
The Economist
SEPTEMBER 13TH–19TH 2008
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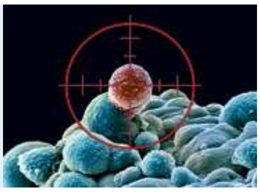
Print edition September 13th 2008

Cancer and stem cells

A theory linking cancer to stem cells offers hope; it also shows the value of general scientific research: leader



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Politics this week

Sep 11th 2008
From The Economist print edition

Asif Zardari was sworn in as president of **Pakistan** after easily winning indirect election in the provincial and federal parliaments. During the voting a bomb killed more than 30 people in Peshawar, in North-West Frontier Province. Mr Zardari's swearing-in was attended by Afghanistan's president, Hamid Karzai. At a joint press conference, Mr Zardari stressed his commitment to defeating terrorists. See article

The Nuclear Suppliers Group, a 45-country cartel governing trade in nuclear goods and technologies, agreed to a **waiver for India**. This forms part of India's agreement on civilian nuclear co-operation with America, first announced in 2005. America's own Congress has yet to give its final nod. See article

Kyodo News

North Korean officials denounced as a conspiracy reports that their leader, Kim Jong Il, was seriously ill. Mr Kim has not been seen since August 14th. Speculation mounted when he missed massive celebrations to mark the 60th anniversary of the country's founding. See article

In **Bangladesh**, Khaleda Zia, a former prime minister, was freed on bail after a year in prison on corruption charges, ahead of elections planned for December to restore multi-party democracy.

Thailand's Constitutional Court ruled that the prime minister, Samak Sundaravej, must resign for having breached the constitution by doing paid work as a television chef. Anti-government protesters continued their sit-in at his office. See article

The Palin factor

America's presidential election turned nasty, as **John McCain** accused **Barack Obama** of being sexist and Mr Obama responded that Mr McCain was expressing "phoney outrage". Amid the gibes about lipstick and pigs, both men agreed to be nice for a day on September 11th and travel to New York for events marking the 2001 terror attacks. Post-convention polls gave Mr McCain a sizeable "bounce", vaulting him into the lead.

Kwame Kilpatrick said he would step down as **Detroit's** mayor. Mr Kilpatrick pleaded guilty to obstructing justice in proceedings that stem from a whistleblower lawsuit and will spend four months in jail.

A landslide in Angola

The ruling Popular Movement for the Liberation of **Angola** (MPLA) won the country's first multi-party general election for 16 years, getting 80% of votes cast to 10% for the main opposition party, the National Union for the Total Independence of Angola (UNITA). Observers noted shortcomings in the conduct of the election but reckoned it was a big step towards democracy. See article

Negotiators in **Zimbabwe** said they were close to a power-sharing deal between President Robert Mugabe's ruling party and the opposition Movement for Democratic Change led by Morgan Tsvangirai, who would become prime minister. But it was still unclear who would call the final shots.

President George Bush said that 8,000-odd American troops, out of the 146,000 currently in **Iraq**, would be withdrawn by February, and reinforcements would be sent by January to bolster the 33,000 American troops already in **Afghanistan**. The next president will have to decide on large-scale changes in deployment.

The American secretary of state, Condoleezza Rice, became the most senior American to visit **Libya** since Muammar Qaddafi took over the country in 1969. Relations between the two countries have warmed since Libya dropped its nuclear-weapons programme in 2003.

A prominent member of **Somalia's** parliament, Mohamed Osman Maye, an ally of the country's beleaguered president, Abdullahi Yusuf, was shot dead outside a mosque in the town of Baidoa, where the parliament sits.

Storm surge

AP

Coming on the heels of Hurricane Gustav and two tropical storms, Hurricane Ike swept through **the Caribbean**, wreaking havoc in Haiti—where it caused more than 170 deaths—and forcing mandatory evacuations in Cuba.

Venezuela and **Russia** announced they would hold joint naval manoeuvres in the Caribbean. America, whose recently revived Fourth Fleet has begun patrolling the area, professed to be unimpressed. See article

The presidents of **Argentina** and **Venezuela,** Cristina Fernández de Kirchner and Hugo Chávez, were cited in evidence in a trial opening in Miami in which the accused are said to have operated in America as unregistered agents of foreign governments. The case stems from the arrest in Buenos Aires last year of a man carrying $800,000. The cash was allegedly a campaign contribution from Mr Chávez to Ms Fernández. Both presidents say the trial is politically motivated.

Canada's prime minister, Stephen Harper, called an early general election. It will be held on October 14th.

Europe's new peacebroker

AP

France's Nicolas Sarkozy went to Moscow to secure yet another peace deal between **Russia** and **Georgia**. The Russians promised to pull their troops out of Georgia within a month, though they will reinforce their troops in the two enclaves of South Ossetia and Abkhazia. The European Union is to send monitors to help keep the peace. See article

At a European Union summit with **Ukraine** in Paris, the EU promised to sign an "association agreement" with Ukraine next year, but will not offer any promise of future EU membership, something of a break with tradition. See article

Germany's Social Democratic Party agreed to nominate Frank-Walter Steinmeier as its candidate for chancellor. Mr Steinmeier will take on the Christian Democrat incumbent, Angela Merkel, in next September's federal election. See article

Three **British** suspected terrorists of Muslim origin were convicted of conspiracy to murder. But a jury could not decide whether they had also conspired, with four others, to blow up airliners using bombs disguised as soft drinks. Prosecutors want a retrial of all seven men on all the charges. See article

After decades of planning and construction, the first protons were circulated around the **Large Hadron Collider**. The LHC, the world's biggest scientific experiment, has been built just outside Geneva in a circular tunnel with a circumference of 27km. It is designed to find the Higgs boson, which is needed by physicists to explain the existence of mass, and to explore a branch of physics called supersymmetry. See article

Business this week

Sep 11th 2008
From The Economist print edition

The American government made its biggest intervention yet in the credit crisis by taking control of **Fannie Mae** and **Freddie Mac**. The "government-sponsored enterprises" have financed around 80% of all mortgages in America this year. With a large part of their $5 trillion debt and mortgage-backed securities owned by central banks and investors outside the United States, Hank Paulson, the treasury secretary, reiterated that both companies are "so large and so interwoven" in America's financial system that the failure of either one would cause great turmoil in world markets. See article

The director of the Congressional Budget Office, an advisory agency, said that Fannie and Freddie would be counted as part of the public sector in future analyses of the **federal budget**. The CBO had just estimated that the deficit for the 2009 fiscal year would soar to $438 billion.

Missing out on the bonanza

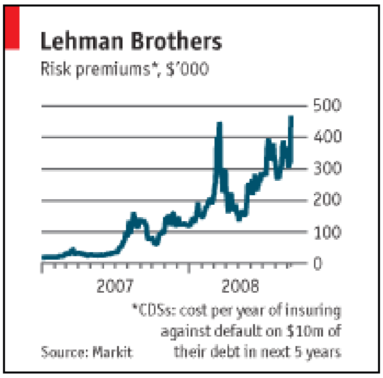
Stockmarkets briefly rallied on the news of Fannie's and Freddie's rescue. However, stockbrokers in the City lost millions of pounds in potential commission when the **London Stock Exchange** suspended trading because of a computer failure.

Russia's **RTS** stockmarket index sank to a two-year low as investors fretted that falling commodity prices would hurt the Russian economy. Another factor was the surprise decision by Russia's antitrust regulator to press ahead with fining **Gazprom**, the state-controlled gas company, for withholding access to its pipelines from a gas operator in Tartarstan.

A technical glitch was blamed for the reappearance on a newspaper's website of a six-year-old article describing **United Airlines'** bankruptcy. The item was picked up by Google's news service and UAL's share price fell by 75% before the airline reassured investors that the story was old news—it left bankruptcy protection in 2006.

In harm's way

Lehman Brothers suffered another rocky week. The investment bank predicted another huge quarterly loss and unveiled more measures to boost its capital, including a sale of property assets. Earlier, its share price tanked when Korea Development Bank pulled out of talks about buying a stake. Credit-default swaps on Lehman's debt leapt to levels higher even than in March, when the markets were in turmoil preceding the bail-out of Bear Stearns. See article



Washington Mutual ousted its chief executive. Kerry Killinger had led the Seattle-based bank since 1990, turning it into one of America's leading mortgage lenders. However, the removal of Mr Killinger did little to ease fears about WaMu's prospects. Its share price plunged on news that regulators had put the bank under special supervision.

The Pentagon suspended a controversial competition for a $35 billion contract to build new **flying tankers**. The air force had awarded the contract to an aircraft made jointly by EADS and Northrop Grumman, but Boeing complained about the procedure for assessing the bids and in July the whole process was reopened. Robert Gates, America's defence secretary, now thinks a "cooling-off period" is needed.

Altria, the parent company of Philip Morris USA, agreed to buy **UST** in an $11.7 billion deal. UST makes America's leading brands of smokeless tobacco, Copenhagen and Skoal. Although there are fewer smokers in America, the number of people chewing tobacco has shot up; it is particularly popular in the South.

Opaque production targets

OPEC ministers revised their complex yield allocations, which the cartel's president said amounted to a cut of 520,000 barrels a day in output based on what member countries actually produce. Some OPEC members are keen not to let oil prices fall too far; they have dropped to almost $100 a barrel from a high of more than $145 in July. See article

The Iraqi cabinet approved a preliminary agreement that will create a joint venture between the state-run **South Oil Company** and **Royal Dutch Shell** to develop natural-gas resources in the Basra region. It is the first deal between a Western oil company and Iraq since the invasion of 2003 (Iraq recently approved a $3 billion deal with China to develop an oilfield).

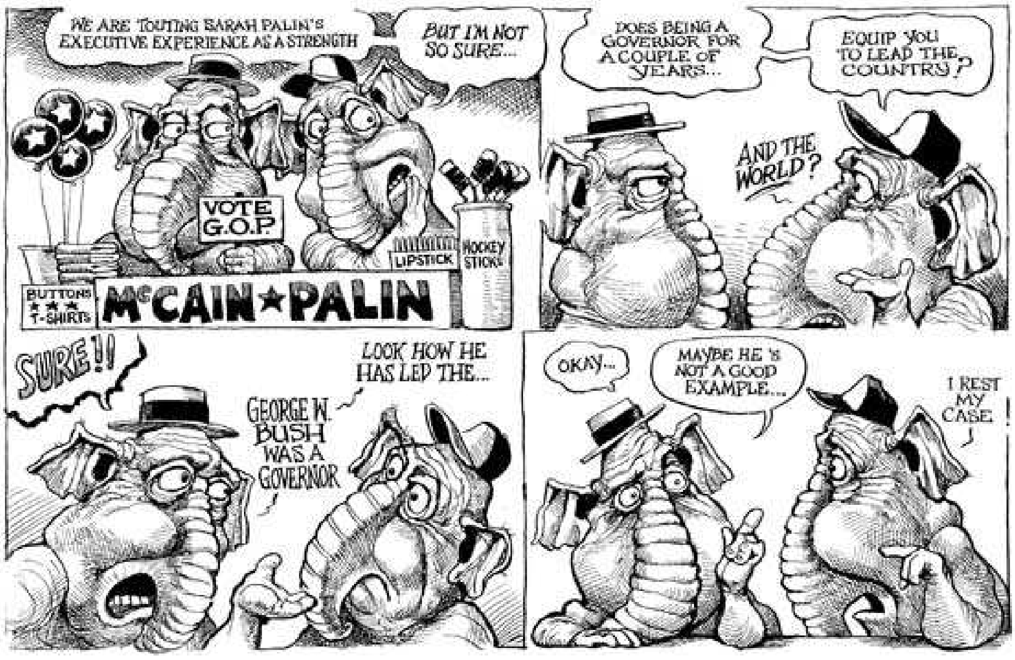
It emerged that **Carlos Slim**, a Mexican telecoms mogul and the world's second-richest man, holds a 6.4% stake in **New York Times Co.** Mr Slim denied he was making a strategic move into America's media market and said the investment was "strictly financial". Earlier this year the struggling newspaper publisher fought a proxy battle from a hedge fund pushing for big changes at the company. It has laid off staff in the newsroom and taken other cost-cutting measures to offset a decline in advertising revenue.

Economist.com **OPINION**

KAL's cartoon

Sep 11th 2008
From The Economist print edition

Illustration by KAL



Economist.com
OPINION
LEADERS

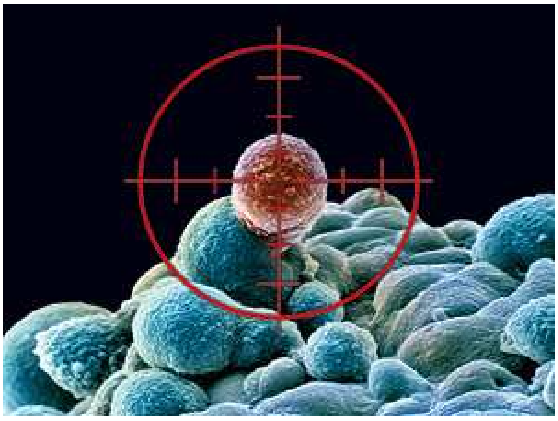
Medicine

Shooting down cancer

Sep 11th 2008
From The Economist print edition

A theory linking the scourge to stem cells may offer new ways of treating this most terrifying of diseases

SPL



EVERY age is afraid of plagues. For the most part, such plagues have been infections. The rich world, though, has brought infectious disease under control and, AIDS aside, the memory dims with every generation. Instead, the fear of disease has transferred itself to cancer. How to prevent it, and how to treat it if prevention has failed, fills the health pages of the newspapers. How this or that celebrity won or lost his or her battle with it seems to fill much of the rest.

The military metaphor is not confined to newspapers. It is 37 years since Richard Nixon, then America's president, declared war on the disease. During that time, the prognosis for cancer patients has got a lot better. Scientists have refined old therapies and found new ones. Moreover, governments have waged a relentless public-health campaign against the biggest cause of cancer—the smoking of tobacco. The war, however, has never looked close to being won. Scan the horizon and there is no sign of a cure.

Nor is there likely to be until the enemy is properly understood. Though luck plays its part in medicine, as it does in warfare, the big breakthroughs usually come from dramatic shifts in understanding. It was not, for example, until Louis Pasteur and Robert Koch proved the connection between germs and infection that doctors realised that to cure such diseases you had to kill the germs. The germ theory of disease made sense of a collection of illnesses that obviously had things in common (a tendency to appear in waves, for example, or to pass from person to person) but were maddeningly different in their details. It took a while, but proof of that theory led to antibiotics that can destroy a whole range of infections.

For cancer, a similar moment of enlightenment may now have arrived (see article). Like infections, cancers have prominent features in common, yet they are bafflingly different in their details. But, borrowing an idea from another part of biology, oncologists are coming to believe that most—possibly all—cancers involve stem cells, or something very like them. They are, in other words, caused and sustained by a small number of cells whose daughters grow into the tissue of a tumour rather as the daughters of healthy stem cells grow into the normal tissues that make up a body.

Patience, s'il vous plaît

This opens new ways of thinking about and treating the cancers. If its stem cells are eradicated, the rest of a tumour may die off. And if the secondary tumours—the truly feared killers in many forms of cancer—are the result of stem cells escaping from a primary tumour, as looks likely, then this knowledge may make them yield more easily to treatment.

This discovery is not a cure. But it does point the way towards one—or, at the least, towards better therapies. Some might be in action soon. For example, it seems that cancer stem cells are less vulnerable to radiation than other cancer cells, because their DNA-repair mechanisms are better. Radiotherapy might thus be made more effective against them by dosing them with existing drugs that inhibit DNA repair. Some existing drugs which are known to interfere with stem cells' biochemical pathways could be used to attack them selectively.

Other treatments will take far longer—the time needed for clinical trials would see to that and, in any case, a lot more research is in order. And there is the problem of designing drugs that can distinguish between cancer stem cells and those that spin off healthy tissues. But it all looks promising.

Blue sky ahead

The other interesting aspect of the stem-cell link is that it was inspired by work outside the mainstream of the huge cancer-research industry: stem-cell research is now a huge field in its own right. In science you never know where the answer is going to come from. Pasteur found it in a piece of practical science: he was trying to prevent food going off. Charles Darwin, by contrast, found a lead for his theory of natural selection in the whimsical hobby of pigeon fancying, where the birds showed an enormous variety of form and behaviour. And some discoveries happen by accident. Radioactivity came to light a century after the discovery of uranium when Henri Becquerel used uranium salts and photographic plates in the same experiment and found that one fogged the other.

In the 19th century it was commonplace to do an experiment simply to see what would happen. That was, in part, because experimenters were often amateurs who were spending private money. In these days of taxpayer-financed science, most experiments are executed with a pretty clear idea of what the outcome ought to be, especially when they are part of wars and campaigns against this or that. The paradox is that, although such efforts do not eliminate Becquerel-like discoveries, they risk limiting the chances of making them.

This accent on targeted research is understandable. Plenty of the work now done on cancer will be of the targeted sort. The Large Hadron Collider, the huge particle accelerator in Switzerland which was switched on this week (see article), is a grand project that could yield all sorts of discoveries. Yet the easiest way to sell it to politicians was to frame it as a search for a single particle, the Higgs boson.

Like natural selection and germs, the discovery of cancer stem cells illustrates how the most fruitful scientific findings are often not those of individual experiments, however intriguing, but those that organise knowledge into theory. The chemical industry took off within a decade or so of Dmitri Mendeleev's arrangement of the chemical elements into the periodic table, just as radio communications followed James Clerk Maxwell's mathematical unification of electricity and magnetism, and antibiotics came after Pasteur and Koch.

With luck, something similar will soon happen in biology in the wake of such things as the Human Genome Project. In retrospect, the discovery of stem cells—cancer stem cells included—may come to be seen as a step in a comprehensive theory of how organisms work. That understanding would be a formidable, if unforeseen, part of the legacy of the war on cancer and an essential part of its mission to save lives.

Pakistan's new president

A 10% chance he will get it right?

Sep 11th 2008
From The Economist print edition

Asif Zardari needs all the help he can get. Despite his shady reputation, he should get it

AFP

THREE clouds hovered over Asif Zardari as he was sworn in on September 9th as Pakistan's president. The economy is in crisis. Second, the war against the local Taliban is going badly (see article). And, third, Mr Zardari himself has not shaken off the reputation he earned when his late wife, Benazir Bhutto, was prime minister, as "Mr 10%"—a man less interested in running his country wisely than in looting it greedily.

Pessimists are already predicting a short, chaotic and disastrous presidency, followed, as night follows day in Pakistani politics, by a solid-looking general stepping in to stop the rot. But since it is solid-looking generals who have reduced Pakistan to this dire pass, Mr Zardari deserves, if not the benefit of the doubt, then at least the help due the constitutionally elected leader of a country of 165m people that is, or should be, a vital NATO ally in the war in Afghanistan. In return, he needs to show that he really does have at heart the national interest rather than self-aggrandisement or self-enrichment.

The omens are not good. Two economic issues above all are fuelling public anger: price rises, especially for food, and power cuts, a consequence of a shortage of money to pay for imported fuel. Both demand fiscal discipline. Printing money would worsen inflation, debauch the currency and bring a balance-of-payments crisis.

Yet in at least two ways, apparently at Mr Zardari's behest, the government has sacrificed fiscal responsibility for political advantage. First, it raised the procurement price of grain—benefiting mainly farmers in Punjab, Pakistan's most prosperous province (and the stronghold of the main opposition leader, Nawaz Sharif) but pushing up the cost of food subsidies for the cash-starved government. Meanwhile, a proposed capital-gains tax was dropped, reportedly after Mr Zardari was lobbied by wealthy financiers from Karachi, the biggest city in Mr Zardari's own power-base, Sindh province.

More encouragingly, Mr Zardari's officials have reportedly come up with a sensible stabilisation plan that should win the support of international donors (see article). If so, America's Congress should smile on the ten-year, $15 billion aid proposal before it. America has been lavish in the aid it has provided since September 11th 2001. But most has gone to the army. Reducing poverty and offering economic opportunity would also do much to ease the fight against Islamist extremism.

Killing your allies is usually a bad idea

So would better cross-border co-operation with Afghanistan. Mr Zardari is to be applauded for making President Hamid Karzai the guest of honour at his inauguration. His predecessor, Pervez Musharraf, and Mr Karzai scarcely bothered to conceal their mutual antipathy. Mr Zardari resembles Mr Musharraf, however, in talking a good game: about the importance of fighting the Taliban not for America's or Afghanistan's sake but for Pakistan's. Like Mr Musharraf, too, Mr Zardari may find it hard to persuade Pakistan's people that the fight is worthwhile, especially since the army itself, whose soldiers' lives are on the line, is not wholly committed to it.

Exasperated at the continuing infiltration of armed militants from Pakistan's tribal areas, America has launched air-strikes—and even sent soldiers—on its soil. This seems intended in part to focus Mr Zardari's wayward mind on the task in hand. But it also causes huge resentment in Pakistan, especially since at least one raid killed civilians instead of militants. As the United States is finding in Afghanistan itself, there is no surer way of angering local people, undermining a friendly government and boosting Taliban recruitment than killing civilians. It is no way to treat an ally, even Mr 10%.

Economist.com OPINION LEADERS

Ukraine

Near-abroad blues

Sep 11th 2008
From The Economist print edition

The European Union should offer Ukraine and Russia's other neighbours a clearer path towards membership

RUSSIA'S August war with Georgia was about many things besides the two enclaves of South Ossetia and Abkhazia. It was about energy, Russia's place in the world, its relationship with the West—and, above all, the reassertion of Russian interests in its "near abroad". That means that it was about Ukraine among others. Yet the European Union, at its summit with Ukraine on September 9th, foolishly ducked a chance to throw the country a political and economic lifeline.

Georgia counts in the Caucasus; it also has vital pipelines that cross its territory. But Ukraine is even more important, to both Russia and the West. The Ukrainian government, unlike Georgia's, controls all of its own territory and harbours none of the region's "frozen conflicts" over disputed enclaves and exclaves. Yet Ukraine is still vulnerable. Its independence has never been accepted psychologically by the Russians, whose history starts with medieval Kievan Rus. Modern Ukraine is split between a pro-European west and centre, and a more pro-Russian east. Some 8m of the country's 45m people are ethnic Russians, many of them with Russian passports. And Crimea, a peninsula handed to Ukraine only in 1954, when both were parts of the Soviet Union, is not only heavily populated by Russians but also hosts Russia's Black Sea fleet in Sebastopol, under a lease due to expire in 2017. The potential flashpoints for a clash with a resurgent Russia are all too obvious.

Ukraine's splintered politics adds to its troubles. Ever since the "orange revolution" in 2004 that swept Viktor Yushchenko to the presidency, the political drama in Kiev has been tragi-comic, as different factions and their business backers strut and squabble, Russia interferes and coalitions fall apart. The Georgia crisis has stirred things up anew, with Mr Yushchenko and Yulia Tymoshenko, a former orange ally who is prime minister, roundly abusing one another. Shortly before this week's summit with the EU, the government collapsed again; there may be another parliamentary election (see article).

Westward ho!

The national anthem starts, unpromisingly, with the words "The glory of Ukraine is not dead yet." All is indeed by no means lost. Politics may be fractious and corruption entrenched, but a culture of democracy has taken root, with freely competitive media and lively public debate. The economy has been outgrowing Russia's (from an admittedly lower base). And although Ukraine's politicians and citizens alike are divided over joining NATO, the Western security alliance, almost all strongly favour membership of the EU.

What is the best way to help and encourage an independent, democratic Ukraine? It is essential to uphold the promise made at NATO's Bucharest summit in April that both Georgia and Ukraine can one day become members if they wish, for to back down now would be to hand Russia a veto. Yet in truth NATO membership is a long way off, not least because neither country is anywhere near ready. In Ukraine's case, the necessary political consensus is also lacking. But that is not a worry over membership of the EU. What is still missing is an EU commitment giving Ukraine solid hope of joining the club.

Such caution is a big mistake. France's Nicolas Sarkozy, as holder of the EU presidency, may be preening himself over the new ceasefire deal he struck with Russia's Dmitry Medvedev on September 8th, but in truth the war with Georgia has shown up the EU's vacillation. The Russians earlier made promises they did not keep and have now secured all they wanted, including the retention of extra troops and even military bases in South Ossetia and Abkhazia (see article), despite EU demands that troops return to pre-war positions. Russia's neighbours have few places to turn. Yet even Belarus, previously a reliable Russian ally, has reacted to the August war by nervously putting out feelers to Brussels.

Over the past three decades enlargement by the EU to take in new members has proved to be the most effective tool for promoting economic reform and securing liberal democracy. But it works only if countries believe they will one day be let in. After the August war, Ukraine, Belarus, Moldova and the three Caucasus countries of Georgia, Armenia and Azerbaijan, all crave reassurance against an irredentist Russia. A clear offer of eventual EU membership, if they work hard to fulfil the necessary criteria, is the least the EU can do.

Financial services

Hank to the rescue

Sep 11th 2008
From The Economist print edition

The bail-out of Fannie Mae and Freddie Mac was inevitable. It may not be the last

Illustration by Claudio Munoz

IF HANK PAULSON had not already lost all his hair, he would surely be tearing it out right now. America's treasury secretary must have thought saving Fannie Mae and Freddie Mac, the government-sponsored housing enterprises, would restore confidence to the financial system. But the stockmarket rally lasted just one day, before investors switched their worries to Lehman Brothers, a struggling investment bank.

Mr Paulson should get some credit for his rescue. The businesses had to be propped up to avoid chaos in the housing market; Fannie and Freddie have been providing around 80% of American mortgages this year. By taking the lead, the Treasury took the pressure off the Federal Reserve. Quite rightly, the "conservatorship" structure has ensured that the chief executives went and the shareholders suffered. Inevitably, bondholders (which include foreign central banks) have been protected; the government had promised as much and a debtor nation could not afford to antagonise its lenders.

In our view, the pair should have been nationalised back in July, and the new scheme should have had a clearer plan to shrink or break up Fannie and Freddie, so that they never again hold the taxpayer hostage (though not right now, because of the ailing housing market). Cuts will not occur until 2010—a reprieve that leaves the door open for Congress to put its clunking foot through. In the past Democrats have blocked plans to restrain the two agencies. Then there is the new fund that will buy mortgage-backed securities in order to support the market. The first purchase will be just $5 billion, but it is a worryingly open-ended commitment. Once begun, purchases will be hard to stop; the government will be tempted to send good money after bad. This sets a disturbing precedent: if the government can buy mortgages, why not credit-card or car loans? And if it can spend billions rescuing Fannie and Freddie, why not General Motors or Ford?

Relief rally

Stockmarkets at first welcomed the deal. The meltdown of Fannie and Freddie would almost certainly have led to financial chaos. By lowering the funding costs of the two agencies, the rescue should also bring down mortgage rates for hard-pressed householders.

Although the plan has forestalled Armageddon in the American housing market, it is no cure-all. There are some signs of stability, but too many homes are for sale and defaults are rising fast. More than 9% of all single-family homeowners with mortgages are now a month in arrears or facing foreclosure. House prices may well fall further.

In any case, the credit crunch is no longer just about American housing. In Britain, Spain and Ireland house prices are falling. Defaults are rising across a range of debt classes from commercial property through corporate bonds to consumer loans. With unemployment rising in America and economic weakness ever more pronounced in Europe and Japan, economists are arguing about what counts as a recession (see article).

The credit crunch had its origins in finance. But the banking industry and the economy are now locked in a kind of negative symbiosis, where bad news in one induces pain in the other. Defaults cause bankers to restrict the availability of credit, which causes more defaults. And so the malaise spreads.

The next test of the system is already here. Banks have spent the past year shoring up their balance sheets but, after some big losses, investors have lost their appetite for more share issues. Shares in Lehman Brothers have plunged as the investment bank tried, without success, to find an outside investor, leading the company to bring forward its results and its own emergency plan. If that fails, will the government be forced, as with Bear Stearns, to engineer a takeover by a rival?

It might be good, in theory, to let an investment bank fail "to encourage the others" and to buff America's tarnished reputation as a champion of free markets. But having gone to such lengths to boost confidence in the financial system, the authorities will be reluctant to take that risk. It does not help that financial products are now so complex that it is very hard to make even an educated guess about the real value of a bank.

The world economy may well muddle through, as it has so often in the past. Growth in much of the developing world is still strong. And the recent fall in commodity prices, although partly sparked by economic fears, should be a boon. But the rescue of Fannie and Freddie and the travails at Lehman are merely the latest in a long series of tests that the authorities will have to face over the next year or so. With Fannie and Freddie, they eventually passed the test. They may have to act more quickly and decisively next time.

Economist.com OPINION LEADERS

Israel

Give Livni a chance

Sep 11th 2008
From The Economist print edition

Israel needs a new leader. Tzipi Livni is the best on offer

AFP

A DANGEROUS uncertainty hovers over the Levant. The Lebanese have a ramshackle government with no one really in charge. An Islamist guerrilla movement, Hizbullah, is a restive partner in the country's ruling coalition while it runs its own armed statelet near the border with Israel. Syria has lost control of Lebanon but still hankers after its old dominance there; indirect talks with Israel are sputtering nowhere. Egypt, once a force in regional diplomacy, is weighed down by its own worries (see article). The Palestinians remain viciously split between the Islamists of Hamas, who run the Gaza Strip, and secular-minded Fatah, which runs the West Bank. Israel has a lame-duck prime minister, Ehud Olmert, who may soon be formally charged with corruption. The United States, essential for knocking heads together, has a lame-duck president whose quacks for peace have probably come too late.

Nothing good is likely to happen until some of these political uncertainties have been ironed out, a process that will take months. But at least there is one hopeful prospect, albeit one that may not last long: Israel may soon get a better prime minister, its present foreign minister, Tzipi Livni (see article).

On September 17th Israel's ruling party, Kadima, opens the first round of a primary election to pick a leader to replace Mr Olmert. After he—or she—is chosen, the wearisome business of refashioning a ruling coalition may drag on for weeks. If it proves impossible, in view of Israel's mischievous, ultra-democratic system of extreme proportional representation that gives government-busting powers to small parties, then a general election must take place within three months. If the opinion polls are to be believed and hold firm, Binyamin Netanyahu, whose Likud party still rejects the idea of a genuine state for the Palestinians on the West Bank and in Gaza, could then become prime minister once again. This is a glum prospect, though it is conceivable that Mr Netanyahu would feel obliged, as have other hard men before him, to change his mind about how to make peace with the Palestinians.

Even if Ms Livni gets the job and hangs on to it, she will not perform miracles. But she is tough and now seems to believe firmly that a proper two-state solution, with the Palestinians entrenched in a separate, viable, sovereign, contiguous state, is the sole path to Israel's survival as a predominantly Jewish country. Within Kadima her leading opponent for the job, Shaul Mofaz, a former army chief of staff and defence minister, gives the impression that keeping the Palestinians down, without necessarily having a real state of their own, is the best way to keep Israel safe. But this is a self-defeating fallacy.

What she would have to do

The outlines of a solution have long been clear: draw a border roughly along the lines that existed before the war of 1967; share Jerusalem as capital of both states; and acknowledge, while agreeing not to implement, a symbolic right of return of Palestinians to the parts of their old homeland now in Israel.

If she became prime minister, Ms Livni would also need to undertake several other fiendishly hard tasks. None of her predecessors since 1967 have managed it, but she would have to stop, once and for all, Jewish building on Palestinian land. She should adjust the security barrier that bites out further chunks of Palestinian land so it runs closer to the 1967 line—and obey Israeli courts when they order this. And she would need to understand that encouraging divisions among the Palestinians—egging on Fatah to bash Hamas—is unlikely to secure long-term peace for Israel. If she wants to bolster a united Palestinian leadership to carry its people towards peace, she could raise the possibility of freeing Marwan Barghouti, potentially the most effective Palestinian leader, as part of a prisoner exchange. In case the Palestinians' floundering president, Mahmoud Abbas, finally runs out of steam, Mr Barghouti may be the Fatah man to woo Hamas supporters and do a deal.

None of this will be easy. It needs the co-operation of both a new American president and a host of difficult Arabs. But Ms Livni has the toughness and the vision to do it. She is thus Israel's best chance of peace.

Economist.com
OPINION
LETTERS

On India's nuclear technology, estate taxes, South Ossetia, immigration, lawyers' fees

Sep 11th 2008
From The Economist print edition

India's nuclear technology

SIR – I read with interest your leader on America's nuclear deal with India and the push for the 45-nation Nuclear Suppliers Group (NSG) to lift its embargo on India ("Time to decide", August 30th). It was unfortunate to see you characterise this approach as one of "breaking a few rules". If "breaking" were the intention there would have been no need for American diplomats to work so hard, first at the International Atomic Energy Agency and then at the NSG, to win multilateral agreement upon a new approach to India.

Moreover, the argument that permitting India to buy civilian reactor fuel allows it to "devote more of the stuff it makes at home to bomb-building" is dubious. On one level, that might be true. By that same logic, however, any energy assistance, from selling oil to providing solar panels and energy-efficient light bulbs, also contributes to India's nuclear-weapons programme. Any energy that India doesn't have to generate through the use of domestically produced nuclear fuel presumably has some effect in freeing up uranium in the fashion about which you complain. The India question is appropriately controversial. All the more reason to debate it carefully and coolly.

Christopher Ford
Senior fellow and director
Centre for Technology and Global Security
Hudson Institute
Washington, DC

SIR – What choice does India have when it comes to nuclear power? It needs enough energy for its population of 1.1 billion. Power is so scarce that there are rolling blackouts in nearly every city. Villages are lucky if they get just a few hours of electricity a day.

Aaron Soans
Mumbai

SIR – You argued that "there should be no exemption for India from the world's nuclear rules." India is a democratic country with robust institutions and political controls, not a banana republic or terrorist state with a madman in charge of the nuclear button. Our allies either already have nuclear-weapons technology or the means to acquire it if they wish. Why is it that Russia is allowed to test new nuclear weapons whereas a responsible country like India isn't?

Karan Bedi
Mumbai

SIR – India exploded its first atomic device 34 years ago, yet opponents of India's deal with the Bush administration think that if the agreement fails in Congress the clock will somehow be turned back.

Israel, Pakistan, North Korea and Iran have developed their nuclear technology unimpeded by the Nuclear Non-Proliferation Treaty, which is a useless hypocrisy. Only bilateral diplomacy and carrot-and-stick sanctions have any hope of preventing further proliferation—North Korea being a case in point.

Ramesh Gopalan
Fremont, California

A tax on the land

SIR – You stated that John McCain wants to eliminate the estate tax, which would "benefit a tiny number of very rich families" ("Bring back the real McCain", August 30th). This is inaccurate. For example, in Alabama, my home state, middle- and working-class families often inherit large tracts of land that they can afford to keep only because state property taxes are so low. My family inherited 1,000 acres, from which our timber operations produce only a small stream of revenue.

If the level of exemption from the estate tax were to fall back to $1m, as Barack Obama wants, my family would be forced to sell the land upon my parents' death. The estate is worth approximately $2m, and we could not afford to pay the roughly $500,000 due in estate taxes on the non-exempt $1m. Thus the land we wish to keep for conservation purposes would be split up—probably for development—by a policy of the very Democratic Party that touts environmental protection. Many Americans would be affected by this, not just "a tiny number of very rich families".

Blake Hudson
Environmental lawyer
Baker Botts
Houston

Freedom for all

SIR – You asserted that the arguments for Kosovo's independence are different to those for South Ossetia's and Abkhazia's and are largely technical in nature ("South Ossetia is not Kosovo", August 30th). Yet a principle is a principle: either one believes in the self-determination of peoples or not. It is neither validated nor refuted by the intentions of others; Russia's hypocrisy is not an excuse for rejecting the claims of repressed minorities in Georgia.

Contorted arguments to justify Kosovo's independence while denying the same right to South Ossetia and Abkhazia will only lead to more trouble. Whatever London and Washington think, the double standard is clear. And nothing enrages people more than the perception of deep injustice.

Thomas Jandl
Washington, DC

What makes an immigrant?

SIR – The movement of workers within the European Union has worked superbly ("Poles depart", August 30th). Central Europeans have filled labour shortages in many countries. They have worked hard, saved money and thought up business ideas to take home. A net gain for all concerned. But I'm not sure that "immigration" is the right word to describe the situation of, say, Poles leaving Poland to work in Britain, often temporarily. If the EU is truly to be the United States of Europe, then a different concept is needed to describe the transfer of labour. For instance, if an American moved to Minnesota he would never say he was an immigrant from Texas.

Michael Brautigam
Cincinnati, Ohio

The expense of the law

SIR – There certainly is a desire within the legal profession to find a new model of charging for services ("Killable hour", August 30th). We recently carried out a survey of in-house lawyers (the buyers of services from law firms) and found that more than two-thirds were willing to pay more for higher-value legal services if they could pay less for lower-value legal legwork.

The biggest weaknesses regarding hourly billing that law firms should seek to address are that there is no certainty over the final cost (according to 94% of in-house lawyers), and that the arrangement provides no incentive to be quick and efficient (82%). The legal billing system will evolve and improve, but, as with most legal matters, we can be sure it will not be without a well-argued debate.

Kathryn Britten
Partner
BDO Stoy Hayward
London

SIR – I am the co-executor of an estate and have interacted with many lawyers over 16 years, during which time they produced a huge amount of excessive correspondence that I am certain would not have occurred under a fixed-fee system. The hourly billing structure benefits only lawyers and people with deep pockets.

Mandy Guttman
Toronto

SIR – I am reminded of an old joke. A successful lawyer dies and arrives at the Pearly Gates, and is very angry. “Why me, I am only 57 years old?” he asks. St Peter eyes him up and down, consults the Big Book and replies: “Well, according to your billing hours you are 89.”

Paul Berkeley
Petit-Bersac, France

Egypt

Will the dam burst?

Sep 11th 2008
From The Economist print edition

Landov

With most of its people struggling, and reform blocked, Egypt faces an uncertain and possibly dangerous future

EGYPTIANS have long excelled at putting a good face on things. Four millennia ago they built temples whose towering façades and grand doorways hid dark and cramped interiors. Relief carvings depicted giant pharaohs smiting dwarf-like enemies, and showed the Nile teeming with fish and waterfowl. In reality, ancient Egypt was often invaded. Ruinous famines punctuated its years of plenty.

Today, a blinkered visitor might choose to see nothing of Egypt but posh beach resorts and gleaming factories, and hear of little but strong economic growth and a stable, secular government committed to reform. In the Smart Village, a campuslike technology park on Cairo's western outskirts, construction cranes glint in the mirrored glass of office blocks bearing multinational logos such as Microsoft, Oracle and Vodafone, as well as those of fast-expanding home-grown IT firms. Beyond its perimeter, past a strip of hypermarkets, fast-food outlets and car dealerships, stretch thousands of acres of new suburbs, complete with gated communities, golf courses and private schools. Twenty years ago, the highway that stretches 200km from there to Alexandria ran through empty desert. Lush fields now line the entire crowded, six-lane route, many planted with drip-irrigated garden crops for lucrative European markets.

But remove the blinkers, and the flood of impressions could be starkly different. A glance down one of the narrow, rubbish-strewn alleyways of brick tenements where half of Cairo's people actually live may reveal a crowd of head-scarved housewives pushing and cursing in an early-morning queue for government-subsidised bread. Such daily humiliations are punctuated by bigger tragedies which, all too often, prove to be the consequence of government negligence. Earlier this month a cliff collapsed on the eastern edge of the capital, hurling giant boulders into a warren of flimsy slum dwellings that had been erected, illegally, in defiance of dire warnings that the site was unsafe. The rockfall buried dozens, perhaps hundreds, of residents alive. Locals complain that long-promised alternative housing had been given to friends and relations of government officials, rather than the needy.

The fact is that most of Egypt's 75m people struggle to get by, their ambitions thwarted by rising prices, appalling state schools, capricious judges, a plodding and corrupt bureaucracy and a cronyist regime that pretends democracy but in fact crushes all challengers and excludes all participation. The visitor might well conclude that by damming up the normal flow of politics, Egypt's rulers risk bringing on a deluge. Given rising resentment against the government and a generation-long resurgence of religious feeling, and given the simple fact that Hosni Mubarak, Egypt's president of the past 27 years, is now 80 years old with no clear successor, it takes little imagination to conjure up an Islamic-tinged revolution sweeping away the autocratic state created in the wake of Egypt's last big dynastic upheaval, the officers' coup of July 1952 that overthrew King Farouk. Considering Egypt's position as the most populous, politically weighty and geographically pivotal Arab state, the ripples could spread wider, too, upsetting the region's already fragile power structure.

Such visions seem to be common these days. A recent book in English carries the subtitle "The Land of the Pharaohs on the Brink of Revolution". Another, in Arabic, simply titled "The Final Days", sports a scowling caricature of President Mubarak on its cover. "This regime is clinically dead and we merely await its funeral," writes the author, Hamdi Qandil, a prominent Egyptian journalist and critic of the regime. "All paths for peaceful and gradual change are blocked," he concludes. "The only course left is civil disobedience."

Many Egyptians appear to have adopted this advice of late. Spontaneous protests have erupted with alarming regularity, ranging from factory strikes to land disputes to urban riots over food prices that have risen even faster than the current, unnerving overall inflation rate of 23%. So far such outbursts have remained disjointed and localised, allowing the government to parry them with a mix of carrots and sticks. Brutal policing has silenced some activists. Wage increases—such as a 30% rise for government workers in May—and a promised widening of state subsidies for essential goods have soothed a few tempers. Yet the common refrain in Cairo salons is of how similar the mood is to the pre-revolutionary atmosphere of 1952.

Then, as now, the gap between a very rich few and the teeming mass of have-nots seemed to yawn ever wider. Then, 2,000 vast estates occupied half of Egypt's fertile land, while millions of illiterate peasants toiled as sharecroppers. Today, 44% of Egyptians still count as poor or extremely poor, with some 2.6m people so destitute that their entire income cannot cover basic food needs, let alone other expenses. Yet ranks of private jets clutter Cairo's airport. The flower arrangements at a recent posh wedding, where whisky flowed and the gowns fluttered in from Paris and Milan, were reputed to have cost $60,000 in a country where the average wage is less than $100 a month.

The band of Brothers

Lurking in the background then, as now, was the shadowy force of the Muslim Brotherhood. Having helped prepare the ground for the 1952 coup, the Brothers may have expected reward from the army officers in charge. Instead they were hounded and imprisoned, and allowed to resurface in Egyptian politics only 30 years later. Their suppression radicalised some Islamists, helping spread jihadist ideas such as those that inspired al-Qaeda. Yet the core of Brotherhood supporters remained committed to a strategy of peaceful change.

Since the 1980s the Brotherhood has emerged as the strongest force in a political opposition mostly made up of tiny, fractious parties. It captured a fifth of parliamentary seats at the last elections, in 2005, and would have taken more without blunt police intervention at the polls. That success so irked the government that, in the interim, it has moved again to squeeze the Brotherhood. Aside from changing the constitution so that it formally banned parties based on religion, it has mounted repeated campaigns of arrest and harassment, including confiscation of business assets. Having postponed municipal elections scheduled for 2006 until earlier this year, the regime simply disqualified all but a handful of Brotherhood candidates. The ruling National Democratic Party ran unopposed in 80% of districts, winning all but 1,000 of the 52,000 seats. Voter turnout was reckoned at less than 5%, reflecting widespread disgust with the charade.

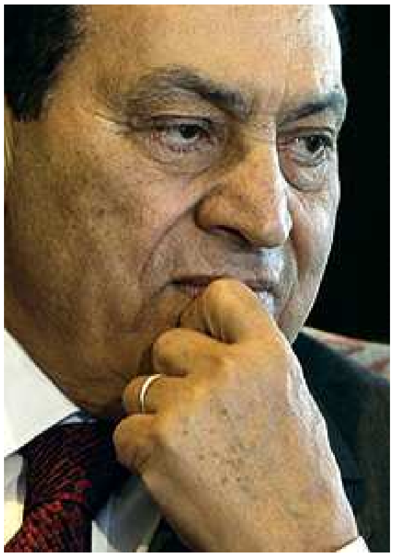
Yet the Brotherhood displays some of the same flaws as its oppressors. Its leadership is also ageing and opaque, and has proved slow to respond to events. Recent changes in its hierarchy, arranged behind closed doors, have seen the promotion of conservative ideologues at the expense of younger reformers.

