon's prospects have seldom looked worse since the end of the country's ruinous civil war of 1975-90. In the past two years its main factions have become polarised between increasingly hostile camps, leaving the state officially headless since last November. This has paralysed parliament and turned this tiny country, prone to assassinations, into what many Lebanese see as a boxing ring where bigger regional contestants, such as Iran, Syria, America and Saudi Arabia, can parade their proxies.

There are reports of a surge in gun sales, as militias rearm in the expectation of renewed strife. Rising prices, a brain drain to calmer places and fears of another clash between the guerrilla forces of the Shia movement, Hizbullah, and Israel, which fought a month-long war in 2006, all increase the jitters.

Yet the bitter irony of the April Fool's pranksters—and their bemused detachment—is appropriate. Beirut wags who bemoan their country's “electile dysfunction” can point to its thriving nightlife and a boom in luxury buildings going up. Last year the economy grew by a respectable 4%. A rating agency, Moody's, recently upgraded Lebanon from negative to stable, noting an “impressive resilience of public finances in the face of numerous political shocks”. Fears of a currency collapse have evaporated, thanks to big pledges of foreign aid and the gentle decline of the dollar, to which the Lebanese pound is conveniently pegged. The central bank sits on a hoard of gold bullion worth an estimated $8.5 billion, equal to one-third of the country's GDP.

The Lebanese can also count on their buoyant *joie de vivre*. Those who despair of the country's real politics, for instance, can act out the role of top sectarian bosses online. A new computer game, called *Douma* (Puppets), allows players to take control of a politician, and punch and kick his way to the presidency. And there is always the example of Jeanette Feghaly, better known as Sabah, a perennially blonde singer and film star who first took to the stage in 1943, the year of Lebanon's independence. Now 81, the eternal Sabah has recently married her eighth husband.

Economist.com WORLD EUROPE

The European Union and Russia

Divide, rule or waffle

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Illustration by Peter Schrank

The European Union cannot agree over how to deal with Russia. That suits the Kremlin just fine

SEEN from outside, one might imagine that the European Union (population 495m, GDP of $16.8 trillion) was a rather intimidating neighbour for Russia (population 142m, GDP of $1.3 trillion). Yet the reality is the other way round. In recent years Russia has played a canny game of divide and rule against the EU, building cosy bilateral relations with Germany and Italy especially, but also with Austria, Bulgaria, the Netherlands and Greece.

That makes other countries, and many Eurocrats, uneasy. They would like the EU to bargain more effectively with Russia, particularly over energy. But how? For now, the relationship is based on an outdated partnership and co-operation agreement (PCA), signed in 1997. Talks on renewing it are long overdue. But they show no sign of starting. Last year the obstacle was a Polish veto, prompted by a Russian embargo on Polish meat exports. But that was resolved after a charm offensive by Radek Sikorski, the Polish foreign minister, who was once a notable hawk on Russia.

Now talks on a new PCA are stymied again, this time because of a veto by Lithuania. The Lithuanians argue that the previously agreed negotiating position is too soft and too limited, given what they see as Russia's slide towards autocracy at home and aggression abroad. An EU foreign ministers' meeting in Luxembourg on April 29th ended in deadlock (though it did sign a deal that may clear the way for Serbia, a country wobbling into Russia's orbit, to become a candidate for membership).

Other EU countries are cross with the Lithuanians, accusing them of belated and clumsy diplomacy, and of posturing with an eye to a general election this autumn, in which the ruling coalition is lagging behind pro-Russian parties. The Poles, who agreed to drop their veto of a new PCA in return for a lifting of the meat ban, say they must honour their side of the deal they struck with Russia. Many west European countries also hope that the arrival of Dmitry Medvedev as Russian president could be a chance to put their relationship on a friendlier footing. In any case, the previous negotiating mandate has already been adapted to reflect, at least partly, Lithuania's desire for stronger language on energy (Russia has blocked an oil pipeline to Lithuania's refinery since 1996, claiming that it needs “repairs”).

Yet the Lithuanians want more. They demand explicit mention of Russia's relations with such neighbours as Georgia, citing the Kremlin's increasingly strong support for the breakaway enclaves of Abkhazia and South Ossetia. This week the Russians claimed Georgia was planning to invade Abkhazia and said they would boost their peacekeeping forces, promising to respond forcefully to any Georgian attack. The Georgians have retaliated by threatening to block Russia's application to join the World Trade

Organisation. The Lithuanians see all this as an ominous threat to their own security. “We are in the front line. If Georgia goes, we are next,” argues a Lithuanian official.

The Lithuanians also want the EU to be tougher over justice. In particular, they complain that the Kremlin is not helping track down those responsible for a Soviet-backed attempted putsch in Lithuania in early 1991 that killed 14 people and for the execution of eight border guards shortly afterwards. “We have had 22 Litvinenkos and no co-operation from Russia,” says the official. His irritation may be understandable (Britain is also furious with the Kremlin for refusing to co-operate over the murder of a Russian exile with British citizenship, Alexander Litvinenko, in London in 2006). But an unwillingness from Russia to investigate such crimes is nothing new, and is therefore harder to portray as a sinister new twist.

Diplomats still hope to launch negotiations on a new PCA before the next EU-Russia summit in Siberia in June. Reopening discussion on the negotiating mandate may not help Lithuania: some countries want it to be softer, not tougher, says one foreign minister. And none of this seems to bother the Russians much. Their ambassador in Brussels, Vladimir Chizov, says his country would be delighted to deal with the EU if only it would decide what it actually wants. The impasse also makes it easier for national governments to justify doing bilateral deals with Russia. Italy made a barely veiled threat along these lines this week. Greece chose the same day formally to sign up to South Stream, a Kremlin-backed Black Sea pipeline that many see as a direct rival to the EU's own plans in the region. The outgoing Italian prime minister and former European Commission president, Romano Prodi, also said he had turned down (for now, at least) a Russian offer to head the South Stream consortium.

In practice a new PCA is unlikely to make much difference. Despite the obsolescence of the old one, trade between Russia and the EU has more than tripled since 2000. In negotiating a new one, Russia would, on past form, use its bilateral ties with big countries to get its way in what ought to be multilateral negotiations. And it is not clear that any new agreement will stick. Russia has explicitly said that it will not ratify the energy charter it signed in 1994, which would have required it to give third parties access to its gas pipelines. As Katinka Barysch, of the London-based Centre for European Reform, notes drily, “the Russians have a somewhat different approach to law, so whether you can aim to solve all problems with a legal document is open to doubt.”

Direct democracy in Germany

When voters want a say

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From The Economist print edition

If you thought Germany did not do referendums, think again

CAMPAIGNERS for Tempelhof airport lacked neither enthusiasm nor cash. Sky-blue posters urged Berliners to vote yes in a referendum to keep open the airport, a symbol of the Berlin airlift of 1948-49. In vain: too few voters turned out on April 27th to make it valid. Though 60% of those who voted said yes, at least a quarter of eligible voters had to give their approval. So Tempelhof will probably close in October. On the same day the citizens of Schwerin voted to oust their mayor for mishandling an investigation into the starvation of a five-year-old girl. And the Bavarian branch of the trade union confederation plans to start collecting signatures on May 1st for a referendum on a minimum wage. Direct democracy, it seems, is becoming part of Germany's political scene.

AFP

A Dakota, but not enough voters

Germans lag behind the Swiss, who routinely take law-making into their own hands. Referendums and plebiscites still carry a whiff of Weimar and of Hitler's exploitation of public emotion. The constitution permits them at national level, but the Bundestag has never enacted further laws to make them possible. Yet in states and municipalities, direct democracy has taken off. Since unification in 1990, referendums in these two tiers have become possible in all 16 states. The number of local initiatives has jumped from a handful in the early 1990s to 300 a year.

To German business, this looks like a threat. Around 14% of initiatives seek to block private-sector investments, often mobile-phone towers or shopping centres. Power projects are also targets, increasing fears of a possible energy crunch. In November voters in Ensdorf, in the Saarland, blocked the construction of a €2 billion ($2.9 billion) coal-fired plant. In Brandenburg voters threaten to phase out lignite mining. “Almost every power project faces opposition from citizens' initiatives,” complains Michael Feist, president of BDEW, a club of energy and water companies.

Enthusiasts think direct democracy is spreading because the traditional type is ailing. Membership of political parties has slumped, as has trust in politicians. Nearly half of Germans think elections give them no say over government policies, according to one 2006 survey. Some 80% want referendums at national level. The young are indifferent to party politics but mobilise over single issues, says Gerald Häfner of Mehr Demokratie, a lobby group. In municipalities that may mean swimming pools and pedestrian zones. State-level initiatives deal mainly with education and culture (a referendum in Schleswig-Holstein rejected German spelling reform) or the mechanics of democracy (Bavaria voted to abolish its Senate in 1998).

Loth to share power, politicians argue that ordinary citizens cannot be trusted with too much. Most states do not allow votes on such issues as spending and taxation. The type of quorum that doomed Tempelhof exists only in Germany, says Mr Häfner. The minimum number of signatures required to launch a referendum has been cut, but it is still a tenth of the electorate, on average. Even victory is no guarantee of success. Legislatures can sometimes overturn referendum results, as Schleswig-Holstein's did for the spelling reform, and courts have modified them.

Defenders of direct democracy insist that it improves decision-making. Switzerland's taxes and spending are lower than otherwise, and its labour productivity higher, because the Swiss can vote on fiscal issues, says Lars Feld of the University of Heidelberg. Resistance may be ebbing. The Christian Democratic Union, the most sceptical big party, was an enthusiastic backer of the Tempelhof referendum, notes Volker Mittendorf of the University of Wuppertal. Hamburg, where the party is forming its first state-level coalition with the Greens, will seek to make referendums binding on the legislature. Bavaria's ruling party, the Christian Social Union, credits direct democracy with giving citizens a way to disagree with the government on single issues without voting for the opposition. Tempelhof may close, but direct democracy will soldier on.

Turkish politics

An ineffective opposition

May 1st 2008 | ISTANBUL
From The Economist print edition

The sad irrelevance of Turkey's main opposition leader

DURING last July's election campaign, Turkey's mildly Islamist prime minister, Recep Tayyip Erdogan, pledged to resign as Justice and Development (AK) party leader if he did not do well enough to govern without coalition partners. His biggest rival, Deniz Baykal, made a bolder promise. If his party failed to win, said Mr Baykal, he would swim all the way to the island of Rhodes.

In the event, AK romped back with 47% of the vote, enough to rule alone. Mr Baykal's pro-secular Republican People's Party (CHP) limped in a distant second, with 21%. Nobody really expected the 69-year-old to swim to Rhodes, but even his most ardent supporters thought Mr Baykal might at last step down. Since taking charge of the party in 1992, the American-trained economist has not won a single election. In 1999 the CHP failed to win any seats at all—a first for the party, which was set up in 1923 by modern Turkey's founding father, Kemal Ataturk.

Yet despite loud calls for his retirement (there is even a website called “Baykal resign” at www.baykalistifaet.net), Mr Baykal was re-elected as CHP leader this week for a tenth time at his party congress. With the rules rigged to benefit him, his lacklustre rivals never stood a chance.

The lack of a credible opposition will make it harder for Turkey's fragile democracy to emerge unscathed from its latest political crisis, triggered by the constitutional court's decision to take up a case to ban the AK party on charges of trying to steer the country towards *sharia* rule. Some call the case a “judicial coup”, inspired by Turkey's meddlesome army and a pro-secular elite that is reluctant to cede power to a new class of Muslim entrepreneurs represented by Mr Erdogan. A contempt for piety oozes from the indictment drawn up against AK. Mr Erdogan's assertions that religion “is the cement of Turkey” and that “Allah is the absolute Creator [of mankind]” are both cited as evidence. Globalisation, America and the European Union are all said to have had a hand in the plot to efface secularism. Indeed, much of the indictment reads like a rehashed version of Mr Baykal's diatribes against the government.

When the generals threatened a coup last year to stop Abdullah Gul's election to the presidency, the CHP didn't utter a peep. Mr Gul, previously foreign minister, was deemed by secularists to be unfit for the job because his wife wears the Islamic-style headscarf. When he then won a first round of parliamentary voting, the CHP asked the constitutional court to overturn the vote on the debatable ground of the lack of a quorum. The court agreed. It was thanks to such shenanigans that AK raised its share of the electoral vote by a whopping 12 points in July—and Mr Gul duly became president. The CHP failed to win a single seat in 36 of Turkey's 81 provinces (many largely Kurdish).

The CHP still wants military intervention in northern Iraq. This week it unsuccessfully fought against an AK-sponsored bill to amend Article 301 of the penal code, which has been used to prosecute hundreds of writers and academics for insulting Turkishness. Taha Erdem, a CHP veteran who quit the party eight years ago, observes that, in a country where more than half the population is under 30 and more than half the women cover their heads, the CHP is “increasingly irrelevant and out of touch, leaving millions of pro-secular Turks with nowhere to turn to.” The CHP's xenophobia has also led to calls for this nominally leftist party to be booted out of the Socialist International. Its Teflon leader could not care less.

A new mayor of Rome

Right back

May 1st 2008 | ROME
From The Economist print edition

A former neo-fascist will be the next mayor of Rome

Reuters

All hail to the new mayor

TWO years ago, a television presenter insisted that Gianni Alemanno, a politician, unbutton his shirt. Underneath, hanging from a chain, was a Celtic cross. An irritated Mr Alemanno insisted that it was a purely religious symbol. But to some, a Celtic cross can be an emblem of European neo-fascism. The one at Mr Alemanno's neck belonged to a friend who was murdered as he put up far-right posters.

On April 28th Mr Alemanno, once a youth leader of the neo-fascist Italian Social Movement (MSI), was elected mayor of Rome, with 54% of the vote over Franco Rutelli, a deputy prime minister in the outgoing centre-left government. Silvio Berlusconi, the incoming prime minister, called it an “historic victory”. The centre-left had run Rome since 1993.

But the celebrations after Mr Alemanno's victory revived memories of an earlier period when the right was in charge of Rome. A group of supporters gave straight-arm salutes on the Capitol steps; some roared “Duce! Duce!”, the title that Benito Mussolini took for himself when he was Italy's fascist dictator.

Mr Alemanno is no ordinary conservative. He once spent eight months in jail, accused of throwing a Molotov cocktail at the Soviet embassy, a charge of which he was acquitted. His father-in-law is a hardline neo-fascist who rejected the MSI's decision in the 1990s to form the core of a new party, the National Alliance. Mr Alemanno endorsed that move, but became part of the Alliance's most radical faction. He has sat in parliament for 14 years and served uncontroversially in Mr Berlusconi's previous cabinet. He is as entitled to be judged on his performance as was Rome's previous mayor, Walter Veltroni, once the Communists' youth leader.

Even so, Mr Alemanno's policies may prove controversial. In an interview in *La Stampa*, he said his first move would be to seek the demolition of 85 unlicensed Roma encampments. He ran on a hardline law-and-order programme, including a pledge to expel 20,000 allegedly criminal foreigners. His triumph, like that of the anti-immigrant Northern League in last month's general election, reflects rising concern over crime, which is often blamed on non-Italians. A poll this week found that, in the past 12 months, the proportion of Italians who viewed immigrants with mistrust had almost doubled to over 11% (though the attitude of 42% remains benign).

Official figures show the number of offences rising by 19% in the three years to 2007. Last year, 35% of those arrested for, or accused of, crimes were either foreigners or of unknown nationality. Yet legally resident foreigners make up only 5% of Italy's population (6% if one includes illegal immigrants who get into most trouble with the law). Clearly, a problem exists. But it is unlikely to be solved by driving people out of Rome for others to deal with.

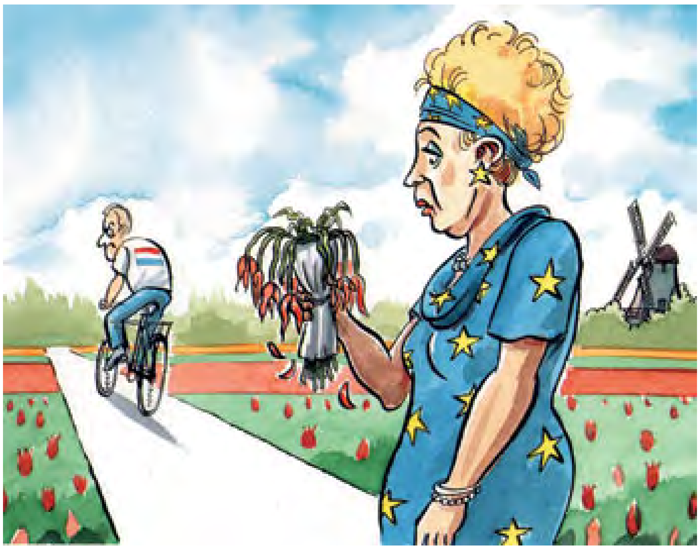
Charlemagne

Going Dutch

May 1st 2008
From The Economist print edition

How the Netherlands fell out of love with Europe

Illustration by Peter Schrank



REMEMBER the shock of May 29th 2005, when the French rejected the draft European Union constitution by 55% to 45%? Yet this was largely a vote against an unpopular president, Jacques Chirac, and against the forces of globalisation. Far more worrying for Brussels was the even bigger majority, 61% to 39%, by which voters in the Netherlands rejected the EU constitution three days later. A resentful bolshiness from the French seems unsurprising, almost routine. But the Dutch are placid, stolid—and, surely, reliably pro-European, whatever the issue.

Clearly not then. And it is not hard to detect tensions in Dutch society now. Just stop a few passers-by of an April morning on Dam square in Amsterdam. Within ten minutes one finds somebody like Pieter, a graphic designer who confirms that he voted no, and adds that his big fear was the loss of Dutch identity. A banner hangs helpfully from the nearby Nieuwe Kerk, which is staging an exhibition on Afghanistan, proclaiming (in English) that “A nation stays alive when its culture stays alive”.

Over the past 60 years the Netherlands has been one of Europe's biggest success stories. The Dutch are among the richest (and tallest) people on earth. Their social tolerance is widely admired. Yet immigration and the rise of Islam have triggered a backlash. Rotterdam may soon become the EU's first big Muslim-majority city. The meteoric political career of Pim Fortuyn, a populist who was assassinated in 2002, followed two years later by the murder of Theo van Gogh, a film-maker, by a (Dutch-born) Islamist radical has left scars on a society that once took pride in its embrace of multiculturalism. The Netherlands is a place that is now palpably fretful about its future.

There were other reasons for the Dutch no. Frans Timmermans, the Europe minister, says that the Netherlands was always pro-European, but not always in favour of European institutions. The Dutch dreamt up the Council of Ministers, to give national governments a say. In early years their main goal was to get Britain in. They were strongly pro-American and pro-NATO. Indeed, Mr Timmermans suggests that the late 1980s and early 1990s, when the Dutch were among the keenest Europeans, were exceptional. Piet Dankert, then Europe minister, drafted a version of the Maastricht treaty that was too federalist even for Luxembourg (it was rejected). His prime minister, Ruud Lubbers, aspired to the presidency of the European Commission. It was not long before a more sceptical view reasserted itself.

It was helped by several changes in the European landscape. The biggest was a switch in the EU budget, which within a few years in the mid-1990s turned the Netherlands from a substantial net beneficiary into the biggest net contributor per head. Gerrit Zalm, a liberal who served as finance minister for most of the 13 years up to 2007, repeatedly banged the drum about this, fostering the impression of a profligate (and perhaps corrupt) EU largely paid for by worthy Dutch burghers.

For a while Mr Zalm's party was led by an even more formidable critic of Brussels, Frits Bolkestein. Mr Bolkestein, who later served as the single-market commissioner, was (and is) a fierce critic of EU red tape, of its growing role in judicial and home affairs and, above all, of the prospect of Turkey one day being a member. Although far from being a Eurosceptic of a British stripe, he helped to create an atmosphere in which criticism of Brussels is acceptable—even popular.

In the run-up to the 2005 referendum, two other factors played a part. One was the euro, which was widely blamed for pushing up prices and eroding savings. An anti-euro mood was encouraged by Mr Zalm's denunciation of the French and Germans for ignoring the stability-pact limits on budget deficits. As Mr Timmermans puts it, the conclusion drawn by Dutch voters was that “if a small country breaks the rules, it is punished; if a large one does, the rules are punished.”

The second was the curious inertia of the government. This was the first national referendum in modern Dutch history. Yet the government made little effort, relying on the support of the main political parties, most of the press and big business. Mr Timmermans says that it was “the worst referendum campaign ever”. Yet most political analysts have little doubt what would happen if the Lisbon treaty, the constitution's successor, were put to a vote: it would be resoundingly rejected again. Fortunately for the new treaty, if not for the Dutch, the government has decided not to hold another referendum. Yet that decision may merely aggravate voters' disenchantment with the EU.

The end of Benelux solidarity

It is all a far cry from the dreams of Benelux, the economic union of the three low countries that true believers reckon pioneered the cause of a European federal state. Ask a Dutch politician about Benelux (a word apparently coined in *The Economist* in August 1946 by our Belgian correspondent, who tried out Nebelux before deciding that Benelux was more euphonious), and the response is often a snort. At one recent EU summit the Belgian and Dutch leaders even shouted at each other. There is little enthusiasm in The Hague for Luxembourg's Jean-Claude Juncker as a candidate to be the first permanent president of the European Council.

In truth, the Dutch have parted company with their southern neighbours over the EU. Belgium and Luxembourg are almost the only card-carrying federalists left. Nowadays it would be easier to create a pioneering group of Eurosceptical countries than one hoping to march towards a United States of Europe. And everywhere (not just in Eurosceptical countries), the feeling has grown that the EU and its treaties are elite projects that may please self-serving Eurocrats but are remote from the concerns of ordinary citizens. That is the real moral of the tale of how the Dutch fell out of love with Europe—and it is one the EU's political leaders seem quite unready to deal with.

Conservative economic policy

The trust question

May 1st 2008
From The Economist print edition

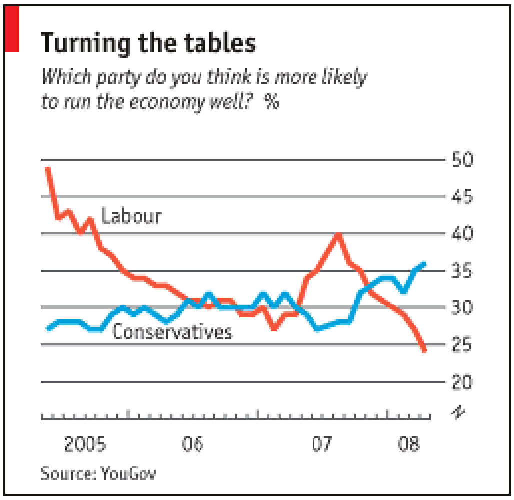
AP

The Tories must do more to convince voters that they could manage the economy better than Labour

OVER the past decade, Labour has enjoyed a vote-winning premium as the party most trusted to look after the economy. That lead has now turned to lag. The Conservatives are beginning to reclaim ground that once looked as impregnable as it was vital. Whether or not David Cameron, the Tory leader, and George Osborne, the shadow chancellor, can press home their advantage may decide the outcome of the general election next year or, more likely, in 2010.

No matter how people grumbled at Labour's tax rises and interfering ways when they last went to the polls in 2005, they credited Gordon Brown with creating the economic stability over which he presided in his long stint as chancellor. But the prime minister's claim to have done away with boom and bust is now looking premature as the financial crisis takes its toll.

As the gilt comes off Mr Brown's golden years, the Tories are looking better by comparison. Recent polls show that they are now considered more likely than Labour to run the economy well. Just before the last general election, Labour led by 22 percentage points; the Tories are now ahead by 12 points (see chart).



The Tory lead comes at a time when the economy is once again high on voters' worry-list. Over the past two months, the public has been more gloomy about the economic outlook than at any time since 1980, according to Ipsos MORI, a pollster. Yet the Conservatives owe their advantage more to a slump in Labour's standing than to their own advances, points out Peter Kellner of YouGov, another polling firm. The Tories have not yet convinced enough voters that they would be better at running the economy, says John Curtice, a psephologist at Strathclyde University.

With so much going wrong for the government—not least thanks to own goals such as penalising 5m low-income households by scrapping the 10% tax rate—the Tories are not short of ammunition. Their most telling shot is that Mr Brown's much-touted economic stability was built on the rickety foundations of a credit and house-price boom. But as Mr Osborne told businessmen in Liverpool on April 28th, it is not enough for the Tories to find fault with Labour. If they are to look like a government-in-waiting, they must spell out the difference they would make in office.

That is tricky because, as Mr Kellner points out, the Conservatives must also beware of frightening the voters. For a long time the Tories were seen as the safer pair of economic hands, but they lost that reputation on sterling's inglorious ejection from the European exchange-rate mechanism under John Major. And though Margaret Thatcher pushed Britain's economy towards the globalised 21st century, the brusque closure of mines and factories during her years left deep scars.

All that helps to explain why for the most part Mr Osborne's policies develop Labour's approach rather than break with it—just as Mr Brown leaned heavily on Tory practice before he took office. In particular, the main moving part in economic management would remain a Bank of England that independently sets interest rates to hit an inflation target, Mr Brown's first and most important reform.

Mr Osborne suggests some changes but they are tweaks rather than an overhaul. To curb political interference, he wants the governor of the central bank to have a single term of eight years rather than, as now, a five-year, renewable appointment. He also wants to give the Bank of England the job of rescuing and reorganising failing banks, whereas the government prefers the Financial Services Authority, which regulates banks.