AP

Perhaps more important, the Brotherhood's diminishing capacity to deliver benefits to constituents has prompted pragmatists, the probable silent majority in a country with an incomparably long and justifiably sceptical political memory, to look elsewhere for patronage and protection. And there is another clear obstacle to the Brotherhood's progress. The 10% Coptic Christian minority, made nervous anyhow by sporadic outbreaks of sectarian violence, wholeheartedly rejects the Brothers, while fear of further sectarian unrest makes many Muslim Egyptians wary of them, too.

But if most Egyptians appear to prefer evolution to revolution, there is no clear trajectory. The government itself, a behemoth with 6m employees, appears divided. Its ministries sound like those in other states, but many are run like medieval fiefs. The army, police, secret police, justice, the lucrative petroleum industry and foreign relations fall under the purview of the presidency, which tends to view all of them through a prism of state security and regime survival. This relegates to the hard-working prime minister, Ahmed Nazif, a diminished portfolio restricted to economic and social policy.

Since his appointment in 2004, Mr Nazif and his team of technocrats, many of them Western-educated businessmen, have enacted long-delayed economic reforms. A dramatic slashing of tariffs and taxes, along with crucial changes to investment rules, has helped push the overall growth rate from below 4% to above 7%. Exports have more than doubled, from $9 billion in 2003 to $24 billion last year, with trade volume growing from 46% to 66% of a GDP that is expected to top $150 billion this year. Revenues have been boosted not only by high oil prices and the coming on stream of sizeable gas exports but, more significantly, by a doubling of income from the Suez Canal, a surge in industrial exports and a doubling of tourist arrivals, which reached a record 13m last year. With Cairo's stock index soaring (at least until a recent summertime slump, in line with the rest of the world), with exchange rates holding steady and property values booming, foreign direct investment has also accelerated, reaching $11 billion in 2007—five times the 2004 level—and a probable similar amount this year.



Mubarak ponders his successor

Cars and bread

Many complain that while Egypt's industrialists have profited mightily, new wealth has failed to trickle down. Unskilled wages do remain dismally low, yet plenty of evidence points to broadening prosperity. Sales of private cars, for instance, have quadrupled since 2004 as a whole new class of Egyptians has taken to the ever-more-clogged roads. Franchise outlets sprout not only in wealthy parts of Cairo, but in dowdy provincial towns where state-run department stores once offered the only dusty glimpse of glamour. Amid a claimed fall in unemployment from 11% to just over 8% between 2003 and 2008, shortages of skilled labour have rapidly boosted white-collar wages. Indeed, some businessmen reckon that the biggest damper on growth just now is the dismal quality of Egypt's university graduates.

Although statistics in Egypt are notoriously wobbly, there are signs that some pressing social tensions have eased. Ten years ago, for instance, 63% of Egyptian men remained unmarried at 30, a frightening indicator in a tradition-bound society where marriage is seen as a prerequisite for independence and adulthood. That figure fell to 45% in 2006. This shows that the cost of marriage, which typically includes the purchase and furnishing of a house, remains prohibitive for many, but it also suggests that the level of youth frustration may be dropping. Crucially, too, for a country whose inhabited area is barely the size of the Netherlands, the rate of population growth has slowed, from 2.3% a year in the 1980s to 1.9% today.

And although Egyptians moan, with reason, about accelerating inflation, consumers have been spared the sting of global commodity-price spikes. Bread, the staple food, is still widely available at a subsidised price equal to one American cent a loaf, a fraction of its real price. Bottled cooking gas sells at one-sixth of its cost to the government. And despite a recent hike in petrol prices, a litre still costs one-eighth of its average price in Europe.

Prices for other goods are still surging, but the government, made jittery by the ugly public mood, does try to help. To pay for May's 30% wage rise, it raised taxes on non-essential items such as cigarettes and luxury cars and put up energy costs for power-intensive industries. A proposed new property tax will exempt most householders, targeting only the relatively well-off. In an effort to hold down local prices, rice exports have been banned.

Whittling at freedom

But the government's relative nimbleness on the economy has not been matched on other fronts. The crackdown on the Muslim Brotherhood comes in the context of a broader shift towards greater authoritarianism, and in direct contradiction to promises of political reform. Before he started his fifth term in office, in 2005, Mr Mubarak promised more democracy. But despite some advances, for instance in allowing a more critical, privately owned press to flourish, his regime has systematically whittled away civic freedoms.

In May, for instance, the government abruptly extended for two years the official state of emergency, saying that new antiterrorism laws were not yet ready. The emergency laws, which are meant to be applied only against violent threats to the state, have in fact been wielded against every manner of dissent. In one form or another they have been in force for all but three of the past 50 years. More recently, in an effort to tackle the indiscipline and deaths on Egyptian roads, the government passed a traffic law that applies stiff fines and prison sentences for minor infractions. The public is outraged at the higher bribes that police now command.

Despite the occasional disciplining of officers, the regime's security forces operate with scant accountability. Charges of torture are commonplace. Court action is slow, and subject to both manipulation from above and bribery from below. Citizens therefore resort to private vendettas and the state resorts to security measures, such as sending in riot police, rather than social policies to make things better.

In May the American president, George Bush, raised hackles by declaring, in the resort boomtown of Sharm el-Sheikh, that Egypt had disappointed hopes that it might lead the region in democratic reform. "Too often in the Middle East," he intoned, "politics has consisted of one leader in power and the opposition in jail." His host disdained to listen to the speech, and even many of Mr Mubarak's Egyptian critics bristled at being lectured by a singularly unpopular Western leader. Yet many admitted, too, that Mr Bush was on target, especially considering that Ayman Nour, a young, secular politician who was the distant runner-up to Mr Mubarak in the 2005 presidential election, has languished in jail ever since, on flimsy charges of forgery.

The displeasure signalled by Mr Bush reflected another fact. During his administration Egypt's relations with the United States have sunk to their lowest point since the 1973 war with Israel. This reflects not just a shift in American attention towards other parts of the region, and American ire at Egypt's ugly human-rights record, but also Egyptian annoyance over policies such as the invasion of Iraq and the Bush administration's uncritical embrace of Israel. Diplomats on both sides downplay differences, ascribing recent bitterness to the kind of sharp words exchanged between friends. Yet Egypt now has few supporters in Washington. Its influence in the region is also diminished. Egypt has recently struggled simply to effect a ceasefire between Israel and Hamas, the Palestinian Islamist party that seized power last year in neighbouring Gaza, or to calm the squabbling Palestinian factions.

Since he has been in office, Mr Mubarak has cleverly used the occasional sign of difference with America to bolster his nationalist credentials, while using Egypt's regional weight to please Washington. Such *legerdemain* is no longer possible. What concentrates both American and Egyptian minds just now is not what Egypt's president will do, but what happens after he goes.

This, understandably, is a staple of Cairo conversation. Government spokesmen point to rules that call for elections within 60 days of the presidential office being vacated. The constitution's finer print stipulates that candidates can come only from parties that are legal, have held parliamentary seats for at least five years and can garner signatures from hundreds of elected local officials.

The only party that can easily fulfil all these criteria is Mr Mubarak's National Democratic Party, which might then choose, for the sake of window-dressing, to endorse a few rival candidates from the handful of weak secular parties. There is little doubt who the NDP would choose for its own presidential ticket. The party's vast patronage network, which began as a legacy of one-party rule in the socialist 1960s, has been slowly taken over by a newer breed of businessmen loyal to Mr Mubarak's 44-year-old son Gamal, who chairs its policy committee.

A murky succession

Yet although the younger Mr Mubarak has been an earnest champion of economic liberalism, the word among Cairo's chattering classes is that he lacks popular appeal, representing precisely the business elite that ordinary Egyptians have come to loathe. More important, it remains an open question whether Gamal Mubarak has the support of the army, police and intelligence services. Some assert that this "deep state" would not countenance an inherited presidency, preferring instead to promote a more trusted figure from within, in a Putin-like shift to ungloved control. As yet, however, no such person has developed the kind of public profile that might be expected of a likely contender. Indeed, one of the reasons for the elder Mr Mubarak's endurance, aside from his aversion to risk, has been his skill at sidelining potential rivals and playing the various security branches against each other.

In another country, the murkiness of the succession, at such a time of severe social strain, would be a cause for grave alarm. Many Egyptians are, in fact, worried. Yet the consensus is still that, in line with previous transitions between Egyptian presidents, serious unrest is not likely to accompany the change, whether it is brought about by the rules, or in breach of them. The security establishment, assuming it remains unified, is large and ruthless. The frailty of Egypt's economy, with its reliance on tourism and foreign investment, makes a powerful argument for pursuing continuity rather than taking radical departures. And the mix of Egypt's geostrategic importance with its weakness suggests that it could continue to rely on generous foreign patrons.

The country's future administrators may be tempted to make populist gestures, and would likely reap a quick reward of loud public relief, after too long under familiar rule. They might even opt for a tactical alliance with the Muslim Brotherhood. But the fact is that, whoever runs Egypt, the task of housing, feeding and schooling all those millions, let alone overhauling the country's myriad crumbling institutions, will leave little energy for other adventures. No wonder that most Egyptians, when asked what is in store for their country, tend to use the open-handed shrug with which they meet life's daily mysteries, and invoke the protection of God.

Evangelical voters

The born-again block

Sep 11th 2008 | WASHINGTON, DC
From The Economist print edition

The Democrats are having a lot of trouble wooing evangelical voters

Reuters

AS BARACK OBAMA and John McCain move into the final two months of this longest of elections, white evangelical or "born again" Christian voters are being fought over more fiercely than at any time in modern history. Both parties employ evangelical outreach specialists. Both are spending a lot of time courting evangelical leaders. And both are holding meetings with "values voters" to try to reassure them.

The Democrats have at last realised that it is foolish to write off a group that makes up an astonishing 23% of the population. In 1988 Michael Dukakis could hardly bring himself to speak to evangelicals. This year all the major Democratic candidates have cuddled up to them. Mr Obama says that he is "somebody who really has insisted that the Democratic Party reach out to people of faith". His staff has already conducted more than 200 "American values forums" or faith-themed town-hall meetings. The aim, of course, is not to win the evangelical vote: merely chipping away at such a monolith could be hugely useful.

The Democrats have had good reasons for thinking that they may be able to make inroads. Many evangelicals are disillusioned with George Bush: polling by the Pew Research Centre shows that less than half of white evangelicals (47%) approve of his performance compared with 48% who disapprove. (All polls quoted in this article are by Pew unless otherwise stated.) The 2006 mid-term election was terrible for the evangelical right. Its heroes, like Rick Santorum in Pennsylvania and Kenneth Blackwell in Ohio, went down in flames. The Democrats have recruited muscular Christians of their own, including Tim Kaine and Ted Strickland, governors of Virginia and Ohio respectively.

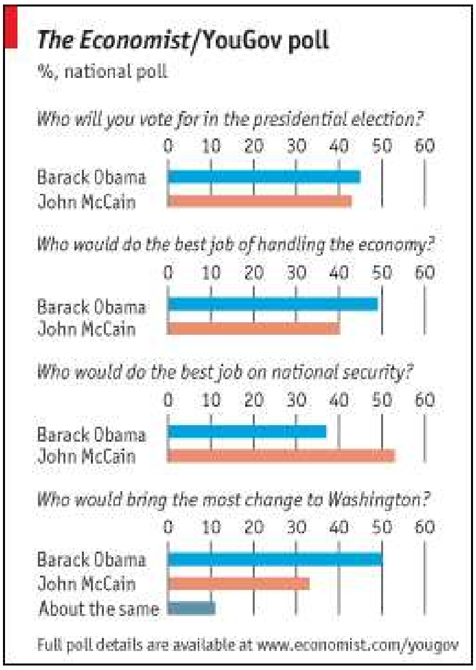
Many evangelicals have also long been uncomfortable with Mr McCain, a man who cannot decide whether he is an Episcopalian or a Baptist. Mr McCain denounced Pat Robertson and Jerry Falwell, two veteran evangelical leaders, as "agents of intolerance" in 2000. This time round, he first courted and then rejected the support of two prominent evangelicals, John Hagee and Rod Parsley. The only thing that the evangelical leadership could agree on during the Republican primaries was that they wanted anyone but Mr McCain. Just 28% of white evangelicals described themselves as "strong" backers of him in August, compared with 57% who said the same thing about Mr Bush four years ago.

Yet even with all this going for them, the Democrats are operating in hostile territory. White evangelicals are the most Republican religious group in the country, with 62% of them leaning Republican, compared with 38% of all voters. Their support for the Republicans is higher than it was in 2000, and also higher among the under-30s than the over-30s: 64% of young evangelicals lean Republican compared with 29% who lean Democratic.

This general preference for the Republicans over the Democrats has also translated into a preference for Mr McCain (for all his faults) over Mr Obama (for all his religion-friendly rhetoric). White evangelicals in general prefer Mr McCain to Mr Obama by a margin of 44 points (the figure for Bush versus Gore in the summer of 2000 was only 30 points). Among white evangelicals who go to church more than once a week, the gap is 54 points. Much of this is driven by suspicion of Mr Obama. Only 27% of this group believe that the deeply religious senator from Illinois shares their values—a figure shaped partly by revulsion for his preacher, Jeremiah Wright, partly by the mistaken belief that Mr Obama is a Muslim, but mostly by his uncompromising support of abortion choice.

Mr McCain's biggest problem among evangelicals has been one of intensity rather than broad preference. The big question haunting the Republican Party has been whether the evangelical foot-soldiers could be bothered to do the grunt work or even turn out to vote (Karl Rove blamed Mr Bush's election squeaker in 2000 on the fact that 4m evangelicals stayed at home when they heard of young George's drunk-driving conviction). But over the past month or so Mr McCain has dramatically revved up the evangelical base.

Mr McCain has been laying the groundwork for this for some time. He appointed Marlys Popma, the former head of Iowa Right to Life, to run "religious outreach" in late 2006. He visited Billy and Franklin Graham in North Carolina, and Mr Falwell at Liberty University in Virginia. But three events supercharged his support among evangelicals.



The first was his appearance at Saddleback, a church run by the most popular evangelical in the country, Rick Warren. Mr McCain impressed the audience with his snappy answers and engaging anecdotes. Equally, Mr Obama disappointed them by being evasive about when he thinks life begins. Then came the publication of the Republican platform, a document that is considerably more conservative than it was four years ago, and which is notably uncompromising in its hostility not just to abortion and gay rights but also to stem-cell research.

But Mr McCain's biggest coup by far was picking Sarah Palin as his running-mate. Mrs Palin is an evangelical convert—she was born a Catholic—who is deeply-rooted in the evangelical subculture. Her eldest son, Track, has a tattoo of the "Jesus fish" on his calf. She has pronounced opinions on abortion, gay marriage and creationism. The news of her selection was greeted with standing ovations from leaders of the religious right and near-hysteria on Christian radio stations.

Can Mr McCain ride an energised evangelical base into the White House? He is certainly much better off now than he was a month ago, before the evangelical surge. But he nevertheless confronts two big problems. The first is that evangelical issues have less resonance with the general public than they did in 2004. There has been a decline in support for traditional morality, an uptick in hostility to the involvement of the church in politics, and an increase in support for social welfare. Catholics in particular are shifting back into the Democratic camp. The second is that Mrs Palin and her supporters may energise America's secularists while also putting off swing voters (who are likely to be troubled by Mrs Palin's hostility to abortion even in cases of rape and incest). The big problems now facing Mr McCain may not be too little enthusiasm among evangelicals, but too much.

Voting machines

A farewell to chads

Sep 11th 2008 | PHOENIX
From The Economist print edition

Ballots and voting machines are getting better, but still have a fair way to go

RICHARD SMOLKA smiles as he talks of a ballot he heard of in Oklahoma. Election officials, he claims, reprinted a proposed new town charter in its entirety on the sheet, making it seven feet long and packed with tiny type. Mr Smolka, a retired professor and editor of a newsletter on the election business, is not the only one with a ballot-design horror story at the conference of the International Association of Clerks, Recorders, Election Officials and Treasurers.

This year tales circulated of fill-the-bubble ballots that failed to make it clear which bubble corresponded to which candidate, and candidates' names printed in "squashed" text. One ballot in Nebraska seemed to suggest that voters had to write in their preferred candidate, even if he was elsewhere on the ballot. If they did, they spoiled their vote.

Since the debacle of Florida's presidential election in 2000, states have spent $2 billion of mostly federal money to improve voting equipment and procedures. Almost gone are the punch-card ballots that produced the "hanging chads" of 2000. Now most counties use optical-scan ballots, on which voters mark their candidate's name on cards which can then be read by machines, or electronic touch-screen devices.

But voters are still led astray. A recent study from the Brennan Centre for Justice in New York reckons that tens, perhaps hundreds, of thousands of votes are lost nearly every election year because of poorly designed ballots. In 2000 the infamous "butterfly" ballot in Palm Beach County probably led some 2,000 Democrats to vote unintentionally for Pat Buchanan, a conservative populist. George Bush beat Al Gore in the state by just over 500 votes.

The problem persists, Brennan's researchers say: a tenth of the votes were thrown out in Kewaunee County, Wisconsin, in 2002, when the candidates for governor were listed in two different columns. With over 15m registered voters in counties that have new voting systems this year, even better-designed ballots may seem confusing in November.

Counties often make their own ballots; some will do it better than others. This also makes fixing bad ballots difficult. Sometimes well-meaning state laws cause trouble, requiring lots of extraneous information on ballots, and preventing local election officials from voluntarily adopting a standard national design.

Without the cudgel of a federal mandate, AIGA, a design-industry association, and the Brennan Centre have each nevertheless put together some guidelines. Counties should not, for example, squash different contests together in the same column. Nor should they print names all in capital letters, or cram all the instructions at the top of the ballot.

It is too late now to change voting machines, but ballots could be adjusted before November. Just spending a little more on paper might avoid a recount.

Books in Wyoming

Why cowboys read

Sep 11th 2008 | CHEYENNE
From The Economist print edition

The land of mountains and cattle boasts some of America's best public libraries

BURNS is a tiny town in southern Wyoming surrounded by wheat fields and ranches. It has a school, a water-tower and barely a dozen roads. As in many towns of its size, Burns's Main Street is somewhat run-down. But it does contain one thriving, well-lit place. This town of just 300 people has a public library containing 11,500 books.

America's libraries are faring surprisingly well in the internet era. Circulation has been rising steadily for the past few years, according to the National Centre for Education Statistics. Libraries are especially thriving in the conservative rural heartlands. The average Wyoming resident checked out nine books in 2005-06, compared with an average of five in California and two in Washington, DC.

Laramie county's libraries are the best of an excellent lot. Their flagship is a three-storey, zinc-clad edifice in Cheyenne, a town best-known for its annual rodeo. In addition to a third of a million volumes, the building contains well-equipped meeting rooms and computer labs. It has a large area oriented towards teenagers which is often busy, in part because of the librarians' tolerant attitude to food. In all, about three-quarters of Laramie county's 86,000 residents hold library cards.

The collection is skewed towards local interests. There is a lot of Christian fiction, as well as volumes on truck repair. Books on tape and CD are popular—not surprising in an area where people routinely drive great distances. The branch library in Burns has plenty of agricultural books, including one called "Small-Scale Pig-Raising". But the libraries' collections are not altogether predictable. Burns's library also possesses five novels by Margaret Atwood, a Canadian feminist writer.

The central library runs book clubs for home-schooled children and teenagers, which are well-attended. "They want any vampire books they can get their hands on," says Beth Cook of the teenagers. Other staff run a bookmobile and do the rounds of schools and day-care centres. They see this as a service to children who may not otherwise see many books. But it is also, explicitly, a way of marketing the library to a new generation.

This attention to outreach and meeting local demands is partly the legacy of a long campaign to build Cheyenne's library. In 2003, after more than ten years' work, the librarians managed to put an initiative on the county ballot that allocated $27m in additional sales taxes to the new building. Tax increases are always a tough sell in Wyoming, so the librarians were forced to find out exactly what the people of Laramie county wanted for their libraries, and give it to them. In southern Wyoming, at least, an excellent library system was not built in the face of resistance to public spending. The interesting truth is that it is excellent precisely because of it.

Nimbyism

Train wreck in suburbia

Sep 11th 2008 | CHICAGO
From The Economist print edition

China quietly builds, America noisily deliberates: why Barrington is not Beijing

CHINA, as anyone with a television now knows, builds big. This can have a huge human cost. For the Olympics, neighbourhoods were razed and families displaced. America, by contrast, scarcely builds at all, investing 2.4% of GDP in infrastructure compared with 9% in China. And on the rare occasions when projects are suggested, they are often met with noisy outrage.

Take the suburbs of Chicago. Barrington, Illinois is not Beijing. Last year Canadian National Railway (CN) announced that it would buy a suburban railway, an effort to divert freight traffic from Chicago. But in trying to avoid the Charybdis of the city, CN met the Scylla of suburbia. The Surface Transportation Board (STB), which must approve the deal, has never seen such outcry. On August 27th hundreds protested in Barrington. On September 9th the fight moved to Washington for a congressional hearing. A new bill would make it harder for the STB to approve a merger that does any local damage. Some call it nimbyism; others, democracy.

America has long struggled to balance local objections with broader goals. In the middle of the 20th century Robert Moses, New York's master-builder, ruthlessly uprooted thousands. The fight in Chicago's suburbs is an example of the other extreme. Many suburban residents fear that CN will change their quality of life. Karen Darch, Barrington's village president, argues that road traffic will increase and that ambulances and fire-engines could be forced to wait while long trains pass.

Supporters argue that the merger has broader benefits. Although some 30 communities would see more freight traffic, twice as many, including crowded parts of Chicago, would see less. Freight investment is also sorely needed, explains Joseph DiJohn of the University of Illinois at Chicago. The city remains America's hub for moving goods, but congestion threatens further growth. A train can take more than 24 hours to pick its way through Chicago. This is likely to get worse. Demand for freight rail in the region is expected almost to double within 20 years.

Efforts to solve this problem have moved slowly. CREATE, a public-private partnership, has a plan to spend $1.5 billion on local rail projects. So far the group has raised less than $300m of that. Acquiring the railway, explains Karen Phillips, a vice-president at CN, is a private-sector remedy that would allow the company's trains to move through the region more quickly and begin to ease congestion.

The STB is likely to issue its verdict by early next year. In its long review, the board considers everything from whether the deal threatens railway competition to whether it might increase noise or harm the eastern prairie fringed orchid (unlikely). But five Illinois representatives have joined others in Congress to argue that the STB is not doing enough to consider the impact on local communities. Their bill, the subject of the hearing on September 9th, would change this. It is not without opponents. Joe Schwieterman, a professor at DePaul University, testified that the bill would have its own unintended consequences, favouring local interests over regional ones and possibly discouraging private investment.

If the board approves the deal, who will pay for mitigating its effects? The federal government usually foots most of the bill; unfortunately, it has little cash. Ms Darch and others want CN to cover more of the cost. So expect further protests.

In Chicago itself, a bigger test looms. If the city wins its bid to host the Olympics in 2016, it will have to balance its plans with the legitimate concerns of residents on the South Side, who have already seen lots of redevelopment. The quest for the common good is imperfect, but at least it is noisy.

Airport slots

Unfriendly skies

Sep 11th 2008 | NEW YORK
From The Economist print edition

The government's flight plan is temporarily grounded

Reuters

ANYONE travelling to or from JFK, Newark, or LaGuardia, the New York area's three main airports, is probably used to long delays and frequent cancellations. These airports carry 109m passengers and 2.7m tons of cargo annually, and are disproportionately responsible for jamming up America's airways. A congressional committee estimated that flight delays cost America over $40 billion last year. Almost a third of all flights were delayed or cancelled, and three-quarters of these delays originated in the New York area.

Weather is certainly part of the problem, but having too many aeroplanes in too little sky is the main reason for the congestion. Despite recently adding more caps on the number of flights landing or departing per hour, the Federal Aviation Administration (FAA) says the caps are not helping enough. So it has proposed a number of new ideas.

The most controversial is the auctioning of flight slots. The FAA, which regulates the aviation industry, is an agency of the Department of Transportation (DOT). The DOT insists its plan would help reduce congestion significantly. Part of the plan would compel airlines to give up 10-20% of their slots for auction.

The Air Transport Association (ATA), a trade group representing the airline industry, filed a lawsuit last month to block the auctions. The governors of New York and New Jersey oppose the plan too. They worry that it will cause as many as 25 smaller airports to lose their service to and from New York. The Port Authority of New York and New Jersey, which manages the three airports, joined the lawsuit, claiming the FAA lacks the legal authority to conduct the slot auction. It also claims ticket prices would rise by 12% as airlines passed along the cost to their customers of acquiring the slots, said to be each worth hundreds of thousands of dollars.

The Port Authority instead wants the FAA to adopt some of its own proposals, which range from permanently reopening closed military airspace to civilian use to investing in new air-traffic-control technology. It has threatened to block airlines that win auctioned slots from using its terminals. The FAA counters that the airports could lose more than $27m in federal funding if they do that.

The FAA's argument is that landing fees make up only a small part of ticket prices, and that the proposed auctions will increase competition and push down prices. Furthermore, the funds generated by the auctions will be used to reduce delays and enhance capacity at the airports.

The first auction was supposed to have taken place on September 3rd, with more to follow by the end of the year. Because of the dispute, that first auction has not yet been held. What with the court case, not to mention the fact that the next generation of air-traffic-control systems are still at least ten years away, passengers should continue to expect delays.

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UNITED STATES

Slow food

Revolutionaries by the Bay

Sep 11th 2008 | SAN FRANCISCO
From The Economist print edition

If America is what it eats, then at least one part of it has changed

Illustration by Peter Schrank

TOURISTS who took a wrong turn on their way to San Francisco's cable car recently were in for a shock. There, between City Hall and other government buildings, a temporary organic garden had sprung up. Around it bustled a farmers' market. Healthy-looking people were sampling local hams, heirloom tomatoes and raw-milk cheeses.

And thus the Slow Food movement, founded two decades ago in Italy, officially arrived in America, the home of fast food. For several days there were taste pavilions here and slow hikes, slow picnics and slow dinners there. Chefs demonstrated their craft and put the footage up on YouTube. The world's food celebrities weighed in on everything from the global food crisis to the role of food in the presidential election.

Perhaps most noteworthy was how many of these celebrities are now American and, more precisely, from the San Francisco Bay Area. The country at large may still be obese and recovering from its latest food scare, a salmonella outbreak that was never properly traced. But the Bay Area considers itself a mecca of farmers' markets, organic growers and discriminating eaters.

Michael Pollan from nearby Berkeley, the author of "The Omnivore's Dilemma" (the movement's little red book) called the event a "coming-out party for the food movement in America". Alice Waters, who in 1971 founded the fabled restaurant Chez Panisse, also in Berkeley, said it was time to "bring food back into the culture", meaning not just the home but public education and politics.

Carlo Petrini, the Italian gourmet who is the doyen of the global Slow Food movement, also pitched in. "I'm paying lots of attention to the US," he said. In the past, "when I visited Alice everybody told me that Slow Food can't work in the US, that everything must be fast." And yet, he said, America, not Europe, is today at the cutting edge of his movement.

Ms Waters added that "35 years ago, I was bringing seeds from France to California. Now I'm bringing seeds back to my friends in France." Mr Pollan agreed: the Europeans are "defending a food culture, we're building one." And that includes much more than eating well. Mr Pollan sees a "coalescing of many groupings", from people who want to see third-world farmers paid properly to local farmers and consumers who are "voting with their fork". Berkeley may hatch revolution yet again. Only now it does so on a base of grilled Marin Sun Farms grass-fed beef rib-eye served with chanterelle mushrooms.

Swing states: Wisconsin

Of beer and bikers

Sep 11th 2008 | KIMBERLY AND MILWAUKEE
From The Economist print edition

John McCain faces a tough fight among the cheeseheads

TAMMY WYNEN stands near the back of a crowd outside a paper mill in Kimberly, Wisconsin. At a bank of microphones, speakers rail against Adam Smith; one, from the United Steel Workers, literally blames "The Wealth of Nations" for the mill's impending closure. Many also hint that the soon-to-be unemployed mill workers should vote for Barack Obama in November.

But Mrs Wynen, a 27-year veteran of the paper mill, is not so sure. She cannot remember the last time she saw Mr Obama recite the pledge of allegiance. And her family loves Sarah Palin, John McCain's new running-mate. Her children have lines from Mrs Palin's convention speech off pat. Still, Mrs Wynen says she doesn't know who she will vote for. The candidates look poised to spend a lot of time and money in Wisconsin wooing her.

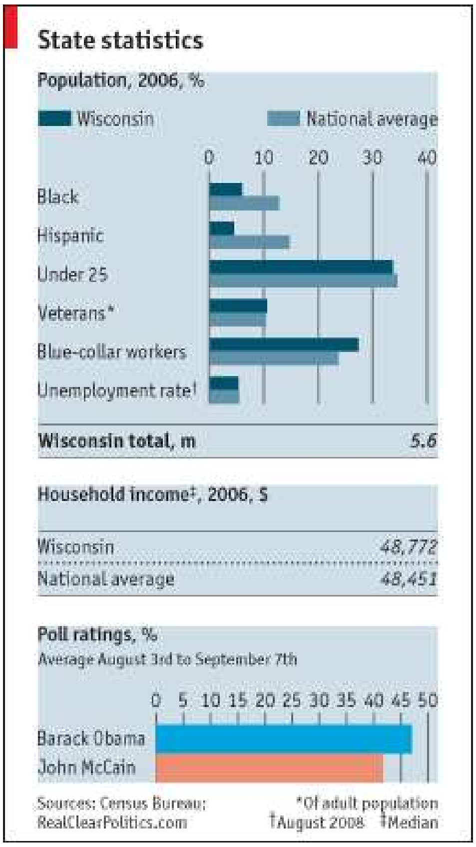
Wisconsin is best known for its dairy products and its love of American football. The Packers, a team from the small city of Green Bay, claim some of the sport's most obsessive fans, known as "cheeseheads", a term also used to denote Wisconsans generally. But among politicos, Wisconsin is the swing state that has failed to swing.

Earlier in the last century, the state was at the heart of America's Progressive movement, enacting liberal social reforms such as compensation for injured workers before the rest of the country did. But Wisconsin pioneered conservative welfare reform in the 1990s, and its voters now plainly prefer divided government on the state level: Wisconsin currently has a Democratic governor, Jim Doyle, and a Republican-controlled state Assembly. And they have split almost exactly evenly when it comes to the presidency. Al Gore took the state by only 5,700 votes in 2000, and John Kerry won it by 11,400 in 2004—0.2% and 0.4% of the vote, respectively. The margins were a lot closer than those in nearby Michigan, which gets a lot more attention.

This time Mr McCain seems intent on finally turning Wisconsin red. His first stop after leaving the Republican National Convention was in Cedarburg, a town just outside Milwaukee, the state's biggest city. The Obama campaign countered this week with a visit from Joe Biden to Green Bay. Polls in July showed Mr Obama with an 11-point lead, but they narrowed significantly in the beginning of August. The latest, a Strategic Vision poll taken just after the Republican convention, has Mr Obama's lead down to three points, though the average is still more like five. A win for Mr McCain in Wisconsin could offset the loss of Virginia or Colorado, states that used to be safe for the Republicans.

To win Wisconsin, Mr McCain will have to turn out lots of Republican voters in the suburbs north and west of Milwaukee, a belt of towns where residents pride themselves on their German heritage and their hilltop Catholic basilica. The area is filled with conservatives such as Cheryl Houswirth, who packed in with an overflow crowd to see Mr McCain and Mrs Palin speak in Cedarburg. "Clinging to guns and religion—we're those people," she explains, before the crowd begins chanting, "Sarah, Sarah, Sarah!" With Mrs Palin on the ticket, Mr McCain's job of turning out the base there will be a lot easier.

Liberal Milwaukee, however, helps balance its conservative suburbs. A city of some 600,000, it was once the home of four large American breweries, only one of which (Miller) still operates there. "Brew City" still boasts a sizeable manufacturing sector—Harley-Davidson is based in Milwaukee—and Democratic-leaning ethnic enclaves. Remnants of Wisconsin's labour unions also tilt factory towns like Janesville in the south, where GM is shutting a big assembly plant, towards the Democrats. The only place in Wisconsin more liberal than Milwaukee is Madison, the state's capital and home to the main campus of the University of Wisconsin.



The battlegrounds lie elsewhere, such as in the Fox River valley south-west of Green Bay. The area has manufacturing towns (like Kimberly) and is heavily Catholic. It voted for George Bush in 2004, but it also plumped for Bill Clinton in 1996 and sent a Democrat to Congress in 2006. The local paper industry has been volatile lately, which could help Mr Obama this time. But he has had difficulty elsewhere winning over Catholics and white working-class voters, though the addition of the Catholic Joe Biden to his ticket may help.

Just south of Milwaukee, meanwhile, Racine and Kenosha Counties are changing from being industrial zones into exurbs of Chicago, making them populous swing territory. Also competitive are the rural counties along the Mississippi River in the west, Wisconsin's dairy-land, where populism seems to drift over the border from Minnesota. Mr Kerry narrowly won much of this region, a rare case of the Democrats holding onto their historical edge in a rural zone in a presidential race.

Mr Obama has some advantages. Much-publicised factory closures and the agitation of labour unions will focus minds on his economic message. And with George Bush's approval ratings abysmal and the war in Iraq very unpopular in Wisconsin, Mr Obama has reason to think he will do better there than Mr Gore or Mr Kerry did.

Still, past Democratic victories have depended on the support of blue-collar whites and rural voters, the folks Mr McCain hopes to pluck from the Democrats this year. The addition of Mrs Palin, meanwhile, may help with women. At any rate, it seems that she has almost won Mrs Wynen's vote.

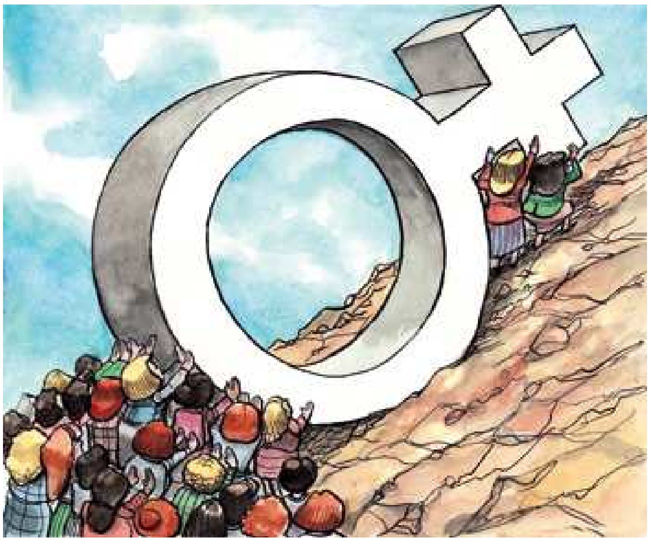
Lexington

The triumph of feminism

Sep 11th 2008
From The Economist print edition

America's feminists may have lost a battle or two. But they are winning the war

Illustration by KAL



THIS was supposed to be the year in which America's feminists celebrated the shattering of the highest glass ceiling. They had the ideal candidate in Hillary Rodham Clinton, a woman who had been tempered in the fires of Washington. And they had every reason to think that she would whip both the young Barack Obama and the elderly John McCain.

But it was Mrs Clinton who got the whipping. She not only lost an unlosable primary race. She was dissed and denounced in the process. Chris Matthews of MSNBC said that she owed her Senate seat to her husband's infidelity. One lobbyist created an anti-Hillary pressure group called Citizens United Not Timid. A couple of young men ordered her to "iron my shirt". Mr McCain, whom she regards as a good friend, looked on benignly when a Republican asked him "How do we beat the bitch?"

Mr McCain's choice of Sarah Palin as his running-mate has turned the defeat into Armageddon. Mrs Palin is everything that liberal feminists loathe: a gun-toting evangelical, a polar bear-hating former beauty queen, a mother of five who opposes abortion rights and celebrates the fact that her pregnant teenage daughter has "chosen life". During her campaign for Alaska's lieutenant-governorship in 2002 she called herself as "pro-life as any candidate can be".

Gloria Steinem, the founder of *Ms* magazine, says that "Palin shares nothing but a chromosome with Clinton". Kim Gandy, the president of the National Organisation of Women, dismisses her as a "woman who opposes women's rights". Debbie Dingell, a leading Michigan Democrat, said that women felt insulted by the choice. Joe Biden says that, if Mrs Palin becomes the first female vice-president, it will be a "backward step for women". "Eighteen million cracks", says the *New Republic*, (referring to Mrs Clinton's 18m votes and the glass ceiling) "and one crackpot."

Mrs Palin's arrival on the national stage is inspiring some startling political somersaults. Some feminists claim to be outraged that Mr McCain has promoted somebody just because she is a woman. Sally Quinn, a writer for the *Washington Post*, has even argued that, given the size of her family, she cannot possibly be both a national candidate and a good mother. At the same time, conservative traditionalists are suddenly realising that they have always been supporters of mould-breaking working mothers, whatever impression they may have given to the contrary. The whole business is also inspiring plenty of speculation about the end of feminism. One group of Hillary supporters said that their heroine's defeat was like being told to "sit down, shut up and move to the back of the bus."

But is feminism really faring so badly? American women are certainly under-represented in public life. They make up less than 20% of governors and members of Congress. The number of women on the Supreme Court has recently fallen by half, from two to one, thanks to Sandra Day O'Connor's retirement. But what Ms Steinem regards as the most "restricting force" in America is nevertheless getting ever less restrictive. Some of the most culturally conservative states in the country, such as Kansas and Michigan, have female governors. In 1998 women won the top five elected offices in Arizona. Mrs O'Connor was arguably the most powerful voice on the Supreme Court for decades.

Women are also winning the most important of all gender wars—the war for educational qualifications. They earn 57% of bachelor's degrees, 59% of master's degrees and half of doctorates. And they are doing better all the time. In terms of higher education, women drew equal with men in 1980. By the early 1990s six women graduated from college for every five men. Projections show that by 2017 three women will graduate for every two men. The meritocracy is inexorably turning into a matriarchy, and visibly so on many campuses: the heads of Harvard, Princeton, MIT, Brown and the National Defence University are all women.

Boys, meanwhile, are more likely to drop out of high school than girls. They are also more likely to be consigned to special education classes or prescribed mood-managing drugs. Men are more likely to commit crimes, end up in prison, kill themselves or be murdered. Even their sperm count is headed south. The long-term result seems unavoidable: men are becoming ever more marginalised, while women are taking over the commanding heights of wealth and power.

The new Madonna

It is even plausible to argue that there is feminist-friendly news buried in the recent headlines. One reason why younger women did not coalesce behind Mrs Clinton in the same way as their mothers must surely be that they have simply become accustomed to living in a world of opportunities. On Super Tuesday, for example, Mr Obama did very well with women under 30, while Mrs Clinton won easily among women over 60. Convinced that they will see a woman in the White House during their lifetimes, they did not feel the same "fierce urgency of now" (to borrow a phrase from Mr Obama) as 70-somethings like Ms Steinem.

In her idiosyncratic way, Mrs Palin also represents the fulfilment of the feminist dream. She demonstrates that gender is no longer a barrier to success in one of the most conservative corners of the land, the Alaska Republican Party. She also proves that you can be a career woman without needing to subscribe to any fixed feminist ideology. Camille Paglia hails her as the biggest step forward for feminism since Madonna. One can argue, as we have, that it was astoundingly reckless of Mr McCain to have picked her on the basis of having once met her for 15 minutes. But if feminism means, at its core, that women should be able to compete equally in the workplace while deciding for themselves how they organise their family life, then Mrs Palin deserves to be treated as a pioneer, not dismissed as a crackpot.

Brazil

Half the nation, a hundred million citizens strong

Sep 11th 2008 | SÃO PAULO
From The Economist print edition

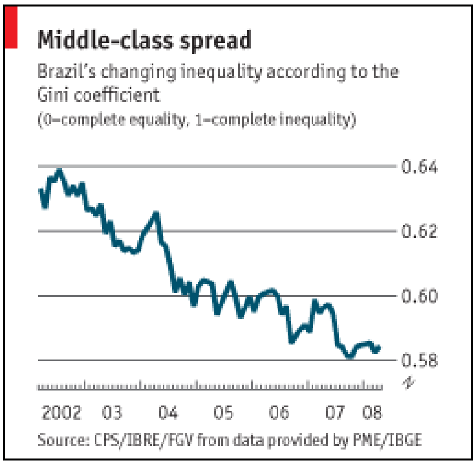
What the middle class plans to do with its money—and its votes

Reuters

EVER since it was first spotted amid the factory smoke of western Europe's industrialising nations, the middle class has borne the hopes for progress of politicians, economists and shopkeepers alike. It remains hard to define, and attempts to do so often seem arbitrary. But in Brazil, the middle class describes those with a job in the formal economy, access to credit and ownership of a car or motorbike. According to the Fundação Getulio Vargas (FGV), a research institute, this means households with a monthly income ranging from 1,064 reais ($600) to 4,561 reais. Since 2002, according to FGV, the proportion of the population that fits this description has increased from 44% to 52%. Brazil, previously notorious for its extremes, is now a middle-class country.

This social climbing is a feature mainly of the country's cities, reversing two decades of stagnation that began at the start of the 1980s. Marcelo Neri of FGV suggests two factors behind the change. The first is education. The quality of teaching in Brazil's schools may still be poor, but those aged 15-21 now spend on average just over three more years studying than their counterparts did in the early 1990s.

The second is a migration of jobs from the informal "black" economy to the formal economy. The rate of formal job creation is accelerating, with 40% more created in the year to this July than in the previous 12 months, which itself set a record. Together with cash transfers to poor families, this helps to explain why—in contrast with economic and social development in India or China—as Brazil's middle class has grown, so the country's income inequality has lessened (see chart).



Entering the middle class brings a predictable taste for yogurt and other luxuries. But when shopping, middle-class Brazilians are more conscious of status than middle-class North Americans or Europeans. "These are people who may ordinarily serve others," says Nicola Calicchio from McKinsey, a consultancy, "so being attended to by someone is very important to them." Middle-class Brazilians may avoid the glitzy stores that cater to the rich, but they do not want their surroundings to look cut-price either. That may be true elsewhere, too, but a sensitivity to surroundings—not wanting to be made to feel cheap—is particularly marked in Brazil.

Awareness of fashions and brands is still largely shaped by the nightly soap operas broadcast on terrestrial television and watched by an audience of tens of millions. Since these are for the most part produced in Rio de Janeiro and feature characters drawn from the upper-middle class, they tend to reflect a world where good-looking white people in expensively casual clothes flit around in a perpetual summer, attended by maids. This may go some way to explaining Brazil's demand for gyms and beauty products. Some 600,000 cosmetic operations are performed in Brazil annually, the highest total of any country apart from the United States.

The market for cosmetic surgery extends surprisingly far down the income scale, thanks to readily-available credit (nips and tucks can often be paid for in ten instalments). Rapid growth in credit, which was non-existent until fairly recently because of sky-high interest rates, has helped to boost the purchasing power of the middle class. Some 65% of car-purchases are paid for in instalments, over an average of 42 months. However, borrowing by individuals remains relatively low as a share of GDP, mainly because so few people have mortgages. It has also been underpinned by low unemployment and rising wages.

But the growth has been so fast—credit grew by 20% in the year to July—that some are worried. "I think if you asked all the banks individually they might say that they wish to scale back lending," says Ilan Goldfajn of Ciano Investments, "but none of them wants to lose market-share." In the meantime, riskier kinds of credit, such as overdrafts and credit cards, are growing faster than overall borrowing. Mr Goldfajn thinks it may already be too late for Brazilians to avoid a painful hangover from the current exuberance.

To the ballot box

What impact will a larger middle class have on politics? Past polling suggests people in this income bracket would tend to favour the centre-left Party of Brazilian Social Democracy (PSDB) of former president Fernando Henrique Cardoso over Luiz Inácio Lula da Silva's Workers' Party (PT).

Yet according to Mauro Paulino of Datafolha, a pollster, Lula's personal popularity and his government's social programmes have disturbed this equation. "Those who have moved up from class D to C and experienced help from the government along the way, are likely to stick with the PT," he says. David Fleischer of the University of Brasilia has calculated that PT candidates, or those allied with the party, are at present ahead in 20 out of 26 mayoral races for state capitals in next month's municipal elections.

The middle class has meanwhile reshaped the PT in its own image: the party's wilder economic rhetoric is now muted. It also has to pay attention to a group of voters that has risen into the middle class and brought with it socially-conservative attitudes towards abortion and gay marriage. But it remains ironic that this great social transformation, which has been brought about in part by greater openness to trade with the rest of the world, may end up bolstering a party that, until fairly recently, favoured autarky.

Peru and Brazil

Connecting to the world

Sep 11th 2008 | LIMA
From The Economist print edition

A president goes to market

AFP


Lula and Garcia go shopping

ALAN GARCIA seems determined to leave his presidential mark on Peru's economy—not just by implementing, with a January 1st deadline, free-trade agreements with Canada, Singapore and the United States and by negotiating future trade deals with China and South Korea, but also by cosying up to the region's economic power, Brazil. On September 18th and 19th Mr Garcia will head a deputation, including half his cabinet and more than 200 business leaders, to see Brazil's president, Luiz Inácio Lula da Silva, in São Paulo.

With luck, it will be a fruitful visit. According to Jorge Taunay, Brazil's ambassador to Peru, Brazil could become the top foreign investor in Peru in the next ten years thanks to investments in energy, mining and manufacturing (last year Brazil was the ninth biggest direct investor, with Spain leading the way at the end of the year with some $3.7 billion out of the $16.1 billion recorded in total).

Since late August, three Brazilian mining companies, Votorantim Metais, Vale and Gerdau, have each announced large investments and acquisitions in Peru. Gerdau pledged $1.4 billion on September 1st to increase production, mostly for export, at Siderperú, a steel company that it took control of two years ago for some $60m. Vale, the world's second largest mining company, has two projects under development in Peru and Votorantim has just pumped another $500m into its Peruvian zinc mill and is trying to take control of the lead, zinc and silver mine at Milpo. In addition, Brazil's state-controlled oil company, Petrobras, has tentative plans to plough nearly $3 billion into Peru over the next decade, quite apart from other state-controlled Brazilian utility companies exploring the idea of hydroelectric plants along the border between the two nations.

But Mr Garcia's strategy goes beyond inward investment: he wants to make Peru a bridge for Brazil to markets in Asia and North America. Significantly, he has invited President Lula to visit Peru when it hosts the November summit of the 21 Pacific Rim countries of the Asia-Pacific Economic Cooperation (APEC) forum. The idea is that Brazilian companies producing in Peru—such as Gerdau—would be able to take advantage of the various actual or potential free-trade agreements. One beneficiary would be Brazil's ethanol industry, which has little access to the United States, its largest natural market, because of an American import tax. By producing sugarcane-based ethanol in Peru, whose northern coast has an output of 131 tonnes per hectare, compared with the Brazilian average of 72 tonnes, Brazilian companies could gain tariff-free access to the United States.

The prospect of a bridge to Asia depends on the construction of three roads, each being built by Brazilian-led consortia, to connect Pacific and Atlantic Ocean ports. The most ambitious is a $1.3-billion highway that will link the port of Santos in São Paulo to three ports in Peru. This should be finished by the start of 2011 and will cut several weeks of travel time for Brazil's exports of soybeans and minerals. Similar roads are being planned with Bolivia and Ecuador, but neither country offers the same infrastructure as Peru. Meanwhile, as its businessmen spy the chance to supply farm exports to Brazil's western states (so saving them the cost of transport from the Atlantic coast), Peru is mounting a food festival in São Paulo ahead of Mr Garcia's arrival in Brazil. "Peruvian gastronomy", says Miguel Vega of the Peru-Brazil chamber of commerce, "is the link that will involve the people of Peru and Brazil in the strategic alliance being formed by our countries." *Buen provecho, bom apetite.*

Venezuela’s traffic

Jam today

Sep 11th 2008 | CARACAS
From The Economist print edition

The price of cheap petrol

Get article background

EVERY weekday morning, Zarhay Infante leaves home in the Caracas dormitory town of Guarenas shortly after 5am. If the journey goes well, she reaches her office in the capital, some 30km (19 miles) away, around three-and-a-half hours later. “Three years ago, when I started doing this,” Ms Infante says, “I could get to Caracas in 45 minutes on the motorway. But it gets worse every day.”

This road congestion is tribute to an economic growth which, thanks to the rise in the oil price, has averaged around 9% a year since 2004. But it is also a failure of public policy. Caracas, a city of some 2m, is crammed into a narrow valley flanked by mountains. Many of the 3m people living in the surrounding suburbs commute to the capital each day. No new major roads have been built in the Caracas conurbation since the 1970s, while in that time the number of cars in the area has risen from 200,000 to over 1.4m. In the five years from 2002 to 2007, around a quarter of a million private vehicles were added, including 70,000 in 2006 alone. The city has become gridlocked, with rush-hours replaced by semi-permanent congestion. Travelling a mere five or six blocks can take an hour, especially when it rains.

The left-wing government of President Hugo Chávez subsidises car use by keeping the price of petrol at just 4 cents a litre (a level that rivals that of Gulf states such as Kuwait). Most public transport is chaotic, antiquated and inadequate. The government has completed one suburban railway line and a third metro line (both were inaugurated ahead of a presidential election in 2006 whilst in fact the lines were still unfinished).

But the new lines have done precious little to ease the problem. Buses, metro and trains are all run by different bodies, which have never learnt to co-ordinate their schedules. Passengers typically have to change several times to reach their destination. In an agreement signed in 2007 by Ken Livingstone, then London’s mayor, some of his officials began to advise Mr Chávez’s government on urban transport in return for fuel subsidies from Venezuela for London’s buses. This scheme was cancelled by London’s new Conservative mayor, Boris Johnson, but Mr Livingstone last month agreed to work for Mr Chávez as a consultant.

Congestion is a drag on the economy. According to one economist, cutting 30 minutes from average journey times would save up to $3 billion a year. But neither the government nor the *chavista* mayor of metropolitan Caracas has come up with a plan to tackle congestion. Last year, the opposition mayors of two Caracas districts banned car owners from using their cars one day a week. Traffic eased somewhat, and the ban proved popular, if controversial. But then the courts ruled it unconstitutional. And Venezuela’s polarised politics has made co-ordinated action impossible.

Mr Chávez’s latest idea is to add an upper deck to the city’s motorways (as Andrés Manuel López Obrador, another left-winger, did when mayor of Mexico City). Experts from Shandong, a province in the north-east of China, were asked to produce a feasibility study, and the government now proposes to start work. But without other measures, an extra motorway deck will merely place yet more strain on already saturated access roads. According to the Venezuelan Society of Transport and Road Engineers, the metropolitan area urgently needs at least 100km of new roads, including the completion of a ring-road—first mooted in the 1970s.

Reversing three decades of neglect will take years, as well as political will. Meanwhile, some Venezuelans try to adapt. “I waste six hours every day in traffic jams,” says Dalila Solórzano, who commutes from Guatire, to the east of Caracas. “I try to make use of the time by listening to recorded English classes.” She seems bound to become fluent.

Venezuela and the Kremlin

The Russians are here

Sep 11th 2008 | CARACAS
From The Economist print edition

Ruling the waves

Get article background

PRESIDENT Hugo Chávez has long seen his leftist "Bolivarian" revolution in Venezuela as part of a global struggle against a world-order dominated by American imperialism. So the announcement this week that the Russian navy is to conduct joint exercises with Venezuela in the Caribbean later this year is something of a diplomatic coup. It is also a worry for many Venezuelans, who would rather their country avoid big-power politics.

The precise dates have yet to be fixed. But Russia has confirmed that it will be sending the flagship of its Baltic fleet, the nuclear-powered cruiser *Peter the Great*. In all, there will be four Russian ships, with a combined crew of 1,000, the Venezuelans say. Additionally, an unspecified number of aircraft, designed for anti-submarine warfare, will be stationed temporarily at a Venezuelan air base. Given that the United States in April revived its Fourth Fleet, disbanded since 1950, to patrol the area, Mr Chávez has a motive. So, in the timing of the announcement, do the Russians, who this week sent two bombers to Venezuela on a training mission and who are angered that the United States has just dispatched warships to deliver aid to Georgia.

Venezuela has already spent over $4 billion on Russian weaponry. This includes dozens of helicopters, 100,000 Kalashnikov rifles and 24 Sukhoi-30 fighter-bombers—among the world's most sophisticated combat aircraft. On his latest arms-buying trip to Moscow, in July, Mr Chávez said Venezuela would "raise flags, bang drums and sing songs" for the Russian fleet. Russia, he said, was a "strategic ally" and shared "the same vision of the world".

He was also quoted (though he later denied it) as offering military bases. With Russia on the lookout for opportunities to poke Uncle Sam in the eye, and Venezuela eager to acquire powerful friends, this is a "perfect alliance", says one Venezuelan foreign-affairs specialist. "Venezuela knows that under the wing of the Russians, it will be easier to manoeuvre vis-à-vis the United States and [its ally] Colombia." Or as Mr Chávez puts it, "Go ahead and squeal, Yankees."

The public response from Washington has been a barely-stifled yawn. The State Department noted that if the Russians were indeed coming, then "they found a few ships that can make it that far." This is a far cry from the 1962 missile crisis, involving the Soviet Union and Cuba. But by using the bargaining power of Venezuelan oil, Mr Chávez is certainly forging the anti-Washington alliance he dreams of.

The planning for these exercises clearly predates the outbreak of hostilities between Russia and Georgia. But despite the disingenuous claim by the Kremlin that the manoeuvres were "not aimed at any third country", it is equally clear that they form part of a global chess-game. Throw Venezuela's close ally Iran into the mix, and the region's politics suddenly start to look a lot more complicated. Mr Chávez's was one of the few governments to give full support to Russia's invasion of Georgia. He also backs the independence of the breakaway Georgian regions of Abkhazia and South Ossetia. Not to mention Iran's right to otherwise suspect nuclear technology. Like it or not, the next man in the White House will need to look south.

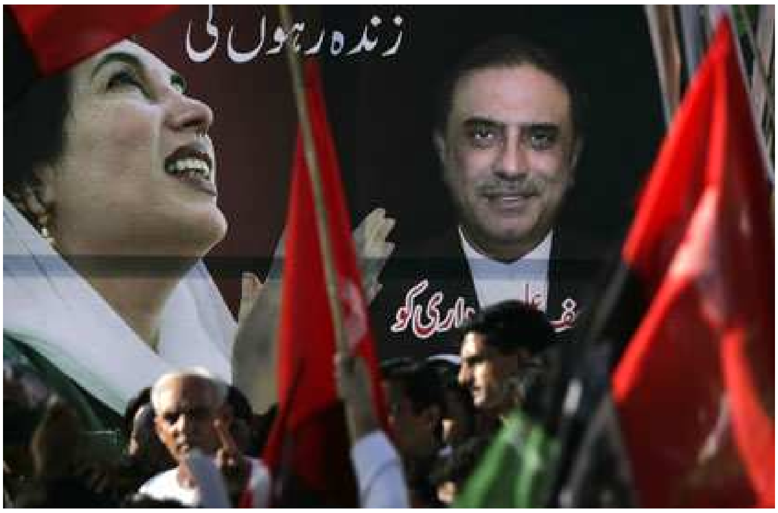
Pakistan

The widower's might

Sep 11th 2008 | LAHORE
From The Economist print edition

Beset by problems, the new president seems alarmingly undaunted

AP



REVILED as "Mr 10%" for his alleged profiteering when his late wife, Benazir Bhutto, was prime minister of Pakistan, Asif Zardari was promoted this week by one newspaper to "Mr 100%". That referred to the unanimous vote he received in the indirect presidential election on September 6th in the assembly in Sindh, his home province. But it could have meant the formidable powers Mr Zardari now enjoys—greater than any civilian president before him. Never convicted of corruption, Mr Zardari nevertheless spent eight years in prison. His wife was murdered last December. "Democracy", he said after his swearing-in on September 9th, "is the best revenge." He was quoting her.

Overall he had won 70% of the votes in the four provincial assemblies and two houses of parliament. This testified to his political skill in forging three provincial coalitions and a federal government, while enjoying a majority only in Sindh. Full-throated roars of "Long live Benazir!" shook the august halls of the presidency.

Last month Mr Zardari joined forces with Nawaz Sharif, a former prime minister, to hound Pervez Musharraf from the presidency. But Mr Zardari soon reneged on pledges to restore the deposed chief justice, and to amend the constitution to divest the presidency of the extraordinary powers accrued to it by Mr Musharraf. He now has the power to appoint and sack the three service chiefs, the chief election commissioner, provincial governors, prime minister and parliament. He will chair the powerful National Security Council. With a puppet prime minister, Yousaf Raza Gilani, from his Pakistan People's Party, Mr Zardari is poised to lord it over Pakistan.

But the country is a mess. The economy faces meltdown (see article). Baluchistan is racked with a separatist insurgency. The coalition in the dominant Punjab province is on the verge of collapse. And both America and ordinary Pakistanis attack the Zardari government's handling of the war against Islamist extremists. America thinks it should do more; Pakistanis that it is doing too much.

George Bush congratulated Mr Zardari on his victory with a terse statement telling Pakistan not to shirk its responsibility to the international community by diluting its will to fight the war on terror. To drive the point home, American forces in Afghanistan have recently launched air strikes against suspected terrorist hide-outs in the tribal areas of Pakistan that border Afghanistan, provoking outrage. After one recent strike in North Waziristan killed civilians rather than Taliban fighters, the chairman of the joint chiefs of staff, General Tariq Majeed, issued an unprecedentedly stern warning that Pakistan could strike back at intruders. The federal parliament is bristling with resentment. To appease public opinion, the governor of the North-West Frontier

Province, Owais Ghani, briefly froze the flow of hundreds of container-lorries laden with fuel and munitions for NATO forces in Kabul through the Khyber Pass.

Mr Zardari knows the danger of souring relations with America, Pakistan's biggest donor. Since 2001 America has deferred billions of dollars of Pakistani debt repayments and dished out more than $12 billion in aid, mostly for the army. Now Congress is to consider a bill to give Pakistan another $1.5 billion a year for ten years for economic and social development.

Shrewdly, Mr Zardari invited Afghanistan's president, Hamid Karzai, to his oath- taking ceremony in Islamabad, to discuss future co-operation. The two have planned a joint tribal *jirga*, or conference, next month to tackle terrorism. Later this month President Zardari will meet senior American officials when he leads Pakistan's delegation to the United Nations General Assembly session in New York.

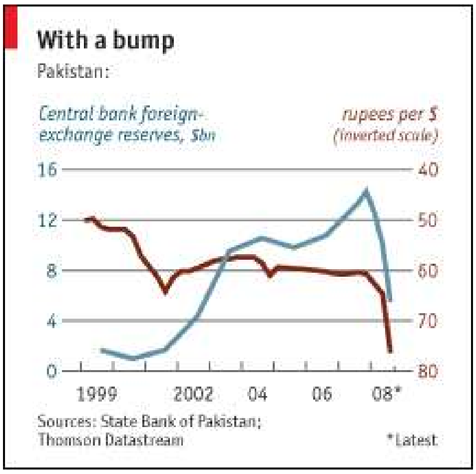
Of all the difficulties Mr Zardari faces, perhaps the biggest is staying on the right side of Pakistan's army. The generals make no bones about it: they neither like nor trust the president. And they do not share America's view of the "war on terror". They prefer to "contain" the Afghan Taliban, seeing these predominantly ethnic-Pushtun militants as potential pro-Pakistan "assets" in the future, rather than lump them with al-Qaeda and wage all-out war on both. The war is deeply unpopular, and Mr Zardari seems to face an impossible task in assuaging public opinion and overcoming military reluctance while fending off American impatience. "I'll try to keep one pace ahead of all my critics," he quips confidently. Unless, of course, he trips up himself, or someone trips him.

Pakistan's economy

Sweets and stones

Sep 11th 2008 | DELHI
From The Economist print edition

The economy may be President Zardari's undoing



AFTER Asif Zardari won the presidency on September 6th, his supporters handed out sweets on the streets of Karachi. They may be the last treats the president can afford to offer. The economy is deteriorating fast. If Mr Zardari is to make a success of his new post, he must soon ask his people to swallow something more astringent. Precisely how vinegary will become clearer on September 12th, when a team from the International Monetary Fund (IMF) arrives in Islamabad to help the government plan an escape route.

When Mr Zardari's predecessor, Pervez Musharraf, imposed martial law last November, the central bank had about $14 billion of reserves. Now it is the economy that is in a state of emergency. Reserves fell by $260m in the first week of September alone to $5.5 billion, enough to cover only two months of imports. Those imports cost more than they did and Pakistan has yet to come to terms with this awkward fact. In July its food and fuel bill was up by a third from the previous year.

Its exports are faltering and its shares toxic. The Karachi Stock Exchange, which peaked as late as April, has lost about 40% of its value. In July aggrieved investors pelted the exchange with stones. Foreigners have shown their dismay by withdrawing a net $250m since June.

With the currency sliding to record lows against the dollar and foreign exchange in short supply, bondholders now feel "growing unease" that Pakistan may seek to reschedule its Eurobonds, according to Mushtaq Khan of Citigroup. These bonds were many times oversubscribed when they were issued. But judging by the cost of insuring them against default, they are now the riskiest in the world.

Mr Zardari's reputation does not inspire confidence that he can get a grip. According to the *New York Times*, when he was asked how the government should pay for generous price supports for Punjabi wheat farmers, his answer was: "Print the notes". In recent times the central bank has complied all too readily, which helps explain why inflation was over 24% in July.

But Mr Zardari must know that his political survival depends on an economic rescue. For one thing, Pakistan's army, which has vast business interests, watches the economy as keenly as any credit-rating agency. His new secretary of finance, Waqar Masood, and Shamshad Akhtar, governor of the central bank, are crafting a stabilisation plan. It envisages halving the budget deficit to 4.7% of GDP in the fiscal year that ends in June 2009. Fuel prices, which the government has already raised several times since March, will rise further to eliminate fuel subsidies by the end of the calendar year. Electricity subsidies will be eliminated six months later.

To finance its deficit, the government will stop relying on the central bank—anything it borrows will be repaid within the quarter. Instead, it will sell Treasury bills to banks and the broader public (as well as issuing some Islamic bonds, or *sukuk*). To find any takers, this debt will have to offer higher rates. The question is how high. Mohsin Khan of the IMF is confident they need not be too punishing. Finally, the government will raise money by privatising some assets, such as the Qadirpur gasfield, and selling more shares in others.

These measures will be unpopular and painful. Mr Zardari faces "a strong and hostile opposition eager to capitalise on the country's economic woes," says Elena Okorotchenko of Standard & Poor's, a rating agency. The plan by itself will not be enough. "They will also need additional external financing and quite a bit of it," adds the IMF's Mr Khan. Saudi Arabia may allow Pakistan to defer payment on the 110,000 barrels of oil it imports from the kingdom each day. The government will also turn to the Asian Development Bank and the World Bank, which may proffer $1.5 billion-2 billion this year, if the government is sufficiently convincing. "If they put the plan together, implement it and get financing, they can prevent a crisis and stabilise the economy," says the IMF's Mr Khan. "But that's a lot of ifs."

India’s nuclear deal with America

Quantum politics

Sep 11th 2008 | DELHI
From The Economist print edition

Celebrating a diplomatic triumph

AT THE atomic level, the laws of classical physics bend in intriguing ways. On September 6th, the world’s nuclear rules proved equally pliable. The Nuclear Suppliers Group (NSG), a 45-nation cartel that limits trade in nuclear materials and technology, passed a “waiver”, allowing it to do business with India (see article). Only five other countries (America, Britain, China, France and Russia) both enjoy the privileges of nuclear commerce and have nuclear weapons. And unlike India, those other five have all signed the Nuclear Non-Proliferation Treaty and the Comprehensive Test-Ban Treaty (although America and China have yet to ratify the latter).

The deal is still to be approved by America’s Congress. But the waiver will allow India to import uranium for its nuclear reactors, which will need roughly double the uranium its own mines can supply. This in turn will enable India to devote more of its domestic uranium to weapons-building. In addition, the deal should eventually let India buy “dual-use” technology, of use in the nuclear industry and beyond.

For India, this is all welcome. But what most impressed the country’s commentators is the deal’s symbolism, not its utility. The world’s nuclear club bent its rules to accommodate India. Much as this irks foreign critics of the deal, it delights many Indians, who see it as confirmation of the country’s new status in the world.

“If the Beijing Olympics was China’s coming-out party, the NSG waiver was India’s,” wrote the *Times of India*, the country’s best-selling English-language newspaper. America brought its diplomatic muscle to bear on India’s behalf, elbowing aside the “nuclear nobodies”, such as Austria, New Zealand and Ireland and a score of others who objected to the deal, and even overcoming China’s last-minute quibbles. This diplomatic coup was all the more notable because India is the reason the cartel exists. It was formed to prevent a repeat of India’s 1974 nuclear test, which exploited the civilian nuclear help India received under America’s “Atoms for Peace” initiative. This was, the *Times* said, a “delicious irony”. Tastier still was the distance the deal puts between India and its rival Pakistan. The deal has “de-hyphenated” the Indo-Pakistan nuclear conundrum, the newspaper said.

Amid the trumpets, some grace-notes of nostalgia could also be heard. For the past 50 years, India has harboured dreams of nuclear self-sufficiency. Short of uranium, it possesses about a third of the world’s known deposits of thorium, which can be turned into nuclear fuel if irradiated. In theory, according to Charles Ferguson of America’s Council on Foreign Relations, these deposits could yield 155,502 gigawatt-years of electrical energy, more than 14 times the wattage India could extract from its coal deposits.

Unfortunately, the dream remains distant. Before it can exploit its thorium, to name only one obstacle, India must first breed plutonium at a viable cost and scale. John Stephenson and Peter Tynan of Dalberg, an American consultancy, do not expect much from thorium before 2050 at best. In the meantime, India hopes its new licence to import uranium will allow it to quintuple its nuclear-generated electricity by 2020. But even that will meet only 5% of its projected demand, according to Mr Ferguson. India cannot fulfil its nuclear aspirations without foreign help, and its nuclear plans, even if realised, can meet only a fraction of its vast energy needs. Some constraints, sadly, do not yield to either diplomatic or atomic power.

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ASIA

India’s nuclear waiver

A legacy project

Sep 11th 2008
From The Economist print edition

Mourning an exemption that may defeat the rules

FOR India’s embattled prime minister, Manmohan Singh, and America’s soon-to-depart president, George Bush, the waiver for India agreed on September 6th by the Nuclear Suppliers Group (NSG) is meant to build a lasting legacy: their own. Critics fear its real testament will be lasting damage to the global nuclear non-proliferation regime.

Hitherto NSG rules barred nuclear commerce with any country that had not signed the Nuclear Non-Proliferation Treaty (NPT) or had not put all its nuclear industry under safeguards operated by the International Atomic Energy Agency, the UN’s nuclear guardian. India, which rejects the NPT and has built and tested bombs, will do neither. Instead, in return for the NSG waiver it has merely promised to separate out some designated “civilian” nuclear reactors (the list has still to be formalised) for inspection.

Some have opposed the deal outright, for undermining the NPT by giving nuclear India more rights than non-nuclear countries that have signed the treaty. Others, first America’s Congress and then a valiant rearguard of countries at the NSG, tried to attach damage-limiting conditions: that all nuclear trade with India should cease if it resumes nuclear testing; that nothing should be done to help India build up sufficient reactor-fuel stocks to ride out post-test sanctions; and that trade in especially sensitive skills and technologies for enriching uranium or reprocessing spent nuclear fuel to extract plutonium (both useful in weapons-making) be explicitly banned.

The NSG waiver fails on all counts. It says only that nuclear sales can be for civilian nuclear facilities under safeguards (none of India’s existing enrichment or reprocessing operations is on the civilian list), though skills are easily transferable. It refers to a statement by Mr Singh that India will keep to its “voluntary” test moratorium. But that assurance is political, not legal, since India refuses to sign the Comprehensive Test-Ban Treaty; a future government might equally voluntarily decide to test again. India also refuses to cap its production of weapons-usable uranium and plutonium, as America, Britain, France, Russia and China have done.

A hard-fought agreement that the NSG operate unanimously has been overturned. Should India test again, India’s waiver will in effect let individual governments decide whether and how to curtail nuclear trade. That deal is done, whether or not Mr Bush wins a final nod from Congress before he steps down.

North Korea

Kim Jong Ill or Kim Jong Well?

Sep 11th 2008 | TOKYO
From The Economist print edition

Fresh speculation about the Dear Leader's health

Illustration by David Simonds

THIS week rumours swirled that Kim Jong Il, North Korea's dictator, was gravely ill. The 66-year-old, officials said in Seoul, had suffered a "collapse". South Korea's president, Lee Myung-bak, was worried enough to call an emergency meeting with senior aides. An anonymous American intelligence official in Washington might have been at the bedside: Mr Kim, she told reporters, was probably half-paralysed following a stroke. (Mysteriously, South Korean spooks later reported he was recovering from surgery.) A North Korean diplomat denied the claims as "nefarious machinations", noting that the Western press had a habit of telling lies (unlike the snow-pure *Pyongyang Times*).

He is half-right. The Western press has recently shown lurid interest in the theory of a Japanese professor that a double has been standing in for Mr Kim, who has in fact been the Dear Departed since 2003. For years rumours have erupted about Mr Kim's health following prolonged public absences. Each time, he has eventually waddled back into view. The last scare was in May 2007, when he stopped appearing in public, and diabetes or heart problems were blamed. A team of German heart surgeons, sworn to secrecy, was flown to Pyongyang. Yet they may have operated on any member of the elite, not specifically on Mr Kim. At any rate, by the time of an October summit with South Korea's then president, Roh Moo-hyun, Mr Kim looked hale enough—by the standards of a man with a podgy, grey demeanour.

Perhaps something is up this time. Neither hide nor tousled hair of Mr Kim has been seen since August 14th. His absence was conspicuous at the huge celebrations marking the 60th anniversary of North Korea's founding. They included a vast militia parade on September 9th. Mr Kim became head of the armed forces in 1991, three years before the death of his father, Kim Il Sung, and the world's first communist dynastic succession. Until now, Mr Kim appears not to have missed a single military parade. A foreign medical team, this time Chinese, is now back in the capital.

Some analysts have blamed Mr Kim's health for recent setbacks in the "six-party process" meant to wean the regime off its nuclear weapons in return for aid and security guarantees. The current phase of the talks has to do with a proper accounting of the North's nuclear programmes, in return for which America will drop North Korea from its blacklist of state sponsors of terrorism. Yet the information that North Korea has so far produced is underwhelming: it fails to cover details of existing plutonium weapons, a possible programme for enriching uranium, and proliferation activities in the Middle East.

North Korea is indignant at demands for intrusive inspections: it insists that America drop it from the blacklist before agreeing to a verification protocol. In August it stopped disabling its main nuclear facility at Yongbyon and even threatens to undo the dismantling. North Korea has also suddenly put on hold a recent agreement to launch an official investigation into the fate of Japanese citizens kidnapped during the 1970s and 1980s and taken to the North. One Western diplomat, present at a weekend meeting in Beijing between envoys from America, Japan, China and South Korea, says these four parties are "at a loss over where to go next".

Yet for North Korea, intransigence is the norm. Its negotiating style is marked by bluster, foot-dragging, blackmail and brinkmanship. Indeed, the same diplomat notes that the North's recent actions have been "tactically cautious": for instance, there is no sign that Yongbyon's dismantlement is about to be fully reversed. In their talks over abductions, the Japanese think their counterparts acted entirely rationally—from a North Korean perspective. One senior Japanese official with long dealings says that North Korean diplomats do nothing without directions from the highest level. The Dear Leader, then, if he is ill, appears to be making clear decisions.

Still, speculation turns naturally to Mr Kim's succession plan, for if he has one, he has not disclosed it. His possible heirs are little known, and include three sons and his brother-in-law. None has devoted the years spent by Mr Kim in preparing to take over. His eldest son was caught trying to enter Japan in 2001 on his way to Tokyo Disneyland; he subsequently lived and gambled in Macau. Of the other sons, both in their 20s, one is known only for his obsession with Eric Clapton, a rock star. Perhaps Mr Kim, a family man, intends that none of his relatives should be around on the day when international prosecutors come calling on the leaders of a regime that has starved, tortured or worked to death in prison camps many hundreds of thousands of its own people.

Thailand

Where cookery is crookery

Sep 11th 2008 | JAKARTA
From The Economist print edition

The courts sack the prime minister for moonlighting as a television chef

SOME Thais have been looking to the courts to resolve the country's interminable political conflict. So far, however, they are only making things worse—and making the country look rather silly in the process. On September 9th the Constitutional Court ordered Samak Sundaravej, the prime minister, to step down for breaching a ban on ministers having outside jobs. Mr Samak's offence was to make a handful of appearances as a television chef, continuing the parallel career that he has been following in recent years alongside his main job as an abrasive right-wing politician. The court rejected his claim that the 80,000 baht ($2,400) he received for doing the cookery shows earlier this year was not a fee, just reimbursement for ingredients and other expenses.

Opponents of Mr Samak, including the protesters who have been occupying his office for the past fortnight, will see this, the latest in a string of rulings against him and his allies, as vindicating their demands for his resignation. However, his supporters will just as predictably see it as a further example of a conspiracy by Bangkok's royalist establishment to bring down the elected government by all means possible. Indeed the case over Mr Samak's part-time wok-wielding did reach judgment notably rapidly, compared with the years for which court proceedings usually drag on in Thailand.

EPA

Out of the frying pan

The ban on ministerial moonlighting was introduced in a new constitution drawn up last year during the army-backed government that ran Thailand from the 2006 coup until last December's elections. It was aimed at stopping the much more serious conflicts of interest that arose continually during the government of Thaksin Shinawatra, the prime minister deposed in the coup. Mr Thaksin was often accused of tinkering with the law to benefit his huge telecoms empire.

However, the drafters of the new charter left an enormous loophole, big enough for even Mr Samak's well-fed frame to slip through. It turns out there is nothing to stop his ruling coalition, with its sizeable majority, simply nominating him as prime minister again. As *The Economist* went to press, Mr Samak was reported to have accepted renomination by his People's Power Party. The party's coalition partners, however, were expected to object. In the meantime, to infuriate the anti-government protesters further, they chose one of Mr Samak's deputies, Somchai Wongsawat, as acting prime minister. He is Mr Thaksin's brother-in-law.

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Protest in China

Post-Olympic stress disorder

Sep 11th 2008 | BEIJING
From The Economist print edition

The games over, time to hit the streets

IN BEIJING'S eastern suburbs, the end of the Olympics last month emboldened hundreds of residents to take their grievances to the streets. The government was claiming that the city's air was cleaner for the Olympics than it had been in a decade. But stench from a waste-disposal plant was smothering their homes. Freed from Olympic constraints, they felt it was time to protest. They were not alone. After a lull, news of protests around China about all sorts of issues is again trickling out.

The authorities take a dim view of protests at the best of times. During the Olympics they were particularly anxious to keep the disgruntled out of sight. And many citizens themselves wanted the games to go smoothly. A handful of foreigners staged protests in Beijing, but none involving Chinese was reported. Those who applied for permission to protest were persuaded by police to change their minds, sometimes menacingly.

But residents of middle-class apartment compounds with odd-sounding names such as Berlin Symphony, Apple Pie and New Sky Universe were quick to test the post-Olympic waters. On August 30th hundreds gathered at an intersection near where they lived. Many wore masks to show their disgust for the fumes that sometimes emanate from Gaoantun, a large landfill waste-dump and now the site of China's biggest waste-fuelled thermal power plant, an important Olympic project. Top officials attended its opening a few days before the games.

The protesters held up lorries heading for the plant. Nervous policemen watched. One held up a black banner calling on the chanting demonstrators to stop their "illegal behaviour" immediately. There were no reports of arrests, but residents say one man who attempted to sell T-shirts with protest slogans on them near Berlin Symphony on September 3rd was detained for several hours. He was accused of not having a trading licence.

Unusually, on September 4th, the local government apologised to residents and said it hoped the bad air could be cleared up within 20 days. Residents are sceptical, but only a hundred or so turned up at a demonstration a couple of days later. Some say they are worried about police retaliation. The Paralympics are under way in Beijing and do not end until September 17th, so the authorities are still edgy.

Elsewhere, however, there are signs that officials are beginning to turn their attention to problems they had shunted aside for the sake of preserving Olympic calm. In the southern province of Yunnan two senior officials have been sacked and two others reprimanded for their alleged mishandling of a riot in July involving rubber farmers in the remote county of Menglian on the border with Myanmar.

The government has also admitted for the first time that shoddy construction was partly to blame for the collapse of schools in the earthquake in Sichuan province in May that killed at least 69,000 people, including thousands of schoolchildren. In the build-up to the games, Sichuan officials tried to silence angry parents. Police broke up their protests, tried to stop journalists meeting them and blocked them from going to Beijing to air their complaints.

Officials had good reason to worry that protests might get out of hand. *Liaowang*, a magazine published by China's government news agency Xinhua, reported this week that more than 90,000 "mass incidents" took place in 2006, up from 87,000 the previous year. The numbers, it said, had kept on rising, reflecting a rise of resentment at the grassroots level that "should not be underestimated."

The Olympic hiatus (in Beijing at any rate—elsewhere news of protests may simply have been suppressed) is likely to be temporary. In Jishou in the southern province of Hunan on September 3rd and 4th thousands of people protested about a property company they said had cheated them of their money. They blocked roads and a train station and clashed with police.

With the games over, more debate is starting to surface in the Chinese press about the 30th anniversary in December of the launch of the country's "reform and opening" policies. Some intellectuals have been arguing that China should begin paying much more attention to political reform and allow greater democracy. *China News Weekly*, a Beijing magazine, said that since the games senior officials and scholars had rapidly shifted their attention to internal matters such as how to deal with “complex” economic problems and, “even more importantly”, where to take reform in order to ensure long-term prosperity and stability.

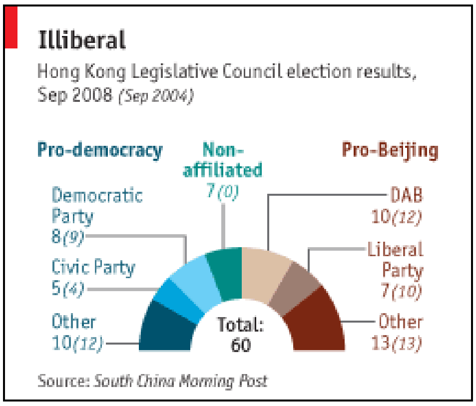
In recent days Chinese newspapers have been abuzz with reports about a speech given in late August by Hunan’s Communist Party chief, Zhang Chunxian. He said “power should be returned to the people.” That, however, seems unlikely.

An election in Hong Kong

Bad day for business

Sep 11th 2008
From The Economist print edition

The tycoons lose a little of their political clout



IN DAYS gone by, Hong Kong's pro-business Liberal Party argued that the territory's legislature should be returned by universal suffrage this year. After its showing in polls on September 7th the party may be glad that China ruled this out until at least 2020. Hong Kong's powerful tycoons have some rethinking to do.

Over the years Hong Kong has been nudging up the number of directly elected seats in the 60-member Legislative Council, known as Legco. But since the previous elections in 2004, the proportion has remained at half. The rest are elected by "functional constituencies" of voters from business and professional groups. These days the wealthy tend to side with China, the sovereign power and chief source of business opportunity. China has inherited the British colonial tradition of granting Hong Kong's business elite enormous political privileges.

But hanging on to these privileges may get more difficult. Last year China said that the territory's chief executive, chosen at present by an electoral college stacked with pro-China businessmen, could be elected by universal suffrage in 2017. Legco, it said, could be returned by universal suffrage three years later.

In this election, the Liberal Party, the biggest pro-business party and hitherto the second-biggest in Legco, won seven of the functional-constituency seats. But its chairman, James Tien, and vice-chairman, Selina Chow, both lost the directly elected seats they had won in 2004. Other Liberal Party candidates in directly elected seats were all defeated as well. Mr Tien and Mrs Chow quit their party posts, and Mrs Chow her seat in Hong Kong's cabinet, the Executive Council.

By contrast, some outspokenly anti-establishment candidates did well. The League of Social Democrats, a left-wing group which is annoying businessmen by campaigning for a minimum wage, took three seats, including one for its maverick flag-bearer, "Long Hair" Leung Kwok-hung. The pro-democracy camp kept 23 seats (direct and functional), two fewer than in 2004 but still enough to wield a veto over constitutional changes.

A big debate that lies ahead is whether functional constituencies can be retained even under a system of universal suffrage. Hong Kong officials believe they can. Business leaders may now be even more inclined to agree with them.

Israel

One of the trickiest jobs in the world

Sep 11th 2008 | JERUSALEM
From The Economist print edition

Israelis face the daunting prospect of a drawn-out search for a new leader, and not just of their current ruling party

AP

IN THE eyes of more hopeful Israelis, the election on September 17th for a new leader of Kadima, the party that runs the country's governing coalition, should mark the end of a sordid period of Israeli politics and the start of a bright new era under a fresh-faced, peace-seeking female prime minister. But that is not how things tend to happen. Kadima's leadership election date may just be the start of a lengthy haggle—and the uncertainty may not even end until after a general election, perhaps in the spring of next year.

Tzipi Livni, Israel's foreign minister, who is favourite to win the primary, may replace Ehud Olmert, the present prime minister, who is mired in corruption charges, as head of the party. But it may then take weeks to rebuild a workable ruling coalition. If her more conservative rival to lead Kadima, Shaul Mofaz, wins, he would face weeks of haggling too. Worse yet, for those who are impatient to push ahead with the current stuttering negotiations for peace with the Palestinians, the Kadima primary could set off months of edginess, failure to produce an effective coalition, a general election early in 2009 and a possible Israeli lurch to the hard right.

In any event, Ms Livni, 50, married to an advertising executive and mother of two sons, is the Israeli peace camp's new hope. This was hardly in her genes: her parents fought the British in the ruthless Irgun underground in the struggle for Israeli statehood before 1948, and brought her up on rigorous nationalist lines. But her conversion seems sincere, coinciding neatly with the dramatic decision in 2005 of the then prime minister, Ariel Sharon, to pull Israeli settlers and troops out of the Gaza Strip. She became his foreign minister and, when the ruling Likud split over the Gaza decision, she followed him enthusiastically out of Likud and into the newly formed Kadima (meaning Forward).

Mr Mofaz, her chief rival to lead Kadima, was wobblier. After serving as Mr Sharon's army chief of staff and then as defence minister, he jumped ship at the last minute, clambering aboard Kadima to derisory hoots all around. As transport minister during the Lebanon war in 2006, he carped from the sidelines while Mr Olmert and his defence team floundered for weeks against Lebanon's small but determined Shia party-cum-militia, Hizbullah.

Mr Mofaz is campaigning among Kadima's 70,000-odd registered voters as a solid military man, admittedly not charismatic but not flighty either. He has a strong base in the grass roots, especially among Arab, Druze and Russian-immigrant party branches, and hopes to get most of his supporters to come out and vote.

Ms Livni is ahead in all the polls. But pundits are wary of betting on so small an electorate, where much will depend on election-day organisation. Two other candidates, the ministers of public security and interior, lag far behind the front-runners. But if they keep on running, they may stop either Ms Livni or Mr Mofaz from securing the 40% of votes required for a first-round victory. In that case, a run-off would be held on September 25th.

Mr Mofaz says he could fairly easily reshape the present Kadima-led coalition, ensuring another two years in office for the party, together with its coalition partners: the Labour Party; Shas, an Orthodox-Sephardic religious party; and the Pensioners Party. Mr Mofaz's supporters contend, without much evidence, that the hawkish Shas would more readily serve under him than under Ms Livni. But her aides counter that the doveish Meretz Party, now in opposition, would be happy to serve under her but not him. That may give her a working majority even without Shas—which could persuade it to join her after all.

The Livni camp argues that, above all, her leadership would stand the party in good stead in a general election. She is far more popular among Israelis at large than is Mr Mofaz. She has a stainless "Mrs Clean" reputation, yet is no patsy of the "rule-of-law gang"—the policemen, prosecutors and journalists who crusade against corruption and pride themselves on having brought Mr Olmert down. In a gesture of defiance, she recently promised not to sack the controversial justice minister, Daniel Friedmann, the gang's nemesis.

Shas, with 12 seats in the present 120-seat Knesset to Kadima's 29 and Labour's 19, is probably pivotal. It is the one coalition partner, say the pollsters, that need not fear early elections. Labour under Ehud Barak, who is widely regarded as politically inept, could be hammered; the Pensioners could lose all seven of their seats; and Kadima could be savaged too.

Likud, under Binyamin Netanyahu, emerges from all the opinion polls as the strongest party. With 12 seats in today's Knesset, it is predicted to get around 30 if an election were held soon. It is wooing, admonishing and cajoling Shas to dump Kadima and return to its pristine profile as a party in a Likud-led "national camp". But there is a chasm of resentment to be bridged. Mr Netanyahu, as Mr Sharon's minister of finance, slashed child-welfare payments as part of sweeping spending cuts in 2003-2004. Shas's constituency, like that of its sister Orthodox-Ashkenazi party, United Torah Judaism, which has six seats, mainly comprises large families who were severely hit and have not forgotten it.

In any event, Mr Olmert's removal is turning out to be prolonged and messy. He has promised to resign once Kadima chooses its new leader. But by law he stays on as interim prime minister until a new government is sworn in. On September 7th the police announced with much fanfare that they are recommending that he be indicted for bribery, money-laundering, fraud and a string of other offences, all arising out of cash payments and free airline tickets he allegedly received over many years before he became prime minister in 2006. The attorney-general will make the final decision, which may take months. And other alleged offences are still being investigated. The police recommendation led to demands in the press that Mr Olmert declare himself "indisposed" and hand over to his deputy, Ms Livni, forthwith.

Mr Olmert is not merely ignoring them but continuing to assert that he can pull off a peace agreement-in-principle with Mahmoud Abbas, the Palestinian president, before the end of the year. The two of them originally pledged to do so at Annapolis last November. George Bush's administration would dearly like to crown its term with an Israel-Palestine accord, even if its implementation were left to a nebulous future. But Ms Livni, who has been conducting parallel negotiations with a Palestinian team led by the prime minister, Ahmed Qurei, seems in no hurry. She gave warning huffily against "rushing" and "compromising on critical issues only for the sake of results".

Both sets of talks are based on the "Clinton parameters" (though the Bush people avoid that term), which envisage Israel keeping three big blocks of settlements close to the West Bank border and compensating the Palestinians mainly with land near the Gaza Strip and with a corridor between Gaza and the West Bank. There is still no agreement on territorial percentages. The Palestinians' demand for an acknowledged "right of return" is still a sticking point. So is the question of Jerusalem. Pivotal Shas balks at any talk of dividing the holy city. Mr Olmert can afford to ignore it; his successor cannot. Whoever it is, he or she will have one of the trickiest jobs in the world.

North Africa

A real network of terror?