The shadow chancellor is developing ideas for discouraging another wild credit and housing-market boom. He is exploring the idea of making banks set aside more capital during good times in order to arrest over-heady expansion. But he does not back the notion that the central bank should pay more heed to house prices as well as consumer prices when setting interest rates, as the IMF recently suggested.

Just as the Tories are stressing continuity in economic management, so there has been convergence in fiscal policy. In the past two elections, the Conservatives offered explicit tax cuts, but voters suspected public services would suffer. Since Mr Cameron took over as leader the pledge has been to share the proceeds of growth, by holding the increase in public spending below the long-run rate at which the economy expands. Over time this should make it possible to lower taxes, but there is no promise to that effect.

The trouble is that Labour, after presiding over a long improvident boom in public spending, has itself adopted a policy of gradual squeeze. Plans for the three fiscal years from April 2008 envisage expenditure rising at 2.1% a year, below the 2.5% trend rate of economic growth. And the March budget projected the clampdown a further two years, to 2012-13.

Mr Osborne says he will stick with the plans to 2010-11. But it will be more difficult for him to deliver eventual tax cuts now that Labour has got there first and nabbed the money. The government is relying on the proceeds of the spending squeeze to reduce the budget deficit, notes Robert Chote of the Institute for Fiscal Studies, a think-tank.

One way that the Tories can bolster their case to be seen as responsible economic managers is to win the respect of businessmen. Mr Osborne promises to lower the main corporation-tax rate from 28% to 25% (to be paid for, however, by lower capital allowances) and to cut red tape. Despite such pledges, a recent survey for the British Chambers of Commerce found little faith among firms that the Conservatives would do much for business. John Cridland, deputy-director general of the Confederation of British Industry, complains that the Tories are sending mixed signals—standing up to business as well as for it. But he says that businessmen now have much more dialogue with them.

Mr Osborne promises more detailed thinking over the next few months on how to reform Labour's discredited rules for fiscal prudence. Naturally he does not want to disclose his hand too early for fear that Labour will steal his best ideas. But the shadow chancellor, who stalled Mr Brown's plan for an early election last autumn with a crowd-pleasing pledge to cut inheritance tax, still has much work to do if the Tories are to prevail when voters eventually go to the national polls.

Financial stability

Hopes of healing

May 1st 2008
From The Economist print edition

Is the gloom beginning to lift?

WHEN the Bank of England produced its previous *Financial Stability Report* in October, it struck a gloomy note. In the event, it was not pessimistic enough; financial markets suffered a near-crippling loss of confidence in March. Since then, however, things have started to look up, and the Bank of England's latest report, published on May 1st, suggests that the worst of the banking crisis may be over.

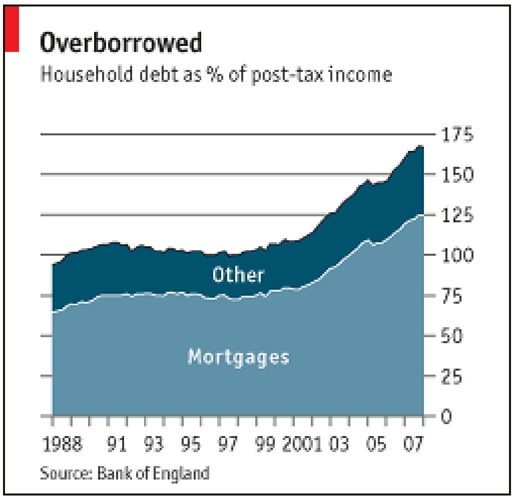
One reason for the wary optimism is the restorative effect of determined action by central banks. Following in the footsteps of America's Federal Reserve, the Bank of England made a dramatic move late in April to restore confidence in Britain's banking system when it launched its “special liquidity scheme”. The report also suggests that market valuations of losses on America's subprime mortgages—to which British and European as well as American banks are exposed—may prove exaggerated. Eventual losses could turn out to be around $170 billion (£86 billion) rather than the market-based figure of $380 billion.

Another reason for greater confidence is that British banks are making more realistic assessments of their bad debts and raising capital. RBS led the way on April 22nd with a writedown of almost £6 billion and tapped shareholders for £12 billion. A week later HBOS announced a rights issue of £4 billion.

Yet even if the report is right in suggesting that the self-inflicted financial wounds may gradually be starting to heal, the worry now is the damage that has already been done to the economy. The bigger that turns out to be, the greater the potential for a second round of financial pain through defaults arising from a slowdown or recession.

At present the economy still seems to be doing quite well. Although inflation is once again on the march, employment continues to grow and GDP rose by 0.4% in the first quarter. But the risk is that a credit squeeze could cause a reverse.

This danger was underlined in a recent set of figures that brought back unwelcome memories of the 1990s. House prices fell by 1% in the year to April—the first annual decline for 12 years—according to the Nationwide Building Society. Mortgage approvals for house purchases slumped in March to 64,000, the lowest since the series began in 1999 and probably since the housing-market bust of the early 1990s. Consumer confidence nosedived in April to its lowest since November 1992, according to GfK NOP, a market-research firm.



Banks have cause to worry about Britain's mortgage market. Although default rates are currently very low, household debt has soared in relation to post-tax income (see chart). House prices have a lot farther to fall if they are to return to more realistic valuations. The first act of the banking crisis may be ending on a more upbeat note, but there will be more economic and financial pain before the curtain finally comes down.

Northern Ireland's economy

Hard sell

May 1st 2008 | BELFAST
From The Economist print edition

A beauty parade for foreign investors turns the spotlight on blemishes too

THE last big set-piece of Northern Ireland's new post-conflict dispensation takes place in Belfast from May 7th to 9th. Billed as a conference to encourage American investment, it will be launched by Paula Dobriansky, George Bush's envoy to Northern Ireland, and the Rev Ian Paisley in his final public outing as first minister. More than 70 important American executives have promised to attend.

Whatever new investment the conference produces, the occasion is all that remains of Mr Paisley's boast that he negotiated financial help from Gordon Brown, Britain's prime minister, to bed down power-sharing at Stormont with Sinn Fein, the republican party loathed by his grassroots supporters as the IRA's political offshoot. The message from London is now that the new Belfast administration must make its own luck: self-reliance is the watchword, with no special incentives to encourage foreign investment in Northern Ireland that Scotland would then demand.

Despite the troubles, Northern Ireland has attracted investment in recent years. Historically, much of it has come from America—and four New York City employee pension funds announced a $150m (£76m) investment in the province on April 11th. But American investment has dropped of late as a percentage of the total, while increasing amounts have come from far-flung places such as India, as well as from the Irish Republic next door. Although output per person in the region is still low by the standards of the rest of the United Kingdom, GDP has been rising faster than anywhere except London. Attractions for investors include £18 billion of government spending on infrastructure planned for the next decade, a young workforce and—an especially big selling point—a land border with the booming neighbour to the south.

But that border is also a cause of what Northern Irish businessmen, and politicians of all stripes, regard as the biggest impediment to attracting investment: the Irish Republic's 12.5% corporate tax rate is less than half of that levied in Northern Ireland and the rest of the United Kingdom. They want a big cut in their own tax rate—but a report in December from Sir David Varney, a trusted advisor of Mr Brown, has probably dealt that notion a fatal blow. In Westminster eyes, this would mean the end of fiscal union between Northern Ireland and mainland Britain.

And there are other reasons for foreign investors to hang back. Northern Ireland has a bloated public sector, its workforce is mostly badly trained and integration with its southern neighbour is limited. In a second report, published on April 30th, Sir David prescribes some bitter medicine, rather than the tax sweetener locals still hanker after. He proposes cutting civil-service pay—high compared with that in Northern Ireland's private sector—and selling off public assets, such as Belfast's port, bus and rail services. Sinn Fein is unlikely to be keen; it remains staunchly left-wing. Sir David also urges stronger cross-border links with bodies such as the Irish Development Agency; on this point, the unionists will balk.

John Bradley, an economist in Dublin who has been studying Northern Ireland's economy since the early 1990s, reckons there is a deeper reason why investors may drag their heels. Northern Ireland's oldest problem has not yet been laid to rest: sectarian tensions are quieter but remain, and anti-Britishness is still acceptable among former IRA supporters. This, he says, must change, for “if the North is not an attractive place for British firms, it will be unattractive to foreign firms.”

The Old Bailey online

In the dock, and on the web

May 1st 2008
From The Economist print edition

Dickensian London comes alive

“YES,” admitted Giuseppe Farnara, through an interpreter, “I plead guilty; I had the intention to blow up the capitalists, and all the middle classes.” Farnara and his accomplice, Francis Polti, were rumbled on the evidence of an engineer and a chemist, who went to the police when two suspicious foreigners tried to buy lengths of iron piping and a pint of sulphuric acid. Their fate was sealed when Farnara's landlord discovered a stash of extremist literature in his bedroom. This very modern-sounding terrorism trial concluded on April 30th 1894; the defendants were sentenced to a total of 30 years' penal servitude.

Scouring the online archives of the Old Bailey, London's most famous criminal court, shows that some of today's crimes are not as new as they may seem. Take villains such as Pierre Dubois and Armand Dibon, a pair of child-sex traffickers who lured a 15-year-old French girl to London in 1902. And there is plenty of anti-social behaviour: as soon as steam trains arrived in the 19th century, the Old Bailey filled up with youths charged with throwing bricks at them. These glimpses of the past are possible thanks to Sheffield, Hertfordshire and Open universities, which have uploaded the records of 197,745 trials stretching back to 1674.

The free archive is a goldmine for family-tree growers, who may discover they are related to such unfortunates as Henry Williams, who in 1886 was sentenced to four months' hard labour for “attempting an abominable crime with a mare”. And the website's search facility throws up new research possibilities: Clive Emsley of Open University has spotted that an inspector from the Royal Mint gave evidence dozens of times during the 1840s, for example, which throws new light on the true scale of counterfeiting at that time.

Though many of the crimes are recognisable, the archives reveal changes in the legal system. Trial lawyers only become common in the second half of the 18th century; before that, jurors butt in with their own questions. They also twist the charges if they take pity on the defendant. Take Elizabeth Jackson, a thief whose swag was valued at 10 shillings. “The Fact [of her guilt] was prov'd; but the Jury considering Circumstances, brought her in Guilty to the Value of 10 d. [pence] only.” One can only imagine the fury of Samuel Micklethwait, whose breeches she had pinched.

Pregnancy was another useful ruse. On one day in 1715, five women sentenced to death “pleaded their Bellies”. “A Jury of Matrons being impanell'd, found [three of them] Quick with Child; but [two] not,” the records say.

The archive ends in 1913, when the City of London could no longer afford to publish the court's proceedings: people were buying newspapers instead, which offered more salacious details. Sadly, little has changed since then: getting the transcript of a modern Old Bailey trial requires the permission of a senior judge and then payment to the record-keeping company, which charges from £1.08 ($2.13) per 72 words. Family trees of future generations will be stumpy.

Science funding

Of budgets and black holes

May 1st 2008 | DIDCOT, OXFORDSHIRE
From The Economist print edition

More fancy toys, fewer physicists to play with them

FROM outside, the huge silver doughnut looks like a flight of vain architectural fancy, or perhaps a racetrack for very superior greyhounds. Racetrack turns out to be nearer the truth—but it is electrons, not animals, that are doing laps. Energised by huge magnets, they accelerate to close to the speed of light, before a final series of wiggles persuades them to emit beams of tightly focused, fiercely energetic X-rays. These are then used by researchers to probe the fundamental structure of anything from Dead Sea scrolls too fragile to open, to samples of avian-flu virus, aircraft wings or ancient bones.

Diamond Light Source

Let there be Light

This is Diamond Light Source, the newest addition to the Rutherford Appleton Laboratory (RAL) in rural Oxfordshire, and the country's most expensive government-funded physics facility of the past four decades. By the time it opened in 2007 it had already cost £260m, with another £120m committed for expansion, and running costs will be steep (its electricity bill alone equals that of a small town). It is just one of the visible signs of a recent splurge on science. Since 2004 total spending on science has risen by 5.8% yearly in real terms, its share of GDP is rising, and further increases are planned until 2011. ISIS, another "super-microscope" at RAL that uses neutrons rather than electrons, is also getting a £120m upgrade.

Yet Britain's physicists are worried that spending on such fancy toys has meant cutting the money for researchers to use them. They have been up in arms since December 2007 when the Science and Technology Facilities Council (STFC), one of the seven research councils that allocate most government money for science, published its plans for the next three years. An £80m "black hole" in the council's budget means that British astronomy will wither and ground-based study of space will die completely, says the Institute of Physics, a learned society. University physics will face big cuts, there will be swingeing redundancies and some of Britain's best scientists will leave for more generous climes. The government is sufficiently concerned to have asked Bill Wakeham, the vice-chancellor of Southampton University, to review the way in which physics funding is allocated.

Now the select committee of MPs that oversees innovation, universities, science and skills has weighed in. In a report published on April 30th it spread the blame widely, but put the lion's share on the merger that created the STFC in 2007. Previously, the cash for building and running big facilities came from one research council, and grants to physics researchers from another. The two have now become one—and paying capital and running costs for big facilities has squeezed funding for researchers. And by planning and communicating poorly, the STFC made a bad situation worse, say the MPs. At the very least, all cuts should be delayed until the Wakeham review is published in the autumn.

PhD students with grants from the STFC to do research in fields the council is now abandoning say that they feel betrayed. By making the job market for scientists look prone to boom and bust, the cuts may harm science education, which is already in a parlous state. And attempting to renege on international agreements—for example, by letting Britain's subscription to the Gemini telescope in Hawaii lapse in order to save £4m a year—will damage British science in general by making the country appear an unreliable partner. (The decision has since been reversed.) This matters particularly because much big physics—atom-smashing particle accelerators, huge telescopes—is now run and paid for internationally.

But physics as a discipline may also be experiencing growing pains—and as new research flourishes, the old inevitably suffers. A visitor to Diamond or ISIS cannot but be struck by the fact that many of the hundreds of researchers who use them are not physicists at all. Engineers, biologists, archaeologists, medical researchers and many others are keen on illuminating the substances they study with Diamond's super-bright rays, or ISIS's almost-unstoppable neutrons. “We offer big facilities for small science,” says Andrew Taylor, the director of ISIS. What lured him back from America—and reconciled him to a 60% pay cut—was the prospect of running a facility where problems from right across science were solved. It is harsh that physicists are now paying for sharing their toys. But it is only because those toys are so nice that others want to play with them.

Voting fraud

Grimy democracy, continued

May 1st 2008
From The Economist print edition

Elections need cleaning up

WHEN the integrity of British politicians is doubted—as it has been of late thanks to scandals involving political-party funding and MPs' expenses—voters have been able to console themselves that at least the vast majority are elected freely and fairly. That confidence may have been misplaced. On April 28th, just three days before local elections, a report by the Joseph Rowntree Reform Trust (JRRT), an organisation devoted to cleaning up the political system, provided an alarming glimpse into electoral fraud.

The problem stems largely from two aspects of electoral law. One is the antiquated system of allowing the head of a household to put all its qualifying members on the electoral register. Safeguards against "roll-stuffing"—registering fictitious voters—are weak, and estimates of how many ineligible names are on the rolls around Britain are as high as 3.5m. When Peterborough council tore up its register and started over again, one ward ended up with 29% fewer registered voters than on the former dubious list. One national newspaper managed to register the name Gus Troobev (an anagram of "bogus voter") on 31 different electoral rolls in a single day.

The other source of trouble is the more recent innovation of postal voting on demand. This was introduced in 2000 by a government concerned about declining turnout and enthusiastic about constitutional change in general. Roll-stuffers can cast multiple votes by using ballots addressed to their non-existent cohabitants. The system also allows dominant members of a family or a community to ensure that those under their influence, without the privacy of a voting booth, express their preferences in a certain way.

Postal voting accounts for many of the estimated 42 convictions for electoral fraud handed down between 2000 and 2007. On April 7th three Labour Party members in Peterborough were jailed for postal-voting fraud in the 2004 local elections. Six Labour councillors in Birmingham had been found guilty in 2005 of similar offences. And in March 2008 a Conservative councillor in Slough was found guilty of using bogus postal votes in last year's local elections. The author of the JRRT report, Stuart Wilks-Heeg, says similar stories may emerge in general elections as well. He points to a case now in the courts involving possible fraud in Bradford during the last one in 2005.

The JRRT's criticisms are echoed elsewhere. In January a report by the Council of Europe said that Britain was "very vulnerable to electoral fraud". And the Electoral Commission, an independent body the government set up to improve public confidence in politics, has long called for the voting process to be made more secure.

In Northern Ireland the balance between the twin goals of increasing turnout and ensuring fair elections has shifted towards the latter. Voters in the province who request a postal vote must now provide a reason, such as physical disability, for doing so. They must register individually, providing a photograph and their national insurance number to do so.

A similar shift on the mainland would concede that the government's fixation with turnout was ill-conceived, which may be why there is little stomach for it. Outside ministerial circles, though, desire for reform is widespread. The government promises to consider tightening registration, but campaigners such as Peter Facey of Unlock Democracy are not optimistic. If voting fraud on a huge scale is required to prompt change, May 1st's local elections may, sadly, provide it.

The Grangemouth strike

Costly stranglehold

May 1st 2008 | EDINBURGH
From The Economist print edition

The far-reaching consequences of the refinery workers' strike

Reuters

MINISTERS and oil-industry bosses heaved sighs of relief when the owner of the Grangemouth refinery and its workers met for talks on April 29th. The strike over the previous two days had turned out to have more costly repercussions than anyone had imagined. And the biggest losers were neither Ineos, the big multinational private company that owns the refinery, nor the workers, but other North Sea oil firms and the government.

The dispute centres on changes that Ineos wants to make to its very generous pension plan, which would oblige workers to contribute. The talks between the company and the workers' union, Unite, produced a proposal that both sides agreed to ponder for a few days. But the mood music was discordant. Ineos said it was thinking of switching a planned £200m investment in its Scottish refinery to plants in Belgium or Germany, with a consequent threat to Scottish jobs. Unite said it could not rule out further strikes.

If tools are downed once more, the economic bill will be huge. This does not stem from fuel shortages. In the three weeks before the strike, Ineos bought 12 tanker-loads of refined fuels from European sources. They were off-loaded at Grangemouth at the start of this week and sent straight out to petrol stations, helping to quell the panic buying that caused fuel to run short in some places for a bit.

The problem lies with a pipeline that was originally built by BP to take oil from its giant Forties field to Grangemouth. It now carries between a fifth and a quarter of Britain's offshore oil production, collected from about 70 oilfields operated by roughly 40 companies scattered across a vast tract of the North Sea (see map).

The strike shut off supplies of electricity and steam to a BP plant at the Grangemouth end of the pipeline, which removes the 5% gas content from the crude oil before sending 80% of it on for export. So it also closed the pipeline. This, estimates Mike Tholen of UK Oil & Gas, the offshore industry's trade body, cost the oil firms that use it about £39m a day. The interconnections between oil and gas industries also meant that much gas production was curtailed too. Mr Tholen thinks that may represent as much as 30% of the British gas total, at a cost of about £20m a day.

Because the pipeline and offshore platforms have to be worked back up to full capacity very gradually, as much as five days' output may have been lost to the two-day strike. That is likely to have cost the offshore industry about £300m and the government about £170m in lost tax.

There have been more expensive strikes. The power- and mineworkers' dispute that forced British industry into a three-day working week in 1974 cost the whole economy dear. The Hollywood scriptwriters' three-month strike that ended in January is reckoned to have cost the film and television industry $3 billion and the American economy $8.4 billion. But considering that only 1,350 workers were off work for just two days, the Grangemouth dispute has surely set some sort of unenviable record. With worries about energy security already swirling, the disruption will be an unwelcome reminder to ministers of how much Britain's oil and gas industry depends on a few small bottlenecks.

Bagehot

The other mayors

May 1st 2008
From The Economist print edition

Why, as Londoners vote for a directly elected mayor, England needs more of them

Illustration by Steve O'Brien

RAY MALLON might not be a man you'd want to meet in a dark alley, at least if you were a criminal. He earned his sobriquet—"Robocop"—by importing a version of "zero-tolerance" policing to north-east England. He was lionised by old ladies, but his police career ended in a bitter, protracted and inconclusive scandal over alleged abuses. He has, however, proved a successful exponent of another bit of imported Americana. In 2002 he was elected, by a landslide, mayor of Middlesbrough.

In the American television drama "The Wire", party bigwigs tell a fictional mayor how to do his new job: get crime down, they advise, and build something pretty downtown. In his two terms, Mr Mallon has overseen both. Parts of Middlesbrough are still dominated by discount shops and shabby burger bars; it reputedly boasts the country's cheapest drugs. But there is now a new central square, complete with a swish art gallery. Mr Mallon introduced "talking" CCTV cameras, through which operators can berate louts, and championed "community wardens" to support the police ("I'd vote for him all day," says one). He has also conducted an unlikely flirtation with big-time property developers from Dubai, and made a ruckus when a television show called Middlesbrough the worst place to live in Britain.

Neighbouring Hartlepool—depressed, like Middlesbrough, by the decline of industry and the local docks—also has a mayor. His election in the same year was symptomatic of the disillusioned, ultra-sceptical attitude to politics prevalent in the area. Stuart Drummond had worked in a call centre (the new factories of the north) and on a cruise ship (demanding New Yorkers, he says, were good training for local government). He ran for mayor dressed in the monkey suit he wore as the mascot of the local football team. It was only a joke, but he won. Then another funny thing happened. At first bamboozled by council politics, Mr Drummond has since proved that he is more than "a daft person in a monkey suit". He was re-elected in 2005, increasing his majority from 600 to more than 10,000.

All political parties agree that something should be done to make local government more responsive and more interesting. Turnout in local elections, like the ones taking place on May 1st as *The Economist* went to press, is woefully low (too low to justify the orgy of soothsaying about the next general election that will doubtless ensue). But a solution already exists. Besides London (which chooses its leader on May 1st), a reform in 2000 enabled most towns and cities to elect mayors, creating a visible, accountable focus for hitherto faceless local government. The north-eastern experience testifies to two other big advantages.

First, mayors cater to England's curious particularism. Though a little country, England is a complicated one, super-endowed with local accents, attitudes and rivalries. The residents of Hartlepool, Middlesbrough and other nearby towns, for example, view each other with often vitriolic disdain (Mr Drummond's costume commemorated an unfortunate shipwrecked monkey, hung in Hartlepool as a spy for Napoleon—a suspicious parochialism that endures). In a 2004 referendum, the north-east resoundingly declined the offer of a regional assembly: as elsewhere, municipal identities are stronger than larger ones.

Their other advantage is that mayors can sometimes take the politics out of local politics—albeit not in London, a huge, symbolic prize that the parties covet. Elsewhere, decisions about who runs the mundane affairs of local government ought not to be swayed by, say, the war in Iraq. But they often are. Mayoral candidates, on the other hand, can run and win as independents, unencumbered by irrelevant issues. In places such as Hartlepool and Middlesbrough, independents also offer the only viable escape from strangulating one-party rule: inept though Labour's local representatives have often proved, voting for any other party is unthinkable for many of the towns' residents. But voting for a monkey, or a copper, was fine.

From Middlesbrough to Torbay on the Devon coast and urban Hackney (once a byword for misrule, with anarchy in the council chamber and rubbish rotting in the streets), elected mayors have done well. Unfortunately, there aren't many of them: only 12 besides London's, none of them in major cities.

Labour dreams and night mayors

Part of the explanation is that for a town to get a mayor, either local councils have to opt for one or voters must instigate a referendum. Since voter apathy and town-hall complacency are the problem, it is not surprising that neither method has had much success. The Institute for Public Policy Research, a think-tank, argued recently that mayoral elections should simply be mandated by the government (as happened in Italy and Germany).

Perhaps; but a better way might be to give voters more incentive to want a mayor—by giving the mayors more power. Lack of interest in local government is not entirely irrational: the powers it enjoys are hedged about with central directives, and most of its revenue comes from Whitehall. England's few mayors are hardly formidable city bosses in the mould of Michael Bloomberg in New York; their authority is mostly moral and influential. If they were given a formal say in health-care and policing—and the right to keep and reinvest more of the tax revenue their towns generate—the idea might catch on.

The half-hearted way mayors have been introduced is typical of the way Labour has handled its constitutional reforms. Enthusiasm for the idea waned, local apparatchiks complained, and the election of mavericks such as Mr Mallon, not to mention Ken Livingstone, alarmed the cabinet. Gordon Brown could still reinvigorate the idea. If he doesn't, perhaps David Cameron, the Conservative leader and an avowed fan of mayors, will—though, oddly, politicians somehow always seem less keen on giving power away after they get into office.

Rivers and conflict

Streams of blood, or streams of peace

May 1st 2008 | NAIROBI
From The Economist print edition

NHPA

Talk of thirsty armies marching to battle is surely overdone, but violence and drought can easily go together

WHEN Ban Ki-moon, the UN secretary-general, was asked to ponder the future of the world before an audience of powerful businessmen and politicians, at a meeting in Switzerland earlier this year, he could have chosen any topic he liked. What he focused on was both a hoary old favourite, and a newly popular preoccupation, of debates on world affairs: the rising risk of wars over fresh water, as populations increase and the world gets drier.

“As the global economy grows, so will its thirst...many more conflicts lie over the horizon,” he said, after deploring the fact that “too often, where we need water, we find guns.” Mr Ban wasn't the first to sound the alarm. In 2006 John Reid, who was then British defence secretary, triggered headlines such as “Water wars loom” after disclosing that a unit at his ministry was preparing for a world of battles over life's most basic necessity. And warnings have been issued by people closer to the edge of contested waters. After making peace with Israel in 1979, the late President Anwar Sadat said that henceforth Egypt would not wage war, except over water.