Sep 11th 2008 | NOUAKCHOTT AND RABAT
From The Economist print edition

Al-Qaeda's claims to have a network in the Maghreb are probably premature

Get article background

TWO years ago a ruthless Algerian terrorist outfit, the Salafist Group for Preaching and Combat, better known by its French abbreviation, GSPC, announced it was joining al-Qaeda. Since then, al-Qaeda in the Islamic Maghreb (AQIM), as the group is now known in counter-terrorism circles, has stepped up a bombing campaign in Algeria and claimed responsibility for operations in several other North African countries. Last month the Moroccan government said it had broken up a terrorist cell with links to the group, while Algeria has toughened its security measures since more than 70 people were killed in attacks by AQIM in the last two weeks of August. The emergence of a powerful regional group of Islamist insurgents, recruiting members from among the millions of religious and poor North Africans, is rattling all the governments in the region and raises the unnerving prospect of a new wave of North African bombers heading for the cities of western Europe. But does AQIM really exist as a co-ordinated regional organisation?

So far there is little evidence that it does. Until now, nearly all of AQIM's claimed attacks have been in a rectangle of land to the east of Algeria's capital, Algiers. (The GSPC, from which AQIM has emerged, is a ruthless remnant from the civil war which began after the Algerian army stepped in to prevent Islamists from taking over after they had won the first round of an election in December 1991, thereby prompting a decade of strife that left as many as 200,000 people dead.) In this mountainous zone, clashes between AQIM fighters and Algerian security forces are occurring almost every day. Whenever the authorities claim a big victory, AQIM invariably sets off a suicide-bomb or a remote-controlled explosion, usually aimed at Algerian forces, sometimes at foreigners. AQIM said it was behind the double bombing last December of the UN offices in Algiers and a court house, killing more than 40 people.

But AQIM's presence elsewhere in the region is fuzzier. In Algeria, says George Joffé, a north Africa specialist at Cambridge University, there is "constant low-level violence, a bit like in Colombia". But he doubts that AQIM is a "coherent regional organisation, more a series of groups with national agendas and a common ideology". He discounts the idea that they are controlled by al-Qaeda's leaders on the Afghan-Pakistan border.

Morocco's security services have broken up numerous Islamist fighters' cells since bombings in Casablanca, the country's commercial capital, killed 45 people in 2003. "Al-Qaeda's priority in north Africa is to recruit fighters for Iraq," says Muhammad Darif, a Moroccan academic who tracks radical Islamist movements. "Since 2003 the authorities have broken up more than 30 terrorist cells sending fighters there. Al-Qaeda's strategy here is part of its general strategy to win the war in Iraq." There is scant evidence that these Moroccan groups have strong organisational links to AQIM in Algeria.

AQIM says it has also carried out attacks in Mauritania. It claims responsibility for the killing of four French tourists, which forced the cancellation of this year's Paris-Dakar car rally; the deaths of three Mauritanian soldiers; and an attack on Israel's embassy in the capital, Nouakchott. But a local expert, Yahya Ould el-Bara, says these incidents do not make a concerted threat. Mauritania's tolerant form of Islam and its tribal network provide a buffer against radicalism. The new military rulers, who took over in a coup last month, have promised to eradicate the extremists.

Tunisia is yet another apparent target of AQIM. The group has boasted that it kidnapped two Austrian tourists there earlier this year. But that may have been a one-off. "It was an extremely rare example of what appears to be AQIM proper operating abroad," says Wolfram Lacher, an analyst for Control Risks, a security consultancy with headquarters in London. "In Libya, there's no evidence of organisational links between the Libyan Islamic Fighting Group, which is defunct inside Libya, and AQIM," he says. "On the whole, Algeria is the only country in the region which hosts a large and active terrorist organisation. In the other countries, such organisations are not able to survive, due to the tight control of the security forces."

But, in order to extend its reach, AQIM may be moving its people through the Sahara desert, crossing the porous borders of Algeria, Mali, Mauritania and Niger. European and American security officials are worried that camps in the desert may be used to train fighters for attacks on North African and European targets. America is pouring cash into military assistance projects such as the Trans-Sahara Counter-Terrorism Partnership. North African groups tied to al-Qaeda have yet to carry out attacks in Europe. But governments in the Maghreb are certainly trying to stir Western anxieties in order to get more American and European cash and support.

South Africa

Who should run the broadcaster?

Sep 11th 2008 | JOHANNESBURG
From The Economist print edition

A row over appointments reflects a continuing struggle for political power

Get article background

ONCE a mouthpiece for the apartheid regime, the South African Broadcasting Corporation (SABC) has, for the past few years, been accused of kowtowing to the ruling African National Congress (ANC). Senior staff have been leaving in droves. Last year its head of news, Snuki Zikalala, was accused of blacklisting commentators deemed critical of the government.

In retrospect, this seems to have been little more than a warm-up for the troubles that have rocked the SABC since the ANC elected its new leader, Jacob Zuma, in December. The public broadcaster, the main source of information for millions of South Africans, has been sucked into the ruling party's internecine battles.

The drama started with the appointment of a new SABC board ahead of the ANC leadership election. The process was marred by allegations that the ANC's top brass, then under the control of President Thabo Mbeki, leaned heavily on Parliament, which is mandated to choose the board, to impose several people. Trade unions and civic groups were also unhappy about the fact that the board, dominated by business people, did not include journalists or trade unionists.

Once Mr Mbeki lost his job as the ANC's president to Mr Zuma, open warfare broke out. The new board suspended the SABC's chief executive, Dali Mpofu, arguing that he was exceeding his authority. Critics said this was political retribution, as Mr Mpofu had just suspended Mr Zikalala, considered a staunch supporter of Mr Mbeki. The SABC boss promptly challenged his suspension in court and had it overturned on procedural grounds.

The fight descended into farce when the board suspended Mr Mpofu again. SABC staff joined in, publicly criticising the embattled board. Mr Mpofu is still in court fighting his suspension, but Mr Zikalala has gone back to his job. The well is so poisoned that the recent reassignment of several journalists covering Mr Zuma raised instant suspicions of political interference.

With Mr Mbeki out of the ruling party's top seat, ANC parliamentarians are bent on removing the board they picked less than a year ago. A bill to give Parliament the power to force the president to sack the board has been tabled. The opposition Democratic Alliance says board members could be fired on political whims, which would kill the SABC's fragile independence. The local Freedom of Expression Institute says the rows in the SABC have got so bad that the entire "rotten policy base" on which it operates should be debated and changed.

Angola

The people have their say

Sep 11th 2008 | JOHANNESBURG
From The Economist print edition

Despite its shortcomings, Angola's election marked a hopeful step forward

AFP

Dos Santos gets his wish

IT WAS far from perfect. But despite chaotic voting in Luanda, the capital, Angola's general election on September 5th seemed to reflect the will of the 8m-plus registered voters. The ruling Popular Movement for the Liberation of Angola (MPLA), in power since independence in 1975, won by a landslide, with more than 80% of the vote. The main opposition party, the Union for the Total Independence of Angola (UNITA), came a sad second, with only 10%.

The head of an observer mission from the European Union refused to endorse the poll outright as "free and fair" but said it was "an advance for democracy". More important, UNITA's leader, Isaias Samakuva, accepted defeat, despite the party's demands for a rerun of the poll in Luanda, which was turned down. "Our country has taken an important step for the consolidation of our fragile democracy," he said. "From now on, each government is going to last only four years, not 33-plus."

It was a big test for a country that has held only one multi-party election since independence. The mood this week was quite different from that of 1992, the last time Angolans had a choice of parties. Then, after the results came out, UNITA took up arms again until the death in 2002 of its leader, Jonas Savimbi, finally paved the way for peace.

This time several thousand candidates from ten parties and four coalitions competed for 220 seats. Voters cast ballots at about 12,400 polling stations. Despite a few ugly incidents, the campaign and the vote were peaceful. Most observers apparently thought the count was fair. American, European and African ones, as well as locals, scrutinised the poll.

The opposition claimed fraud, but most observers blamed the problems in Luanda, where close to 29% of the voters are concentrated, on disorganisation rather than foul play. Some of Luanda's polling stations ran out of ballots or got them late. In some cases they opened late or not at all, and the vote was extended to a second day. Voters lists were not always available, making it impossible to check who had voted. Rules were applied unevenly; some polling officers were not aware of last-minute changes. Local observers had problems being accredited, so their presence in Luanda was scaled down. A member of the EU's team reported hanky-panky in the oil-rich enclave of Cabinda.

With the advantage of incumbency, deep pockets and the bias of the state media and institutions, the MPLA had a big advantage. But the size of its victory, presuming the count was accurate, suggests it would have won comfortably anyway.

After election fiascos in Kenya and Zimbabwe, this was a relief. Angola is sub-Saharan Africa's second-largest oil producer and may even have ousted Nigeria from the top spot. Its economy is said to be the fastest-growing on the continent. Yet the opposition's poor showing is a worry, as it means the MPLA may be able to do what it likes, with too few checks and balances. It can shape a promised new constitution to its liking. Its grip on state institutions and patronage is unlikely to be challenged. Next year's planned presidential election is likely to be a walkover. So the MPLA may be tempted to act as if Angola were still a one-party state, 33 years on.

Russia's western neighbours

Ukraine comes to the forefront

Sep 11th 2008
From The Economist print edition

An already fragile Ukraine has been made a lot more nervous by Russia's war with Georgia—and it is not alone

EPA

THE first priority for Europe after Russia's short August war with Georgia was to secure a ceasefire and a genuine pullback of Russian forces (see article). The second was to start fretting about Russia's other neighbours. And the most significant of these by far is Ukraine.

Ukraine could not have ignored the war even if it had wanted to. Sebastopol, on the Crimean peninsula, is home to Russia's Black Sea fleet, some of whose warships dropped anchor off the Georgian coast during and after the fighting. Evidence of Ukraine's proximity to the conflict is also on show at Moscow's military museum, where visitors can gawp at war booty: Georgian T-72 battle tanks that were modernised in Ukraine. This, say the Russians, shows Kiev's support for what it sees as a "criminal regime". Indeed, Viktor Yushchenko, Ukraine's president (pictured above) flew to Tbilisi to support his counterpart and friend, Mikheil Saakashvili.

Add to this the fact that Russian nationalists believe Crimea, which has a large ethnic Russian population, should be returned to Russia (there are rumours of new Russian passports being handed out, just as happened in South Ossetia and Abkhazia). Throw in, too, the fact that Ukraine, like Georgia, has for years been trying to secure a place in both the European Union and NATO. The inevitability of Ukraine catching a post-war cold becomes clear.

Ukraine's always anarchic politics have been directly shaken up by the war. The usually pro-Western government led by Yulia Tymoshenko, the prime minister, is unravelling. The first cracks emerged when Ms Tymoshenko blocked a parliamentary motion to condemn Russia's aggression. She also resisted Mr Yushchenko's attempts to impose restrictions on the Black Sea fleet, accusing him of populism ahead of a presidential election in 2010 that both will contest. But it was her decision to join, temporarily, with the pro-Russian Party of the Regions, led by Viktor Yanukovich, so as to push through legislation diluting presidential authority, that incensed Mr Yushchenko, who promptly pulled his own Our Ukraine party out of its coalition with the Tymoshenko block.

Mr Yushchenko claimed that Ms Tymoshenko had formed a de facto rival coalition with Mr Yanukovich's party. Ms Tymoshenko urged him to reconsider and "save" a political partnership that burst on to the world stage in the Kiev snow in the 2004 "orange revolution". Both went on television to put their case, evidence (said some) that their relations had become so sour that they could no longer bear to sit down and talk to one another.

Even by Ukrainian standards, the recriminations have got out of hand. Mr Yushchenko accused Ms Tymoshenko of "high treason", suggesting she was a Kremlin agent out to win Moscow's support (and financial backing) for her presidential bid. Even as she begged his party to rejoin the coalition, she poured scorn on him, poking fun at his abysmal popularity ratings. (One poll gave him 5%, against 22.5% for her.) Yet Ms Tymoshenko is no Russian stooge. She says her muted response to the Georgian war is motivated by a desire to guarantee Ukraine's territorial integrity—without inflaming relations with Russia.

Ukraine faces three political options: a fresh parliamentary election, a face-saving truce between Mr Yushchenko and Ms Tymoshenko or a new coalition between Ms Tymoshenko and Mr Yanukovich. America's vice-president, Dick Cheney, made his preference abundantly clear on his recent whistle-stop tour of Baku, Tbilisi, Kiev and Rome by calling for orange unity. He said that Ukraine should be "united domestically first and foremost, and united with other democracies." He reiterated that the Bush administration backed Ukraine's NATO aspirations, angering Mr Yanukovich, who pointed out that a majority of Ukrainians are against joining.

At a European Union-Ukraine summit in Paris on September 9th, the EU too had little beside warm words of support to offer. The "maximum" it could do, said France's Nicolas Sarkozy, was to offer to sign a vague "association agreement" next year. But unlike similar-sounding agreements for the Balkan countries, this one would not carry any implication of eventual membership. Countries such as Belgium, the Netherlands and Germany are unwilling at this stage even to hint at candidate status for Ukraine.

The Russians have been publicly silent about Ukraine in recent weeks, knowing that they hold some strong cards, besides having just defeated Georgia. Ukraine is almost entirely dependent on Russia for its oil and gas, for uranium enrichment, and as a market in which it can sell its own goods. It may agonise about its east-west choice, but in reality it will have to maintain reasonable relations with Moscow as well as the rest of Europe.

The Georgian war is reverberating among Russia's other western neighbours. The Baltics, already in both the EU and NATO, are still wary. Belarus, Europe's "last dictatorship", is trying to use the war to thaw its frosty relationship with the West. Resisting Russian pressure to recognise South Ossetia and Abkhazia immediately, Belarus's president, Alyaksandr Lukashenka, said he would let a new parliament decide the matter, after an election at the end of September. It is not, he hinted, a foregone conclusion; he even added that it would be wrong to "run with the crowd" (what crowd?) and recognise the two regions simply because Russia had done so.

Mr Lukashenka's diplomatic tiptoeing came as the EU publicly voiced a desire to reward Belarus for releasing three political prisoners in August, a move that led to a slight easing of Western sanctions on the country. Mr Lukashenka seems also to have ruled out the possibility of hosting Russian nuclear missiles on his soil as part of the Kremlin's response to America's planned missile defences in Poland and the Czech Republic. Yet he still rejoiced, in an interview with a Russian daily, *Izvestia*, that Moscow had got one over Washington. "The Americans got kicked in the teeth for the first time in years," he said. "That means something, you know!"

Tiny Moldova is also anxious. Like Georgia, it has a breakaway enclave, Transdniestria, that is "protected" by Russian troops. Although Moldova has no aspirations to join NATO, it is keen to get into the EU. Its president, Vladimir Voronin, met his Russian counterpart, Dmitry Medvedev, in late August. Mr Medvedev said there was a "good chance" of settling the dispute. But after the August war, the Moldovans fear, rightly, that this might be done only on Russian terms.

Russia and Georgia

To end a war

Sep 11th 2008 | TBILISI
From The Economist print edition

Russian troops pull back under another ceasefire deal, but new ambiguities arise over deploying European monitors

THE French president, Nicolas Sarkozy, smiled happily. His Georgian counterpart, Mikheil Saakashvili, looked an unhealthy shade of grey. Yet his troops were routed in the August war with Russia, so he was in no position to bargain for better terms than Mr Sarkozy had brought from Moscow. At a joint press conference in the early hours of September 9th he thanked Mr Sarkozy fulsomely. Under the circumstances, with Russian forces soon to pull out of parts of Georgia where they had earlier dug in, the deal was not a bad one.

Soon after the conflict moved from tit-for-tat firing into full-blown war on August 7th, and Russian troops crushed the Georgians in the breakaway enclave of South Ossetia and appeared to menace Tbilisi itself, Mr Sarkozy flew to Moscow and secured a ceasefire. It was full of ambiguities that Russia exploited to allow its forces to create a buffer zone around South Ossetia and to remain in Senaki and the port of Poti. Under the new deal, these troops will all go.

“They should get the hell out,” declared Mr Saakashvili. Mr Sarkozy said everything had to be done “step by step”. In truth the new deal is ambiguous and tension remains high (a Georgian policeman was shot dead on September 10th). The deal says that some 200 EU monitors will replace Russians in the buffer zone, and also talks of a separate EU mission whose observers will, says Mr Sarkozy, be able to go wherever they want, including in South Ossetia and in Abkhazia, the other breakaway enclave. Sergei Lavrov, Russia’s foreign minister, angrily disputes this, saying that the observers cannot enter the enclaves. The agreement adds that Russian troops should withdraw to positions they held before the war, and Georgian troops should return to barracks.

This is where what seem like holes might be construed instead as constructive ambiguities. One-third of South Ossetia and the Kodori gorge in Abkhazia were held by Georgian forces before the war. It is inconceivable that the 500 Georgian soldiers who were in South Ossetia, not to mention policemen and refugees, will go back—for now. But so long as Mr Lavrov’s interpretation is rejected, Georgia may in future insist on a right to return. In the meantime, despite the terms of the deal, Russia is sending 7,600 more soldiers to Abkhazia and South Ossetia, and plans to keep military bases in both.

It is plain where the biggest problems will arise. The EU’s monitors may be welcomed in the buffer zone around South Ossetia, but they will have trouble getting into the two enclaves. Mr Lavrov has argued that, since Russia has recognised the governments of both, the Europeans should deal with them directly, something they will be reluctant to do.

Georgian minds are now turning to the economy. David Bakradze, speaker of Georgia’s parliament, believes that Russia balked at taking Tbilisi mainly because the morale of Georgians did not collapse in the face of their threat. Their tanks might have run into hundreds of thousands of protesters. Yet it is crucial to sustain the economy’s strong growth, because an economic collapse could, he suggests, be followed by political collapse—in which case Georgia could relapse into Russia’s orbit.

So far Georgia’s economy seems to be holding up, but it will be essential to maintain the flow of foreign direct investment. David Lee, who heads MagtiCom, Georgia’s biggest telecoms company (and the biggest American investment in the country), says that present investors have not been deterred, but that those looking for new opportunities might have been. Changing their minds, he says, “is now the battle that must be faced.” That is why the $1 billion in aid promised by the Americans, together with the $750m agreed in principle by the IMF, are so important, says Vladimer Papava, an economist. No doubt it is vital to repair war damage and replace lost foreign investment, but equally important is the symbolic value of this help, reassuring potential investors that Georgia is not being abandoned to Russia.

To endow this idea with more political weight, some diplomats think that Georgia might be given the equivalent of the European road maps being followed by Balkan countries, though without (for now) a promise of membership at the end. The Balkan comparison does not stop there. “The long-term implication of the Sarkozy deal,” says one diplomat, citing the pro-Western Serbian president, “is that Georgia has begun to adopt the [Boris] Tadic line.” That means pledging not to use force to regain lost lands, and focusing instead on EU integration and rebuilding the economy.

Germany's left

Enter the stone manager

Sep 11th 2008 | BERLIN
From The Economist print edition

The Social Democrats try to save themselves with a change of leadership

FAINT from loss of support, Germany's Social Democratic Party (SPD) has started its recovery. So claimed Frank-Walter Steinmeier on September 7th, as he added his party's nomination for the chancellorship to his day jobs of foreign minister and vice-chancellor in the "grand coalition". He will challenge Angela Merkel in the September 2009 election. This is not the opening shot of a drawn-out campaign, he insisted. But it will be hard for the SPD and Ms Merkel's Christian Democratic Union (CDU) to think about much else.

Mr Steinmeier's nomination was expected, if not so soon. More surprising was the departure of Kurt Beck as SPD chairman. He said he was a victim of "deliberate disinformation". Franz Müntefering, who has held the job before, will be the SPD's fifth leader in as many years. But the new team will bring new credibility. Mr Müntefering left the vice-chancellorship last year to care for his sick wife, who has since died. A rousing orator, he can make a plea for better health policy seem like a call to arms. Mr Steinmeier, known as the "grey efficiency", lacks such talent. He was chief of staff to Ms Merkel's predecessor as chancellor, Gerhard Schröder. Although this will be his first-ever election campaign, he is Germany's second most-popular politician after Ms Merkel, and has been honing his skills in the Brandenburg constituency chosen for him by the SPD.

Simply not being Mr Beck will be a help. Mr Beck's biggest mistake was to change his mind over whether to co-operate in western Germany with the Left Party. At first he said no. But after the Left won enough votes in January in Hesse to hold the balance of power, he said yes. Hesse's SPD plans to take power in the state with a minority coalition backed by the Left Party. Mr Steinmeier and Mr Müntefering cannot stop this. But voters are more likely to believe them when they rule out working with the Left at federal level.

Even so, they will find it hard to resolve the SPD's two big problems: a split between its left and reformist wings, and the broader challenge of the Left Party. Both defend Mr Schröder's Agenda 2010 reforms, which have cut unemployment but alienated core voters and fuelled the Left Party's rise. Their elevation suggests the SPD will now tack to the centre. But how to soothe its own left? After the leadership shuffle the Left Party gleefully offered disgruntled SPD supporters "asylum".

For now, the SPD is striving for unity. Stop dwelling on Agenda 2010, urged Mr Müntefering; look forward instead. A draft programme uses buzzwords that resonate with moderates (Germany must become more innovative) while suggesting higher taxes for the rich and easier retirement rules for those in strenuous jobs. It appeals to the middle class by proposing free education from crèche to university. Mr Müntefering is a reformer, but also an advocate of minimum wages. He "could always talk to trade unions", and Mr Steinmeier is "wise enough" to do so too, says Ursula Engelen-Kefer, a senior party member. The message is: we are socially minded but, unlike the Left Party, not economically scary.

Despite Mr Steinmeier's assurances, the focus will now shift from governing to electioneering. The coalition has unfinished business, including reforms of inheritance tax. But it is now like a dinner party where the conversation has run out yet the guests have to stay for dessert. Mr Steinmeier and Ms Merkel have already clashed on foreign policy. In dealing with Russia and China, he prefers quiet diplomacy to her "display-window politics". Such disputes will now acquire a new edge.

The change of leadership is paying dividends: support for the SPD has jumped four points to 26%, says Forsa, a polling firm. One test will be Bavaria's election on September 28th. The SPD cannot win, but a respectable loss would help. With Mr Steinmeier as candidate, the SPD may now narrow the gap with the CDU. Yet if it does so in 2009, the two parties could end up in another unloved grand coalition.

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WORLD

EUROPE

The French language

Franglais resurgent

Sep 11th 2008 | PARIS
From The Economist print edition

The French relax their prickly hostility to the English language

Illustration by Peter Schrank

DEFENDING the French language from the creeping invasion of English has long been a favourite pastime of France's elite. In 2006 Jacques Chirac walked out of a Brussels summit in protest at a Frenchman speaking in English. It is a point of national pride to defend *l'exception française* and to protect French music, film, even advertising, from the corrupting influence of English. So why are the French giving up the struggle?

As French children filed back to school on September 2nd, Xavier Darcos, the education minister, announced that he was increasing English-language teaching in the curriculum. "I've had enough of hearing that the French do not learn English," he said. "It's a big disadvantage for international competition." By the end of compulsory schooling, he promised, all pupils should be bilingual.

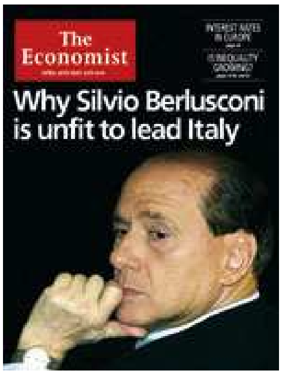
The French are embracing English in less high-minded ways too. When they entered a song in English at this year's Eurovision song contest, it provoked wry amusement abroad, but indifference at home. For many young French musicians singing in English is now *de rigueur*. The gravelly voiced French crooners of the past have given way to bands like The Do, Hey Hey My My, or Cocoon, whose latest album is called "My Friends All Died in a Plane Crash". "The children of globalisation are giving up writing in French," declared *Le Monde*, the bible of the French elite—without apparent regret.

Despite rules requiring advertising slogans in English to be sub-titled, French manufacturers brazenly borrow English words to confect brands in *franglais*. L'Oréal, a cosmetics group, promotes "Age Re-Perfect Pro-Calcium Nuit" and "Revitalift Double Lifting Yeux". France's fashion press is another cross-dresser, writing of "Vive la fashion attitude" or "Le Hit des It Bags". In a post-modern twist, teenagers are importing American slang via the heavily north African *banlieues*, where hip-hop flourishes and street dress is styled on the Bronx.

Once this might have had official France spluttering with indignation. The rules designed to fend off English remain—and are an obstacle to new musicians who do not qualify for the quota of radio time reserved for singers in French. Yet in the globalised, internet age, the French seem to realise, as Mr Darcos put it, that the losers from a refusal to learn English are themselves—and that speaking it need not make them less French. Even ministers host *un chat* on *le web*. Part of this is down to Mr Chirac's successor, Nicolas Sarkozy, who, although no linguist, rejects the atavistic anti-Americanism that underpins much hostility to English. Appropriately, "Comme si de rien n'était", the new album by his wife, Carla Bruni, has a track in English—presumably not one his predecessor will listen to.

Silvio Berlusconi

Sep 11th 2008
From The Economist print edition



In July 2001 Silvio Berlusconi, then the prime minister of Italy, launched a lawsuit in Italy alleging that *The Economist* had defamed him in “An Italian story”, an article in our issue of April 28th 2001. That issue had on its cover the title: “Why Silvio Berlusconi is unfit to lead Italy”. We are pleased to announce that the court in Milan has issued a judgment rejecting all of Mr Berlusconi’s claims and requiring him to make a payment for costs to *The Economist*. Mr Berlusconi’s lawyers have announced that he will appeal. He is once again prime minister of Italy.

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WORLD
EUROPE

Greece's government

Schools for scandal

Sep 11th 2008 | ATHENS
From The Economist print edition

A centre-right government beset by corruption allegations

Reuters

The other face of Greece

A LAWYER by training, Costas Karamanlis brushes off allegations of corruption within his government by saying that he trusts the Greek judicial system. Yet a string of bribery scandals has undermined the prime minister's approval ratings. Even some deputies in Mr Karamanlis's centre-right New Democracy party are grumbling. They point out that the judiciary moves at a snail's pace, lacks expertise in 21st-century financial crime and is influenced by politicians. None of the dozens of suspects under investigation for corruption has yet appeared in court.

At least one scandal has seriously embarrassed Mr Karamanlis. Christos Zachopoulos, a senior cultural official who once ran the prime minister's constituency office, attempted suicide last December amid allegations of blackmail by his secretary. Mr Zachopoulos has been accused by prosecutors of turning a blind eye to dozens of illegal deals allowing protected sites to be developed.

The sacking in July of George Zorbas, boss of Greece's anti-money-laundering unit, set more tongues wagging. Mr Zorbas complained that the judiciary had not backed his probe into a scandal about government bonds worth over €300m ($425m) that were bought by state pension funds at inflated prices. He could not look into offshore bank accounts used to channel proceeds from the scam. Mr Zorbas's preliminary report, which is said to implicate several politicians, went to prosecutors, but he fears it will be shelved.

With an election still three years away, Mr Karamanlis's laid-back attitude to such scandals might work. He has already shown himself to be a principled leader by sacking two cabinet ministers for minor breaches of the law. It helps that the opposition Socialists (Pasok) are in total disarray. George Papandreou, their pro-European leader, faces constant sniping from a discontented nationalist faction within the party. He lags well behind Mr Karamanlis in opinion polls.

Yet Mr Karamanlis may not be able to ignore Greek involvement in a bribery scandal at Siemens. Reinhard Siekaczec, a former executive at the German electronics giant, which supplies equipment to Greece's state telecoms operator, gave damaging testimony at a trial in Munich earlier this year. He said that "commissions" worth 8% of the contract's value were paid to Greek politicians and senior executives through a network of offshore companies. The total amount exceeded €1 billion, he claimed. Most of it apparently went to officials from Pasok, which held power from 1993 to 2004, but the New Democracy government elected that year approved a contract worth over €40m for security equipment for the Athens Olympics.

Nikos Zagorianos, a prosecutor investigating the Siemens affair, is shortly to go to Germany. One former Pasok official, Theodoros Tsoukatos, has admitted that he accepted €400,000 from the local Siemens boss as an election contribution in 1999, when he was a prime ministerial aide responsible for collecting political donations. Amid the furore, Kyriakos Mitsotakis, a New Democracy deputy who is the son of a former prime minister, recently paid an overlooked bill for a switchboard that was supplied to his private office by Siemens, after a copy of the invoice was printed in a Greek newspaper.

Cash-strapped voters are growing more critical of corruption in high places. After a decade of strong growth, the economy is slowing, though GDP is still expected to increase this year by 3.5%. Rising interest rates are putting pressure on incomes. Inflation is close to 5%. New taxes loom as Mr Karamanlis's government struggles to keep the budget deficit under control.

Mr Karamanlis's two-seat majority in parliament is too slim to allow for any mistakes. Several New Democracy backbenchers have come back from their holidays in rebellious mood. Sacrificing a few senior political leaders in the name of transparency might make more sense than having to fight an early election.

Charlemagne

A worrying new world order

Sep 11th 2008
From The Economist print edition

Europe frets about its place in a different world order

Illustration by Peter Schrank

NEVER has the European Union enjoyed such diplomatic prominence as this week, when Nicolas Sarkozy of France led an EU delegation to Moscow to secure yet another promise of Russian troop withdrawals from Georgia. Seen from Brussels, the Georgian crisis has exposed a tectonic shift in the global balance of power. It is not just that Russia is back. The crisis has also confirmed Europe's sense of an America in relative decline.

The EU has been slow to act in the Caucasus, and too wary of upsetting Russia, concedes one deeply Atlanticist minister. But the sad reality is that, in Georgia, "the Americans have been struggling to know what to do." It is a revealing comment. A previous generation of EU leaders, such as Jacques Chirac or Gerhard Schröder, dreamt of a multipolar world, in which several powers would wield clout. Now something like it may have arrived. Yet today's European leaders are not crowing. Talk to ministers and officials in private, and they admit that the new world order is making them anxious.

Their anxiety is justified. The EU mission to Russia relied on bluff, and the deal reached on September 8th glossed over some serious problems. It was silent on the withdrawal of extra Russian troops from South Ossetia and Abkhazia (because the loss of these enclaves seems a *fait accompli*). Big questions about ceasefire monitors and the return of refugees remain murky. Nor did the Russians show great respect for the Europeans. At one point, they hinted that their troops might not withdraw to pre-conflict positions after all (at which point Mr Sarkozy threatened to fly home). Russian officials fought against displaying the EU flag at the press conference, wanting only French and Russian flags on the podium. Their disdainful message was clear: Russian leaders cut deals with powerful countries, not insignificant clubs.

Yet that is to miss a key point. Mr Sarkozy's weight as a negotiator stemmed from a mandate, agreed by 27 EU heads of government, to demand that Russia pull back its troops. Admittedly, that mandate was backed by a fairly feeble threat (to delay talks on a much-delayed pact that Russia only vaguely wants). Still, a deal was done because Mr Sarkozy holds the rotating EU presidency, not because he is president of France.

Three days before Mr Sarkozy flew to Russia, EU foreign ministers met in the south of France. As thunderclouds loomed operatically over the old papal palace in Avignon, the assembled bigwigs struggled to define the new order. Some talked of an "apolar world", a phrase coined by Niall Ferguson, a British historian, before dismissing this as too bleak, for now. America remains an undisputed superpower, was the consensus: it is just that no single country can now control the world. Alexander Stubb, the Finnish foreign minister, talked of a new "era of overlapping systems", in which assertive nation-states challenge the idea of an open global system, governed by international rules, common values and multilateral organisations. French officials pointed to a speech by Mr Sarkozy that described an "era of relative powers". The multipolar world is here, and it is a dangerous and difficult place, said one French diplomat. Europeans had imagined the new world would be a "post-modern" paradise of dialogue and compromise, but that was "a bit naive".

The neo-polar world

For what it is worth, Charlemagne proposes a different label: this is a neo-polar world, in which old alliances and rivalries are bumping up against each other in new ways. The neo-polar order is easier to define by what it is not. The old multipolar world, as dreamt of by Mr Chirac and his friends, supposed that a European pole would form in opposition to American "hegemony". But that is not happening.

For one thing, even the crisis in Georgia has not been enough to shock the EU into a common position on Russia. To some, one highlight of Avignon was a successful push by Frank-Walter Steinmeier, Germany's foreign minister, to demand an inquiry into the causes and conduct of the war. That sounds harmless, until you grasp Mr Steinmeier's motives: he leads a camp that reckons Russia is unreasonably being held responsible for a war that was started (and lost) by the hot-headed, American-backed Georgians. This camp also thinks that EU statements condemning Russia have been hijacked by "hawks" such as Britain, Sweden and newer EU members from the ex-communist block.

The lack of mutual understanding is striking. For in fact the so-called "hawks" are equally scathing about Georgia's government. They just fear that Mr Steinmeier wants to bury the fact of Russian aggression in a morass of moral equivalence. The new members also deny they are hawkish on Russia. They use a different word to describe their position: fear. "What do the Russians need to do to scare western Europe?" wonders one minister from eastern Europe. "They have already scared us."

Assuming the neo-polar world remains a scary place, what then? Will that push Europeans towards a Euro-Atlantic pole? Some ministers think it might. French officials stress that their foreign policy has changed under Mr Sarkozy. In the brutal new world of power politics, they note, France has re-embraced "the camp of the West", including a stronger alliance with America.

Mr Sarkozy has drawn another lesson from the Georgian crisis, it is added: that the EU needs its own defence capability if it wants to be taken seriously. A French plan for a push on European defence can be expected in October, larded with promises not to undermine NATO. But he is likely to be disappointed: no consensus exists for a really ambitious defence project in Europe.

As events in Moscow showed this week, there is a place for Europe in the new world order. But Europeans do not agree over what it should be. America will elect a new president in November, and the poles of global power will move again. The world may not wait much longer for Europe to decide where it stands.

Fighting terrorism

Overt difficulties for the police

Sep 11th 2008
From The Economist print edition

A big trial convicts three terrorists, but dismays counter-terrorism officials

AP

IT MIGHT have been the biggest act of mass murder since the attacks on America in 2001: at least seven airliners flying from London to cities in North America would have been blown up by liquid explosives smuggled on board as soft drinks. Thousands would have died had the plotters not been arrested in August 2006.

That is how American and British officials recount Operation Overt. But on September 8th, when a London jury returned its verdict on eight British Muslims charged with the plot, it could not agree that the targets were civilian aircraft. Instead it convicted three men on vaguer charges of conspiring "to murder persons unknown", and was stuck on whether four others were guilty of the same offence. The eighth defendant, Mohammed Gulzar, al-Qaeda's alleged emissary, was acquitted.

It was a bittersweet end to one of the West's biggest anti-terrorist inquiries. Prosecutors had set out a mass of evidence gathered by the police: hydrogen peroxide for explosives, alleged bomb-making equipment, hollowed-out batteries to hide detonators, a memory stick containing details of transatlantic flights and "martyrdom" videos in the style of al-Qaeda.

MI5, Britain's domestic-intelligence agency, had video and audio recordings from bugs in the gang's safe house in Walthamstow, east London. The plotters were seen rehearsing how to turn plastic bottles into bombs; they were even heard recording their valedictory messages. "Now the time has come for you to be destroyed," says Abdulla Ahmed Ali (pictured above), the group's leader, jabbing his finger.

Mr Ali told the court that his group did not intend to destroy aircraft; it only wanted to stage a stunt by harmlessly setting off small bombs, perhaps at Heathrow airport. The jury did not believe him, but was in doubt as to his real target and how many were involved. With airlines demanding the end of restrictions on carrying liquids in hand luggage, British prosecutors said they would apply for a retrial of seven of the men, alleging that they all "conspired to detonate improvised explosive devices on transatlantic passenger aircraft".

Operation Overt underscores the difference between intelligence and evidence that can stand up in court—particularly when cases deal with conspiracies rather than with acts of violence actually committed. Prosecuting terrorists in ordinary criminal courts—not American-style military commissions or the juryless

Diplock courts from Northern Ireland's Troubles—has many benefits: it underscores the fact that the terrorist threat is real, helps maintain public consent for anti-terrorist measures and may encourage Muslims to address the problem of violent Islamist radicalism in their midst. But many people, convinced that these defendants were guilty, are chagrined by the verdict.

Those advocating new legal powers against terrorism—lengthening pre-charge detention, increasing the scope for post-charge questioning or making telephone intercepts admissible in court—will find little to support their case in Operation Overt. Rather than seek such authority, senior policemen involved in the investigation have singled out the importance of electronic surveillance and the need for a country-wide counter-terrorism squad.

For now, most scrutiny has fallen on the delicate business of international intelligence co-operation. For America's security services, the biggest threat comes from Europe's Muslim extremists, especially Britain's, who can enter America relatively freely. It counts on Britain to share what it knows. In turn Britain, which is hated by al-Qaeda almost as much as America, relies heavily on the latter's vast intelligence resources—not least its monitoring of e-mails and money transfers.

Both countries are vitally dependent on the assistance of Pakistan, in whose lawless tribal belt al-Qaeda's leaders are thought to have found sanctuary. Britain's large population of Pakistani origin—particularly the angry sons of migrants—gives al-Qaeda an obvious avenue of attack.

Intelligence collaboration, say Western security officials, is the "unsung success" of the fight against al-Qaeda. But the Overt case offers a glimpse of its pitfalls. Senior British police sources say they were rushed into arresting the plotters because a related suspect, Rashid Rauf—allegedly al-Qaeda's linkman—had been unexpectedly arrested in Pakistan at America's behest. News of the arrest, they say, might have prompted the plotters to destroy evidence, disperse or, worse, attempt a "desperate attack".

Some say that allowing the investigation to run longer would have increased the chances of gathering evidence—complete bombs, or purchased airline tickets—for a more convincing prosecution. In truth, though, British police planned to make the arrests just three days later because the plotters seemed close to striking.

"I think the Americans lost their nerve. They could not stand the risk of another attack," says one British source, who claims the decision to arrest Mr Rauf came from the White House. Not true, retort the Americans. Philip Mudd, an official at the FBI, says Mr Rauf was arrested because he was about to travel to the tribal areas; America might have lost a big al-Qaeda figure and potentially important intelligence.

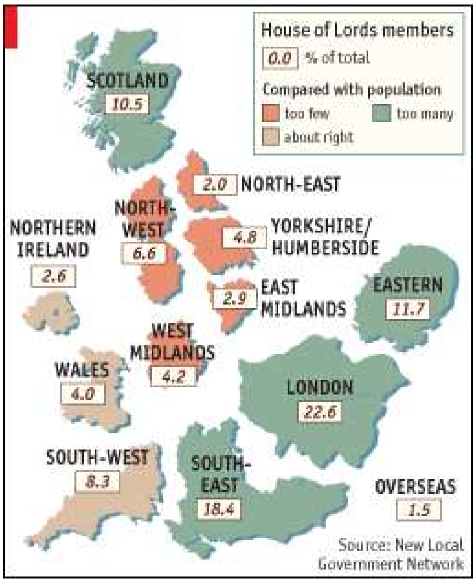
Debates about tactics are to be expected. More alarming is the ineptitude of the Pakistani police, who allowed Mr Rauf to escape last December. As he was brought from court to prison, he asked to stop and pray in a mosque and slipped out, never to be seen again. If he is busy planning the next attack, American and British spooks had better be on good terms.

Government beyond the capital

How dukes improved diversity

Sep 11th 2008
From The Economist print edition

A day-trip to Birmingham does not disguise how south-centred Britain is



CABINET meetings outside London are rare and reluctant things. Harold Wilson held one in Brighton in 1966, but only because the Labour Party was already there for its annual conference. In 1921 David Lloyd George summoned the Liberals to Inverness because he didn't want to cut short his holiday. Gordon Brown's decision to hold his first cabinet meeting after the summer break in Birmingham, on September 8th, was born of a nobler desire to show the almost nine-tenths of Britons who live outside London that they are not ignored. He will have to do better: constitutionally, they are more sidelined now than ever.

Many legislatures use their second chamber to strengthen the representation of sparsely populated areas (every American state, from Wyoming to California, gets two votes in the Senate, for example). Britain's House of Lords, most of whose members are appointed supposedly on merit, has the opposite bias. A survey by the New Local Government Network (NLGN), a think-tank, finds that London and two of its neighbouring regions are home to more peers than the rest of Britain combined; even Birmingham, the country's second-largest city, has just one (see map).

Oddly, this distortion is partly thanks to reforms that were supposed to make the Lords more representative. By throwing out most of the hereditary peers in 1999, Labour paved the way for a second chamber that was less posh, less white and less male than before. But in booting out the landed gentry, it also ditched many of those who came from the provinces. The Duke of Northumberland (270th in the *Sunday Times*'s "Rich List") may not be a member of a downtrodden minority. But Alnwick Castle, his family pile, is in the North-East region, home to just 2% of the Lords' members now. Geographically speaking, the duke and his fellow toffs were champions of diversity.

The government now wants to reintroduce some geographical fairness, but minus dukes. Long-incubated plans to reform the Lords would see it converted during the next parliament into a body that is mainly or entirely elected. A white paper in July outlined various electoral systems, all based on regional or sub-regional constituencies.

Some would like to see the seat of government prised out of the capital altogether, though in the past this has normally required a civil war or a plague. Southerners whisper that no one would show up if Parliament were based in a backwater such as Manchester. But many don't now. The NLGN found that peers resident in Northern Ireland vote least often. But next from the bottom are the London-dwellers, who show up for less than a third of the votes on their doorstep. Even the eight who live abroad are more assiduous. The north may seem an awfully long way away, but apparently so is Westminster.

Labour and the unions

Sibling rivalry

Sep 11th 2008
From The Economist print edition

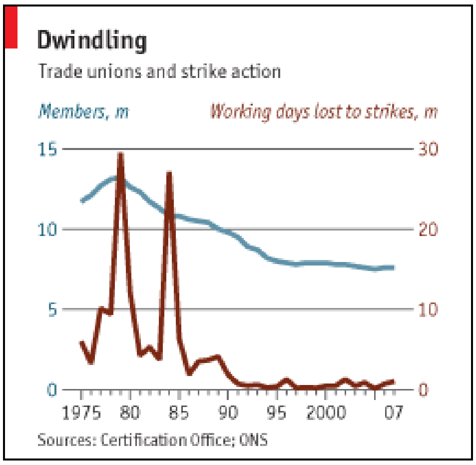
The trade unions are not as fearsome as they look

AN ECONOMY sapped by inflation; pugnacious trade unions threatening strikes; an unelected Labour prime minister, weakened by mishandled speculation about a snap election, trying to keep pay settlements down: for Britons who recall the crises that gripped their country in the late 1970s, current events must seem disturbingly familiar.

Gordon Brown, as beleaguered a prime minister as James Callaghan was 30 years ago, insists that pay rises must be in line with the government's inflation target of 2%. The unions, who converged on Brighton for their annual Trades Union Congress (TUC) on September 8th, are livid, brandishing stories of underpaid members struggling to pay for food and fuel. On its opening day the gathering voted overwhelmingly for a campaign against the government's pay policy, including a national demonstration.

Coastguards, immigration officers and local-government workers are among the public-sector employees who have already held strikes this year. The Public and Commercial Services (PCS) union will ballot its members, mainly civil servants, on three months of industrial action. And the grievances aired in Brighton go beyond pay: the unions want a "windfall tax" on the profits of energy firms (something Alistair Darling, the chancellor, did not rule out in his coolly-received speech to the Congress on September 9th) and less market-based reform of public services.

For all this, parallels with the late 1970s, when strikes paralysed the country and brought down the government, have their limits. Mr Brown's plight may recall Mr Callaghan's, but the unions pose nothing like the threat they did. There were 13.2m union members in 1979, accounting for 55% of all employees; their numbers have now shrunk to 7.6m (see chart). If they are bent on causing similar mischief, their capacity to do so has been diminished.



But it is not clear that labour leaders do want this. Insiders say that 11 years of dealing with a sympathetic government has educated union bosses in political realities—they now know to pick their fights. Fantastic demands are still made, such as the return of secondary picketing, but these are half-hearted rituals. And though the TUC voted for a campaign on pay, it rejected a firebrand amendment calling for a general strike. "This was not an unusually left-wing Congress," says one Labour MP. "It just got more attention because of the government's troubles."

Nor do the unions have an interest in further weakening Mr Brown. Few delude themselves that the prime minister is a blood-red socialist: he did not concede much to them at a policy summit in Warwick in July. But they fear David Miliband, the foreign secretary and the bookies' favourite to replace Mr Brown. On the eve of the congress, Derek Simpson, the joint general secretary of Unite, a mega-union, described Mr Miliband as "arrogant" and compared his views to those of David Cameron, the Conservative leader. The next day, Keith Sonnet, deputy general secretary of Unison, the main public-sector union, implored the Labour Party to "stop squabbling". Mr Brown will have been grateful for both interventions.

None of this is to deny that the unions could again have a profound impact on politics. New Labour's ideological accommodations with free-market economics were tolerated by many in the party only because it was a winning creed. Defeat at the next election, the likely loss of many centrist MPs with marginal seats, and the party's reliance on union money (74% of donations in the first half of 2008 came from organised labour) may well make Labour turn left. If so the unions, who help to choose the party's leader, could vote to install a favoured candidate, such as Alan Johnson or Ed Balls, both union-friendly cabinet members.

And there is now as much new thinking on the left of the party—from MPs such as Jon Cruddas and organisations like Compass—as on the right. It was clear in the early 1990s that a rightward shift was Labour's only path to power, but there may be two when it next enters opposition. Modernisers will want to compete with the Tories on low taxes and public-service reform. But the unions may cite Mr Brown's most unpopular policy (scrapping the 10% starting rate of income tax) as supposed proof that the electorate is now slightly to the left of Labour. A Populus poll published in the *Times* on September 11th suggested just the opposite.

London's transport mess

Holes underground

Sep 11th 2008
From The Economist print edition

Expensive Tube upgrades could mean sacrifices elsewhere

Get article background

Illustration by David Simonds

FITTINGLY for a city that earns its living from the brain-melting complexities of international finance, London is home to one of the most baroque public-infrastructure deals in the world. And like the financial products offered by the City—blamed for contributing to the current global financial crisis—the Public-Private Partnership (PPP) contracts to upgrade the capital's creaking Underground network now look like complicated, costly mistakes.

Chris Bolt, the PPP Arbiter and philosopher-king, has the unenviable task of refereeing the contracts, judging the engineering firms' performance and plans against those of a platonically ideal one and deciding who should pay for what. On September 9th he published his assessment of the cost of the work to be carried out on three Underground lines between 2010 and 2017. Transport for London (TfL), the official body that oversees the Tube, had hoped that the work could be done for £4.1 billion ($7.2 billion). Tube Lines, the consortium of firms carrying out the upgrades, thought it would cost £7.2 billion. Mr Bolt suggested a figure of £5.1 billion-£5.5 billion.

Mr Bolt's pronouncement was only preliminary, but like all good compromises it left both sides with problems. Tube Lines must figure out a way to shave £2 billion from its projected costs. That is uncannily similar to the size of the cost overrun that bankrupted Metronet, the consortium responsible for the rest of the Tube, last year. But Terry Morgan, the boss of Tube Lines, seemed sanguine, leading many observers to conclude that the firm had deliberately pitched its bid high.

More worrying for Londoners is the £1 billion-£1.4 billion hole that Mr Bolt has torn in TfL's spending plans. When Metronet went bankrupt in 2007, a government guarantee forced TfL to repay £1.7 billion to the consortium's banks. That money was reimbursed by the Treasury, and TfL hopes for something similar this time. It said crossly in a press release that it expected central government to cough up since it had "imposed" the PPP on London over the objections of officials (and two court challenges) in the first place.

Privately, TfL officials concede that they are unlikely to receive a billion-pound cheque from a Treasury already short of cash. One alternative could be to scale back the work TfL wants Tube Lines to carry out, an idea flatly rejected by Tim O'Toole, London Underground's boss. He points out that passenger numbers are rising steadily, and argues that any reduction in the contracts' scope would leave the network unable to cope. Stephen Glaister, a transport expert at Imperial College London and a former member of TfL's board, agrees, saying that engineering considerations leave little room for cuts without crippling the entire system.

If the contracts cannot be changed, more money will have to be found. Fare hikes seem unlikely: a 6% rise announced earlier this month was unpopular, and the Tube takes in only around £1.5 billion a year from fares in any case. Mr O'Toole talks of raising money from the markets, but it would have to be repaid sooner or later.

The final option is to divert cash from other projects. One possible sacrifice is Crossrail, a £16 billion scheme to link the east and west of the city with a new rail line that was given the go-ahead last year. Boris Johnson, London's newly installed mayor, is opposed to the idea, saying in July that Crossrail and the Tube upgrade are "co-equal" priorities. But financially the prospect is tempting: Tony Travers, an economist at the London School of Economics, points out that a business tax designed to pay for Crossrail is not ring-fenced and could be diverted for a few years to plug the funding gap in the Tube upgrade. But delaying Crossrail yet again would be embarrassing too: it was first proposed in 1989 and its frequent postponements have become a running joke.

Ranking British education

Earlier, not better

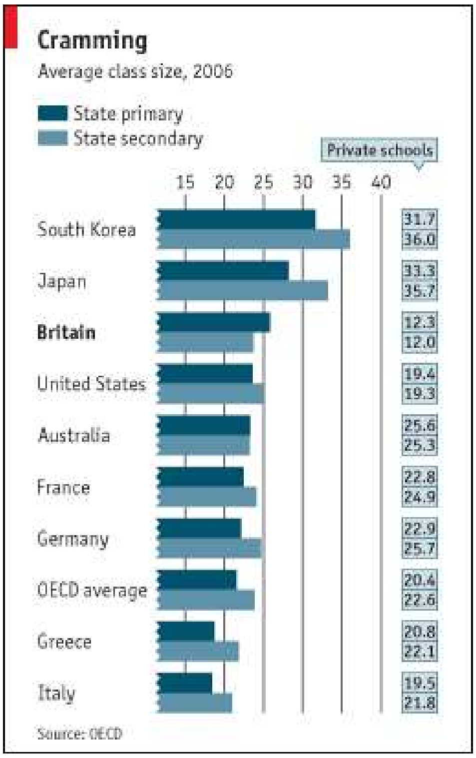
Sep 11th 2008
From The Economist print edition

An international comparison highlights some strange spending priorities

“EDUCATION, education, education”, trumpeted Tony Blair during his campaign to become prime minister. In 1997 state schools seemed in a parlous state, with crumbling corridors, poorly paid teachers and young children crammed into classrooms. In time, Mr Blair duly lavished money on rebuilding schools, paying teachers more and limiting classes for the under-sevens to 30 pupils.

The result of these and other changes, says an OECD report published on September 9th, is that Britain now spends just above the rich-country average on education. The think-tank found much to praise: lots more pre-school places (thought to help poor children catch up); more youngsters going to university (although other countries are pumping out extra graduates even faster); the increase in tuition fees to shore up university funding; and low university drop-out rates (21%, ten percentage points below the OECD average).

Yet the OECD’s analysis also gives pause for thought. Britain has indeed splashed out on education but in some questionable areas, and it has squeezed, perhaps unwisely, in others. The first pricey move was to get more children into formal education very early: almost all now start school aged just four. They then spend nearly 900 hours a year in primary school, 100 more than the OECD average. There are plenty of adults in classrooms: the past decade has seen a mass recruitment of “teaching assistants”, but they are poorly paid and often poorly trained. Pennies are then pinched by stuffing nearly 26 children into each primary class—four more than the OECD average (see chart).



Much research on the effect of class size on learning has been inconclusive—and OECD data suggest that both Japanese and South Korean children learn more at school than British ones, despite their larger classes. But researchers at London’s Institute of Education trawled through the evidence and found that under-sevens, at least, learn more in smaller classes—and that an extra adult in the classroom does not produce the same benefits. Nor does starting young and with a long school day seem to help children learn. In most countries—including some stars of international rankings such as Australia, Canada and Finland—children start school a year or two, or even three, later than in Britain, and many have shorter days.

Parents agree that smaller classes are important: most say they would educate their children privately if they could afford it, with smaller classes the biggest draw. And smaller classes they would indeed get: with just over 12 children in the average private primary classroom, the gap between state and private class size is bigger in Britain than anywhere else in the OECD.

The strongest evidence of poor spending decisions in education, though, is the dubious quality of the end product. The OECD ranks Britain 17th among 57 countries in literacy, 24th in mathematics (below the average) and 14th in science—a poor showing for a rich country with a fine intellectual tradition. And by international standards very large numbers leave school without what it calls “baseline qualifications” (five good GCSEs): two-fifths of all 16-year-olds, fewer than half of whom remedy the omission later. This large, ill-educated rump face the second-highest earnings penalty for their lack of qualifications in the OECD, behind only America’s, and a high risk of joblessness too.

Faced with this depressing scene, the government has three policy responses. The first is to formalise early education still more—a new early-years framework pushes such activities as recognising letters and holding a pen even further into babyhood. The second is to insist that students stay in education longer: until 17 by 2013 and until 18 by 2015, rather than until 16 as now—so most English children will end up spending 14 years at school rather than 12, as is usual in other rich countries. The third is the creation of new, less academic "diplomas" for these unwilling students. On the evidence, none looks likely to help—although starting school later might, and would be cheaper, too.

Resuscitating the housing market

Will Britain follow America's lead?

Sep 11th 2008
From The Economist print edition

Gordon Brown and Mervyn King will clash over reviving mortgage lending

SELDOM do policies blow across the Atlantic so swiftly and win such instant favour. The British press was quick to lavish praise on the federal government's decisive handling of America's two ailing mortgage giants, contrasting their weekend bail-out with the prolonged agony before Britain's Northern Rock was eventually nationalised. The prime minister, Gordon Brown, immediately faced calls to emulate the American example and revive mortgage lending by getting the government to underwrite new home loans.

Such an intervention to underpin the housing market would be far more significant than the package of measures announced on September 2nd. This feeble hotchpotch was widely dismissed as inadequate, not least since its centrepiece, a temporary suspension of stamp duty for about a quarter of homebuyers, will count for little while house prices are in free fall. Lenders have instead been pressing the government to back new mortgage loans.

Fresh signs of distress in the housing market have added weight to such pleas. The number of homes sold in the three months to August was at a 30-year low, according to the Royal Institution of Chartered Surveyors. This is hardly surprising, given the slump in mortgage approvals for purchasing homes.

An opportunity for the government to follow in America's wake may come within weeks when Sir James Crosby, a former boss of HBOS, Britain's biggest home-lender, completes his review of the wholesale mortgage market for the Treasury. His interim report, published in late July, made clear the extent to which housing finance in Britain had come to depend in recent years upon the purchase of securitised bundles of home loans by mainly international investors. The mortgage famine started when the securitisation market closed abruptly a year ago.

Sir James was dubious about government stepping in to back mortgages "on the grounds that such intervention would create more problems than it would solve"; but he did not rule it out altogether. His final report, due this autumn, may provide the cue for Mr Brown to show that his government can be as decisive as America's in rebooting the housing market. But even if he can overcome Sir James's scepticism, he will face opposition from Mervyn King, the governor of the Bank of England.

The central bank is already providing help for lenders through its "special liquidity scheme", which started in April. The facility was introduced to help banks overcome fears that they might run short of cash by letting them swap illiquid mortgage loans already on their books at the end of 2007 (after securitising them) for Treasury bills for up to three years. The six-month window for them to grab this opportunity closes in late October.

But whereas Mr King has been prepared to counter worries about liquidity in this way, he trenchantly rejects the idea that the public purse should underwrite new home loans. In August he said that it would be "a very dangerous move" to guarantee mortgage lending. Such a step would let lenders off monitoring how risky their loans were, which was why that was "not the route to go down".

Mr King restated his objections to government intervention when giving evidence to MPs on September 11th. He said that the Bank of England would shortly set out new proposals for making liquidity available to banks on a permanent basis. But the central bank could not provide a source of long-term mortgage finance: only savers or taxpayers could do that. Mr Brown—who is, after all, a politician in a deep hole—can nonetheless press ahead with a plan to prop up the mortgage market. But following Mr King's strictures, he will not be able to fudge the fact that such an intervention will put taxpayers at risk. The governor's emphatic disagreement with the policy makes it harder for the prime minister to push it through.

Back to manufacturing

The discreet charm of the factory floor

Sep 11th 2008
From The Economist print edition

The government has hopes of prompting a revival

HOW many schoolboys or schoolgirls dream these days of making wizard machines that will change the world? Too few, in the eyes of BERR, the Department for Business Enterprise and Regulatory Reform. A policy paper launched on September 8th aims to revamp the image of manufacturing in Britain in order to attract more apprentices and graduates. And the government is not alone in touting the charms of the factory floor: newspapers are full of articles urging Britain to return to its industrial roots. And small wonder, for the financial-services sector, long the engine of economic growth, is on its uppers.

Manufacturing might appear an unlikely saviour. As recently as 1978, it accounted for 26% of GDP; today it contributes only 14%. Output shrank for the fifth straight month in July, according to figures released on September 9th—the longest declining stretch in seven years. Nor are firms optimistic about their prospects. Manufacturing exports may benefit in time from sterling's slide, but the sluggishness of the euro zone, Britain's main export market, makes it hard to exploit any currency advantage.

Yet the picture is fuzzy. Some sectors are thriving: car production, for example, continues to expand, though the companies are no longer British-owned. Many firms are high-tech, flexible and plugged-in globally. And it is harder than it was to define British manufacturing anyway: Dyson, a maker of vacuum cleaners, designs products in Wiltshire but makes them abroad; GKN, an engineering firm, manufactures 85% of its products offshore; and Rolls-Royce earns more from service contracts than it does from making aero engines.

BERR's message is that the government favours a mixed economy, not a post-industrial jungle, and will take steps to promote one. It plans to sponsor apprentices and links between firms and universities, and to encourage business clusters with global, not just national, suppliers.

Manufacturers, who generally consider themselves officially ill-used, are pleased that the government is recognising their importance. But the modest finance promised—£140m to increase science and technology education in schools, £127m to support skills training by employers and co-sponsorship for around 10,500 apprenticeships—may not make much impact.

Where the government could make a difference, some say, is by becoming a more co-operative customer. Britain spends £150 billion a year on public procurement. In sectors such as defence, aerospace and pharmaceuticals, government buyers have worked closely with industry. But the British have been cautious about giving most firms too specific a lead, unlike the French and Germans, says Nick Brayshaw, head of manufacturing at Barclays Bank, because they worry about breaching the European Union's competition rules. BERR now sees an opportunity, it says, particularly in green technologies, to give a clearer sign that it wants and will pay for innovation.

BERR pledges to use regulation and procurement to promote manufacturing of low-carbon and sustainable products. Fine words, but rather late. Britain missed out on leadership in the wind-power industry, scooped by Germany and Denmark. It might be able to catch up in technology to harness marine tides, says Niall Stuart at the Scottish Council for Development and Industry, and the government reckons its clusters of nuclear and oil expertise have under-tapped potential—although British nuclear know-how is a bit long in the tooth. BERR also singled out clean-coal carbon capture and storage—but in the same week that a Swedish-owned pilot plant, the first of its kind, fired up in Germany.

The hope that the quest for green solutions will attract new and youthful talent, once lured by financial services, to manufacturing is a fair one. But a catalyst to shift a generation? Perhaps not.

Bagehot

Redwhiteandbluenecks

Sep 11th 2008
From The Economist print edition

Who speaks for the Palin constituency in Britain?

Illustration by Daniel Pudles

“A BACKWOODS, polar-bear-strangling Britney Spears manqué”; “Vice-President Barbie”: British newspaper columnists have sneered at Sarah Palin at least as energetically as some East-Coast Americans. Typically, however, there has also been an equal and opposite reaction to her appearance on John McCain’s ticket: we want one! This enthusiasm has generally been motivated by the sexy-librarian look and the Alaskan-gothic back story. But there are also sensible reasons for Britain’s political classes to pay heed to Mrs Palin. She seems able to speak in the demotic lexicon of cross rednecks and others disenchanted with mainstream American politics. British politicians are unable to do the same.

On the face of it, the redneck is not a species likely to flourish in an urbanised, godless little country such as Britain. Large fauna are not routinely slaughtered for fun; people cling to pubs and satellite-television dishes rather than Bibles and hunting rifles; few race tractors or follow NASCAR. But there is a constituency that roughly corresponds, in its values and anxieties, to the rural and small-town voters whom Mrs Palin appeals to. It can be divided into two sub-groups. The first comprises what is left of Britain’s white working class, plus bits of the workless class.

These people don’t plant national flags on their porches like their American counterparts, because they have no porches: they live on council estates or in terraces in ex-industrial towns. But they may fly flags on their cars when the English football team is playing. They are poorly educated; their children are outperformed by immigrants at school, and prone to early pregnancy. They eat too much heart-attack food (though no squirrel gumbo). They drink in working men’s clubs and pubs that don’t have chalkboard daily menus. They keep terrifying dogs. They are savagely parodied by comedians: they are known as “pikeys” or “chavs”— terms which, unlike “redneck”, have not been defiantly reclaimed by those they apply to—or as “white-van man”. Where the American redneck is immortalised in “The Dukes of Hazzard”, these lives are chronicled in “Auf Wiedersehen, Pet” and “Boys from the Blackstuff”, two iconic 1980s television series.

The second group has moved up and out, to newly built housing estates and semi-detached homes in regions such as the Midlands and Essex, a county roughly equivalent, in Britain’s psychogeography, to New Jersey in America’s. (Members of this group are mostly lower-middle class, but are liable to define themselves, if asked to, as working class: tellingly, lots of middle-class Britons downgrade themselves a notch, whereas in America the reverse is the case.) Instead of hunting trophies, these people may have royal memorabilia on the walls, paintings by Jack Vettriano and flat-screen TVs. They drive family saloon cars rather than pickup trucks. Their outlook is grumpily elegiac.

Millions of Britons in those two categories share a set of core beliefs. These are not simplistically right-wing: they may think taxes are too high but they also revere the National Health Service. But they are largely reactionary. The British redneck may not be quite as parochial as the passportless American types—geography and cheap flights mean that he can holiday in the Mediterranean—but he is similarly insular in his way. He is suspicious of metropolitan, multicultural London. He lives close to where he was born. He is patriotic, nervous (or worse) about immigration and feels stranded by globalisation. He has draconian views on crime; he may favour the reinstatement of capital punishment. He is devoutly Eurosceptic. And he loathes politicians—hardly surprising, since very few speak like him, for him or even to him.

Tally-ho!

Gordon Brown tries to sound sympathetic, in his obeisance to "hard-working families" and his questionable advocacy of "British jobs for British workers". But he is too cerebral, too puritanical, too Scottish. David Cameron, the posh leader of the Conservatives, has been hunting, but not for moose. He does not connect with Essex in the way that Margaret Thatcher did. There are, in fact, precious few politicians on either front bench whom Britain's rednecks can think of as "one of us". Alan Johnson, the health secretary, and Hazel Blears, the communities secretary, are the only plausible candidates in the cabinet.

That lack is in part a reflection of the boringly professionalised career that politics has become. There is still a small gang of old-school industrial Labour MPs, who huddle in solidarity in the House of Commons; but there used to be many more who had personal experience of the social problems they opined on. Politics is now a game played by slick graduates, who work in think-tanks or back rooms before climbing the pole to their own seats, and are unlikely to drop their aitches. The party machines weed out authentic mavericks much more mercilessly than America's presidential system. This is as true of the Tories as it is of Labour, which is why neither side makes a fuss about it.

But the absence of redneck representation is also partly a function of Britain's recent political convergence. The main parties have crowded into the ideological centre, in pursuit of the magical swing voters in key constituencies. More extreme views inevitably get marginalised: they may be widely held, but in places and geographical patterns that make them electorally safe to ignore. So the loudest voices articulating the redneck attitude belong to blood-spitting tabloid newspapers. Liberal Britons who skip the *Sun* and the *Daily Mail* rarely encounter it, or indeed rednecks themselves, unless they meet at motorway service stations or on budget air flights. They are as distant from each other, intellectually, as are the denizens of New York and the Ozarks.

It isn't only the rednecks who ought to worry about the consequences of this. These include the stark decline in turnout at general elections—concentrated at the bottom of the social scale—and the creeping rise, in some places, of the far-right British National Party. Importing a Palin or two might be sensible.

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Climate change and the poor

Adapt or die

Sep 11th 2008
From The Economist print edition

Environmentalists have long said the world should concentrate on preventing climate change, not adapting to it. That is changing

Panos

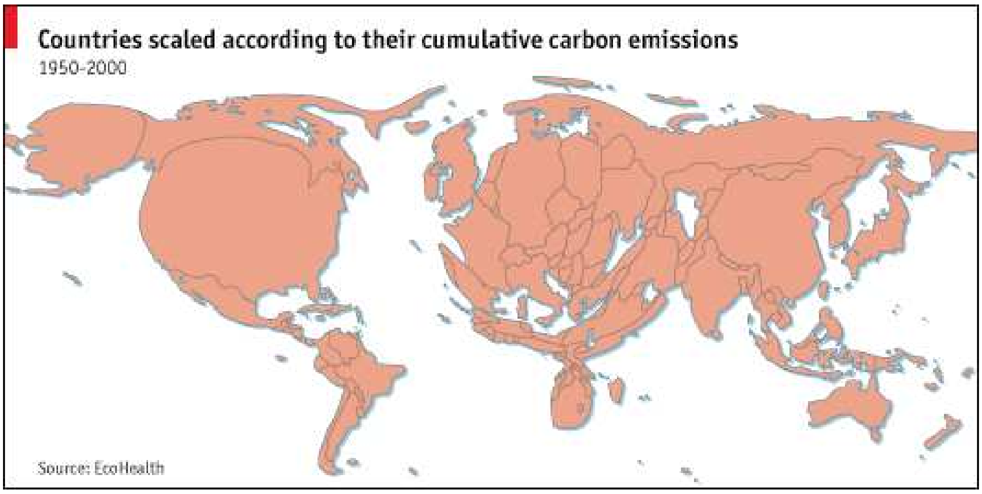
"I USED to think adaptation subtracted from our efforts on prevention. But I've changed my mind," says Al Gore, a former American vice-president and Nobel prize-winner. "Poor countries are vulnerable and need our help." His words reflect a shift in the priorities of environmentalists and economists.

For years, greens said adaptation—coping with climate change, rather than stopping it—was a bit like putting out a fire on the Titanic: desirable, no doubt, but the main thing was to change course. In July, however, a committee of America's Senate set aside $20m for international adaptation efforts. That was peanuts; and nothing will come of it anyway because there is no comparable legislation in the House of Representatives. But it was the first time American legislators had showed willingness to put money into global efforts at coping. In June, the United Nations hammered out the details of how to control spending of the first carbon tax earmarked for international adaptation.

Two things have changed attitudes. One is evidence that global warming is happening faster than expected. Manish Bapna of the World Resources Institute, a think-tank in Washington, DC, believes "it is already too late to avert dangerous consequences, so we must learn to adapt."

Second, evidence is growing that climate change hits two specific groups of people disproportionately and unfairly. They are the poorest of the poor and those living in island states: 1 billion people in 100 countries. Tony Nyong, a climate-change scientist in Nairobi, argues that people in poor countries used to see global warming as a Western matter: the rich had caused it and would with luck solve it. But the first impact of global warming has been on the very things the poorest depend on most: dry-land agriculture; tropical forests; subsistence fishing. In a recent paper* for the Brookings Institution, a think-tank in Washington DC, Robert Mendelsohn of Yale University estimates that African farmers on rain-fed land will lose $28 per hectare per year for each 1°C rise in global temperatures. Global warming erodes coastlines, spreads pests and water-borne diseases and produces more erratic weather patterns.

The victims share two characteristics. They are too poor to defend themselves by expensive flood controls or sophisticated public-health programmes. And (unlike China or Brazil) their own carbon footprints are tiny. Kirk Smith, a professor at the University of California, Berkeley, calls climate change the world's biggest regressive tax: the poorest pay for the behaviour of the rich (see map).



The new focus on adaptation shows itself in a slew of private- and public-sector projects. A private Australian company called New Forests cleans up degraded land in South-East Asia, creates "biodiversity conservation certificates" and sells them to big firms which want to be greener. Swiss Re is designing new kinds of subsidised insurance to help poor farmers in a dozen African countries guard against some of the impacts of climate change, creating innovative climate-risk indices and weather derivative contracts. Dozens of small firms advise big ones on cutting their carbon footprints; although most aim at reducing emissions, a few invest in reforestation, soil protection and the like.

On the public-sector side, rich-country governments are levying new taxes and using the revenues for global poverty-reduction and adaptation. France, for example, imposes a tax on international flights of between €1 and €40 per seat, using the money for HIV/AIDS in Africa. Some environmentalists want a similar tax on all international flights to help adaptation. Countries are creating adaptation funds by auctioning rights to pollute under cap-and-trade arrangements. A fifth of the money raised by the European Union's emissions-trading scheme—forecast at over $2 billion a year by 2020—is supposed to go on climate-change efforts including, as the scheme says, "developing countries' adaptation". A bill proposed this year in America's Senate would have generated $10 billion-20 billion a year after 2025. The bill failed but similar steps have the backing of both Barack Obama and John McCain.

Most important, a United Nations conference in Bali last December set up what is essentially a global tax on carbon, with the money to be spent by an international body. Under the Kyoto protocol, companies in rich countries that have signed the climate accords can finance reductions in emissions by private firms in developing nations. In return, rich-country companies can offset a portion of their own (capped) emissions. These company-to-company deals produce "carbon credits" which have a value and can be traded. In June, it was agreed that 2% of that value (forecast at up to $950m by 2012) will go into an adaptation fund controlled by donors and recipients. About $100m-worth of these credits are already in the bank.

So adaptation is becoming a proper business. As it does so, however, it encounters a host of problems.

$50 billion, or thereabouts

Estimated costs of adapting to climate change

Assessment by	Annual cost $bn	In
UNDP (2007)	86	2015
UNFCCC (2007)	28-67	2030
World Bank (2006)	9-41	2008
Oxfam (2007)	>50	2008
Stern Review (2006)	4-37	2008

Source: World Resources Institute

To begin with, the money involved is just a puff of smoke. Back-of-the-envelope calculations suggest the cost of coping with climate change is in the tens of billions a year for poor countries (see table). The total pledged to date (cumulatively, not per year) is $300m, of which just 10% has actually been spent. China says rich countries should allocate 0.5% of their national incomes in official aid to help developing countries adapt. But most rich countries are failing to fulfil earlier promises to increase aid for other reasons, so that looks like a non-starter.

The discrepancy means poor countries will end up bearing most of the burden themselves. China has a national climate-change programme with an elaborate series of targets and exhortations to cope. Bangladesh this year put $50m into a national adaptation fund and invited rich countries to add of their plenty. But this sort of thing is much easier for giants like China or large countries like Bangladesh, than it is for poorer Mali or tiny Maldives.

With more problems than money, there will—as always—be a fight over the spoils. Rich countries may concede the poor are harder hit and need help, but once there is a pot of money, they too will want a share. For an American administration, rebuilding the levees of New Orleans (an adaptation programme) will take precedence over projects in Africa or the Caribbean.

Even if poor countries do get help, there are bound to be fights over how to use it. In general, says Saleemul Huq of the International Institute for Environment and Development in London, most adaptation spending should go on what countries are doing anyway—irrigation, drought-resistant seeds and so forth. But that leaves plenty of room for disputes.

If sea levels go up, do you build sea walls or rehouse people? If infectious diseases are rising, do you spend money trying to eradicate the worst ones, like malaria, or on health and nutrition in general? The latter makes sense but most donors concentrate on single-disease efforts. George Soros, a financier who runs a chain of philanthropic organisations, says that in their experience, few people in poor countries have a clear idea about climate change and how to cope with it.

Lastly, the international arrangements that might help sort out some of these disputes are a shambles. Among developing countries, most negotiations on climate change (as on everything else) are led by the big three: China, India and Brazil. But they are large polluters themselves and their interests differ from very poor states and islands. Angus Friday, Grenada's ambassador to the UN who speaks for island states there, says the states most vulnerable to climate change are least able to participate effectively in climate-change talks.

The poorest lose out in another way. When industrial polluters in emerging markets cut emissions, they are rewarded through Kyoto. But the poorest are not rewarded for the big contribution they could make towards reducing emissions, which is the better management of tropical forests. That is because forests were excluded from Kyoto, to the chagrin of the poor.

Mary Robinson, a former president of Ireland and UN high commissioner for human rights, says that there should be a "rights-based" approach to climate change, meaning poor countries should have some redress under international law for the environmental costs they suffer. This seems like a recipe for alienating rich countries. But it reflects a growing impatience. As the costs of climate change bear down on the poor, so their demands grow that rich countries, which caused most of the problems, should help them cope.

* www.brookings.edu/events/2008/0801_development.aspx

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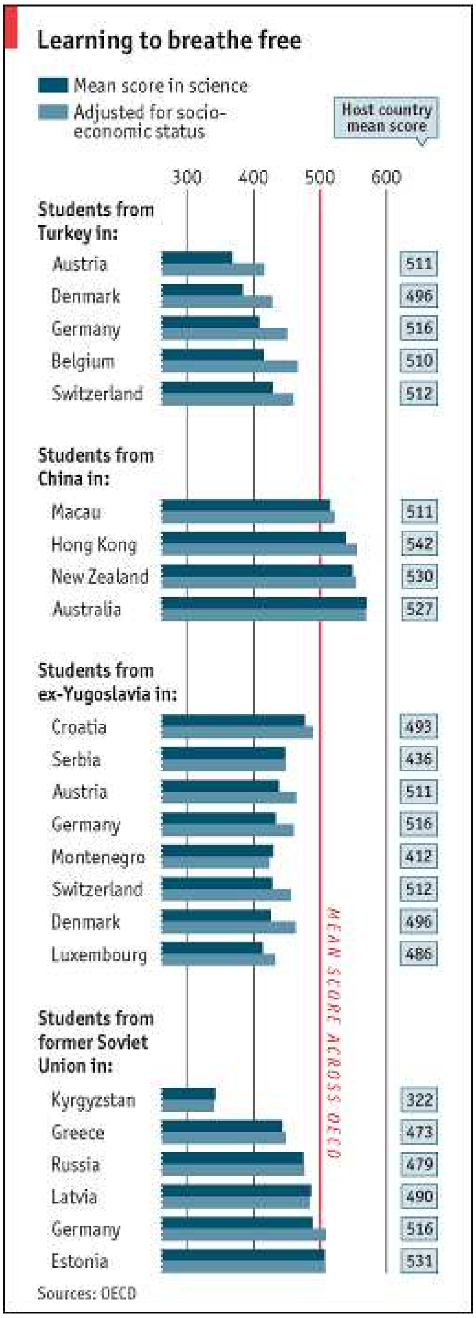
Educating migrant children

Huddled classes

Sep 11th 2008
From The Economist print edition

How migrants fare in school, and what schools can learn from them

MOST teachers admit that occasionally, when a lesson is going badly, they suspect the problem lies not with the subject or pedagogy, but with the pupils. Some children just seem harder to teach than others. But why? Is it because of, say, cultural factors: parents from some backgrounds place a low value on education and do not push their children? Or is it to do with schools themselves, and their capacity to teach children of different abilities?



It might seem impossible to answer such a question. To do so would require exposing similar sorts of children to many different education systems and see which does best. As it happens, however, an experiment along those lines already exists—as a result of mass migration. Children of migrants from a single country of origin come as near to being a test of the question as you are likely to find.

Every three years, as part of its Programme for International Student Assessment (PISA), the Organisation for Economic Co-operation and Development, a Paris-based think-tank, measures how 15-year-olds in around 50 countries do in their own languages, mathematics and science. The OECD recently sorted the data from its 2006 study of science performance according to the countries of origin of children and their parents. Four places—Turkey, China, the former Soviet Union and ex-Yugoslavia—have each sent enough citizens to enough countries for conclusions to be drawn about the quality of schooling in their host countries.

Almost everywhere immigrant students fare worse than locals —unsurprisingly, as they are often the children of poor, ill-educated parents and do not speak the local language. When data are adjusted to take account of these disadvantages, much but not all of the gap is closed (see chart). More interestingly, children from the same country do very differently, depending on where they end up.

One reason is connected with how much countries "track" pupils (ie, sort them into ability groups and teach them separately). Large numbers of first- and second-generation Turkish children go to school in Austria, Germany, Belgium, Switzerland and Denmark. In the first four countries, pupils are tracked on leaving primary school. But those in Austria and Germany do worse than those in Belgium and Switzerland because, it seems, tracking is earlier and more rigid in the first two, and a child's socio-economic status has a very large effect on the track he ends up on. Most Turkish kids go to technical schools that don't fit them for university.

Their poor showing in Denmark's comprehensive schools, where there is no tracking and all children should in theory have access to equally good education, is a little more puzzling. Andreas Schleicher, the OECD's head of education research, speculates that their chances are damaged by the way in which poor Danish children are heavily concentrated in some schools, rather than scattered around the place. In general, countries where there is considerable difference in intake between schools tend to do worse in PISA.

Grouping children by ability is not necessarily a bad idea, though, as the experience of mainland Chinese children shows. Those who migrate to Hong Kong do very well despite being poor—and despite the fact that Hong Kong tracks school-children early and often. But there, which track a child ends up on has less to do with the parents' wealth and education. Moreover, children can move to a different track if they do better than expected. "In general, socio-economic status has less impact in East Asian countries than in western European ones," says Mr Schleicher.

Among the world's best performers are Chinese children taught in Australia. The average Chinese first- or second-generation immigrant there outperforms two-thirds of all Australians (themselves no mean performers), and three-quarters of all the children who take the PISA test worldwide. Mr Schleicher praises the Australian school system for its diversity—within schools, not between them—and ability to capture the talents of all students.

The contrasting fates of children from the former Soviet Union and ex-Yugoslavia provide extra proof that the host country makes a difference, over and above the intellectual baggage immigrant children bring with them. Kids who arrive in Kyrgyzstan from other ex-Soviet lands do badly, albeit better than the locals; those who go to successful little Estonia do far better. By contrast, Yugoslav kids do much the same pretty well everywhere—whether they move to another post-Yugoslav state or some richer and more stable place. The difference is timing: the Soviet Union imploded earlier than Yugoslavia, so "ex Soviet" children spent less time in education in their home country; those from Yugoslavia less in the host one.

Wrong sort of migrants or schools?

At least in theory, the new findings should help counter some of the sillier things that policymakers say about the influence of migrants on a country's overall attainments. "When we started to do the PISA rankings in 2000, many countries were shocked at how badly they did," says Mr Schleicher. "And excuses we often heard were: 'We get too many migrants,' or, 'we get the wrong sort of migrants.'"

Although immigrant children typically do worse at school than locals, there is no country-wide effect. The OECD's analyses show an insignificant correlation between the number of immigrant children a country has and the average pupil's attainment—and it is countries with more immigrant children that do (slightly) better.

As well as testing children on what they know, PISA also asks them how motivated they are: whether they think they will need the subject in question (most recently, science) for their future, and whether they like to study it for its own sake. In most countries, first-generation immigrant students are more motivated than second-generation ones, who are in turn more motivated than the children of the native-born. Germany is a striking exception: new immigrants turn up with the usual ambitions and dreams, but by the age of 15 their children have already given up hope.

That suggests that any country that figures out how to let incomers shine will reap big benefits. Immigrants, however poor, are a self-selected bunch of ambitious, hard-working people, and their children usually know that, lacking the informal networks that let locals get ahead, they must study hard to succeed. Their varying fates—helped to the top in some places, consigned to the scrapheap in others—show that although what happens outside the school gates is important, what happens in classrooms is too.

American corporate profits

A turn for the worse

Sep 11th 2008 | NEW YORK
From The Economist print edition

The outlook is deteriorating even for the best-performing firms, let alone the troubled ones

Illustration by Claudio Munoz

THE second quarter of this year was the most profitable ever for Big Oil: the six largest Western oil companies reported a 40% jump in profits, to a combined $51.6 billion. Exxon Mobil, the biggest of them all, banked $11.7 billion, the highest-ever quarterly profit reported by an American firm, beating its own record. But nobody expects a repeat of such feats of capitalism in the quarter soon ending, thanks to the tumble in the oil price from its peak of $147 in July. And given all the recent talk about levying windfall taxes on them, the oil giants may think that is just as well.

However, anyone tempted to hope that falling energy costs will mean higher profits for other American firms should think again. To the extent that oil prices are falling because of slowing global growth—the likeliest explanation, despite the flap earlier this year about the role of speculators—then they are likely to be an indicator of falling profits across the board. As oil prices tripled between 2002 and 2007, aggregate corporate profits doubled. Both reflected strong global demand, points out David Rosenberg, an economist at Merrill Lynch.

He says the recent decline in energy prices is a "symptom of demand destruction" that has dire implications for overall profitability. Mr Rosenberg has just written a gloomy report identifying "four horsemen" that will do their worst to American corporate profits: thinner profit margins; paying down debt as tighter financial conditions take their toll; lower energy prices; and a combination of slowing growth outside America and a stronger dollar. He predicts 7% falls in profits for firms in the S&P 500 both this year and next.

Until recently corporate profits have held up fairly well, even in America—except in financial services, where profits have been wiped out by the subprime-mortgage crisis and the credit crunch. Overall profitability for the S&P 500 was down by 31% on a year earlier in the fourth quarter of 2007, and by around 27% in the first half of this year, the second-worst three-quarter performance since the second world war, notes Martin Barnes of Bank Credit Analyst, a research outfit. (The worst was during the recession in 2001.) Yet, excluding financials, profits in the rest of the S&P 500 were actually up by 4.6% in the year to the second quarter of 2008.

This relative health was largely due to high energy prices, which benefited energy firms such as Exxon Mobil. They now account for 20% of S&P 500 profits, up from around 5% five years ago. Profits have also been buoyed up by strong demand from overseas, especially emerging markets. Domestic-based American non-financial firms have seen their profits decline at an annualised rate of almost 14% during the past six quarters, says Mr Barnes. But the profits of overseas subsidiaries of American non-financial firms have risen for 22 consecutive quarters, typically showing double-digit annual gains; they now account for 50% of the total profits.

Already countries that represent half of American exports, including big trading partners such as Japan, Canada, Germany and France, have posted at least one negative quarter of GDP growth, says Mr Rosenberg. As the global economy slows, the boost from abroad seems likely to weaken. Add to that the fact that the dollar has been rising like a homesick angel ever since *The Economist*'s Big Mac Index pronounced it too cheap in July, and it seems certain that this will be a disappointing quarter for many internationally leaning American firms. Moreover, several economists predict that the recent rise in the dollar is the start of a long-term trend.

"American companies are simply not prepared for this," says Wolfgang Koester of FiREapps, a provider of software for managing currency risks. "They took the free ride on the falling dollar, and by and large are not hedged against its rise." The more the dollar rises, the more it will help foreign firms that export to America, which have had to work hard in recent years. For instance, Airbus, Europe's aviation giant, has struggled because it relied on dollar revenues to cover its euro costs.

If the dollar stays where it is until the end of the year and global growth in industrial production slows to 2% from 4.5%, the growth in overseas profits of American firms would slow to 2.5% in 2009 from 21% this year, Mr Barnes calculates. If the dollar were to rise by another 5% in trade-weighted terms, and global growth were to fall to zero, overseas profits would drop by 7%.

Mr Rosenberg is gloomier than most economists because he expects America's GDP to shrink over the coming year, whereas the consensus is that it will continue to grow, albeit modestly. Wall Street's equity analysts, by contrast, predict an increase of more than 20% in S&P 500 profits in 2009. They assume that the fortunes of financial-services firms will improve and America's economy will grow. But profit growth of over 20% is typically associated with a rise in GDP of around 4.5%, and it has never occurred with GDP growth of less than 3.2%, which is roughly twice the consensus forecast for next year, says Mr Rosenberg. He suspects that equity analysts, who are having one of their least accurate years ever, are too busy trying to forecast profits for this quarter to correct their outlook for 2009.

Although Exxon Mobil can live with earning profits at a slightly slower rate, a growing number of firms are struggling to turn any sort of profit or even to bring in enough money to pay their debts. Moody's, a rating agency, recently raised its forecast of defaults on high-yield corporate bonds to 7.4% over the next 12 months. The actual default rate over the past year is 2.65%—and 4% at an annualised rate so far in 2008—up from a low of 0.96% in 2007. The number of debt issues that are distressed (ie, are yielding at least 1,000 basis points more than Treasury bonds of a similar maturity) has soared to 27% of those in the main Merrill Lynch high-yield index, up from 1% last year.

The list of troubled firms has now extended far beyond the housebuilders and building-supplies firms that were the first casualties of the subprime-mortgage crisis to include retailers, casinos, publishers and cable-TV companies, points out Martin Fridson, a veteran observer of corporate bonds. Companies with distressed debt now include such household names as Delta Air Lines, Clear Channel, Toys "R" Us and Reader's Digest. There would already have been more high-profile bankruptcies, points out Mr Fridson, except that at the peak of the credit bubble some of today's more troubled firms managed to borrow "covenant lite" debt that makes it harder for creditors to demand their money back. But that seems likely to delay only briefly the arrival of the Grim Reaper.

The business of giving

Non-profit capitalism

Sep 11th 2008 | NEW YORK
From The Economist print edition

An initial public offering with a difference

“WE RUN a business here—but instead of selling cars or candy to kids, we’re selling hope and leadership,” says Nancy Lublin, the chief executive of Do Something, a non-profit group which promotes volunteerism by teenagers. On September 17th she is launching an initial public offering (IPO) to raise the $8m needed to double Do Something’s activities by 2011, by which time it plans to be engaging with around 21m of America’s 32m teenagers.

The IPO prospectus, put together by Do Something’s board of chief executives and technology entrepreneurs, contains the usual market data, a description of the 15-year-old organisation’s activities, an overview of the competitive landscape and bold claims about its qualities (“Do Something is also one of the most efficient organisations in the United States”), all designed to convince investors that it can achieve its ambitious goals. The only thing that stops it from being a typical IPO prospectus is the absence of any pledge to make a profit. On the contrary, the opening boilerplate explains that “units offered in conjunction with this prospectus represent a perpetual interest in Do Something; this interest is strictly philanthropic, with no provision for cash returns at any time.”

This imitation of the for-profit IPO process may seem gimmicky, but in fact it is part of a new trend to improve how non-profits are financed, so that they can escape the obsession with short-term fund-raising that is pervasive in the charitable world. With money in the bank to finance the next three years’ operations, Ms Lublin and her team will be free to focus on reaching Do Something’s goals.

Other non-profits have done something similar, including Teach for America, which puts recent college graduates into needy schools, and College Summit, which aims to increase the number of poor children going to college. VolunteerMatch, a sort of eBay for volunteers, is in the process of raising $10m. George Overholser of Nonprofit Finance Fund, one of the pioneers of this trend, reckons that around $200m of “philanthropic equity” has been raised by non-profits in the past few years, and another $100m is sought.

Do “investors” get anything for their money? Do Something promises “a significant social return on investment”, quarterly performance updates and a conference call with management. But none of these recent philanthropic IPOs actually gives investors voting rights, unlike during the boom in “joint-stock philanthropy” in 18th-century England. Back then, social entrepreneurs such as Thomas Coram, who started the Foundling Hospital in London, were fired when they failed to perform. Still, Ms Lublin says that if her new shareholders ever ask her to step down, she will go.