But is the idea of countries marching to battle to get water, or to defend it, really plausible? Researchers at Oregon State University say they have found evidence to the contrary, showing that the world's 263 trans-boundary rivers (whose basins cover nearly half the land surface of the world) generate more co-operation than conflict. Over the past half-century, 400 treaties had been concluded over the use of rivers. Of the 37 incidents that involved violence, 30 occurred in the dry and bitterly contested region formed by Israel and its neighbours, where the upper end of the Jordan river was hotly disputed, and skirmished over, before Israel took control in the 1967 war. And some inter-state water treaties are very robust. The Indus river pact between India and Pakistan survived two wars and the deep crisis of 2002.

Where the doom-mongers do have a point is this: drought, desertification and food shortage are among the factors that foment conflict within states by tipping some areas, at least, into social collapse. The drying up of old grazing lands, once shared by Arab herders and African farmers, is one of the things that pushed Sudan's west into chaos and misery.

But what about war between nations that more-or-less function? For anyone who takes a cynical view of the causes of war, water seems a less likely agent than say, oil or diamonds. For dictators or warlords (the sort who sponsored or prolonged ghastly wars in Congo and Angola), water is less enticing than minerals or gems. It is harder to steal and sell.

But conflicts of interest over water can certainly poison inter-state relations, even when an imbalance of power is so great that the aggrieved party could never consider using force. Mark Zeitoun, a Canadian scholar at the London School of Economics, says rivers provide a perfect case of “asymmetrical co-operation" between countries that are forced to work together on terms dictated by the strongest. Take the Nile, where the main riparian states, Egypt, Sudan, Uganda and Ethiopia, or their colonial masters have been watching each other's water use closely for a century at least—and Egypt usually gets its way.

The Nile is vast. Geographers still argue over exactly where the White Nile rises. Its tributaries and tendrils extend over a tenth of Africa's surface, and 160m people live in the river basin, in ten countries. That number is predicted to double within a few decades. These pressures, and Egypt's record of posturing and occasional threats, have been cited by some as a harbinger of war.

Under successive regimes, Egypt has been protective of a 1959 agreement that divides the uses of the lower Nile between itself and Sudan. It has used its diplomatic muscle, and its influence at the World Bank, to prevent any water projects in Ethiopia that would restrict the river's flow.

A wild card, these days, is China, which is unconstrained by World Bank diplomacy and would enrage Egypt if it ever helped the Ethiopians divert part of the Blue Nile to agriculture. Even as Egypt has softened its public stance and reached out to its riparian partners, its intelligence is active in the Horn of Africa.

Still, no medium-sized country in its right mind would fight China over water, whether the dispute was far from the Middle Kingdom or right on its borders.

There is certainly a mounting conflict of interest between China and some neighbours over the use of two rivers that rise in Xinjiang, a region that the government in Beijing wants to develop and populate. The Chinese have diverted part of the Irtysh river, which feeds Russia's Ob river and ends up in the Arctic, to a canal supplying the booming oil town of Karamai. And China is also making more use of the Ili river, which ends up in Kazakhstan's Lake Balkhash, a vast, shallow expanse. Perhaps exaggerating, the UN Development Programme (UNDP) has said Lake Balkhash could turn into a salty mess, like the Aral Sea; and there are fears that wind-borne salt from its dried-up basin might speed the melting of glaciers on which China and Kazakhstan depend. But Kazakhstan (population 15m) won't pick a fight with 1.3 billion Chinese.

For another "asymmetrical" relationship, take the one between Turkey, where the Tigris and Euphrates rise, and Syria and Iraq, both highly dependent on those rivers. Turkey's effort to build up to 22 dams on the two rivers is a constant source of tension, and tempers flared in 1990 when Turkey briefly interrupted the Euphrates. Turkey is now anxious to discuss water with the American-backed government of Iraq; cynics discern an effort to lock in some deals favourable to the Turks while the Iraqis may be amenable.

What about Israel, a country that (in matters aquatic, as in much else) views itself as eternally vulnerable while its neighbours often regard it as a hard-nosed bully? Israel's strategic situation was transformed after 1967: it no longer had to fight over water, and was able to co-operate "asymmetrically" with its neighbours in Jordan and (at least while the Oslo peace accords still worked) the Palestinians.

And as Israel builds up its capacity to turn sea water into fresh, a new form of co-operation has been proposed. This would involve pumping desalinated water from the Mediterranean to supply the West Bank—with the rider that Israel would retain access to a rich underground aquifer on the West Bank, under the terms of any settlement. This would lock the Palestinians into deep dependence on Israel.

Some of the gloomiest forecasts of water wars have focused on sub-Saharan Africa. The ever-cheerful UNDP said in 1999 that the basins of the Nile, Niger, Volta and Zambezi were all potential flashpoints. But even in Africa, outright inter-state war over rivers seems unlikely. As in other places, rivers in Africa often make for more neighbourliness, not less; the more countries a river passes through, the greater the regional co-operation. Indeed, as that UNDP report came out, Namibia and Botswana amicably accepted an international court ruling over an island in the Chobe river, a tributary of the Zambezi.

Dripping wet

Recently, there has been progress towards durable water treaties for several big African river systems, such as the waters that flow down off the Lesotho highlands. It helps that some of Africa's mightiest rivers—the Congo, Limpopo and Zambezi—flow through remote and very wet places. In those climes, the challenge is not how to share waters, but how to use them at all.

The Niger, by contrast, is shrinking. Nine West African leaders agreed this week on a 20-year plan to rescue it by reforestation and removing silt.

Among the Nile basin countries, internationally sponsored initiatives have drawn hydrologists, economists and diplomats into useful debates. There is consensus on boosting the efficiency of irrigation, the main draw on the river. Radical thinkers favour sending "virtual water" from wetter parts of the basin to drier parts, in the form of grain and other food.

Still, there are risks. In Uganda, Rwanda, Ethiopia, Eritrea, Sudan and Egypt, the Nile basin has some of Africa's most militaristic countries. The inability to manage the waters of Lake Victoria, which is increasing in turbidity, bodes ill for the management of the White Nile.

If fissile Sudan finally splits, that may also have repercussions for the Nile. An independent south Sudan would more clearly bisect the river's African “suppliers” from its Arab “recipients”. Mistrust between Africans and Arabs could reignite a sense of injustice over colonial-era agreements between Britain and Egypt, which gave Egypt a generous share of the Nile waters. Ugandans and Tanzanians say those imperial bargains left them out.

And yet such talk probably has its limits. An ever-flowing river is hard to control militarily. Analysts say Uganda and Ethiopia could no more restrict the Nile's flow than Egypt could invade and defend it. Water boffins, led by the influential and sober Stockholm International Water Institute, say the Nile is more likely to see huge inward investment than cataclysm.

Away from the rivers, the lack of water could produce plenty of cataclysms for dry Africa. Indeed, if population-growth and climate-change predictions are anywhere near accurate, the alarmists are probably right to hit the siren. Local squabbles, with the potential to spread, are likely to emerge with increasing frequency around fixed water points, between rival pastoralists or else pastoralists and farmers. Water “stress” may exacerbate existing separatist struggles; it may already be doing so in places like Mauritania, Mali and Ethiopia.

To take two non-African cases, it can be argued that drought helped fuel the Maoist insurgency in Nepal and the original Taliban uprising in Afghanistan.

Low-level, drought-related skirmishing is especially likely in areas of small-arms proliferation, such as the Horn of Africa; and in areas where other fault-lines, like Christian-Muslim tension, also exist.

Already, the annual death toll from battles over water and grazing in the badlands of south Somalia, southern Ethiopia and northern Kenya is in the hundreds. Aid-workers say growing numbers of people and livestock, escalation from rifles to machineguns, erratic rainfall and especially the increased rates of evaporation expected in the future will put the toll into the tens of thousands. That still doesn't add up to a real war between proper armies—but a thirsty planet is unlikely to be a stable and peaceful one.

North Korea and Syria

Oh what a tangled web they weave

May 1st 2008
From The Economist print edition

The shadowy half-life of Syria's supposedly non-existent nuclear reactor


A grainy snap

"TOTALLY undocumented and untrue", thundered Syria this week at a meeting in Geneva of the signatories to the Nuclear Non-Proliferation Treaty (NPT). "A fantasy", fumed Syria's man at the United Nations last week. Since America released photographs taken inside and outside the building that was later bombed without explanation by Israeli jets in early September last year, it has been Syria's denials that have strained credulity. However it is still unclear where exactly the tangled web of intrigue surrounding the discovery that Syria was secretly building a nuclear reactor, in an otherwise deserted canyon east of the Euphrates river, will now lead.

Ironically, the most damning pictures were taken shortly after the Israeli raid. Syria's frantic efforts to destroy what was left of the building, remove tell-tale components and bulldoze earth over the site briefly laid bare its purpose to any passing satellite: construction of a gas-cooled, graphite-moderated nuclear reactor that lacked the power lines and other paraphernalia to hook up to an electricity grid and was ill-suited to research. It was, however, ideal for making plutonium for bombs—and could have produced enough for one or two within a year once it was fuelled up and operating, said the CIA's director, Michael Hayden, this week.

Just as damningly—says the Bush administration—Syria had turned to North Korea to help realise its nuclear ambitions. The almost-completed reactor was a clone of the one North Korea built for itself at Yongbyon, and whose plutonium extracted from the reactor's spent fuel-rods was used in an October 2006 bomb test.

Those facts raise plenty of questions. What was Syria really up to? There were no grid connections, but no sign of either a fuel-making or a plutonium-reprocessing plant. So does Syria have other hidden facilities? And what was in it for North Korea? It was deeply involved in the project from planning in the late 1990s to coping with the aftermath of last year's bombing, though the only photographic confirmation released of such co-operation was a grainy shot (above) of Chon Chibu, a senior North Korean nuclear scientist, standing with the head of the Syrian Atomic Energy Commission somewhere in Syria. Another puzzle is why Israel kept mum after the successful raid, leaving America to explain publicly what was up—and that more than seven months late.

Syria denies it was building a reactor of any sort. Its president, Bashir Assad, claimed that Israel had struck an empty military building, brushing off requests for inspectors from the International Atomic Energy Agency (IAEA), the UN's nuclear guardian, to take a look. He later said that in 2001 Syria had turned down a written offer of help to build a bomb that purportedly came from Abdul Qadeer Khan, the now disgraced head of one of Pakistan's nuclear laboratories, whose nuclear blackmarket is known to have supplied Libya, Iran and North Korea. Syria had no use for nuclear arms, said Mr Assad, and anyway the letter might have been an Israeli fake.

A record of money-grubbing

Judging by its past behaviour, North Korea would do pretty much anything for cash; there are suspicions that it helped the Khan network supply nuclear material to Libya. That said, providing engineers and designs for Syria's reactor may chiefly have been meant to tweak America's nose, says Michael Green, a former Bush administration official now at the Centre for Strategic and International Studies, a think-tank in Washington, DC.

The Bush administration and North Korea fell out badly in 2002 over charges that Kim Jong Il's regime had secretly been trying to enrich uranium (also a potential bomb ingredient) while plutonium production was frozen by a previous agreement. The following year North Korea privately threatened to expand its “deterrent”, test it (which it later did) and even sell it. With little to export beyond counterfeit currency, drugs and crises, says Mr Green, North Korea used Syria to up the ante—and the expected compensation for later agreeing to desist.

Now America and Mr Kim are negotiating again as part of a six-party deal (also including South Korea, Japan, China and Russia) to tempt him to give up his bombs. Senior American officials last week acknowledged that they had debated whether to try a combination of diplomacy and threats to end the Syrian project. For Israel, however, the Syrian reactor was an existential threat-in-the-making. There was no green light from the United States, the officials said: “none was asked for, none was given.”

Hoping to avoid retaliation, and to head off the risk of a wider Middle East war, Israel wanted the intelligence that led to the bombing kept secret. Worried that wider disclosure would sink the six-party effort too, America briefed only a score of senior members of Congress at the time.

But now the administration needs Congress's support for a controversial deal that could fall significantly short of the prize that the six-party negotiations were supposed to deliver: that, in return for oodles of energy aid and a lifting of some key sanctions, North Korea would first provide a full and accurate accounting of its nuclear past and later dismantle all its nuclear programmes. Instead it has merely declared a rather modest stockpile of plutonium and dug its heels in. Trying to move talks forward, American diplomats have struck a tentative deal that would allow North Korea to “acknowledge” American “concerns” about uranium and proliferation activities, in return for better verification of Yongbyon's plutonium haul. But the backtracking led Congress to demand the facts on Syria first.

George Bush said this week that by going public, America wanted to press North Korea's (notoriously impervious) Kim Jong Il into fuller disclosure, and send a message to proliferators everywhere. But the Syrian pictures may just as easily lead Congress to demand that America adopt a tougher stance in the six-party talks.

Another casualty could be the NPT itself. The IAEA's boss, Mohamed ElBaradei, says inspectors should have been given information about the Syrian reactor sooner by America and Israel. Yet Syria, had it not chosen to deny all, could have claimed that technically it was doing nothing wrong. Building a nuclear reactor is not against NPT rules, unless done with weapons intent—and that is hard, if not impossible, for inspectors to prove, says Henry Sokolski of the Non-proliferation Policy Education Centre in Washington. However, under a 1992 rule accepted by Syria, it should have alerted the IAEA to its reactor plans before construction started. North Korea, Iran and now Syria. The NPT seems there for the breaking.

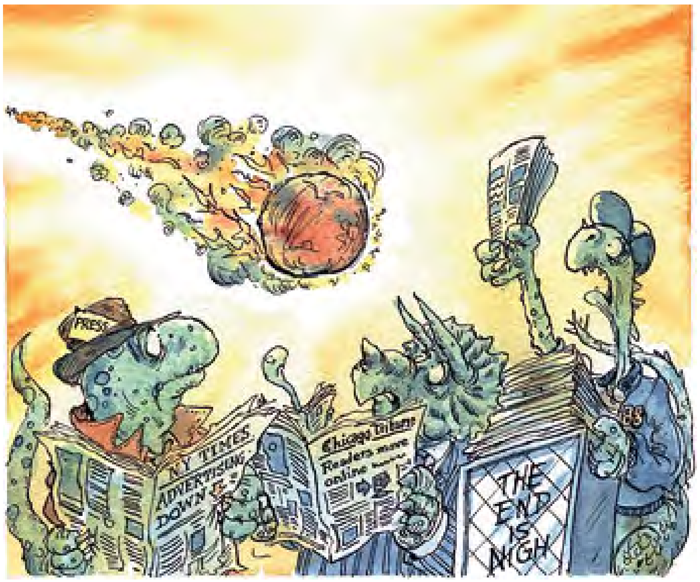
American media

On the brink

May 1st 2008 | NEW YORK
From The Economist print edition

Some of America's most venerable newspapers face extinction, unless they evolve

Illustration by David Simonds



THE *New York Times* once epitomised all that was great about American newspapers; now it symbolises its industry's deep malaise. The Grey Lady's circulation is tumbling, down another 3.9% in the latest data from America's Audit Bureau of Circulations (ABC). Its advertising revenues are down, too (12.5% lower in March than a year earlier), as is the share price of its owner, the New York Times Company, up from its January low but still over 20% below what it was last July. On April 29th Standard & Poor's cut the firm's debt rating to one notch above junk.

At the company's annual meeting a week earlier, its embattled publisher, Arthur “Pinch” Sulzberger, attempted to quash rumours that his family is preparing to jettison the firm it has owned since 1896 by declaring that “this company is not for sale.” In an effort to placate his critics, Mr Sulzberger agreed to add to his board representatives of two activist hedge funds with threatening names, Firebrand and Harbinger. Carnage is expected soon on the editorial floors of the shiny new *Times* headquarters, as dozens of what were once the safest jobs in journalism are axed, since too few of the staff have accepted a generous offer of voluntary redundancy.

Pick almost any American newspaper company and you can tell a similar story. The ABC reported that for the 530 biggest dailies, average circulation in the past six months was 3.6% lower than in the same period a year earlier; for Sunday papers, it was 4.6% lower. Ad revenues are plunging across the board: by 22.3% at Media General, for example. In 2007 total newspaper revenues fell to $42.2 billion, not to be sniffed at, certainly, but a lot less than the peak of $48.7 billion in 2000.

Much of this decline is being blamed on the rise of the internet, which offers free, round-the-clock coverage, and which has provided a new, better home for classified advertising, once the bedrock of most newspapers' revenue. But some of the fall in revenues is actually due to the economic slowdown in America, and especially in the housing market, which contributes a large slice of classified advertising. Media General, for one, is particularly exposed to parts of America where the property market has slumped most, through papers such as the *Tampa Tribune* in Florida.

The credit crunch has also come at a bad time for a group of new newspaper owners, who used loans that were readily available until last summer to buy their way into the business, but must now be having second thoughts. Sam Zell, a property tycoon who bought the Tribune Company, the owner of papers such as the *Chicago Tribune* and *Los Angeles Times*, is finding the going harder than expected. He is trying to sell assets such *Newsday*, a New York tabloid that is the subject of a bidding war between two other moguls, Mort Zuckerman and Rupert Murdoch, and perhaps other firms. It speaks volumes about the industry that either one would probably fold *Newsday* into a joint-venture with their respective tabloids, the *New York Daily News* and the *New York Post*, rather than try to preserve it as a stand-alone title.

Mr Murdoch's enthusiasm is a reminder that not all newspapers are suffering. He bought the *Wall Street Journal* last year, and is investing in a vigorous expansion of its political coverage and international news. This foray on to the traditional turf of the *Times* seems to be working: the *Journal*'s circulation is rising. The cheerful buzz at its offices is in sharp contrast to the rest of the industry—although Mr Murdoch did ruffle feathers at the paper this week by easing out its editor, despite having pledged not to interfere unduly in editorial matters when he bought it. Another flourishing outlet is the web-only *Huffington Post*, which is fast evolving beyond a series of political blogs into a fully fledged online newspaper with liberal sensibilities close to those of the *New York Times*.

Industry experts such as Lauren Rich Fine of Kent State University do not think that the *Times* is responding forcefully enough. “Now is the time to beef up its business section,” she says. Ms Fine also points out that although all newspapers are being buffeted by the internet, their ability to respond will probably depend on whether their audiences are national, metropolitan or local. The first category can afford to invest in distinctive international or business coverage, while the last can prosper by becoming “more intensely local”. But she fears for the big metropolitan newspapers, which may find themselves trapped in the middle.

Not all is lost, however. Plenty of innovation is taking place, particularly at local papers, as the latest “Newspaper Next” report from the American Press Institute, an industry group, makes clear. It quotes 24 examples of newspapers becoming “information and connection utilities”, through such offerings as local internet forums. The *Pocono Record* has renamed reporters “content managers”, since they oversee all the coverage of their beat, in print and online, and get a bonus for higher web traffic.

The hero for industry optimists is Brian Tierney, a former public-relations executive who led a group of investors that borrowed heavily to buy Philadelphia's two main dailies. He has since revived them with a vigorous marketing drive. He is also finding new ways to drum up advertising, such as introducing a business column sponsored by a local bank. People said pigs will fly before our circulation rises, Mr Tierney recalled in a recent speech, before recounting how he celebrated a rise in circulation by projecting flying pigs onto the walls of the *Philadelphia Inquirer*.

Economist.com BUSINESS

Indian media

Calling the shots

May 1st 2008 | DELHI
From The Economist print edition

India's newspapers embrace a profitable but questionable new sideline

Reuters

350m more where he came from

ONE of India's leading newspapers launched an unusual advertising drive last month. “Money cannot buy our integrity” read a front-page slogan in *Daily News & Analysis* (DNA), a Mumbai daily. “Make the headlines tomorrow. By paying for it,” it added, in reference to some other papers' supposed tendency to give favourable coverage to firms that place advertisements. That charge is hard to prove. But an increasingly popular practice is exposing Indian newspapers to growing conflicts of interest: accepting payments for ads in the form of shares in the advertiser's firm.

The Times Group, the country's biggest media firm, started the practice in 2004. According to its website, it now has 120 “private treaties” of this nature, which “make the power of The Times Group available to our Treaty Partners”. The firm's executives insist that neither its own shareholdings nor its advertisers influence its coverage. But articles in its publications do not always reveal its own interest. Sevanti Ninan, a media activist, reckons the practice will “grow and grow in a media which anyway has little notion of conflicts of interest”. Indeed, HT Media Ltd, the publisher of the *Hindustan Times*, recently started offering private treaties, as did one of the owners of DNA, the Dainik Bhaskar group, even though DNA itself does not offer ads-for-equity deals.

India's newspaper industry, bucking a worldwide trend, is flourishing. New titles hit the newsstands practically every month. More than 350m literate Indians do not yet subscribe to a newspaper, which, coupled with rising literacy, promises a long-term boom. A recent report by PricewaterhouseCoopers estimated that India's print industry would grow from 149 billion rupees ($3.6 billion) in 2007 to 281 billion rupees in 2012.

But papers are absurdly cheap thanks to incessant price wars. The *Times of India*, for example, costs just 2.50 rupees. That leaves it and others heavily dependent upon advertisers. No wonder, then, that DNA's campaign is attracting so much attention.

Confectionery firms

A sugary mouthful

May 1st 2008
From The Economist print edition

Mars buys Wrigley with Warren Buffett's help

OF ALL the possible snacks, the deal was struck over a plate of sandwiches. Paul Michaels, the boss of Mars, a big maker of chocolate bars, invited Bill Wrigley, executive chairman of Wrigley, the world's biggest chewing-gum company, to his house to persuade him that the two firms were a perfect match. After all, both are old, American and dominated by their founding families. They have both focused on creating a few global "power" brands such as Mars's Twix, M&M's and Snickers and Wrigley's Extra and Orbit. And there is little overlap between them.

A few weeks later, on April 28th, Mars and Berkshire Hathaway, Warren Buffett's investment firm, announced a friendly takeover of Wrigley for about $23 billion. Mr Wrigley, who presented strong results for the first quarter on the same day, says his family did not need a lot of convincing to accept. They could see the advantages of a bigger global distribution network, whereas the Mars family liked the idea of diversifying into gum, which is considered healthier and has higher growth rates than chocolate. Mars is offering a 28% premium over the price of Wrigley's shares before the deal was announced. Mr Wrigley and other senior managers will remain in place. The firm will keep its close association with Chicago—Wrigley Field is the home stadium of the local baseball team, the Cubs. Mars will even move the offices of its non-chocolate division to the Wrigley building, a Chicago landmark.

"The price is high," admits Olivier Goudet, Mars's finance chief. But Mr Goudet thinks savings in distribution and marketing will outweigh the cost of the merger in the long run. Mars, which is America's third-largest privately owned firm after Cargill, an agricultural company, and Koch Industries, a conglomerate, can afford to take a longer view. "We have no intention ever to go public," says Mr Michaels. Mr Buffett, meanwhile, will receive a 20% stake in Wrigley on preferential terms, in exchange for offering a $4.4 billion loan—a huge boon in such credit-starved times.

The deal is a challenge to Cadbury, which is also trying to focus on chocolate and chewing gum. It is about to spin off Dr Pepper Snapple Group, its American drinks business, leaving only confectionery. But a combined Mars and Wrigley will control some 14% of the global market, compared to Cadbury's 10%, giving them greater clout with retailers. And Cadbury is already under intense pressure from shareholders to improve its margins.

Cadbury may start looking for acquisitions of its own. Kraft's confectionery unit is one possible target, although Cadbury would struggle to pay for it. It had originally hoped to sell its drinks unit to a private-equity firm for a higher price than it is likely to raise on the stockmarket, but the credit crunch wrecked that option.

Hershey, with its 43% share of the American chocolate market, the world's biggest, is another candidate. The two are a near-perfect fit, and have discussed a tie-up in the past. But Cadbury cannot buy Hershey without the approval of the Hershey Trust, which owns 78% of the firm and is determined to retain control. What is more, Hershey has been struggling with higher commodity prices, falling margins and flat sales. According to Andrew Wood, of Sanford Bernstein, a research firm, the savings from such a merger would probably be too small to justify the deal.

So Cadbury and Hershey are likely to face the new goliath alone. That may not be the end of the world: as it is, Cadbury is making inroads into the American gum market, while Wrigley's share has dropped from 66% to 60% in two years. It could also swallow a smaller rival, such as Lindt, a Swiss chocolate firm. Its boss is adamant that it's not for sale—but that is what Wrigley used to say, too.

Economist.com BUSINESS

European boards (1)

Jobs for the girls

May 1st 2008 | MADRID
From The Economist print edition

Spain's government wants firms to appoint more female directors

THE sight of Spain's heavily pregnant defence minister inspecting the troops in early April seemed to herald a new era of opportunity for Spanish women. Spain is the first European country ever to produce a government with more female than male ministers. José Luis Rodríguez Zapatero, the prime minister, has appointed nine women and eight men to his new cabinet, including Carme Chacon, Spain's first female defence minister.

Despite their sudden ascendancy in politics, however, women are still practically absent from the upper ranks of business. Spanish women make up just 4.1% of corporate boards, according to a study by the European Professional Women's Network, an lobby group, and Egon Zehnder, a recruiting agency, against an 11% average in Europe (see chart).