Business and regulation

A new kind of eastern promise

Sep 11th 2008
From The Economist print edition

It is now easier to do business in eastern Europe than East Asia, says a new report

IN “BIOSHOCK”, a hit video game from last year that was heavily influenced by the libertarian philosophy of Ayn Rand, the main villain builds a fantastical city under the sea, where businesses can escape the stifling grasp of government. If you are an internationally minded entrepreneur looking to set up a small to medium-sized business, that is probably going a little far. But where should you set up shop? Much depends on where the government acts as your concierge, and where it acts as your parole officer. “Doing Business 2009”, the latest edition of an annual survey carried out by the World Bank and one of its subsidiaries, the International Finance Corporation, comes to a surprising conclusion: it is now easier to do business in eastern Europe than in East Asia.

Every year the survey tracks the state of business regulation in 181 countries and then ranks them using a scorecard that takes into account how long it takes to set up a business, how easy it is to hire and fire workers, and the level of corporate taxes, among other things. This year, as in the previous five years, economies in eastern Europe and Central Asia have consistently seen the fastest pace of positive reform (see chart). Last year their average ranking was neck and neck with that of countries from East Asia and the Pacific. But this year the eastern European countries pulled ahead, with an average ranking of 76, compared with an average ranking of 81 for East Asian countries.

On average, it takes 21 days to register a business in eastern Europe, which is 27 days faster than in East Asia. Setting up a company in Indonesia costs 77.9% of the average annual income per person; in Georgia it costs 4%—though there is the small matter of political risk to factor in. Firing a worker costs an average of 53 weeks’ salary in East Asia, compared with 27 in eastern Europe. All this cutting of red tape has brought results: Poland now has as many registered businesses relative to its population as Hong Kong does.

Eastern Europe’s rapid progress has been due, in part, to the accession requirements imposed by the European Union (EU). These include regulatory reforms that are often enacted by countries that aspire to membership, but have yet to be admitted. For instance, the EU requires new members to create a “one-stop shop”—a single point of contact at which entrepreneurs can register their businesses. Before Macedonia became a candidate for EU membership in 2005, it took 48 days to start a business there. After three years of reforms, it now takes nine days.

Governments in eastern Europe have discovered the virtues not only of a light touch, but also of a swift gavel. The report finds that commercial disputes are, on average, settled more quickly and at less expense in eastern Europe than in East Asia. Bulgaria reduced trial times by requiring judges to refuse incomplete filings rather than allowing multiple extensions.

East Asian countries still have the edge in some respects: it is easier to move goods across their borders, for example. Government-imposed fees to export a standard 20-foot cargo container average $859 in East Asia, compared with $1,428 in eastern Europe. Businesses in East Asia also face lower taxes. Taxes on profits in eastern Europe are among the lowest in the world, typically around 10%, but labour taxes and compulsory pension contributions increase the overall tax burden on business.

Of course, a few East Asian economies are still miles ahead of eastern Europe. Singapore ranked first for the third successive year. Hong Kong was fourth, behind New Zealand and America. But Georgia, Estonia, Lithuania and Latvia secured places in the top 30, even as Russia lagged behind in 120th place. Azerbaijan was the top reformer. It cut the number of procedures needed to start a business by half, eased restrictions on working hours, moved its tax system online and introduced new laws protecting minority shareholders. True, laws on the books may be different from real conditions on the ground. Still, the number of registered new firms jumped 40%.

Eastern Europe is not the only region that has done surprisingly well. The study also found that economies in Africa implemented more positive reforms in the past year than in any previous year on record. These examples prove that countries need not be rich or powerful to create a better environment for business. Businessmen need not retreat under the waves to the gloomy world of “Bioshock” just yet.

Boeing and Airbus

Striking differences

Sep 11th 2008
From The Economist print edition

Both have big order books and similar strategies, but only Boeing is on strike

EPA

Another delay for the 787

MANY manufacturers would love to be where Boeing and Airbus are: both have orders stretching years into the future, with exciting new products in demand and vigorous customers in Asia to take up the slack in Europe and America. Both aircraft-makers have been changing their business models to cut costs with much more outsourcing, bring in new risk-sharing partners and get closer to growing markets such as China.

But here their fortunes diverge: this time Boeing is going down, while Airbus is bouncing back from a prolonged crisis. Boeing has shut down production of commercial jets because of a strike by assembly workers that seems to be as much about job security as about pay and benefits, whereas Airbus is pressing ahead with outsourcing work, this week selling a factory near Bristol to GKN, a British engineering group, and announcing plans to open a factory in Tunisia. Airbus workers accepted a measly pay rise of 1.5% this year and swallowed the loss of 10,000 jobs—but Boeing workers have rejected a pay offer of 11% over three years, plus bonuses.

The reason Airbus is able to press ahead with more outsourcing is that the company has been in a crisis for more than two years, and its workforce knows it. Its flagship double-decker A380 is more than two years behind schedule, and the strength of the euro against the dollar has hit profits hard. This week Louis Gallois, chief executive of Airbus's parent company, EADS, said that, despite the dollar's recent rise, the exchange rate still posed a grave danger to Airbus, because its costs are largely in euros, whereas planes are priced in dollars. He announced a further round of cost-saving measures this week to lop off a further €1 billion ($1.4 billion), on top of €2.1 billion of cuts already under way. Mr Gallois says there will be no more job losses because production will expand by 50% over the next few years. Indeed, Airbus is hiring as it ramps up production of the A380.

Airbus's outsourcing suffered setbacks earlier this year, when the credit crunch scuppered its plans to sell factories to German and French suppliers. But now Mr Gallois and Tom Enders, the boss of Airbus, are pressing ahead, by taking over the project to build a factory in Tunisia which was going to be built by one of Airbus's big French suppliers, for example. Mr Gallois also said that production of A320s in China was proceeding because of the need to be close to that huge market; that Airbus and EADS would expand their activity in India because of the supply of good engineering talent there; and that production of aircraft parts would increase in the Maghreb to take advantage of low-cost labour on Europe's doorstep. Factories in Mexico are also a possibility, especially if EADS eventually wins the controversial air-tanker-refuelling contract from America's defence department. EADS shares rose 9% this week, helped by the stronger dollar and by Mr Gallois's plans for extra savings.

French workers may hold noisy protests and demonstrations over job cuts, and the country's railways and other public services are often wracked by strikes. But in the French private sector, strikes are rarer and seldom last long. And it is Boeing, not Airbus, that now has a strike on its hands. The International Association of Machinists and Aerospace Workers is one of America's most powerful unions. Tom Wroblewski, one of its leaders, said this week that the price of a settlement had gone up since his 27,000 members went on strike. But already Boeing has offered 11% phased over three years, with about another 3% in cost-of-living adjustments and one-off bonuses of up to 6% of annual pay. In addition, the company is proposing an eye-watering 14% increase in pensions.

That the union has called a strike despite such largesse shows how worried it is about Boeing's shift towards outsourcing. Boeing greatly expanded its use of outsourcing with the 787, about four-fifths of which is made outside the company, largely in Asia and in Europe, before coming to Seattle for assembly. But this proved unexpectedly difficult to co-ordinate, contributing to mounting delays on the fastest-selling new aircraft ever launched. The 787 was at least 14 months behind schedule even before the strike brought things to a halt, at an estimated cost to Boeing of $100m a day. Boeing has been tweaking its outsourcing model to impose more control on the supply chain. And soaring labour costs at home strengthen the case for more outsourcing in future, despite the problems Boeing has had so far.

The union is worried about a more insidious form of outsourcing, closer to home. A previous agreement allowed Boeing's suppliers to deliver parts straight onto the factory floor at its Seattle sites. The next step, the union fears, is for contractors to start fitting parts onto planes on the line, displacing well-paid workers. It wants job security, with the payroll headcount linked to the number of orders and production rates. It wants a chance to compete formally with outsourcing contracts in a bid to keep hold of the work. But its aggressive pay demands and strike action would seem to work in the opposite direction.

A federal mediator failed to avert the strike on September 6th and is still hovering in the background, trying to get talks restarted. But the previous machinists' strike back in 2005 lasted 28 days, and one in the mid-1990s went on for nearly ten weeks. Meanwhile the 787 just gets later and later, and suppliers have started putting their workers on shorter hours.

Economist.com BUSINESS

Advertising

Postmodern wriggle

Sep 11th 2008 | SAN FRANCISCO
From The Economist print edition

To save Microsoft, Bill Gates adjusts his shorts

Microsoft

Buying shoes, or stealing Apple's clothes?

THE self-appointed marketing experts of the blogosphere immediately pounced on the opening shot of what will probably be this year's most discussed advertising campaign. Microsoft, the huge but boring software company that has been pummelled by the advertisements of its smaller and cooler rival, Apple, is fighting back. How? By having Bill Gates, its co-founder, chairman and arguably its personification, buy shoes with Jerry Seinfeld, a comedian, as his adviser. Just look, the bloggers are screaming: further proof, if any were needed, that Microsoft just doesn't get it.

Admittedly, the first television spot of the campaign is bizarre. All that Messrs Gates and Seinfeld seem to talk about is, well, shoes. How they "run tight". How best to stretch them. Windows and Office, Microsoft's ubiquitous flagship products, are not mentioned at all. The word "Microsoft" is mentioned exactly once. Computers come up only insofar as Mr Seinfeld wonders whether they might someday become "moist and chewy". Mr Gates replies with a subliminal hint, a subtle wriggle of his boxer shorts. What does any of this, the critics ask, have to do with the purpose of the ad campaign, which is to salvage the reputation of Vista, the latest version of Windows?

Crispin Porter + Bogusky, the agency behind the campaign, is known for risqué and off-beat humour. Sometimes it does the trick. When Crispin had a kinky German pair of engineers "unpimp your auto", it revived the Volkswagen brand. When it had a decidedly mischievous "king" play all sorts of tricks, it arguably made Burger King as cool as fast food can be. But on other occasions its style seems to misfire. A campaign that made fun of the word "algorithm", on the assumption that ordinary people don't know what it means, did not help its client, Ask, a small search engine, but instead boosted the fortunes of Ask's larger rival, Google.

Is Mr Gates's shopping spree with Mr Seinfeld another misjudgment? Perhaps not. The ad appears to have set up the forthcoming campaign with an ingenious twist that its critics have missed. Its viewers, Crispin assumes, have been watching Apple's ads, in which a nerdy, pale, chubby and hapless "PC", played by the actor John Hodgman, talks to a hip, suave and unruffled "Mac". Ironically, however, it is the PC who has become famous and won hearts, despite being the butt of all the jokes, whereas the Mac character is cool but smug, and would not get invited to anybody's dinner.

Mr Gates, Crispin's creative types must have realised, is the authentic embodiment of the PC character: geeky, awkward, dressed for a cubicle rather than a bar, unglamorous but unpretentious, able to get the job done, if not excitingly. And like the PC in Apple's ads, the Bill Gates in Microsoft's spot has an impish side that occasionally peeks out. One of the world's richest men comes across as unassuming and approachable, the antithesis of Apple's aspirational cool, which some find annoying and snooty. In a country that loves to poke fun at "elitists" (especially during elections), it would be wrong to write off Microsoft's new campaign just yet.

Fairground rides

Ups and downs

Sep 11th 2008 | SERNAGLIA
From The Economist print edition

Italy's manufacturers of amusement rides hit a dip

Zamperla

The manufacturers are scared, too

THIS month a brightly coloured, trailer-mounted "Matterhorn" fairground ride will leave Bertazzon 3B's factory in Sernaglia, a village nestling under the Alpine foothills north of Venice, bound for a travelling amusement park based near Rochester, New York. Bertazzon 3B is one of around 50 family firms in a manufacturing cluster in north-east Italy that leads the world in turning steel, fibreglass and electronics into roundabouts, bumper cars and other fairground thrills.

Swiss, Dutch or German companies hold sway when it comes to large and expensive roller coasters, but Italians dominate other rides. Alberto Zamperla, chief executive of Zamperla, the biggest of the Italian firms, with sales of €40m ($55m) in 2007, says attention-grabbing "spectacular" or "extreme" rides (rather than those aimed at children or families) are most in demand at the moment. Zamperla's Giant Discovery reaches a speed of 110kph (70mph), rotating its riders and swinging like a pendulum to suspend them upside down 45 metres above the ground. Italian dominance in such rides depends on a constant stream of innovations in electronics and materials.

Competition from Chinese firms, which are good at copying Italian designs and are strong in small and medium-sized rides, is a cause for concern. Mr Zamperla has responded by setting up his own manufacturing operation in China. And as in other areas of manufacturing, some firms hope to fend off the Chinese by emphasising Italian craftsmanship. Michele Bertazzon's family firm, which specialises in traditional Venetian carousels with horses and carriages, and makes all its components in-house, is taking this approach. "We don't do fear," he says.

More than 80% of the rides built in the region are exported, and Bertazzon 3B expects to earn about half of its €5m sales in America this year. But the weakness of the dollar against the euro in recent years has caused problems for the industry, says Enrico Fabbri, boss of the firm that carries his family's name. Fabbri, based in Bergantino, a village that calls itself the capital of carousels and has a museum dedicated to them, no longer sells in America. At Sartori, a firm that makes rides including the Techno-Jump, Cyber Loop and Twin Twister, American sales have fallen from about 60% of the total to zero since 2000.

The recent strengthening of the dollar may help matters somewhat, but slowing economies around the world are likely to reduce demand as families tighten their belts, and the credit crunch is affecting both manufacturers looking to finance production and customers who want to buy new rides. The Italian firms hope that new amusement parks planned for Dubai, South-East Asia and China will boost their order books. But the business of making fairground rides has always been a roller-coaster affair.

Economist.com BUSINESS

Brazilians in China

Footloose capitalism

Sep 11th 2008 | DONGGUAN
From The Economist print edition

China's largest Brazilian community enjoys the benefits of globalisation

IN DONGGUAN, a city of some 7m people situated 90km (56 miles) north of Hong Kong, factories abound producing everything from furniture to car parts, helping to fuel China's economic boom. But take a closer look and you may spot something rather less familiar: a thriving community of Brazilians, estimated to number 3,000, most of them working in the footwear industry.

They trace their roots to southern Brazil, which was the bustling centre of their country's shoe-export business until the early 1990s, when a sharp reduction of Brazil's trade barriers, an appreciating currency and pressure from cheap Chinese labour combined to cause exports to stagnate. In 2007 Brazil exported 177m pairs of shoes, 12% below the early-1990s peak of 201m. Many firms that survived moved north, to parts of the country where labour costs less. Meanwhile China powered ahead, with its share in world shoe exports, already the largest, doubling to two-thirds over the same period. Dongguan is now China's footwear capital, exporting 600m pairs a year. And many more are made elsewhere in China on behalf of Dongguan firms.

Chinese firms undermined Brazilian producers at the cheaper end of the market, thanks to the abundance of cheap labour, but the know-how and craftsmanship needed to make fancier shoes were in shorter supply. This encouraged a slow trickle of skilled Brazilian production controllers and sewing technicians, some armed with advanced degrees in tanning, to cross the ocean to hawk their skills and knowledge to Chinese companies.

Ricardo Correa, the owner of Paramont Asia, which sold more than 35m pairs of ladies' shoes last year, moved to China in 1995, prompted by the combination of price pressures in Brazil and a shortage of skills in China. His firm takes design specifications for shoes from its customers and then manages product development and quality control in factories in China (and now in India and Vietnam, too). Most of the resulting shoes are then shipped to America. Of Paramont's 800 employees, 100 are Brazilian, and day-to-day business is conducted in English.

Brazilians in other professions have followed the shoe specialists to provide supporting services, such as running restaurants or teaching their compatriots' children in Portuguese. Dongguan's Brazilian community is now China's largest, twice the size of Shanghai's and almost triple the size of that in Beijing. Brazil's foreign-affairs ministry plans to open a consulate in the nearby provincial capital, Guangzhou, this year so that it can serve its citizens better. In the past two Brazilian presidential elections, a polling station was even set up in Dongguan—a novelty for local Chinese.

The Brazilians seem to have adapted well to life in China. They observe that crime rates are lower than at home, and they can earn higher salaries than local workers or their counterparts in Brazil. "The more I go back to Brazil the more I like China," says Ari Filipini, another Brazilian who works at Paramont.

But the march of globalisation continues, and it is now putting pressure on Dongguan's factories to cut costs. Some shoemakers are shutting factories and moving further inland or to cheaper parts of Asia. For firms like Paramont, which are already farming out production to distant factories, this is not yet a big problem. But the Brazilians moved once before, and they could always move again.

Face value

Power politics

Sep 11th 2008
From The Economist print edition

Bob Hertzberg thinks renewable energy needs to reduce its dependency on government handouts

G24i

HE MAY be the chairman of a solar-power start-up based in rainy south Wales, but Bob Hertzberg has not lost the sunny mien of a seasoned American politician. A former speaker of California's state assembly and one-time candidate for mayor of Los Angeles, he is quick to guffaw, readily slaps backs and often speaks in asides, as if to an imaginary host of reporters: "I love this guy" is a frequent refrain. American state politics do not sound very pertinent to G24 Innovations, Mr Hertzberg's firm, which makes solar-powered battery-chargers for mobile phones, portable music-players and the like. But Mr Hertzberg's experience in politics, as well as his stints as an entrepreneur and financial lawyer, turn out to be rather useful for running a renewable-energy firm. Even more than other industries, he argues, renewable energy subsists at the whim of politicians.

Mr Hertzberg's time as speaker, from 2000 to 2002, was marked by chaos in California's partly deregulated electricity market, which suffered from spiking wholesale prices and repeated blackouts. Encouraging small, distributed forms of generation such as solar power seemed a natural response, because it would allow quick increases in generating capacity without adding much to the pressure on the rickety grid. But the system, Mr Hertzberg says, was hopelessly skewed in favour of the big utilities and the centralised form of generation they champion.

California's politicians are trying to change that, and have adopted a series of measures to encourage solar power since term limits forced Mr Hertzberg to retire in 2002. But there is still a "disconnect between the rhetoric of politicians and the reality of starting a business," he argues. He experienced it himself on leaving office, when he helped to found Solar Integrated Technologies, a firm that makes lightweight solar panels that can be built into walls and roofs, rather than bolted onto them. It took months for Los Angeles's city-owned power company to connect the firm's factory to the mains, he says. Then, on the day the panel-making equipment arrived from Germany, the city cancelled a subsidy for solar installations.

Mr Hertzberg sold his stake in that business to prepare for his mayoral bid. After he narrowly missed a slot in the run-off ballot, he decided to start another solar venture, this time in Britain, where bankers have a better understanding of greenery than their American counterparts, he claims. Ever the politician, he has ingratiated G24i with the local authorities by setting up a community-outreach programme, praising Wales as a destination for green investment and positioning his firm as a model corporate citizen (it plans to generate its own power from a wind turbine). He has even taken to peppering his speech with reassuring Anglicisms such as "quid" and "bloke".

But Mr Hertzberg is determined not to rely on subsidies doled out by fickle politicians. The local government has helped to pay for a fence around G24i's factory in Cardiff, he says, but nothing more. He sniffs at the generous feed-in tariffs for solar power that have propelled the solar industry in Germany and Spain. He also questions the wisdom of America's tax credit for solar installations, which is due to expire at the end of this year but which most firms hope will be extended. When such largesse is on offer, he says, "companies hire lobbyists to chase subsidies rather than hiring scientists to create a better product." Moreover, as the industry grows, politicians will begin to balk at the cost of the subsidies—as they are already doing in all three countries. The uncertainty about the future of the various handouts, in turn, makes it difficult for solar firms to plan very far in advance.

Instead of subsidising solar power across the board, Mr Hertzberg argues, governments should focus on helping start-ups reach maturity. They could allow faster depreciation of assets for tax purposes, say, or help provide cheap loans. The idea would be to create new taxpaying companies rather than permanent drains on the exchequer. But the solar industry will only prosper in the long run, Mr Hertzberg argues, if it provides affordable, desirable products that happen to be environmentally friendly. That, he believes, is what G24i is doing. It is making cheap, portable power sources for those without access to the grid, either because they live too far from it, or because they are on the move.

How green is his valley?

The firm has bought rights to make a type of solar cell that uses light-sensitive dye, rather than silicon, as its chief component. Such "dye-sensitised" cells yield less electricity than the familiar kind, but are cheaper to make and work in indirect light—even under the glowering rainclouds of Cardiff, Mr Hertzberg notes. G24i's cells are also bendy, and so are easier to carry around and to put into clothing and equipment than the rigid sort. And they can be made in different colours, unlike silicon-based cells. "Our stuff is as ugly as everybody else's today, but in future, it will be different," Mr Hertzberg pledges.

At the moment the firm's small output is handkerchief-sized sheets that can charge a mobile phone. But G24i and rival makers of flexible solar cells hope to see them woven into camera bags and laptop cases, so that devices can be recharged on the go—albeit very slowly. Beyond that, Mr Hertzberg imagines his firm's cells turning up in hiking gear, military uniforms and even wallpaper. A bigger production line should be up and running early next year, he says. He hopes to sell its output to consumer-electronics firms that want to offer solar chargers for their gadgets in addition to the sort you plug in. He also sees potential customers among the millions of people in the developing world who have no access to mains power. Earlier this year, the World Bank gave G24i an award for a solar-charged light it developed along with a Dutch firm that makes light-emitting diodes. The prize came with a grant to test the market for such devices in Rwanda. Needless to say, no subsidies for solar power are on offer there.

Economist.com SCIENCE & TECHNOLOGY

Cancer stem cells

The root of all evil?

Sep 11th 2008
From The Economist print edition

Noma Bar

Cancer may be caused by stem cells gone bad. If that proves to be correct, it should revolutionise treatment

MUCH of medical research is a hard slog for small reward. But, just occasionally, a finding revolutionises the field and cracks open a whole range of diseases. The discovery in the 19th century that many illnesses are caused by bacteria was one such. The unravelling of Mendelian genetics was another. It now seems likely that medical science is on the brink of a finding of equal significance. The underlying biology of that scourge of modern humanity, cancer, looks as though it is about to yield its main secret. If it does, it is possible that the headline-writer's cliché, "a cure for cancer", will come true over the years, just as the antibiotics that followed from the discovery of bacteria swept away previously lethal infectious diseases.

The discovery—or, rather, the hypothesis that is now being tested—is that cancers grow from stem cells in the way that healthy organs do. A stem cell is one that, when it divides, produces two unequal daughters. One remains a stem cell while the other multiplies into the sorts of cells required by its organ. This matters for cancer because, at the moment, all the cells of a tumour are seen as more or less equivalent. Therapies designed to kill them do not distinguish between them. Success is defined as eliminating as many of them as possible, so those therapies have been refined to do just that. However, if all that the therapies are doing is killing the descendants of the non-stem-cell daughters, the problem has not been eliminated. Instead of attacking the many, you have to attack the few. That means aiming at the stem cells themselves.

Not all investigators support the cancer-stem-cell hypothesis, but the share who do so is growing rapidly. A mere five years ago, few research papers on the subject were presented at big academic meetings. This year there were hundreds at one such meeting alone. Moreover, data from clinical trials based on the hypothesis suggest that it has real value for patients. As a result, drug companies have taken notice and are trying to develop substances that will kill cancer stem cells.

The virtues of self-restraint

The root cause of both cancer and stem cells is multicellularity. In the distant past, when all living things had only one cell, that cell's reproduction was at a premium. In the body of an animal, however, most cells have taken a vow of self-denial. Reproduction is delegated to the sex cells. The rest, called somatic cells, are merely supporting actors, specialised for the tasks needed to give the sex cells a chance to get into the next generation. For this to happen required the evolution of genes that were able to curb several billion years' worth of instinct to proliferate without killing that instinct entirely. Only then could somatic cells do their job, and be present in appropriate numbers.

The standard model of tumour formation was based on the fact that somatic cells slowly accumulate mutations. Sometimes these disable the anti-proliferation genes. If enough of the brakes come off in a somatic cell, so the theory went, it will recover its ancestral vigour and start growing into a tumour. Cancer, then, is an inevitable cost of being multicellular.

The discovery of stem cells changed this picture subtly, but importantly. Blood stem cells were found a long time ago, but only recently has it become apparent that all tissues have stem cells. The instincts of stem cells lie halfway between those of sex cells and ordinary body cells. They never stop reproducing, but they cannot look forward to making the generational leap. When the body dies, so do they. However, they are few in number, and because at cell division only one daughter continues to be a stem cell, that number does not grow.

This division of labour may even be another type of anti-cancer mechanism. It allows stringent locks to be put on somatic cells (which, for example, strictly limit the number of times they can divide), yet it permits tissue to be renewed. Without stem cells, such tissue-renewal would be the province of any and every somatic cell—a recipe, as the traditional model observes, for tumorous disaster. The obverse of this, however, is that if a stem cell does mutate into something bad, it is likely to be very bad indeed. That, in essence, is the stem-cell hypothesis of cancer.

Noma Bar

One obvious prediction of this hypothesis is that tumours will have at least two sorts of cell in them: a dominant population of daughter cells and a minority one of stem cells. The first person to show that to be true was John Dick, a molecular biologist at the University of Toronto. In 1997 he isolated what looked like stem cells from a blood cancer called acute myeloid leukaemia (AML). Blood cancers are easier to deal with in this context than solid tumours because their cells do not have to be separated from one another before they are examined. One characteristic of AML cells is that they have two sorts of a protein, called CD34 and CD38, on their surfaces. Dr Dick thus used two sets of special antibodies for his experiment. One sort stuck only to the CD34 molecule, the other only to CD38. Each sort was also attached to a fluorescent tag.

By mixing the AML cells from his patients with the two antibodies and running them through a machine that sorted them according to how they fluoresced, he showed that most were positive for both proteins. However, a small fraction (as low as 0.2%) were positive only for CD34. These, he suspected, were the stem cells.

He was able to confirm this by injecting the minority cells into mice. The resulting tumours had the same mix of cells as those from human patients. However, when he injected mice with samples from the majority cells, with both sorts of the protein, no tumours resulted. The CD34-only cells thus acted as cancer stem cells.

Moreover, this phenomenon was not confined to leukaemia. In 2003 a group of researchers at the University of Michigan in Ann Arbor, led by Max Wicha and Michael Clarke, used a similar trick on breast-cancer cells. In this case the surface proteins were known as CD24 and CD44, and the minority were those positive only for CD44. As with AML, these minority cells produced cancers in mice, whereas the majority cells did not.

Since these two pieces of work, the list of cancer stem cells has multiplied. It now includes tumours of the breast, brain, prostate, colon, pancreas, ovary, lung, bladder, head and neck, as well as melanoma, sarcoma, AML, chronic myelogenous leukaemia, Hodgkin's lymphoma and myeloma.

That is quite a list. The question is, what can be done with it? Jeremy Rich, a neurologist at Duke University in Durham, North Carolina, has one idea. He created mice that had human glioblastoma tumours, a form of brain cancer, growing in them. Then he treated these mice with radiation (the standard therapy for such cancer in people). He found that the cancer stem cells were more likely to survive this treatment than the other cells in the tumour. That turned out to be because, although all the tumour cells suffered equal amounts of DNA damage from the radiation, the stem cells were better able to repair this damage. When he treated the mice simultaneously with radiation and with a drug that interferes with DNA repair, however, the stem cells no longer had an advantage. They were killed by the radiation along with the other cells.

If that result applies to people as well as rodents, it opens up a whole avenue of possibility. In fact, Dr Rich is now in negotiations with several companies, with a view to testing the idea in humans. That "if" is a real one, though. A mouse is not a human being.

Indeed, the stem-cell hypothesis is often criticised for its reliance on animal models of disease. Some researchers worry that the experiments used to identify putative cancer stem cells are too far removed from reality—human tumour cells do not naturally need to survive in mice—and thus may not reflect human cancer biology at all.

Proponents of the hypothesis are alive to that concern, but they think that the same pattern has been seen so often in so many different cancers that it is unlikely to be completely wrong. The practical test, though, will be whether the hypothesis and ideas that emanate from it, such as Dr Rich's combination therapy, actually help patients survive.

Searching for the suspects

As a step towards discovering whether they do, William Matsui, an oncologist at Johns Hopkins University School of Medicine in Baltimore, looked for cancer stem cells in pancreatic-tumour samples taken from nearly 300 patients. His team found that patients whose tumours did contain such stem cells survived for an average of 14 months. Those whose tumours lacked them survived for 18 months.

That finding is consistent with the idea that cancer stem cells contribute to the most aggressive forms of the disease, though it does not prove they cause tumours in the first place. And although the absence of detectable stem cells in some tumours may be seen as casting doubt on the whole idea, it may instead be that they are too rare to be easily detected. If the stem-cell idea is confirmed, it may help doctors and patients choose how to treat different tumours. Those with detectable stem cells might be candidates for aggressive chemical and radiation therapies, while those without might best be treated with the surgeon's knife alone.

Breast-cancer researchers are also testing the stem-cell hypothesis in the clinic. Jenny Chang's group at Baylor College of Medicine, in Texas, took samples of tumours from women before and after standard chemotherapy. When they counted the cells in the tissue they found that the proportion of stem cells in a tumour increased after treatment. That suggests the chemotherapy was killing the non-stem tumour cells and leaving the stem cells behind. When the group repeated the experiment using a modern drug called Tykerb that blocks what is known as the HER2 pathway, they got a different result. HER2 is a gene which encodes a protein that acts as a receptor for molecules called growth factors which, as their name suggests, encourage cell growth and proliferation. After the HER2-blocking treatment, cancer stem cells formed the same proportion of the residual tumour as beforehand. That suggests they, too, were being clobbered by the new treatment. It is probably no coincidence that another drug, Herceptin, which also goes after HER2, is one of the few medicines that is able to prolong the lives of people with advanced cancer.

Noma Bar

The stem-cell hypothesis has also changed the way people do basic research. For example, over the past few years cancer researchers have been grinding up pieces of tumour and using what are known as gene-expression microarrays to work out which genes are active in them. However, if the hypothesis is correct, this approach will probably yield the wrong result, because the crucial cells make up but a small part of a tumour's bulk and the activity of their genes will be swamped by that of the genes of the more common non-stem cells. The answer is to isolate the stem cells before the grinding starts.

This approach has already yielded one important finding. When Dr Chang used microarrays to study gene expression in the CD44-positive cells from breast tumours, she noticed that they did not look like those of the epithelial cells that make up the bulk of such a tumour. Epithelial cells are immobile, grow in "cobblestone" patterns and produce proteins that help them stick together. The gene expression of the putative stem cells, however, resembled that of a mesenchymal cell. Mesenchymal cells rarely stick together. Indeed, they are mobile and are able to slip through the matrix of proteins that holds epithelial cells together.

That finding is important because mobile cells are more likely to escape from a tumour and form secondary cancers elsewhere in the body. Once such secondaries are established, successful treatment is much harder.

And the CD44-positive cells also expressed genes that are important for stem-cell self-renewal, particularly one called Notch that controls the flow of chemical signals within a cell.

Researchers at OSI Pharmaceuticals, a firm that makes a drug called Tarceva, found a similar pattern in lung cancer. Several years ago, they started looking for gene-expression patterns that correlated with response to Tarceva. They found that tumours with a pattern that resembled epithelial cells were sensitive to the drug. By contrast, those that had a mesenchymal pattern were not. They hypothesised that as tumours develop, some of their cells actually switch from a sticky, epithelial state to a mobile, mesenchymal one. This epithelial-to-mesenchymal transition, or EMT, is well known to biologists who study embryonic development, but OSI's results, and those of other researchers, suggest that cancers may have hijacked it for their own use.

Robert Weinberg, a molecular biologist at the Massachusetts Institute of Technology, and his colleagues have come to the same conclusion but they have taken the hypothesis one step further. They think that tumour cells which have undergone EMT have acquired many of the characteristics of cancer stem cells. Experiments in his laboratory, employing a variety of animal models of breast cancer, suggest that communication between tumour cells and surrounding non-cancerous support cells can lead some of the cancer cells to undergo EMT.

That is intriguing. If this transition really can be induced in tumour cells, then any of them might be able to become a cancer stem cell. So it may be that the fundamentalist version of the stem-cell hypothesis is wrong, and the stem cells are a result of a cancer, rather than its cause. That could be another reason why Dr Matsui found that pancreatic cancers do not always seem to contain stem cells.

Dr Weinberg is sensitive to this point, and is cautious when talking about these experiments. He refers to the cells that have undergone EMT as "having the qualities of stem cells" but avoids actually calling them cancer stem cells. If his idea is correct, though, it means that finding drugs which block the signals that induce EMT could reduce the stem-cell population and prolong the survival of the patient. It also means that both the epithelial cells and the mesenchymal ones will have to be attacked. And OSI is now testing a drug that does just that.

Notch up a victory?

Breast-cancer researchers, too, are testing drugs that hit molecular targets highlighted by cancer-stem-cell studies. Merck, for example, has turned to a drug it originally developed to treat Alzheimer's disease. Although this drug, code-named MK0752, did not slow that disease, it does block activity of Notch, the stem-cell self-renewal gene, and might thus be an appropriate weapon against breast-cancer stem cells. Dr Chang and Dr Wicha have started a clinical trial which uses MK0752 in combination with standard chemotherapy. By the end of the year they hope to have some idea of whether the combination kills cancer cells in human tumours.

Attacking Notch is a high-risk approach, because this gene is used by healthy stem cells as well as cancerous ones; healthy organs as well as tumours could be damaged. Some researchers are therefore taking a different tack and looking for drugs that hit only the unhealthy stem cells. Craig Jordan, a biologist at the University of Rochester Medical Centre, in New York state, is one such. He has discovered that a chemical called parthenolide, found in feverfew, a medicinal plant, kills AML stem cells. Normal stem cells, however, seem to be able to tolerate the drug without difficulty. The reason is that the leukaemia cells are reliant on a biochemical pathway that parthenolide blocks, whereas normal stem cells are not. If all goes well, a trial to test the safety of a modified form of parthenolide will start in a few months.

If the safety issues can be dealt with—and most researchers think they can—then attacking cancer stem cells really could help patients survive. If, that is, the stem-cell hypothesis is correct.

At the moment, scientists being scientists, few are willing to be anything other than cautious. They have seen too many past cures for cancer vanish in a puff of smoke. The proof needs to come from patients—preferably with them living longer. But if the stem-cell hypothesis is indeed shown to be correct, it will have the great virtue of unifying and simplifying the understanding of what cancer is. And that alone is reason for hope.

Lehman Brothers

Fuld again

Sep 11th 2008 | NEW YORK
From The Economist print edition

A new financial storm threatens to lash American finance

AFP

THIS hurricane season, one storm has hit after another. It is the same in financial markets. Just as they were basking in the dramatic rescue of Fannie Mae and Freddie Mac, America's giant mortgage agencies, a fresh storm was brewing over Wall Street. The pummelled shares of Lehman Brothers, led by the pugnacious Dick Fuld, lost almost half their value between September 8th and 10th. Suddenly, six months after the loss of Bear Stearns, loomed the prospect of another big investment bank buckling. Shares of Washington Mutual (WaMu), a battered savings-and-loan bank and the nation's largest, also tumbled, amid fears that the imperilled are running out of rescuers.

Lehman's latest problems stemmed from the desertion of a South Korean suitor, undermining its efforts to raise enough capital to ride out big losses on property, mortgages and leveraged loans. It sought to limit speculation by moving forward news of a $3.9 billion loss for the third quarter, much worse than expected, and unveiling a number of strategic moves. These included spinning off up to $30 billion of commercial-property assets into an independent, publicly traded company. It also said it was close to agreeing on the sale of a majority stake in its prized fund-management unit, including Neuberger Berman.

This was thin gruel. Lehman had not completed the deals. The scheme to sell more than half of the asset-management division while retaining more than half of its profit smacks of sleight-of-hand. Without a sale, it is not clear what the alternatives are so, as an obviously desperate seller, Lehman has handed the advantage to potential buyers. Even if it pulls off a deal, it will still need more capital.

Lehman's shares have sunk so low that its market value of $5 billion now languishes some way below what it hopes to get from Neuberger Berman. But if anyone has spotted an opportunity to buy the entire firm for a song, they have yet to reveal themselves. Perhaps with reason: several bottoms to the market have already been called, and there is massive uncertainty over the value of Lehman's exposure to illiquid securities. There are still piles of these assets, too. Even if its plans succeeded, Lehman would have $53 billion of mortgage assets and leveraged loans on its books—almost double its shareholders' funds.

Mr Fuld has brought Lehman back from the brink before—dramatically so after the collapse of Long-Term Capital Management, a hedge fund, in 1998. This time, however, he has done his shareholders few favours. His early handling of the crisis was good, but he has balked at selling assets at less than book value, even though the bank's shares have for some time traded at a steep discount to that measure.

To some, this brings disturbing echoes of Jimmy Cayne, Bear's former boss, who refused to sell until it was too late. There are, however, important differences. Lehman has built a formidable $42 billion pool of liquidity and it is less reliant than Bear was on American mortgages. Most importantly, it has access to the Federal Reserve's credit line, opened just after Bear's sale to JPMorgan Chase, enabling it to use securities as collateral to raise funds.

Does this window make a death-spiral inconceivable? Until recently the market thought so. But a sharp jump in the cost of protecting against a Lehman debt default suggests that doubts are creeping in.

Lehman has not yet suffered the client and counterparty defections that spelt doom for Bear. Indeed, other Wall Street firms, dubbed the "friends of Lehman", would far sooner keep trading with it. This is not out of altruism (though Mr Fuld's firm is a lot more liked than Mr Cayne's us-and-them outfit ever was). Rather, there is genuine fear that a second failure would devastate markets and leave other investment banks vulnerable. At some firms, instructions to keep trading with Lehman are coming from the top.

That may not last. Standard & Poor's, a rating agency, said this week it may downgrade Lehman's debt. If so, the bank would have to put up billions of dollars in extra collateral. That would lead some dealers to rethink the relationship—if only out of fear that others may be about to break ranks.

The best solution from a regulator's standpoint would be a forced marriage. But it is already clear that there would be few enthusiastic takers. JPMorgan Chase was extremely wary of taking on Bear, despite coveting its prime brokerage and headquarters—and market stress has deepened since then.

Even if Lehman can claw its way back, it will be a shadow of what it once was—shorn of its lucrative fund manager, and with leverage (and thus profit) curtailed by regulation. The business of investment banking may remain depressed for years.

That grim prognosis does not apply to Lehman alone. Merrill Lynch is still struggling to cauterise its wounds, even after taking $46 billion of write-downs and parachuting in John Thain, the former head of NYSE Euronext. Mr Thain must be hoping more than anyone that Lehman survives. If it does not, Merrill will become the obvious straggler of the herd, though its wealth-management business provides some protection.

Nor is Lehman alone in needing more capital. Despite raising $265 billion already, listed financial institutions in America and Europe need at least $75 billion more, reckon analysts at UBS (which knows about these things first-hand). With almost every investment to date under water, contributions have been drying up. Ominously, an insurer belonging to Warren Buffett, an astute investor, has stopped guaranteeing bank deposits above the federally insured limit of $100,000.

Mr Fuld struck a characteristically defiant tone, even if he did sound tired. Lehman, he said, had "a long track record of pulling together" in hard times. But as anyone who has bought a mortgage-backed bond will tell you, in these markets past performance is not much of a guide.

Credit derivatives

Quite an event

Sep 11th 2008 | LONDON AND NEW YORK
From The Economist print edition

Testing times for the swaps market

THE seizure of Fannie Mae and Freddie Mac is a big moment for the housing market. But it will also be a test for the dauntingly large market for credit-default swaps (CDSs). Placing the mortgage agencies into "conservatorship" counts as bankruptcy, and thus triggers the settling of contracts on these derivatives, which are used to hedge, and speculate on, the risk that a company defaults. The value of swaps linked to the agencies' $1.5 trillion of bonds is unknown, as CDSs are private. One estimate puts it at $500 billion, which would be the biggest "credit event" yet in a market worth a notional $62 trillion.

It is a strange sort of default. Because of Treasury backing, the bulk of Fannie's and Freddie's debt (though not their preferred shares) will settle at par or close to it. That means some buyers of CDSs, who were betting on default, may paradoxically end up worse off. They will have earned mark-to-market gains as spreads on the agencies' swaps widened (ie, the risk of default grew). Now they will have to give them up.

Equally, many protection sellers will reap gains. But not all: some have already booked as income premiums from the buyers for the life of the outstanding contracts—usually five years. They will now receive only a part of this.

Auctions to close out the swaps will be held in October by the International Swaps and Derivatives Association, a trade group. Complexity abounds but most dealers think the market can cope. If so, its credibility will receive a boost.

The episode might also be a badly needed catalyst for change. The auctions will involve "cash settlement", rather than a physical exchange of the underlying bonds, which is needed because the value of swaps far exceeds the face value of those bonds. Regulators have also been urging dealers to tighten up trade processing and to move to centralised clearing, especially since the demise of Bear Stearns, with its vast derivatives exposure, laid bare a huge "counterparty" risk—that it might not be able to honour contracts it had written.

The launch this week of a service to cut the level of capital at risk by batching trades in a process called "compression" is another encouraging sign that the market can heal itself. The quicker it does so, the better. The woes of Lehman Brothers, like Bear a big CDS counterparty, hint at even bigger tests to come.

America's economy

Paulson's pluck

Sep 11th 2008 | WASHINGTON, DC
From The Economist print edition

The "conservatorship" of Fannie and Freddie may soothe America's economic woes, but it will not solve them

HANK PAULSON has earned himself a place in the record books as the Republican treasury secretary who engineered the biggest nationalisation in modern American history. It may be called a "conservatorship", but the seizure of Fannie Mae and Freddie Mac is, in effect, a government takeover. Whether this boldness improves the outlook for America's economy depends on the answer to two big questions. First, will government control of Fannie and Freddie help solve America's housing mess? Second, would stability in the housing market be enough to turn around the economy?

The answer to the first question is a qualified yes. It is hard to overstate Fannie's and Freddie's importance in the housing market, both as holders or guarantors of half of America's mortgages, and as lenders who have stepped in as private finance has collapsed. Over the past year they increased their lending by about $600 billion, or 12%, and this year they have financed four out of five mortgages. Without this cushion America's housing bust would be far worse.

The conservatorship places restrictions on how fast Fannie and Freddie's loan book can expand but not on the pace at which they can extend guarantees. After 2009 it demands that their portfolios shrink, but in the short term Mr Paulson's takeover is meant to make mortgage finance flow more freely and cheaply. What is more, the Treasury said it would buy mortgage-backed securities. The impact on borrowing costs was swift. On September 10th the average rate on a 30-year mortgage was 5.79%, almost half a percentage point below the average rate of 6.25% the previous week. In effect, Mr Paulson engineered the equivalent of a half-point cut in interest rates targeted at the mortgage market.

If it lasts, easier access to cheaper finance ought to help boost housing demand, particularly since the plunge in house prices has improved many measures of housing affordability. According to the S&P/Case-Shiller national index, America's house prices have fallen by 15% in the past year. That is the biggest decline in *The Economist*'s house-price index (see chart). The vast overhang of unsold homes (more than 11 months-worth of supply at July's pace of sales) coupled with accelerating foreclosures (which rose at their fastest pace in three decades between March and June) means that prices still have further to fall. But lower financing costs and stronger demand will help staunch the decline.

What about the broader economy? Since mortgage losses are at the heart of banks' financial woes, softening the housing bust would help. Shoring up Fannie and Freddie will also compensate for tighter credit elsewhere. But the takeover will not avert the deleveraging that has hardly started. In a paper presented at the Brookings Institution, Jan Hatzius of Goldman Sachs predicts that house prices will fall by a further 10% and that overall mortgage-related losses will eventually reach $636 billion. Even with Fannie and Freddie continuing to lend, he reckons the credit crunch will knock 1.8 percentage points off GDP growth.