One reason is that fewer women make it into the workforce than in other European countries, with the exception of Italy. The gap between male and female employment rates in Spain is over 20% points, according to a study by Kevin Daly at Goldman Sachs, an investment bank. Reconciling family life with work, a struggle anywhere, seems to be harder in Spain than in other countries. Spanish women spend far more time on domestic chores, including childcare, than men. The length of the working day, which is extended into the evening thanks to long lunch breaks, does not help. It is practically impossible to juggle family and work if you get home at 9pm or 10pm, says Ruth Mateos de Cabo, one of the authors of an academic paper entitled “Discrimination on Spanish Boards of Directors”.

Ms Mateos and her co-authors analysed the boards of Spain's top 1,000 companies in a bid to understand why women are so scarce. They found that Spanish boardrooms are clubby, and that diversity is seen as a hindrance, not a strength.

The government has passed a law that aims to change things by requiring firms to raise the share of women on boards to 40% by 2015. Norway already has such a quota, but the results have been mixed: because of a shortage of eligible women, some of the most qualified have collected as many as 35 directorships.

In Spain the target is mainly symbolic, since companies will not face financial penalties if they do not meet it, unlike their Norwegian counterparts, although the government may take their performance into account when awarding public contracts. It may be better to help women gain enough experience to be good candidates for directorships to begin with. Encouraging more reasonable hours would be a start. Spanish boards may also consider head-hunting in fields where women are better represented, such as academia.

There are reasons for optimism. A bigger share of women in their 20s are joining the workforce in Spain than in America. Eva Castillo, a banker and board-member of Telefónica, a telecoms firm, believes it is only a matter of time before women's lot at Spanish firms improves: “It's changing naturally, it's a generational thing.”

European boards (2)

Money spinners

May 1st 2008 | FRANKFURT
From The Economist print edition

Why German companies should not appoint bankers to the board

BANKERS who sit on the supervisory boards of non-financial firms in Germany benefit their bank but not necessarily the company—or so concludes a recent study for the European Corporate Governance Institute, a think-tank. The three authors examined the record of 137 German companies and 11 banks between 1994 and 2005, and found that the mere presence of bankers in the boardroom appears to increase a company's debt and diminish its overall performance. But the board-member's bank tends to win merger-and-acquisition business from the firm. It also tends to increase its loans to the firm's competitors—perhaps thanks to the expertise in the industry the banker gained while serving on the board.

That last finding is perhaps the most surprising. German banks must report all loans over €1.5m ($2.3m) to the Bundesbank, Germany's central bank. When the researchers examined this data, which is normally secret, they discovered that a bank represented on a board in one year tended to lend more to other companies in the same industry the next.

German companies, especially big ones, tend to have at least one banker on their supervisory board. Of the non-financial companies in the DAX 30 stock index only four do not. Of the companies examined in the study, 46% had a banker on the board, compared with 32% for equivalent firms in America.

Why is this practice so widespread? To some extent it is a hangover from the days when banks owned stakes in many German firms. As recently as 1994 they owned an average of 4% of all non-financial firms. But after 2002, when the government exempted the sale of these stakes from capital-gains tax, the banks sold out. By 2005 they held a mere 0.4%. That may have skewed the interests of bankers on boards away from improving the firm's profits and towards peddling their services—to rivals if need be.

Investment in Indonesia

One-pronged attack

May 1st 2008 | JAKARTA
From The Economist print edition

Asian firms pile into Indonesian resources, but Western ones are warier

EPA

The stuff of quick returns

AS COMMODITY prices soar, and secure supplies become ever more alluring, the queue of companies seeking to invest in Indonesian natural resources reads like a “Who's Who” of global industrialists. This week India's Reliance Power, an energy company controlled by the billionaire Anil Ambani, announced plans to invest $650m in a coal mine. In April, the government revealed that Lakshmi Mittal, the boss of ArcelorMittal and Britain's richest man, is looking to invest up to $10 billion in steel, iron ore, nickel and other projects.

In March Guohua Electric Power Corporation, a subsidiary of China Shenhua Energy, China's top coal producer, received approval to develop a coal mine and power plant in Indonesia, its first overseas venture. And last year Tata Power, another Indian energy firm, paid $1.1 billion for stakes in two Indonesian coal mines owned by Bumi Resources. With UBS, an investment bank, predicting that the world's supplies of thermal coal, the sort mined in Indonesia, will fall 14m tonnes short this year, the scramble for assets is easy to understand.

Asian firms are also muscling in on the sprawling archipelago's oil and gas industry. In March Japan Petroleum Exploration and Mitsubishi said they would spend $360m to buy half of the Kangean gas block in Java. Mitsubishi is developing a liquefied natural gas plant with Medco Energi, a local firm, for $1.4 billion. Mitsui, another Japanese conglomerate, is investing in a refinery.

These are just the biggest deals. Numerous smaller ones are being finalised every week in industries from mining to oil-palm plantations. Direct foreign investment in Indonesia soared by 73% last year, to $10.3 billion. A bigger sum is expected this year, despite the credit crunch.

But the growing interest in South-East Asia's largest economy does not mean that Indonesia's problems with corruption, bureaucracy and legal uncertainty have evaporated. Many of the investments are in areas where little capital is required and the returns are rapid. Bumi Resources, for example, is expected to make profits equivalent to a third of its $14 billion stockmarket value over the next two and a half years.

Investments with a longer pay-off are rarer. Western firms are particularly cautious. Several prominent ones, including Mars, a confectionery firm, and Intel, a technology giant, have been at the wrong end of curious court verdicts over the past few months. Others are deferring investments until promised new mining, tax and labour laws are passed. Western energy companies are also leery, following a recent reversal for Exxon Mobil, which lost the rights to develop a big gas field in less-than-transparent circumstances.

That is unlikely to stop the Asian invasion. Growth in China and India is expected to slow only slightly this year. Asian firms are also said to be more tolerant of Indonesia's quirks, which may remind some of them of home. But many analysts predict that it is only a matter of time before Western firms bite the bullet and follow the Asians' lead.

Clean-technology firms

Labour pains

May 1st 2008 | SAN FRANCISCO
From The Economist print edition

A talent shortage hits green start-ups

ON MAY 1st applications closed for the first intake of a novel kind of executive-education programme. Set up by a bunch of venture-capital firms and other companies in New England, the three-month course will teach its “fellows” about renewable energy. To qualify for a fellowship, applicants must be successful entrepreneurs from other industries, such as IT or health care, and be zealous about profiting from greenery.

“A lack of talent, especially entrepreneurial talent, was one of the biggest bottlenecks to growth we identified in the clean-tech industry,” says Peter Rothstein of Flagship Ventures, a venture-capital firm that is one of the programme's founders. That bottleneck worries investors, who have been pouring cash into everything from solar energy to hybrid electric cars: last year global investment in renewable-energy businesses alone rose by 60%, to $148.4 billion, according to New Energy Finance (NEF), a research firm.

Although the prospect of minting money while helping to save the planet has attracted a stream of executives from other industries to clean-tech start-ups, few of them have much experience of their new field. In a recent global survey of 75 senior executives involved in clean-tech firms conducted by NEF and Heidrick & Struggles, a headhunter, over 90% cited top-level recruitment as a serious concern.

Counting on converts from other industries is risky, because some of the skills needed to run clean-tech companies are very different from those required to, say, launch a website. For one thing, the bosses of renewable-energy start-ups need to understand enough about the science to be able to pluck scientists from obscurity. For another, they need a grasp of project-financing techniques for costly prototype power plants. They also need to be able to deal with capricious regulatory and fiscal regimes. “If you've never done anything in the energy space, it can be intimidating,” says Bill Davis, the boss of Ze-gen, a start-up that generates electricity from waste.

Hence the New England bootcamp's goal of helping 25 aspiring green entrepreneurs a year to make the transition. As well as giving them an overview of the latest scientific research, the course also includes sessions on project finance and government regulations.

Start-ups also face a battle for engineers and scientists. And as small firms take advantage of a growing enthusiasm for greenery in East Asia and the Middle East, they also need more staff with international experience. Tracking down such rare pearls can be a distraction for busy bosses.

Ann Cormack, the head of D1-BP Fuel Crops, a firm based in London that develops crops for biodiesel, reckons talent-spotting takes up about a fifth of her time. She has spent several months hunting for an agronomist, for instance, to no avail.

Like the bosses of many other clean-tech firms, Ms Cormack is using headhunters. They like the clean-tech business because wages, on which their commissions tend to be based, are rising fast. Not so long ago, executives would do meaningful green jobs for menial pay. But in recent years, wages have soared as the industry has grown and attracted big utilities and private-equity firms. Now what matters to the geeks is a different kind of green. “Good people can set their own price tag,” says one recruiter, “and they want jam tomorrow, not in five years.” It looks like they'll get it.

Face value

Take two

May 1st 2008
From The Economist print edition

Michael Dell pioneered a new business model at the firm that bears his name. Now he wants to overhaul it

Reuters

THE second time round, the stakes are twice as high, particularly in the unforgiving world of computing. Bosses who take the helm again at firms they founded can either polish a gilded reputation, as Steve Jobs did after taking up the reins again at Apple, or they can tarnish one, the likely fate of Jerry Yang of Yahoo!, who will probably see the firm sold to Microsoft less than a year after taking over.

So why, after three years of relative distance as chairman of the board, did Michael Dell take charge again early last year at Dell, the company he had founded in his dorm room at the University of Texas at the age of 19? “When you start a company, it's a very personal thing,” answers Dell, who is now 43. “I will care about what happens to the company even after I'm dead. I just can't let it go.”

Mr Dell's tenacity seems to be paying off. His firm, which used to be the world's biggest maker of personal computers, but had lost its crown to Hewlett-Packard, is beginning to regain market share. In the first quarter, it made 15.7% of PCs sold globally, compared with 14.8% a year ago, according to IDC, a market research firm. But there is still much to do if he is to achieve his goal of turning his company, commercially speaking, from a Texan unilateralist into a global multilateralist.

Ever since Mr Dell started selling computers, he has focused on a different sort of innovation from the rest of the industry. In contrast to Apple, for instance, Dell has never worried about designing sexy devices or building a global network of fancy shops. Instead, the firm tried to make a commodity of customisation. It allowed clients to choose the features they wanted, but kept costs down by selling only online, using generic parts and maintaining an impossibly lean supply chain. This model went down well with corporate customers, particularly in America, where Dell remains number one.

Turning customisation into a commodity served Dell exceptionally well, and not just in the PC market: it successfully used the same approach with server computers, printers and storage devices. Yet just when the firm seemed unstoppable, its world began to change. Growth migrated from corporate markets to consumers and from rich countries to emerging markets, where people are warier of shopping online. What is more, as PCs became more powerful, buyers could no longer be persuaded to add extra processing power or a bigger hard drive when they bought them—one of the firm's specialities. Profits began to erode. Add exploding batteries, deteriorating customer service and accounting problems to the mix, and it is easy to see why Mr Dell felt he needed to come back.

How does Mr Dell explain his firm's sudden loss of poise? Its growth, from revenues of $6 billion to nearly

$61 billion over the past ten years, was based on a “very monolithic model”, which no longer works as well, he says. But the management was too focused on the short term to see this: “We were only doing things that optimised the business we had.” Back in the driver's seat, he is now doing precisely the opposite: trying out new approaches and diversifying Dell's business model both geographically and commercially.

One of Mr Dell's first decisions was a push into what internet types call “social media”. He set up a corporate blog and a website called IdeaStorm that lets customers make suggestions on how Dell can improve its products. This has earned Mr Dell a reputation in the blogosphere for “getting it”. Yet he sees such forums as a bigger and more efficient version of earlier online venues, such as the “bulletin board” he ran when he was 15. “I'm not as prone to hyperbole on these things because we've seen a lot of them,” he says. “Having conversations with customers is fundamentally not a new idea.”

Shopping and lusting

A much more momentous move was the decision to start selling in shops again. This is a cultural revolution for Dell. It no longer wants to sell dull black boxes, but must aim for products that build “brand lust”, as Mr Dell calls it. So Dell will have to foster a whole new mindset among its engineers and designers. It will need to set up a bulk supply chain alongside the customised one. And it will have to delve into hitherto unknown realms, such as managing relationships with retailers.

Dell also wants to emulate its rival Hewlett-Packard, which is making a lot of money managing its customers' increasingly complex IT systems. To that end, Dell has bought several firms in recent months. “Services is a business where the demand is really greater than the supply,” says Mr Dell.

So has the PC monolith reformed itself enough to be able to plough through the looming recession? Many analysts worry that Dell will not be able to get its costs under control, despite plans to cut $3 billion in expenses over three years and lay off more than 8,800 employees, nearly a tenth of the firm's workforce. But the firm has come a long way in a short period of time. It has, for instance, already developed some stylish computers that are selling well. And its products can now be found on the shelves of more than 10,000 stores, many of them in emerging economies.

Much will depend on how Dell does in places like China and India. To increase its appeal, the firm recently announced plans to join the PC industry's latest trend: mini-notebooks with small screens that cost only a few hundred dollars. And Mr Dell is spending a lot of time visiting these new markets.

Otherwise, however, Mr Dell seems to have settled easily into his old chair. “I was the CEO for the first 20 years of the company, and I'm the CEO again,” he says. But he should not get too comfortable: it was continuity, after all, that got Dell into trouble in the first place.

Economist.com OPINION

Investigating price-fixing

Supermarket sweep

May 1st 2008
From The Economist print edition

Illustration by Phil Disley

A complicated investigation of Britain's supermarkets looks like the latest example of the use in Europe of American trustbusting techniques. However, in other areas of competition policy deep differences remain (see article)

A FIERCER business battle would be hard to find than that for the £110 billion ($220 billion) that Britons spend on groceries each year. Over the past decade shoppers have switched from one supermarket to another in their millions, crowning new kings of the trade and deposing its once undisputed lords, whose market shares have been as squishy as overripe tomatoes. The greatest winners have been shoppers themselves: they have more choice than ever, and real food prices in Britain fell by about 7% between 2000 and 2007 (though they are rising now, as global food inflation bites).

Yet amid this energetic jousting for market share, a dark secret may also lie at the heart of British retailing. On April 24th and 25th the Office of Fair Trading (OFT), a British competition watchdog, pounced on the four biggest supermarkets—Tesco, Asda, Sainsbury's and Morrisons—in what may turn out to be one of the world's biggest and most widespread investigations into the possibility of price-fixing. The investigation involves thousands of products, from soap to cola, and some of the world's largest consumer-goods companies. Suppliers that say they have been asked to hand over information to the OFT include Britvic, Coca-Cola, Mars, Nestlé, Procter & Gamble, Reckitt Benckiser and Unilever.

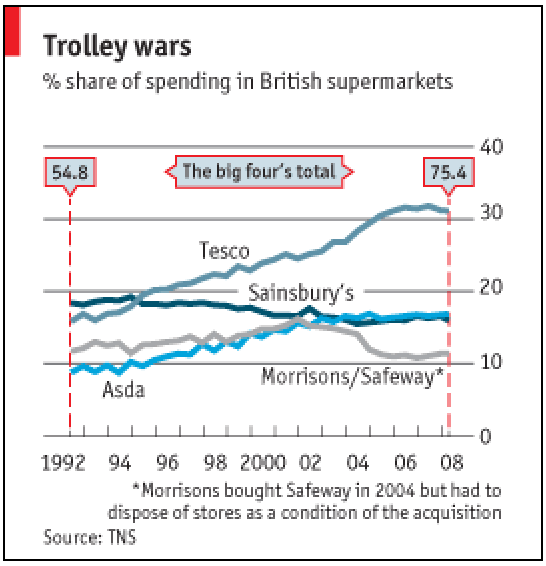
The probe will be a stern test not just of whether Britain's biggest consumer markets are clean, but also of a new approach to tackling price-fixing using American-style trustbusting powers. For even though Europe and America differ profoundly on how to deal with dominant firms and mergers (see article), Europe is enthusiastically adopting the American policy of giving immunity to whistleblowers, a technique that has led to the discovery of cartels in the oddest places.

Fighting in the aisles

The British grocery market is one of the places you would least expect to find price-fixing. Large supermarkets have little reason to collude in the market as a whole. If they did, their reputations would be ruined. And in an industry characterised by economies of scale, keener prices generate not only bigger sales but also lower costs. Internet shopping has increased the pressure: customers can compare prices easily from their own homes.

Sainsbury's, Britain's oldest supermarket, has tumbled in recent years from its long-held spot as the country's favourite grocer to a mere third place. Tesco, meanwhile, has climbed from number two in 1992, with barely one-sixth of the market, to become the clear leader, with almost one-third, according to TNS, a research company (see chart). There are many reasons for Tesco's advance, but price probably ranks high: Christopher Hogbin of Bernstein Research, a firm of investment analysts, reckons its prices are on average about 4-5% lower than those of either Sainsbury's or Morrisons.

Moreover, supermarkets were largely given a clean bill of health on April 30th by the Competition Commission, another British antitrust authority, after an investigation lasting almost two years. Although it was concerned that supermarkets are buying from ever fewer big suppliers these days, which makes it easier for price-fixing to take root, the commission found no evidence that this was actually happening. Its main concerns were to tweak planning laws to get more competition between supermarkets and to make sure big chains do not bully their suppliers.



Every economics student learns that cartels are most likely to crop up when firms have least protection from cut-throat price competition. The typical cartel product—vitamins, paper, petrol, glass, bulk chemicals—is a commodity offering scant opportunity for the branding that might create some pricing power. The industry is usually mature, with stable market shares and little innovation. This dullness has a virtue for a would-be cartel: it makes it easy to check if rival firms are sticking to the market-rigging plan.

With so much theory stacked against the likelihood of price-fixing in groceries, the OFT's unprecedented probe has also drawn unprecedented fire. To many of the supermarkets, which insist they have done nothing wrong, the regulator is on a “fishing expedition”. Yet the OFT is fishing in very specific waters. Its requests have generally been narrow and precise.

It has asked, for instance, for communications between supermarket buyers and named suppliers about specific products at particular times, according to people familiar with the requests. In most cases, the regulator has asked for correspondence relating to defined blocks of time of about 12 weeks, ranging from 2005 to 2008.

Why buyers? They may have an incentive to cheat, even if the industry as a whole is fiercely competitive. Often they are free to set selling prices and are paid bonuses linked to targets on sales and profits relating to the products they manage.

A little-noticed footnote to the Competition Commission's interim reports last year provides another clue. Its review of e-mails found that a supplier had “volunteered” information to a retailer on another retailer's expected future prices. Exchanging information on future pricing of this sort, says Catriona Munro of Maclay Murray & Spens, a law firm, may well be an infringement of competition law. The e-mails also point to the possibility of a problem deep in the bellies of large organisations, rather than at the top.

It would be wrong to presume guilt on anyone's part at the beginning of an investigation. The regulator, which is not commenting on the case, has yet to accuse anyone of wrongdoing and, even if it finds evidence of skulduggery, is unlikely to do so for at least a year. Yet the level of detail in its requests suggest that the OFT has a clear idea of what it is looking for and hints at the possibility that this probe was sparked by a tip-off by one of the parties involved, the likeliest suspect being one of the big supermarkets.

If that is so, it would not be the first time in Britain that the combination of a threat of stiff penalties (firms may be fined a maximum of 10% of sales) and amnesty for those who confess has set the watchdogs running. Last year the OFT fined British Airways £121.5m for setting fuel surcharges in cahoots with Virgin Atlantic, which squealed first. Several supermarkets and dairies owned up to fixing milk prices and agreed to pay fines of £116m, also last year. Then on April 25th the OFT accused 11 retailers and two tobacco companies of fixing the price of cigarettes between 2000 and 2003.

The common thread that runs through these investigations is the role of whistleblowers: in milk, Arla, a dairy, came forward; in cigarettes, one of the supermarkets, Sainsbury's, confessed.

This reliance on whistleblowers has been imported from America. Trustbusters there have made deals with cartel members for decades, but two changes in the early 1990s made the practice far more effective. The hitherto informal process was given legal backing: the first conspirator to rat on his partners automatically gets full immunity from criminal prosecution. And convicted executives became more likely to go to prison.

Punishment and predictability

Terry Calvani, formerly a member of the Federal Trade Commission, an American regulator, believes the crucial elements of an effective leniency programme are strong sanctions, transparency and predictability. Mr Calvani, now at Freshfields Bruckhaus Deringer, a law firm, says that significant penalties—ideally prison—raise the cost of not ratting; transparency is necessary so that firms know precisely how the system works; and “amnesty policy outcomes” have to be predictable or cartel members will not risk confessing.

After a false start, the European Commission revamped its cartel policy in 2002, making the conditions for amnesty much clearer. At the same time the fines levied on convicted cartels started to increase, inducing more firms to come clean. John Pheasant of Hogan & Hartson, a law firm, reckons cartels are now fined more heavily in Europe than in America. Last year, for instance, four firms were fined a total of €992m ($1.5 billion) for rigging the markets for elevators in Belgium, Germany, Luxembourg and the Netherlands. Leniency seems to be such a success that the European Commission is sitting on what Mr Pheasant calls a “time bomb” of cartel investigations, with more than 200 applications for leniency on file.

Better still for trustbusters, one successful case often begets another confession. When InBev, a brewer, was convicted for its role in a Belgian beer cartel, the firm quickly owned up to price-fixing in several other European countries. As a result, the commission subsequently nabbed three Dutch brewers, fining them €274m for fixing beer prices last year. It is not yet clear whether the OFT's latest investigation had its roots in an earlier run-in between supermarkets and regulators. If it did, it would fit with the pattern seen elsewhere.

Still, it may represent the shape of things to come. What is known of the OFT's new investigation suggests something far more complicated than the standard textbook cartel: it concerns a wide range of branded goods rather than a direct agreement about a single, often dull, product. Like other recent British cases, it seems to involve many parties sharing information in complex and indirect ways. If such an intricate cartel existed, how it could be centrally guided and monitored by its members is hard to fathom. This may also suggest that any arrangements may have been merely transitory. But only after Britain's trustbusters have sifted the minute evidence will shoppers know whether they have been the victims of a new form of price-fixing.

Mergers and dominant firms

Oceans apart

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From The Economist print edition

Illustration by Phil Disley

Europe still seems to have less faith than America in the ability of the free market to tame monopolies

AMERICA fosters competition; Europe protects competitors. That jeer is tossed across the Atlantic pretty frequently. Watchdogs on both sides of the ocean play down the idea that the Europeans bite more often than the Americans. But although the gap is far narrower than it was a few years ago, it still exists. The commission (the European Union's antitrust authority) is much likelier than the American Department of Justice (DoJ) to fear that a merger of two big firms or the behaviour of a dominant one will force rivals out of business, raising prices and restricting choice. The Americans are more confident that if powerful firms abuse their strength, they may attract competition rather than crush it.

In March the commission began investigating the proposed purchase by Nokia, a mobile-phone company, of Navteq, a provider of digital maps. A similar deal between Tom Tom, a maker of portable navigation devices, and Tele Atlas, another digital-map firm, is also under scrutiny. Both transactions had been cleared swiftly in the United States. The commission is also examining the behaviour of other high-tech firms—notably Intel, the world's leading chipmaker—even though the companies in question have not perturbed the American authorities.

In one respect—the treatment of “horizontal” mergers, between competitors—Europe's policy has come to look more like America's. This change has come about largely because of setbacks in court. In 2002 an appeal court savaged the blocking by the commission of the merger of Airtours and First Choice, two British travel operators. The commission responded by drawing up guidelines for appraising horizontal mergers. These should now be permitted unless they would leave one company with uncontestable market power or allow the remaining companies to compete less vigorously.

The shift of policy was demonstrated last year when the commission blessed mergers that cut the number of large tour operators in Europe from four to two. The deal between Airtours and First Choice, blocked eight years earlier, would have left the market with three big suppliers.

However, a kindlier European view of “vertical” mergers (between customers and their suppliers) is harder to detect. American authorities have tended to judge that they add to efficiency and help cap prices. As long as there is competition for final sales, consumers will benefit both from cheaper production and from paying one fewer mark-up in the supply chain. The commission has been more wary: in 2001, notoriously, it blocked the merger of General Electric and Honeywell, an avionics firm, which American regulators had waved through.

The courts upheld the decision, but were nevertheless critical of the commission's reasoning. The commission responded to criticism by getting to work on guidelines for non-horizontal mergers, which were published last November. Although one competition regulator reckons there is a now just a “sliver of paper” between the EU and American approaches, the extra scrutiny given to the Nokia/Navteq and Tom Tom/Tele Atlas mergers suggests the EU is still cautious.

Differences in the treatment of dominant firms, especially in fast-changing high-tech industries, also remain—and are if anything more plain. Article 82 of the EU treaty outlaws the abuse of a dominant position. Firms with a large share of a market are forbidden from using their muscle to set unfair prices, restrict output, force customers to buy related products or prevent other firms from challenging their dominance. Section 2 of the Sherman act puts the same restrictions on monopolies in America.

Applying these laws to technology industries is hard. The power of network effects in telecoms, computing and other digitised industries means it makes sense for firms to agree on an industry standard, so that gadgets and software are compatible. But this confers monopolies on the makers or patent-holders of standard kit, which in turn brings them into potential conflict with trustbusters.

Jorge Padilla, an economist at LECG, a consultancy, argues that in markets characterised by rapid innovation and modest barriers to entry, the costs of condemning a sound business strategy or merger are much greater than the harm caused by letting a monopoly slip through the net. In the first instance, efficiency gains are lost and incentives to innovate permanently blunted. In the second, market forces can help repair the damage.

American regulators seem to have become more convinced of this argument than their European counterparts have. The saga of Microsoft illustrates the difference. In 1998 the DoJ charged that by bundling Internet Explorer, its web browser, with Windows, its operating system, Microsoft sought to extend its desktop monopoly into browsers, freezing out Netscape, its main competitor.