Moreover, the economic picture was growing more gloomy even as the Treasury was plotting its takeover. Consumers' troubles are mounting as the boost from fiscal stimulus fades and the labour market worsens. The jobless rate soared to 6.1% in August; with falling asset prices and tighter credit making it harder for consumers to borrow, lost paychecks will have a more immediate impact on their consumption. Falling oil prices may bring some relief at the petrol pump, but gauges of chain-stores' sales suggest that consumer spending is flagging. Under such circumstances, the government is right to take bold steps. But even interventions on the scale of Mr Paulson's may not be enough to raise people's sagging spirits.

The Economist's house-price indicators

% change

	Latest (on a year earlier)	Q2 2007 (on a year earlier)	1997-2008 or latest
Hong Kong	23.9	7.6	-23
Singapore	20.1	21	na
Australia	8.2	10.1	173
Belgium	7.5	9.5	147
China	7.0	6.3	na
Sweden	4.9	9.9	149
Italy	4.3	5.6	107
France	4.2	6.8	149
South Africa	3.2	15.5	398
Canada	3.1	7.9	70
Switzerland	2.7	1.4	21
Netherlands	2.3	4.5	105
Spain	2.0	5.8	194
Japan	-0.7	-0.7	-32
United States (OFHEO)	-1.7	3.4	91
Germany	-1.7	-0.8	na
Denmark	-1.9	4.9	123
New Zealand	-4.5	13.7	117
Ireland	-9.4	2.9	210
Britain	-10.5	10.5	179
United States (S&P Case-Shiller national index)	-15.4	-3.4	86
United States (S&P Case-Shiller ten-city index)	-17.0	-3.3	125

Sources: ABSA; ESRI; Hypoport; Japan Real Estate Institute; Nationwide; Nomisma; NVM; OFHEO; Quotable Value; Stadim; Swiss National Bank; Standard & Poor's; government offices

Economist.com FINANCE & ECONOMICS

Buttonwood

Credit and blame

Sep 11th 2008
From The Economist print edition

A must-read on the origins of the crisis

Illustration by S. Kambayashi

ANOTHER week, another drama. The unveiling of the second bail-out plan for Fannie Mae and Freddie Mac on September 7th—to say nothing of the dwindling fortunes of Lehman Brothers in the succeeding days—was a reminder that the credit crunch is proving infuriatingly difficult to bring to an end.

The crunch has lasted long enough to spawn its own publishing mini-boom, as authors have raced to give their diagnoses in print. George Cooper, a strategist at JPMorgan, an investment bank, has produced by far the best so far*, skewering both academic orthodoxy and central-bank policy in the process.

The problem, says Mr Cooper, is that central banks have subscribed to one economic philosophy in an expanding economy and quite another when the economy is contracting. When things are going well, central banks leave the markets alone. But at the merest hint of crisis, central bankers have responded by cutting interest rates to stimulate their economies and prevent asset prices from falling. Tongue firmly in cheek, Mr Cooper describes this as "pre-emptive asymmetric monetary policy".

This approach, he argues, stems from a belief in efficient-market theory which states, at its simplest, that prices reflect all available information. On that basis, asset prices are always "right", there can be no bubbles and central banks should not intervene to restrain speculative excess. Similar reasoning seems to have persuaded Alan Greenspan, the former chairman of the Federal Reserve, not to prick the dotcom bubble of 1999, even after warning of "irrational exuberance" in 1996.

To be fair, Mr Greenspan did not argue that there were no bubbles, only that it was impossible to spot them while they were inflating. Instead, he felt that central banks should wait to mop up the mess once the bubble had burst.

In contrast, Mr Cooper argues that markets are far from efficient, as they often get locked into feedback mechanisms that lead to booms and busts. Indeed, if markets were really as efficient as some believe, why would economies need central banks in the first place? The market would set the appropriate level of interest rates for the economy and would automatically rebalance itself in the event of a problem in the financial system.

However, crises occur time and again, and far more frequently than most financial models would predict.

Perhaps this is because investors are not the perfectly informed paragons found in efficient-market theory. Instead, they may simply be unable to get enough information to make correct judgments about the value of securities, or indeed may be given misleading information by insiders such as company executives or salesmen from the financial-services industry.

Central-bank intervention to prop up markets is often popular at the time; few people relish banking collapses or recessions. But it creates problems in the long run. The first is that consumers (and companies) are encouraged to borrow, not save, thanks to the low level of interest rates and a belief that central banks and governments will always rescue them if things go wrong. But as Mr Cooper writes: "A depressed savings rate leaves the economy precariously positioned to deal with future adverse shocks."

The second danger is that the system becomes progressively less stable as risk-taking is encouraged. Instead, central banks should permit some short-term cyclicality in order to purge the system of excesses. They can do this, Mr Cooper argues, by preventing excessive credit creation (which he defines as credit growth far ahead of economic growth).

This is not a new thesis, as the author accepts. Hyman Minsky developed a theory of financial instability in the 1970s. Jeremiahs have been warning about a looming debt crisis for at least 20 years. But Mr Cooper's book is by far the most cogent and reasoned of the modern-day "credit excess" school.

Alas, the author does not see an easy way out of today's mess, in effect arguing that we "shouldn't start from here". Letting the markets have their way would risk a repeat of the 1930s, and the Fannie and Freddie rescue shows the authorities are desperate to avoid that. But the danger is that central banks inflate another credit bubble, saving the economy from disaster in the short term but raising the stakes still further when the next crisis comes around. The Fannie and Freddie rescue, though unavoidable, suggests the world is heading in that direction.

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*"The Origin of Financial Crises: Central Banks, Credit Bubbles and the Efficient Market Fallacy". Published by Harriman House.

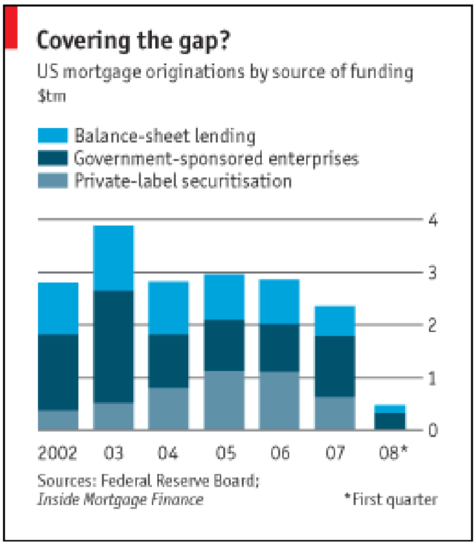
Covered bonds

From Prussia with love

Sep 11th 2008
From The Economist print edition

An ancient debt instrument may help America after Fannie and Freddie

FROM Freddie Mac to Frederick the Great? Fannie Mae and its brother are the central pillars of America's mortgage market. Their role has become even more important during the credit crisis, thanks to the moribund private-securitisation market (see chart). If they were eventually to disappear, what might take their place? One alternative is covered bonds—Prussia's legacy to modern finance.



First issued by the German kingdom in 1770, covered bonds have grown into a $3 trillion asset class, dominated by issuers in Europe. The instrument is a form of senior debt that is paid back from the issuer's cash flows but is also secured against a ring-fenced pool of assets, such as mortgage loans, in the event of default. That makes it safer than unsecured debt. But covered bonds also offer more protection to investors than asset-backed securities, because the issuer retains the credit risk, rather than securitising it away, and must also keep the cover pool up to snuff by replacing non-performing loans with performing ones. For extra safety, the pool contains more collateral than the value of the bond.

The attractions to policymakers in America are obvious. For jittery investors, these are instruments that offer safer exposure to America's mortgage market. For issuers, the costs of funding are lower than raising unsecured debt, and issuance does not depend on the revival of the securitisation markets. Only two covered bonds have been issued in America to date, both of them before the crunch, but a concerted effort is under way to kick-start things.

In July Hank Paulson, America's ubiquitous treasury secretary, unveiled a set of stringent guidelines detailing what kind of mortgage collateral can be used to secure the bonds. In tandem, Bank of America, Citigroup, JPMorgan Chase and Wells Fargo have announced plans to issue covered bonds. According to Tim Skeet at Merrill Lynch, the first issues could well happen before the end of the year.

It is too soon to say how big the market might eventually be. There are several constraints on growth. The most obvious are regulatory. The Federal Deposit Insurance Corporation, which is responsible for reimbursing depositors when banks fail, does not want its claims on assets to be subordinated to others and has (initially) capped covered-bond issuance at just 4% of banks' liabilities. Strict criteria on what assets can be used in the cover pool are necessary to reassure investors, but will leave many mortgage loans out in the cold.

The markets are another source of uncertainty. Promoting the merits of a new mortgage-backed debt instrument is not the easiest sell at the moment. Issuers might find that other sources of funding, such as advances from America's 12 Federal Home Loan Banks, are cheaper. Moreover, keeping mortgages on the books, rather than securitising them, means that banks have to deal with headaches like "prepayment risk", when mortgage borrowers refinance their policies and fail to generate the expected return. "Anything that helps to open up the mortgage market is a good thing at this point," says Sharon Haas of Fitch, a rating agency. Just do not expect Prussian-style dominance.

Oil prices

Running out of gas

Sep 11th 2008
From The Economist print edition

The world economy pays the price of expensive oil

Reuters

An Iranian approach to raising oil prices

IT IS a sign of remarkable times that the prospect of $100 oil is greeted with relief rather than trepidation. The price of a barrel of crude, having burst through $100 in February, peaked at $147 on July 11th. Since then it has fallen by more than a quarter. Not everyone is cheering. The Organisation of the Petroleum Exporting Countries (OPEC) met in Vienna on September 9th to discuss how to respond to the recent slide in prices. Faced with demands from Iran and Venezuela to cut output, but mindful that high prices have encouraged a more frugal use of oil in rich countries, OPEC opted for a fudge. It kept its target at 28.8m barrels a day but agreed to abide more faithfully to that goal by curbing overproduction—leading to a cut in actual output of 1.8%.

The more hawkish countries want oil prices to remain as high as possible to fund their lavish budgets. But Saudi Arabia, OPEC's largest member, has exceeded its output quota over the summer to prevent further harm to its rich-world customers, already reeling from the credit crunch. That makes sense. Even countries such as Germany and Japan, that are not very dependent on borrowing, have suffered alongside those struggling in a sea of mortgage debt, such as America and Britain. The woes of the thrifty may have at least as much to do with sky-high oil prices as they do with collapsing credit markets.

In such circumstances, the recent fall in the price of oil (and food) should be a boon for hard-pressed consumers. It has not, however, fallen far enough for central bankers to be celebrating just yet. Inflation seems set to follow oil and food costs down, but some policymakers fret that it may not fall quickly to a tolerable level. Their concern is that high oil prices may have harmed the potential growth rate of the economy, as well as temporarily pushing up inflation. If so, sluggish GDP growth may not create enough slack in the economy to drive inflation down far.

That possibility was outlined by Athanasios Orphanides, of the European Central Bank's (ECB) rate-setting council, at the "ECB and Its Watchers" conference in Frankfurt, on September 5th. An increase in the relative price of oil raises the costs of energy-intensive production, making some plant and machinery unprofitable. An oil shock could even leave the economy with a smaller margin of spare capacity if it harms output more than spending. For this reason, policymakers need to be careful not to overstimulate the economy when an oil shock hits. Indeed one of the policy errors that led to the 1970s stagflation, said Mr Orphanides, was to overlook the effect of dearer oil on viable output.

A recent study by the OECD concludes that oil prices at $120 a barrel could over the years reduce potential output by a total of as much as 4% in America, and by 2% in the euro area (which uses less oil for each unit of GDP). Because machinery is upgraded only slowly, this impact is likely to feed through gradually, initially shaving 0.2 percentage points a year off America's potential GDP growth.

Much depends on how other costs adjust. If firms can pass on part of the increased oil bill in lower real wages (through either higher prices or less generous pay deals), a larger chunk of the capital stock will remain viable. That may be happening in America, where hourly wage growth is well below inflation; the brunt of the oil shock has been borne by workers. In the euro area, by contrast, there are more signs that wages are picking up in response to recent inflation. Jean-Claude Trichet, the ECB's chief, has warned that the effect of dear oil on potential growth "should not be considered negligible". The bank's anxiety about it may prove a barrier to swift interest-rate cuts.

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The Federal Reserve

When hawks cry

Sep 11th 2008 | WASHINGTON, DC
From The Economist print edition

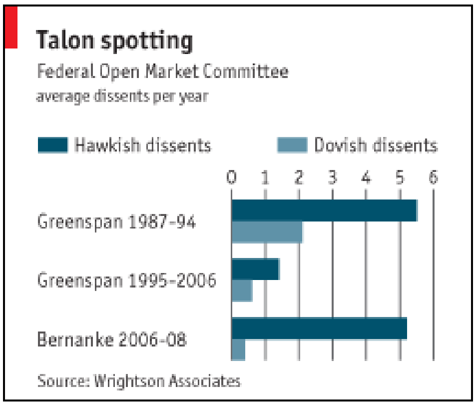
How America's central bank copes with an unusual level of dissent

BEN BERNANKE, the chairman of the Federal Reserve, has a lot on his plate these days, including a financial crisis, a probable recession, and the worst inflation in 17 years. What is more, he is tackling it with a fractious team of policymakers.

The contingent of inflation hawks on the Federal Open Market Committee (FOMC) is one of the largest and most vocal in memory. The committee, made up of governors and regional bank presidents, has voted on interest rates eight times since the end of last September. All featured at least one dissenting vote and, except for one, they were for higher interest rates. At least six of the 12 bank presidents (of whom five vote in any given year) have expressed discomfort with the current, low level of rates. Ahead of the Fed's August 5th policy meeting, three banks requested a quarter-point increase in the Fed's discount rate. They did not get it. But it was a sign of what they want.

The FOMC has so far refused to yield to such internal pressure. Mr Bernanke would sooner suffer dissent than placate the hawks with what he thought was a premature rate increase. The signs are that the Fed will maintain the federal funds rate at 2% when it meets on September 16th. There could even be a rare show of harmony, given that the inflationary threat from oil prices and the dollar may be receding.

The hawks' bigger influence is on how the Fed talks. Mr Bernanke has made Fed deliberations more democratic and strives to incorporate the breadth of his colleagues' views in official announcements. In a process that began shortly before he took office, a draft of the post-meeting statement is e-mailed a week before each meeting to FOMC members, who are asked to comment if they do not think it spans the "plausible range" of committee views. Anywhere from zero to four typically do, sometimes resulting in a new draft. During meetings, Mr Bernanke sums up the views of his colleagues before stating his own. At times, this can send misleading signals about interest rates. Statements released last month, and in August and October last year, emphasised concerns about inflation at a time of deepening economic distress. Mr Bernanke has sought to reduce the confusion by asserting his own views in public more often.



Bridging these divergent views is tricky because many of the hawks do not just differ in their outlooks, but in how monetary policy works. The conventional view, shared by Mr Bernanke, Donald Kohn, his influential vice-chairman, and their professional staff, is that monetary policy affects inflation via its impact on the real economy. Higher interest rates reduce demand relative to the economy's potential to supply goods and services. Reduce it enough, and unused slack will accumulate, forcing firms and workers to compete for scarce customers and jobs by lowering prices and wages. The opposite happens when demand rises relative to supply. This relationship is captured in the Phillips curve, which shows inflation falling when unemployment is above its natural rate. In this view, it does not matter whether it is monetary policy or a credit crunch that raises unemployment: both put downward pressure on inflation. What is more, Mr Bernanke and his colleagues reckon today's low fed funds rate is merely offsetting tighter financial conditions from the credit crunch.

The hawks, by contrast, think that unemployment and other measures of "economic slack" have limited bearing on the transmission of monetary policy. Fed actions affect inflation primarily by altering inflation expectations. They worry that a low funds rate in itself threatens to lift inflation, and rising unemployment and the credit crunch will do little to contain it.

The divide inside today's FOMC recalls the "freshwater-saltwater" split in macroeconomics in the 1970s and 1980s, when inland scholars such as those at the University of Minnesota challenged the Phillips-curve advocates at coastal universities like the Massachusetts Institute of Technology over their sympathy for activist policymaking. Appropriately, the latest challenge originated with research at the Minneapolis Fed earlier this decade that found no relationship between unemployment and inflation. The most outspoken hawk today is Jeffrey Lacker, a University of Wisconsin graduate who now heads the Richmond Fed. He dissented four times in 2006 and in June criticised the Fed’s expansion of lending to banks as risking both moral hazard and the Fed’s independence.

Although some hawks rile their colleagues with the rigidity of their views, they are not a threat to Mr Bernanke’s leadership. For one thing, his fellow governors in Washington, DC, are united behind him. For another, the hawks are grateful for being encouraged to air their disagreements. The hawkish chatter may at times muddle the Fed’s message, but it probably means the FOMC is working as it should.

Economics focus

Redefining recession

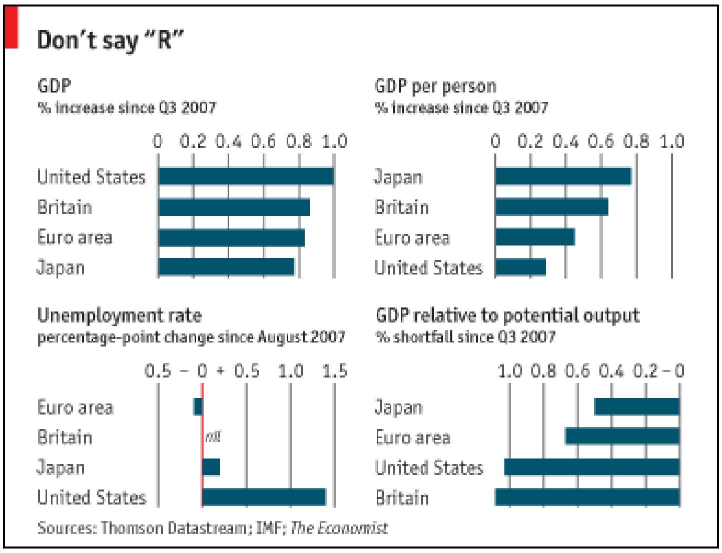
Sep 11th 2008
From The Economist print edition

A new yardstick for measuring slumps is long overdue

THERE has been a nasty outbreak of R-worditis. Newspapers are full of stories about which of the big economies will be first to dip into recession as a result of the credit crunch. The answer depends largely on what you mean by "recession". Most economists assume that it implies a fall in real GDP. But this has created a lot of confusion: the standard definition of recession needs rethinking.

In the second quarter of this year, America's GDP rose at a surprisingly robust annualised rate of 3.3%, while output in the euro area and Japan fell, and Britain's was flat. Many economists reckon that both Japan and the euro area could see a second quarter of decline in the three months to September. This, according to a widely used rule of thumb, would put them in recession, a fate which America has so far avoided. But on measures other than GDP, America has been the economic laggard over the past year.

The chart looks at several different ways to judge the severity of the economic slowdown since the start of the credit crunch in August 2007. On GDP growth, America has outperformed Europe and Japan. Unemployment, however, tells a very different tale. America's jobless rate hit 6.1% in August, up from 4.7% a year earlier, and within spitting distance of its peak of 6.3% during the previous recession after the dotcom bust. Other countries have so far published figures only for July, but their jobless rates have barely moved over the past year: Japan's has risen by only 0.2%, the euro area's has fallen slightly (though in absolute terms it is still a bit higher than America's). Another yardstick, GDP per head, takes account of the fact that America's population is rising rapidly, whereas Japan's has started to shrink. Since the third quarter of 2007 America's average income per person has barely increased; Japan's has enjoyed the biggest gain.



To the average person, a large rise in unemployment means a recession. By contrast, the economists' rule that a recession is defined by two consecutive quarters of falling GDP is silly. If an economy grows by 2% in one quarter and then contracts by 0.5% in each of the next two quarters, it is deemed to be in recession. But if GDP contracts by 2% in one quarter, rises by 0.5% in the next, then falls by 2% in the third, it escapes, even though the economy is obviously weaker. In fact, America's GDP did not decline for two consecutive quarters during the 2001 recession.

However, it is not just the "two-quarter" rule that is flawed; GDP figures themselves can be misleading. The first problem is that they are subject to large revisions. An analysis by Kevin Daly, an economist at Goldman Sachs, finds that since 1999, America's quarterly GDP growth has on average been revised down by an annualised 0.4 percentage points between the first and final estimates. In contrast, figures in the euro area and Britain have been revised up by an average of 0.5 percentage points. Indeed, there is good reason to believe that America's recent growth will be revised down. An alternative measure, gross domestic income (GDI), should, in theory, be identical to GDP. Yet real GDI has risen by a mere 0.1% since the third quarter of 2007, well below the 1% gain in GDP. A study by economists at the Federal Reserve found that GDI is often more reliable than GDP in spotting the start of a recession.

Tapping the slumpometer

These are good reasons not to place too much weight on GDP in trying to spot recessions or when comparing slowdowns across economies. The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), America's official arbiter of recessions, instead makes its judgments based on monthly data for industrial production, employment, real income, and wholesale and retail trade. It has not yet decided whether a recession has begun. But even the NBER's more sophisticated approach is too simplistic in that it defines a recession as an absolute decline in economic activity. This can cause problems when trying to compare the depth of downturns in different cycles or across different countries. Suppose country A has a long-term potential (trend) growth rate of 3% and country B one of only 1.5%, due to slower labour-force growth. Annual GDP growth of 2% will cause unemployment to rise in country A (making it feel like a recession), but to fall in country B. Likewise, if faster productivity growth pushes up a country's trend rate of growth, as it has in America since the mid-1990s, an economic downturn is less likely to cause an absolute drop in output.

This suggests that it makes more sense to define a recession as a period when growth falls significantly below its potential rate. The IMF estimates that America and Britain have faster trend growth rates than Japan or the euro area. The bottom-right chart shows that since the third quarter of last year, growth has been below trend in all four economies, but Britain, closely followed by America, has seen the biggest drop relative to potential.

But even if this is a better definition of recession, potential growth rates are devilishly hard to measure and revisions to GDP statistics are still a problem. One solution is to pay much more attention to unemployment numbers, which, though not perfect, are generally not subject to revision and are more timely. A rise in unemployment is a good signal that growth has fallen below potential. Better still, it matches the definition of recession that ordinary people use. During the past half-century, whenever America's unemployment rate has risen by half a percentage point or more the NBER has later (often much later) declared it a recession. European firms are slower at shedding jobs, so unemployment may be a lagging indicator. Even so, the jobless rate has usually started to rise a few months after the start of a recession.

As the old joke goes: when your neighbour loses his job, it is called an economic slowdown. When you lose your job, it is a recession. But when an economist loses his job, it becomes a depression. Economists who ignore the recent rise in unemployment deserve to lose their jobs.

Particle physics

Off into the wild, blue yonder

Sep 11th 2008 | GENEVA
From The Economist print edition

AFP

The world's biggest particle accelerator starts up, more or less

THE Large Hadron Collider (LHC) is a machine which will measure events that happen within a millionth of a billionth of a billionth of a second. What no one seems to be able to measure, though, even to an accuracy of several weeks, is when it really opens for business. Is it the moment when the first protons are injected into its 27km ring? When they first travel all the way around? When they are first made to collide with each other, thus generating the exciting new subatomic particles that are the whole point of the exercise? Or is it the moment at which those collisions become stable enough for real scientific data to be collected?

Well, popular opinion—or, rather, a tacit agreement between the authorities at CERN, the European particle-physics laboratory whose baby the LHC is, and the journalists who report on these matters—decided on the second. Though individual bits of the machine have been under test for several weeks, a complete circuit gives everyone the excuse to declare victory and splash the LHC as the "machine that will unlock the mysteries of the Big Bang", in the hope that politicians and the public will take notice.

The protons were duly unleashed at 9.30am local time on September 10th as the world's press assembled at CERN's headquarters in Geneva to witness the event. Someone at the BBC suggested that a Big Red Button should be used to speed the protons on their way, but that was deemed too flashy. Instead Lyn Evans, the physicist in charge of the collider, cautiously nursed the first proton beam around the circuit an eighth of the way at a time. Then, to prove the point, he sent one in the opposite direction.

Like a circle in a spiral

Razzmatazz aside, the LHC is an awesome machine. When it is working at full throttle, the protons going around the LHC will travel very close to the speed of light. That speed, beyond which it is impossible to accelerate, is 299,792km a second.

The power of accelerators has risen more than a thousandfold since the 1960s, and a hundred millionfold since the first cyclotron, a mere 30cm in circumference, was tested by Ernest Lawrence at the University of California, Berkeley in 1931. But the basic idea behind both that cyclotron and the LHC is the same. A combination of electricity and magnetism accelerates the protons and thus endows them with energy. Then they are brought to a sudden halt by a collision with something else, at which point the energy is converted into mass, creating new particles, according to Einstein's well known equation, $E=mc^2$. The main difference, apart from the scale of the machines, is that the cyclotron fired particles into a static target, whereas the LHC uses contra-rotating beams to achieve head-on collisions.

The real news, of course, will come when CERN actually finds something. But then, too, the question of “when” will be moot. Scientific discoveries are only occasionally eureka moments. More often, the data have to be collected, reviewed, analysed statistically, found wanting, collected again and analysed again. Eventually, if all has gone well, a clear result will emerge. It then has to be written up, reviewed by critical peers and, if it passes review, published in a scientific journal.

That process is likely to be shorter for the LHC than it is for most scientific papers because the convention in physics is, increasingly, to do without peer review and post papers online, where all and sundry can tear them to shreds if they do not measure up. Moreover, promising but unconfirmed results are likely to leak—particularly if they concern the Higgs boson, the LHC’s famous first target. Scientists can be as garrulous in bars as politicians are.

The Higgs—which is required by theory to explain the existence of mass—has become such a cliché that it will be a relief when it does turn up and effort can be directed towards other things, such as probing the mysteries of gravity, doubling the number of known particles through a mechanism called supersymmetry and even generating minuscule black holes. Indeed, if the boson’s properties obey the strictures laid down for it by Peter Higgs and the other physicists who predicted it way back in the 1960s, the moment of discovery may turn out to be something of an anticlimax. Assuming that moment can be defined, of course.

Traffic jams

Queuing conundrums

Sep 11th 2008
From The Economist print edition

Strange as it might seem, closing roads can cut delays

DRIVERS are becoming better informed, thanks to more accurate and timely advice on traffic conditions. Some services now use sophisticated computer-modelling which is fed with real-time data from road sensors, satellite-navigation systems and the analysis of how quickly anonymous mobile phones pass from one phone mast to another. Providing motorists with such information is supposed to help them pick faster routes. But the latest research shows that in some cases it may slow everybody down.

Hyejin Youn and Hawoong Jeong, of the Korea Advanced Institute of Science and Technology, and Michael Gastner, of the Santa Fe Institute, analysed the effects of drivers taking different routes on journeys in Boston, New York and London. Their study, to be published in a forthcoming edition of *Physical Review Letters*, found that when individual drivers each try to choose the quickest route it can cause delays for others and even increase hold-ups in the entire road network.

The physicists give a simplified example of how this can happen: trying to reach a destination either by using a short but narrow bridge or a longer but wide motorway. In their hypothetical case, the combined travel time of all the drivers is minimised if half use the bridge and half the motorway. But that is not what happens. Some drivers will switch to the bridge to shorten their commute, but as the traffic builds up there the motorway starts to look like a better bet, so some switch back. Eventually the traffic flow on the two routes settles into what game theory calls a Nash equilibrium, named after John Nash, the mathematician who described it. This is the point where no individual driver could arrive any faster by switching routes.

The researchers looked at how this equilibrium could arise if travelling across Boston from Harvard Square to Boston Common. They analysed 246 different links in the road network that could be used for the journey and calculated traffic flows at different volumes to produce what they call a “price of anarchy” (POA). This is the ratio of the total cost of the Nash equilibrium to the total cost of an optimal traffic flow directed by an omniscient traffic controller. In Boston they found that at high traffic levels drivers face a POA which results in journey times 30% longer than if motorists were co-ordinated into an optimal traffic flow. Much the same thing was found in London (a POA of up to 24% for journeys between Borough and Farringdon Underground stations) and New York (a POA of up to 28% from Washington Market Park to Queens Midtown Tunnel).

Modifying the road network could reduce delays. And contrary to popular belief, a simple way to do that might be to close certain roads. This is known as Braess’s paradox, after another mathematician, Dietrich Braess, who found that adding extra capacity to a network can sometimes reduce its overall efficiency.

In Boston the group looked to see if the paradox could be created by closing any of the 246 links. In 240 cases their analysis showed that a closure increased traffic problems. But closing any one of the remaining six streets reduced the POA of the new Nash equilibrium. Much the same thing was found in London and New York. More work needs to be done to understand these effects, say the researchers. But even so, planners should note that there is now evidence that even a well intentioned new road may make traffic jams worse.

Space survival

Hardygrades

Sep 11th 2008
From The Economist print edition

One small step for the animal kingdom

IN OCTOBER China will send three more astronauts into space—and two of them will brave a trip outside their vehicle wearing China's brand new space suit. A space suit is a complicated device; in essence a complete miniature world that supplies all the things you need to support life and to protect its occupant. Without it, a human trip into space would be very brief.

Most living things cannot survive in space, though a few hardy bacteria and some lichen can do so for a while. Now, however, an animal has been found that can venture outside without a space suit. Ingemar Jonsson at Kristianstad University in Sweden, and his colleagues, have managed to send tardigrades, a small invertebrate animal less than 1mm long, out into space and back again.

They managed this using the European Space Agency's *Foton* spacecraft in September 2007. The researchers report in *Current Biology* that two species of tardigrade (there are about 1,000 of them), were able to survive in space.

They exposed some to the vacuum of space. After these animals had been brought back and rehydrated, scientists found no difference in their survival and reproduction rates compared with tardigrades that had stayed back at home. (Although, presumably, the space travellers had a good yarn to tell their friends.)

The tardigrades found it harder to cope with solar radiation. Over 100 tardigrades were sent on the mission. But only three individuals of *Milnesium tardigradum* managed to survive, briefly, when exposed to vacuum plus the full range of ultraviolet radiation. But 12% survived, and went on to reproduce, when exposed only to less damaging UVA and UVB light.

The authors say that it is a mystery how these animals were capable of being revived after receiving such high doses of radiation under space conditions. Part of the answer could be that tardigrades have a unique metabolism which allows them to enter a state of suspended animation. They can survive long droughts on Earth in a dried-out state. Their survival methods might also involve an efficient mechanism for repairing damaged DNA, something that scientists are keen to learn more about.

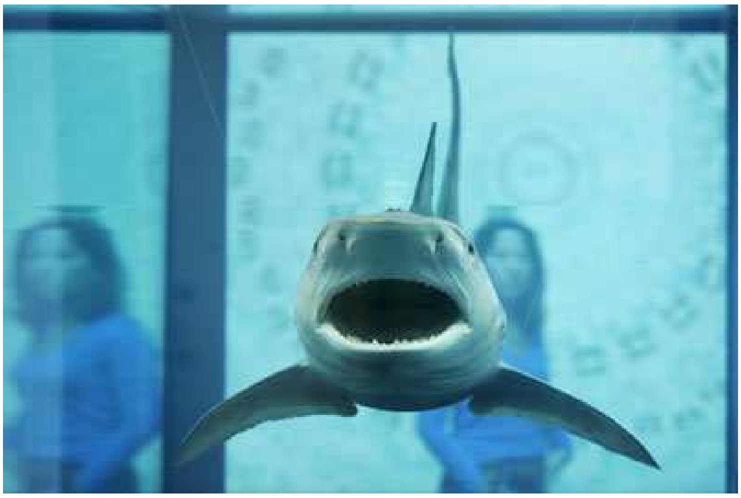
Being able to withstand desiccation, starvation and extremes of temperature, has contributed towards the earthly success of the tardigrade, which live in habitats from damp moss to flowering plants, sand, freshwater and the ocean. More broadly, such hardiness leads to a question about whether tiny life forms may be able to hitchhike around the galaxy on meteorites—or even spacecraft. It is said that the meek will inherit the Earth. Perhaps the tardigrades will inherit the universe.

Damien Hirst

The shark's last move

Sep 11th 2008
From The Economist print edition

AP



Talented, greedy and utterly confident, Britain's biggest-selling artist hopes to overturn the basic laws of economics as well as the rules of the art market

SOTHEBY'S is awash with colours. Pink. Turquoise. Orange. Red on the left. Blue on the right. But it is only when you reach the first floor that you hit the bling. Two burnished gold cases hang on the wall filled with manufactured diamonds as big as your thumb, and in the centre of the room the *pièce de résistance*, "The Golden Calf", a creamy-coloured bull with a curly pelt and testicles like rugby balls, all lovingly preserved in formaldehyde and crowned in gold, with golden horns, golden hooves and a golden crown.

"It's mind-blowing," says Damien Hirst, the 43-year-old artist who created the Midan calf and the other pieces waiting to be auctioned at Sotheby's London headquarters in New Bond Street. Dressed fashionably in black, with rings on his fingers and shades on his nose, Mr Hirst is an impish figure with a strong streak of humour. But even he is momentarily silenced before the scale of the display. "There are so many things coming from so many directions. Can't be normal, can it?"

No, it can't. Auction houses like Sotheby's and its rival, Christie's, traditionally sell only art that has been bought and sold before. Even their sales of modern and contemporary art usually exclude anything that is less than five years old. To mount an auction of new work by a single artist and in such quantity—223 lots estimated to bring in at least £68m ($120m)—looks like bragging. Yet on September 15th, in the early evening, Oliver Barker, Sotheby's youthful international specialist, will bring down his gavel on the first lot, a colourful triptych of butterflies and diamonds entitled "Heaven Can Wait" that is estimated to sell for up to £500,000. The auction is so big it will take two days to get through. The accompanying catalogue comes in three volumes, and is encased in its own slipcover. Such a sale has never been attempted before.

Only the brave sell at auction, for it is impossible to control who buys or what price they will pay. Some of Mr Hirst's pieces will sell easily, especially if several bidders descend on the same work at once; others will be knocked down more slowly. Mr Hirst is flooding the market, but he hopes his prices will rise, thereby challenging one of the basic laws of economics. At the same time, he is breaking the art market's traditional rules. For nearly 20 years his dealers have nurtured his career, placing his work in high-profile museums and in the hands of carefully selected wealthy collectors. By going down the auction-house route, Mr Hirst is now preparing to cut them out. "The final frontier protecting contemporary art galleries from the relentless encroachment of the auction houses has been emphatically breached," wrote Roger Bevan, an art historian and critic, in an editorial in the *Art Newspaper* when the sale was announced last July.

Mr Hirst's dealers are powerful men who are used to getting their own way. Larry Gagosian, a flamboyant New Yorker who first gave Mr Hirst an exhibition in 1996, controls more art space than any dealer in the world: three galleries in New York, one in Los Angeles, two in London, one in Rome. In October he will take on a temporary space in Moscow, and he also has an office in Hong Kong. If he and Mr Hirst's London dealer, Jay Jopling, founder of the White Cube gallery, should choose to turn against Mr Hirst, lot after lot may fail to reach the prices that his work has come to command.

Mr Hirst is, of course, not the first artist to give his dealers the finger. Picasso did it nearly a century ago. "*Le marchand—voilà l'ennemi*," Picasso said of Léonce Rosenberg in 1918 as the first world war was coming to an end. Mr Hirst credits the man he calls his manager, Frank Dunphy, a sprightly 70-year-old accountant, for dreaming up this sale. "Frank has my best interests at heart. Dealers say they do, but they don't."

Although Mr Hirst and Mr Dunphy had been working on this auction for 18 months, remarkably nothing leaked out before they were ready. By May the time had come to inform the dealers of their plans. Mr Hirst called his old friend Mr Jopling, while Mr Dunphy called Mr Gagosian. "It sounds like bad business to me," he says Mr Gagosian told him. "It'll be confusing to collectors. It's a bad move."

By July, when the formal announcement was made, both dealers were ready to put a brave face on the proceedings. "As Damien's long-term gallery," Mr Gagosian said through a spokesman, "we've come to expect the unexpected. He can certainly count on us to be in the room with paddle in hand." Mr Jopling chose to refer to Mr Hirst's much-publicised £50m diamond skull that was unveiled last year, but failed to sell as hoped: "8,601 flawless diamonds notwithstanding, ours has never been a traditional marriage and I look forward to many more adventures to come."

Sotheby's motives are easy to understand. In recent years both the leading auction houses have aggressively turned their businesses into global operations, chasing new wealth in Russia, China and the Middle East, expanding their services to include "art advice", finance, shipping and insurance, and moving into the primary market that has traditionally been the dealers' turf. Nowhere is this more visible than in contemporary art.

Primary colours

The past 25 years have seen more than 100 major new museums built around the world, each intent on acquiring, on average, 2,000 pieces, says Don Thomson, author of "The $12m Stuffed Shark", a new book about the economics of contemporary art. With fewer Old Masters or Impressionist paintings coming on to the market, many of these institutions have focused on buying dramatic contemporary work to make their mark. The number of wealthy collectors has also multiplied 20 times, many of them for the same reasons focusing on the only sector where supply is expanding: contemporary art. Everyone who can afford it wants an iconic work, which explains the constantly rising records.

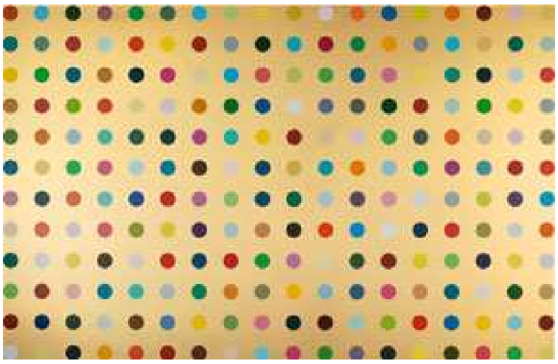
For the auction houses, primary dealing is an obvious way of expanding. In 2006 Sotheby's paid $56.5m for Noortman Master Paintings, a leading dealer in Old Masters. Less than a year later, Christie's bought Haunch of Venison, another firm with a high profile, which had been founded by two former directors of Christie's contemporary-art department. Noortman gives Sotheby's an entry into the Maastricht art fair, the pre-eminent dealers' fest; through Haunch of Venison Christie's French owner, François Pinault, has become the biggest art trader in the market.

In addition, both auction houses have put considerable effort into becoming brokers, putting together buyers and sellers. Many pieces that fail to achieve their reserve price at auction are quietly sold afterwards in "private-treaty" deals negotiated by the auction houses. In 2007, Christie's chalked up $542m- and Sotheby's $730m-worth of private after-auction sales, ranking the auction houses among the biggest primary dealers in the world.

Sotheby's has always kept very close to Mr Hirst. It cemented the relationship in 2004 when it auctioned the contents of Pharmacy, a once-trendy London restaurant. Mr Hirst had a very small share in the venture, but he provided the paintings that hung on its walls and designed all its fixtures. When the Hartford Group, Pharmacy's then owner, told Mr Dunphy it was preparing to close the restaurant and throw the fittings into a skip, he drove round in a truck and bought everything he could find—the ceiling, doors, windows, flooring, lights, chairs, tables, cutlery, glasses, even the matchbooks—for £50,000.

Sotheby's Pharmacy auction, at which Mr Barker also presided, was expected to bring in £3m; instead it made more than £11m. (A little-known episode in the Pharmacy story that stuck in Mr Dunphy's mind would inspire much of the thinking behind the upcoming Hirst sale. One of his accounting clients cashed in a lacklustre Equitable Life insurance policy in order to buy some Pharmacy eggcups; she failed to get them, but Mr Dunphy never forgot the idea of holding a sale in which there would be "something for everyone".)

Damien Hirst



Spot the fabricator

As the art market soared, Mr Dunphy, Mr Hirst and Sotheby's Mr Barker kept returning to the idea of repeating the Pharmacy sale. But the moment never seemed right. Then two things happened. In February 2007 Sotheby's sold the first of a batch of paintings it had bought from one of Mr Hirst's earliest and best-known collectors, Charles Saatchi. The paintings were by Peter Doig, an Edinburgh-born artist now living in Trinidad. Mr Doig is hardly a household name, but collectors fight for the chance to buy a work if it comes up at auction. Mr Doig's "White Canoe" fetched £5.7m, nearly five times the estimate, at that time the highest price ever paid for a living European artist. The buyer was Boris Ivanishvili, a mining magnate from Georgia.

On St Valentine's Day this year Sotheby's held an auction for RED, a third-world charity, in New York. The sale attracted celebrity buyers from all over the world, raising more than $40m in one night. One of the two movers behind it was Mr Hirst. The reason so many world-class artists (among them Howard Hodgkin, Jeff Koons, Willem de Kooning, Jasper Johns and Robert Rauschenberg) had donated work was that three months earlier Mr Hirst had written to each one by hand. No one refused.

Mr Ivanishvili's unexpected purchase of Mr Doig's "White Canoe" proved that new money was finally ready to spend squillions on contemporary art. The success of the charity auction also proved that no contemporary artist had more pulling power than Mr Hirst, whose own work sold for nearly $20m that night. The moment to repeat Pharmacy had come.

If the timing and reasoning behind Sotheby's decision to go ahead are obvious, the reasons Mr Hirst wants to risk his reputation for a one-off fire sale are more subtle. Much of it has to do with his natural impatience, his wish to break rules and break down boundaries. Although he has benefited from the contacts and clout that his dealers provide, he is irked by their habit of making potential new buyers prove themselves by waiting before they are allowed to purchase a work of art. "Dealers are gatekeepers who permit artists' access to serious collectors," explains Mr Thompson. Auction rooms, by contrast, are more democratic. Anyone with enough money can buy what they want—immediately. They just have to be prepared to make that final bid.

"I want artists in the future to think I'm cool," says Mr Hirst. "It's like you see this doorway, and you've just got to go through it. My whole career's been like that." As his British dealer and long-time friend, Mr Jopling, says: "Damien has always been a mould-breaker." Michael Joo, a New York artist of Korean extraction who participated in one of Mr Hirst's earliest shows and also contributed to the RED auction, says: "This is not vampire-like, life-draining greed; it's another example of Damien maximising things to their fullest."

Ask Mr Hirst if he would rather paint the "Mona Lisa" and have it hanging in the greatest museum in the world or a postcard of the "Mona Lisa" for every student bedsit, he chooses both. "Because you're getting into people's minds more." Inspired by Mr Dunphy's client who traded in her Equitable Life policy in hopes of buying eggcups, the forthcoming Sotheby's auction includes Hirsts of every category, led by "The Golden Calf", estimated at £8m-12m.

Death and fear

Ever since 1988, when he curated his first show and drove his own beaten-up car to pick up Norman Rosenthal, the secretary of the Royal Academy of Arts, to ensure it was seen by the right people, Mr Hirst has produced five basic categories of work. The "natural history" pieces include the sharks in formaldehyde that first caught Mr Saatchi's eye over 20 years ago and made Mr Hirst's name as an explorer of death and fear.

This sale includes two lots of sharks, a calf, a black sheep, a zebra and four skinned cows' heads, as well as a pony dressed up with a plastic narwhal horn to look like a unicorn. There are also examples of the long-running "cabinet series", of cigarette butts, pills and medical packages (estimated to fetch up to £2m), "spin" paintings (up to £600,000), "spot" paintings of different sizes (£700,000), and cathedral windows of butterfly wings (£900,000). At the bottom of the scale is a small, six-inch-square butterfly estimated to fetch at least £15,000 and the pen and ink drawings that start at £10,000. On one Mr Hirst has written: "Everything he touches turns to gold and it kills him in the end."

The fact that Mr Hirst—in sharp contrast to Mr Doig, who produces only six or eight paintings a year—has been able to produce enough work to fill 223 lots has to do with the fact that he is no longer an artist, in the normal sense of the word, but the head of a global brand selling instantly recognisable work that is made in factories.

In London Mr Hirst presides over two large industrial units producing the butterfly-wing pictures and his photo-realist paintings. In the Gloucestershire countryside he leases two wartime aircraft hangers for the manufacture of the spot paintings, the spin works and the formaldehyde tanks. He also has a large workshop and an exhibition studio. More than 180 people work for him, creating Damien Hirsts. Two specialists oversee the formaldehyde unit, which on a visit in July contained four dead ponies, a wild boar, an upended cow and, in good "Godfather" style, a horse's head in a plastic bag.

In the workshop three women were talking about the "Hedgehog", a device attached to a Hoover. It is a small plastic tube with 20 holes cut into it in which are inserted cut-down cigarettes, some ringed with lipstick. Switch on the Hoover and, hey presto, instant cigarette butts for lot 134 (top estimate, £300,000). In another workshop, three fabricators were painting precisely measured round circles at regular intervals on a white background. These are the famed spot paintings that Mr Hirst says were inspired by playing snooker. The fabricators choose which colour each spot is to be, and use ordinary household paint to apply the shades. The butterfly pictures are made by fabricators who are given the dimensions needed, but are otherwise left to themselves to choose the colours and designs they want. Having given his final approval—sometimes, one fabricator says, only by looking at a photograph—Mr Hirst signs and dates the back of the work.

Mr Hirst may differ from other brandmakers calling themselves artists, such as Gianni Versace, only because fashion houses don't sell £8m-12m dresses, but the similarities are there. Great efforts have been made to stretch the Hirst brand to reach (nearly) every pocket. Through a company called Other Criteria, Mr Hirst publishes artists' books. He also makes pyjamas and a line of jeans with Levi's, which echo the diamond-encrusted skull and cost $4,000 a pair. A small shop next door to Sotheby's will start selling Hirst prints shortly after the sale on September 15th. Another, bigger one, is being fitted out at a site behind nearby Oxford Street.

All these activities have made Mr Hirst a wealthy man. His fortune has been estimated at £200m; his last exhibition at White Cube fetched £138m. Thanks to Mr Dunphy, he retains 70%-90% of the galleries' sale prices, rather than the normal 50%. When in London, he lives on a Chelsea houseboat or at Claridge's. He likes to travel by car, drawing in the back of his chauffeur-driven Audi. His art collection, which is owned by a company called Murderme, is extensive and growing. It includes work by other artists as well as his own. In the year to April 2008, Murderme's assets were valued at £119m, up by more than half on the previous year. Mr Hirst owns a home in Devon and another in Mexico. He also has properties in London that he is waiting to develop and a 300-room Georgian Gothic mansion, Toddington Manor, in Gloucestershire, which he wants to turn into a gallery and showing space.

Mr Hirst is as famous for being rich and famous as he is for his art, which may be part of his appeal. Certainly Sotheby's hopes so. The artist and the auction house have made a concerted effort to market the sale on YouTube, making presentations at the Oberoi hotel in New Delhi, in Kiev, the Hamptons and Aspen, Colorado. The fact that the record price for a Hirst at auction, £9.65m for a medicine cupboard called "Lullaby Spring", was paid last year by Sheikha al-Mayassa al-Thani, the 25-year-old daughter of the ruler of Qatar, showed Sotheby's this was the right route to take. All this week select British and foreign collectors have been given private viewings of the sale and entertained to lunch in Sotheby's smart new dining rooms.

The auction house is keen to head off any notion that the sale might not succeed. A report last month that White Cube was sitting on 200 unsold works by Mr Hirst has been stamped on as "not up to date". The leaked stocklist on which the report was based, the gallery declares, includes "items from Mr Hirst's personal collection that are not for sale, two pieces from the last show that are being kept for museums and at least 30 pieces that have not been made and perhaps never will be." Similarly, saleroom analyses showing that the number of Hirsts that fail to sell at auction always climbs as recession bites (30% of the pieces in the year after September 11th 2001, and more pieces this year than last) are brushed aside.

On September 5th Sotheby's opened the sale to public view. A week later it threw a party for 1,500 people, serving champagne and foie gras wrapped in gold leaf. On the invitation the dress code was "glamorous". "Our biggest challenge," says Mr Barker, "is to match the scale of Damien's ambition." For that, Sotheby's is killing the fatted calf.

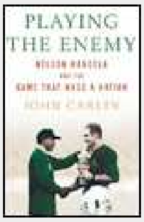
Economist.com BOOKS & ARTS

Nelson Mandela

Rugby's role in his rise

Sep 11th 2008
From The Economist print edition

Playing the Enemy: Nelson Mandela and the Game that Made a Nation
By John Carlin



Penguin Books; 274 pages; $24.95.
Atlantic Books; £18.99

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Amazon.com
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TOWARDS the end of his 27 years in jail, Nelson Mandela began to yearn for a hotplate. He was being well fed by this point, not least because he was the world's most famous political prisoner. But his jailers gave him too much food for lunch and not enough for supper. He had taken to saving some of his mid-day meal until the evening, by which time it was cold, and he wanted something to heat it up.

The problem was that the officer in charge of Pollsmoor prison's maximum-security "C" wing was prickly, insecure, uncomfortable talking in English and virtually allergic to black political prisoners. To get around him, Mr Mandela started reading about rugby, a sport he had never liked but which his jailer, like most Afrikaner men, adored. Then, when they met in a corridor, Mr Mandela immediately launched into a detailed discussion, in Afrikaans, about prop forwards, scrum halves and recent games. His jailer was so charmed that before he knew it he was barking at an underling to "go and get Mandela a hotplate!"

Mr Mandela's story never fails to inspire. As a young man, he started an armed struggle against apartheid. It went nowhere, and he went to jail. While maturing behind bars, he decided that moral suasion might work where bombs had failed. It did. South Africa's white rulers surrendered power without a civil war. Several books have been written about Mr Mandela's crucial role in coaxing his countrymen towards a more civilised form of government. John Carlin's is the first to tell the tale through the prism of sport.

This premise is not as odd as it sounds. It was not only Mr Mandela's regal charm that won over white South Africans. It was the fact that he took the trouble to study and understand their culture. At a time when many blacks dismissed rugby as "the brutish, alien pastime of a brutish, alien people", Mr Mandela saw it as a bridge across the racial chasm.

The game is not an incidental part of Afrikaner culture, like cricket is to the English. To many Afrikaners, who have grown up playing rough games on sun-baked ground so hard that every tumble draws blood, rugby is little short of everything. Mr Mandela knew that if he was to convince these people that one man, one vote would not mean catastrophe, he had to "address their hearts", not their brains. If the fearsome terrorist on the other side of the negotiating table was a rugby fan, could he really be as bad as they thought?

Mr Carlin focuses on the decade after 1985, when most blacks thought the country was sliding into war. He draws on his experiences as the South Africa correspondent for the *Independent*, a British newspaper, during the transition to democracy. But the book does not climax, as a standard historical text might, with South Africa's first proper multi-racial elections in 1994. Instead, it builds up to the rugby world cup final in 1995, which was held in South Africa and which the home team won.

This makes sense. Elections are all very well, but the moment when black South Africans started cheering for a mostly-white rugby team, when white fans in the stadium tried gamely to sing a Zulu miners' anthem and when Mr Mandela donned the green jersey of the Springboks—"It was the moment I realised that there really was a chance this country could work," gushes a teary-eyed rugby official.

Mr Carlin brings the story alive by telling it through the eyes of a broad spectrum of South Africans. Among these is Desmond Tutu, the Nobel prize-winning archbishop of Cape Town, who was in America on the day of the final and had to find a bar that would let him watch it at an ungodly hour of the morning. Also, Niel Barnard, a former chief spy for the apartheid regime, who used to keep a thick file on Bishop Tutu. And Justice Bekebeke, a young township firebrand who killed a policeman for firing at a child during a riot and spent time on death row.

Mr Bekebeke is the most interesting of Mr Carlin's portraits. On the morning of the match, he is still too bitter about a lifetime of injustice to support the Springboks. But then, something changes. The surging emotion of the event sweeps him along. “I just had to give up, to surrender,” he says, “And I said to myself, well, this is the new reality. There is no going back: the South African team is now my team, whoever they are, whatever their colour.”

Many writers reveal the nuts and bolts of South Africa’s transformation to non- racial democracy. But few capture the spirit as well as Mr Carlin.

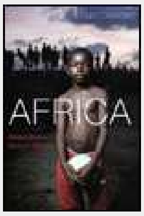
Playing the Enemy: Nelson Mandela and the Game that Made a Nation.
By John Carlin.
Penguin Books; 274 pages; $24.95.
Atlantic Books; £18.99

Lessons from Africa

Laughter and music

Sep 11th 2008
From The Economist print edition

Africa: Altered States, Ordinary Miracles
By Richard Dowden



Portobello Books; 576 pages; £25

Buy it at Amazon.co.uk

CHINUA ACHEBE, the grandaddy of African writing, was so impressed by Richard Dowden's new book on Africa that when the author asked him for a few kind words to put on the jacket, Mr Achebe wrote him a two-page foreword. "One could not ask for a more qualified author to explore Africa's complexity," he concluded.

Drawing on 30 years of travels, first as a teacher in Idi Amin's Uganda and later as the chief writer about Africa for the *Times*, the *Independent* and this newspaper, before becoming director of the Royal Africa Society in 2003, Mr Dowden has organised his book by country—from Kenya to Senegal and from Congo to South Africa—all the while asking two questions: why is development so slow in Africa? And how, in the midst of so much savagery, does the humanity of Africans survive as one of the continent's defining characteristics?

Mr Dowden maintains the reader's interest by skilfully interweaving his research on the economic effects of AIDS and international aid into stories of myriad encounters with Africans rich and poor. He describes, for example, how he met the Mourides of Senegal, the followers of a 19th-century Islamic mystic and poet, Cheikh Amadu Bamba Mbakke, whose descendants operate an informal, yet highly effective, global trading system based entirely on trust. He goes on to contrast this portrait with the difficulties so many people have starting businesses in Africa or developing local manufacturing. Similarly, a visit to the Niger Delta leads him to ruminate about the curse of having abundant reserves of oil.

For Mr Dowden, Africa is a continent of people, not a place of exotica, or a destination for tourists. The boy pictured on the cover wears no shirt and is holding a ragged football, but he is not a beggar. He is just himself. Rather than using the boy as an anonymous symbol, as many would have done, Mr Dowden, typically, has tracked him down. His name is Baba and he is nine years old. He comes from Konkomba, in Accra, and like the author is an Arsenal supporter.

Africa: Altered States, Ordinary Miracles.
By Richard Dowden.
Portobello Books; 576 pages; £25

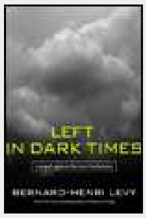
Economist.com BOOKS & ARTS

Bernard-Henri Lévy

Big brains and a hairy chest

Sep 11th 2008
From The Economist print edition

Left in Dark Times: A Stand Against the New Barbarism
By Bernard-Henri Lévy



Random House; 256 pages; $25.

Buy it at
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IT IS, or was, fashionable to look down on Bernard-Henri Lévy, a French writer and intellectual. The left tends to despise him for questioning its idols. It doesn't help that he is rich, talks intelligibly and has a beautiful wife. The right condescends to him for being vain, glib and writing too many books.

So it was satisfying for Mr Lévy to get a begging call from Nicolas Sarkozy last year when he was running for the French presidency. The two men knew each other from Mr Sarkozy's former constituency, Neuilly, on the edge of Paris, where Mr Lévy lives and votes. As France's star *intello de gauche*, could Mr Lévy write "a nice article" endorsing him? No, he couldn't, Mr Lévy told him. The left was his family. "Your family?" Mr Sarkozy retorted, "These people who've spent 30 years telling you to go fuck yourself?" Mr Lévy held firm. Despite everything, he still belonged on the left.

On hanging up, he asked himself why. "Left in Dark Times" is his answer, a mixture of political autobiography, polemic and plea. Four 20th-century episodes fixed Mr Lévy's general outlook: the Dreyfus affair, France's wartime Vichy government, the Algerian war and *les évènements* of May 1968. Those are markers for the "isms" he learned to detest: populism, fascism, colonialism and authoritarianism. He has proud memories of the left. His father fought fascism in Spain in the 1930s. He himself saw left-wing soldiers end Portugal's dictatorship in 1975.

Other memories make him ashamed of the left: encounters with Indian Maoists who had just shot dead several landowners, or with Mexican and Italian nihilists threatening to shoot him for apostasy. His most shaming memory is Bosnia, whose war he filmed and which he thinks the West, particularly the Western left, betrayed.

In his polemic he attacks the six principal claims of the influential anti-global left. Liberalism is not, Mr Lévy counters, just the free market: human rights and democracy matter too. Europe is not, or not only, a capitalistic machine. The United States is not a semi-fascist country. Humanitarian intervention is not an imperialist ploy. Israel is not to blame for anti-Semitism, which is serious and growing. Militant Islamism is not the West's fault but a homegrown scourge that threatens the West much as fascism did.

He ends with a plea for the "universal values" of human rights and democracy. He is less for multicultural tolerance than for secularism. By that he means keeping moral and religious demands, where possible, out of politics. The left he would like to belong to is not dreamy about the world. It knows how bad things can get. It accepts that there is evil. He wants a "melancholic" not a "lyrical" left.

Mr Lévy's essay deserves attention despite notable faults. He writes in bloggese, the underedited, all-in-one-breath style of webchat. For the business-school mind, it is too much about ideas, not policy management. Nor will it detain party politicians, keener to win power than to take stands. But ideas and taking stands matter too. Politics needs intellectuals. In modern times the brainy left provided most of the mental opposition up to the 1960s or so. The right's eggheads then took over. It is the left's turn again in Mr Lévy's view. First, though, its intellectuals need to grow up.

Left in Dark Times: A Stand Against the New Barbarism.
By Bernard-Henri Lévy.
Random House; 256 Pages; $25.

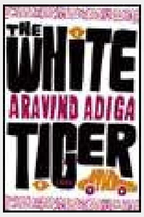
Economist.com BOOKS & ARTS

New fiction: Aravind Adiga

His master's voice

Sep 11th 2008
From The Economist print edition

The White Tiger
By Aravind Adiga



Free Press; 321 pages; $24.
Atlantic; £12.99

Buy it at
Amazon.com
Amazon.co.uk

PLOUGHING through a novel a day for nearly six months, the judges of the Man Booker prize, Britain's premier award for fiction, quickly make two discoveries: that most books start well and then sink halfway through, and that almost all the novels soon sound the same. So a new voice is as welcome, and as rare, as a fine ending. Which is why all five judges wanted Aravind Adiga's first novel to be on this year's shortlist, announced on September 9th. And what a singular voice he has.

"The White Tiger" takes the form of a series of letters to Wen Jiabao, the Chinese premier. Balram Halwai, the Bangalore businessman who writes the letters, wants to tell the Chinese premier something about how life really is in India: not the pink sari of the tourist trail (pink is India's navy blue) or the sentimental imagery of the poor, doe-eyed children. Balram believes that poverty is so corrupting it produces monsters; he should know for he is such a monster himself.

The son of a poor rickshaw-puller who is taken out of school as a boy and put to work in a teashop, Balram nurses dreams of escape. He finally gets his chance when a rich village landlord hires him as a chauffeur for his son, his daughter-in-law, Pinky Madam, and their two Pomeranian dogs, Cuddles and Puddles.

The family moves to Delhi. There, amid the cockroaches and the call centres, the 360,000,004 gods, the shopping malls, the brown envelopes and the crippling traffic jams, Balram learns about modern India, where the air is so bad that it takes ten years off a man's life unless he drives round in an air-conditioned car. "The cars of the rich go like dark eggs down the roads of Delhi. Every now and then an egg will crack open—a woman's hand, dazzling with gold bangles, stretches out of an open window, flings an empty mineral water bottle onto the road—and then the window goes up, and the egg is resealed."

As Balram's education expands, he grows more corrupt. Yet the reader's sympathy for the former teaboy never flags. In creating a character who is both witty and psychopathic, Mr Adiga has produced a hero almost as memorable as Pip, proving himself the Charles Dickens of the call-centre generation.

The White Tiger.
By Aravind Adiga.
Free Press; 321 pages; $24.
Atlantic; £12.99

Economist.com
PEOPLE
OBITUARY

Ian Hibell

Sep 11th 2008
From The Economist print edition

Nic Henderson

Ian Hibell, a long-distance cyclist, died on August 23rd, aged 74

IN A man's life there comes a time when he must get out of Brixham. He must leave the boats bobbing in the harbour, the Devon cream teas, the holiday camp and the steam railway; he must bid farewell to the nine-to-five job at Standard Telephones and Cables, up the A379 in Paignton, and hit the more open road.

Some might get no farther than Bristol. But Ian Hibell went so far in one direction that his eyebrows crusted with frost and his hands froze; and so far in another that he lay down in the hot sand to die of dehydration (as he expected) under a thorn tree; and so far in another that the safest place to be, out of range of the mosquitoes, was to burrow like an alligator into black, viscous mud.

In the course of his 40-year travelling life he went the equivalent of ten times round the equator, covering 6,000 miles or so a year. He became the first man to cycle the Darien Gap in Panama, and the first to cycle from the top to the bottom of the American continent. He went from Norway to the Cape of Good Hope and from Bangkok to Vladivostok, wheeling or walking every inch of the way. Every so often he would come back, showing up at STC (from which he had taken, in the beginning, only a two-year leave of absence) with vague murmurings of an apology. But pretty soon the panniers would be packed, the brakes checked, the tyres pumped, and he would be off again.

His cycle, loaded with 60-80lb of clothes, tent, stove, biscuits, sardines and water, was sometimes a complication. In the Sahara it sank to its hubs in fine, talc-like sand. In the Amazonian jungle he could not squeeze it between the trees. Crossing the great Atrato swamp, where the track became a causeway over slimy logs and then a mat of floating grass, the bike would sometimes sink into nothingness. He became expert at feeling for it in the morass with his feet. Every tricky traverse in mountain, stream or forest needed doing twice over: once to find a way for himself, then to collect the steed, often carrying it shoulder-high through sharp palmetto, or water, or rocks.

Yet Mr Hibell's love for his bikes was unconditional. He took them, muddy as they were, into hotels with him, and clung fiercely on to them whenever tribesmen robbed him of the rest of his things. His favourite had a Freddie Grubb frame of Reynolds 531 tubing on a 42-inch wheelbase, reinforced to take the extra weight of goatskins holding water; Campagnolo Nuevo Record gears front and rear; Robregal double-butted 14-16-gauge spokes; and Christophe pedal-straps. It was so lightweight, as touring bikes go, that a group of boys in Newfoundland mocked that it would soon break on their roads. Instead, it did 100,000 miles.

Bikes rarely let him down. Escaping once from spear-throwing Turkana in northern Kenya, he felt the chain come off, but managed to coast downhill to safety. He crossed China from north to south—in 2006, at 72—with just three brake-block changes, one jammed rear-brake cable and a change of tape on the handlebars. In his book, "Into the Remote Places" (1984), he described his bike as a companion, a crutch and a friend. Setting off in the morning light with "the quiet hum of the wheels, the creak of strap against load, the clink of something in the pannier", was "delicious". And more than that. Mr Hibell was a short, sinewy man, not particularly swift on his feet. But on a good smooth downhill run, the wind in his face, the landscape pelting past, he felt "oneness with everything", like "a god almost".

A teapot in the desert

Human company was less uplifting. His travelling companions usually proved selfish, violent and unreliable, unappreciative of Mr Hibell's rather proper and methodical approach to putting up a tent or planning a route, leaving (sometimes with essential kit) to strike off by themselves. But there were exceptions. One was the beautiful Laura with whom, after years of shyness towards women, he found love as they skidded down rocky tracks in Peru. Others were the strangers whose kindness he encountered everywhere. Peasants in China shared their dumplings with him; Indians in Amazonia guided him through the jungle; and in a wilderness of sand a pair of Tuareg boys produced from their robes a bag of dates and a small blue teapot, which restored him.

In a career of hazards, from soldier ants to real soldiers to sleet that cut his face like steel, only motorists did him real damage. The drivers came too close, and passengers sometimes pelted him with bottles (in Nigeria), or with shovelfuls of gravel (in Brazil). In China in 2006 a van drove over his arm and hand. He recovered, but wondered whether his luck would last. It ran out on the road between Salonika and Athens this August, where he was knocked out of the way by a car that appeared to be chasing another.

At bad moments on his trips he had sometimes distracted himself by thinking of Devonian scenes: green fields, thatched cottages and daffodils. He would return to a nice house, a bit of garden, the job. But that thought could never hold him long. Although his body might long for the end of cycling—a flat seat, a straight back, unclenched hands—his mind was terrified of stopping. And in his mind, he never did.

Overview

Sep 11th 2008
From The Economist print edition

The unemployment rate in **America** spiked from 5.7% to 6.1% in August, its highest level for five years. Employers, excluding farms, cut their payrolls by 84,000 in August. Existing-home sales that have been agreed on, but not yet finalised, fell by 3.2% in July, partly reversing a big rise in June.

China's consumer-price inflation fell from 6.3% in July to 4.9% in August, helped by a smaller increase in food prices. Factory-gate inflation edged up from 10% to 10.1%.

The **European Commission** revised down its GDP growth forecast for the euro area in 2008 from 1.7% to 1.3%. It cut its forecast for Britain's GDP growth from 1.7% to 1.1%.

Industrial production in **Britain** fell by 0.5% in July, leaving it 1.9% below its level a year earlier. Manufacturing output fell for a fifth successive month. Interest rates on home loans fell in August, according to Bank of England figures. The two-year fixed mortgage rate for a borrower with a 25% deposit fell from 6.35% to 6.08%.

Consumer-price inflation in **Mexico** rose to 5.6% in August, a five-year high. **Sweden's** inflation rate edged down to 4.3% in August, and inflation in **Norway** rose to 4.5%.

Brazil's central bank raised its benchmark interest rate from 13% to 13.75% on September 10th. The bank has increased rates four times since April to tackle high inflation. GDP in Brazil rose by a faster-than-expected 6.1% in the year to the second quarter.

Output, prices and jobs

Sep 11th 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	+2.2 Q2	+3.3	+1.6	+1.3	-0.1 Jul	+5.6 Jul	+2.4	+4.2	6.1 Aug
Japan	+1.0 Q2	-2.4	+1.0	+0.9	+2.0 Jul	+2.3 Jul	nil	+1.6	4.0 Jul
China	+10.1 Q2	na	+9.8	+8.5	+14.7 Jul	+4.9 Aug	+6.5	+6.7	9.5 2007
Britain	+1.4 Q2	+0.2	+1.2	+0.6	-1.9 Jul	+4.4 Jul§	+1.9	+3.7	5.4 Jun††
Canada	+0.7 Q2	+0.3	+1.1	+2.0	-5.9 Jun	+3.4 Jul	+2.2	+2.5	6.1 Aug
Euro area	+1.4 Q2	-0.8	+1.3	+0.9	-0.5 Jun	+3.8 Aug	+1.7	+3.6	7.3 Jul
Austria	+2.2 Q2	+1.5	+2.3	+1.6	-1.1 Jun	+3.8 Jul	+2.1	+3.0	4.2 Jul
Belgium	+2.0 Q2	+0.9	+1.5	+1.1	-3.2 Jun	+5.4 Aug	+1.1	+4.4	11.2 Aug‡‡
France	+1.1 Q2	-1.2	+1.2	+1.0	-2.0 Jul	+3.6 Jul	+1.1	+3.3	7.3 Jul
Germany	+1.7 Q2	-2.0	+1.8	+1.1	-0.6 Jul	+3.1 Aug	+2.2	+3.0	7.6 Aug
Greece	+3.5 Q2	+3.1	+2.8	+2.8	-1.3 Jul	+4.7 Aug	+2.5	+4.6	6.6 May
Italy	-0.1 Q2	-1.1	+0.2	+0.5	-1.8 Jun	+4.0 Aug	+1.6	+3.5	6.5 Q1
Netherlands	+2.8 Q2	-0.2	+2.3	+1.3	-2.6 Jul	+3.2 Aug	+1.1	+2.4	3.9 Jul††
Spain	+1.8 Q2	+0.4	+1.4	+0.6	-4.4 Jul	+4.9 Aug	+2.2	+4.5	11.0 Jul
Czech Republic	+4.6 Q2	+3.6	+4.7	+5.4	+6.7 Jul	+6.5 Aug	+2.4	+6.6	5.3 Aug
Denmark	+1.3 Q2	+1.2	+0.8	+0.8	+0.4 Jul	+4.3 Aug	+1.1	+3.5	1.6 Jul
Hungary	+2.0 Q2	+2.3	+2.0	+3.0	+0.6 Jul	+6.7 Jul	+8.4	+6.5	7.5 Jul††
Norway	+5.9 Q2	+2.4	+2.5	+2.2	+1.9 Jul	+4.5 Aug	+0.4	+3.3	2.6 Jun***
Poland	+5.8 Q2	na	+5.4	+4.3	+5.6 Jul	+4.8 Jul	+2.3	+4.2	9.4 Jul‡‡
Russia	+7.8 Q2	na	+7.5	+6.8	+3.2 Jul	+14.7 Jul	+8.7	+14.0	5.3 Jul‡‡
Sweden	+0.7 Q2	-0.1	+1.7	+1.6	+0.9 Jul	+4.3 Aug	+1.8	+3.9	5.8 Jul‡‡
Switzerland	+2.4 Q2	+1.5	+2.0	+1.3	+4.4 Q1	+2.9 Aug	+0.4	+2.7	2.6 Jul
Turkey	+1.9 Q2	na	+4.5	+4.3	+3.4 Jul	+11.8 Aug	+7.4	+11.0	8.9 Q2‡‡
Australia	+2.7 Q2	+1.1	+2.7	+2.6	+2.4 Q1	+4.5 Q2	+2.1	+4.4	4.1 Aug
Hong Kong	+4.2 Q2	-5.5	+4.7	+4.4	-4.4 Q1	+6.3 Jul	+1.5	+5.3	3.2 Jul††
India	+7.9 Q2	na	+7.7	+7.1	+5.4 Jun	+8.3 Jul	+6.5	+7.1	7.2 2007
Indonesia	+6.5 Q2	na	+5.8	+5.5	+3.3 Jun	+11.8 Aug	+5.5	+10.3	8.5 Feb
Malaysia	+6.3 Q2	na	+6.0	+5.6	+1.8 Jul	+8.5 Jul	+1.6	+5.4	3.6 Q1
Pakistan	+5.8 2008**	na	+6.0	+4.4	-4.2 Jun	+24.3 Jul	+6.4	+18.6	5.6 2007
Singapore	+2.1 Q2	-6.0	+4.6	+4.8	-21.9 Jul	+6.5 Jul	+2.6	+6.0	2.3 Q2
South Korea	+4.8 Q2	+3.4	+4.4	+4.2	+9.1 Jul	+5.6 Aug	+2.0	+4.2	3.2 Jul
Taiwan	+4.3 Q2	na	+4.3	+4.4	+1.1 Jul	+4.8 Aug	+1.6	+3.4	3.9 Jul
Thailand	+5.3 Q2	+2.9	+4.8	+4.5	+10.9 Jul	+6.4 Aug	+1.1	+8.5	1.2 Jun
Argentina	+8.4 Q1	+2.6	+6.0	+4.0	+5.1 Jul	+9.0 Aug	+8.7	+9.7	7.8 Q3‡‡
Brazil	+6.1 Q2	+6.6	+4.6	+3.4	+8.5 Jul	+6.2 Aug	+4.2	+6.0	8.1 Jul‡‡
Chile	+4.3 Q2	+7.4	+3.6	+3.8	+3.0 Jul	+9.3 Aug	+4.7	+8.4	8.4 Jul††‡‡
Colombia	+4.1 Q1	-3.7	+4.5	+4.0	-6.6 Jun	+7.9 Aug	+5.2	+6.7	11.0 Jul‡‡
Mexico	+2.8 Q2	+0.6	+2.3	+2.5	-0.5 Jun	+5.6 Aug	+4.0	+4.8	4.2 Jul‡‡
Venezuela	+7.1 Q2	na	+5.2	+3.0	-1.4 May	+34.5 Aug	+16.0	+30.6	7.5 Q2‡‡
Egypt	+6.6 Q2	na	+7.1	+6.7	+7.5 2007**	+23.7 Aug	+8.1	+17.1	9.0 Q1‡‡
Israel	+4.9 Q2	+4.2	+4.0	+3.2	+18.7 Jun	+4.8 Jul	+0.3	+4.3	5.9 Q2
Saudi Arabia	+3.5 2007	na	+7.2	+5.1	na	+11.1 Jul	+3.8	+8.5	na
South Africa	+4.5 Q2	+4.9	+3.2	+3.5	+6.1 Jun	+13.4 Jul	+7.0	+10.3	23.1 Jun‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	-1.1 Q2	+3.6	-0.6	+2.0	-5.2 Jul	+11.0 Aug	+5.7	+10.5	2.6 Jun
Finland	+2.4 Q2	+3.1	+2.8	+2.4	-1.4 Jul	+4.4 Jul	+2.6	+3.8	6.4 Jul
Iceland	+1.1 Q1	-14.0	nil	+0.8	+0.4 2007	+14.5 Aug	+3.4	+12.0	1.1 Jul‡‡
Ireland	-1.5 Q1	-0.9	-0.5	-0.1	-4.5 Jul	+4.4 Jul	+5.0	+4.0	6.1 Aug
Latvia	+0.1 Q2	na	-0.4	+0.5	-6.9 Jul	+15.7 Aug	+10.1	+15.8	5.7 Jun
Lithuania	+5.3 Q2	+4.5	+5.5	+4.8	na	+11.9 Aug	+5.6	+11.0	4.7 Aug‡‡
Luxembourg	+2.5 Q1	+5.3	+2.8	+2.6	+0.7 Jun	+4.0 Aug	+1.9	+4.0	4.1 Jul‡‡
New Zealand	+0.9 Q1	-2.3	+0.7	+1.6	+2.4 Q1	+4.0 Q2	+2.0	+4.1	3.9 Q2
Peru	+11.5 Jun	na	+7.9	+6.6	+7.5 Jun	+6.3 Aug	+2.2	+5.3	9.2 Jul‡‡
Philippines	+4.6 Q2	+8.4	+4.7	+5.4	+5.1 Jun	+12.5 Aug	+2.4	+9.6	8.0 Q2‡‡
Portugal	+0.7 Q2	+1.4	+1.4	+1.3	-0.4 Jul	+3.1 Jul	+2.4	+2.7	7.3 Q2‡‡
Slovakia	+7.6 Q2	na	+7.5	+5.2	+1.8 Jul	+5.0 Aug	+2.3	+4.2	7.5 Jul‡‡
Slovenia	+5.5 Q2	na	+4.5	+4.0	-4.6 Jul	+6.0 Aug	+3.5	+6.0	6.4 Jun‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 5.0% in July. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***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

Sep 11th 2008
From The Economist print edition

The Economist commodity-price index
2000=100

	Aug 26th	Sep 2th	Sep 9th*	% change on one month	% change on one year
Dollar index					
All items	242.4	234.8	226.6	-3.3	+10.5
Food	249.6	240.3	230.8	-3.3	+22.2
Industrials					
All	233.2	227.5	221.2	-3.4	-2.1
Nfa†	189.1	189.7	186.1	-2.0	+17.1
Metals	257.4	248.3	240.4	-3.9	-8.5
Sterling index					
All items	199.9	199.3	194.7	+4.2	+27.1
Euro index					
All items	153.0	149.5	148.2	+2.0	+8.2
Gold					
$ per oz	827.50	797.45	811.00	-0.5	+14.9
West Texas Intermediate					
$ per barrel	116.08	110.32	102.28	-9.8	+30.7

*Provisional. †Non-food agriculturals.

Executive pay

Sep 11th 2008
From The Economist print edition

Senior managers in the Middle East, Russia, and China are better paid than those working in the West, once their cost of living is taken into account, according to Hay Group, a consultancy. Its study compares managers' disposable income in 51 countries, by calculating average salaries adjusted for taxes and living expenses. On that basis, managers in Qatar, Saudi Arabia and the United Arab Emirates have twice the spending power of their counterparts in America, who rank only 41st in the survey. A shortage of talent in China and the Middle East has lifted wages. Managers in Eastern Europe have also enjoyed big gains in spending power. Executive pay in India has lagged behind that in other emerging economies.

Economist.com

MARKETS & DATA

WEEKLY INDICATORS

Trade, exchange rates, budget balances and interest rates

Sep 11th 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 $ Sep 10th	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	−836.2 Jun	−710.7 Q1	−4.8	–	–	−2.4	2.09	3.64
Japan	+88.2 Jul	+206.4 Jul	+3.7	108	114	−2.8	0.75	1.51
China	+252.5 Aug	+371.8 2007	+8.3	6.84	7.52	0.6	4.32	4.32
Britain	−187.4 Jul	−102.4 Q1	−3.4	0.57	0.49	−3.8	5.69	4.45
Canada	+47.1 Jun	+13.6 Q2	+0.9	1.07	1.04	0.2	2.37	3.51
Euro area	+3.5 Jun	−31.5 Jun	−0.3	0.71	0.72	−0.9	4.96	4.04
Austria	+0.1 Jun	+14.8 Q1	+2.9	0.71	0.72	−0.6	4.96	4.27
Belgium	+9.5 May	−1.1 Mar	+0.7	0.71	0.72	−0.6	5.03	4.46
France	−71.9 Jul	−46.2 Jun	−1.7	0.71	0.72	−2.9	4.96	4.28
Germany	+284.9 Jul	+271.9 Jul	+6.7	0.71	0.72	1.1	4.96	4.05
Greece	−66.6 Jun	−49.9 Jun	−13.9	0.71	0.72	−2.6	4.96	4.80
Italy	−13.9 Jun	−67.6 Jun	−2.6	0.71	0.72	−2.6	4.96	4.72
Netherlands	+60.3 Jun	+50.7 Q1	+5.8	0.71	0.72	0.7	4.96	4.28
Spain	−153.4 Jun	−167.3 Jun	−9.8	0.71	0.72	−1.1	4.96	4.47
Czech Republic	+6.1 Jul	−5.0 Jun	−2.7	17.5	19.8	−1.8	3.76	4.50
Denmark	+5.1 Jul	+3.9 Jul	+1.1	5.31	5.36	3.8	5.40	4.31
Hungary	+0.5 Jul	−7.2 Q1	−5.9	170	183	−4.0	8.60	7.80
Norway	+77.1 Jul	+78.1 Q2	+17.3	5.73	5.63	17.7	6.51	4.56
Poland	−19.0 Jun	−22.6 Jun	−4.9	2.42	2.72	−1.9	6.52	5.84
Russia	+182.7 Jul	+109.8 Q2	+6.2	25.7	25.4	4.5	11.00	7.93
Sweden	+19.0 Jul	+38.6 Q2	+7.7	6.77	6.68	2.4	4.46	3.88
Switzerland	+16.5 Jul	+91.4 Q1	+14.5	1.13	1.18	0.9	2.73	2.80
Turkey	−73.8 Jul	−47.1 Jul	−6.4	1.24	1.27	−2.7	18.29	6.61‡
Australia	−18.6 Jul	−61.1 Q2	−5.1	1.24	1.19	1.4	7.25	5.64
Hong Kong	−26.3 Aug	+26.4 Q1	+9.0	7.80	7.79	3.0	2.28	2.72
India	−93.3 Jul	−17.5 Q1	−3.2	45.1	40.4	−3.4	9.00	9.08
Indonesia	+35.6 Jul	+6.3 Q2	+2.8	9,330	9,408	−2.0	10.24	6.98‡
Malaysia	+39.7 Jul	+30.6 Q1	+14.4	3.46	3.49	−3.1	3.70	4.20‡
Pakistan	−21.7 Aug	−10.5 Q1	−8.6	76.6	60.7	−6.4	13.75	14.95‡
Singapore	+26.3 Jul	+32.8 Q2	+19.8	1.43	1.51	1.0	1.25	2.97
South Korea	−6.7 Aug	−1.8 Jul	−2.5	1,095	933	1.5	5.79	5.79
Taiwan	+9.3 Aug	+32.6 Q2	+5.2	31.9	33.1	−1.8	2.75	2.31
Thailand	+6.8 Jul	+11.4 Jul	−0.4	34.6	34.2	−3.0	3.85	4.44
Argentina	+11.3 Jul	+7.9 Q1	+2.9	3.07	3.14	1.7	13.75	na
Brazil	+29.5 Aug	−19.5 Jul	−1.6	1.79	1.91	−1.6	12.92	6.16‡
Chile	+17.8 Aug	+1.0 Q2	−0.1	533	515	8.7	8.04	3.81‡
Colombia	+1.2 Jun	−5.0 Q1	−2.6	2,100	2,184	−1.0	9.87	5.91‡
Mexico	−8.2 Jul	−5.3 Q2	−0.8	10.6	11.1	−0.1	8.17	8.53
Venezuela	+41.9 Q2	+37.8 Q2	+12.1	3.92	4.23§	1.6	17.81	6.55‡
Egypt	−22.2 Q1	−0.1 Q1	+0.2	5.42	5.66	−7.1	12.87	5.20‡
Israel	−13.2 Jul	+4.4 Q1	+0.2	3.61	4.09	−1.0	4.08	5.29
Saudi Arabia	+150.8 2007	+95.0 2007	+33.1	3.75	3.75	13.3	4.30	na
South Africa	−11.1 Jul	−22.3 Q1	−8.0	8.06	7.15	0.4	12.20	9.21
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.2 Jun	−3.3 Jun	−10.8	11.1	11.3	−0.4	6.32	na
Finland	+12.7 Jun	+11.6 Jun	+4.5	0.71	0.72	4.5	4.90	4.25
Iceland	−1.0 Aug	−4.5 Q2	−14.6	90.8	64.3	2.0	15.97	na
Ireland	+38.2 Jun	−14.7 Q1	−3.5	0.71	0.72	−3.9	4.96	4.45
Latvia	−7.1 Jul	−6.0 Jun	−13.8	0.50	0.50	−1.5	5.85	na
Lithuania	−7.9 Jul	−6.0 Jun	−14.0	2.46	2.49	−0.7	5.76	na
Luxembourg	−6.7 Jun	+4.9 Q1	na	0.71	0.72	0.5	4.96	na
New Zealand	−3.3 Jul	−10.4 Q1	−7.1	1.50	1.41	1.2	7.45	5.87
Peru	+6.9 Jun	−1.5 Q2	−1.1	2.97	3.15	2.3	6.30	na
Philippines	−8.2 Jun	+5.6 Mar	+2.8	47.0	46.7	−0.8	4.31	na
Portugal	−31.9 Jun	−27.9 Jun	−9.0	0.71	0.72	−2.5	4.96	4.58
Slovakia	−1.2 Jul	−5.0 Jan	−4.7	21.5	24.2	−2.1	3.68	4.83
Slovenia	−4.3 Jul	−3.2 Jun	−5.8	0.71	0.72	0.1	4.96	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

Sep 11th 2008
From The Economist print edition

Markets

	Index Sep 10th	% change on one week	Dec 31st 2007 in local currency	Dec 31st 2007 in $ terms
United States (DJIA)	11,268.9	-2.3	-15.0	-15.0
United States (S&P 500)	1,232.0	-3.4	-16.1	-16.1
United States (NAScomp)	2,228.7	-4.5	-16.0	-16.0
Japan (Nikkei 225)	12,346.6	-2.7	-19.3	-16.2
Japan (Topix)	1,192.4	-2.3	-19.2	-16.1
China (SSEA)	2,257.4	-5.5	-59.1	-56.3
China (SSEB, $ terms)	143.3	-3.8	-63.3	-60.8
Britain (FTSE 100)	5,366.2	-2.4	-16.9	-26.7
Canada (S&P TSX)	12,497.2	-4.9	-9.7	-16.6
Euro area (FTSE Euro 100)	1,007.8	-4.1	-26.7	-29.5
Euro area (DJ STOXX 50)	3,242.0	-3.8	-26.3	-29.2
Austria (ATX)	3,299.5	-7.4	-26.9	-29.7
Belgium (Bel 20)	3,055.4	-3.5	-26.0	-28.8
France (CAC 40)	4,283.7	-3.7	-23.7	-26.6
Germany (DAX)*	6,210.3	-4.0	-23.0	-26.0
Greece (Athex Comp)	3,213.5	-2.4	-37.9	-40.3
Italy (S&P/MIB)	28,064.0	-3.4	-27.2	-30.0
Netherlands (AEX)	393.9	-3.1	-23.6	-26.6
Spain (Madrid SE)	1,205.1	-5.2	-26.6	-29.4
Czech Republic (PX)	1,322.0	-9.0	-27.2	-24.1
Denmark (OMXCB)	364.8	-5.8	-18.7	-21.9
Hungary (BUX)	20,040.8	-1.1	-23.6	-22.3
Norway (OSEAX)	416.4	-9.1	-26.9	-30.7
Poland (WIG)	39,572.3	-3.8	-28.9	-27.8
Russia (RTS, $ terms)	1,334.3	-16.0	-39.0	-41.7
Sweden (Aff.Gen)	260.5	-4.6	-23.5	-26.9
Switzerland (SMI)	7,121.4	-1.9	-16.1	-16.2
Turkey (ISE)	39,295.0	-2.6	-29.2	-33.1
Australia (All Ord.)	4,961.4	-3.3	-22.7	-29.7
Hong Kong (Hang Seng)	19,999.8	-2.8	-28.1	-28.1
India (BSE)	14,662.6	-2.6	-27.7	-36.8
Indonesia (JSX)	1,885.0	-10.9	-31.3	-30.9
Malaysia (KLSE)	1,062.7	-2.1	-26.5	-29.7
Pakistan (KSE)	9,315.7	+0.8	-33.8	-46.7
Singapore (STI)	2,622.4	-3.1	-24.3	-24.0
South Korea (KOSPI)	1,465.0	+2.7	-22.8	-34.0
Taiwan (TWI)	6,458.0	-1.9	-24.1	-22.8
Thailand (SET)	655.5	+0.9	-23.6	-25.7
Argentina (MERV)	1,604.8	-8.7	-25.4	-23.4
Brazil (BVSP)	49,633.0	-7.3	-22.3	-22.6
Chile (IGPA)	13,025.7	-4.0	-7.5	-13.5
Colombia (IGBC)	9,598.2	-0.2	-10.2	-13.8
Mexico (IPC)	25,622.9	-3.2	-13.3	-10.6
Venezuela (IBC)	40,114.4	-1.6	+5.8	-42.0
Egypt (Case 30)	8,261.9	-1.7	-21.1	-19.6
Israel (TA-100)	884.1	-2.4	-23.4	-18.4
Saudi Arabia (Tadawul)	8,128.1	-4.4	-26.4	-26.4
South Africa (JSE AS)	25,273.6	-4.7	-12.7	-26.0
Europe (FTSEurofirst 300)	1,148.2	-2.8	-23.8	-26.7
World, dev'd (MSCI)	1,264.3	-4.1	-20.4	-20.4
Emerging markets (MSCI)	858.9	-5.8	-31.0	-31.0
World, all (MSCI)	315.9	-4.3	-21.7	-21.7
World bonds (Citigroup)	741.4	-0.8	+1.5	+1.5
EMBI+ (JPMorgan)	438.3	-0.5	+1.1	+1.1
Hedge funds (HFRX)	1,233.6	-1.5	-7.2	-7.2
Volatility, US (VIX)	24.5	21.4	22.5	(levels)
CDSs, Eur (iTRAXX)†	101.8	+1.8	+101.1	+93.4
CDSs, N Am (CDX)†	163.4	+4.7	+109.8	+109.8
Carbon trading (EU ETS) €	22.7	-7.3	+2.1	-1.8

*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.

Financial development index

Sep 11th 2008
From The Economist print edition

America and Britain have the most developed financial systems in the world, according to the World Economic Forum, a think-tank. Its inaugural Financial Development Report ranks 52 countries according to the strength of their financial markets, and the depth and breadth of access to capital and financial services. This wide-ranging index takes into account the quality of each country's financial laws and regulations, its business environment, and the likelihood of a financial crisis, among other things. Rich countries scored well, whereas Latin America and Eastern Europe did poorly. Most countries had uneven performance: only Germany, America and Britain scored well across all categories.