The American courts ruled against Microsoft and in April 2000 ordered that the software giant should be split into two—one part owning the operating system and the other owning all other applications. The next year an appeals court said that Microsoft's actions did not warrant dismemberment. The DoJ settled for far more lenient remedies. These would stop Microsoft from bullying PC manufacturers into favouring its add-ons to Windows, but would leave the firm and its most important product intact.

The European authorities persisted with their own fight against Microsoft, which they eventually won last year. As well as paying fines totalling €1.4 billion ($2.2 billion), Microsoft has been obliged to supply a version of its operating system without its media player. It must also license parts of its code to rivals, to make it easier to dovetail their server-based software with Windows.

The commission is now monitoring some other high-tech companies too. It is investigating Intel for using discounts to maintain its dominant position. It claims that rebates paid to hardware manufacturers who buy most or all of their chips from Intel could be designed to squeeze AMD, its main rival, from the market. Intel is also suspected of more direct predation: selling chips below cost in order to secure clients in the server market. Another tech firm, Qualcomm, which owns the patent for chips used in mobile phones, is accused of overcharging for licences. The commission is also taking another look at Microsoft's past conduct, to see if it obstructed rivals' efforts to make their desktop applications work well with Windows.

The difference in approach is partly explained by economic philosophy. In America there is a greater faith that markets will fix the problem of monopolies and a belief that market leadership in high-tech is transient. A new product may make today's dominant technology redundant tomorrow. Firms compete for the market as much as in it: temporary monopoly is the reward for innovation.

Alongside this belief is another: that if regulators interfere they need to be sure that they are helping competition. That is not easy when behaviour that could bolster monopoly is indistinguishable from vigorous competition. Bundling, one of the sins for which Microsoft was punished, is common practice: every fast-food outlet charges more for separate items than for combined meals. And when a local print shop offers discounts or rebates for bulk orders—Intel's transgression—few imagine it is plotting against consumers.

But in a market where one firm is king, such practices can take on a sinister guise. Dominant firms might use loyalty rebates to stop others from becoming large enough to pose a serious threat. Bundling can be a tactic to compel consumers to buy several things from a firm with a monopoly in one product. It is hard to establish whether such strategies are pro-competitive or nefarious. Antitrust watchdogs have to gauge the tangible short-term benefits of lower prices and convenience against theoretical long-term harm.

America's agencies have tended to judge that too little action is less of a risk than too much. Intervention to protect weaker firms may serve only to blunt competition for the sake of highly uncertain benefits. Andrew Dick, a former DoJ economist now at CRA International, a consultancy, says that for these reasons American competition authorities put their faith in entrepreneurship to tackle monopolies. “Someone will always come along and build a better mousetrap,” he says.

This laissez-faire philosophy has fostered a permissive merger policy too. Two years ago the DoJ raised eyebrows when it approved the merger of Whirlpool and Maytag, even though the new firm would dominate the market for washing machines and clothes-dryers. The department considered that rival firms, at home and abroad, had strong enough brands and sufficient capacity to keep Whirlpool-Maytag in order.

Last month the DoJ sprang another surprise. It said it would not stand in the way of a tie-up between XM and Sirius, America's two satellite-radio providers. Its trustbusters said that “audio entertainment alternatives”, such as AM and FM radio and MP3 players, would restrain the merged firm's prices. Ever since the XM-Sirius deal, lawyers have been wondering just what it would take to get a merger blocked.

Some lawyers see America's hands-off approach as a matter more of legal architecture than of economic creed. Joe Sims, of Jones Day in Washington, DC, reckons that the commission is likelier to bring cases because the European courts are a less powerful check on its discretion. Officials at the DoJ or the Federal Trade Commission (FTC) must make the initial case to a court if they want to halt a merger or challenge a monopolist. The means the courts can act quickly to thwart trustbusters if they decide a case lacks merit.

Last year, for instance, the FTC tried to prevent a merger between Whole Foods Market and Wild Oats Markets, two organic-food retailers. It saw each as the other's main rival in “premium natural and organic supermarkets”. The courts, however, ruled this was too narrow a market definition: other grocers were offering more organic produce and redesigning stores to mimic upmarket outlets.

Europe's courts, by contrast, become involved in antitrust cases only in hearing appeals. Firms may make a legal challenge only after the competition authorities have delivered their verdict. Even then, the courts will overturn decisions only because of errors of reasoning or procedure: they may not rule on the technical details of each case.

More friction, less force

Perhaps the root of the divide between EU and America policy is not in philosophy or legal systems but in history and market structure. Janet McDavid, a lawyer at Hogan & Hartson in Washington, DC, points out that America has a far longer tradition of competition policy. It has had antitrust laws for more than a century: the Sherman act was passed in 1890. And America had a huge head start over the EU as a continental single market.

Europe's market is by far the more fractured. Infrastructure is organised around national boundaries, product markets are still highly regulated and many countries have state-owned or state-backed monopolies. This may justify a more intrusive antitrust policy: much of the commission's activity is aimed at battling unfair state support for companies.

Possibly, America's free-market zeal will fade. One Washington lawyer is advising clients that there is a small window between now and November to push through contentious mergers. A Democratic administration may be more willing to intervene.

But might the EU move closer to America in its treatment of dominant firms? It might—although it is yet to produce long-promised guidelines on Article 82 investigations, because, think some lawyers, regulators want to retain maximum discretion. The inquiry into Intel, which has also been taken up in Japan and South Korea, is one test. If the EU comes down hard on the chipmaker's rebates, it will confirm to many in America that Europe's competition watchdogs really do care more about protecting competitors than about promoting competition.

The intellectual tide favours America's laissez-faire approach. Mergers are now judged by whether they may hurt or harm consumers. Prior assumptions about what might be a desirable market structure play a diminishing role—even in Europe. In assessing horizontal mergers, regulators in Europe as well as America increasingly reason that rivals will emerge or respond if big firms try to gouge consumers. As for dominant firms, yesterday's giants—AT&T, IBM, General Motors—no longer cast such long shadows. Today's behemoths still need close watching, but in fast-moving markets, they have less scope to hold consumers to ransom.

Global monetary policy

Ben's bind

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From The Economist print edition

Disentangling the links between the Fed, the falling dollar and the soaring price of the world's commodities

Illustration by Satoshi Kambayashi

THE spirit of St Augustine hovered over the Federal Reserve this week. "Oh Lord, let us stop cutting interest rates, but not yet," is pretty much what America's central bankers decided on April 30th. The Fed's governors cut their policy rate by another quarter-point, to 2%. But the accompanying statement gave a small hint that they may now pause.

There are plenty of reasons to stop cutting. Real interest rates are now firmly negative. Although the housing market continues to contract—the latest figures show sales falling, prices tumbling and the number of vacant homes soaring—the economy is limping rather than slumping. According to initial GDP estimates released on April 30th, output grew at an annualised rate of 0.6% in the first three months of the year—the same pace as in the previous quarter and faster than most people expected. The mix of growth was not good. Final sales fell while firms built up their stocks, which bodes ill for future output. But with tax-rebate cheques arriving in the mail, a dose of fiscal stimulus is imminent.

A growing chorus worries that ever lower policy rates are adding to America's problems. Some prominent economists, including Martin Feldstein of Harvard University and Bill Gross of PIMCO, a big money-management firm, have urged the central bank to stop. Fed cuts, they argue, are doing little to reduce borrowing costs but have sent commodity prices soaring—fuelling inflation and hitting Americans' wallets hard.

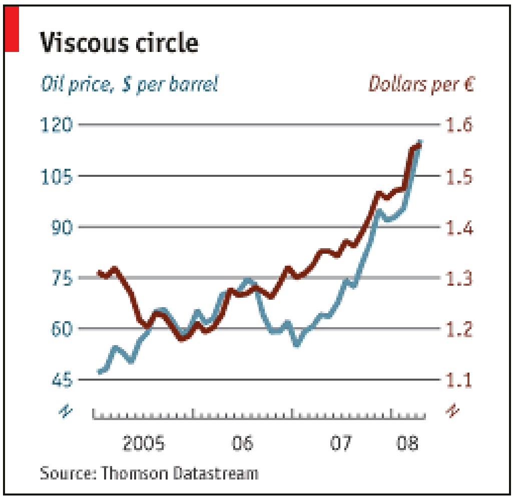
Thanks to the credit crunch, Fed loosening plainly packs less punch than hitherto. Lending standards are tightening across the board. The cost of a 30-year mortgage has risen over the past six months, even as short-term rates have tumbled. But monetary policy has not been impotent. One route through which it has worked has been the weaker dollar. Although the greenback has been sliding for over five years, the pace of decline stepped up as the Fed slashed rates. Since August the dollar has fallen by 7% against a broad basket of currencies and 13% against the euro. Together with strong global growth, this weakness has cushioned and reoriented America's economy. Strong foreign earnings have boosted corporate profits. Strong exports have countered the weakness in construction. Exclude oil, and America's current-account deficit has shrunk to an eight-year low of 2.4% of GDP.

But oil—and other commodities—are the crux of the problem. In the past, economic weakness in America has usually pushed the price of oil and other commodities down. That relationship has weakened thanks to demand growth in big commodity-intensive emerging economies. But the recent surprise is that commodity prices have soared even as America's economy has stalled and forecasts for global growth have been trimmed as well. No one expects global growth to accelerate this year, yet the price of crude oil is up 20% since the beginning of the year, *The Economist*'s overall commodity-price index is up 18%, the metals index is up 24%, and the food-price index is up 18%. Supply shocks—from drought in Australia to strikes at Nigerian oil wells—are clearly part of the problem. But the fact that prices have soared across so many commodities suggests a common cause.

Could the culprit be the Fed? Advocates of this idea point to two channels. First, by slashing real interest rates, the Fed has encouraged speculation in commodities by reducing the cost of holding inventories. Second, by pushing down the dollar, Fed looseness is pushing up the price of dollar-denominated commodities.

Jeff Frankel, a Harvard economist, has long argued that low real interest rates lead to higher commodity prices. When real rates fall, he points out, commodity producers have more incentive to keep their asset—whether crude oil, gold or grain—in the ground or in a silo, than to sell today. Speculators, in turn, have more incentive to shift into commodities. There is no doubt that commodities have become an increasingly popular investment category—in fact they bear many of the hallmarks of a speculative bubble. But inventories for many commodities, particularly grains, are unusually low.

What about the dollar link? Chakib Khelil, president of the Organisation of Petroleum-Exporting Countries, argued this week that oil could reach $200 a barrel largely because the market was being driven by the dollar's slide. Movements in the euro/dollar exchange rate and the price of oil have become extremely close (see chart). An analysis by Jens Nordvig and Jeffrey Currie of Goldman Sachs shows that the correlation between weekly changes in the oil price and the euro/dollar exchange rate has risen from 1% between 1999 and 2004 to 52% in the past six months.



That link is partly a matter of accounting. If the dollar falls, the dollar price of a commodity must rise for its overall price—in terms of a basket of global currencies—to remain stable. But commodity prices have risen even when priced in non-dollar currencies. And the correlation between changes in the price of oil and the euro/dollar exchange rate has risen even when oil is priced in a basket of currencies, such as the IMF's special drawing rights.

So is the weaker dollar driving oil prices up or are high oil prices driving the dollar down? The Goldman analysts argue the latter. Dearer oil is pushing the dollar down, they claim, because oil exporters import more from Europe than America and hold less of their oil revenues in dollars. A second factor lies with central banks. Because the Fed focuses on “core” inflation (which excludes food and fuel), whereas the ECB targets overall inflation, America's central bank runs a looser policy in response to higher oil prices, thus pushing the dollar down.

Another reason to suspect that the Fed is more than a bit player is that American interest-rate decisions have a disproportionate effect on global monetary conditions. Some emerging economies still peg their currencies to the dollar; many others have been reluctant to let their exchange rates rise enough to make up for the dollar's decline. As a result, monetary conditions in many emerging markets remain too loose. This fuels domestic demand, pushing up pressure on prices, particularly of commodities. All of which suggests that the Fed's decisions are propagated widely through the dollar.

The most recent circumstantial evidence also suggests that the Fed may bear some responsibility for the commodities boom. The dollar slipped after the Fed's rate-cut decision as investors reacted to its doveish tone, though at $1.56 per euro, it was still up 2.6% from its low of $1.60 on April 22nd. The price of oil, after hitting a record high of almost $120 a barrel on April 28th, had tumbled to $113 on April 30th. But the price of crude and other commodities rose afterwards. If those reactions persist, America's central bankers may have to reflect carefully.

Bank of Japan

In a pickle

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From The Economist print edition

A monetary-policy conundrum familiar elsewhere, new to Japan

EVER since the deflationary era, the Bank of Japan (BoJ) has longed for the day when monetary policy could once again mirror that of the more “normal” economies in the rest of the developed world. Now Japan's central bankers are learning to be careful what they wish for. They are beginning to experience exactly the same dilemma faced by their counterparts in America and Europe: how to set monetary policy when threatened with an American-led downturn on the one hand, and rises in the prices of commodities and food on the other.

The dilemma sharpened in late April when inflation figures were published. In March Japanese consumer prices (including energy and food) rose by 1.2% compared with a year earlier, the highest pace in a decade. The bulk of the rise came from energy, but food also loomed large. Spaghetti, which the Japanese love to eat with seaweed and cod's roe, has risen by over a quarter in the past year, and at the end of April hoarders cleared the nation's supermarket shelves of butter. With surveys showing that more than 80% of households feel inflation is rising, it is hard to argue that Japan any longer holds a deflationary mindset. Even “core” inflation (that is, not counting energy or food) grew by 0.1%, the first increase since 1998.

At the same time, the central bank is concerned about growth. The BoJ consensus seems to be that the worst of America's financial turmoil is now over, but that uncertainty now hangs over its real economy, with risks for Japan. Export volumes to the United States are falling, while the growth in exports to Asia and Europe is slowing. A stronger yen is beginning to squeeze company profits. In March, industrial production fell unexpectedly.

A troubled picture, then, for the BoJ. When policymakers met on April 30th for the first time since a new governor, Masaaki Shirakawa, was appointed, it cut its growth projections for the year starting in April, to 1.5%, while keeping interest rates on hold, at 0.5%. It also shifted its policy stance. Whereas before it was expecting to raise rates in future, the central bank now appears to have a neutral bias—that means it is as ready to cut as to raise them. For an institution so famously hawkish on inflation, that is an indication of how murky the outlook has become.

Economist.com FINANCE & ECONOMICS

Investment banking

Rank injustice

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Are league tables to blame for the industry's ills?

EVEN Cluedo does not have this many suspects. The list of culprits for the woes afflicting banks includes bankers' pay, credit ratings, ill-prepared boards, sleepy supervisors, accounting regimes, flawed risk models and Alan Greenspan. Should league tables, which rank investment banks on their market share in businesses such as share underwriting, debt issuance and mergers and acquisitions (M&A), also be fingerprinted?

That league-table positions matter to the banks is not in doubt. Many have specialist teams devoted to supplying data to the firms that compile the rankings, and to challenging the positions of rivals. According to Nick Studer of Oliver Wyman, a consultancy, some have a dedicated sales team with the job of pushing banks up the table at the end of each quarter, often by agreeing to reduce fees. High league-table positions feature prominently in marketing pitches, to good effect: according to a study by Jack Bao at the Massachusetts Institute of Technology and Alex Edmans at the Wharton School, corporate clients rely principally on past market-share data to select their M&A advisers.

Did this emphasis on league tables have a distorting effect on bank behaviour before the credit crisis? The results of an internal investigation into the calamity at UBS showed that its investment-banking unit was hell-bent on closing gaps with its rivals in fixed income. Merrill Lynch set great store on coming top of the league tables for structuring collateralised-debt obligations during the boom years.

Yet to blame league tables for their mishaps feels a bit like accusing the candlestick, not Colonel Mustard. Revenue is a greater incentive for banks to hustle for business than rankings. And some investment banks manage to resist the urge to be on every podium: Goldman Sachs occupies a relatively lowly position in debt-issuance tables but is still widely seen as the industry's overall leader.

It is not as easy as you might think to game the system. True, in their marketing material, banks can manipulate the data to suit their own ends—by being selective about which deals they include, for example. But even if they lower their fees to obtain league-table credit, there is little evidence that clients award mandates based solely on price. Data providers see few signs of egregious discounting.

The bigger question is how useful league tables really are to clients. Defenders say clients routinely dig into the underlying data to identify banks with specific expertise. But the tables shed less light on the quality of the service being offered. Mr Edmans says that some M&A advisers are persistently associated with higher bounces in an acquirer's share price when deals are announced—but that these firms tend not to be the ones with the biggest chunk of the market (see table). In this analysis, Goldman looks less stellar than its share of deals suggests. Worse, the research found that previous market share (the measure that clients do use) was negatively correlated with later performance. If league tables did a better job of capturing quality as well as quantity, they would be less suspected.

Bigger is not better

Top M&A advisers to acquirers listed in America
1980-2007

	Market share by value, %	Excess returns*, %
Bear Stearns	3.04	0.98
DLJ	3.60	0.70
Salomon	2.51	0.66
Lehman Brothers	5.66	0.53
CSFB	6.05	0.49
(Salomon) Smith Barney	5.09	0.40
JPMorgan	5.69	0.23
Merrill Lynch	9.45	0.20
Morgan Stanley	11.03	0.11
Goldman Sachs	10.71	0.09

Source: Jack Bao and Alex Edmans

*Performance of bidder's share price compared with market expectations before announcement of deal

Economist.com FINANCE & ECONOMICS

Buttonwood

The fragility of perfection

May 1st 2008
From The Economist print edition

When supply chains go wrong

Illustration by Satoshi Kambayashi

ONLY connect. The words of the novelist E. M. Forster sum up globalisation. An international company may buy its software from California, send its data to India, purchase its electronic equipment from China and staff its canteen with workers from eastern Europe.

The theory dates back to the economist Adam Smith and the principle of specialisation. The productivity of a pin factory can be improved if production is broken down into its component parts. Similarly, companies (and countries) should specialise in fields where they have a comparative advantage. The revenues can be used to buy the other goods and services the company needs, at a cheaper cost than it could manage in-house.

But specialisation depends on one critical factor: the reliability of supply. A bicycle maker may turn out fantastic handlebars but if his supplier produces wonky wheels (or no wheels at all, because of a strike or other disruption), he will not sell a single bike.

David Bowers of Absolute Strategy Research, a consultancy, thinks this makes the global industrial system vulnerable. He draws an analogy with the boom in structured finance, which saw banks distribute risk to specialist vehicles like conduits. They worried less about the creditworthiness of borrowers as a consequence. But when the subprime crisis broke, the risks ended up back on the banks' balance sheets after all. “Just as the banks mispriced credit risk, so companies have misjudged strategic risk,” he says.

In particular, Mr Bowers thinks that loose monetary policy in America is leading, via the currency markets, to inflation in developing countries. That may end up undermining the cost advantages of outsourcing, as the prices of raw materials and labour rise.

In the long run, disruption to supply chains may be a huge strategic risk. Energy is one obvious area. Britain has just shown how a two-day strike at a Scottish refinery affected deliveries to petrol stations and, more seriously, disrupted oil output. “Just-in-time” inventory levels normally create savings—unless suppliers do not deliver just in time, when they extract a huge cost. American companies such as Mattel, a toy company, have also discovered that their brand names can be tainted if goods made by overseas suppliers (particularly from China) turn out to be bad for consumers' health.

The problem could be called the “fragility of perfection”. The greater the interdependence within the system, the wider the effects of disruption in one part of it. In finance the “originate and distribute” model of bank lending may have dispersed risk, but it also meant that a problem in the American housing market damaged banks all over the world. Similarly, a supply disruption in China, which might have been ignored ten years ago, could prove to be catastrophic in many countries today.

Globalisation has been disrupted before, of course. John Maynard Keynes wrote that, before the first world war, “the inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep.”

In a remarkably short time afterwards, Britain was attempting to blockade products to Germany and vice versa; the country's dependence on imported raw materials was one of its greatest weaknesses. Even without any sign of war, recent months have seen a number of countries either ban, or attempt to tax, food exports in an attempt to safeguard supplies for the local population.

The nationalisation of energy resources is also proving to be a global problem, given that it has dissuaded foreign investors from helping to develop new sources of supply. High energy prices also lead to potential political conflicts. European nations worry about their dependency on Russian gas, particularly in the light of previous pipeline closures. And China's desire to secure energy supplies has led it to do deals with governments that western powers consider unsavoury.

Meanwhile, displays of nationalism or religious solidarity have led to consumer boycotts in the Middle East and Asia. Such protests could conceivably turn into import bans.

Companies have made enormous gains through globalisation, which in many countries has meant that profits have risen as a share of GDP. But those benefits are potentially fragile. If they start to crack, the resulting financial and economic losses could be far greater than anything dished out by the subprime-mortgage crisis.

Deposit insurance

When the safety net fails

May 1st 2008 | FRANKFURT
From The Economist print edition

How would Europe cope if a big bank collapsed in its midst?

WHEN Northern Rock ran into disaster last September, it was not only panicky British depositors who queued up to withdraw their savings from the stricken mortgage lender. In Dublin hundreds of Irish depositors did too. They were soothed only when Alistair Darling, Britain's chancellor of the exchequer, told them that in the case of Northern Rock, the deposit-insurance scheme applied on both sides of the border.

In the European Union (EU), the implications of that bank run have given a new urgency to efforts to harmonise the system of deposit insurance. EU banks have an automatic “passport” to operate branches in other member states. But there is so little clarity about how foreign depositors would be treated in the event of a bank failure that regulators fear a cross-border panic could easily erupt.

Even before the Northern Rock affair, European Commission experts were working on improvements to a 1994 directive that sets minimum standards for deposit insurance. Currently, the law is confusing. It stipulates that a scheme should cover a minimum of €20,000 ($31,200). However, it allows countries to decide on things such as co-insurance (ie, the depositor bears some of the risk); whether the scheme has paid-in funds; or whether it relies on the remaining healthy banks to chip in after a failure. In the EU no two countries' systems are the same.

Harmonisation is hard to pull off, however. Since 2003, Nordea, a bank forged from mergers in Sweden, Norway, Finland and Denmark, has been negotiating with different deposit-insurance schemes in the four countries. All are pre-funded, but at different levels. Nordea contributes to all four. It wants to become a *Societas Europaea,* which would give it residence in Sweden, with branches rather than subsidiaries in the other countries. But Sweden's neighbours will not let it transfer the deposit-insurance contributions it has made to them to Sweden (though they may agree on a top-up system).

If this is all so thorny in Scandinavia, it could be even worse farther south. Members of the European Forum of Deposit Insurers recently met in Italy to discuss fixes. They made six suggestions, including speeding up payouts, ideally to a few days. They put particular emphasis on ensuring the public was better informed.

This is just the start. Some advocates of harmonised deposit insurance want something similar to America's Federal Deposit Insurance Corporation (FDIC), which pays out within a day or so. Others point to countries such as Australia and New Zealand, which have none at all, relying on robust supervision of banks, and the discrimination of depositors. In both countries, as in America, supervisors have powers to step in long before a bank defaults and to appoint an administrator.

Switzerland, a small country that is home to two global banks, has a capped deposit-insurance scheme—a maximum of SFr4 billion ($4 billion) for any bank that goes bust. Only deposits within Switzerland are covered. The European directive does not give EU members such discretion. Nor does EU bank regulation allow for early intervention. Talk of setting up a pan-European FDIC has not got much official support. There are too many physical and philosophical differences between member states, and it would be expensive, says an EU expert. The FDIC has resources of around $52 billion. Pre-funded schemes in the EU total a mere €13 billion.

It is a popular fallacy, however, that a deposit-insurance scheme can stem every banking crisis. The presence of a safety net is meant to give people enough confidence not to start a run in the first place. If they do, even the best-funded scheme may be insufficient to stop it. In that case, it is up to the government to decide whether the bank is worth saving. If it is, the more back-up it provides, the better.

China's stockmarket

Seeing red

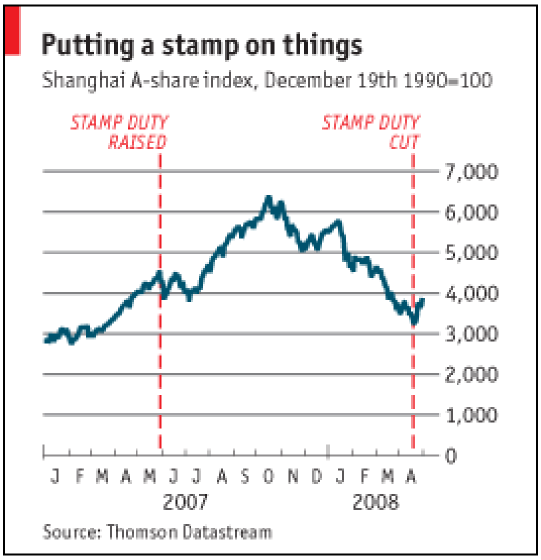
May 1st 2008 | SHANGHAI
From The Economist print edition

How meddling has helped investors

A USEFUL indicator of the febrile state of China's stockmarkets for much of last year was the crowd that often packed the Shenyin & Wanguo broker in Shanghai's People's Square watching an electronic bulletin board lit up by the flashes of rapidly rising share prices. Appropriately in China, rising prices are signalled by the colour red, not black, and on April 24th the crowds were back again, after an absence of many months, watching a screen that was gloriously drenched in the colour of the revolution.

The immediate cause of the rally was put down to a minor reduction in a tax on trading, or stamp duty, from 0.3% to 0.1%. But many believed the euphoria stemmed more from a belief that the authorities were finally prepared to prop up share prices. Since the autumn, the benchmark Shanghai-A-share index had fallen by half before the tax was changed.

It is not the first time the government has meddled with stamp duty (see chart), but after a relatively long period of official inactivity, it came as a welcome surprise. A rise in the tax last May was intended to temper the animal spirits that were turning brokers like Shenyin & Wanguo into heaving gambling dens. At that point, it worked only briefly, and over the summer the authorities introduced several other cooling measures, such as limits on foreign investment and curbs on the introduction of new investment funds, before the market finally peaked.



Recently, these measures have been reversed. New mutual funds are being approved, and the quota of shares that foreign investors are allowed to buy has risen to $30 billion from $10 billion. Meanwhile, the supply of shares has been restricted. Large investors in recent public offerings have been told that when lock-ups end on selling the shares, blocks of shares must be privately sold rather than be dumped onto the market. Secondary offerings by companies have been delayed, as have the listings of foreign companies on the Shanghai bourse.

It is easy to see why the government may be tempted to intervene. Although the stockmarket's drop has not been economically disastrous, it has undermined the country's efforts to improve efficiency through privatisations. It has also affected the bit of wealth that many relatively poor investors had.

Slowly, however, questions are emerging within China about whether the government should be interfering with the markets at all. *Caijing,* a Beijing-based magazine, has argued that intervention is antithetical to building an efficient market and, given the forces involved, will ultimately be ineffective. The comment, which was hardly radical, provoked a blizzard of news coverage and plenty of angry letters. On the other hand, for many of the unsophisticated and drably dressed punters in Shenyin & Wanguo, a sense that the government still cares about their lot could not have come too soon.

Mexican banks

Riding high

May 1st 2008 | MEXICO CITY
From The Economist print edition

Mexico's fast-growing banks appear unusually unaffected by the financial crisis north of the border

Illustration by David Simonds

AFTER the 1994 peso crash, the risk of Mexico's difficulties spilling over into America was considered so great that the Clinton administration helped bail out its southern neighbour. In the first quarter of 2008, the boot was on the other foot, though the scale was entirely different. Now it was the turn of Banamex, one of Mexico's two largest banks, to help out Citigroup, its crisis-stricken parent. Banamex provided $453m of the $1.1 billion Citi earned in net income from its overseas operations between January and March (Citi lost $5.1 billion overall). You could almost hear Vikram Pandit, Citi's new chief, mutter "*Gracias, compadre*."

Yet Banamex was not even the best-performing of the Mexican banks. Of Mexico's five largest financial institutions (which control three-quarters of the market and also include Bancomer, Santander, HSBC and Banorte), it was the only one that did not show a big rise in year-on-year profits in the first quarter. The performance of the banks was impressive for two reasons. Firstly, Mexico has one of the most open banking systems in the world; two of its top five banks are Spanish-owned, one is American, one British, and only one is Mexican. Yet the crisis in global banking has barely ruffled it. Also, Mexico's economy is usually more exposed than almost any other to a slowdown in America. As Alejandro Valenzuela, boss of Banorte, delicately puts it: "Decoupling is the wrong word, but there is now a certain shield."

That shield, however brittle, has been forged both from financial reform in recent years and from macroeconomic stability. On the financial front, lending has ballooned. According to the central bank, credit to the private sector has nearly tripled since 2001, while consumer credit has increased by around seven times. The banks have also feathered their nests with relatively high consumer-banking fees.

Meanwhile, the market has grown more sophisticated, thanks to some shrewd moves by regulators. Chief among these, according to an IMF working paper released this week, were reforms to bank-secrecy laws which allowed the creation of a successful credit-reporting system, as well as reforms to bankruptcy laws. These have given birth to a thriving mortgage-backed securities industry. If that sets off alarm bells, Alejandro Werner, the deputy finance minister, notes that over the past seven years, the accumulated increase in house prices in Mexico has been less than inflation: there is no bubble yet.

There are also economic reforms to thank. Marcos Martínez, the head of Santander in Mexico, says that infrastructure investment as well as a huge public-sector mortgage programme have boosted demand. It helps that Mexican GDP closely correlates with America's industrial production, rather than its overall economy. The brunt of the slowdown in America has been borne by the services sector.

Although Mexican economic growth is likely to remain sluggish, at something under 3%, the health of the banking industry is a salutary sign. For once, Mexicans can look northward with a sense of sympathy rather than envy.

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Economics focus

An aberrant abacus

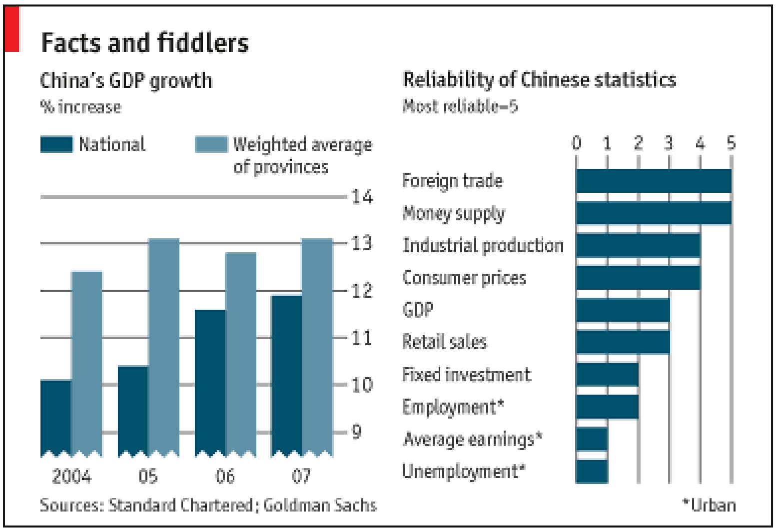
May 1st 2008
From The Economist print edition

Coming to terms with China's untrustworthy economic numbers

AS CHINA'S importance in the global economy increases, investors are paying more attention to its economic numbers. Yet the country's official statistics are notoriously ropy. Some commentators accuse China's government of overstating GDP growth for political reasons, others complain that the official inflation rate is fraudulently low. So which data can you trust?

One reason to be suspicious of GDP figures is that China is always one of the first countries to report them, usually only two weeks after the end of each quarter. Most developed economies take between four and six weeks to produce them.

Amazingly, most economists reckon that China has understated its growth in recent years. The country's National Bureau of Statistics (NBS) has recently revised China's GDP growth up by half a percentage point for both 2006 and 2007, to 11.6% and 11.9% respectively, thanks to stronger growth in services, which government statisticians find harder to count than industry. Yet even these revised numbers may be conservative.



Chinese provinces independently report GDP, and a weighted average of their figures consistently gives higher rates of output and growth than those reported by the central government (see chart). True, local officials have an incentive to inflate growth numbers because promotion depends upon economic performance; however, experience suggests that number crunchers in local government are more accurate than Beijing's. For instance, the figures first published for 2004 showed that the sum of the provincial GDPs was 19% bigger than the reported national figure. Lo and behold, in 2005, after a national economic census picked up more services, the NBS revised its GDP up by 17%; it also lifted the annual growth rate over the previous decade.

Stephen Green, an economist at Standard Chartered, calculates that in 2007 the combined output of the provinces was 10% more than that reported by Beijing. Their average growth rate of 13.1% was also still 1.2 percentage points higher than the revised national growth rate, although the gap has narrowed from almost three points in 2005. Perhaps, suggests Mr Green, central NBS folk have decided that they should trust their local counterparts more. But just as local officials have an incentive to inflate numbers, so Beijing has had reason recently to understate them: it wants to slow the red-hot economy. China's true GDP growth may therefore be higher still—which may appear to add to fears of overheating.

Distrust of GDP has led many China-watchers to track alternative monthly measures of growth. Jonathan

Anderson at UBS uses one based on production (eg, industry, electricity and construction) and another based on expenditure (retail sales, fixed investment and net exports). Neither gauge shows the same sharp acceleration since 2004-05 as does GDP. One explanation is that the reported jump in GDP growth may be an attempt to correct previously understated growth figures; if so, this could ease overheating concerns.

The government also smoothes quarterly GDP growth; other less politically sensitive indicators, such as industrial production, are much more volatile. For instance, despite severe snow storms and weaker net exports, first-quarter GDP growth slowed by less than expected and by much less than did industrial production. The government may well have made the figures look stronger to avoid criticism of its tighter credit policy.

What does—and does not—add up

The right-hand chart ranks the reliability of other Chinese statistics, based on an analysis by Goldman Sachs. The closely watched figures for fixed-asset investment are among the least reliable. They include purchases of land, which only reflect changes in ownership, not an increase in capacity or value added. Rising land prices in recent years have therefore led to a big overstatement of the level and the growth of investment. In contrast, consumer spending is almost certainly much higher and growing faster than official figures suggest. Retail sales are often used as a proxy for private consumption, but they exclude services, the fastest-growing slice of households' budgets.

China's true inflation rate is probably higher than the consumer-price index (CPI) reports. One problem is that the CPI appears to be based on the prices of state-provided health, transport and education while ignoring their increasingly important private counterparts. Data for 36 cities collected by the National Development and Reform Commission show that inflation for medical care and education has been running at 5-10% since 2001, well above the 1-2% reported in the CPI. However, even if the official measure understates inflation, the changes in it may still be a fair gauge over time. Goldman Sachs therefore ranks it relatively high in terms of reliability.

Foreign trade is perhaps the most accurate economic indicator. Critics accuse China of fiddling its trade figures, because the value of its exports as measured by the importing country is always much bigger than what the Chinese report. This discrepancy reflects the fact that China's bilateral trade figures exclude goods shipped to Hong Kong before being re-exported. But this should not affect total export figures and detailed Hong Kong data are available to adjust bilateral trade flows.

The prize for the dodgiest figures goes to the labour market. The quarterly urban unemployment rate is meaningless because it excludes workers laid off by state-owned firms as well as large numbers of migrant workers, who normally live in urban areas but are not registered. Wage figures are also lousy. There has recently been much concern about the faster pace of increase in average urban earnings. But this series does not cover private firms, which are where most jobs have been created in recent years.

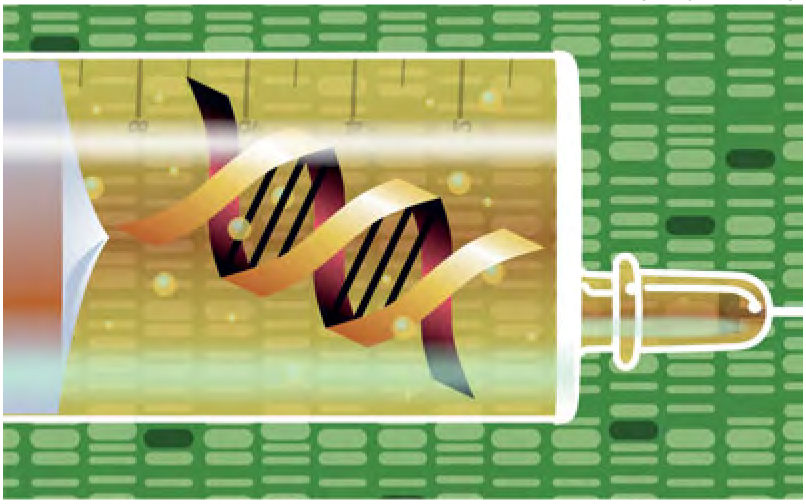
Now that China is such an engine of global growth, it urgently needs to improve its economic data. Only a madman would drive a juggernaut at full speed with a faulty speedometer, a cracked rear-view mirror and a misty windscreen.

Gene therapy

Seeing is believing

May 1st 2008
From The Economist print edition

Illustration by Stephen Jeffrey



The prospects for using genes as a therapy may be improving

FOR around 40 years scientists have understood how genes work. They have known the structure of genes, how they replicate, how they are controlled and expressed and, crucially, how to manipulate them. Such knowledge has been the basis of a genetic revolution that offers the power to rewrite the material from which all living organisms are made.

There has been great progress in realising some of this promise, in the form of genetically modified organisms. But ways to correct the genetic mistakes that cause many human diseases have been slower to arrive. Gene therapy has been plagued with problems—naivety, false promises, over-optimism and fatalities. Although thousands of patients have received gene therapy for a variety of conditions, only a few have shown any clinical benefit.

Could that be about to change? There was news this week of a successful attempt to correct a faulty gene that leads to blindness. An international team of scientists, led by a group at the University of Pennsylvania, used a genetically engineered virus to introduce the correct version of a gene called *RPE65* into six people suffering from a retinal disease known as Leber's congenital amaurosis. In four patients vision improved. Earlier work with the same technique on dogs suffering from a naturally occurring form of blindness has also been successful.

Katherine High, of the Howard Hughes Medical Institute in Maryland, and one of the directors of the study, reported in *The New England Journal of Medicine*, reckons the treatment could be used more widely. It offers hope for correcting any of the ten genetic defects that can cause Leber's, as well as some forms of retinitis pigmentosa, a group of genetic eye conditions.

More importantly, though, it adds to the rather small number of human successes with gene therapy. The first human gene-therapy trial was in 1990, on a rare and severe immunodeficiency disease known as SCID. Although questions remain about whether the first examples were as successful as claimed, the treatment has since been used successfully on over two dozen patients around the world.

The clinical approach

Work on gene therapy for other conditions is proceeding. For diseases such as cystic fibrosis or muscular dystrophy, which involve one or a few inherited genetic changes, clinical trials are attempting to introduce the correct versions of faulty genes into patients. For acquired diseases, such as cancer, gene-therapy trials are introducing genes that are intended to kill cancerous cells. Len Seymour, a researcher at Oxford University, likens this approach to using DNA as a drug.

In the early days, says Dr Seymour, people wrongly thought that it would be easy to introduce genetic material into diseased cells. He likens attempts by researchers to introduce genes to “throwing a carburettor on to the passenger seat of a car and expecting the car to go”.

The most notable successes, so far, have been with diseases where it is relatively easy to introduce genes. In SCID, for example, bone-marrow precursor cells can be removed, treated and then injected back into place. In the case of Leber's congenital amaurosis, viruses carrying the correct gene can be injected directly into the retina where they will infect retinal cells. Direct injection is also being used in gene-therapy trials on patients with Parkinson's and on those with muscular dystrophy.

Many of gene therapy's other problems have been with the vector that carries the gene, usually a virus. Sometimes these viruses have provoked strong immune reactions—which is what caused the death of Jesse Gelsinger, an 18-year-old American who had a damaged gene that prevented his liver from making an enzyme to break down ammonia. In 1999 he was the first person to be publicly identified as having died in a clinical trial for gene therapy.

Viruses can also cause genetic mutations when they integrate themselves into human DNA. Of the 27 people treated for SCID worldwide, four have developed leukaemia and one has died, says Dr Seymour, though this needs to be balanced against the fact that most children with SCID are completely lacking a normal immune system and die in early childhood.

Hence, research is focused on improving the viral vectors. One way of doing this is to create viruses that lose their ability to activate local genes when they are integrated into their host's genome. Another route, used in the recent Pennsylvania trial, is to use viruses that integrate themselves only into the cell, rather than the cell's DNA. And at Oxford Dr Seymour is working on “stealth viruses”, which are coated in a polymer that hides the virus from the immune system. This allows the modified virus to circulate for longer in a patient's blood stream and thus have a better chance of getting to tumours disseminated around the body. Across the world a number of groups are trying to develop synthetic polymers to deliver genes, entirely removing the need to use viruses.

Most work in gene therapy is centred on cancer. One approach, used by Shenzhen SiBiono GeneTech, a Chinese company, is to replace broken tumour-suppressor genes with the correct version. In 2003 the company's treatment for head and neck cancer, which accounts for about 10% of the 2.5m new cancer patients in China every year, gained the first commercial approval of a gene-therapy treatment. Yet many outside China have been dismissive of the quality of the data used to support this therapy, although Dr Seymour says that when used with chemotherapy in some situations, it can be good.

Another promising strategy, one that is on the fringes of what strictly you would call gene therapy, is “virotherapy”. This uses viruses selectively to attack only cancerous cells. There are about a dozen trials in this area. In 2006 researchers from the Hebrew University in Israel isolated a variant of the virus that causes Newcastle disease, a highly contagious disease in birds that can kill. This variant was able to target selectively cancer cells in humans. Trials on a form of aggressive primary brain tumour have shown one complete regression out of 14 treated patients.

Despite the slow progress, Dr High says she is optimistic about the future of gene therapy. She argues that treatments only really got going 15 years ago (when the SCID trials began). This, she adds, should be put into context: the development of bone-marrow transplantation or monoclonal-antibody treatments both took several decades. Drugs that are “biologics”, such as vaccines, monoclonal antibodies and gene therapy, are derived from biological processes and are inherently more complicated than the chemicals that have traditionally been the mainstay of the pharmacological arsenal.

Gene therapy could be the most complex biologic of all, reckons Dr High. The work carried out so far gives scientists a reasonably complete list of things that can go wrong. Dr High warns that researchers are still at the bottom of a tall ladder, though she expects quicker progress in the future. “We have our foot on the rung, and it's not giving way.”

Innovation

Home invention

May 1st 2008 | SAN FRANCISCO
From The Economist print edition

An increasing number of tinkerers are building their own gadgets

THE standard sort of science fair can be a little bit stuffy. Precocious youngsters with a taste for laboratory notebooks spend years building experiments to compete for college scholarships. But what happens if you open the doors to a wider audience and add a bit of fun?

Now, if you plug this into that and ...

Such an event might look like the Maker Faire, a two-day festival which opens in San Mateo, California, on May 3rd. Like its more serious counterparts, it is a gathering of geeks, but with the addition of do-it-yourself enthusiasts, back-yard scientists, garage tinkerers, artists and crafts people. This year their eclectic projects will include fire-breathing robots, wearable computers, self-replicating three-dimensional printers (whatever they are) and giant motorised cupcakes. And everyone will be encouraged to get their hands dirty building their own electric circuits, creating their own fashion goods and launching their own rockets.

This is the third year for the Maker Faire. Last year, more than 40,000 people turned up and a further 20,000 attended a second event held for the first time that year in Austin, Texas.

The idea of playing around with technology in such a way might appear quirky, even superfluous. But nowadays it often drives innovation, says Tim O'Reilly, founder of O'Reilly Media, a publishing company whose *Make* and *Craft* magazines sponsor the event. Mr O'Reilly is something of a technology guru himself and is widely credited with coining the term Web 2.0 to capture the trend towards greater creativity, information sharing and collaboration among internet users.

Naturally, this all goes down well in California, where Steve Jobs and Steve Wozniak began the personal-computer revolution in a garage, and Sergey Brin and Larry Page dreamed up Google's algorithms while in graduate school. But the idea is spreading. Mr O'Reilly points to several trends responsible for the rising popularity of do-it-yourself innovation. First, computers, sensors and other bits are cheaper than ever. This means high-tech gadgets soon become disposable. So they are often plundered to build new things. An obsolete digital camera can, for instance, be attached to a kite for aerial photography; or with few more things and the innards of a satellite-navigation system become a small unmanned aerial vehicle.

The second trend is that the internet is enabling people from all over the world to share information about their projects. Websites like Instructables.com and wikiHow.com have become popular virtual meeting places for inventors and others. They embrace the idea that you should freely share technological ideas—an approach known as “open source”. This began in computer software but is now going on with all sorts of technologies.

Addie Wagenknecht's project is typical. At the fair she is showing a multi-touch table which works like a computer screen. The device has some of the same features as a table-top device called Surface which is produced by Microsoft. But whereas that costs some $10,000, Ms Wagenknecht's version can be built with only $500 of bits (including a kit that she sells). And it has the potential to do much more, she says. Since both the hardware and the software are open-source, anyone can change things to suit their purpose, which like most things at the fair is bound to encourage even more innovation.

Palaeontology

Gnashers at work

May 1st 2008
From The Economist print edition

The jaws and teeth of fossils may not reliably predict diets

FEW fossils command as much respect as *Tyrannosaurus rex*. With a head the size of a refrigerator and teeth as big as bananas, it was an immensely powerful predator. Or was it? One of the strongest arguments for *T. rex* being a predator is that its fangs are sharp and pointed, rather like the teeth found in many predators today. Yet a new study suggests that even if the jaws and teeth of fossilised creatures look as if they are built to function in a given way, it does not mean that they actually did so. Researchers have found that, in ancient human relatives at least, robust teeth and jaws did not mean that tough-to-eat foods were the primary meal on the menu.

Palaeontologists rarely have much to work with. Even if they are lucky enough to have a complete fossil, they may be unable to say much about how the animal behaved if it looks unlike anything they have seen before. This is because, at its core, palaeontology works by comparing past and present organisms with each other. If an ancient animal had structures that looked like antlers, palaeontologists would argue that it probably used them as an elk or moose might. It is for this reason that researchers led by Peter Ungar, of the University of Arkansas, were astonished when they found microscopic abrasions indicative of a more general diet on the teeth of an ancient human relative that had powerful jaws and chewing muscles. Animals with robust jaws, like gorillas and orang-utans, have long been known to be adapted to eating foods that require a lot of chewing. So when fossils with these jaw structures have turned up, it had been assumed that the creatures were eating tough foods too.

Dr Ungar and his colleagues used powerful microscopes to scan the surface of seven fossilised molars belonging to the species *Paranthropus boisei*, a hominid that lived in sub-Saharan Africa between 1.4m and 2.3m years ago, and which became popularly known as “Nutcracker Man” owing to its enormous jaws and thickly enamelled teeth.

They report in *Public Library of Science (PLoS) ONE*, an open-access scientific journal, that when they measured the microscopic wear on the fossil's molars and compared this with the teeth of living primates known to eat tough foods, the markings did not match. For a species that was supposed to be eating a lot of abrasive foods, Nutcracker Man had teeth that showed very little sign of pitting.

This finding has led Dr Ungar and his colleagues to argue that although *P. boisei* certainly could eat tough foods, it generally did not. This suggests that perhaps its robust jaws and teeth came in handy when times were difficult and hard-to-eat foods were the only things available. If this was the case, then individuals in the population with weaker teeth would have fared worse during difficult periods, even as those with stronger teeth could feed, breed and pass along their genes.

The finding raises the question of whether other long-held assumptions about diet and behaviour could also be overturned with similar analyses. *T. rex* was unlikely to have been a herbivore. But which animals the tyrant lizard actually ate is a far harder nut to crack.

Psychology

Inside a deal

May 1st 2008
From The Economist print edition

It pays to get inside your opponents' heads rather than their hearts

JUDGED by the number of times that negotiations are said to have ended in a “win-win situation”, striking a successful deal might seem easy. There are, after all, shelves full of books offering advice about how to succeed as a negotiator.

The main tip is to gain bargaining power by understanding the person on the other side of the table. But what exactly does a negotiator need to know about his antagonist? In a series of experiments a team of researchers have come up with some intriguing answers in a report just published in *Psychological Science*.

Adam Galinsky of Kellogg School of Management at Northwestern University, Illinois, and his colleagues looked at two related approaches often used to understand the opponent in negotiations: perspective-taking and empathy. Although the terms are often used interchangeably, they are different. Perspective-taking is the cognitive power to consider the world from someone else's viewpoint, whereas empathy is the power to connect with them emotionally.

They conducted a series of experiments using more than 150 MBA students who had just enrolled on a ten-week course on negotiations—so they were novices. The students were divided into pairs. One played the part of the seller of a petrol station and the other the buyer. They were told to strike a deal, but this could not be done on price alone, because the maximum the buyer was allowed to pay was lower than the seller's reserve price. So only a creative deal would work (made possible because the seller needed to finance a sailing trip but would later want a job, and the buyer needed to hire managers to run the petrol station). Just over two-thirds of the pairs managed to reach a deal. Analysis showed that when the buyer in particular had a perspective-taking ability it could predict a successful outcome.

The experiment was then re-run, with the pairs split into three groups. In the perspective-taking group the buyers were told to try to understand what the petrol-station owner was thinking and what his interest and purpose was in selling. The empathy group was told to understand what the seller was feeling and what emotions he might be experiencing. The third group was a control; the buyers were told simply to concentrate on their own role. Again, it was the pair with a perspective-taking buyer who were more likely to strike a deal (76%) than the empathisers (54%), followed by the control group (39%).

In a third and different experiment, lots of issues had to be negotiated and trade-offs made, with one student playing the role of a job candidate and the other a recruiter (with the recruiters randomly assigned as perspective-takers, empathisers or a control). In terms of a joint gain, 40% of the pairs with a perspective-taking recruiter scored maximum points; 22% of the empathisers did and 12% of the control group. However, in terms of an individual gain, the perspective-taking recruiters did far better—pushing the empathetic recruiters into last place.

What this shows is that even with one negotiator having perspective-taking abilities it can produce a better overall outcome for both sides. “You want to understand what the other side's interests are, but you do not want to sacrifice your own interests,” says Dr Galinksy. “A large amount of empathy can actually impair the ability of people to reach a creative deal.”

Religion and secularism

Power points

May 1st 2008
From The Economist print edition

AFP

The slogans of political Islam remain highly resonant, whether as a programme for peaceful governance or an inspiration to wage war. Two new books explain why

WHEN the British and French empires were at their height, imperial service often provided an outlet for the talents of precociously clever ethnographers, social anthropologists and scholars of religion. On the face of things, Noah Feldman is a similar figure, rendering important services to the American imperium, both as a rising star in the intellectual establishment and in more practical ways—he helped to draft Iraq's new constitution.

A young professor at Harvard Law School with a doctorate in Islamic political thought, Mr Feldman is brimming with the sort of expertise that America's new proconsuls in the Middle East and Afghanistan badly need. Above all, he is qualified to opine on how America should react to the dilemma posed by the huge popular support, in Muslim lands, for explicitly Islamic forms of administration.

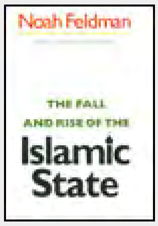
In a short, incisive and elegant book, he lays out for the non-specialist reader some of the forms that Islamic rule has taken over the centuries, while also stressing the differences between today's political Islam and previous forms of Islamic administration. In particular, he shows why “justice” is such a resonant slogan for Islamist movements. At least subliminally, it evokes memories of a dimly remembered era when Islamic law, as interpreted by scholars, acted as a real constraint on the power of rulers. To many Muslims, the legal tradition of their faith is not viewed as an alternative to Western democracy, based on secular law, but rather as the only real alternative to totalitarianism.

That perceived dilemma—either Muslim law and scholarship, or unfettered dictatorship—is not just a hangover from history; it also reflects the fact that many secular regimes which replaced traditional Muslim empires were dictatorships, with no separation of powers.

So far, that is a familiar argument. Mr Feldman becomes more interesting when he shows how the Ottoman empire, in its efforts to modernise while retaining some Islamic legitimacy, almost unavoidably grew more dictatorial and less Islamic.

The very fact that Islamic law was codified implied a downgrading in the authority

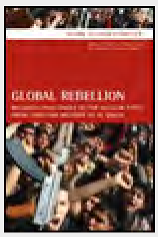
The Fall and Rise of the Islamic State
By Noah Feldman



Princeton University Press; 200 pages; $22.95 and £13.50

Buy it at
Amazon.com
Amazon.co.uk

Global Rebellion: Religious Challenges to the Secular State, from Christian Militias to Al Qaeda
By Mark Juergensmeyer



University of California Press; 384 pages; $27.50 and £16.95 of Muslim scholars; their task had been to apply a set of abstract, unwritten principles to an infinite variety of situations, and the written law code risked putting them out of a job. When the Ottoman sultan-caliph tried some cautious constitutional experiments in 1876, it appeared to his pious subjects that he was undermining God's sovereignty. This was not so much because the experiments seemed bad, but because constitutional change implied that an earthly ruler could tinker with systems that had been divinely ordained.

The modernising challenges facing the late Ottoman era dimly foreshadow, as Mr Feldman demonstrates, some of the problems of modern political Islam. But there are differences: the Islamists of today are not trying to reinstate the power of the scholars, which was a hallmark of all previous Islamic regimes. Instead, what modern Islamism proposes is an odd mix of popular sovereignty and the sovereignty of God; as though the people, having been offered sovereign power, freely decide to render that power straight back to God.

Another of Mr Feldman's paradoxes: any modern constitution or legal code that consciously proclaims its intention to be Islamic and deferential to God, will fall short of the early Islamic ideal, where the sovereignty of God was so deeply assumed that it did not need spelling out.

Mr Feldman's book is more descriptive than prescriptive. But many readers may conclude that in Islam's heartland only forms of governance that incorporate Muslim values can hope to be legitimate. If secularism has been imposed in many places by dictatorial methods, that is not because the secular rulers were gratuitously cruel; it was because secular principles had little hope of gaining spontaneous popular assent.

One huge question, unanswered by this book, is how minorities—practitioners of other religions or none—can expect to fare in countries where a form of political Islam is practised by the will of the majority. Even if the Islamic majority offers its non-Muslim compatriots generous forms of cultural autonomy, the infidel minorities can hardly be anything more than second-class subjects of an Islamic realm.

Whereas Mr Feldman's argument is about Islamic principles as a basis for creating stable, legitimate regimes, Mark Juergensmeyer, a professor of sociology and religious thought at the University of California, Santa Barbara, highlights the odd fact that the slogans of Islam, and other religions, are more effective than any secular battle-cry as a way of rallying people to wage war, or at least to live in armed readiness. Mixing analysis with reportage, he describes encounters with the leaders of Hamas, and with Jewish zealots who cheer the killing of Palestinians. He traces the advent of Hindu bigotry as a force in Indian politics and the role of Buddhism in Sri Lanka's conflict.

Any book that takes in such a sweep is bound to have errors of detail. But it is more than a minor error to describe the first decade of the Soviet communist regime as “relatively tolerant” towards religion. Still, Mr Juergensmeyer is right in his broader point—that in the early 21st century, religion retains a mobilising power that secular nationalism and universalist ideologies like Marxism have lost. If you are trying to make people risk their own lives and take the lives of others, then calling the enemy “infidels” (or, literally, demonising them) is more effective than calling them foreigners or class enemies.

In each of these books, there is at least one lacuna. Having made the fair point that scholarship and modern political Islam don't easily mix, Mr Feldman should have said something about Yusuf al-Qaradawi, the hugely influential and telegenic sheikh based in Qatar who seems to straddle both those worlds quite happily.

Mr Juergensmeyer distinguishes between the effects of secular nationalism and transnational religion, but he says little about religious nationalism, the opportunistic but effective combination of these two supposed opposites. As any thieving Balkan warlord knows, decent people often kill in the name of a half-forgotten national cause and for a religion in which they hardly believe. Using both tricks at once is especially effective.

The Fall and Rise of the Islamic State.
By Noah Feldman.
Princeton University Press; 200 pages; $22.95 and £13.50

Global Rebellion: Religious Challenges to the Secular State, from Christian Militias to Al Qaeda.
By Mark Juergensmeyer.
University of California Press; 384 pages; $27.50 and £16.95

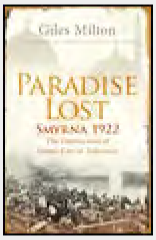
Smyrna, 1922

End of an era

May 1st 2008
From The Economist print edition

WHEN Smyrna—modern Izmir—fell to the Turkish army in 1922, and much of it was destroyed by fire, the city's role as a bastion of Greek and Christian culture, going back nearly 2,000 years, came to an abrupt end. Before that, the port had been home to a diverse and cosmopolitan population; by the standards of the region, it was a beacon of tolerance and prosperity.

Paradise Lost: Smyrna,1922: The Destruction of Islam's City of Tolerance
By Giles Milton



Sceptre; 426 pages; £20. To be published in America by Basic Books in July

In addition to the Greeks, Armenians, Jews and Turks, there were also Americans and Britons and what Giles Milton calls the “Levantines”, rich families of European descent, who spoke half a dozen languages and occupied vast villas. Their dynasties dominated the trade and industry of the region. Some (like the Whittalls) retained British nationality over generations of Ottoman life, and it is their English-language diaries, letters and documents that provide Mr Milton with his best material. Although this slant is unrepresentatively British and privileged—lots of parties and picnics—it allows the author to be fair towards the Greeks and the Turks, who still blame one another entirely for the disaster.

The city's destruction—still known in Greece as “the catastrophe”—had its roots in the first world war and the effort by the great powers to grab pieces of the disintegrating Ottoman empire.

Britain, America and France backed Greece's charismatic leader, Eleftherios Venizelos, in his pursuit of the *megali idea* (“great idea”), the dream of creating a greater Greece by occupying Smyrna and swathes of Anatolia. Having licensed a war by proxy, the allies in varying degrees turned cool on it. They looked on passively as Mustafa Kemal (later Ataturk, republican Turkey's founder) and his troops routed the Greeks from Anatolia and reoccupied Smyrna, bent on revenge for Greek atrocities in the city and further east.

The port was ransacked and looted for days. Women were raped and mutilated, children were beheaded and more than 100,000 people killed. Meanwhile, 21 allied warships sat in the harbour. Hundreds of thousands of refugees were trapped on the city's quayside, yet officers on the ships still dressed for dinner and ordered louder music to drown out the screams. “Paradise Lost” is a timely reminder of the appalling cost of expansionist political ambitions; it tells a fascinating story with clarity and insight.

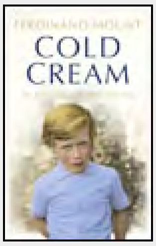
Paradise Lost: Smyrna,1922: The Destruction of Islam's City of Tolerance.
By Giles Milton.
Sceptre; 426 pages; £20. To be published in America by Basic Books in July

English memoirs

An invitation to the dance

May 1st 2008
From The Economist print edition

Cold Cream: My Early Life and Other Mistakes
By Ferdinand Mount



Bloomsbury; 384 pages; £20

Buy it at
Amazon.com
Amazon.co.uk

NOT everyone will approve of Ferdinand Mount's beautifully written, poignant and, at times, extremely funny memoir. Some will be irritated by the author's indefatigable name-dropping, others by his over-insistent self-deprecation. Both will be missing the point.

Mr Mount (although a baronet, he eschews the use of his title) describes himself at different points in his life as idle, supercilious, incompetent and emotionally retarded. Any advancement is the consequence of luck or patronage rather than effort or talent on his part. Yet he won a scholarship to Eton, achieved success in journalism both as a political columnist and editor of the *Times Literary Supplement*, headed Margaret Thatcher's Downing Street policy unit and is the author of several well-received novels.

He is, however, less interested in talking about himself than in describing the extraordinary people who have come his way in various settings from his childhood in Wiltshire in the period after the second world war through to Chelsea in the 1960s and, finally, the heart of government in the 1980s. Mr Mount is aided in this by family connections which provide a seemingly endless supply of interesting relations and their famous chums.

His mother, Lady Julia, is a Pakenham, the aristocratic family whose tentacles extend equally vigorously into the world of the arts. One of her sisters marries Henry Lamb (a painter friend of Augustus John), and another becomes the wife of Anthony Powell. Julia's brother, Frank, the seventh Earl of Longford, goes on to become a Labour leader of the House of Lords and celebrity prison visitor. During a dull weekend with friends near the Solent, Frank suddenly perks up—he can pop off to see Reggie Kray, a famous gangland murderer, in nearby Parkhurst jail. While on holiday at Tullynally Castle, the Pakenhams' ancestral home in Ireland, Mr Mount meets Sir Oswald Mosley; over a pint in a bar the old fascist reminisces loudly about the good old days, to nobody's great embarrassment.

The background of Mr Mount's father, Robin, is less distinguished but just as colourful. A gentleman steeplechaser who belongs to what his son calls “Hobohemia”, a “raffish subdivision of the upper class”, his principal hang-out is David Tennant's notorious Gargoyle Club in Soho, also a haunt of Dylan Thomas.

Although neither of Mr Mount's parents has any money, the idea of getting a job never occurs to them. Perhaps because he is poorer than almost everyone he knows, Mr Mount casts himself from an early age more as an observer than as a protagonist. It is difficult not to see him as Nicholas Jenkins, the placid narrator of Uncle Anthony's series of 12 novels, “A Dance to the Music of Time”. In it, characters come, go and then return later, often much changed for better or worse by fate and the passage of time. So too is it in “Cold Cream” (Mr Mount's mother, who died of cancer at the age of 42, was a generous user of the famous *démaquillant* made by Pond's that epitomised a certain kind of steadfast and fearless mid-20th-century English womanhood).

Students of political, as opposed to social, history, will be most interested by Mr Mount's account of his stint at Number 10 with Mrs Thatcher in her prime. He was there during the early 1980s, a period that encompassed the Falklands war and a second general election victory during which “Thatcherism” became a fully formed, albeit oddly inconsistent, ideology. Slightly to his own surprise, the posh, effete Mr Mount is thrilled by the prime minister's suburban certainties and high moral seriousness in combating the sophisticated pessimists who believed it was the job of government to manage the country's inexorable decline.

The author's insights into Mrs Thatcher's working methods and the strange clique of zealots who provided her with the intellectual confidence to change Britain are fascinating. However, what lingers most vividly in the memory is his affectionate, gently mocking and frequently moving evocation in the first third of the book of a period and a society that, though not long gone, seems now to be from an entirely different age.

Cold Cream: My Early Life and Other Mistakes.
By Ferdinand Mount.
Bloomsbury; 384 pages; £20

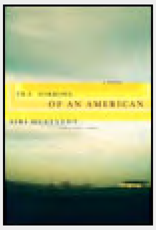
New fiction

Memory and forgetting

May 1st 2008
From The Economist print edition

"EVEN the dearest that I love the best/Are strange—nay, stranger than the rest." This couplet by John Clare, a 19th-century English poet, runs through the agitated mind of Erik Davidsen, the lonely, introspective narrator of "The Sorrows of an American", just before he takes a pill and enters a fitful sleep. It also captures the essence of Siri Hustvedt's latest novel, which is about the secrets that can survive even the closest relationships, and the mysteries that can make it impossible ever truly to know someone.

The Sorrows of an American
By Siri Hustvedt



Henry Holt; 320 pages; $25. Sceptre; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Days after his father dies, Erik, a divorced middle-aged psychoanalyst, is sorting through the deceased's study in Minnesota with his close sister, Inga. Amid personal effects that include their father's memoir, they discover a mysterious letter that seems to implicate him in a death—a murder, perhaps—when he was much younger. The letter forces Erik and Inga to consider just how little they may have known their melancholic Norwegian parent. "Secrets can define people," observes Inga, a philosopher, who is also grappling with the death of her husband, a critically acclaimed novelist. Letters he wrote to a former lover have resurfaced, raising questions about their marriage. A gossip journalist is hounding her for details. "What's truly odd," she tells her brother, "is that I've suddenly discovered that I lived another life. Isn't that strange?"

Besides mourning his father, Erik is also nursing an insidious crush on his tenant, a lovely Jamaican woman who lives in the flat below with her young daughter. Though he knows little about her, he is convinced she could make him happy. "I'm so lonely," he often tells himself, wistfully imagining a very different future.

This satisfying and emotionally rich follow-up to Ms Hustvedt's acclaimed "What I Loved" treads some similar themes: love and loss; the limits of perception; the drama of dreams; and the need to craft coherent stories from the unreliable fragments of memory. As with her previous novel, Ms Hustvedt's cerebral characters are tenderly drawn, wise and realistic. With a sure hand, she communicates both the intellectual dynamism of New York—where "talk is a form of play"—and the blank endlessness of the Minnesota landscape. The result is a beautifully sincere examination of the grim traps of over-active minds.

The Sorrows of an American.
By Siri Hustvedt.
Henry Holt; 320 pages; $25. Sceptre; £16.99

The business of AIDS

Sex and sensibility

May 1st 2008
From The Economist print edition

MORE than 2m people die from AIDS every year and as many get infected with HIV. Despite grand programmes to roll out anti-retroviral drugs that keep the infected alive, and billions spent by foreign donors and the governments of the worst-affected countries, AIDS is likely to cause one in six deaths in Africa by 2015.

Why is this so, when most people know how it is spread? AIDS has not been around long, but the science is thoroughly understood, as are the most effective public-health interventions. Get people to cut down on risky sex and stop drug injectors sharing infected needles and you will achieve wonders. In rich countries the prospect of the general population succumbing to AIDS is now almost nil. Even in much of the poor world it has been contained. Thailand nipped the epidemic in the bud when brothel owners were threatened with closure if prostitutes failed to use condoms with clients. In China and India, where activists long feared an explosion, prevalence rates have been kept low.

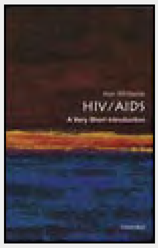
Africa is the exception. This is particularly true of the English-speaking countries, especially in the east and south. In Swaziland over 40% of the adult population has HIV; life expectancy in Botswana will soon be down to the mid-20s on average. Explaining why Africa has suffered most is controversial, however, as that means talking frankly about sex.

Both these books do that. The short guide by Alan Whiteside, professor of HIV/AIDS at South Africa's University of KwaZulu-Natal, is packed with statistics and handy explanations of the science. Rightly he focuses on Africa and helps to dispel some myths, such as the claim that poverty somehow spreads AIDS. He notes that relatively rich Botswana and South Africa are worse hit than poorer Senegal; within countries, the well-off are often more likely to be infected than the poor. He suggests looking at social and cultural matters: where male circumcision is the norm prevalence rates are lower (the foreskin offers an easy way for HIV to enter the body).

Elizabeth Pisani's book packs a greater punch. There may be one breathless description too many of hanging around with transvestite prostitutes in Indonesia, but the epidemiologist and ex-AIDS consultant's colourful anecdotes generally serve her cause well. Most welcome is her desire to challenge taboos. She thinks that a widespread emphasis on patients' rights may have done unintended harm. Drumming into patients' minds the “right” to keep their infected status private—even from sexual partners—may have encouraged stigma around the disease and thus its spread. In countries such as Cuba, where there is more compulsion in getting people tested for HIV, the epidemic has been contained. She also argues that much money is frittered on conferences, pointless interventions (for example to encourage abstinence), paying NGOs to repeat the same studies and hangers-on in the AIDS “mafia”.

Ms Pisani is at her best when talking about sex, which does most to explain why Africa is hit so hard. In parts of the continent it is common to have concurrent sexual partners, which lets the virus move quickly between a “web” of hosts (especially as people are most infectious to others soon after becoming infected with HIV). If serial monogamy is the norm, even if individuals have many partners over time, the virus is trapped within relationships and gets around slowly. Where it is common for older men to have younger girlfriends the virus swaps generations and is likely to hit young women especially, as in Africa.

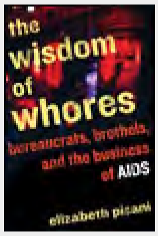
HIV/Aids: A Very Short Introduction
By Alan Whiteside



Oxford University Press; 168 pages; $9.95 and £6.99

Buy it at
Amazon.com
Amazon.co.uk

The Wisdom of Whores: Bureaucrats, Brothels, and the Business of AIDS
By Elizabeth Pisani



Granta; 288 pages; £17.99. To be published in America by Norton in June

Buy it at
Amazon.com
Amazon.co.uk

Such sexual patterns make it harder to fight the plague, but not impossible. In Uganda people were warned of the risks of HIV and encouraged to use condoms and be sexually faithful. That helped reduce the impact of AIDS (although recent trends are less encouraging). Political, religious and local leaders have done little elsewhere in Africa. Some, such as South Africa's president, Thabo Mbeki, preferred disseminating untruths about the disease and how it should be treated. Where strong leadership could have had the greatest impact its absence is most keenly felt.

HIV/Aids: A Very Short Introduction.
By Alan Whiteside.
Oxford University Press; 168 pages; $9.95 and £6.99

The Wisdom of Whores: Bureaucrats, Brothels, and the Business of AIDS.
By Elizabeth Pisani.
Granta; 288 pages; £17.99. To be published in America by Norton in June

New film

Look behind you

May 1st 2008
From The Economist print edition

A comedian seeks Osama bin Laden

ON THE the pretext of looking for the world's most wanted man, Morgan Spurlock, television producer, documentary-film maker and director in 2004 of the irreverent “Super Size Me” about living on an all-McDonald's diet, sets off around the Middle East and Central Asia asking experts and ordinary people questions about everything from the “war on terror” to professional wrestling.

A surprising amount of information is conveyed in the process. Mr Spurlock learns about the roots of al-Qaeda in Egypt and Saudi Arabia, the Palestinians' scepticism regarding their Islamist champions and the poverty of perpetually war-torn Afghanistan. But the information he gathers for “Where in the World is Osama Bin Laden?” is less important than the fun his interview subjects have as they joust with this likable American. If in Afghanistan you ask where Osama bin Laden is to be found, the answer invariably is “Pakistan”; in Pakistan, it's the reverse. And the joke is infectious: American soldiers travelling in a Humvee in Afghanistan show how locals invariably answer the question by pointing in unison over their shoulders.

For Mr Spurlock, conversation is the opposite of war while people refusing to communicate is something to fear. In Jerusalem enraged members of an Orthodox community attack him before he can ask his first question. In Saudi Arabia students are marched out of the room when he asks what they have been taught about Israel. Then things grow darker still. In a Taliban-controlled village in Afghanistan, the war intervenes as the village elders are telling him that their biggest problem since the Americans drilled wells in the village next door is a water shortage.

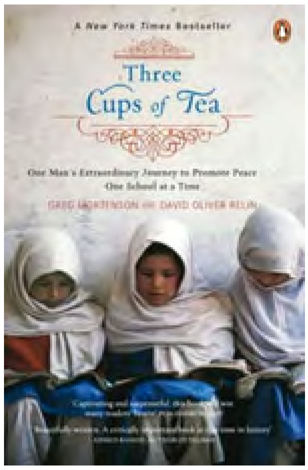
Two Taliban fighters are spotted in the neighbourhood: tiny silhouettes too far away to talk to. One of them is killed during the ensuing camera black-out and shortly afterwards you see his corpse being dragged off by Mr Spurlock's escorts, those very same soldiers who, just moments earlier, had been so funny about “OBL” being always on the other side of the border.

Amazon worldwide bestsellers

True stories

May 1st 2008
From The Economist print edition

Hope and inspiration fuel the most popular biographies and autobiographies



WHEN Greg Mortenson, a six-foot-four night-nurse and mountaineer from Montana, first visited Pakistan in 1993 to climb K2, the world's second-highest peak, he failed in his mountain quest but ended up doing more to win hearts and minds in the region than any amount of official American propaganda.

Mr Mortenson began by planning a five-room school which, using local craftsmen and materials, he reckoned would cost $12,000 to build. Then he set about writing letters—to senators, to millionaires, to Oprah Winfrey and to a fellow footballer who, like him, had attended the University of South Dakota. In all he wrote 580 letters, and received a single cheque in the post (from the student footballer) for $100. But he never gave up.

Today Mr Mortenson has built 55 schools, as he says in his bestselling memoir, “Three Cups of Tea”, one school at a time. And still he has more to build. Who says you need guns to fight the war on terror?

Bestselling biographies and autobiographies

1. Three Cups of Tea: One Man's Extraordinary Journey to Promote Peace...One School at a Time
by Greg Mortenson and David Oliver Relin

Click to buy from Amazon.com or Amazon.co.uk

2. Eat, Pray, Love: One Woman's Search for Everything
by Elizabeth Gilbert

Click to buy from Amazon.com or Amazon.co.uk

3. Mistaken Identity: Two Families, One Survivor, Unwavering Hope
by Don and Susie Van Ryn and Newell, Colleen and Whitney Cerak

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by David Sheff

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by Julie Andrews

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by Sheila Weller

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by Barack Obama

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10. John Adams
by David McCullough

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Economist.com PEOPLE OBITUARY

Alfonso López Trujillo

May 1st 2008
From The Economist print edition

Cardinal Alfonso López Trujillo, Vatican enforcer, died on April 19th, aged 72

AFP

Get article background

IN 1995, as head of the Pontifical Council for the Family, Cardinal Alfonso López Trujillo published a "Lexicon of Ambiguous and Debatable Terms". They included "safe sex" (no such thing, unless confined to the nuptial bed); "gender" (a construct of strident feminists) and "family planning" (code for abortion). He could also throw back a few phrases of his own: "contraceptive colonialism", "pan-sexualism", "new paganism" and, with a special lowering of those beetling black brows, "the culture of death".

People sometimes forgot, when they met the cardinal, that he had studied Marxism as well as theology at the Angelicum in Rome. He could neatly trade jargon for jargon in the propaganda wars. Or he could write books entitled "Liberation and Revolution" to undercut, from the right, the theologians and priests in his native Latin America who thought they had a monopoly on those words. His red cardinal's skullcap was as much a battle statement as the beret of Che Guevara. "Prepare your bombers", he wrote to a colleague just before the opening of the Latin American Bishops' Conference in 1979. "Get into training like a boxer going into a world fight." Every day, on every front, this was López Trujillo *contra mundum*.

The enemy was all around him. Legislators and governments across the first world who passed laws to ease divorce or ensure "gay rights" (though of course, to quote Aquinas, *lex injusta non obligat*). Fervently Catholic countries, like the Philippines, which adopted two-child policies to curb their surging populations. Scientists in white coats who committed murder in test tubes in the name of medical research. And round the fringes members of Act-Up, dressed as giant condoms, who leapt up and blasphemed him whenever he spoke.

Condoms were the first enemy. In their sly, shiny packets, they invaded the poor world as insidiously as the disease they were meant to prevent. To the cardinal, there was nothing safe about them. They merely encouraged promiscuity. To hope to stop AIDS by wearing one was like "playing Russian roulette". They were as full of tiny holes as a sieve, through which the HIV virus, "roughly 450 times smaller than the spermatozoon", as he told the BBC, would slither with no difficulty. The World Health Organisation might claim condoms were 90% effective; he had read it in the *Guardian*; but "they are wrong about that". And he was right.

He was always right, staunchly on the side of order, stability, hierarchy and God's law. The track of his life had been determined, from priest to bishop to archbishop to cardinal at 48, in one astonishing trajectory; and the direction of his ministry had been fixed on the day when, as a young priest in Colombia, he had been vouchsafed the “grace” of kissing the hands of Paul VI in the Bogotá nunciature. From that moment he took on the task of defending the “procreative mission”: the beautiful, profound, but profoundly impracticable teaching of Paul VI's *Humanae Vitae*, that every human sexual act must be open to the transmission of life. Against the intrinsic disorder of the human libido he proposed to reinforce, like a fortress, the institutions of family and marriage and the virtues of fidelity and chastity. On his visits to Rome he so pleaded for a family policy, browbeating the future Pope John Paul II even as they waited in the rain for a car, that John Paul in 1990 asked him to run that pontifical office for him, not knowing it would soon become a war room.

Redefining liberation

It was not the only one. Disorder had a way of impinging on his life. From 1979 to 1991, as archbishop of Medellín, he had care of souls in what was becoming the world's most violent city, a sprawl of hillside shantytowns patrolled by young assassins on motorbikes and ruled by ruthless drug lords. One, Pablo Escobar, became an ally for a time, bringing order to the cinderblock slums just as another ally, Eduardo Frei, promised to clamp down on Marxist elements in Chile and beyond. Latin America's crop of military dictators received no condemnation at the archbishop's hands. Where there was chaos, he reminded his bishops, people needed firm government.

They needed it, too, when liberation theology seeped into the region in the 1960s, bringing Jesus as a revolutionary, Christianity as an “option for the poor” and mass as a loaf of bread broken at home, without the need for priests. Dollops of Marxism, class warfare and land reform were freely added to the brew. As general-secretary and then president of the Latin American Bishops' Conference, Archbishop López Trujillo banged home the counter-idea that genuine Christian liberation meant simply energy and compassion with no change in the social order. Error was rectified as required, and the Vatican took his side.

In recent years his influence had faded. The cardinals' conclave of 2005 produced little sense that he was *papabile.* He was tireless, but had perhaps made too much noise. He hoped that Benedict XVI would appoint him to his own former office, the Congregation for the Doctrine of the Faith, where he could define not just the terms of sex but the rules of belief itself. But the old rottweiler, by comparison as gentle as a spaniel, looked elsewhere.

Overview

May 1st 2008
From The Economist print edition

The **Federal Reserve's** rate-setting committee cut its main interest rate from 2.25% to 2% on April 30th. The Fed said its rate cuts to date, together with the liquidity support it has provided for banks, should in time lift the economy and limit the risks of a sharp downturn. America's GDP rose by an annualised 0.6% in the first quarter, the same faltering rate as in the previous quarter. House prices in 20 big cities fell by 12.7% in the year to February, according to the S&P/Case-Shiller index.

Consumer prices in the **euro area** rose by 3.3% in the year to April, according to a provisional estimate. The inflation rate dropped back from a high of 3.6% in March. The unemployment rate in the currency zone was stable at 7.1% in March.

House prices in **Britain** fell by 1.1% in the year to April, according to Nationwide, a mortgage lender. This was the first annual fall in prices since 1996, when the property market was emerging from a prolonged slump. The number of mortgages approved for home purchase dropped to 64,000 in March, their lowest level for almost 15 years.

The Bank of **Japan** kept its benchmark interest rate unchanged at 0.5% on April 30th. Japan's industrial production plunged by 3.1% in March, the largest monthly decline for at least five years.

India's central bank left its benchmark interest rate unchanged at 7.75%, but announced an increase in the ratio of cash reserves required from banks.

Output, prices and jobs

May 1st 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q1	+0.6	+1.2	+1.7	+1.6 Mar	+4.0 Mar	+2.8	+3.3	5.1 Mar
Japan	+2.0 Q4	+3.5	+1.3	+1.5	−0.4 Mar	+1.0 Feb	−0.2	+0.7	3.8 Mar
China	+10.6 Q1	na	+9.6	+9.0	+17.8 Mar	+8.3 Mar	+3.3	+5.0	9.5 2007
Britain	+2.5 Q1	+1.6	+1.8	+1.8	+1.3 Feb	+2.5 Mar§	+3.1	+2.6	5.2 Feb††
Canada	+2.9 Q4	+0.8	+1.5	+2.1	−2.9 Feb	+1.4 Mar	+2.3	+1.7	6.0 Mar
Euro area	+2.2 Q4	+1.6	+1.6	+1.6	+3.1 Feb	+3.3 Apr	+1.9	+2.7	7.1 Mar
Austria	+3.0 Q4	+2.3	+2.6	+2.3	+4.7 Feb	+3.5 Mar	+1.8	+2.2	4.1 Feb
Belgium	+2.1 Q1	+1.6	+1.8	+1.8	−1.9 Dec	+4.2 Apr	+1.8	+2.6	10.3 Mar‡‡
France	+2.1 Q4	+1.5	+1.6	+1.6	+1.9 Feb	+3.2 Mar	+1.2	+2.4	7.5 Q4§§
Germany	+1.8 Q4	+1.1	+1.7	+1.7	+5.9 Feb	+2.4 Apr	+2.1	+2.3	7.9 Apr
Greece	+3.6 Q4	+2.8	+2.6	+3.1	−4.2 Feb	+4.4 Mar	+2.6	+3.9	8.0 Jan
Italy	+1.9 Q3	+1.7	+0.8	+1.1	−0.8 Feb	+3.3 Apr	+1.5	+2.6	6.0 Q4
Netherlands	+4.5 Q4	+4.8	+2.5	+1.9	+0.7 Feb	+2.2 Mar	+1.8	+2.0	4.0 Mar††
Spain	+3.5 Q4	+3.2	+2.4	+2.1	+3.9 Feb	+4.5 Mar	+2.5	+3.6	9.3 Mar
Czech Republic	+6.6 Q4	+7.0	+4.7	+5.4	+11.3 Feb	+7.1 Mar	+1.9	+6.5	5.6 Mar
Denmark	+1.9 Q4	+1.2	+1.5	+1.6	+1.9 Feb	+3.1 Mar	+2.0	+2.4	2.0 Feb
Hungary	+0.8 Q4	+0.5	+2.4	+3.6	+9.8 Feb	+6.7 Mar	+9.0	+5.9	8.0 Mar††
Norway	+4.7 Q4	+5.2	+2.9	+2.5	+0.3 Feb	+3.2 Mar	+1.1	+3.6	2.4 Feb***
Poland	+6.1 Q4	na	+5.1	+4.3	+0.9 Mar	+4.1 Mar	+2.5	+4.0	11.1 Mar‡‡
Russia	+8.0 Q1	na	+7.1	+6.2	+6.5 Mar	+13.3 Mar	+7.4	+12.5	6.6 Feb‡‡
Sweden	+2.8 Q4	+3.1	+2.4	+2.3	+1.9 Feb	+3.4 Mar	+1.9	+2.8	6.3 Mar‡‡
Switzerland	+3.6 Q4	+4.2	+2.1	+1.7	+9.1 Q4	+2.6 Mar	+0.2	+1.8	2.5 Mar
Turkey	+3.4 Q4	na	+4.1	+5.2	+7.5 Feb	+9.2 Mar	+10.9	+9.0	10.1 Q4‡‡
Australia	+3.9 Q4	+2.4	+3.0	+3.0	+0.1 Q4	+4.2 Q1	+2.4	+3.3	4.1 Mar
Hong Kong	+6.7 Q4	+6.6	+4.9	+5.6	−0.3 Q4	+4.2 Mar	+2.4	+4.3	3.4 Mar††
India	+8.4 Q4	na	+7.8	+7.2	+8.6 Feb	+5.5 Feb	+7.6	+5.8	7.2 2007
Indonesia	+6.3 Q4	na	+5.9	+6.2	+7.5 Feb	+8.2 Mar	+6.5	+7.8	9.8
01/02/2007									
Malaysia	+7.3 Q4	na	+5.8	+5.8	+6.6 Feb	+2.8 Mar	+1.5	+2.8	3.0 Q4
Pakistan	+7.0 2007**	na	+5.0	+5.3	+8.7 Jan	+14.1 Mar	+7.7	+9.4	6.2 2006
Singapore	+7.2 Q1	+16.9	+4.4	+4.7	+16.9 Mar	+6.7 Mar	+0.7	+4.3	1.6 Q4
South Korea	+5.7 Q1	+2.9	+4.5	+4.3	+10.0 Mar	+4.1 Apr	+2.5	+2.9	3.1 Mar
Taiwan	+6.4 Q4	na	+4.3	+4.3	+8.2 Mar	+4.0 Mar	+0.9	+2.6	3.9 Mar
Thailand	+5.7 Q4	+7.3	+4.7	+4.3	+10.1 Mar	+6.2 Apr	+1.8	+5.0	0.8 Dec
Argentina	+9.1 Q4	+8.0	+6.2	+4.5	+5.2 Mar	+8.8 Mar	+9.1	+10.3	7.5 Q4‡‡
Brazil	+6.2 Q4	+6.4	+4.6	+4.0	+9.7 Feb	+4.7 Mar	+3.0	+5.1	8.6 Mar‡‡
Chile	+4.0 Q4	+3.7	+3.6	+3.4	−1.0 Mar	+8.5 Mar	+2.6	+6.7	7.3 Feb††‡‡
Colombia	+8.1 Q4	+6.8	+5.0	+4.5	+8.8 Feb	+5.9 Mar	+5.8	+5.5	12.0 Feb‡‡
Mexico	+3.8 Q4	+3.0	+2.1	+2.5	+5.4 Feb	+4.3 Mar	+4.2	+4.3	3.8 Mar‡‡
Venezuela	+8.5 Q4	na	+6.0	+4.5	+2.5 Jan	+29.1 Mar	+18.5	+28.2	6.7 Q4‡‡
Egypt	+8.1 Q4	na	+7.0	+6.8	+7.5 2007**	+14.4 Mar	+12.8	+10.9	9.0 Q4‡‡
Israel	+6.8 Q4	+6.4	+3.6	+3.9	+3.8 Feb	+3.7 Mar	−0.9	+3.4	6.8 Q4
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+9.6 Mar	+2.9	+8.5	na
South Africa	+4.6 Q4	+5.3	+4.1	+4.8	+3.5 Feb	+10.6 Mar	+6.1	+7.2	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+4.8 Q4	+3.2	+4.0	+4.3	+2.6 Feb	+10.9 Mar	+5.7	+9.0	5.3 Feb
Finland	+3.7 Q4	+3.8	+2.7	+2.7	+2.5 Mar	+3.9 Mar	+2.6	+3.0	6.2 Mar
Iceland	+4.6 Q4	+1.4	+1.4	+2.6	+0.4 2007	+11.8 Apr	+5.3	+7.5	1.0 Mar‡‡
Ireland	+3.5 Q4	−3.3	+2.4	+2.4	+1.0 Feb	+5.0 Mar	+5.1	+3.0	5.5 Mar
Latvia	+8.0 Q4	na	+4.0	+4.2	−4.7 Feb	+16.8 Mar	+8.5	+13.2	4.9 Mar
Lithuania	+6.4 Q1	−0.8	+7.2	+6.4	na	+11.3 Mar	+4.6	+8.8	4.7 Mar‡‡
Luxembourg	+5.6 Q3	+2.8	+4.7	+4.8	+4.9 Feb	+3.5 Mar	+2.1	+3.7	4.2 Mar‡‡
New Zealand	+2.8 Q4	+3.1	+1.9	+2.5	+4.2 Q4	+3.4 Q1	+2.5	+2.9	3.4 Q4
Peru	+11.9 Feb	na	+6.9	+6.6	+13.4 Feb	+5.5 Mar	+0.2	+4.2	10.5 Feb‡‡
Philippines	+7.3 Q4	+7.4	+5.4	+5.5	+0.5 Jan	+6.4 Mar	+2.2	+5.1	7.4 Q1‡‡
Portugal	+2.0 Q4	+3.0	+1.5	+1.6	+6.9 Mar	+3.1 Mar	+2.3	+2.4	7.8 Q4‡‡
Slovakia	+14.3 Q4	na	+7.5	+5.7	+11.5 Feb	+4.2 Mar	+2.7	+3.3	7.6 Mar‡‡
Slovenia	+4.7 Q4	na	+4.6	+4.0	+7.3 Feb	+6.5 Apr	+2.6	+4.4	7.1 Feb‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 3.8% in Mar. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

May 1st 2008
From The Economist print edition

The Economist commodity-price index

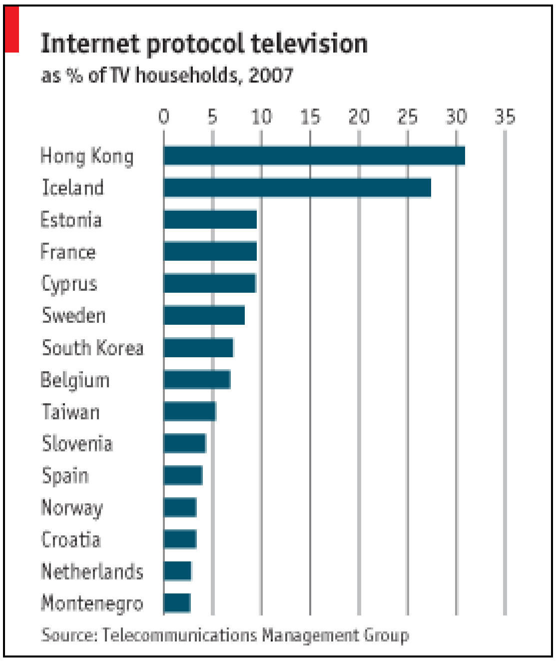
2000=100

	Apr 22nd	Apr 29th*	% change on one month	% change on one year
Dollar index				
All items	264.1	257.9	+4.0	+28.7
Food	263.8	253.9	+4.8	+60.8
Industrials				
All	264.6	263.1	+3.1	+3.0
Nfa†	191.8	192.1	+2.9	+24.6
Metals	304.4	301.9	+3.2	−2.8
Sterling index				
All items	200.8	198.4	+4.2	+30.5
Euro index				
All items	152.9	152.8	+3.9	+12.1
Gold				
$ per oz	918.90	877.90	−0.2	+30.3
West Texas Intermediate				
$ per barrel	119.05	115.57	+14.4	+79.4

*Provisional †Non-food agriculturals.

Internet protocol television

May 1st 2008
From The Economist print edition



Nearly a third of Hong Kong's households get their television service via the internet, according to a new report from Telecommunications Management Group, a consultancy. Internet protocol television (IPTV) uses the same technology that links together computer networks. In addition to the services provided by traditional broadcast television, IPTV also offers subscribers services such as on-demand video. Europe accounts for more than half of the world's subscribers to IPTV. Less than 1% of American households with a television use IPTV's extra services. Among large countries, France has the deepest IPTV penetration.

Trade, exchange rates, budget balances and interest rates

May 1st 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Apr 30th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−827.0 Feb	−738.6 Q4	−4.7	–	–	−2.4	1.91	3.76
Japan	+105.4 Feb	+216.0 Feb	+4.7	105	120	−2.9	0.75	1.56
China	+256.6 Mar	+249.9 2006	+10.6	6.99	7.70	0.5	4.49	4.33
Britain	−178.9 Feb	−115.4 Q4	−4.2	0.50	0.50	−3.2	5.81	4.66
Canada	+45.5 Feb	+12.5 Q4	nil	1.01	1.11	0.4	2.72	3.74
Euro area	+27.3 Feb	+25.3 Feb	+0.1	0.64	0.74	−0.8	4.86	4.12
Austria	+0.9 Jan	+12.2 Q4	+2.7	0.64	0.74	−0.4	4.86	4.29
Belgium	+15.4 Jan	+2.7 Dec	+1.8	0.64	0.74	−0.5	4.92	4.41
France	−56.3 Feb	−32.7 Feb	−1.6	0.64	0.74	−2.9	4.86	4.27
Germany	+271.5 Feb	+264.1 Feb	+6.2	0.64	0.74	1.0	4.86	4.11
Greece	−59.4 Feb	−43.8 Feb	−12.0	0.64	0.74	−2.6	4.86	4.58
Italy	−12.1 Feb	−53.4 Feb	−2.5	0.64	0.74	−2.6	4.86	4.56
Netherlands	+58.2 Feb	+50.7 Q4	+7.2	0.64	0.74	0.6	4.86	4.31
Spain	−142.5 Feb	−152.4 Jan	−9.2	0.64	0.74	nil	4.86	4.37
Czech Republic	+4.6 Feb	−3.9 Feb	−3.0	16.2	20.7	−2.6	4.13	4.71
Denmark	+4.1 Feb	+4.4 Feb	+1.2	4.79	5.48	3.6	5.25	4.36
Hungary	+0.1 Feb	−6.9 Q4	−5.9	162	182	−4.1	8.43	8.10
Norway	+66.1 Mar	+64.1 Q4	+17.2	5.11	5.97	17.5	6.41	4.46
Poland	−13.5 Feb	−17.2 Feb	−4.0	2.22	2.77	−2.0	6.34	5.97
Russia	+146.3 Feb	+92.4 Q1	+5.1	23.7	25.7	2.5	10.50	6.59
Sweden	+19.3 Mar	+38.1 Q4	+6.9	5.99	6.72	2.0	4.03	4.07
Switzerland	+12.5 Mar	+71.1 Q4	+15.1	1.04	1.21	0.9	2.81	3.11
Turkey	−66.8 Mar	−39.0 Feb	−6.1	1.28	1.36	−2.0	16.77	6.57‡
Australia	−21.8 Feb	−56.4 Q4	−6.1	1.06	1.21	1.5	7.80	6.29
Hong Kong	−24.9 Feb	+27.4 Q4	+9.5	7.79	7.82	3.0	2.08	2.61
India	−75.0 Feb	−12.8 Q4	−2.4	40.5	41.2	−3.1	7.42	8.43
Indonesia	+39.2 Feb	+11.0 Q4	+2.1	9,222	9,073	−1.9	8.17	6.86‡
Malaysia	+30.9 Feb	+28.9 Q4	+12.5	3.16	3.42	−3.1	3.62	3.96‡
Pakistan	−17.8 Mar	−8.4 Q4	−8.2	64.6	60.6	−5.2	10.26	9.48‡
Singapore	+32.0 Mar	+39.1 Q4	+24.3	1.36	1.53	1.0	1.44	2.44
South Korea	+6.0 Apr	+2.5 Mar	+0.3	1,003	931	0.2	5.33	5.07
Taiwan	+13.5 Mar	+31.7 Q4	+5.3	30.4	33.3	−1.8	2.70	2.43
Thailand	+8.8 Mar	+13.3 Mar	+2.1	31.7	34.8	−3.0	3.28	4.31
Argentina	+12.0 Mar	+7.3 Q4	+2.8	3.16	3.08	1.1	10.69	na
Brazil	+34.1 Mar	−9.5 Mar	−0.8	1.69	2.03	−1.8	11.61	6.16‡
Chile	+22.5 Mar	+7.2 Q4	+2.6	460	525	7.0	6.48	4.21‡
Colombia	−0.2 Feb	−5.9 Q4	−3.5	1,767	2,089	−1.7	9.75	5.57‡
Mexico	−12.2 Mar	−7.4 Q4	−1.2	10.5	10.9	nil	7.44	7.94
Venezuela	+23.7 Q4	+20.0 Q4	+7.0	3.40	4.23§	nil	14.00	6.55‡
Egypt	−20.5 Q4	+0.5 Q4	+0.3	5.38	5.68	−7.2	5.94	4.82‡
Israel	−11.9 Mar	+5.0 Q4	+1.5	3.43	4.07	−1.4	3.17	5.51
Saudi Arabia	+146.4 2007	+98.9 2006	+27.7	3.75	3.75	17.9	2.30	na
South Africa	−10.6 Mar	−20.6 Q4	−7.8	7.55	7.05	−1.2	11.95	9.48
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.4 Feb	−3.5 Feb	−13.1	10.0	11.5	0.6	6.32	na
Finland	+12.6 Feb	+12.4 Feb	+4.1	0.64	0.74	4.6	4.72	4.28
Iceland	−1.7 Mar	−3.2 Q4	−12.0	74.9	63.9	1.4	15.69	na
Ireland	+37.0 Feb	−12.7 Q4	−4.3	0.64	0.74	−0.8	4.86	4.44
Latvia	−7.3 Feb	−6.3 Feb	−14.5	0.45	0.51	nil	5.20	na
Lithuania	−7.3 Feb	−5.4 Feb	−12.0	2.22	2.54	−0.6	5.07	na
Luxembourg	−6.1 Feb	+3.9 Q4	na	0.64	0.74	1.2	4.86	na
New Zealand	−3.4 Mar	−10.2 Q4	−7.6	1.28	1.35	3.1	7.30	6.53
Peru	+8.3 Feb	+1.5 Q4	+0.7	2.85	3.17	1.8	5.51	na
Philippines	−6.5 Feb	+6.4 Dec	+4.2	42.3	47.6	−0.2	5.81	na
Portugal	−27.4 Jan	−23.4 Feb	−8.3	0.64	0.74	−2.5	4.86	4.45
Slovakia	−0.5 Feb	−4.5 Jan	−3.3	20.7	24.8	−2.1	4.02	4.53
Slovenia	−3.2 Feb	−2.6 Feb	−2.8	0.64	0.74	−0.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

May 1st 2008
From The Economist print edition

Markets

	Index	% change on	Dec 31st 2007	
	Apr 30th	one week	in local currency	in $ terms
United States (DJIA)	12,820.1	+0.4	−3.4	−3.4
United States (S&P 500)	1,385.6	+0.4	−5.6	−5.6
United States (NAScomp)	2,412.8	+0.3	−9.0	−9.0
Japan (Nikkei 225)	13,850.0	+2.0	−9.5	−2.2
Japan (Topix)	1,358.7	+3.4	−7.9	−0.5
China (SSEA)	3,875.2	+12.7	−29.8	−26.6
China (SSEB, $ terms)	261.3	+11.6	−31.7	−28.6
Britain (FTSE 100)	6,087.3	+0.1	−5.7	−6.6
Canada (S&P TSX)	13,937.0	−0.9	+0.8	−2.0
Euro area (FTSE Euro 100)	1,205.6	+1.6	−12.3	−6.4
Euro area (DJ STOXX 50)	3,825.0	+1.6	−13.1	−7.2
Austria (ATX)	4,264.8	+5.3	−5.5	+0.9
Belgium (Bel 20)	3,925.4	+1.2	−4.9	+1.5
France (CAC 40)	4,996.5	+1.0	−11.0	−5.0
Germany (DAX)*	6,948.8	+2.3	−13.9	−8.0
Greece (Athex Comp)	4,214.2	+3.9	−18.6	−13.1
Italy (S&P/MIB)	33,954.0	+1.6	−11.9	−6.0
Netherlands (AEX)	475.6	+0.9	−7.8	−1.6
Spain (Madrid SE)	1,485.0	+1.0	−9.6	−3.5
Czech Republic (PX)	1,609.8	+3.5	−11.3	−0.4
Denmark (OMXCB)	407.1	+1.9	−9.3	−3.2
Hungary (BUX)	22,593.4	+2.0	−13.9	−8.3
Norway (OSEAX)	535.5	+1.3	−6.0	−0.4
Poland (WIG)	46,691.8	+2.9	−16.1	−6.9
Russia (RTS, $ terms)	2,122.5	−1.7	−10.7	−7.3
Sweden (Aff.Gen)	308.4	+0.5	−9.4	−2.3
Switzerland (SMI)	7,529.0	+2.8	−11.3	−2.7
Turkey (ISE)	43,468.1	+1.5	−21.7	−28.7
Australia (All Ord.)	5,657.0	−1.0	−11.9	−6.1
Hong Kong (Hang Seng)	25,755.4	+1.8	−7.4	−7.3
India (BSE)	17,287.3	+3.5	−14.8	−17.0
Indonesia (JSX)	2,304.5	−0.4	−16.1	−14.5
Malaysia (KLSE)	1,279.9	−0.6	−11.4	−7.1
Pakistan (KSE)	15,122.5	−2.2	+7.4	+2.6
Singapore (STI)	3,147.8	−1.4	−9.2	−3.9
South Korea (KOSPI)	1,825.5	+1.4	−3.8	−10.0
Taiwan (TWI)	8,919.9	−1.0	+4.9	+11.9
Thailand (SET)	832.5	−0.6	−3.0	+3.1
Argentina (MERV)	2,095.5	−2.1	−2.6	−3.3
Brazil (BVSP)	67,868.0	+4.5	+6.2	+11.2
Chile (IGPA)	13,982.9	−0.4	−0.7	+7.6
Colombia (IGBC)	9,935.3	+3.8	−7.1	+5.3
Mexico (IPC)	30,281.4	−4.9	+2.5	+6.3
Venezuela (IBC)	37,682.0	−0.2	−0.6	−37.2
Egypt (Case 30)	11,786.5	+0.9	+12.6	+15.3
Israel (TA-100)	991.6	−2.2	−14.1	−4.4
Saudi Arabia (Tadawul)	10,066.2	+3.2	+26.9	+26.9
South Africa (JSE AS)	30,743.5	−3.1	+6.2	−4.2
Europe (FTSEurofirst 300)	1,337.7	+1.9	−11.2	−5.2
World, dev'd (MSCI)	1,509.0	+0.3	−5.0	−5.0
Emerging markets (MSCI)	1,191.5	nil	−4.3	−4.3
World, all (MSCI)	383.3	+0.3	−4.9	−4.9
World bonds (Citigroup)	775.0	−1.1	+6.1	+6.1
EMBI+ (JPMorgan)	440.9	+0.2	+1.7	+1.7
Hedge funds (HFRX)	1,307.5	−0.4	−1.7	−1.7
Volatility, US (VIX)	22.5	21.6	22.5	(levels)
CDSs, Eur (iTRAXX)†	69.8	−9.4	+37.9	+47.2
CDSs, N Am (CDX)†	98.1	−11.6	+12.0	+12.0
Carbon trading (EU ETS) €	23.9	−4.3	+7.5	+14.8

*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.

Productivity

May 1st 2008
From The Economist print edition

“Productivity isn't everything, but in the long-run it is almost everything,” said Paul Krugman in his book “The Age of Diminished Expectations”. The more productive an economy is—the more effectively it uses capital and labour—the greater its prosperity. “Unleashing Prosperity”, a forthcoming report from the World Bank, shows how improved productivity led to economic growth in developing countries from 1999 to 2005. The bank's economists first calculated how much growth was explained by a bigger workforce and how much by more plant. What is left is total factor productivity—how efficiently capital and labour were combined. This indeed accounted for the bulk of rising affluence.